

# FINANCIAL BRIEFS

Fulton Financial Planning, Inc.

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*Helping You Chart a Brighter Financial Future*



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This newsletter strives to provide factual and up-to-date information on the topics discussed, but it should not be regarded as a complete discussion of these issues. The reader is advised to engage the services of a competent professional before taking action on any subject matter discussed.

## Smart Moves: Year End Planning

Autumn has finally arrived, the morning air is crisp and holiday decorations fill space in our favorite stores.

2005 cannot be far behind.

Yet there is still time to pursue additional tax planning opportunities that may reduce your overall tax liability for 2004. Here are some ideas.

**Withholding.** Update your projected tax liability for 2004. You may find that your projected taxes will be lower than you originally anticipated. If so, perhaps you may wish to amend your withholding deductions for the remaining pay periods during this year.



**Work Related.** Employees who set aside pre-tax dollars via Section 125 health/dependent care accounts should review any remaining balances, especially if the dollars cannot be rolled over into next year. This may be a good time to purchase additional eyeglasses, schedule an annual physical or tend to that dental issue so any balances left in the account

at year end will not be lost. Note that some plans now provide that any unused balances may be rolled into the next year. Check with your employer if you are unsure which type of plan yours is.

**Retirement.** Plan to max out on allowable 401(k)/IRA contributions. For 2004 individuals may contribute a maximum of \$13,000 to

(continued on next page)

## Check 21

Did you know your bank recently began processing your checks differently?

The Check Clearing for the 21st Century Act, or "Check 21" as it is commonly called, became effective October 28, 2004 and has as its primary goal improving efficiency in check processing.

Previously most checks

written were physically transported around the country before 'clearing' the drawer's bank. This process typically resulted in a several-day window after the check was written but before funds were actually deducted from the account, sometimes called a "float period".

Check 21 provides a new approach: a substitute

check which is a complete digital picture of the original check, along with routing data that allows the check to be processed electronically.

How does this affect you? Since Check 21 will help speed check clearing, the "float" period will be shortened. Faster check clearing should also make it

(continued on p. 3)

# Smart Moves

(continued from page 1)

their 401(k), 403(b) and 457(b) plans, with an additional \$3000 catch-up provision for participants age 50 and over. The maximum IRA contribution (for both traditional and ROTHs) is \$3000, with an additional catch-up provision of \$500 available for individuals age 50 and over.

Plans popular with small business owners also offer increased contribution limits over 2003. Participants in a SIMPLE plan may contribute up to \$9000 in 2004, with an additional catch-up provision of \$1500 available for individuals age 50 and over.

The maximum contribution limit to a Simplified Employee Pension (SEP) plan in 2004 is the lesser of 25% of the employee's compensation or \$41,000.

**Investment Planning.** Perhaps you are among the many individuals who have capital losses remaining from the recent bear market. If so, use these to your advantage by 'tax harvesting' in your portfolio.

This entails selling an investment which has a current tax loss and using that loss to offset a realized gain from another investment. IRS

regulations permit taxpayers to net gains against net realized losses for a given tax year and then offset up to \$3000 additionally in realized losses against ordinary income. This amount applies to all individuals except those whose filing status is married filing separately, in which case the limit is \$1500. Any unused net realized losses can be carried forward indefinitely into future years, when they can again be offset against realized gains or ordinary income.

*Offset up to \$3000 in net realized losses against ordinary income.*

Speaking of your portfolio, now may be a good time to sell an investment that has gained in value, whether a corresponding loss is present or not.

The maximum capital gains rate remains at 15% for 2004. With the growing uncertainty surrounding the federal deficit, it may be wise to lock in profits now and take advantage of this historically low capital gains rate.

**Business Planning.** Business owners who place new equipment in service by year-end may deduct upfront up to \$100,000 of the cost of the equipment purchased. Without this special provision, known as a Section 179 deduction, the costs would have to be depreciated over a period of years. And this higher \$100,000 limit will end after 2005. A wide range of equipment is eligible for the deduction, from computers to furniture to machines used in manufacturing.

**Gifting.** An individual may make annual gifts up to a maximum of \$11,000 to as many different people as he or she chooses. Married couples can gift up to \$22,000 to each loved one, if desired. This may be a particularly attractive planning strategy for reducing your individual estate. Gifting appreciated assets, such as stocks or mutual funds, may be even more advantageous than giving cash because the recipient may be in a lower tax bracket than the donor.

For example, a grandfather gifts stock valued at \$9000 to his 15 year old grandson; the stock's original cost basis was \$5000. The grandson



could sell the stock immediately and owe much less tax on the gain, presuming he is subject to a more typical 5% capital gain rate versus a 15% rate for his grandfather. If considering this type of gift, be aware of special kiddie tax provisions that may be applicable.

**Charitable Contributions.** Taxpayers who itemize may deduct charitable contributions made to qualified organizations for the tax year in which the contribution is donated or mailed.

**Sales Tax.** A recent bonus provision, individuals who live in states which have no personal income tax and who itemize may deduct the larger of actual sales tax paid during 2004 or the average amount determined by IRS regulations. Note that the return of this provision applies for only this year and 2005.

**Other Recent Changes.** Congress recently extended several other major tax breaks that had been scheduled to expire for tax year 2004. Included among these is the child tax credit, which will remain at \$1000 for each eligible child. Also the Alternative Minimum Tax exemption amount remains at \$58,000 for those taxpayers whose filing status is married filing jointly and \$40,250 for single filing status.

Please call if you would like to explore further specific opportunities that may help you save on the overall taxes that you owe Uncle Sam. •

# Stay In Old 401(k) or Roll It Over to IRA?

Every year millions of workers who are either retiring or changing jobs struggle with a difficult decision regarding their old employer's 401(k) or similar defined-contribution retirement plan.

They know they don't want to cash in their account because of the income taxes, potential penalties and loss of tax-deferred growth. Yet they're unsure whether to leave their money in the old plan, roll it into a new employer's defined-contribution plan, if available, or roll it over into an individual retirement account. Each option has its benefits and disadvantages, depending on the individual's situation.



**Advantages of staying in 401(k).** Roughly one in three workers leave their money behind in old employers' 401(k) plans, according to the Employee Benefits Research Institute. Often it is because they don't want to fuss with the rollover paperwork or they're afraid of making a costly mistake. Nonetheless, staying put in the old employer's plan or rolling it into a new employer's plan may offer some advantages.

One is creditor protection. Federal law prohibits creditors from invading 401(k) accounts. The federal law does not protect IRAs, though some states, including Texas, do shield IRAs from creditors.

If you leave work due to termination or retirement, you usually can begin withdrawing from a 401(k) as early as age 55 without the 10% early withdrawal penalty by following a specific, well-defined process. With rare exceptions, you have to wait to age 59 1/2 for penalty-free withdrawals from an IRA.

Many 401(k) plans contain loan provisions, so you can borrow from your account if you're working for that employer. This is not the case with an IRA. Most financial planners generally discourage borrowing from a 401(k) though, as the borrowed money no longer grows tax deferred, and there's a risk you won't be able to repay it in time, resulting in heavy penalties and taxes.

If you want to leave your money in the 401(k), be sure it will stay there. Currently, employers can cash out defined-contribution accounts valued at \$5000 or less if the employee fails to take ac-

tion. That's changing beginning on March 28, 2005 however. For accounts valued from \$1000 to \$5000 the employer must automatically roll the money into a default IRA unless the employee wants the cash or requests a rollover.

**Advantages of rolling into an IRA.** For prudent investors, one of the biggest attractions of IRAs is their wider universe of investment choices, particularly if the choices are superior to those available in their old or new employer's plan.

And you don't have to worry about future investment options changing, as they often do in employers' plans.

Individuals can also be more selective in choosing investments with better performance records and lower expenses than may be available in the employer's plan.

Workers who change jobs frequently may find themselves accumulating a number of employer retirement accounts and may risk losing track of some of these. Also it's easier to manage a single IRA than multiple employer plan accounts. Or you might consolidate into your current employer's plan if it offers quality choices.

Another major benefit for the IRA option is the potential for significant tax savings. With an IRA, you can designate a younger non-spousal beneficiary and "stretch out" the minimum withdrawals over that person's lifetime. A 401(k) plan probably will insist that the account be immediately cashed out if the heir is not a spouse, resulting in a much larger tax bite and loss of further tax deferral.

With a rollover IRA, you may also be in a position to convert to a ROTH IRA if that conversion makes financial sense for you. •

## Check 21 (continued from p.1)

possible to detect and investigate fraud sooner. And since checks will no longer be physically transported, check information should be more secure.

Here are a few steps you may wish to take resulting from this new change:

- Consider getting overdraft protection, especially if your typical balance is low. But be sure the cost is worth the protection.

- Read monthly statements and ATM receipts more diligently.
- Consider direct deposit of paychecks, if you do not presently have.
- Consider linking checking and savings accounts with automatic transfer.

Contact your banking institution to learn further specific information on how Check 21 affects their operations. •

## Your Identity — Lost or Destroyed?

You are the only user of your personal computer, and you always turn it off when not in use. You're probably thinking that your data, documents and other information are fully protected.

Unfortunately, that's not necessarily the case. Among the issues the 21st century brings is the critical need for good computer security practices in our everyday lives to avoid becoming a victim of identity theft.

I was amazed as I recently listened to real-life horror stories shared by a computer forensics and fraud specialist. Even if we've used our best efforts, a person with skills similar to hers can typically 'crack' the most common individual passwords within 30 minutes. What's even more astonishing are the large number of cases she works on that don't even require much analysis, for she finds the password written on a slip of paper next to the computer!

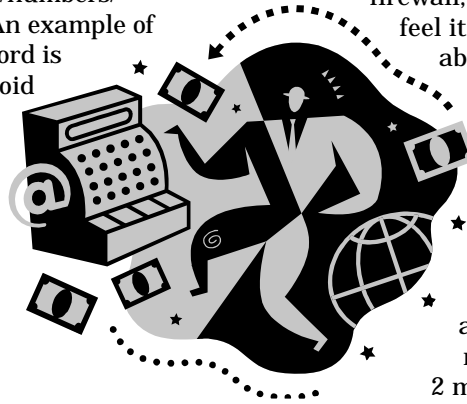
Fortunately, this specialist offered several valuable tips for everyday computer security. (The following are intended for personal users and may not be sufficient or appropriate

for corporate use.)

Use strong passwords, consisting of at least 8 characters and a combination of letters/numbers/characters. An example of a good password is ck2vrs\*g. Avoid using such common information as your birthdate or mother's maiden name. According to this specialist, the greater the combination of letters/numbers/characters used, the more difficult it is to 'crack' a password.

Use a virus scanner (such as McAfee, Norton, TrendMicro, etc.) and keep it updated.

Use a spyware detector and keep it updated. This tool is included in most new anti-virus products, including those listed above. Or you can download a free copy of Ad-aware from Lavasoft and/or Spybot 'Search and Destroy' from



[www.download.com](http://www.download.com).

Get a firewall, if you don't have one. While Microsoft's SP2 contains a firewall, many computer experts feel it leaves your pc vulnerable. Zone Alarm can be downloaded for free for personal use at [www.zonealarm.com](http://www.zonealarm.com).

Always look for verification of a site's security before you enter sensitive data, such as a credit card number, name, address, etc. The 2 most commonly-relied upon methods for identifying secure sites are the closed padlock displaying in the status bar in the lower right corner of the browser window and the prefix <https://> in the site's URL. Do not share any confidential data if one or both of these are not present.

Don't get caught in 'phishing' schemes and don't download programs or utilities or open e-mails from unknown sources. Be especially wary of odd e-mails from known sources, as they could be viruses.

Do not throw away or donate old hard drives without 'wiping'. Free utilities are also available for this purpose. Perhaps a surprise to some, data is not erased or deleted merely by deleting a file from our pc. Both forensics specialists and criminals alike can recover tons of information after files were thought to have been deleted.

Do not transmit sensitive information via e-mail.

Yes, the internet age makes it possible to enjoy almost limitless resources at our fingertips, yet it could also bring a huge nightmare. Minimize the chances that you will become a victim of this latter category by practicing safe computer security!•

### By the Number\$ . . .

**20 . . .**

Number of seconds, on average, an 'unprotected' pc can browse the internet before becoming infected with a virus or worm. (The Wall Street Journal)

**2 . . .**

Number of Americans, in millions, whose checking accounts were raided by thieves in the past year. (market research group Gartner)

**20 . . .**

Number of times the cost of

health care rose as fast as the average wage did from 2000-2004. (Families USA)

**54 . . .**

Percentage of employers who say they're "somewhat likely" to offer their employees a health savings account plan by 2006. (Mercer Human Resource Consulting)

**70,000 . . .**

Approximate decline out of 100,000 in number of defined-benefit plans between 1975 and 2003. (Employee Benefit Research Institute)