

THE COMPASS



School's Out

Despite the long winter with all those snow days, school is finally over and out for summer. Just about all scholars get a report card to track their progress through their program. The following is a summary of the current administration's report card since 2009. The metrics focus on the economic issues of inflation, income, unemployment, and US Economic freedom.

Current Administration Report Card

	January 2009	TODAY	% chg
Avg.. Retail price/gallon gas in U.S.	\$1.83	\$3.5	96.7%
Gold: London (per troy oz.)	\$853.25	\$1,482.70	73.8%
Corn, No.2 yellow, Central IL	\$3.56	\$6.33	78.1%
Sugar, cane, raw, world, lb. Fob	\$13.37	\$35.39	164.7%
Unemployment rate, non-farm, overall	7.6%	9.1%	19.8%
Real median household income (2008 v 2009)	\$50,112	\$49,777	-0.7%
Poverty rate, individuals (2008 v 2009)	13.2%	14.3%	8.3%
Failed banks (cur = 2010 + 2011 to date)	140	164	17.1%
U.S.. Rank in Economic Freedom World Rankings	5	9	n/a
U.S.. Money supply, M1, in billions (cur = 12/10 prelim)	1,575.1	1,865.7	18.4%
U.S.. Money supply, M2, in billions (cur = 12/10 prelim)	8,310.9	8,852.3	6.5%
National debt, in trillions	\$10.627	\$14.052	32.2%

Three years into this administration, where do we stand? It reminds us of the infamous question's from October 1980 that Ronald Regan asked when running his presidential campaign.

1. "Are you better off than you were four years ago?"
2. "Is it easier for you to go to buy things in stores than it was four years ago?"
3. "Is there more or less unemployment in the country than there was four years ago?"
4. "Is America as respected throughout the world as it was?"
5. "Do you feel that our security is as safe, that we're as strong as we were four years ago?"

Given the above report card and questions, is that why 90% of the administration's advisors have left or announced they are leaving? Sounds like rats jumping off a sinking ship. What is the lesson the current administration should learn from this report card? "It's all about the economy stupid!", per Bill Clinton's campaign strategist James Carville.

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THIS ISSUE:

- School's Out
- Rx for Government Finances-Part 3
- 5 Tax Efficient Ways to Help Your Children
- Should You Loan Funds to Your Kids or Family?

Important Financial Dates

June 15

- 941 deposits due
- Federal 2nd qtr. Estimated taxes due

July 31

- 2nd qtr. payroll tax returns due
- File Retirement Plan Information returns (5500) or extensions

August 15

- 941 deposits due

September 15

- 941 deposits due
- Federal 3rd qtr. estimated taxes due
- All Corporate extension must be filed

October 1

- Deadline to establish SIMPLE IRA retirement plans

FREE Rollover Helpline
888-323-3456

Rx for Government Finances

Part 3 of 3

In our last couple of newsletters, we have listed the first 2 components of a simple 10 step program for the US to get its fiscal house in order. The first step was to modify the benefits and increase the funding of our three biggest entitlement programs. Last month we listed steps to abolish the current income tax system and replace it with a simple Value Added Tax. Those were the easy steps to implement.

The final recommendation to add discipline to our financial system is to build a strong financial structure. The primary tactic is to require an annual balanced budget equal to a set percentage of GDP that is equal to or less than 20%. The only exception to exceed 20% of GDP would be to fight a war declared against this country. If there is no agreed budget at the start of each fiscal year, absolutely no “earmarks” would be allowed in the budget. Any senator or congressman trying to attach an earmark to any fiscal bill would be charged with a criminal offense and be sentenced to jail time for grand larceny. All senators and representatives would have an absolute term limit not to exceed 12 years. Finally, any change in the tax law or government above the state GDP % would require a Constitutional Amendment approved by at least 75% of the states within one year.

With these simple 10 steps to fiscal stability, the US would be the strongest country on earth. The dollar would be stable and remain the reserve currency for all nations. Inflation would be nonexistent and retirees could maintain their lifestyles in confidence. To review the plan again, please reference the questfsi.com website. Your constructive comments are appreciated.

5 Tax Efficient Ways to Help Your Children

You have a generous heart and want to help your children have a positive life to look forward to. If you surpass the metrics in our article on making loans to your children, then you may consider some of these long term tactics to help them have a secure life.

1. Teach them to fish so they can feed themselves. Basically, help fund their education with a 529 Plan. You can invest up to \$65,000/child or up to \$130,000/ child/married couple over a five year period. The Plan will grow tax free and can be used for any post secondary education. These plans are portable and can be used for any dependents' education. It is important to know that the 529 Plan is yours and the dependent is the beneficiary. As a result, you are in total control. You can always pull your money back if not used for education. The earnings are then taxed plus a 10% penalty. Some states (not MA) even give a tax deduction for 529 contributions.
2. Fund a Roth IRA account for your children to a maximum of \$5,000/year provided the child has earned income. If you own a business, it is easy to employ the kids. If you do not own a business, there are ways to give a child some earned income. Call us at Quest for a discussion. The whole secret is time and compounding income tax free. Depending on when you start and how much and how often you make contributions, your child could retire early as a multimillionaire.
3. Take a tax credit for tuition payments of up to \$2,500/student/year under the American Opportunity credit. The student must be your dependent and you must spend at least \$4,000 on tuition and fees. With many colleges costing more than \$50,000/year, that should not be hard to do.
4. Convert some of your IRA funds into Roth IRAs with your children listed as beneficiaries. If you will not need to live off those funds, they can be passed onto your children, income and estate tax free. Your children can take the funds out over their lifetime income tax free. Again, the secret is time and compounding.

5 Tax Efficient Ways to Help Your Children cont.

5. Open a custodian account for each of your children and transfer funds into it that would be used for their benefit. You can earn up to \$1,800/year tax free. With low interest rates and dividend yields, you can tax protect a lot of assets in them. During your child's growing years, make withdrawals from the custodian account and spend it on the child's benefit (ie: summer camp, private schools, music or sports lessons). Just plan to spend the funds down before the child turns 21 in most states (18 in a few). When a child turns the age of maturity (21) any remaining funds are theirs to do with whatever they want.

The above are just some tax efficient ways to help your children.

Should You Loan Funds to Your Kids or Family?

Generally, we are not talking about small amounts that would be gifts but for amounts over \$5,000 or \$10,000. The answer is very simple – most people cannot afford to. Nobody is going to take care of you in your retirement. Defined benefit plans have all but vanished. The entitlements of social security and medicare are going to be cut back and means tested. Most children are going to have a lower standard of living and try to finance the education of their own kids. As a point of reference, it will cost over \$600k to put children born in 2011 through four years of a private college.

Based on generally accepted financial parameters, you will need over \$2.0 mil of net investable assets to support a \$100k pre tax life style including \$20k in Social Security. That does not include your residence or any of your toys (boats, vacation homes, high-end motor vehicles or collectibles). Given the mean family income is less than \$49.8k (see Obama report card), how could you possibly afford to?

In summary, most Americans are going to need to keep all of their assets to support themselves through retirement.

But for those of you out there who are generous and listen to your heart and not the facts, be forewarned. If you give a child or relative funds to buy a car or a boat, you should be aware of the significant depreciation in the first year. There goes your equity. If you loan "junior" money for a down payment on a house, your equity is the first to vaporize as real estate continues to slide due to the oversupply, short sales, and foreclosures. If you choose to loan a relative funds to start or buy a business, beware that 95% of all new businesses go bankrupt within the first five years. You would have better odds of getting paid back in Las Vegas.

If after the above warnings you still feel generous, make the loan conditional on your child taking a financial management course at a local college. They will stop asking or learn to manage their money. If you are reluctant to make the loan, tell them you would have to sell your stocks and they would be responsible to make up the loss.

If you do make the loans and they are not repaid, communicate that the sum will be deducted from their inheritance. If and when you make the loan, have them sign a formal note with an interest rate greater than the prime interest rate. If you don't, the IRS will impute it, and it is income to you. If your child or relative defaults on the loan, it will result in a gift to them. You will be responsible to file a Form 709 Gift Tax Return which will end up part of your estate. For the person defaulting on the loan, they will end up with "Debt Forgiveness" income and owe federal income taxes on it, which they will love.

Bottom line, don't loan your kids or relatives any money. You cannot afford it and neither can they deal with the consequences if they default.

As Shakespeare said over 400 years ago, "Neither a borrower nor lender be". And also remember, it's not how much you make, it's how much you keep.