Quest Financial Services, Inc.

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The Compass

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THIS ISSUE

Important Financial Dates

October 1
- Deadline to establish SIMPLE IRA retirement plans

October 15
- Personal, Partnership, Trust & 5500s tax returns on extension due

October 31
- 3rd qtr. payroll tax returns due

November 15
- 941 deposits due

December 15
- 941 deposits due
- Pay Federal 4th quarter estimated taxes (corporations)

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Just the Facts

October is very similar to all the other months of the year with all kinds of statistics and numbers being posted. With respect to investments, some are very interesting and some are scary. One of the most important was the preliminary Q3 GDP of 2.5% which helped the stock market continue its advance last week. But do not forget, it will be revised two more times before being finalized. Most of these reviews are downward. Then there is the 9.1%. Not what you think. It is the Q3 GDP of China following respective quarters of 9.7% and 9.5%. Is this leading to a soft landing? Last week the PPI (Producer Price Index) of 9.6% came out on Wednesday followed by the CPI (Consumer Price Index) of 3.9%, (core 2.5% if you do not eat or drive). Uncle Ben, you said there was no inflation!

Then there is the 9.1% unemployment rate that everyone knows. A significant number of these are camped out in various cities protesting the American life and lack of opportunities. There are many companies out there with thousands of jobs posted that they cannot find qualified people to fill. Before his death earlier this month, Steve Jobs was asked why most of the Apple products were made overseas. He answered he could create 700,000 production jobs in the US if he could find 20,000 engineers to support them. Caterpillar is looking for hundreds of diesel mechanics. DuPont is looking for thousands of engineers and chemists. There are many accounting, health-care, and analytical jobs unfilled due to lack of qualified candidates. The national rail-roads are hiring. Trucking companies are paying $80,000.00 for truck drivers and oil companies have shortages and are paying $80-$100k/year for drilling and refining workers in the middle of the country from North Dakota to Texas.

A lot of these protestors have useless degrees in political science, medieval literature, or art history. All they are qualified to do is to go to law school. According to the Mass. Board of Bar Overseers, there are 83,342 practicing lawyers in this state. Just what we need is more lawyers. No wonder we have such a litigious society.

Now the scary facts. The WSJ (Wall Street Journal) reported last week that the CBO (Congressional Budget Office) recorded a $1.3 trillion deficit for the fiscal year ended 9/30/11. The government spent $3.6 trillion in their attempt to spend America back to prosperity. The CBO reported that overall outlays grew by 4.2% with Medicare up 3.9% and interest by 16.7%. Government austerity is a myth. On a positive note, government receipts grew by 6.5% in 2011 driven by over a 20% increase in personal income taxes.

Quest Financial Stats

150... Average expense ratio (in basis points of actively managed mutual funds.

62... Percentage of investors who, when asked what they would do with an unexpected $25,000, said they would invest the money; just 14 percent would spend it.

53... Percentage of more-affluent Americans (investable assets of at least $200,000) who believe the help of a professional financial adviser is required when planning for retirement.

27... Percentage of one-person households in the United State in 2010, up from 25 percent in 2000.

22... Percentage of survey respondents under age 30 who use an online bank as their primary banking institution, compared to 11 percent of those 40 and older.

51... Percentage of retirement plan participants who say that it's more likely scientists will clone dinosaurs in their lifetime than it is that Congress will save Social Security.

32... Millions of uninsured people expected to gain health insurance coverage by 2019 because of the Affordable Care Act: 17 percent will be between the ages of 50 and 64.

42... Percentage of Americans who say health care overhaul legislation passed in 2010 goes too far; most of those favor repealing it and passing a new health care bill in its place.

50... Percentage of U.S. workers who said they paid off their credit cards in full each month in 2010, up from 42 percent in 2009. $64,000...Median amount of inheritance projected to be received by baby boomers over their lifetimes.

702... Number of FDIC-identified "problems" banks in 2009, a nearly 300 percent increase from 2008, and a 17-year high.

28... Median age in 2010 for men in the United States to marry for the first time, up from 26 in 2000; median age for women was 26 in 2010, up from 25 in 2000.

Just the Facts cont.

See the following table:

	Receipts	Outlays	Deficit	% GDP
2007	2568	2729	161	1.2
2008	2524	2983	459	3.2
2009	2104	3520	1416	10.0
2010	2162	3456	1294	8.9
2011	2303	3605	1298	8.6

$ Trillions

This table shows the current administration has the worst deficits (%GDP) since World War II. If one compares 2007 to 2011, they collected $265 billion less due to the recession but spent $900 billion to feed the voracious Washington spending appetite. The current administration has a significant spending problem to fuel a never ending stimulus. The prime message from the above chart is that Congress needs to focus on faster growth and decrease spending to reduce the deficits. It is very clear that the current administration will have to sit down to a dinner of its consequences twelve months from now.

Class Act

Two weeks ago a momentous press conference was held by the Dept. of Health & Human Services announcing they were no longer supporting the CLASS ACT (Community Living Assistance Services and Supports). It would have created a new social insurance welfare program. The idea was to create a government insurance long term care program that people could make voluntary payments to cover their need for a nursing home or assisted living.

Private LTC insurance already exists, but it is expensive and only about 10% of seniors have coverage. But the government already has LTC through Medicaid for those that become impoverished. The administration thought Americans should get LTC without first impoverishing themselves. The LTC insurance would be paid for partly with premiums and partly with federal borrowing and taxes. The average premium was going to be $123/month, with seniors paying more and younger taxpayers paying less. Workers could “opt out”. The benefits would pay $50/day for home based care and $75 for institutional care.

<u>Class Act</u> <u>cont.</u>

Senate Democrats were mixed, while all Republicans were against it. Those who read the CBO report learned that expenses would run so far ahead of premiums that it would eventually become a new entitlement. Many Democrats stopped reading the CBO report after seeing it would have $72 Billion surplus in first 10 years. Others realized that short term surplus was the result of paying five years of benefits with 10 years of revenues. After that, the deluge.

Sen. Judd Gregg (R) NH attached an amendment to require the HHS secretary to certify actuarial soundness of the balance between premiums and benefits over 75 years which would not pass. The current administration has been forced to decide that the CLASS Act's LTC is unworkable and unaffordable. This is how Congress works to undermine government finances, and why the country needs a drastic reform in its entitlement programs.

Actuarially sound insurance and social insurance do not live in the same universe. Social insurance programs are designed so that most people don't pay for all the value they get, while a few people pay much more than can possibly receive in benefits. The current administration is full of people who consider this a feature, not a bug. If the premiums were set high enough to cover the benefits, nobody could afford it. If the benefits were cut to match the premiums, people would not want it.

The administration was mixed in the lack of support for its cause. Some blame Gregg for tying the Class Act in knots. Others blame the administration for "not ignoring, finessing or lying about the Gregg clause and the Class Act's impossible numbers. They are annoyed to see the letter of the law upheld over a financial imbalance. It might even signal a similar fate for Obamacare. Congress should learn from this Class Act. Put Gregg amendments in all new social insurance programs. All the Congress and Senate will have to sit down to a banquet of their consequences.

Tax Tips for Tax Year 2011

Small employers that pay at least half of the premiums for employee health insurance coverage under a qualifying arrangement may be eligible for the small business health care tax credit. This credit can enable small businesses to offer health insurance coverage for the first time. It also helps those already offering health insurance coverage to maintain the coverage they already have. The credit is specifically targeted to help small businesses and tax-exempt organizations that primarily employ 25 or fewer workers with average income of $50,000 or less.

- Businesses that couldn't use the credit in 2010 may be eligible to claim it in future years. Some businesses that already locked into health insurance plan structures and contributions for 2010 may not have had the opportunity to make any needed adjustments to qualify for the credit for 2010. So these businesses may be eligible to claim the credit on 2011 returns or in years beyond. Small employers can claim the credit for 2010 through 2013 and for two additional years beginning in 2014.

For tax years 2010 to 2013, the maximum credit for eligible small business employers is 35 percent of premiums paid and for eligible tax-exempt employers the maximum credit is 25 percent of premiums paid. Beginning in 2014, the maximum tax credit will go up to 50 percent of premiums paid by eligible small business employers and 35 percent of premiums paid by eligible tax-exempt organizations.

For additional information about eligibility requirements and calculating the credit give us a call. We are here to assist you at 781-246-2728.

Year End Tax Moves

As October ends, April 15th is five and a half months away, but 12/31 is closing fast. Now is the time to be proactive and implement some of the following tactics to minimize your income taxes. Don't look back on 4/15 and say woulda, shoulda, coulda.

The biggest and easiest deductions are all future oriented. Whether you own a business or not, establish a retirement plan for 2011. There are many types of plans to choose from allowing you up to a $250K deduction. The best part is you don't have to fund the plan until you file your 2011 income tax return (including extensions). At least, make sure you fully fund your 401K plan up to $16.5K (or $22K if over 50 yrs old) before the end of December. If you have any questions, call Bob Dubee at (781) 224-3456.

The next most lucrative action you can make is to take advantage of the numerous tax credits available. The biggest return will come from energy-efficient investments to your home. Some motor vehicles can provide you with a nice tax credit. There are educational, childcare, and other types of tax credits that will save you dollar for dollar on taxes.

With respect to investments, you can harvest any capital losses or offset some of the capital gains you may have realized. With any extras, you can shelter ordinary up to $3K. Unused losses can be offset against any future gains. Be careful of 'wash sales' rules by waiting at least 30 days before buying back any losses harvested.

Another investment tax tactic is to convert any IRA or part of your IRA to a Roth IRA. Future tax rates are predicted to go up even with the expiration of the Bush tax cuts. It is too late now to "recharacterize" any Roth conversions you did for 2010. But if you did "recharacterize" an IRA conversion before 10/17, you must wait at least 30 days or until next year (whichever is longer) before you can switch back to a Roth.

Most people wait until the end of December to make charitable contributions. By starting now, you can spread out your donations making you feel better over a longer period of time. Also use the next couple of months to clean your house by giving everything from furniture, clothes, household items, cars and even boats to many charitable organizations.

Finally, look at Schedule A of your tax return for opportunities to accumulate your deductions. The obvious ones are to prepay state and local real estate taxes before year end. If you live in a high sales tax state, there is an opportunity to make a large purchase and deduct the sales tax to get an extra deduction. Prepay January mortgage payments before year end. Also, there are a number of deduction opportunities included "Miscellaneous", but in total they must exceed 2% of AGI (adjusted gross income). These include investment expenses, employee business expenses, moving, professional and union dues, teacher expenses, publications, certain legal and accounting expenses, safe deposit boxes, etc., etc., etc.. Call Quest at (888) 323-3456 if you have any questions.

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