

CLIENT'S tax & financial UPDATE

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A tax, business, and financial planning newsletter for our clients and friends

Tax Opportunities for a Comfortable Retirement

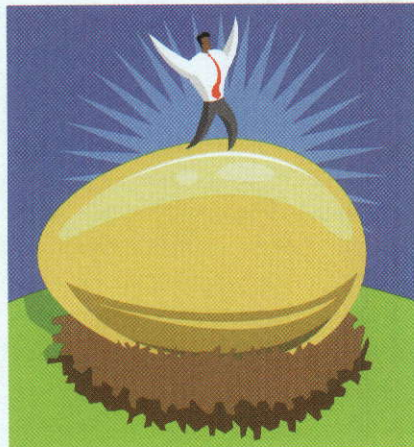
There are several ways to take advantage of loopholes in the tax laws to enhance your retirement. Here are the most effective strategies to consider.

Sell your home tax-free.

The tax law does much more for home owners than simply letting them take a \$250,000/\$500,000 tax-free gain on sale. Here are additional ways the law helps some owners save taxes:

- A home qualifies as a principal residence, on which you can take tax-free gain, if you've lived in and owned it for only two out of the previous five years. So, if you moved out of your home up to three years previously, and perhaps have rented it out for profit in the meantime, it will still qualify as a residence on which you can take tax-free gain.
- You can take tax-free gain multiple times. The law allows you to use the \$250,000/\$500,000 exclusion once every two years.
- Transfers of homes to children made easier. Some parents who approach retirement age desire to make a

gift of the family residence to their grown children. The drawback to this was that when a home had appreciated in value, for income tax purposes it was better for children to receive it by inheritance than by gift. Current tax law eliminates this problem for many by enabling a child who receives a home by gift to use



the \$250,000/\$500,000 exclusion to eliminate the gains tax that otherwise would be due, provided the child uses the home as his/her principal residence for at least two years.

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taxPOINTS

Loophole: Reconstruct missing W-2's. If a company you worked for went out of business, or your employer hasn't yet given you a Form W-2, you can reconstruct your salary and withholdings records on Form 4852, *Substitute for Form W-2, Wage and Tax Statement*. On that form, prepare your best estimate of your salary and withholding, explaining how you arrived at the figures, and send it in with your tax return.

Money saver. Reconstruct debt.

Low interest rates are an incentive to refinance old debt as well as providing tax benefits. Interest on consumer debt cannot be deducted, but mortgage interest (within limits), business interest, and investment interest up to investment income is deductible.

Strategy: Refinance high interest non-deductible consumer debt with low interest fully deductible debt.

Tax-free income from your home or vacation home.

If you rent out your home and/or a second home that you own (such as a vacation home) to others for fewer than 15 days during the year, the rental income you receive is totally tax free – you don't even have to report it on your tax return. This is one of the simplest and best tax breaks in the tax code.

Bad debt writeoffs. Loans made to friends that are not repaid can be deducted as non-business bad debts on Schedule D of your individual income tax return. To be deductible, make sure you have a promissory note and have made a legal attempt to collect the money.

Better Marketing

Disciplined direct marketing.

Many businesses are finding that direct marketing offers a productive alternative to other channels of distribution. Many of the guidelines for direct marketing are the same as those for any other successful sales effort, but there's one cardinal rule the direct marketer shouldn't ignore: *Develop one winning product at a time and focus on it.* The best direct marketing doesn't confuse the prospect with various alternatives. It spotlights one product and concentrates on its benefit to the customer.

Don't restrict your direct marketing efforts to gaining new customers. In fact, the customers who have already bought your product are your best bet for direct marketing.

You can go back to them again and again. And when you choose the focus for your initial direct marketing effort, you should be thinking about a followup – additional products that will appeal to those who have already responded to your first offer.

In short, it's OK to promote a group of related products, but sell them one at a time.

Conduct your own focus group.

Market researchers know that one of the best ways to get actionable marketing information is through a focus group – a forum in which a professional researcher poses questions to a group of potential buyers, distributors, or consumers.

The questions asked in a focus group are usually different from those asked in a survey, where "yes/no" or multiple-choice answers are the norm. In focus groups the questions are open-ended. The person conducting the research doesn't look for specific responses, but asks for general opinions.

You don't need a costly formal focus group facility to do this kind of research. There is no reason, for instance, why you can't gather a group of your customers over lunch or late afternoon wine and cheese. In this informal setting you can invite, for example, suggestions about improvements or get reactions to ideas for new products. Your customers will probably be flattered that you've asked their opinion and you'll get a perspective on your business that may surprise you.

Smarter Selling

Listen before you leap: Control your enthusiasm for what you're selling until your prospective customer has described his problems to you. If your initial presentation is too forceful, the customer can interpret it as "hard sell" with no consideration for the customer's needs.

A better approach is to listen carefully for what the customer really needs and then use your enthusiasm to show how your product or service can satisfy those needs. Your message will then come across as a desire to help the customer and you'll be seen as someone the customer wants to work with.

Strongest sales approach: Always present your product, your service and your company as a contributor to the customer's bottom line. Your objective should be to position yourself as the customer's partner, not just another vendor of goods or services. You'll sell much more effectively if you are perceived as a profit booster rather than a cost contributor.

