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in this issue:

Solo Opportunities:
One-Person 401(k)s

Liquidity and
Your Estate

Do You Owe
Estimated Taxes?

How to Avoid Becoming a Victim of Identity Theft

Identity theft is one of the fastest growing crimes in the United States, with as many as 750,000 victims every year, according to government estimates. Identity theft is a type of fraud in which a thief uses your personal information to conduct transactions in your name. Thieves may, for example, steal your identifying details to open or empty bank accounts, obtain credit cards, or take out loans.

There are steps you can take to reduce the risk of having your personal information stolen, as well as ways to detect a theft early and minimize the damage to your credit.

- Monitor your credit reports, checking regularly for any suspicious transactions. Each of the three major credit rating agencies, Experian, Equifax, and TransUnion, are obligated to provide consumers with a free annual credit report, upon request. You can access the reports through a website co-sponsored by the agencies, www.annualcreditreport.com. A thorough review of these reports, also known as credit file disclosures, should alert you to any unusual activity.
- Do not provide sensitive data in response to e-mail or telephone solicitations. If you are interested in an offer, take down the caller's contact information and verify that the company is legitimate before revealing your identifying details. You can bar telemarketers from calling you by registering your phone number with the Do Not Call Registry at www.donotcall.gov.
- Filter unwanted e-mail by installing anti-spam software on your computer. For further protection, install firewall and antivirus software programs that include automatic updates. Use a secure browser when conducting online transactions.
- Invest in a mailbox with a lock or rent a P.O. box. Thieves have been known to intercept confidential correspondence and offers from financial services companies. Also, store sensitive information in a secure place in your home.
- Destroy records containing private financial information by tearing or shredding, and do not dispose of credit card receipts or ATM

continued on page three

Solo Opportunities: One-Person 401(k)s

Entrepreneurs succeed by taking advantage of every available business opportunity. In order to prepare for a secure retirement, they also should pursue the options that offer the greatest potential. For small business owners with no employees, recent tax law changes make the **one-person 401(k)** one of the most attractive planning tools available.

The Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA)* gave a boost to one-person 401(k) plans by increasing the contribution limits, allowing self-employed workers to save more for retirement. With these tax law changes, the one-person 401(k) may be more beneficial to highly compensated self-employed individuals than some of the more traditional offerings, such as Simplified Employee Pension (SEP) plans and Savings Incentive Match Plans for Employees (SIMPLEs).

A Boost for Saving

If you are a participant in a one-person 401(k), you may be eligible to make elective salary deferrals, as well as take a business deduction for profit-sharing contributions. Contributions reduce your taxable income. In 2009, an entrepreneur who runs a small business with no employees may take a deduction for up to 25% of his or her salary with up to \$245,000 (subject to inflation indexing) of compensation eligible for consideration, and he or she may elect to *defer* a portion of his or her salary up to \$16,500. The combination of profit-sharing

and salary-deferred contributions may not exceed \$49,000 in 2009. Those age 50 and older may make additional “catch-up” contributions of up to \$5,500. Prior to reform by EGTRRA, participants were allowed only a 15% profit-sharing deduction and were not eligible to also make elective deferrals.

continued on page three



Liquidity and Your Estate

One important aspect of estate planning is helping your loved ones *after* your death, financially as well as emotionally. Proper preparation can help minimize the financial burden and stress on those responsible for and reliant upon the administration of your affairs. Building **liquidity** into your estate plan can help ensure that financial resources are available to cover estate settlement costs, as well as any tax due.

Liquidity is the ability to quickly and easily convert assets into cash without incurring a significant loss.

Funds in a checking account are considered liquid assets, while real estate would be considered relatively illiquid. If your estate must sell illiquid assets to meet immediate cash needs, it may be forced to do so at a significant loss. In addition to the financial consequences, such forced sales are often emotionally difficult for heirs, particularly if it means the loss of a family business, heirloom, or home.

Anticipating certain costs and planning for them can help ease the estate settlement process. Consider preparing for the following expenses:

- Final medical expenses
- Funeral costs
- Bills
- Outstanding debts
- Income taxes (and any accounting fees)
- Appraisal fees
- Federal and state estate taxes
- Attorney fees

An estate planning team comprised of an attorney, tax advisor, and financial professional can help you develop the appropriate strategies for your situation. ■

solo opportunities: one person 401(k)s

continued from page two

A Case Study

For illustrative purposes, consider the following hypothetical case study. Sarah Foster, age 45, has an adjusted earned income of \$100,000 as a self-employed software consultant. As the owner of her own corporation with no employees, she takes a profit-sharing deduction for her contributions to a one-person 401(k) for 25% of her eligible compensation, totaling \$25,000. In addition, Sarah elects to defer \$16,500 of her salary to her 401(k), bringing the total of her contributions to \$41,500. That's significantly more than she could save with another plan, such as a

SIMPLE that has an elective deferral limit of \$11,500 in 2009.

The Benefits Continue

One-person 401(k)s offer additional benefits. Because there are no other employees, a one-person 401(k) avoids **nondiscrimination testing**, and these plans are relatively simple and inexpensive. Depending on your circumstances, you may be able to **roll** a qualified plan into a one-person 401(k). Earnings have the opportunity to grow on a tax-deferred basis, and if necessary, you may take a loan subject to the limitations of your

plan. Bear in mind that withdrawals made before age 59½ may be subject to a 10% federal income tax penalty.

The one-person 401(k) offers today's entrepreneur unprecedented opportunities to prepare for retirement. The sooner you get started, the better. ■

*According to EGTRRA, favorable retirement incentives had been set to expire in 2011. Thanks to the Pension Protection Act, signed into law on August 17, 2006, many of these provisions, including the increased contribution limits for 401(k) plans, have been made permanent.

how to avoid becoming a victim of identity theft

continued from page one

statements in public trash receptacles. Thieves have been known to "dumpster dive" to obtain the details they need to commit fraud.

- Protect your accounts with passwords or access numbers that cannot be easily deduced. Avoid using your Social Security number, your birth date, your phone number, your mother's maiden name, your children's names, or a series of consecutive numbers. Never carry your Social Security number or passwords with you.
- Before disclosing identifying information to businesses, employers, or other institutions, ask how the information will be handled and stored.
- If your license or another form of personal identification is stolen, contact the appropriate

agency immediately to cancel the identification and order a new one.

- Closely monitor your credit and ATM cards. Check your credit card and bank statements carefully for any suspicious purchases or withdrawals.

If you have reason to believe your identity has been stolen and misused, report the theft immediately to the fraud department of one of the three major credit bureaus and ask them to place a "fraud alert" on your file. This alert will prompt creditors to contact you before allowing a new account to be opened in your name or an existing account to be altered. Calling just one bureau is sufficient, as the company you contact will report the problem to the other two bureaus. After placing the fraud alert on your file, you will be entitled to request one

free copy of your credit report from each of the credit agencies, even if you have already received reports that year.

You should also immediately contact creditors or other companies with accounts in your name that may have been affected by the fraud, instructing them to close the accounts immediately. The next step is to file a report of the theft with the police in the community where the crime was committed. Finally, file a complaint with the Federal Trade Commission (FTC), which maintains a database used by police and other law enforcement officials for identity theft investigations. Be sure to keep written records of your efforts to alert creditors and other authorities to the theft. To learn more about identity theft, visit the FTC website at www.ftc.gov. ■

Do You Owe Estimated Taxes?

If you are self-employed or have additional sources of income outside of your regular job, you may fall into the category of Americans who are required to file their federal taxes not just once a year in April, but four times annually. While no one likes paying estimated taxes to the IRS, you can make the process easier by setting aside money regularly and keeping detailed records.

The rationale for requiring people to file who do not have all their taxes regularly withheld from their paychecks is simple: The IRS expects Americans, whether employees or independent contractors, to settle their taxes on a pay-as-you-go basis. Failure to pay taxes within a short time after they are owed can result in penalties.

You may need to file estimated taxes if you start your own business or work as a freelancer, or if you sell investments or other property, thus triggering capital gains taxes. Even a sudden change in the types of deductions you are able to take could mean that your usual withholding may no longer be sufficient to cover your tax bill. In short, if you expect to be hit with a large tax bill in April because you have received additional untaxed income or have lost important deductions, you may need to start making estimated tax payments.

Taxpayers with adjusted gross incomes (AGIs) below \$150,000 are, generally, expected to pay in advance at least the amount owed on last year's

return, and those with incomes above \$150,000 must pay at least 110% of the taxes owed the previous year. The IRS does not usually penalize taxpayers for failure to file estimated taxes if their federal income tax liability is less than \$1,000 or if their withholdings cover 90% of the tax bill. Recipients of sudden, one-time windfalls are also seldom required to make estimated payments, provided they pay the taxes due at the end of the year. Interest charges are likely, however, if the amount of underpayment is substantial or if income is received not just once, but on a regular basis.



If you are employed but have other sources of income on which you will owe taxes, you may be able to avoid making estimated tax payments by increasing your withholding on your W-4. Self-employed people must, however, make estimated payments in quarterly installments. For the tax year 2009, the due dates for estimated tax payments are April 15, June 15, and September 15, 2009, and January 15, 2010.

Assuming your income is fairly steady over the course of the year, the IRS expects the four estimated tax payments to be in equal installments. Most taxpayers use the amount of taxes owed in the previous year in order to set their estimated payments for the following year. If, however, your income fluctuates greatly, you are permitted to adjust your payment amounts using an annualized income calculation. Your records should reflect these variations in income, or you will not be permitted to use this method for calculating tax liability.

If the IRS finds you guilty of underpaying your taxes or of failing to pay estimated taxes on time, the agency will levy interest on the amount of the payment owed based on market rates. Thus, penalties will vary depending on the size of the underpayment, prevailing interest rates, and the amount of time that has passed since the payment was due.

Fortunately, filing estimated taxes is relatively easy: Simply fill out Form 1040-ES, Estimated Tax Voucher; enclose a check for the appropriate amount; and send your payment to the IRS. After you have made your first estimated tax payment, the IRS will send you pre-printed forms that you can use in the future. Keep in mind, however, that paying estimated taxes is not a substitute for filing a complete income tax return by April 15 of each year. For more information, consult your tax professional. ■

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