



6005 Fairmont Pkwy, Suite J • Pasadena, TX 77505
713-946-1040 Office • 713-946-9241 Fax
www.baitytax.com

When the Unexpected Happens, Will You Have Enough Cash?

Most people realize that they should put aside enough cash to protect themselves against an emergency or a sudden loss of income. If the unexpected happens and an adequate cash reserve is not readily available, you may be forced to sell investments or real estate for less than they might be worth at another time under less pressing circumstances.

That's why it's wise to plan your emergency cash needs carefully. Here's how to go about it.

How Much Cash is Enough

Step 1: Estimate your living expenses. It's fairly simple to estimate your annual living expenses, but be careful not to forget anything. Rent or mortgage payments, food, clothing, car maintenance, utilities, and monthly debt payments are seldom overlooked, but people tend to forget insurance premiums (car, life, medical, homeowner's, etc.) and payments which are made quarterly or semi-annually.

To determine how long your cash reserves should last, a good rule-of-thumb is to set aside enough cash to

pay your expenses for six months if your household has only one wage-earner. If your household has two wage-earners, a three month cash reserve is adequate in most cases.

Modify these time periods by considering how long it might take you to find new employment if you lost your



present job, and how long it would take your disability insurance to take effect if you couldn't work because of illness or injury.

When you calculate how much cash you'll need, don't count on certain kinds of income to provide that cash. For example, you might be tempted to include anticipated dividends from equity investments as part of your cash reserves. That's a mistake because income from stocks is not guaranteed.

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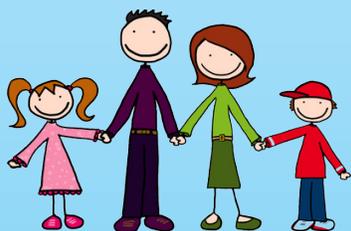
taxPOINTS

Avoid penalties on an IRA withdrawal. Distributions from a traditional IRA are not always subject to the 10% penalty tax on early (pre-age 59 ½) withdrawals if you use the amounts to: (a) pay qualified higher education expenses, or (b) pay certain expenses incurred for qualified first-time home buying expenses (up to the first \$10,000).

Tax loophole for Partnerships and LLCs. Allocation of profits and losses among owners can easily be changed. An allocation can simply be changed year to year, due to the changing circumstances of the business and its owners, by reflecting so on the tax return and modifying the original agreement as applicable.

Deduct medical expenses for all your dependents. When you are claiming another person as a dependent then the medical expenses that you pay may be deducted on your tax return. This deduction might apply to your parent or to a live-in companion.

Tax saver. Hire your children. Wages you pay to your children from your business are fully deductible. The only condition is that the wage must be reasonable for the work performed. Don't miss out on this deduction if your children are in a lower tax bracket than you.



Personal Money Management: Ten Major Mistakes to Avoid

- 1. Paying more taxes than you have to.** Keep good records so you get all the deductions you're entitled to. Shift income to a year when you'll be in a lower tax bracket. Shift deductions to a year when you'll be in a higher tax bracket.
- 2. Not preparing for the unexpected.** Set aside at least two months' income to protect yourself and your family from serious cash flow problems in the event of an emergency.
- 3. Not putting your money to work.** Take all excess funds out of no-interest or low interest checking and savings accounts. Put the money to work in liquid but higher yielding places such as mutual funds.
- 4. Not setting financial goals.** If you don't have goals, you can't make a plan to achieve them. Write down where you want to be and when. Then start making a plan.
- 5. Making investments based on tips.** No matter how well-intended, a tip is the worst reason to make an investment. Investment decisions made under pressure are also unwise.
- 6. Failing to have your will updated.** Your situation changes along with that of your heirs. Your will should always reflect your present circumstances.
- 7. Not establishing credit in the name of each spouse.** No one likes to think about death or divorce, but not having credit can be much more than a minor inconvenience.
- 8. Borrowing money when it's not necessary.** Not all interest is fully deductible. Interest deductions have been sharply curtailed. Don't assume tax benefits when you consider borrowing.
- 9. Not keeping organized financial records.** Poor recordkeeping can cost you significant tax savings, cause you to make bad financial decisions, and leave your family with unnecessary problems if you become ill or die.
- 10. Failing to put a yearly tax plan to work as early as possible.** Year-end tax planning can be costly. The sooner you put your tax plan to work, the greater your savings.

Managing Time

- For a more efficient work schedule, keep track of projects by the week, not just by the day. Daily schedules are best for specific tasks that need immediate attention. Weekly plans help to spread your workload. Best time to set up your weekly plan: Monday morning. Best time to establish the next day's schedule: just before you leave work for home.
- The best calendar is one calendar for all your appointments. Avoid the temptation to keep several calendars in various places. If you use more than one calendar, the chances are that you'll forget to transfer information from one to the other. Most executives prefer hand held electronic calendars that are capable of holding more than just appointments and are small enough to be carried with them.

How to Cut Capital Gains Taxes on Investments

Capital gains tax rates are low and you can still take steps to reduce your capital gains taxes even more. If you have investment in securities, here are some valuable tips.

Sell the correct stock. For example, let's assume that you make three separate purchases of the same stock – 100 shares at \$10 a share, 100 shares at \$20 a share, and another 100 shares at \$30 a share. Assume that you can sell the stock now at \$40 a share. If you sell 100 shares now and don't tell your broker which of the three purchases to sell, the IRS will consider that you sold the first \$10-per-share purchase you made, and you'll be taxed on a \$30 gain.

You can avoid this problem by tell-

ing your broker to sell the 100 shares of stock you bought at \$30 so your taxable gain will be \$10 a share. (You might, however, want to sell the \$10 stock if you have enough capital losses to offset your gain.)

Offset gains with losses. Consider selling some stocks at a loss if you have large capital gains. Remember that although you can deduct only up to \$3,000 in capital losses from ordinary income, there is no limit on the capital losses you can use to offset capital gains.

If you're reluctant to take a loss on a stock you think will go up, you can sell it and buy it back as long as you wait at least 31 days before you buy it back. If you don't wait at least 31 days, the

IRS will deem the transaction a "wash" and won't allow you to take a loss.

Sell in the right year. Consider selling now if you expect to be in a higher tax bracket next year. If you think you'll be in the same tax bracket, you may be better off selling in a later year and deferring the tax on your gain.

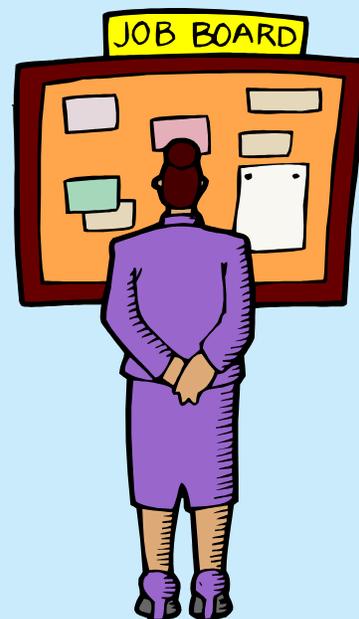
Make a charitable contribution of appreciated securities. If you've owned a stock for more than a year and donate it to charity, you can deduct its full market value as a charitable contribution. Be careful, however, because the gain on property given to a charity is subject to the alternative minimum tax.

Get All Your Deductions for Job Search Expenses

You can deduct the costs of looking for a new job in the same trade or business as an itemized deduction, subject to the 2% floor of adjusted gross income.

Even if you do not wind up with a new job, you can still deduct these expenses:

- Newspapers and business publications that you buy for their employment ads.
- Fees you pay to career consultants, recruiters, employment agencies, and resume writers.
- Resume preparation costs such as typing, printing, envelopes, and postage.
- Miscellaneous transportation costs such as taxi fares or parking costs for job interviews.
- Telephone calls made in connection with your job search.
- Out-of-town travel expenses including transportation, hotels, and 50% of the cost of all meals.
- Legal and accounting fees for tax advice about employment contracts.



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Step 2: Establish your inner comfort level. Everyone is different and you should consider whether you'll really feel secure that your cash reserve is adequate. If you're uncomfortable about only having enough money to meet expenses, then put aside a specific amount beyond and above those expenses.

Keep in mind that your needs will vary depending on your circumstances. For example:

- If there's a new baby in your family, you should increase your emergency cash level.
- If you are young, single, and without debt, you may not need to maintain a high level of cash - particularly if

you have skills that make you easily employable.

- If you are about to retire, chances are that you'll feel insecure in what will be an entirely new way of life. A cash reserve that's well above regular expenses may be called for, at least until you feel comfortable about living as a retiree.
- If you've started a new business, don't count on it to produce immediate personal income. Instead, increase your emergency cash until you're certain that the business will generate a steady income. In some cases, this can take a few years.

Put Your Cash in the Right Place

Security and liquidity are the major criteria for where to keep your cash reserves. Put your money where it

will be readily available to you when you need it. The two most common choices are:

- A savings account. You'll earn a low interest rate, but if you're very conservative you'll know your money is completely safe.
- A money market fund. Bank money market funds are federally insured, but other money market funds earn a higher interest rate and are usually quite safe. Look for funds that have check-writing or telephone withdrawal privileges.

Wherever you put your emergency cash, make sure it earns compound interest. It's possible that you may never have to use your cash reserves and over a period of time, the power of compound interest can build a tidy nest egg for you.

Marketing Reports That Boost Profits

Here are four key reports that can go a long way toward helping a company maximize its profits. In combination, these marketing monitors indicate where a business should direct its marketing resources to produce the best results.

- **Profitability by account.** This report lists individual accounts and shows purchase, selling prices, gross margins and allocated selling expenses. Purpose: weed out unprofitable accounts or take action to improve account profitability.
- **Profitability report by sales representative.** This report tracks the

profitability of each salesperson's individual accounts. Purpose: point out the best customers for concentrated sales efforts.

- **Profitability report by product.** This report compares the profitability of various products and their variations such as size, design, color, etc. Purpose: identify products for elimination or for product line expansion.
- **Profitability by market.** This report compares sales and profits within a company's sales territories. Purpose: monitor regional trends and identify areas

that deserve an increased marketing effort.

