

Please feel free to email any comments or issues that you would like to see addressed in future publications to:
sharris@StokerOstler.com

Inside this issue:

Opportunities Lost, Opportunities Found



By *Kim Bridges*,
Senior Financial Planner
kbridges@StokerOstler.com

“I was seldom able to see an opportunity until it had ceased to be one.”

-Mark Twain

With the beating that most of us have taken in our portfolios, “opportunity” may be the last word you would think of using to describe the current environment. However, when it comes to long term planning there are many opportunities out there right now. Lest you end up like Mark Twain, who confessed that he seldom saw an opportunity until it ceased to be one, let me identify some of these opportunities.

Opportunities Provided by Tax Incentives

The American Recovery and Reinvestment Act of 2009, signed into law by President Obama on February 17, 2009, provides a number of incentives for individuals to stimulate the economy by spending money on vehicles, personal residences, energy efficient home improvements, and education.

In hopes of providing a boost to the auto industry, the law includes an **above-the-line deduction for state and local sales taxes and excise taxes paid on the purchase of new cars**, light trucks, recreational vehicles, and motorcycles meeting the Clean Air Act standards. Vehicles must be purchased between February 17 and December 31 of 2009.

The deduction is subject to a phase-out for taxpayers with adjusted gross income (AGI) in excess of \$125,000 (\$250,000 in the case of a joint return).

If you are thinking about purchasing an electric vehicle, the law provides an additional incentive for you. **The Plug-in Electric Drive Vehicle Credit** provides a \$2,500 credit (or more, depending on the kilowatt-hour capacity of the battery) for each qualified plug-in drive vehicle placed in service during the taxable year. No income restrictions apply. Taxpayers may claim the full amount of the credit up to the end of the first calendar quarter in which the manufacturer records the sale of its 200,000th plug-in electric drive vehicle.

For would-be home buyers who have been sitting on the fence waiting for the opportunity to jump in the housing market, the Act provides a nudge in the form of a refundable **First-Time Home Buyer Credit** for homes purchased between January 1 and November 30, 2009. You don’t actually have to be purchasing your first home to qualify, but must not have owned a home in the last three years. The credit is equal to

Opportunities Lost, Opportunities Found (Cont.)

(Continued from page 1)

10% of the purchase price up to \$8,000, and is refundable. Refundable tax credits can reduce the tax liability below zero, resulting in a net refund to the tax payer, beyond what was paid in taxes. Unlike the credit introduced last year, this one does not need to be paid back unless the home is disposed of, or within three years is no longer used as a principal residence. The credit phases out for taxpayers with AGI in excess of \$75,000 (\$150,000 in the case of a joint return).

While the First-Time Home Buyer Credit may not apply to you, it may, perhaps, apply to your children or grandchildren. If you have loved ones who are looking to purchase a home but are short of funds for down payment and closing costs, consider making an annual exclusion gift to help them out. The annual exclusion (the amount that can be gifted without necessitating a gift tax return or use of the gift tax credit) is up to \$13,000/person for 2009 (\$26,000/couple).

If home improvements are in your immediate plans, consider making **energy efficient home improvements** and taking advantage of additional tax credits. For 2009 and 2010, taxpayers can receive a credit of 30% of the amount incurred—up to \$1,500—for qualified energy efficiency home improvements, such as exterior windows and doors, skylights, certain roofing materials, insulation, and certain heat pumps, furnaces, central air conditioners, water heaters, biomass fuel stoves, and advanced main air circulating fans. If you are thinking about adding a qualified solar water heater, solar electric equipment, fuel cell plant, wind turbine, or geothermal heat pump, you will be eligible for the 30% credit with no cap. There are no AGI limitations on the energy efficiency credits. Depending on your location, additional incentives may be available through your state and/or local power company.

For an example of how the energy efficiency credits might add up, consider the following. Let's assume I was adding a solar electric system to our home. The 6.3 kilowatt system costs \$39,708 before credits and rebates. In addition to the 30% federal tax credit of \$11,912, Arizona offers a personal tax credit of \$1,000, and the utility company offers a rebate of \$18,900. After all incentives, we will be out of pocket only \$7,896 for the energy efficient improvement—a cost which should be recovered in the form of energy savings in six years (or less if energy prices rise—and they likely will).

If home improvements aren't on your agenda, consider personal improvements in the form of education. For 2009 and 2010, the **American Opportunity Tax Credit** replaces the Hope and Lifetime Learning Credits. The American Opportunity Tax Credit provides the best of both prior credits and then some. The credit is for up to \$2,500 per person for qualified education expenses, including tuition, fees and course materials, and is not limited to the first two years of college as was the Hope credit. Under this new credit, taxpayers will receive a credit based on 100% of the first \$2,000 of qualified expenses (including books) paid during the tax year, and 25% of the next \$2,000. Forty percent of the credit is refundable. This credit is subject to phase-outs for individuals with incomes in excess of \$80,000 (\$160,000 for married couples filing jointly).

On a related note, the American Recovery and Reinvestment Act of 2009 **redefines “qualified education expenses” in regards to section 529 college savings plans**. The new definition includes computers and computer technology (including internet access) as qualified expenses, in addition to tuition, room and board, mandatory fees and books.

Opportunities Lost, Opportunities Found (Cont.)

(Continued from page 2)

Opportunities Provided by Low Interest Rates

The current low interest rate environment provides some financial planning opportunities that are not as beneficial in a higher rate environment. One example is **low mortgage rates**. At the time of this writing, the average rate on a 30-year, fixed mortgage is just under 5.0%, among the lowest on record in the last 36 years. These low rates, coupled with the home buyer credit mentioned above as well as reduced real estate values, provide an attractive buying opportunity. Low mortgage rates also provide a great opportunity for refinancing (assuming, of course, that you still have equity in your home). But don't expect to take advantage of the best interest rates unless you have stellar credit. Banks have tightened their lending standards, making it difficult for many people to take advantage of the historically low rates.

Low interest rates also provide some opportunities in the area of estate planning. Intra-family loans are often used as a way to transfer wealth to younger generations, and if done properly, can do so without using any of the federal gift tax credit. For individuals who would like to make intra-family loans, very strict rules are enforced by the IRS regarding the interest rate charged on the loan. Charging less than the Applicable Federal Rate (AFR) could force you to treat the loan as a gift, possibly forcing you to use some of your gift tax credit. Fortunately, AFR rates are also at historic lows. The mid-term rate for April, which applies to loans of greater than three years but not more than nine years, is 2.15%. These low rates provide an opportunity to provide inexpensive loans to family members.

Another benefit of low interest rates is the ability to transfer future asset appreciation out of your

estate using Grantor Retained Annuity Trusts (GRATs). GRATs are commonly used when individuals have taxable estates (defined as over \$3.5 million for an individual in 2009) that contain highly appreciating assets, such as a closely held business. GRATs effectively freeze the value of the asset at today's values, thus transferring the future appreciation to the remainder beneficiary, at no additional gift or estate cost. They are most beneficial when the expected rate of return of the asset far exceeds the rate used to determine the retained annuity interest (called the Section 7520 rate). If the assets in the GRAT appreciate at a higher rate than the section 7520 rate (currently 2.6%), then the excess appreciation is successfully transferred free of gift or estate taxes.

Opportunities Provided by Low Asset Values

While it may seem that there is nothing positive about low asset values, they do provide some planning opportunities. Those who are interested in converting assets from a traditional IRA to a Roth IRA will find that the reduction in asset values allows them to make the conversion with a lower tax bill. For example, if you owned 1,000 shares of Exxon stock that you wanted to transfer from a traditional IRA to a Roth IRA a year ago when the stock was \$90 per share, you would have had to realize \$90,000 in taxable income to do so. The same shares can be transferred today at a value of about \$68,000 now, \$22,000 less than last year. To qualify for a Roth IRA conversion, your Modified Adjusted Gross Income cannot exceed \$100,000 for 2009. In 2010, the income limit will be lifted.

Low asset values are also beneficial when it comes to gifting assets. If you are planning to give shares of stock (or real estate, for that matter) to your children or grandchildren, you can do it in today's environment at a much lower cost than in the past. If you have a bullish

Opportunities Lost, Opportunities Found (Cont.)

(Continued from page 3)

outlook, and believe that prices are going to increase rapidly in the future, then gifting at today's low values makes a lot of sense. Doing so keeps the future appreciation out of your estate. This might be a strategy to explore if you have an estate worth more than \$3.5 million (\$7 million for a married couple), and believe that you will be left with ample assets to support your life style after the gift is made.

For 2009 only, individuals are not required to take **Minimum Required Distributions** from IRAs and qualified plans. This alleviates the requirement to liquidate assets at a time when values are lower. A small benefit—but in times like these we will take anything we can get!

When it seems as if opportunities have been lost, remember that there are always other opportunities to be found. At Stoker Ostler Wealth Advisors, we want to be a resource for you and help provide you with knowledge to maximize your current situation. Whether you are looking for ways to save taxes, take advantage of low interest rates, or transfer assets, we hope you will take advantage of the opportunities as they apply to you in today's environment.

WOMEN & WEALTH

STOKER OSTLER WEALTH ADVISORS

*"Women have to wake up and take control of their financial futures. The Women & Wealth seminar can help you do it! There is power in knowledge."
- Lisa Grannis, Phoenix businesswoman and seminar participant*

Thank you for your continued trust and confidence...

Please join us for this educational **Building Wealth IQ for Women seminar** created just for you! You are cordially invited to come and meet with our Women and Wealth team who want to inform you about important **financial issues affecting women**. Due to current economic conditions, a commentary on the markets will be also provided.

Presenters include April Ward, partner and senior financial advisor, Michelle Decker, partner and senior portfolio manager, and Kim Bridges, PhD in personal financial planning and the latest addition to the Stoker Ostler Wealth Advisors team. They have a passion for financial planning and a keen desire to educate women.

Don't miss this informative event! There is power in knowledge!



April Ward



Michelle Decker



Kim Bridges

Friends
are
welcome

**Wednesday
June 3rd, 2009
10am—11:30am**

Stoker Ostler Wealth Advisors
Conference Room
4900 N. Scottsdale Rd., Ste. 2600
Scottsdale, AZ 85251

To RSVP, please contact Diana Beeson or Syreeta Harris
at 480-890-8088 or sharris@stokerostler.com.

www.WomenandWealthAZ.com

**STOKER
OSTLER**
WEALTH ADVISORS

Arizona
4900 North Scottsdale Road
Suite 2600
Scottsdale, Arizona 85251
Phone: 480-890-8088
Fax: 480-890-8770

Utah
170 South Main Street
Suite 825
Salt Lake City, UT 84101
Phone: 801-579-0888
Fax: 801-579-0859

Stoker Ostler Wealth Advisors is an independent wealth advisory firm that provides financial planning and investment management services to high net worth individuals and their families. We are dedicated to helping clients achieve their objectives by building strong, lasting relationships based on integrity, performance and quality.

THE GREATEST COMPLIMENT YOU CAN PAY IS
THE REFERRAL OF FRIENDS & FAMILY.

Thank you for your confidence.