ST. CLAIR

SOLUTIONS

4th Quarter ◆ 2008

## Professionally Speaking…

**Frances Sperling Feldbaum, CPA, MBA** taught *Pricing, Profitability, and Cash Flow* for the Women's Business Development Center's "FastTrac New Venture" program on November 17th. Fran is a frequent guest speaker at the WBDC. For the FastTrac class, Fran helped aspiring entrepreneurs learn how to prepare a feasibility plan to start up and operate an independent business.

In a thank you note to Fran, Geri Swift, WBDC President, wrote, *"…students noted on the evaluations that your talk was the most beneficial part of the sessions, saying that you were inspiring, very enthusiastic, and powerful."* To inquire about a speaking engagement for your class or event, email Fran at fsfeldbaum@stclaircpa.com.

Because we value continuing education within our firm and in the accounting profession, St. Clair CPA Solutions was proud to have three members of the St. Clair CPAs, P.C. professional staff participate in panel discussions at the Pennsylvania Institute of Certified Public Accountants (PICPA) 2008 Accounting Education Conference held November 14th at Villanova University. **Mary Wasylenko, Valerie Rothermel,** and **Kristen Kirby** spoke on *The CPA Exam: All You Need to Know to Pass.*

Our accountants and financial advisors offer a wealth of information to clients, schools, nonprofits, community organizations, and professional associations. Please contact us to arrange a speaker for your next event.

Presented by

**St. Clair CPA Solutions**

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**St. Clair CPAs, P.C.**

**CPA Financial Group, LLC**



# Dear Clients and Friends

## Smart Savings: Funding Education Earns Businesses Tax Credits

Looking for a smart way to save? The Commonwealth of Pennsylvania earned high marks for establishing the Education Improvement Tax Credit (EITC), which provides tax credits to qualifying businesses that contribute to a scholarship fund of their choice. This "win-win" program works by awarding tax credit incentives for investments in education.

In Pennsylvania, eligible business owners, "S" corporation shareholders, and partners in a general or limited partnership can earn tax credits up to 90% of certain taxes paid by a corporation, and/or individual state income taxes paid by business owners (3.07%), for contributions to hundreds of scholarship organizations and pre-Kindergarten scholarship organizations.

Funding education with the EITC is a smart choice for businesses, individuals, schools, and the State. When a business commits to equal contributions to the school of its choice for two consecutive years, it earns a 90% PA tax credit, plus a charitable contribution at the Federal tax level for the 10% remainder amount. Total tax benefit equals approximately 93% on every dollar contributed. (A business contributing for only one year may earn tax credits equal to 75% of its contribution up to a maximum of $300,000 per taxable year.) For example:

| | |
|---|---|
| • contribute $10,000 to your preferred school in 2008 and 2009 | $20,000 |
| • receive a $9,000 tax credit from Pennsylvania in both years 2008 and 2009 | (18,000) |
| • receive a Federal tax decrease for charitable contribution ($1,000 x 33% tax bracket x 2 years) | (660) |
| • net out-of-pocket cost to you for a two year commitment | $1,340 |
| • **result to school of your choice: total contribution received** | **$20,000** |

Find the school of your choice on a list of approved scholarship and Pre-K organizations at www.newPA.com – search EITC.

St. Clair CPAs, P.C. can help you help the school of your choice with this smart tax strategy. Please contact our office to discuss your contributions, and for assistance in the application process.

## The Perfect Time to Help Your Heirs

Remember the old saying about turning lemons into lemonade? If estate taxes are in your family's future, turn the economy's financial fiasco into a gift to your heirs by taking advantage of opportunities to transfer wealth to younger relatives without getting hit by a hefty inheritance tax.

According to *The Wall Street Journal* (Oct. 18-19, 2008, R1), "…families are getting serious about strategizing for the first time in years. Parents and grandparents are transferring to their heirs assets that they believe are temporarily depressed–from real estate to stocks to stakes in family businesses–reducing the size of their own estates and giving the heirs the chance to cash in on a rebound."

Families are finding a variety of tax-free ways to transfer assets to younger generations. On the simple side, individuals can each make an annual gift of up to $12,000 to a relative, plus over your lifetime, your estate can give away an additional $1 million tax-free.

*(continued…)*

Grandparents also avoid tax consequences when paying tuition and medical bills for grandchildren. As an alternative to a cash gift, consider giving shares you've profited on in depressed stocks or mutual funds.

Another simple strategy is the family loan, allowed by the IRS between relatives at the Applicable Federal Rate, set monthly by the federal government and typically much less than bank rates. Adult "children" are tapping First National Mom & Dad Bank to buy homes or make investments: if the home or investment appreciates, the borrower can realize a profit after repaying the low-interest loan.

Much more complex–but with potentially greater payoffs–are grantor trusts like an Intentionally Defective Grantor Trust (IDGT) or Grantor Retained Annuity Trust (GRAT), or a Charitable Lead Annuity Trust (CLAT). In an IDGT, you set up a trust, then lend it money to buy an asset from you that has the potential to significantly appreciate. When set up correctly, an IDGT is a tax-advantaged way to transfer assets to grandchildren while keeping the value of assets in the trust outside of both their and your estates. But because the tax code doesn't address IDGTs, the IRS can challenge them. Consult with a financial professional before setting up any kind of grantor trust.

A less risky option is the GRAT, which is sanctioned by the IRS and free of gift-tax consequences. Like a loan, a GRAT has a specified maturity date, and any money you put in must be returned by the expiration date. But if the trust funds appreciate, your heirs can retain a big portion of the earnings, with no gift or estate taxes.

Like GRATs, CLATs reduce or eliminate gift and estate taxes while passing the bulk of investment gains to heirs. CLATs are good alternatives for the charitably-inclined, but because there are many ways to structure these trusts and tax treatments may vary, ask your financial adviser to help determine which CLAT best meets your estate and tax planning needs.

## Balancing Your Investment Choices with Asset Allocation

The combination of investments you choose can be as important as your specific investments. As an investor, balancing various asset classes within your portfolio is one of your most important tasks. That balance between growth, income, and safety is called asset allocation. It doesn't guarantee a profit or insure against a loss, but it does help you manage the level and type of risks you face. Your goal is an overall combination of investments that minimizes the risk you take in trying to achieve a targeted rate of return.

Major asset allocation classes like stocks, bonds, and cash or cash equivalents can be complemented by real estate and alternative investments such as hedge funds, private equity, metals, or collectibles to provide additional diversification and balance in a portfolio. Within an asset class, stock investments might be diversified by size, industry, or geography; while bonds might be allocated by maturities or taxable status.

Financial professionals use various approaches to calculate asset allocation. The most popular method is to identify an investment goal and the time you have to reach it, balanced by the money you need to live on. You might also allocate assets differently for specific goals: for example, one plan for retirement savings and another for college tuition.

Some investors try a difficult approach called "market timing": shifting their investments based on the expected near term performance of different asset classes. Other people try to match market returns with an overall "core" strategy for most of their portfolio, adding diversification with smaller allocations in very targeted investments that may behave very differently from those in the core.

Your asset allocation is--or should be—as unique as you are. Even if two people are the same age and have similar incomes, they may have very different needs and goals. Your financial advisor can help you tailor your asset allocation to your individual circumstances. Make an asset allocation plan one of your financial goals for the New Year.

### Things to think about

- **The impact of inflation on your savings:** As time goes by, your money will probably buy less and less unless your portfolio at least keeps pace with the inflation rate. Even if you think of yourself as a conservative investor, your asset allocation should take long-term inflation into account.
- **Balance your financial goals with your emotional needs:** If the way your money is invested keeps you awake worrying at night, rethink your investing goals.
- **Your tax status:** though your decisions shouldn't be based solely on tax concerns. Even if your asset allocation was right for you when you chose it, it may not be right for you now. It should change as your circumstances do and as new ways to invest are introduced.

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28 South Centre Street • Merchantville, NJ 08109 • (P) 856.482.5600 • (F) 856.665.3618
101 West Elm Street, Suite 500 • Conshohocken, PA 19428 • (P) 610.862.1998 • (F) 610.862.3200