

December 2011

To Our Clients:

I recently received a joke via the email; a common occurrence these days for most of us. I get so many of them every day I normally just delete them immediately, not wasting my limited time to spend with such dribble. But this email was from a good friend, who only sends the best stuff. And it was titled “Best Joke of the Year”, so I decided to take the time to open it. The joke was as follows:

I was having a drink with a friend when he pointed to 2 old farts sitting across the bar and said, “That’s us in 10 years”. I looked over at him and replied, “That’s a mirror, smart-ass”.

While quite funny at first take (I laughed out loud, like most), I was left with this strange feeling; like I had seen a ghost. Like the joke was on me. It made me realize that I am probably much older than I accept myself to be. I know it’s all about perception; what some doctors call the Peter Pan syndrome. But at what point do we acknowledge our own aging? When do we take the time to prepare for our own demise?

“Life moves pretty fast; if you don’t stop and look around once in a while, you might just miss it.” (Ferris Bueller).

From my perspective, as I get older the years seem to be go by faster and faster. I find myself hanging on to the “glory years” of my youth, while attempting to balance my acceptance of getting older by the day. When we are young and invincible, we tend to focus on the big unknown (ie. the future). But as we age and are forced to take on life’s responsibilities, we tend get lost in the everyday activities of living. We set aside some of the more important issues of life because it’s easy to do. Or better yet, we learn to deny that those issues will ever be of concern to us. It reminds me of a most powerful line from the movie American Beauty:

“Never underestimate the power of denial”.

We all have confrontations with denial. Whether in our jobs, with our family or loved ones, and especially with ourselves. It is just human nature. In fact, without this incredibly miraculous and awesome power to deceive ourselves, many of us could not cope with the normal stresses that we face in our daily lives. Yet, for others, denial is a crutch or easy way out of doing what is the best for ourselves, and/or those around us.

Therefore, we occasionally need to be reminded to do the right thing for our loved ones, and prepare for the inevitable. By making the decision to plan for your departure from this life, you will not only have the opportunity to choose where and how your worldly assets will be distributed, but you will also be removing the responsibility of making those decisions from the loved ones you are leaving behind. Do not deny yourself or your family the comfort of knowing that your desires will be met upon your death. And do not allow someone else (the law) the right to make those decisions for you. Please consider your estate planning today and take the necessary steps to assure your wishes will be followed to insure your family's future.

It's been another very difficult year for most in our country. Businesses big and small are still struggling to stay afloat; many more have already "bit the dust". There are certain sectors of our economy that are showing signs of recovery, however unemployment rates remain high and the availability of working capital remains low. We have seen economic conditions stabilize over the past year, yet for the majority of those in our country, it remains a pocket-to-mouth existence. Keeping one's "head above the water line" remains the biggest concern for most Americans today. For the most part, we are still riding the roller coaster; there are just not as many ups and downs right now.

Even though our real estate markets remain very sluggish at present, the foreclosure rates for residential properties have recently begun to drop over the past few months. This could be an indication that we have reached the bottom. While it's nothing to get overly excited about (the market still has a lot of foreclosures to absorb), it is a positive signal toward our country's economic recovery. Real estate values have continued to decline over the past year, but at a slower rate. I am, therefore, hopeful that we will see residential market valuations stabilize soon. With the real estate markets being so directly connected to our overall economy, this is an important factor to our country's recovery!

In my letter of last year, I stated that not only was instant recovery of our economy out of the question, but that such a quick recovery would cause us greater harm than good. It is slow and steady growth that is needed to recover our country's economy. And in fact, that is pretty much what we've been getting recently despite Congress's obstructionist policies. Yes, it seems that Congress's power to deny is every bit as big a problem as it is for us all. Despite the need to pass legislation to assist with our country's economic recovery, for the most part our lawmakers have continued to deny the country's needs for assistance and obstruct the passage of vital legislation to do so. It seems that political discord continues to override our leaders' ability, and/or willingness to do their jobs.

As many of you are already aware, Congress did pass tax legislation for 2011 & 2012 last year. The *Tax Relief, Unemployment Insurance & Job Creation Act of 2010* renewed the "Bush" tax cuts of the prior eight (8) years, allowing all income taxes to remain at the prior (2010) rates. So the good news for 2011 and 2012 is that income tax rates will remain reasonably low as they have been for almost a decade! If you think that our present tax rates are too high, you need only go back to the 70's (some 40 years ago), when the highest rate topped out at seventy (70%) percent. And in 1944, we saw the top tax rate at ninety-four (94%) percent. So as I see it, we're not doing so bad right now!

With the support of our President, Congress also passed a temporary two (2%) percent reduction of the Social Security wage taxes withheld from your paychecks for 2011. For many working Americans, this meant an increase of as much as a \$2,000 a year in take home pay, depending on your total annual earnings. With Congress remaining so divided, I am quite surprised that they were able to recently pass a two (2) month extension of this boost to our wallets for 2012.

There is, however, a price that comes with all of this “good” news. The continuance of what I consider to be favorable taxes rates will continue to exacerbate our budget deficit over the next two (2) years, which will grow some \$858 Billion Dollars, and bring our national debt to an astounding \$14.5 Trillion Dollars. It is quite apparent that we have a long-term problem and the longer our President and Congress hesitates to resolve it, the worse it will get. I am hopeful, but uncertain, that our lawmakers will figure it out soon!

I do anticipate that we will be getting some bad news in 2013 and beyond by way of higher tax rates for higher income taxpayers. Along with finding new ways to generate more tax revenues, the future of our country really lies in our lawmakers’ ability to put aside their ideological differences and get to some real legislative reforms and spending cuts. This can only happen if they are willing to get the special interest money (lobby groups) out of the picture. As long as our laws allow politics to be swayed by money, we will not see the real legislative reform needed to make things work in our government process. And as long as our lawmakers are allowed to play by a different set of rules, and receive a different set of benefits than the rest of us, we will unlikely see any type of governmental reform. It’s a money grabbing free for all in Washington right now.

Despite a lack of leadership and honest effort from our lawmakers to make things better for us all, and although it is very difficult to see on a day-to-day basis, our country’s economic recovery process has begun. We have strung together several quarters of GDP growth, although very modest growth, which hopefully will continue for the near future. However, I do anticipate things to remain sluggish and depressed in certain areas of our economy, as well as certain regions of the country for quite some time. There is a level of uncertainty that pervades our country’s business arena at present. It stems from our lawmakers inability to resolve the issues that are holding our country’s economy hostage. Until these uncertain times are resolved, we will continue to see a lack of commitment towards expansion and growth in our country by big business and industry alike.

As always, there are pluses and minuses regarding the state of our economy to be considered. Short-term lending rates remain very low, which should continue for the next year or so. This, along with relatively low income tax rates, should continue to assist with business development and job creation. Long-term interest rates (home mortgages and equity lines) remain extremely low as well, despite the residential real estate markets showing no real signs of recovery. The favorable interest rates available at present, coupled with depressed real estate values, make it a great time to purchase a home or investment property if you are lucky enough to qualify for a mortgage right now. It takes good credit and at least a 20% down payment these days to qualify!

Even though our economy remains sluggish and the future still remains quite uncertain, the forward movement of our stock markets this past year seems to indicate that we have turned the corner. To many, this recovery in our investment markets signals the end of our recession. Although I am pleased with the direction of our markets at present, I am not as optimistic as most when it comes to acknowledging the fact that our recession has come to an end. We still have too many problems that lie ahead to say that we are “out of the woods” quite yet.

We continue to have numerous changes to the tax code come into place from prior year’s legislation, as well as numerous changes for the 2011 tax rules from recent Congressional action. Many of the changes for 2011 and 2012 are covered in our **2011 Tax Change Update**, which you can find on our web site at *Popkinandassociates.com*. With all of the changes that did take place this year, it is of the utmost importance that you spend a few minutes taking a look at the changes that may affect you.

At present, long-term capital gains tax rates of 15% will remain in place through 2012, including favorable qualified dividends tax rates. Taking advantage of the existing long-term capital gains rate prior to the end of 2012 should be strongly considered if you have assets that have substantially appreciated over time, for this rate will likely be increased in 2013. Because income tax rates on the high end of the bracket (\$250K taxable and above) will also likely see an increase over the present rate (33/35%), it may be prudent to consider accelerating taxable income (and decelerate deductions) in 2012. Soon we may also see some reforms in the tax deductions area, so decelerating deductions in anticipation of higher tax rates may not be very advantageous at this time.

In an effort to get a handle on the compliance with the tax code, Congress recently passed tax laws that require all taxpayers to disclose all assets they may own outside the US. The FBAR rules (Foreign Bank Account Reporting) require all taxpayers with financial accounts outside the US, having a balance greater than \$10,000 at any time during the year, to disclose them to the IRS. Additionally, new rules also require taxpayers to disclose the ownership of any asset valued greater than \$50,000, located outside the US. Although there is no tax due on the disclosure, there are severe penalties for not doing so.

Although we have seen relatively few significant and sweeping changes in the income tax code for 2011, as I had mentioned in my letter last year, the business of income tax preparation has been going through some considerable changes. The IRS has recently installed a new program which requires all income tax preparers and professionals to register and become licensed with the IRS, and subjects many of them (Attorneys, CPA’s and Enrolled Agents excluded) to passing a competency test. There also continues to be many changes having to do with the tax preparer and tax professional’s responsibility for the accuracy and reliability of the information being provided to the IRS. While much of the work seems to remain relatively the same, unfortunately responsibilities and liabilities for the work have been increased substantially by new tax preparer rules. Therefore, you should expect to be asked to provide more (or additional) information regarding certain areas of your income taxes in the future.

Therefore, due to the ever changing landscape of the tax preparation business (as mentioned above), we have also found it necessary to make some changes to the manner in which we provide services to our clientele in order to better accommodate all of our clients' needs and continue providing quality services at a reasonable cost. We have determined over the years that many of our clients use our tax prep services because they have a complex tax return; one which they themselves do not feel comfortable preparing. Or they are facing a difficult decision or a change in their lives (retirement, employment change, complicated investment issues, etc.) and need advice in order to fully understand their particular situation. Consequently, the necessity to come visit our offices to obtain the necessary tax or financial advice, or specialized tax work, is very important in those situations.

Unfortunately, our price structure for return preparation does not always accommodate clients with basic or simple return preparation. If you consider your tax return to be "basic" in nature and it is simply "peace of mind" that brings you back to us, and you feel that an office visit is unnecessary in order to complete your returns for the coming year, please consider forwarding your information to us by mail or courier (fax). We will make every effort to hold the cost of your return preparation fees to a minimum. Of course, you may call the office to discuss your income tax issues with us at any time.

Beyond the income tax services offered by the firm, I continue to offer services and advice regarding basic estate planning and estate probate areas of the law, as well as basic Corporate legal processes. I also continue to remain a source of counseling, advice and referral for all of your legal and personal needs, as I have been in the past. Having now spent 26 years in the legal and tax business, I have gained access to many of the top legal and financial professionals in the Atlanta area. Therefore, if you have questions, concerns or problems with other areas in your life in which you feel that I may be of help, please let me know if I can be of assistance to you in resolving them. That's what I'm here for! I am excited to welcome back Mrs. Kim MacConnell (CPA) and Mr. Carey Grossman (CPA) again for yet another tax season at our office. Both Kim and Carey have been an integral part of our firm's associate tax members for well over a decade. I am glad to have them both around to assist me during the busy season.

I continue to maintain a long-standing relationship and association with the financial retirement experts at Raymond James & Associates. Congratulations are due to my good friend and associate of many years Tash Elwyn (long-time Financial Advisor w/RJ). Tash was promoted once again, and is now the acting President of the Private Client business division of RJ. While Tash is no longer available to advise the general public (so to speak), I do continue to maintain a relationship with our local RJ representative, Glen Merritt. Glen has taken up where Tash left off, providing superior performance in the financial retirement services area for our local clients. Although they handle all types of investments, the retirement investment arena is where the advisors at R/J can likely assist you the most.

In an effort to offer an additional variety of services to meet the needs of our clientele, I have begun a new and very promising relationship with a young and upcoming Merrill Lynch financial advisor, Daniel Kaufman. Daniel has been working for Merrill (now part of Bank of America) in their professional advisory program for approximately three (3) years. Even though that our professional relationship is quite new, I have come to rely on Daniel for much of my personal efforts in the investment markets. I believe him to be a very impressive addition to the P&A financial resources team. Both Daniel and his firm (ML) bring many investment resources to our clients that were not previously available.

On that note, it is my pleasure to remind you that it is once again time to start thinking about putting your tax information together for the 2011 tax year. In the past we have mailed you our annual tax planner, "*Tax Facts*". Now and in the future, your copy of "*Tax Facts*" for each year can be found on the firm's web-site (*Popkinandassociates.com*). A PDF version can be downloaded on to your computer and printed by you at your convenience. The form is now set up to allow for you to input your information directly on the PDF version, which can be forwarded to our offices via e-mail. If you do not have Internet access, please call the office and we will be happy to mail your copy directly to you. Due to many requests (and by popular demand), the "old" *Tax Facts* format has been brought back. If you would like a copy of the "new" format of *Tax Facts* (which has your personal tax information from the past year within the planner), please call our office and we will be happy to send it to you at your request.

Due to everything mentioned above, I believe that it is now more important than ever to take the time to do some year-end tax planning. Planning for future tax events, such as retirement or major assets sales should always be considered before you act. Whether you are considering harvesting stock losses before year-end, or making a Roth conversion of your IRA funds, you should attempt to take advantage of all that the tax code has to offer in order to reduce your tax burden for the year. So taking a few minutes to review our 2011 Tax Change Update, which is located on the firms' web site, for the latest hot tax tips could be worth more to you than ever before!

As a tax professional, I continue to notice the ever-increasing attention that the IRS is giving to the accuracy and reliability of the information you supply us to complete your work. Both internal and external auditing by the IRS and Ga. DOR have been on the rise. Internally, the IRS computer systems have become far more sophisticated in their ability to match your tax information on record to what you have reported on your forms, which they do for every return filed. Failure to properly match up the info will cause an internal audit (CP-2000 notice) to be generated by the computer system. Externally, the IRS has been stepping up their reviews and auditing of the information they do not otherwise get from other sources (ie. charitable contributions, business expenses, rental income, etc.). Therefore, your attention to properly filling out *Tax Facts* has never been more important to our success in properly and accurately completing your tax returns and keeping the review of your returns to a minimum!

Personally, I've had what I believe to be a pretty good year, considering the hard times that we now face. For me, a year with little personal stress or trouble is pretty much all that I ever ask for, and for the most part what I got. Unfortunately, it was another year without any serious poker playing, as Las Vegas has become but a distant memory. And another year without an extensive travel schedule as well (although I did spend a week in Antigua this summer). Otherwise, I remain quite busy as my business ventures remain solid and the investment markets have been very positive for my efforts again this year. My wife's recovery from her foot surgeries of last December is now a thing in the past, as she can now wear most any type shoes. And along with her new feet, come lots of new shoes. Both of our kids are working full time jobs in their chosen fields, and finding their way off their Dad's belt loops. I count my blessing when I say "it's all good" with the Popkin family right now!

Please note that my billing rate for both legal and tax preparation services for 2011 will remain at \$350 per hour. During these difficult times, we will try to make every effort to hold down the cost of completing your income tax returns. However, please remember that the cost of preparing your tax work may differ from year to year based on changes to law and/or your filing requirements. The cost of your return may also be affected by the "new" compliance and licensing rules and regulations recently put in to place by the IRS. Of course, the calculation of charges relating to your tax work is always based strictly on the amount of time and complexity of work for your particular situation. If you have any questions or concerns about any possible changes to your fee structure, please feel free to contact our offices prior to your interview. I'll be happy to speak with you regarding potential fees for your preparation service for the coming tax season.

Also please note that there is a minimum charge of \$350.00 for any office visit during the tax season (as has been the case in the past) regarding income tax preparation. If you choose not to visit the office when having your returns prepared, charges for preparation of your returns may otherwise cost less.

Please accept my apology for the lengthy letter (once again, I had a lot to say this year). As always, I wish to sincerely thank you for the opportunity to be of service to you and your family in the past. Your continued business is so very much appreciated. I look forward to seeing you during the coming tax season.

Please have a happy and safe Holiday Season and best wishes to you and yours throughout the coming New Year!

POPKIN & ASSOCIATES, P.C.
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