

SUMMER SLOW-DOWN CREATES OPPORTUNITIES FOR SAVVY INVESTORS

Summer traditionally is a slow time on Wall Street, and some-but not all-of the recent torpor can be attributed to the seasonal slow-down. Uncertainties about the U.S. presidential election and the power hand-over in Iraq plus concerns about higher gas prices and rising interest rates, combined to put investors into a state of paralysis during the month of June.

Commentators note that despite these uncertainties, the economy is strong, corporations are reporting strong profits, and inflation remains relatively low. The bulls were further heartened on June 24 by a Commerce Department report showing home sales in May reached a record high. The 14.8 percent increase, which followed April's decline of 7.9 percent, exceeded economists' expectations.

On the down side, the Commerce Department reported that orders for durable goods declined for the second month in a row-which indicates the recovery is uneven. Month-end unemployment figures also rose, failing to meet expectations, and added a further disappointment. Analysts pointed out that during times of low volume -like we are seeing now- that economic data can have a disproportionately large impact, and that the disappointing jobless total and durable goods report were not what the market wanted to see. Many believe that geopolitical concerns and anxiety, fueled by escalating violence in Iraq and bomb blasts in Turkey, continue to dominate investors' thinking.

Despite the general air of malaise over Wall Street, many analysts believe that the fundamental market drivers are in place. Some speculate that the market will stagnate until second-quarter earning reports are released. As for the long, drawn-out Fed watch, many Wall Street experts are looking for some reassurance that the Fed will take more aggressive action to curb inflation if it becomes necessary. Other analysts believe that this "Fed phobia" is needless, and that Wall Street will take the hikes in stride. They suggest that the market has already factored in the anticipated tightening and that the pace of any future rate increases will be slow. A few analysts anticipate the federal fund rate will only increase to 1.75 percent from the current 1.00 percent by the end of this year-lower than some pundits' previously suggested 2.00 percent.

But whatever their predictions on the outcome of the Fed's next meeting, most experts agree that stocks are expected to languish for the next month or so. Many suggest that now is a good time for individual investors to capitalize on the general spirit of malaise and identify some buying opportunities.

The Market Hates Uncertainties

Wall Street experts are urging investors to remember that the

market hates uncertainties, and they should not be distracted by day-to-day jitters. Though many anticipate a bumpy ride throughout the remaining summer months, they recommend that investors be mindful of the economy's strong underpinnings and focus on the bigger picture. Long-term bullish analysts also suggest that investors look for companies with steady earnings growth, especially in the consumer staples sector. Many also favor health care -particularly pharmaceuticals. Experts usually counsel individual investors to have a disciplined investment strategy and to stick with it. They note it is possible to prosper in today's volatile times, if the investor focuses on the fundamentals, buys quality, and rebalances using expert professional advice, where needed, to create a properly diversified portfolio.

DON'T BE FOOLED BY E-MAIL SCAMS

By Lisa B. Waterman

Continuing to be what is a very disturbing trend, a number of consumers have reported the receipt of an e-mail purporting to be from the Internal Revenue Service. This fraudulent e-mail attempts to trick unsuspecting taxpayers into revealing personal information.

We can't emphasize enough the fact that legitimate sources will not ask for personal financial information to be sent via email. Your bank will not ask...nor your credit card company...nor the IRS. Unfortunately, this particular e-mail leads to an authentic-looking web site, and many consumers panic when they see those three little letters...I.R.S. While the e-mail may look official, and the claims that the taxpayer is under investigation for tax fraud and subject to prosecution are particularly frightening, you must never, repeat "never" help out by providing real information such as your social security number, drivers license, bank account, or credit card numbers.

Identity theft is a very real phenomenon. Don't make it easy for thieves. If you have any questions about the authenticity of an email, contact the "source" and report the alleged fraud. If you get any e-mail from the IRS, or from anyone requesting financial information, contact your Israeloff, Trattner professional. We're here to help!

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FRAUD CAN HIT SMALL COMPANIES IN A BIG WAY

By Michael J. Garibaldi, CPA/ABV

Corporate shenanigans have been great fodder for the press in recent years, and will continue to grab attention. We've all followed the scandals involving large companies, such as Enron, WorldCom and Adelphia, and others that have hit much closer to our hearth and home. Meanwhile, other news stories warn of identity theft and other criminal scams against individuals.

But crooks know they can steal from any size company. Why? Because they often believe the business's lack of oversight and controls opens the door for wrongdoing.

Mysterious losses

A client (let's call her June), was concerned that hundreds of thousands of dollars have vanished from her company's treasury. She'd been traveling over the past few months for business as well as pleasure — including a month in Europe. She suspects that her globe-hopping might have made certain colleagues jealous.

Upon her return, she noted that sales were fine, but was shocked at the company's line of credit debt — almost \$1.5 million. Typically, it stands below \$1 million, and June and her company believe that no legitimate reason exists for such a large cash outflow. She and her boss can't explain what happened, but they need help finding answers.

CPA duties

Working together with the company's attorney, a CPA is often the first line of assistance. By scouring the company's financial ledgers and supporting documents, this professional can help unravel the web of transactions and highlight what might indicate where to look for fraud.

During the examination, the CPA will usually review or reconcile the company's bank accounts, identify payees and perform other follow-up related to disbursements. The CPA might also track electronic transfers and payments through the company's general ledger, as well as scrutinize documents supporting check disbursement, such as vendor invoices and expense authorizations.

In addition to involving a CPA, it is of utmost importance to preserve the information the fraud examination reveals. This will help ensure that the business recovers whatever funds it can and help with an insurance claim. The data, of course, could also help secure a criminal prosecution against the perpetrator.

Scam stopper: Internal controls

There are as many fraud schemes, as there are schemers, but many are built on the same premise. In one very common scenario, an authorized company signatory forges the client's signature and deposits the check into a phony account or sends it to a fictitious person (or a real person with whom they are in cahoots).

He or she then records the disbursement in some large expense category where no one will notice the extra amount. When the canceled check comes back, the perpetrator destroys it so no

one can see the signature.

Companies must assess which internal controls an employee might have compromised or evaded — which helps investigators trace the fraud. The most common lapse is in review and oversight. In fact, just the perception that the company has a systematic review process goes a long way toward discouraging would-be fraud artists. The lack of attention, however, lets the possible become the probable.

One question to ask at this point: Does the business owner or another designated employee normally receive unopened bank statements and canceled checks? Before the fraud occurred, maybe someone else opened the mail, allowing the perpetrator to make suspicious payments.

Above all, an investigation must be made as to whether the separation of these duties broke down because of cost cutting or simple lack of attention. What does that mean? Though it's convenient to give additional duties to one employee when another leaves the company, segregating duties should still be a priority.

For example, if the business's controller handles disbursements and an accounts payable clerk oversees invoice processing and reconciliation, one or the other could still manage to steal funds by altering or duplicating vendor invoices. But the separation of duties makes this outcome more unlikely.

Mazes and stone walls

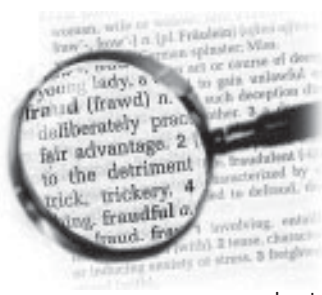
A detailed fraud examination can uncover a dizzying maze of transactions, documents and stonewalling — usually by fearful employees. But ascertaining the exact controls that were bypassed, the investigator will be able to spot the problems and quantify the loss.

Armed with the right information, the investigator may be able to help stop fraudsters in their tracks. That sounds like a piece of good news.

CIRCLING THE WAGONS

If you suspect fraud, you must act immediately to preserve critical financial information. Here are some pointers:

- ❑ **Do not handle originals more than you have to.** Documents may need to undergo forensic analysis later.
- ❑ **Do not confront the suspected fraudster alone.** Interviewing employees who are ignorant of their rights may preclude the company from ever using the facts. (The designated person or persons to interview the suspect will vary by jurisdiction.)
- ❑ **Do not discuss your suspicions with anyone.** False accusations may lead to a slander lawsuit.
- ❑ **Do not break the chain of custody.** Maintain a record of when an item was received and when it left the control of the examiner, counsel or client.



INTRANETS AND EXTRANETS—WHAT CAN THEY DO FOR YOU?

By Richard A. Mills, CPA

Small businesses have embraced the Internet, using it to communicate via e-mail, establishing web sites to sell products or services and tapping its considerable resources for research purposes. An estimated 5.5 million small businesses are currently internet-enabled and this number is expected to exceed 6 million by year-end. Sold on the Internet's ability to boost sales and facilitate fast, inexpensive communications, many small business owners are looking at other types of networks—many in use for several years by large business organizations—to help improve business operations and communications with internal audiences and with business partners.

Here's how to further tap the networking possibilities created by intranets and extranets.

INTRANETS AND EXTRANETS WHAT ARE THEY?



First, let's define what an intranet is. Simply stated, an intranet is a private network open to the employees or members of a specific organization. Intranets are a cost-effective and efficient way to improve communication flow within an organization. Not only are they a cheaper way of fostering better two-way communications among divisions, departments, teams

and individuals, but they also allow employees based in different locations to collaborate more efficiently and effectively by sharing access to specific documents, central databases or information resources.

An extranet extends the company's private network to selected third parties — which might include business partners, suppliers or customers. Extranets allow businesses to make pre-selected information available to key audiences. For example, an extranet allows a marketing or ad agency to give clients direct access to specific account files. The client is able to open relevant files to make corrections and edit copy easily, or can access their customer mailing list and make changes or deletions to the database. Extranets can also make vendor relations less time consuming and help businesses reduce operating costs and improve profit margins.

Good communications are the lifeblood of any organization. Depending upon the nature of their business, organizations

are using intranets and extranets in a variety of different applications to improve collaboration and deliver rapid in-time delivery of needed information.

Here are a few applications to consider:

- Provide e-mail service and access to company news, discussion groups and training programs for employees.
- Facilitate access via intranet networks to company publications including telephone directories, organizational charts, human resource materials, benefits information and forms, and employee e-newsletters. On extranets, companies may choose to include product catalogues, price lists, client testimonials and sales brochures.
- Give customers updates 24 hours a day, seven days a week on product order status, schedules and projected delivery dates online via an extranet.
- Provide the means for employees, customers and/or suppliers seeking information to easily identify the appropriate company contacts and email questions directly to them.
- Improve efficiencies between various project teams by allowing fast access to central project reports, project-management tools and schedules.
- Give technology users access to technical support tools, security tools and assistance.

Intranets and extranets are revolutionizing the work place, bringing access, reach and efficiency to businesses small and large. Small businesses are jumping on the bandwagon. An estimated 800,000 are currently using intranets and the number is rising rapidly. Using private networks, these firms can speedily tap the expertise of a variety of people to improve decision-making and achieve new levels of efficiency and productivity throughout their operations. They are using intra- and extranets to significantly lower the costs of routine business tasks involved with producing and distributing information. Many have been able to drastically cut or even eliminate expensive business travel. Now they can "meet" and collaborate online with associates throughout the U.S. and around the globe.



TAXING ISSUES

By Sam Deutscher, CPA

Most of us concentrate on the income tax side of things when we think of "taxes." After all, that's what we see come out of our paychecks. Then, there are those "love letters" we call tax returns that we send to the government every year.

Of course income taxes seem to be the big-ticket item to most of us, but not necessarily to state and local governments. With the exception of four states, sales taxes make up a significant part of our states' revenues, averaging 20.3% in 2002 according to the Tax Foundation. In the states that have a sales tax, but no individual income tax, sales & use taxes make up greater than 50% of state revenues, except for Wyoming (40.7%). The reason is simple, not everybody pays income taxes, but everyone has to eat, and somewhere or sometime, you will have to pay sales tax on food and other purchases you make at your local store. And don't think that you save a fortune in sales tax if you buy everything on the Internet. In most states, you still owe tax, but instead of calling it a sales tax, the state calls it a "use tax." The problem for the states right now is there is no effective way to police the collection of use tax, or lack thereof, on Internet purchases.

Now that you know how important a source of revenue sales and use taxes are to state and local governments, let's define a few terms:

- **Sales tax** – The tax charged and collected on purchases of taxable items at the time of purchase.
- **Use tax** – The tax charged on purchases from an out of state source and imported for use into your state. Internet purchases are the perfect example. Suppose you purchase a book from Amazon.com for \$10. Amazon will charge you for the book and shipping (possibly), but not necessarily for sales tax. If you bought the same book at Barnes & Noble down the street and your sales tax rate was 10%, you would pay sales tax of \$1. Theoretically, you should, in many states, send \$1 in use tax to the state where you received the book. Before you jump up and down, we said **theoretically** because, while New York does have a use tax, like many states it does not have a mechanism to collect the tax and requires people to voluntarily report their use liabilities on their income tax returns. Though theoretically required to, many people still don't pay it.
- **Nexus** – A presence in a state sufficient to require a business to collect sales tax from customers. Generally, that means a company must have more than just sales into a state. Factors such as the presence of inventory (warehouse) or employees are typically two other major factors.
- **Point of delivery** – The place where the customer actually takes receipt of a product. For example, if you buy a mattress in Texas, but have it delivered to your house, where is the point of delivery and what tax should you pay? More than likely, if the mattress is shipped by common carrier or a store's

own truck, the delivery point is your house, if that is where it is received. You would pay taxes based on the rate where you live. If you take your car to the store and get the mattress, then you pay tax based on the rate where the store is located. This can offer a substantial tax savings in some instances.

With these in mind, let's look at what businesses and individuals need to know.

INDIVIDUALS

Sales taxes for individuals are generally cut and dried. If you purchase something that is taxable, the seller collects the tax. What you should do, however, is be certain you know what state law says about taxable and nontaxable items as well as what constitutes a sale. Prescription drugs may be tax-exempt in one state, but taxable in another. Even within a state, one city may tax prescription drugs though another does not. What happens if you have an old television and sell it to Fred down the street for \$10.00; are you required to collect tax? It is highly improbable you would be required to collect any tax on the sale since you are not in the business of television sales. The same is true if Fred was the seller; so don't let him collect sales tax from you.

If you are involved in charitable organizations that have carnivals, bake sales or any other fundraisers that revolve around a product, be sure you check the laws. In many cases, non-profit organizations don't have to collect sales taxes where they are the sponsors, but do if the sale is made by a for-profit entity and the charity's cut is a minor share. These rules will be different from state to state. If you will have to collect sales tax, you can factor that into the price of the product.

BUSINESSES

Businesses have the same considerations as individuals, plus a few more. However, businesses are much more likely to be visited by a sales tax auditor than an individual is. The revenue recovered per dollar spent from auditing an individual doesn't justify auditing the individual just for sales or use tax purposes. On the other hand, audits of businesses, particularly retailers and those who purchase substantial amounts out of state can be lucrative indeed.

For example, one jurisdiction became very interested in services offered by CPAs and began auditing firms. In particular, the auditors really wanted to know if the firms sold off-the-shelf software, which is taxable in the state, rather than billing only for professional services, which are tax-exempt. The problem was, even if the software sales were not present, the auditors discovered that there were many other items subject to use tax on which no tax was paid.

Businesses, particularly manufacturers, also have to precisely define their product and its components. In many states, items bought for resale are free from tax to the purchaser with the

TAXING ISSUES, continued from page 3

idea that the tax is really due from the ultimate consumer. Sometimes, the purchaser is required to pay the tax to the seller and show it as a credit on a sales tax return and sometimes, if the purchaser has a tax-exemption number, the tax doesn't even have to be charged by the seller. A key distinction for manufacturers in many states will be whether the purchase is considered raw materials for the manufacturer's product. For example, suppose you are a baker and you make cookies. Naturally, the sugar that goes into the cookies is part of the final product. Now let's say you make a special kind of cookie and in order to get the sugar and your "secret ingredient" to bind (and make that special flavor), you have to use vinegar as a catalyst. However, when all is said and done, the vinegar is used up in the chemical reaction. Since the vinegar is not in the final product and was used like any other "supply" item, taxes must be paid on the vinegar.

We mentioned nexus a bit earlier. If you are selling into one or more states, you need to review what will cause you to have nexus for sales tax collection purposes within the states where you sell. If you are required to collect tax and you do not, you could wind up paying huge penalties in addition to paying the taxes owed and the interest thereon. This could literally put some companies out of business.

We have only scratched the surface of the sales tax jungle and believe us, it is a jungle. Luckily, there is a moratorium on new taxes to be levied on Internet sales, while states seek to work out a cooperative agreement on the collection of Internet taxes. This still leaves a lot of room for businesses and individuals to make a costly mistake through ignorance of applicable laws. If your business is involved in multi-state operations, it may be to your advantage to undertake a sales tax study to determine your exposure. Businesses, as well as individuals, can also go to the state revenue departments' web sites to learn more about taxes in states where they have an interest.

If you are concerned about your potential exposure for sales taxes, give us a call and we can discuss the best alternatives to quantify any exposure, be it personal or corporate.

HOW TO MAXIMIZE RESULTS FROM EMPLOYEE TRAINING PROGRAMS

By Arthur Sanders, CPA

Human resource professionals frequently cite lack of training as a major factor in employee turnover and suggest that continuing education programs and on-going training are key to retaining good people. Training takes time and money. Here are a few ideas to help you maximize your investment in training and ensure that your programs deliver results that benefit your company and inspire your employees:



- 1) **Make sure the training offered is appropriate for the needs and education levels of participants.** Gather information first from prospective attendees to properly assess their needs and the best delivery method (self-paced learning on a PC, web-based programs, online seminars or traditional classroom).
- 2) **Involve participants in the planning process.** Consider providing a menu of choices based on the final needs analysis for individuals to select. Involvement in upfront planning creates employee enthusiasm and "buy-in".
- 3) **Ensure that training programs are clearly linked both with corporate goals and individual performance goals.** Employees' appraisals and salary review sessions should always identify each employee's specific contribution(s) to the organization's business plan. Every employee and their supervisor should agree on what is needed for success and what corresponding training would enhance the employee's job performance and ability to contribute to company growth. In order to fully capitalize on the learning experiences offered, employees must be convinced that their personal success and career development will be enhanced by the training sessions on offer.
- 4) **Demonstrate consistent management support for, and belief in, the benefits of training.** Management commitment to on-going employee education goes beyond providing the funding that makes it happen. Make sure that training and education programs are referenced in business plans, internal communications efforts, as well as in human resource plans and individual performance goals.
- 5) **The training methodology is often as important as its content.** Make sure your business is making use of appropriate technology to give employees access to the best and most relevant learning methods. Traditional instructor-led sessions are declining in favor of PC-based learning. Not only is PC-based learning cost-effective, but it also is a more flexible option, less disruptive to normal business operations and gives participants more opportunities to learn at their own convenience and at their own pace.

Technology adds a whole new dimension to employee training possibilities. But whether you select traditional classroom training or on-line seminars for your employee programs, remember that learning really begins when the class ends. Be a positive coach for your staff, look for ways to reinforce the lessons learned in the training sessions, and reiterate your commitment to their professional growth through continued education and learning.

NOT ALL DEDUCTIONS ARE CREATED EQUAL

By James O'Connor, Esq.

We in the United States of America live in a country where individual liberties and the notion of the basic equality of all persons are jealously guarded. In America, just about anyone can go from poverty to riches if they have the talent and fortitude to do what it takes to achieve their dreams.

But even in America, the basic notion that all persons are created equal is not precisely true. While it is true that no person's liberties should be abridged, and everyone deserves to be treated equally under the law, we don't all have the same talents, and some talents are perceived as less valuable than others. That doesn't make any person less valuable than another, but society pays some occupations more than others. For example, the average worker will never earn from his or her profession as much in a lifetime as Michael Jordan makes in one year.

The same is true of income tax deductions. For one reason or another, Congress did not view some deductions to be worth as much as others. As we all know, there are some expenses that are deductible as business expenses and others that while personal in nature, are still deductible. Though some of these can be deducted on the first page of Form 1040, let's discuss those that are deducted on Schedule A to Form 1040.

MEDICAL EXPENSES

What constitutes medical expenses? Can you deduct the aspirin you purchase at the local drugstore or the bandages with Elmo's picture on them that your two-year-old seems to go through like water? Sorry, but the government had to draw a line somewhere, and that line is basically the term "medically necessary." While this can be difficult to define, the reality is that one must act as directed by a doctor or other health professional in order for a medical expense to be deductible.

Given the need to include a healthcare professional in the mix, some of the more common expenses are doctor's fees, mental health counselor's fees, fees for laboratory expenses and prescription medicine. The word "prescription" basically takes out over-the-counter medications and supplies, but it can help in other areas.

For example, remodeling a bathroom to meet the medical needs of a person in a wheelchair can be deductible to some extent, but your doctor should prescribe the remodeling job be done. In some cases, swimming pools for persons with certain diseases may be deductible to some extent as well as other home improvements.

Do you pay health insurance? If it is not deductible elsewhere, the insurance premiums may be deductible on Schedule A. This assumes the premium is not tied to a cafeteria plan or is otherwise paid for in pre-tax dollars. With the cost of health insurance these days, this can be a significant deduction. Don't forget long-term care insurance either. Though it is not fully deductible, there is some level of deduction for long-term care insurance.

There are other deductible expenses such as mileage driven for medical reasons, eyeglasses and other assistive devices, and

hospital and nursing home costs. If you have a person that helps you perform daily living tasks, their cost, including related payroll tax, is deductible.

While this discussion could go on forever, keep in mind that for medical expenses to be deductible, they must exceed 7.5% of adjusted gross income. This can be a big number. For example, if your adjusted gross income on Form 1040 is \$50,000, the first \$3,750 in qualifying expenses will result in no deduction. The point is that if you are looking at significant costs over a period of time, the more costs you can bunch into one year, the more likely you are to benefit from medical expenses as itemized deductions.

TAXES

State income taxes that you pay are generally deductible expenses. In some instances, these can be relatively steep. When you include real property tax and personal property taxes (based on the value of the personal property), you can have a pretty healthy itemized deduction. The good news is there is not a percentage floor for these deductions like there is for medical expenses. But don't even think about trying to deduct sales taxes. That deduction has been gone a long time.

INTEREST

Do you own your home? Or does the mortgage company own it and you pay a monthly note? Assuming you are paying a house note, the interest paid on that loan is deductible in full up to a point. If you borrowed up to \$1 million to buy or improve the house you live in, your interest expense is deductible. However, interest on debt over \$1 million is not deductible. Interest on home equity loans is deductible as well. Be careful, though, as you may be limited to interest only on the first \$100,000.

Points paid for acquiring a loan to buy a house are deductible as are other fees based on a percentage of the loan. If you refinance, you will only be able to deduct these expenses ratably over the life of the new loan.

Do you borrow money to make stock or other investments? Investment interest is generally deductible to the extent of investment income. This would include dividends, interest and, to some extent, capital gains.

CHARITABLE CONTRIBUTIONS

Charitable contributions come in many forms and can save a bundle in taxes. There are, however, certain limitations. The easiest donations to categorize are cash donations. Generally, you can deduct 100% of these contributions, up to 50% of your income. Non-cash donations follow the same general rule, but there are additional documentation requirements when the value of the donation exceeds \$500 and \$5,000.

What gets a bit trickier is when capital gain property is donated. Say you give a thousand acres of timber that cost you \$25,000

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THE GOLDEN YEARS?

By Richard Goldenberg, CPA

Happy birthday and congratulations! You have successfully maneuvered through the tricky waters of life, and now you've reached retirement age, whatever that may be. It is now your time to retire and relax. How are you going to be able to afford the lifestyle you would like to be accustomed to now that you have the opportunity?

Let's make a few assumptions and then we'll discuss your options. Let's first assume you have funded your 401(k) or other employer sponsored plan to the max over the course of your working life. Assuming you averaged an annual growth of 10% during that time, you have some money stashed away.

A second assumption we will make, is that both you and your spouse qualify for the maximum benefits under your own earnings records. For a married couple with both spouses retiring in 2004, that amount will equate to approximately \$1,784 monthly for each person. Rounded, this means your Social Security Income will be approximately \$43,000 per year.

A third assumption we will make is that you don't have any significant debts, and your children are indeed "off the gravy train."

Now that we have painted as rosy a picture as possible, let's take a look at some of your alternatives.

Your first alternative is to live life to the fullest with no thought to tomorrow. Your Social Security benefits will provide you with a pretty good income, even if you don't have other retirement accounts on which to draw. You on the other hand, were smart enough to build up \$1.5 million in retirement accounts and another \$500,000 in other investments, excluding your house. All things considered, you should be able to live rather well with what you have tucked away. Your money may even make it to the end of whichever spouse dies last.

However, be aware that the word "may" can be a pretty big hole in your retirement planning. While your nest egg may seem good based on "average" annual earnings, your earnings from year to year on the retirement and investment accounts will fluctuate. If you're not careful, you can wind up spending so much in the lean years that there is little principal on which to earn investment income in the fat years. In addition, you need to remember that any withdrawals from retirement accounts (assuming they are not Roth IRAs) will be taxable income. This will definitely reduce the amount of funds available for retirement.

Since life is so uncertain, you might want to be the conservative investor and live solely off your Social Security benefits. This is fine if you don't plan on living past the age of 70-1/2. In the year you become 70-1/2, you will be required to start taking required distributions. Assuming you live long enough, you will start paying tax on your retirement savings.

It is likely that your best strategy will be a middle of the road approach. First, you need to make sure that your retirement accounts are properly balanced with a more conservative mix



of equities and fixed-income securities. You are now in a position where you would want to minimize the market risk on your retirement savings. You should also take a look at the non-retirement savings and include it in the balancing of your portfolio. From a tax perspective, however, it is best to leave the regular investments alone if they carry a high value and low basis. Looking at the big picture, you should be able to move funds around in the retirement account(s) to achieve a more conservative balance for your portfolio without incurring high tax costs.

It may also be time to annuitize some of your investment. While annuities may not return as much as other investments, they can provide a steady cash flow.

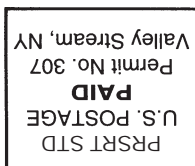
Let's turn the tables a bit and assume you don't have large retirement accounts, but you have been fairly successful in your after-tax investments. If you are heading for retirement or are already retired, you still need to look at having a conservative portfolio. Since you won't be able to move all your investments without a tax consequence (assume you have a gain in all your investments), develop a plan to reallocate over a several year period. This will help minimize your tax burden, especially if you have assets that don't qualify as long-term capital gain property.

As we mentioned earlier, in our economy, even \$2 million can be spent rather quickly. If you are in a nursing home or incur high medical costs, it doesn't take long to move from riches to rags. For this reason, you must make sure you have an appropriate long-term care policy. Take the money you have been paying the life insurance company for your term policy and use it for the long-term care policy. At this point in your life, unless you have a very large estate, your needs to hang on to the term life policies are most likely gone. You don't need to provide a safety net for your children if you die and your estate won't need the cash for taxes. Why not get a policy that will preserve your assets for your spouse and the remainder of the family?

While we are on the subject of insurance, let's talk about your Medicare benefits. Unfortunately, Medicare has its limits, especially in the drug arena. We suggest you get a Medicare supplement policy that will pay for what Medicare will not cover.

As you head into retirement, it's a perfect time to verify that the beneficiaries on any retirement accounts or insurance and annuity policies are those you intend to benefit. This is especially true for people in their second or subsequent marriage. This, along with a properly drafted will and power of attorney should ease the transition for your loved ones.

While much of what we have discussed is more common sense, there are a number of people who need a gentle nudge. We sincerely hope that your finances are sufficient to make your retirement years truly golden ones. If you need assistance or simply want a second opinion on your planning, give us a call. We are here to help.



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NOT ALL DEDUCTIONS ARE CREATED EQUAL, continued from page 6

and it is worth \$2.5 million when donated. You get a \$2.5 million deduction, but you are limited to a deduction of only 30% of your adjusted gross income. Sure you can carry the excess forward 5 years, but you may never get the full deduction. Likewise, a donation to a private foundation is similarly limited to 30% of adjusted gross income.

GAMBLING LOSSES

If you hit a jackpot and won \$50,000 at the casino this year, but you lost the same amount the rest of the year, do you have to pay tax on the \$50,000? To some extent, the answer is yes. While the \$50,000 in winnings included in adjusted gross income appears to be offset by the losses deducted as itemized deductions, the fact that your adjusted gross income increased may cause a reduction in the deductible amount of other expenses, such as medical expenses.

CASUALTY LOSSES

Casualty losses, such as natural disasters, theft, and similar losses, are deductible to the extent they exceed 10% of your adjusted gross income plus \$100. Any losses must be first offset by insurance or other reimbursements.

MISCELLANEOUS ITEMIZED DEDUCTIONS

This is a class of deductions that are deductible to the extent they exceed 2% of your adjusted gross income. This category includes employee business expenses, investment expenses, tax preparation and advice expenses, etc. In many cases, this all but makes these deductions worthless. Still, they are worth including on Schedule A in the event the collective amount exceeds the 2% floor.

CONCLUSION

It is reasonably easy to see from this short discussion that different itemized deductions are governed by different rules. Some are fully deductible while others are severely limited. Assuming you pass all of the hurdles mentioned, these deductions begin to phase-out when your income reaches certain levels. Now, more than ever, planning the amounts and timing of deductions is critical. If you think you may have missed a deduction or simply want to explore deduction planning for the future, give us a call. We are here to help and are always available to discuss your needs.

Ideas & Trends

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