BEYOND THE HORIZON

1st Quarter, 2009 Issue

A word of thanks to our valued clients for your continued business and referrals. Both have contributed to another successful year for Horizon!

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IN THE NEWS

Our first quarter issue reports the tax rules and limits for the new year, as well as recent legislation that may affect your 2008 tax return.

- **NEW FOR 2008 AND 2009 is the property tax standard deduction.** Taxpayers who do not itemize (file a Schedule A) and who pay property taxes may now claim an additional standard deduction equal to the lesser of property taxes paid OR $1,000 for married filers ($500 for single filers).

- **NEW FOR 2008 <u>OR</u> 2009 is the first-time homebuyer credit.** First-time buyers who purchase a home between April 8, 2008 and July 1, 2009 may be eligible to a tax credit equal to 10% of the purchase price of the home or $7,500, whichever is less. The credit is subject to income limitations.

- New legislation just enacted will allow individuals required to take mandatory distributions from retirement accounts to **waive their 2009 RMD**. This includes those over age 70-1/2 as well as beneficiaries of IRAs and will be for the 2009 tax year only.

- Those who did not receive **the Economic Stimulus rebate** in 2008 and who are eligible based on their 2008 return may claim the credit on Line 70 of Form 1040 when filing their final 2008 return.

- **The 0% capital gains tax continues into 2009. Effective for the 2008 tax year, <u>filers who are in the 10% or 15% tax bracket will pay 0% on capital gains,</u>** down from the previous 5% rate. Once income is high enough to push them into the 25% bracket, the balance on the gains is taxed at 15%.

- The tax credit for **energy efficient home improvements expired for 2008** but will return for 2009. First available for 2006 and 2007, the maximum total credit available was $500. If you previously claimed a credit for improvements for less than the maximum credit, you may use the remaining credit against improvements made in 2009.

- The **standard deduction** for 2009 (excluding any property tax standard deduction) will now be $11,400 for married individuals filing jointly (plus $1,100 for each spouse age 65 or older); $8,350 for heads of household (plus $1,400 if age 65); and $5,700 for single filers (plus $1,400 if age 65).

- Personal exemption increases to $3,650 per person.

- Maximum contribution limit for Traditional and Roth IRAs REMAINS at $5,000 for 2009. The additional "catch-up" contribution for those age 50 or older holds at $1,000 for a total maximum contribution limit of $6,000.

- Taking the deduction for Traditional IRA contributions may be limited for those who participate in an employer retirement plan. The income phase-out is $89,000-$109,000 for marrieds and $55,000-$65,000 for singles. Where only one spouse is active in a plan, the phase-out is $166,000-$176,000.

- There are income limits for making Roth IRA contributions. The income phase-out for marrieds is $166,000-$176,000 and $105,000-$115,000 for singles.

- Contribution limits for company-sponsored retirement plans will increase for 2009. The 401(k) and 403(b) contribution limit will be $16,500 (plus a $5,500 "catch-up" for those age 50 or older). The limit for contributions to a Simple IRA also increases to $11,500 (plus a $2,500 "catch-up").

- The Hope and Lifetime education tax credits for 2009 hold at $1,800 and $2,000, respectively. The credits are phased out for income between $100,000-$120,000 for marrieds and $50,000-$60,000 for singles.

- Annual limit for contributions to a Coverdell Education Savings Account holds at $2,000 per child. Remember, the contribution deadline is April 15th of the following year, like IRA contributions.

- The annual gift tax exclusion INCREASES to $13,000 per recipient.

- The estate tax exemption also INCREASES to $3.5 million, up from the previous exemption of $2.0 million.

- The Social Security wage base for this payroll tax rises to $106,800 in 2009.

- Those collecting Social Security who are between the ages of 62 and 66 can earn wages in 2009 of up to $14,160 without losing benefits. Those over 66 can earn an unlimited amount without losing benefits. Individuals who turn 66 in 2009 won't lose benefits if their earnings are $37,680 or less before reaching age 66.

- Annual cost-of-living increase for Social Security recipients for 2009 jumps 5.80%, up from the 3.30% increase last year.

- The standard mileage rate for 2009 increases to 55 cents per mile for business miles driven. Note that the rate was 50-1/2 cents for the first half of 2008 and 58.5 cents in the second half. The mileage rate in 2009 for medical or moving purposes will increase to 24 cents but the allowance for charitable miles driven remains steady at 14 cents.

Sources: National Association of Tax Professionals Essential 1040 workshop; Internal Revenue Service website at www.irs.gov; Social Security Administration website at www.socialsecurity.gov/cola.

2009 MARKET OUTLOOK

In looking back at 2008, we experienced great turmoil in the financial markets that left us with significant losses in both the stock and bond markets. The Dow Jones Industrial Average experienced its poorest single-year return since 1931, suffering a loss of -33.8%. The S&P 500 had its worst year since 1937 with losses of -38.5%, followed by losses in the Nasdaq Composite of -40.5%. This time last year, we told our clients that we were not confident about the 2008 forecast and that we anticipated continued volatility in stocks and expected declines. But we expected nothing of this magnitude. The fallout on Wall Street last Fall and its impact on the markets caught everyone by surprise, including the most successful and experienced money managers in the world. Investor panic caused the markets to decline, and there was no place to hide. Whether it was small cap or large, value or growth, nearly every asset class in every sector and in every region of the world experienced significant losses for the year.

The question now is what to do moving forward. One thing is for certain—now is NOT the time to go to cash. Though it may help give you a sense of false security knowing that you will not be experiencing continued volatility, it could certainly be detrimental to your portfolio. In November, we mailed a piece to our clients published by American Funds called "Investing through recessions" that made the case for staying the course. The piece showed the results of a study performed by Ned Davis Research looking back at the past 10 downturns in S&P 500 index. The research reveals that the S&P 500 index has tended to bounce back quickly after bottoming out during a recession. Over the past 10 downturns, the index generated a 24% mean return six months after bottoming and 32% a year later. Of course, this is no guarantee of what might occur after this downturn. However, it does indicate that investors who maintained a long-term perspective and held on to their investments stood to benefit.

During this recent downturn, the S&P 500 has recovered some of its losses since hitting its low point thus far of 741.02 on November 21, 2008. We expect stocks to continue to rebound after the Inauguration and into Spring , then give back some gains later in the year. However, we anticipate ending the year with positive returns. Historically, we have experienced back-to-back negative returns only once (1973 and 1974) and negative returns in three consecutive years twice (1939 through 1941 and 2000 through 2002). Though we believe there is more bad news to come, we do not expect to hit a new low since the one seen in November. After all, the stock market is a leading indicator of what is to come. Therefore, it may have already factored in much of that bad news.

Remember, the markets will start to turn positive BEFORE the news gets better so don't let yourself be influenced by the headlines. Keep a level head and any fear in check. As many of you may know, Warren Buffet is one of the world's most successful investors. This self-made billionaire was named the richest man in the world in 2008 by Forbes Magazine. Mr. Buffet didn't go to cash when other investors were panicking in response to the recent turmoil in the financial markets. His advice is to "get greedy when others are fearful and fearful when others are greedy".

Disclaimer: The opinions expressed herein do not necessarily reflect those of Trustmont Financial Group/ Trustmont Advisory Group.

Sources: "Year-End Wrap Up" from Hays Advisory, 1/5/09; "Investing through recessions" by American Funds; 2007 ICA Guide by American Funds; April 2008 interview with Warren Buffet by Fortune Magazine; Forbes.com Special Report, "The World's Billionaires".

INVESTMENT CORNER

With the recent downturn in the market, are you questioning whether or not you will be able to meet your goals for retirement? Will you need to save more, earn more, or work longer to achieve your goals? Will you have to settle for less income? The best way to answer these questions is through the financial planning process.

But there are those who fail to take the initiative to act despite not being able to answer the questions above. Why? Perhaps it's due to the misconceptions about financial planning. Some feel that a plan wouldn't help because they are already saving as much as they can toward retirement. Others believe that a planner would put them on a strict budget. However, financial planning is about addressing your concerns, eliminating the unknowns, and finding solutions to help you achieve your goals. In reality, a financial plan is more of a projection. It can show you how you will stand at retirement and through life expectancy.

As Certified Financial Planners, our goal is to adapt each plan to the client's needs, circumstances, and goals. Each financial plan is formulated to fit the client's lifestyle and is often about prioritizing and compromising. It's also about making the best use of income, expenses, and resources. The planning process can uncover more efficient uses of cash flow, thereby generating more for spending or saving. Additionally, financial planning is not just about saving as much as you can. It's also about proper asset allocation and tax efficiency. Most importantly, the end result of financial planning is gaining peace of mind by reducing or eliminating the uncertainties.

The beginning of the year is always a popular time for financial planning. The New Year brings new motivation and a focus of our attention away from spending and back to saving. Start the new year with answers. If you're not sure where you stand for the future, call our office to discuss how the planning process might answer your questions.

Highlighting this topic in no way implies that it is suitable for everyone. FOR MORE INFORMATION ON THIS OR OTHER TAX TIP OR ACCOUNT TYPE, PLEASE CALL OUR OFFICE.

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