
LARRY A. JAFFE, P.C.

CERTIFIED PUBLIC ACCOUNTANT

Green Sheet Number 24 August 1, 2007

Mmmmmmm, summer. Strawberries and raspberries and blueberries and sunburn and vacation and overnight camp and swimming (outside!) and camping and all the other things that make this the best time of year to be alive and in Oregon. Almost seems a shame to talk about taxes. So we'll keep our voice down.

THE NEWS IN BRIEF

◆ **Tax Tweaking Legislation.** The Small Business and Work Opportunity Tax Act of 2007 was passed in May. . .the Act offers a variety of minor changes. . .the amounts for immediate expensing of otherwise depreciable fixed assets increases to \$125,000 per year. . .spouses operating a business are no longer required to file a partnership return. . .the "kiddie tax" is expanded to children 18 years old, 24 if they're full-time students. . .the Act broadens the definition of tax preparers for penalty purposes and increases the amount of several preparer penalties

◆ **Uncle Sam's not-so-favorite employees.** Former IRS district director Jesse Ayala Cota pleaded guilty to conspiring to defraud the U.S. by selling illegal tax deductions. . .he faces up to 5 years in the pokey and a \$250,000 fine. . .the Senate Finance Committee is looking at claims that federal employees owe more than \$3 billion in back taxes

◆ **And Uncle Sam's favorite targets.** The Kiplinger Tax Letter reported recently that the IRS will step up audits of several taxpayer groups: sole proprietors who understate income or overstate their deductions, S corporation owners who take small salaries to escape payroll taxes, and gamblers who underreport winnings. . .IRS is also expected to lay a heavy hand on employers seeking to escape payroll taxes by misclassifying workers as independent contractors. . .and the Service is expected to restart its random audit program with 13,000 2006 returns

Alert client 190062 (not her real name) recently advised us of a scheme she discovered when renewing her assumed business name (dba). Rather than file directly with the state and pay a \$50 fee, she was invited (by mail presumably) to instead pay \$125 to a private company. Beware.

Finally, we were reminded recently of our favorite tax quote: "Over and over again the Courts have said there is nothing sinister in so arranging one's affairs as to keep taxes as low as possible. Everybody does so, rich and poor, and all do right, for nobody owes any public duty to pay more than the law demands." The author? Honorable Learned Hand (that was his name), US Appeals Court Justice. We could not possibly agree more.

ADVISOR COMPENSATION – WHAT’S IT GONNA COST?

One of the items I try to cover early in the financial planning process is fees. There are several different ways advisors can be compensated. It’s important that the clients understand how they are being charged.

Fee-based Asset Management Compensation. As an investment advisor representative of 1st Global Advisors, Inc., I can charge a fee of between zero and three percent of assets in return for managing a client portfolio of investments. The exact percentage and the details of the relationship between advisor and client are documented in the investment advisory agreement signed by both. This type of arrangement is preferred by myself and many other advisors because compensation is not related to any specific product.

Management fees are paid quarterly and are customarily deducted from the client account. Clients are also assessed a maintenance fee of \$100 or \$300 per year for reporting and other administrative tasks.

Commission-based Compensation. As a registered representative of 1st Global Capital Corp I receive a commission for sales of investment products. This sales commission might be as high as 5.75 percent for some mutual funds and up to 2 percent for equity securities like individual stocks or exchange traded funds. Commissions are often charged at the time of purchase and typically are paid from the amount the client wishes to invest. Contingent deferred sales charges are assessed on certain products if the client sells the investment before a prescribed amount of time has elapsed. Total compensation for investment company securities is fully disclosed in the prospectus of each product.

There are many circumstances in which this type of arrangement makes sense.

Insurance Commissions. As a licensed insurance agent with 1st Global Insurance Services, Inc. I receive a commission for sales of insurance products. The amount of this commission varies widely depending on the type of insurance policy and the carrier.

Account Fees and Transaction Charges. IRA and other retirement plan accounts are assessed an annual administrative fee of \$35. Ticket charges of between \$15 and \$35 per trade are assessed on many buy and sell investment transactions.

Compensation No-nos. Because LAJ Financial Services, LLC is not a registered investment adviser, I may not charge an hourly fee for advising services, nor may I charge a flat fee for writing financial plans. Therefore, there is no charge for meetings with clients to discuss investment or insurance issues.

Please do not ever hesitate to inquire from me or any other financial advisor how they are to be paid. I’m always happy to discuss with clients the details of how they are charged when working with LAJ Financial Services, LLC.