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Breaking Down the Taxpaying Population: Where Do You Fit In?



Every quarter, the Statistics of Income Division of the Internal Revenue Service (IRS) publishes financial statistics obtained from tax and information returns that have been filed with the federal government. Recent reports reflect data gleaned from 2009 individual federal income tax returns. These reports

offer a snapshot of how Americans break down as taxpayers.

Sources for data: *IRS Statistics of Income Bulletin, Spring 2012 and Winter 2012, Washington, D.C.; IRS, Data on the 400 Individual Income Tax Returns Reporting the Largest Adjusted Gross Incomes, 2009 Update to Statistics of Income Bulletin, Spring 2003, Washington, D.C.*

The big picture

Individuals filed roughly 140 million federal income tax returns for 2009. Of those returns, just under 82 million (approximately 58%) reported federal income tax greater than zero--representing the lowest percentage of taxable federal income tax returns in 24 years.

Half of all the individual income tax returns filed showed adjusted gross income of under \$32,396. (Adjusted gross income, or AGI, is basically total income less certain adjustments--e.g., deductible contributions to a traditional IRA.) As a whole, this bottom-50% group accounted for just 13.5% of the total AGI reported on all federal income tax returns. Put another way, 86.5% of AGI was concentrated in the top 50% of returns filed.

A look at the top

What did it take in AGI to make the top 5% of all individual filers? Probably not as much as you think. If your return showed AGI of \$154,643 or more, you would have been one of the almost 6.9 million filers comprising the top 5%. This group reported about \$2.5 trillion in AGI--31.7% of the total AGI reported--and was responsible for 58.7% of the total income tax for

the year.

The roughly 1.3 million returns showing AGI of at least \$343,927 made up the top 1% of all filers. This group reported 16.9% of total AGI; in other words, over \$1.3 trillion of the \$7.8 trillion in AGI reported was reported by the top 1% of filers. This group was responsible for 36.73% of the total income tax for the year.

There were just under 138,000 tax returns with AGI exceeding \$1.4 million. These returns, making up the top 0.1% of all filers (that's the top one-tenth of one percent), accounted for approximately \$610 billion in AGI (about 7.8% of all AGI), and paid just over 17% of the total income tax.

Not all high-income returns showed tax

There were just over 3.9 million returns filed with AGI of \$200,000 or more. Of these returns, 20,752 (0.529%) showed no U.S. income tax liability. Why did these returns show no income tax? The IRS report that provided the data noted that high-income returns generally show no income tax as a result of a combination of factors, including deductions for charitable contributions, deductions for medical and dental expenses, and partnership and S corporation net losses.

Average tax rates

Simply dividing total income tax paid by total amount of AGI results in the following average federal income tax rates:

- Top 0.1%--Average federal income tax rate of 24.28%
- Top 1%--Average federal income tax rate of 24.01%
- Top 5%--Average federal income tax rate of 20.46%
- Top 10%--Average federal income tax rate of 18.05%
- Top 50%--Average federal income tax rate of 12.5%

January 2013

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Healthy Personal Finance Resolutions for the New Year

How to Give Wisely and Well

Is winter storm damage covered by my homeowners insurance policy?



Healthy Personal Finance Resolutions for the New Year



The start of a new year may also be a good time to meet with a financial professional. A financial professional can help you:

- *Determine your income, assets, and liabilities*
- *Identify financial goals*
- *Understand specific products/services*
- *Monitor your overall financial plan*
- *Adjust your plan if needed*



The new year is the time when many individuals start making resolutions to live a healthier lifestyle. And while resolving to eat better and exercise more is a good thing, you should be sure to make resolutions that pertain to the overall health of your personal finances as well.

Develop a budget and stick with it

A good way to start the year on the right track financially is to make sure that you have a budgeting system in place. Start by identifying your income and expenses. Next, add them up and compare the two totals to make sure you are spending less than you earn. If you find that your expenses outweigh your income, you'll need to make some adjustments to your budget plan (e.g., reduce discretionary spending).

Once you have a budget, it's important to stick with it. And while straying from your budget from time to time is to be expected, there are some ways to help make working within your budget a bit easier:

- Make budgeting a part of your daily routine
- Be sure to build occasional rewards into your budget
- Evaluate your budget regularly and make changes if necessary
- Use budgeting software/smart phone applications

Set financial goals or reprioritize current ones

The new year is also a good time to set new financial goals and reprioritize your current ones. Take a look back at the financial goals you set for yourself last year--both short- and long-term. Perhaps you wanted to increase your cash reserve or save money for a down payment on a home. Maybe you wanted to invest more money towards your retirement. Did you accomplish any of your goals? If so, do you have any new goals that you would now like to achieve?

Finally, have your personal or financial circumstances changed during the past year (e.g., marriage, a child, job promotion)? If so, would any of these changes warrant a reprioritization of some of your goals?

Make sure your investment portfolio is still on target

You'll also want to be sure to review your investment portfolio to ensure that it is still on target to help you achieve your financial goals for the upcoming year. To determine whether your investments are suitable for reaching your financial goals, you'll want to ask yourself the

following questions:

- Do I still have the same time horizon for investing as I did last year?
- Has my tolerance for risk changed?
- Do I have an increased need for liquidity?
- Does any investment now represent too large (or too small) a part of my portfolio?

Make it a priority to reduce debt

Any healthy financial plan is one that makes reducing debt a priority. Whether it is debt from student loans, a mortgage, or credit cards, it is important to have a plan in place to pay down your debt load as quickly as possible. The following are some tips to help you manage your debt:

- Keep track of all of your credit card balances and be aware of interest rates and hidden fees
- Develop a plan to manage your payments so that you avoid late fees
- Optimize your repayments by paying off high-interest debt first or consider taking advantage of debt consolidation/refinancing programs
- Avoid charging more than you can pay off at the end of each billing cycle

Review/take steps to improve your credit history

Having good credit is an important part of any sound financial plan, and the new year is as good a time as any to check on your credit history. Your credit report contains information about your past and present credit transactions and is used by potential lenders to evaluate your creditworthiness. A positive credit history is important since it allows you to obtain credit when you need it and at a lower interest rate. Good credit is even sometimes viewed by employers as a prerequisite for employment.

Review your credit report and check it for any inaccuracies. You'll also want to find out whether or not you need to take steps to improve your credit history. To establish a good track record with creditors, make sure that you always make your monthly bill payments on time. In addition, you should try to avoid having too many credit inquiries on your report (these are made every time you apply for a new credit card). You're entitled to a free copy of your credit report once a year from each of the three major credit reporting agencies. You can go to www.annualcreditreport.com for more information.



How to Give Wisely and Well



These are a few of the organizations and agencies that publish reports and charity ratings, and/or give useful tips and information to consumers on choosing a charity and giving wisely:

- **Better Business Bureau's BBB Wise Giving Alliance**, www.bbb.org
- **Charity Navigator**, www.charitynavigator.org
- **CharityWatch**, www.charitywatch.org
- **Federal Trade Commission**, www.ftc.gov

Giving to charity has never been easier. You can donate the old-fashioned way--by mail--but you can also donate online, by text, or through social networking sites. According to the National Center for Charitable Statistics, over 1.4 million nonprofit organizations are registered with the IRS. With so many charities to choose from, it's more important than ever to ensure that your donation is well spent. Here are some tips that can help you become both a generous and wise donor.

Choose your charities

Choosing worthy organizations that support the causes you care about can be tricky, but it doesn't have to be time-consuming. There are several well-known organizations that rate and review charities, and provide useful tips and information that can help you make wise choices when giving to charity (see sidebar). To get you started, here are some questions to ask:

- *How will your gift be used?* It should be easy to get information about the charity's mission, accomplishments, financial status, and future growth by contacting the charity by phone or viewing online information.
- *How much does the charity spend on administrative costs?* Charities with higher-than-average administrative costs may be spending less on programs and services than they should, or may even be in serious financial trouble. Some charities who use for-profit telemarketers get very little of the money they raise, so ask how much of your donation the charity will receive.
- *Is the charity legitimate?* Ask for identification when approached by a solicitor, and never give out your Social Security number, credit card number, bank account number, account password, or personal information over the phone or in response to an e-mail you didn't initiate. There's no rush--take time to check out the charity before you donate.
- *How much can you afford to give?* Stick to your giving goals, and learn to say no. Legitimate fundraisers will not try to make you feel guilty, and will be happy to send you information that can help you make an informed decision rather than pressure you to give now.

Harness the power of matching gifts

Many employers offer matching gift programs that will match charitable gifts made by their employees. You'll need to meet certain guidelines--for example, your employer may only match your gift up to a certain dollar limit--and the charity may need to provide

information. Check with your employer's human resources department or the charity to find out how you can maximize your donations through a matching gift program.

Put your gifts on autopilot

If you're looking for an easy way to donate regularly to a favorite charity, look into setting up automatic donations from a financial account. When donors contribute automatically, the charity benefits by potentially lowering fundraising costs and by establishing a foundation of regular donors. And you'll benefit too, because spreading out your donations throughout the year may enable you to give more, and will simplify your record keeping.

Look for new ways to give

Although cash donations are always welcome, charities also encourage other types of gifts. For example, if you meet certain requirements, you may be able to give stock, direct gifts from your IRA or other retirement account, real estate, or personal property (but check with your financial professional to assess potential income and estate tax consequences based on your individual circumstances). You can also volunteer your time, using your talents to improve the lives of others in your community. And taking a "volunteer vacation" can be a fun way to involve your family and meet other people across the country or world who share your enthusiasm for a particular cause.

Use planned giving to leave a legacy

You can leave an enduring gift through your estate. For example, you might leave a will bequest, give life insurance, or use a charitable gift annuity, charitable remainder annuity trust, or charitable unitrust that may help you give away the asset now, while retaining a lifetime interest--check with your financial or tax professional regarding any potential estate or tax benefits or consequences.

Keep good records

If you itemize when you file your taxes, you can deduct donations you've made to a tax-qualified charity, but you may need documentation. Keep copies of cancelled checks, bank statements, credit card statements, or receipts from the charity showing the charity's name and the date and amount of the contribution. For donations or contributions of \$250 or more, you'll need a more detailed written acknowledgment from the charity. For more information and a list of requirements, see IRS Publication 526, Charitable Contributions.



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Is winter storm damage covered by my homeowners insurance policy?

Whether or not winter storm damage is covered by your homeowners insurance policy will depend on the type of policy you have and the type of damage that occurs.

Most standard homeowners insurance policies provide coverage for winter-related storm damage that occurs as a result of wind, snow, ice, freezing rain, and severe temperatures. You'll want to review your homeowners policy to find out which wintertime perils are specifically covered.

It is important to note that standard homeowners insurance policies do not provide coverage for flood damage. So if your home has suffered damage from winter-related flooding (e.g., a heavy snow melt), you generally won't be covered unless you have a separate flood insurance policy in place.

Finally, if your home suffers damage while you leave it unattended during the winter, you'll have some additional issues to consider. For example, certain homeowners policies have exclusions for damages that result from a home not being properly winterized (e.g., not shutting

off the water and draining the pipes) or a home being left unoccupied for a long period of time (e.g., more than 30 days).

While your insurance may provide some coverage for winter storm damage, the best option is to take steps to prevent winter-related damage from occurring in the first place. The following are some tips to help protect your home from harsh winter weather:

- Clean your gutters and downspouts so that melting snow can flow freely away from your home
- Inspect and repair roof shingles and flashing to prevent water damage
- Trim tree branches on your property
- Apply weather stripping and caulking around doors and windows and inspect storm doors and windows for broken glass
- Drain water from pipes leading to exterior faucets and remove garden hoses
- Insulate pipes that are susceptible to freezing
- Have your heating system cleaned and inspected



I just installed a new furnace in my home. Is the energy tax credit still available?

Unfortunately, most of the tax credits for making energy-efficient improvements to your home, such as

installing a new furnace, are no longer available.

The Energy Tax Incentives Act of 2005 provided tax credits for a variety of energy-saving home improvements, such as installing new windows, water heaters, and furnaces. Unfortunately, these tax credits expired at the end of 2011. However, there are still a few energy tax credits that are available through 2016 for the installation of larger, more costly energy-saving systems, such as geothermal heat pumps and solar energy systems.

Even though the furnace-related energy tax credit is no longer available, you may still be able to save money on the installation of your furnace. Check to see if rebates for energy-saving home improvements are offered through your utility company or your state or local municipality. You can go to www.energy.gov for more information.

While the rebates may not equal the expired tax

credits in terms of cost savings, they often provide incentives of up to a few hundred dollars per installation. When applying for an energy rebate, consider the following:

- Energy rebates usually require the product to be ENERGY STAR certified
- The amount of the rebate may hinge on the energy efficiency of the product (e.g., a furnace that has a higher efficiency will be eligible for a larger rebate)
- The rebate may only be available for products that have been installed by a certified contractor
- You may have to apply for the rebate within a certain time period after the installation of your energy-saving product

Finally, keep in mind that even though you missed out on the financial benefits of a tax credit, installing a more energy-efficient furnace can end up saving you money in the long run. According to the U.S. Department of Energy, installing a higher-efficiency heating system along with making energy-efficient upgrades can often result in cutting your winter home heating costs in half.

