



The Tax Man Cometh

The New Rules May Impact Your Finances

Over the last several months, you may have heard mention of the Pension Protection Act of 2006 ("the PPA"). Most of the PPA deals with retirement-plan provisions, but there are other important changes that may affect individuals, charities and small businesses. To help see if any of the changes apply to you, we have summarized some of the main points:

Beneficiary Changes: Prior to the PPA, only a spouse of a deceased person could take advantage of a 'roll over' of the decedent's qualified retirement plan. This tax-smart method would not apply to any other beneficiary who was not the spouse. Starting in 2007, a non-spousal beneficiary will be allowed to roll the money directly from the qualified retire-

ment plan to an individual receiving IRA through a trustee-to-trustee transfer. This beneficiary change also applies to 403(a) tax-deferred annuities, 403(b) plans and government 457 plans. The rollover account must still follow the annual required minimum distribution withdrawal rules for inherited IRAs.

Direct Deposit of Tax Refunds to Your IRA: Another 2007 benefit for 1040 tax-filers is that you will be allowed to send all or part of your federal refund directly to your IRA (or your spouse's IRA if you file jointly) via direct deposit. The new form is available from the IRS, making it easier than before to save for retirement.

Changes in the Phaseout Ranges for IRA Contributions: Also starting in

2007, the income-based phaseout ranges that have prevented those with higher income levels to deduct their IRA contributions or contribute to a Roth IRA, will be adjusted for inflation. This change will allow more people to save through the IRA they choose.

Changes for Charities: One of the most significant changes in this area affects seniors. If you are 70 1/2 or older, you can now donate up to \$100,000 directly from your traditional or Roth IRA to a tax-exempt charity. The benefit to you is the tax-free treatment of the donation, which is equal to a 100% write-off. This rule applies for 2006 as well.

For more information, please consult your financial advisor or tax professional.

Understanding Required Minimum Distributions

If you reached age 70 1/2 in 2006, its time to start paying Uncle Sam the taxes on your retirement money.

When RMDs begin. The date to begin taking required withdrawals out of your retirement accounts is April 1 of the year following the year you reached the age of 70 1/2.

Deadlines. The IRS requires you to take distributions each year after the

initial year, but the amount must be withdrawn by December 31st.

Calculations. There is a life expectancy table provided by the IRS that determines the amount to be withdrawn from your IRA accounts each calendar year. If you have more than one IRA account, you do not have to take separate distributions from each, but you are required to total the

value of all accounts in order to determine the aggregate distribution amount. Once you have this calculated, the distributions can be taken from any one or more of the separate accounts, as long as the minimum requirement is met.

Avoid penalties. Since the rules can be complex, consult your advisor in order to avoid penalty.

Inside this issue:

Tax Changes for 2006 and 2007	1
Distributions from your retirement accounts	1
Seeking advice from the best	2
Tax Prep: Who should you go to?	2



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Make Sure Your Advisor Places Your Interests First

Fiduciary standards, best practices, suitability and now the Pension Protection Act all offer guidelines for how financial advisors should behave and place their clients' interest ahead of their own. Here are a few tips to help you decide:

- *Does your advisor know of your unique situation and have they discussed customized solutions?*
- *Do you know how much is acceptable to pay for the services you require and which transactions trigger an expense for you and a commission for your advisor?*
- *Have you sought out a fee-based advisor for an objective analysis and explanation of your current portfolio for a comparison?*
- *Do you know the "model" used by your advisor? Find out if they are associated with insurance, brokerage or fee-based (no commissions).*

Who Should Prepare Your Taxes?

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Should you do it yourself, consult with a tax agency or do it yourself? Selecting the right method of preparing your taxes could make the difference.

Tax Attorney. Are you concerned with sheltering part or your income or have a more complex situation that you think might require knowing the latest tax laws? Then a tax attorney may be an appropriate choice to consult with. Although less qualified in the actual preparation of returns, tax attorneys are the specialists in tax law.

Tax Preparer from local outlet or chain. If your return is fairly simple with limited deductions, such as the use of the short form, then this options might be appropriate. However, many of the employees of these agencies and outlets are seasonal employees with limited experience, and are usually paid little more than minimum wage. If you suspect that there may be more complexity to your situation that would require more experienced

guidance, this would not be the first choice.

Certified Public Accountants. Has your financial situation taken a recent change such as divorce or other lifestyle shift? A CPA may be able to help guide you through the process and configure an overall tax plan. When selecting a CPA make sure to ask them of their field of expertise to make sure that they are familiar with current tax rules and laws.

Enrolled Agent. Probably the least obvious to most individuals, an enrolled agent is licensed by the federal government and will be well-versed in IRS rules. Many enrolled agents are former employees of the IRS, and limit their work to a certain specialty or area of expertise. If there would exist a chance for an audit, enrolled agents can represent you with the IRS.

For more information, contact your local Symphonic Financial Advisor.