



# Clifford's Notes

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## *Render unto Caesar what is*

## *Caesar's and not one cent more!*

We made a list of some common questions that come through our office. See our redesigned website for more answers. Your questions are always welcome!

## Frequently Asked Questions:

1. **Capital Gains Tax Cut to 0%!** For those in the 10% or 15% tax bracket, the tax rate on long-term capital gains is now 0% until Congress changes its mind. Couples with incomes below \$80,000 will benefit. Singles and those filing separate with incomes below \$40,000 will benefit as well.
2. **Non-Cash Contributions to Charities: Are receipts needed?** Yes, just like cash contributions, no receipt means no deduction. New, tighter rules apply to all donations. This means used clothing values have dropped along with all other items without obvious sale value.
3. **Should I refinance my mortgage?** Well, it depends.
  - a. Can you reduce your rate by at least 1.5%?
  - b. How much will you save per month?
  - c. What will the closing costs be?
  - d. How many months will it take to recover the closing costs?
  - e. Is there any chance of moving within five years?
  - f. Those with Adjustable Rate Loans will see their rates declining through this winter.
4. **Should I pay off my mortgage early?** Usually not. Adding to your payment is fine, but always keep an emergency fund. Avoid trying to rapidly reduce debt.
5. **Should I buy a house?** With prices dropping nationally, this is a great market for first-time home-buyers. Obviously, it's not such a great market for home-sellers.
6. **I will soon be 70 ½. What is the "Required Minimum Distribution (RMD)?"** The "RMD" is the lowest minimum amount that must be withdrawn from a retirement account, such as an IRA, 401K or 403B plan, each year after a retiree reaches 70½ years old. In most cases, your financial institution or investment advisor will calculate the amount. Distributions must be made by Dec. 31. Roth IRA's are exempt from these rules!
7. **I need to pay some bills. Can I take funds out of my IRA, 401K or 403B plan?** Yes, but there is a cost. All withdrawals are subject to income tax. For those under the age of 59 ½, expect a 10% penalty on top of income taxes. *Plan on total federal taxes of 25-46% plus state income taxes.* Avoid withdrawals. Don't consider loans.
8. **We have a child in college. Are there any tax breaks?** Yes, they're called Hope and Lifetime Learning Credits. Families can take a maximum credit of \$1,650 for each student's first two years of college tuition. For other students, the limit is 20 % of the first \$10,000 in tuition. Interest paid on student loans is deductible. Some states also have a tax credit for tuition. Ohio does not.
 

If college is in the future, consider an account such as a Coverdell Education IRA or a Sec. 529 plan. Watch out for their high hidden costs that may outweigh the tax savings. We recommend these strategies with great care.
9. **The Gift Tax Exclusion is now \$12,000 per person per year.** Larger gifts to individuals must be reported on Form 709. Gifts for tuition and medical expenses can be exceptions. Inheritances are tax free to the recipient.
10. **Can I deduct medical expenses?** Yes, but only 6% of taxpayers are able to save any taxes. The threshold is 7.5% of Adjusted Gross Income (AGI). If your out-of-pocket expenses are adding up, consider an FSA or HSA, instead. Non-prescription drugs and vitamins do not count, nor do diaper services. See "downloads" on our website for the Medical Expense worksheet.
11. **Fiserv is now TD Ameritrade.** All investment accounts were converted on August 15<sup>th</sup>. While almost all accounts have transferred seamlessly, we have found a few glitches. If you have questions, please call.

## Investment News, Views, and Perspectives.

Annualized gains of some indexes we track as of September 15, 2008.

Inclusion in this list is not a recommendation to buy any security or investment. Such advice is only given in context of our financial planning services. This information was derived from sources believed to be reliable, but is not guaranteed. Actual returns may vary and do not include advisory fees, commissions, sale charges or other fees. S. D. Clifford Advisors, employees and associates may hold positions in these investments. Future returns are not guaranteed. Accounts may lose value. This is intended for current investors only and is not intended to suggest returns that may be expected by any individual investor.

### Market Indexes for Comparison and Reference

INDEX	YTD	12 Mo	3-Yr Avg	5 yr Avg	10 Yr Avg
Dow Jones Ind Avg	-13.8	-13.58	3.27	4.09	4.22
\$ & P 500	-14.94	-12.97	1.68	4.94	2.98
Russell MidCap	-12.67	-10.01	3.45	9.56	8.18
\$ & P Small Cap 600	-3.72	-7.25	3.69	9.73	10.44

Please see our website for more data on the performance of mutual funds, stocks and ETF's that we watch most closely.

**As we went to press**, several of our country's largest financial firms sought buyers, bailouts or bankruptcy. This is on the heels of the Treasury's takeover of Fannie Mae and Freddie Mac. The Congress and the President are discussing something like the solution for the Savings and Loan problems of the 1980's.

This was not a surprise to us, although these actions have no precedent. All these actions are designed to maintain the stability of our financial system. In chaotic markets, nervousness is normal. Patience pays off during turbulent times. Eventually the markets recover as they always have.

The "best" investments for each investor vary with each person's goals, values, expectations and comfort levels. Please see the Investment section of our website to take or update your Investment Risk Profile. This will greatly assist in suggesting the most appropriate investments for your accounts.

### Financial Planning Basics: As housing prices fall and unemployment rises, some simple reminders that can work for most households:

- 1. Give thanks for what you have, off the top.** Malachi 3:10
  - a. Practice what you believe. Put God first in every part of your life.
- 2. If you don't know where you're going you will end up somewhere else!**
  - a. Set a few simple goals. Take small steps. Stick to your limits.
- 3. Our society encourages overspending and self-indulgence.** Resist!
  - a. We get "needs" and "wants" quite confused.
  - b. Spoiling ourselves and our children helps no one but the retailers.
- 4. Know your income.**
  - a. Count net, not gross. Count steady sources only.
- 5. Know where it goes.**
  - a. Add up checks, credit card spending and your O. O. P. S.
  - b. O.O.P.S. is Out Of Pocket Spending. Keep all receipts.
  - c. Ask yourself, what bad thing will happen if I don't buy this stuff?
  - d. Choose to make do with less "stuff." You will have less to keep track of and less stress as well, not to mention increased savings.
  - e. If you can't afford it, don't buy it. If you can't pay for it with your current income, buy later, buy less and maybe don't buy at all.
- 6. Pay yourself something every payday.**
  - a. Set some amount aside for a rainy day.
  - b. Never, ever, spend your whole paycheck, no matter what.

## Fall Economic Review and Outlook

### The Strong points:

1. Unemployment, while rising, is low.
2. The economy has grown in spite of high oil prices and home sale declines.
3. Oil prices have dropped 30% from their peak. Gold has also dropped this year.
4. Stock prices compared to company earnings appear very reasonable.
5. The Government takeover of Fannie Mae and Freddie Mac will keep our financial system solid.

### The Weak Points:

1. Home sales and prices have yet to hit bottom.
2. Total homes for sale are high suggesting prices will remain soft until next spring.
3. Overall growth of the US economy seems to be slowing.
4. We expect to see further bad news from large financial firms who made poor investment and lending decisions.
5. Instability in the world leaves the oil markets volatile while demand is growing mostly in China and India.
6. Unless Congress acts, taxes will increase for most taxpayers and all investors by 2010.

### The Bottom Line:

The economy remains strong, growing more slowly and not evenly. There are clear pockets of weakness and much uncertainty. While interest rates have dropped, credit problems could still lead to a recession. The dollar's weakness could fuel inflation.

Expect the stock market to be erratic over the months ahead until after the election.

Small and foreign stocks appear poised for growth more so than other sectors. Progress will be uneven, to put it mildly.

An additional correction or drop in value may occur due to fears of recession or unexpected events. Diversified portfolios limit risk while being able to grow under most conditions. While many short-term concerns remain, we remain optimistic looking towards to the next few years.

**We retain a positive, long-term, world-wide focus for all.**

## 2009 Clergy Compensation Planning

As the 2009 budget year approaches, may we suggest:

### 1. Consider a “Cost of living” and merit raise.

Merit raises reflect a pastor’s increasing value to the congregation and recognize the minister’s contribution to the health of the church. As most pastors are “on call” 24/7, make sure there is enough time off. Churches may want to compare the pastor’s salary to other professionals with similar education and responsibilities. The local school board salary grid for teachers may be helpful.

### 2. Don't Neglect Non-Salary items

**A. Reimbursing car mileage from required monthly reports is the simplest way for churches to help pastors with the costs of ministry travel.** Always use the current IRS rate adjusted at least annually. The current rate is 58.5¢/mi. Avoid leasing as it seldom cuts total costs.

**B. Allow enough in the budget for other common expenses of ministry.** Include items such as continuing education, books & periodicals, conferences, computer upgrades, software, supplies and entertaining. Always require receipts for reimbursements. Don’t forget documented church use of a cell phone.

**C. Pay health insurance and out of pocket medical expenses as a pre-tax benefit as part of a written plan.**

**D. Always follow denominational recommendations in funding pension plans.** We urge pension contributions of at least 14% of salary and housing for pastor of non-denominational churches. Clergy pensions come out as tax-free housing allowance to the extent used.

**E. Expenses reimbursed under an accountable plan are never reported to the IRS!**

**3. Setting a high housing allowance insures a pastor’s income taxes will be as low as the law allows at no risk to the church.** It must be set in advance. The current limit is the “fair rental value” of the home as furnished. For many part-time clergy, the church can designate the full salary as housing. Any unspent housing is income tax.

**4. Never pay the pastor’s personal expenses.** This includes car insurance, gasoline bills, health club memberships, suits, family travel and such. All flat monthly or weekly allowances should be added to W-2 income.

**5. Remember, clergy pay 15.3% Social Security or “Self-Employment” tax on their salary and housing!** Make sure enough is withheld each paycheck or paid by estimated taxes. Never withhold “FICA or Medicare” for clergy. Include Social Security/Self-employment taxes with Federal withholding.

6. Keep good records.

7. Put everything in writing!

8. Always insist on receipts before approving any reimbursement.

## Not about Taxes or Finance!

Ruth, Paul, Heidi & Robert will be thirteen on October 11. They have begun seventh grade with gusto. They enjoyed a busy spring & summer of baseball, softball, church camp, visiting relatives and Niagra Falls.

See our updated photo album which includes a memorial page for Cheryl at [www.quads.sharetheharvest.com](http://www.quads.sharetheharvest.com).

*Thanks to dozens of dear friends who have sent thousands of dollars to Habitat in Cheryl’s memory! At some point, we hope a house can be built and dedicated in her memory.*

Memorial gifts may still be sent to Habitat for Humanity of Greater Stark & Carroll Counties  
2800 Leemont Avenue NW  
Canton, OH 44709

Phone:330.493.6500

*Thanks for your prayers*



## More Frequently Asked Questions:

**1. How much can I contribute to my retirement plan?** For 2008, Roth & Traditional IRA’s allow \$5,000 for most individual and spousal plans. Those aged 50 and up may contribute \$6,000. 403b & 401K Plans: \$15,500 for most salary deferrals. The employer may contribute \$46,000! Exceptions often apply.

**2. Am I saving enough for retirement?** This is a tough question requiring some homework. No one retires and says, “Oops, I saved too much!” According to many surveys, Americans are saving too little & need to look ahead. Some of us need to live on less and save more. Let us know how we can help.

**3. I had problems with my W-2 last year. What can I or my employer do?** Churches may use our guide to preparing clergy W-2's. On the Internet, go to [www.sharetheharvest.com/tools.htm](http://www.sharetheharvest.com/tools.htm). We also prepare W-2's and related forms on request.



Quarterly  
Estimated Tax  
Payments due  
dates are Sept  
15<sup>th</sup> & Jan 15<sup>th</sup>.



Late payments can sometimes cause a modest interest penalty. Those whose employers withhold enough taxes need to do nothing.

Include your Social Security number, the tax year and form on each check. For example: *SSN 123-45-6789; Tax Year 2006 Form 1040-ES.*

### ***Did you request an extension?***

***It expires Oct 15.*** E-Filing also ends as well. Those who file late will not get their stimulus check until their 2008 tax return is filed.

### ***Did You Know?***

- **Business Mileage Rate Changed!** The IRS has changed the standard auto mileage reimbursement rate to 58.5¢ per mile for 2008 as of July. The 2009 rate will be set later this fall. We encourage employers to adjust accordingly. Go to [www.irs.gov](http://www.irs.gov) for the latest.
- **If you need a speaker for your church service, retreat or workshop:** Rev Clifford is available with his quadruplets most weekends through the year for speaking and worship leadership. As you know, “**we do not believe in miracles, we rely on them.**” Now celebrating 27 years in ministry.



- **If you sell stocks, mutual funds, bonds or investment property** owned for more than a year, the maximum federal tax rate is 15% on just the gain, not on the full sales price. For most taxpayers, the rate is 0%. Congress has extended this tax break until 2010.