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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!

Through a long winter & spring, God's grace has sustained us. See page 3 for more personal details.

Frequently Asked Questions:

1. **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.

2. **Can Charitable Gifts from IRA's Avoid Taxes? YES!** For tax year 2007, distributions made from an IRA directly to a tax-exempt organization will not be reportable income. Owners must be at least 70 ½. Additional rules also apply. Call your broker or advisor. Gifts can not exceed $100,000.

3. **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 What is the "Required Minimum Distribution (RMD)?** The "RMD" is the lowest minimum amount that must be withdrawn from a retirement account, such as an IRA, 401K or 403B plan, each year after a retiree reaches 70½ years old.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!

4. **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.* If your plan allows loans, don't.

5. **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's has expired for now.
   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.

6. **The Gift Tax Exclusion is now $12,000.** 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.

7. **Can I deduct medical expenses?** Yes, but limitations allow just 6% of taxpayers to lower their 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. Non-prescription drugs and vitamins do not count on Schedule A. See "downloads" on our website for the Medical Expense worksheet, if needed.

8. **What will happen to our investments at Fiserv/First Trust? When will the transfer to TD Ameritrade take place? What will we have to do?** As most investors are aware, all accounts currently under the custody of FISERV/First Trust will be transferred to TD Ameritrade. There will be no tax consequences for anyone. We expect federal regulatory approval this fall with account transfers to begin after January 1. There should be no paperwork to sign. We look forward to our growing relationship with TD Ameritrade, one of the largest discount brokers/custodians serving investors and advisors. We have begun training on their system in order to make the transition as smooth as possible.

9. **Milestones**: After an incredible bureaucratic delay, Louanda Feather has finally received her Certificate of Enrollment to Practice before the IRS. In addition to being an Enrolled Agent, (EA) she also holds insurance licenses for Life, Health & Annuities. **Congratulations!**

Investment News, Views, and Perspectives.

Annualized gains of some funds and indexes we track as of August 31, 2006.

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 commissions, sale charges or fees S. D Clifford Advisors, owners, its employees and associates may hold positions in these investments.

Fund Name	Ticker	YTD	12 Mo	3 yr Avg	5 Yr Avg	10 Yr Avg
Am Fds AMCAP F	AMPFX	8.4	16.6	11.8	12.1	9.9
Am Fds Balanced F	BALFX	6.1	13.2	9.2	10.2	8.7
Am Fds Cap Inc Builder F	CIBFX	6.6	15.3	13.5	13.1	10.1
Am Fds Cap Wld Gr&Inc F	CWGFX	10.4	21.8	21.5	20.6	13.3
Am Fds Fundamentl Invs F	AFIFX	9.5	18.1	18.0	16.3	9.9
Am Fds Gr Fnd of Amer F	GFAFX	8.8	16.7	15.7	15.3	11.7
Am Fds Inc Fnd of Amer F	IFAFX	3.7	10.8	9.9	11.4	8.3
Am Fnds Inv Co of Amer F	AICFX	7.5	14.8	13.2	12.7	9.2
Am Fds New Perspective F	NPFFX	9.1	18.6	18.7	17.7	11.3
Am Fds Smallcap Wrld F	SCWFX	14.8	29.3	25.0	22.5	9.8
Ariel Fund	ARGFX	6.7	16.6	10.0	12.7	11.7
Davis Appreciation & Inc	RPFCX	4.9	12.7	11.7	14.4	6.9
Davis New York Venture	NYVTX	3.9	14.0	13.4	13.8	8.7
Davis Real Estate	RPFRX	-7.4	2.9	17.5	20.6	12.1
Fed Mid-Cap Index Fd	FMDCX	7.9	16.1	15.1	15.0	11.2
Third Avenue Value Fd	TAVFX	4.8	11.8	17.0	19.1	11.5

Market Indexes for Comparison

Standard & Poor's 500		7.6	17.8	12.99	12.5	6.94
Risk Free Rate		14.3	16.1	7.49	4.88	4.5
Dow Jones Industrials		6.3	15.8	9.0	8.75	5.63

Financial Planning: Debts & Debtors: Do's & Don'ts

A. What 3 Types of Debt are most common?

1. Mortgage & Car loans backed by an asset are usually healthy debts.
2. Credit Cards used for other than emergencies or managing short term cash flow needs usually postpone difficult lifestyle decisions.
3. Student Loans are fine when they help increase future income.

B. How often should I review & revise my debt payment plans?

Review plans at least annually or when the opportunity comes to refinance at lower rates. Cutting interest rates by 1.5% is often a smart idea. Beware of costs of refinancing! Consider ARMS.

C. How much debt is too much?

1. Car & Mortgage: Avoid borrowing more than 90% value of your house and car.
2. Student loans: Borrow up to as much as future expected annual income. Stafford Loans are best. Defer payments until graduation.
3. Credit cards: Balances that exceed monthly take-home pay usually cause trouble.

D. What strategies should we avoid in paying off debt?

1. Borrowing against life insurance or retirement plans.
2. Going to a credit counseling service without getting references.
3. Putting off paying the IRS or other tax agencies for any reason.
4. Paying interest only on any debt. Always pay some principal.
5. Paying down debt too quickly. Always keep an emergency fund.
6. Not making a payment on an outstanding bill. Pay something or call.

Fall Economic Review and Outlook

The Strong points:

1. Unemployment remains very low.
2. The economy has grown in spite of high oil prices and home sale declines.
3. Deficit projections are dropping as tax receipts exceed expectations.
4. Stock prices compared to company earnings appear very reasonable.
5. The Fed has reduced interest rates which aids borrowers and exporters.

The Weak Points:

1. Home sales have dropped.
2. Total homes for sale are high suggesting prices will remain soft.
3. Overall growth of the US economy seems to be slowing.
4. Labor is in short supply leading to wage inflation. Illegal aliens fill the gap.
5. The increase in the US minimum wage tends to slow job growth and increase inflation.
6. Instability in the world leaves the oil markets volatile while demand is growing and supplies are tight.

The Bottom Line:

The economy remains strong, growing more slowly and not evenly. There are clear pockets of weakness. With the Fed dropping interest rates on 9/18, credit problems are less likely to lead to a recession. The dollar's weakness could fuel inflation.

Expect the stock market to be erratic over the months ahead. October has often been a weak month for stocks.

Large, small and foreign stocks appear poised for growth more so than other sectors. Progress will be uneven.

The markets may have hit bottom in August, having fallen from highs in July. An additional correction or drop in value may occur at any time due to fears of recession or unexpected events. Diversified portfolios limit risk while being able to grow under most conditions. While concerned about the short-term, we are optimistic looking forward over the next few years.

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

2008 Clergy Compensation Planning

As the 2008 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. 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. For others, any unspent amounts are subject to income tax.

3. 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 2007 rates are 48.5¢/mi. Avoid leasing as it seldom cuts total costs.

4. Allow enough in the budget for other common expenses of ministry. Include items such as continuing ed, books & periodicals, conferences, computer upgrades, software, supplies and entertaining. Always require receipts for reimbursements. Avoid church credit cards.

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

6. Always follow denominational recommendations in funding pension plans. We suggest pension contributions of at least 14% of salary and housing for those without a denominational pension plan.

7. Never pay the pastor's personal expenses. This includes car insurance, gasoline bills, health club memberships, suits, family travel and such.

8. 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.

9. Keep good records. Put everything in writing!

Sad News!

As many already know, my wife, Cheryl went home to be with the Lord on June 18th after a valiant and courageous struggle against an unusually aggressive form of breast cancer.

While she had made good progress as of late March, April brought a set-back. By mid-May, she was hospitalized with difficult prospects. After June 6th, her condition deteriorated more rapidly than the Doctors had thought likely. Through a very painful ordeal, her faith seemed to shine brighter at each tough turn.

Her funeral was June 23 at First Church of the Resurrection in Canton with a memorial service July 28th in Connecticut in the church were she was ordained and where we were married almost 18 years ago.

Our kids were fully aware of her condition, changes and prospects. We have seen incredible instances of God's grace through the summer. We are sustained on the arms of many faithful prayer partners.

Ruth, Paul, Heidi & Robert will be twelve on October 11. They have begun sixth grade with enthusiasm.

See our updated photo album which includes a memorial page for Cheryl at www.quads.sharetheharvest.com.

Thanks for your prayers

Memorial Gifts may be sent to

Habitat for Humanity of Greater Stark & Carroll Counties
2800 Leemont Avenue NW Canton, OH 44709
Phone:330.493.6500

More Frequently Asked Questions:

1. How much can I contribute to my retirement plan? For 2007, Roth & IRA's allow $4,000 for most individual and spousal plans. Those aged 50 and up may contribute $5,000. 403b & 401K Plans: $15,500 for most salary deferrals. The employer may contribute $45,000! Exceptions may 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.

Quarterly Estimated Tax Payments due dates are Sept 15th & Jan 15th.

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.

Did You Know?

- **Business Mileage Rate Changed!** The IRS has changed the standard auto mileage reimbursement rate to 48.5¢ per mile for 2007. The 2008 rate will be set later this fall. We encourage employers to adjust accordingly. Go to www.irs.gov for the latest news.

- **If you need a speaker for your church service, retreat or workhop:** 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 26 yrs 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 just 5%. Congress has extended this tax break until 2010.