

Financial Planning News

Mentor Capital Management Inc.

January 15, 2007

Vol. 2, No. 1

2007 tax law changes – Some good, some not

As in most years, numerous changes in U.S. income tax laws have recently gone into effect, and some of these changes could directly impact you. Knowing which changes affect you will help you begin your 2007 income tax planning, and the earlier you begin, the better. Some changes that may affect you include:

401(k) Plan Contribution Limits

The annual contribution limits for 401(k) and 403(b) employer retirement plans have been increased to \$15,500 for people below age 50 and \$20,500 for people age 50 and older.

Note that IRA contribution limits remain the same: \$4,000 for people under 50, \$5,000 for people 50 and older.

Roth IRA Income Limits

Once your Adjusted Gross Income (AGI) reaches a certain threshold, you may not contribute to a Roth IRA. These income thresholds have increased for 2007; for most single filers the contribution limit phases out if AGI is between \$99,000 and \$114,000, and for joint filers the income phase-out is between \$156,000 and \$166,000.

Inheritances from Employer-Sponsored Retirement Plans.

If you are the beneficiary of a non-spouse's employer-sponsored retirement plan you may now roll over the entire balance directly into an IRA. Doing so may allow you to lower income taxes each year by distributing the funds over your lifetime. Previously, non-spouse heirs were required to recognize and pay taxes on the entire distribution at once.

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How much, what kind of life insurance should you have?

Most people with dependents understand the importance of life insurance in their financial plans. Few, however, are methodical or objective in determining the right amount or the right type of life insurance to buy.

Life insurance can provide a much-needed safety net for people who haven't accumulated lots of assets and whose families depend on their income to survive. The right way to buy life insurance includes a thorough assessment of the following:

- Income need of the survivors – How much will the

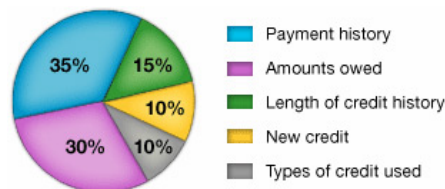
- family need to pay the bills, including college funding for the children?
- Income sources for the survivors – Wages, investment earnings, Social Security, and pension plans all need to be weighed;
- Investments that can be tapped to supplement income;
- Current cash flow and retirement-savings opportunities that can affect whether term or cash-value life insurance is purchased.

When a breadwinner dies, the last thing his or her surviving dependents should have to think about is how they'll pay the bills. The right amount and right type of life insurance must be in place before it is needed.

How your credit score can boost the cost of borrowing

Last month we discussed the value of requesting a free credit report and checking it for errors. But beyond erroneous (or even fraudulent) information, your report contains clues on improving your credit score.

The FICO score is named after Fair Isaac Corp., the company that developed and licenses the secret formula that is used almost universally to determine a person's creditworthiness. It's a number ranging from 300 to 850 and, although we don't know the proprietary calculations involved, the pie chart to the right shows an



approximate weighting of the factors that are used.

Significance

The importance of having a good score is dramatically shown in the next chart, which lists a recent national average interest rate that was charged for a 3-year automobile loan:

FICO Score	Interest Rate
720-850	7.137%
690-719	7.936
660-689	9.468
620-659	11.095
590-619	14.448
500-589	15.129

(Source: *myfico.com* web site)

Improving your score

While a dramatic event such as bankruptcy can cause your score to plunge, increasing your score takes

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Charitable Contribution Recordkeeping.

If you itemize your deductions on your tax return and your deductions include cash or check donations to charities, you must be prepared to support all such donations – no matter how small – with a dated bank record (such as cancelled check) or dated receipt. This will affect taxpayers who deduct cash they put into the collection plate at church.

Mortgage Insurance Deduction

People who pay for mortgage insurance can deduct premiums if their AGI is below \$100,000 (\$50,000 if married and filing separately), with the deductible portion phasing out rapidly once AGI reaches the limit(s).

However, there are some caveats to this potential benefit. For one thing, you must itemize your deductions. Second, this

new law applies only to mortgage insurance contracts issued this year. Finally, unless Congress extends this break, it will be in effect only for tax year 2007.

Mileage Rates

The optional standard mileage rates have been increased to 48.5 cents per mile for business usage and 20 cents per mile for medical or moving purposes. The rate for charitable purposes remains at 14 cents per mile.

Alternative Minimum Tax

The AMT was first imposed in 1969 on the wealthy to ensure that they paid some tax, but now threatens millions of non-wealthy taxpayers because the exemption levels were never indexed for inflation.

Congress temporarily increased the exemption levels for 2006, but has not yet made such changes for 2007. The uncertainty of whether changes will be made to AMT laws will make income tax planning difficult for many.

Credit score

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time. Here are a few things you should be doing:

- ◆ Make at least the minimum payment on all of your accounts. One delinquent account and two fully paid up accounts are worse than three current ones.
- ◆ If you need to get rid of credit cards, cut up the newest ones first – a long-standing account is better than a newer one.
- ◆ Don't open new credit accounts unnecessarily. However, if the only way you can make progress in paying off balances is to consolidate into a lower interest rate loan or card, go for it.
- ◆ Don't shop for credit unless you really need it. Even an inquiry by a lender can adversely affect your score.

More tips than we have room for here can be found on the FICO web site: <http://www.myfico.com>.

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