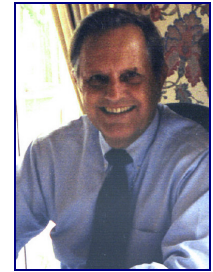


# from *Chuck's Desk*

Affordable Business Services Inc.

[www.affordabl.com](http://www.affordabl.com)

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I welcome any comments or suggestions you may have.

Please call or e-mail me at your convenience.

*If you enjoy reading my newsletter, the highest form of compliment I can receive is a referral to your friends, family and business associates.*

*Chuck Donovan*

## Ever Wonder What Your Net Worth Is

“What am I worth?”  
 “How am I doing financially?”  
 “What is my current net worth?”  
 “How do I figure my net worth?”

I am asked questions like these many times each year and get into lengthy discussions on the tax and financial situations of individuals and couples. **People are very interested in knowing how they stand financially and how they can control their affairs to plan for their financial future.**

So what exactly is net worth and why it is so important to cause people ask about it.

### Net Worth

Well, in simple terms **net worth is the difference between everything you own of value and all your debts.** It is a physical examination of your financial well-being and the best way of letting you know whether you are going in the right or wrong direction financially. **If you have never calculated your net worth, the result can be an eye-opener.**



If everything you own is more than your debts, your net worth is **positive – a good sign.** However, if you have more debts than things of value, your net worth is **negative – a**

**bad sign.** While nobody looks forward to a physical examination, such an examination is well worth doing periodically and provides you with information you should know.

The hardest part is gathering all your information before you start. Then doing the calculations is easy.

### Material Possessions Having a Monetary Value

**The most common material possessions that people own are checking and money market accounts, automobiles, homes and retirement plans.** A complete list of all items having a monetary value includes:

- **Cash** in your possession, certificates of deposits, money market and bank accounts.
- Current market value of stocks, bonds, mutual funds, savings bonds, and other **investments.**
- Current market value of **annuities.**
- Current market value of fully vested **retirement accounts** - IRAs, 401(k), SEP IRAs, and variable annuities.
- Cash value of **life insurance** policies.

**Affordable Business Services** provides a complete range of tax, accounting, and consulting services to individuals and businesses at affordable fees.

Chuck Donovan started the firm in 1993 with a single principle in mind – to provide quality financial services that meet and suit his clients’ needs. He has built a successful operation by combining personal attention and expertise with quick, accurate, friendly service.

The company’s growth has been fueled by referrals from existing clients and peers. The hallmark of Affordable Business Services remains the individualized service that addresses his clients’ unique requirements small or large.

Chuck is a graduate of Dartmouth College and has a MBA in Accounting and Finance from American International College.

- Current market value of your **home**.
- Current market value of **second homes**, undeveloped land, rental property, commercial property.
- Blue book value of your **automobiles** and RVs, campers or collectible automobiles.
- Estimated fair market value of **furnishings**, furs, collectibles, antiques, jewelry, books, coins, and artworks.
- Money other **people owe** you.

## Financial Obligations and Debts

**The most common financial obligations and debts that people owe are mortgages and home equity debts, credit cards, and installment loans.** A complete list of items having a monetary value includes:

- Principal balance currently remaining on **mortgages**.
- Principal balance currently remaining on **home equity loans**.
- Principal balance currently remaining on **rental property**, undeveloped land, and commercial property loans.
- Current amount outstanding on auto loans and other **installment loans**.
- Current amount outstanding on all **credit cards** from any issuer.
- Current amount outstanding on **taxes** due to any jurisdiction.
- Unpaid medical, utility, other **household bills**.
- Money **you owe** to other people.



## The Calculation

Now that you have gathered all this information, total all the material possessions and total all the financial obligations. In financial terms, your net worth is your Material Possessions Having a Monetary Value minus your Financial Obligations and Debts. Then **subtract the total of your financial obligations and debts from the total of your material possessions.**

**The result is your Net Worth.**

## A Snapshot

As you gathered the above data, you have probably noticed that many of the numbers will be different depending on when you gather the information and as your situation changes. For this reason **your net worth is a moving target and a snapshot of your current financial situation.**

Tracking it over time will tell you whether you are headed in the right or wrong direction. **It is, therefore, the single best measure of your financial health** and a calculation that you should do periodically – maybe once a year– to stay on top of your condition.

## Conclusion

When I discuss Net Worth with individuals and couples and make a quick back of the envelope calculation of their financial situation, I have found **more often than not that they are pleasantly surprised at how much their net worth is.** However, every so often it is just the opposite and they are shocked. **Hopefully you are among the former and not the latter group.**

In 2001 the Federal Reserve Board surveyed consumer finances, a study they conduct every three years, and found the typical U.S. household had a net worth of \$86,100. They said net worth is strongly associated with education. Households having college degrees had a median net worth of \$213,300, three times higher than those having high school degrees. Self-employed households had the highest net worth \$352,300.

You can now find back issues of **"from Chuck's Desk"** on our web site [www.affordabl.com](http://www.affordabl.com)

Click on the Newsletters tab for the issues of the newsletter from 2002.

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## An Update on Taxes

### Tax Increase Prevention and Reconciliation Act



President Bush signed into law the **Tax Increase Prevention and Reconciliation Act of 2005** on May 17, 2006. The new tax bill does not cut any taxes. **Its main purpose is the extension of some presently existing tax provisions that were scheduled to expire soon.**

Nevertheless its enactment affects a wide range of taxpayers as its provisions extend over a number of financial matters that are of interest to seniors, investors, and middle income individuals.

### Major Features

The two major features of the Act are:

- **Extending the Lower Capital Gains and Dividends Tax Rates through Year 2010.**

The Act extended the preferential tax rates on long-term capital gains and qualified dividends for another two years. They were scheduled to expire on December 31, 2008 returning to former maximum rates of 20% on the capital gains and 35% on the dividends.

**Now through 2010 for taxpayers in the top four tax brackets capital gains and dividend income will continue to be taxed at 15%. For those taxpayers in the lowest two brackets it will be 5% in 2006 and 2007 and 0% from 2008 to 2010.**

- **Extending the Alternative Minimum Tax Exemption Levels through Year 2006.**

**The Act stops temporarily the Alternative Minimum Tax from affecting more taxpayers by raising the exemption levels** to \$62,550 for joint filers and \$42,500 for single ones in 2006. The corresponding levels were \$58,000 and \$40,500 respectively in 2005.

In 2005 four million taxpayers were affected by the IRS Code's Alternative Minimum Tax provisions. These provisions were enacted in 1969 to assure wealthy taxpayers would pay income taxes. However, it is not adjusted or indexed to inflation. As a result annually more and more taxpayers become subject to the AMT provisions.

The exemption ends in 2007, so Congress will have to address this issue again in a year.

## Roth Conversions

With one exception the remaining Tax Increase Prevention and Reconciliation Act of 2005 features apply to specific groups of taxpayers. This exception is **the elimination of the modified adjusted gross income limitations on rollovers from an IRA to a Roth IRA.**



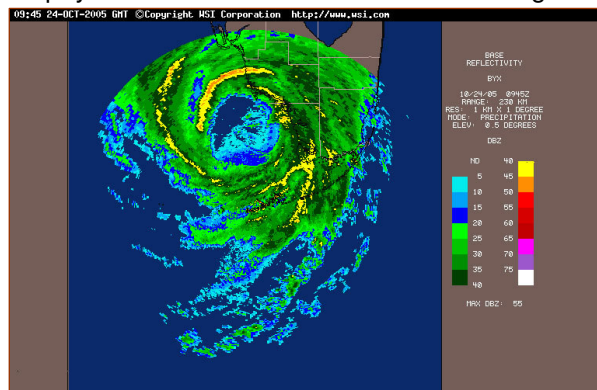
Since 1998 taxpayers whose adjusted gross income exceeded \$100,000 could not convert their traditional or SEP IRAs to Roth IRAs or make Roth contributions. Now beginning in 2010 they can. For those who convert traditional or SEP IRAs to a Roth IRA in 2010, the new provision allows them to elect to pay the tax on amounts converted in 2010 in equal installments in 2011 and 2012.

## Hurricane Casualty and Theft Losses

In case you may have missed it, **on June 19, 2006 the IRS issued Revenue Procedure 2006-32** to assist victims of Hurricanes Katrina, Rita, and Wilma in claiming casualty and theft losses on their tax returns.

The Revenue Procedure **describes three ways that can be used to calculate a decrease in the fair market value of residential real estate and personal belongings damaged or lost due to the hurricanes.** Called safe harbor methods, they assist taxpayers who have lost records or cannot figure the values of lost items to determine the

reduction in a residence's fair market value and the value of personal belongings prior to the hurricanes.



taxpayer has signed, and **(3) Cost Index** – a price index that the IRS has created for losses, flooding, structural and roof damage, and repairs based on the size of the residence.

The safe harbor method for personal belongings takes the replacement price for the belonging and reduces it by an amount based on the length of time the taxpayer has owned it.

## Safe Harbor Methods

The safe harbor methods for residences and condos are **(1) Insurance Company** – the use of their insurance company's estimate of their loss, **(2) Contractor** – the amount set out in a binding contract with a licensed contractor that the

## Conclusion

The tax rules were liberalized for 2005 to give the hurricane victims a break, but **the Revenue Procedure does not offer answers to all questions.** For instance, it does not cover rented property and leaves condo owners out in the cold regarding such issues as their residential damages and hurricane assessments.