



# MILLER ADVISORY

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## Third Quarter, 2007

### Understanding the Alternative Minimum Tax (AMT)

#### *What is the AMT?*

The AMT is essentially a separate federal income tax system with its own tax rates and its own set of rules governing the recognition and timing of income and expenses. If you're subject to the AMT, as many of our clients are, you have to calculate your taxes twice – once under the regular tax system and again under the AMT system. If your income tax liability under the AMT is greater than your liability under the regular tax system, the difference is reported as an additional tax on your federal income tax return. Under the AMT, the first \$175,000 of taxable income (\$87,500 if married filing separately) is taxed at a rate of 26%. Taxable income above this amount is taxed at a flat rate of 28%.

#### *AMT Exemption Amounts*

While the AMT takes away personal exemptions and a number of deductions, it substitutes a specific AMT exemption amount. The AMT exemption amount that you're entitled to depends on your filing status and income (AMT exemption amounts are phased out for individuals with higher incomes). A patchwork of legislation since 2001 has, along with other AMT provisions, pumped up AMT exemption amounts to stave off a spike in the number of taxpayers caught in the AMT "net."

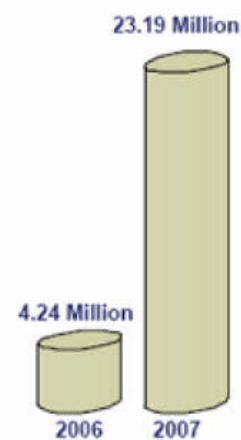
The bad news, though, is that the last legislative patch expired at the end of 2006. Unless Congress passes new legislation, 2007 AMT exemption amounts return to pre-2001 levels, and the number of taxpayers subject to AMT is expected to skyrocket.

#### *Legislative Outlook*

Several bills have been introduced in the current Congress relating to the AMT.

Proposals range from another one-year patch to full repeal. The problem with repealing the AMT is that it would leave a significant revenue gap (the Joint Committee on Taxation projects that the AMT will account for almost \$25 billion in revenue for the 2006 tax year). That means we're more likely to see another short-term fix than we are to see substantive reform. (source: Forefield, Inc.)

*How Many Taxpayers Will Be Affected by the AMT?*



*Projection by the Joint Committee on Taxation, March 5, 2007*

### Read the Rules First

The IRS currently allows you to borrow up to 50% of the total vested assets in your 401K account, up to a maximum of \$50,000. (over)



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There may be loan minimums and certain other restrictions, depending on your plan's specific loan availability calculations.

Here's how a 401(k) loan works: The 401(k) sponsor (your employer) sells a portion of the plan investments from your account equal in value to the loan amount. If your 401(k) account is invested 70% in a stock mutual fund and 30% in a fixed-income mutual fund, the assets will be sold in the same proportions. The loan payments you make will be reinvested in whatever your then-current allocations are.

Money borrowed for other purposes, such as a new automobile, must generally be repaid

within five years. However, you may be able to repay a loan taken to purchase a primary residence over a longer period. Specific terms of the loan – frequency of payments and the interest rate – will be determined by your company, which may allow you to make payments on a loan through



payroll deduction. IRS rules require payments to be made at least quarterly.

Check the rules before you borrow – If you leave the company before repaying the loan, the balance could be treated as distribution on which you'll be required to pay taxes and possibly a 10% early withdrawal penalty on all pretax contributions and earnings withdrawn. (source: Yahoo! Inc.)

## Facts That Count

Below are some statistics that we thought you'd find interesting:

- *Didn't Drop* – Nearly 2 out of every 5 American retirees (39%) are spending more money in their retirement years than they did before they quit working (source: Fidelity Research Institute).
- *Another Home* – 36% of all homes bought in 2006 were not the purchase of a primary residence but rather were vacation homes or investment properties (source: National Association of Realtors).
- *Just Part of the Pie* – The US economy is predicted to grow +2.2% in 2007, less than half of the +4.9% global growth that is projected for this year. These numbers support the theory that the US economy is no longer the sole engine of growth for the world, but rather the economies of Europe and Asia have decoupled themselves from the USA (source: The Economist April 14, 2007 issue, page 85).





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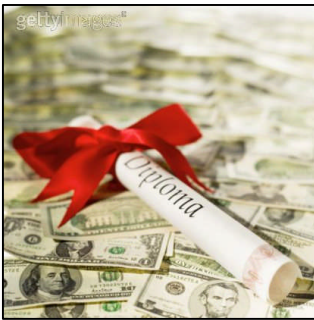
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## Uncle Sam Offers New Online Financial Aid Tool

In April, the federal government launched a new online tool to help families predict whether they'll qualify for federal financial aid. Called the FAFSA4caster, it's modeled on the government's official aid application, the FAFSA (Free Application for Federal Student Aid).

The FAFSA4caster estimates a family's expected family contribution to college costs and notes whether a family will qualify for the federal Pell grant program, allowing families to plan ahead for the cost of college. To use the tool, parents will need to enter their child's Social Security number, as well as their own tax and financial information. The process isn't quick, but users of FAFSA4caster will have their information automatically transferred to the official FAFSA when their child is ready to apply (of course, modifications to information can be made at that time).

To view the tool, visit the Department of Education's website at [www.fafsa4caster.ed.gov](http://www.fafsa4caster.ed.gov).



An updated version of FAFSA4caster is planned for release in the fall, including a feature that tells students how much state and college aid they might expect to receive. (source: Forefield, Inc.)

## Staff News

Kathleen spoke at the national conference for the National Association of Women Business Owners (NAWBO) in Atlanta, Georgia in May on the topic *How to Protect Your Business from Death, Disability, and Divorce*. She shared with attendees from various business backgrounds some of the financial tools needed to plan for these life-changing events.

In August Kathleen will attend the Winthrop Family Law Conference, speaking to a select group of attorneys, mediators, therapists, and psychologists on the *Financial Implications in Contemporary Relationships*.

Kathleen will travel to Florida in September to participate in the Raymond James Women's Symposium. She is an active member and serves on the Raymond James Women's Advisory Council.

We'd like to remind you that in the event you are unable to speak with someone at our office, you can always contact Raymond James Client Services directly for assistance with your accounts at (800) 647-7378.  
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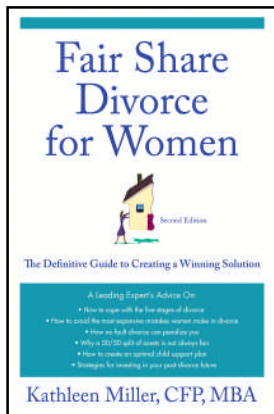


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## Fair Share Divorce, Second Edition

Kathleen's new book, *Fair Share Divorce for Women, Second Edition*,



remains popular and is available for purchase at local bookstores and online at [www.amazon.com](http://www.amazon.com) or [www.barnesandnoble.com](http://www.barnesandnoble.com).

We encourage you to visit Kathleen's website

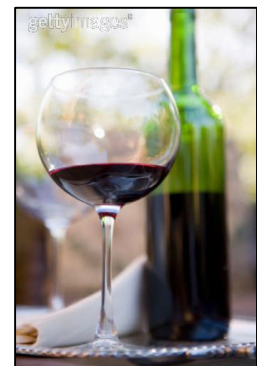
([www.fairsharedivorce.com](http://www.fairsharedivorce.com)) for more information about the book, read her latest blog postings about financial topics related to divorce, and add comments online.

## Northwest Highlights

Summer is in full swing now, even though our Northwest weather took a little while to catch up. Here are some events you might want to check out during our favorite time of year:

- See the best in interior design, architecture, and landscaping and get ideas for your home at this year's Street of Dreams running now through August 19<sup>th</sup>. For information on tickets, daily events and more, go to [www.seattlestreetofdreams.com](http://www.seattlestreetofdreams.com).

- Port Townsend has become an icon for a variety of summer music festivals, supporting such styles as jazz, blues, chamber music, and more. To find information on specific events and festivals, visit [www.ptguide.com](http://www.ptguide.com).
- Dine with Your Dog Dinner - For those dog owners and enthusiasts, be sure to check out this unique event on August 21<sup>st</sup> where dogs and humans dine together for a night at the elegant Barking Frog restaurant, partnering with Three Dog Bakery. For more information and reservations, contact the restaurant at (425) 424-2999.
- If wine tasting is of interest, consider driving to some of our notable Northwest wineries,



including such regions as the Yakima and Walla Walla Valleys and the Willamette Valley in Oregon. A number of websites assist in planning trips to these areas, including [www.washingtonwine.org](http://www.washingtonwine.org) and [www.oregonwine.org](http://www.oregonwine.org). Cheers!

If you have any questions or feedback regarding the Miller Advisory newsletter, please contact Nicole at (425) 822-8122 or [n.miller@milleradvisors.com](mailto:n.miller@milleradvisors.com) and let her know how we can improve our communication with you.