

Newsletter

**RIOLO
ROBERTS
& FREDDI, LLP**
CERTIFIED PUBLIC
ACCOUNTANTS

OCTOBER 2009

OCTOBER 15TH TAX FILING REMINDERS

- ◆ Filing deadline for 2008 individual tax returns on automatic six-month extension of the April 15 deadline.
- ◆ If you converted a regular IRA to a Roth in 2008 and now want to switch back to a regular IRA, you have until October 15, 2009 to do so without penalty.

THE IRS WANTS TAXPAYERS TO USE NEW TAX BREAKS

The IRS recently issued a news release reminding taxpayers to take advantage of the tax breaks provided in the American Recovery and Reinvestment Act of 2009, the stimulus law passed earlier this year. Among the tax benefits that are available for a limited time:

- ◆ First-time homebuyer credit of up to \$8,000 for homes purchased before December 1, 2009.
- ◆ Deduction for state and local sales and excise taxes paid on the purchase of a new car, light truck, motor home, or motorcycle. No limit on the number of vehicles you may buy, but the deduction per vehicle is limited to tax on up to \$49,500 of the purchase price. Higher-income taxpayers won't qualify for the deduction, and the deduction ends after 2009.
- ◆ Credit for energy-efficient home improvements of up to \$1,500 for improvements done in 2009 and 2010.
- ◆ American opportunity tax credit of up to \$2,500 for qualifying higher education expenses for 2009 and 2010.

The IRS is so concerned that taxpayers will not utilize these tax breaks that it has also posted a video to YouTube and an iTunes podcast with information about these tax breaks.

DEVELOP THREE HABITS TO STAY OUT OF DEBT

Staying out of debt is simple, but it's not easy. It requires fortitude. It means foregoing impulsive purchases in exchange for long-term financial freedom. Staying out of debt requires that you deny cravings, at least temporarily, for the "must-have" stuff that beckons from every mall, television advertisement, and slick magazine.

Personal debt can be categorized as necessary or unnecessary. Necessary debt can generally be linked to appreciating assets, such as your home mortgage, or assets used to generate income, such as a basic car for getting to work or a college degree. Unnecessary debt, on the other hand, might include routine credit card charges or installment loans for depreciable items.

If your goal is long-term financial freedom, avoiding unnecessary debt is crucial. Three simple habits can help you achieve this goal.

1. Save for emergencies. By setting aside money in easily accessible accounts, you avoid racking up credit card bills when unexpected expenses occur. Such expenses could include trips to the emergency room, replacing the water pump on the family car, or patching a hole in the roof. A reserve fund can also help you survive periods of unemployment without incurring additional debt.

Newsletter

**RIOLO
ROBERTS
& FREDDI, LLP**
CERTIFIED PUBLIC
ACCOUNTANTS

OCTOBER 2009 - Page 2

2. Live below your means. Much of the stuff that seems so essential today will, in fact, grow less desirable over time. Of course, living below your means requires that you discover what those “means” are. For many people, this means tracking your income and expenses over a period of time – a month or more – to learn where your money comes from and how it’s spent. You might be surprised. That cup of gourmet coffee on the way to work, that weekly meal at the fine dining establishment, that car payment for the latest sedan – all cut into your disposable income. By spending less on such items, you’ll be able to save for the future and develop long-term wealth.
3. Use debt wisely. If you decide to incur debt, know what you’re doing. Slow down, take a deep breath, think about how valuable this item will seem three months from today. Also ask yourself whether you can pay off these new charges out of next month’s income.

Staying out of debt isn’t glamorous, and it requires more than a little self discipline, but the long-term benefits are substantial. If you’d like additional suggestions for developing habits of financial discipline, give us a call.

CONSIDER INCREMENTAL COST IN BUSINESS PURCHASING DECISIONS

If you run a business, you probably make many different kinds of purchasing decisions. You might buy some items infrequently and only one at a time or, at the other extreme, there are probably some items that you buy regularly and in relatively large quantities.

If you are responsible for buying large quantities of a single item, you’ll want to become familiar with the concept of “incremental cost.” It sounds forbidding, but it’s relatively easy to understand, and it can be a powerful tool.

Example: Product X is a vital part of your business, and it’s available at the following prices:

Units of X	1,000	2,000	3,000	4,000
Total price	\$2,500	\$4,750	\$6,750	\$8,750
Avg. price	\$2.50	\$2.38	\$2.25	\$2.19

Based on average price per unit, an order of 4,000 would seem to offer the best deal, at \$2.19 per unit. But take a closer look. In this example, it costs an additional \$2,000 to order 4,000 units instead of 3,000 units, which means that each of the additional 1,000 units has an incremental cost of \$2.00. However, the incremental cost to go from 2,000 to 3,000 units is exactly the same – \$2.00 per unit, or a total of \$2,000. In this example, your incremental cost does not decline after 3,000 units, so that’s the quantity you might decide to order.

In real life, your purchasing decisions may be more complex, and you may need to consider issues like cash flow and storage costs. Even so, the concept of incremental cost can be a help. For assistance with cost decisions in your business, give us a call.

This newsletter provides business, financial, and tax information to clients and friends of our firm. This general information should not be acted upon without first determining its application to your specific situation. For further details on any article, please contact us.