



Another Tax Law Change

By John Clouden

Now that President Bush signed another tax cut into law, many people are wondering how this is going to affect me. I will attempt to explain the new tax law over the next few paragraphs (please keep in mind, this is the law as we go to print). The first thing I think we should look at is the new single and married tax brackets that are in effect for 2003.

<u>Single Tax Bracket</u>		<u>Married Tax Bracket</u>	
\$0 - \$7,000	10%	\$0 - \$14,000	10%
\$7,001 - \$28,400	15%	\$14,001 - \$56,800	15%
\$28,401 - \$68,800	25%	\$56,801 - \$114,650	25%
\$68,801 - \$143,500	28%	\$114,651 - \$174,700	28%
\$143,501 - \$311,950	33%	\$174,701 - \$311,950	33%
\$311,951+	35%	\$311,951+	35%

The new tax law has accelerated the elimination of the marriage tax penalty for those in the 10%, 15% and somewhat in the 25% tax brackets. It also expanded the 10% and 15% tax brackets and reduced the tax percentages in the four highest brackets.

The most immediate part of the new law is the boosting of the child tax credit from \$600 to \$1,000 per child. The IRS will start sending checks to parents, in amounts of up to a maximum \$400 per child, who took the child tax credit on their 2002 returns. These payments will be considered an advance on the 2003 tax returns and anyone getting a rebate should keep track of what you received, so that you can account for them on your 2003 tax returns. The \$1,000 child tax credit will only be in effect for two years before shrinking to \$700 in 2005 through 2008. In 2009, the credit will rise to \$800 before returning to \$1,000 in 2010.

Other major areas that were changed have some great effects on investors:

Reduction of the tax on stock dividends – dividends will be taxed at a 15% rate for tax payers in the four highest brackets and at 5% for those in the 10% and 15% brackets. Previously, dividends have been taxed as ordinary income at a rate for the individual's income bracket. These changes are retroactive to January 1, 2003, and are scheduled to remain in effect 6 years from that date. In 2008, the dividend tax rate will drop to zero for those in the 10% and 15% brackets for that year only.

Not all dividends paid by mutual funds will be subject to the new tax rates. These rates (*Continued on Page 3*)



H. Joseph Sgroi & Associates takes on a new look!!

Why Retirement Plans are Not Enough

By Brian Clouden

As outstanding as pensions and retirement plans are, they are usually not enough to satisfy your retirement income needs. Employees can be in for a shock when they discover at retirement that their retirement income is a fraction of their pre-retirement pay.

For example, workers earning \$50,000 a year who plan to retire with nothing but a pension and Social Security can expect their income to drop 36% the day they retire. That's right, they'll get pensions worth only 44% of pre-retirement pay and Social Security will provide another 20%.

Could you afford a 36% pay cut right now? If you can't, what makes you think you'll be able to afford such a large cut in pay at retirement?

It's even worse for higher-paid workers. If your final pay is \$150,000, pension and Social Security together will replace only 39% of your income. You'll lose a whopping 61% of your income when you retire!

If you're thinking that's not a problem for you because you don't earn anywhere near \$100,000, think again: If you and your spouse jointly earn \$50,000 today, a mere 4% annual pay increase over the next 20 years will place your income above \$100,000. So, as important as it is that you participate in your company retirement plan, the need to self finance your retirement is just as important.

Retirement is a time for enjoyment - to travel, to pursue hobbies, to financially help out your children and grandchildren, if possible. It is not a time to find out how crippling inflation can be to your life style. With your help, it is our job to make sure that your retirement is free from financial worries.

As always, if you have not been in to see us in a while, schedule in. Remember, your financial plan is at its best when we meet at least on an annual basis.

A personal letter from Joe

Dear Friend,

As I mentioned in the last newsletter, I could really feel the market turning around. Well, it has had a wonderful (thankfully) rebound since April. And remember, there still is about \$6 trillion of cash on the sidelines (at less than 1% interest) and a chunk more of this sooner or later, at these low interest rates, will likely come back into the market. Additionally, this is the YEAR before a presidential election and history has taught us the market is nearly always up.

And now we have our new tax law. John Clouden, on page one, did a terrific job of outlining the basic changes in our new tax law. So, what does this really mean to you? Well, of course lower taxes means more money in your pocket. That is more for you to either invest or spend...either one of which is great for our economy. Lower taxes creates **more** jobs...especially in the low to middle income arena. There is a **fundamental economical principle** that is rarely understood and that is this: **when you raise taxes, you choke off the economy and it causes tax revenues to actually decrease...that's right, decrease and hence increases our deficits. Reducing taxes stimulates the economy and actually** (contrary to what you may have read in the paper or heard from uninformed or self-serving individuals) **increases tax revenues.** This (lowering taxes) will hence reduce our deficits (all things being equal).



Do you have it? Lower taxes stimulate the economy which adds more jobs and actually increases tax revenues and will reduce our deficits as long as our politicians don't spend it away!

With interest rates as low as they are, depressed stock prices and now the incentive supplied by the new tax law, the market has a much better chance to recover.

My opinion is to stay invested in your current equity positions and carefully add to those positions based on your time-horizon, risk and, as I call it, your sleep level.

If you're losing sleep over your equity investments, then you shouldn't be in the market in the first place. We have wonderful alternatives for the faint of heart ☺.

Patient investors are normally rewarded for holding on to their positions over a long period of time. That has not been, generally, the case over the last 3 years.

BUT, is 3 years a time horizon? **NO!!** The minimum time horizon for equity investments should be 5 years, and for most of our clients it's 10, 15, 20 or more.

This tough market has made many lose sight of their time horizon and too many sold when they should have been staying the course or buying more.

Well, our major building expansion is underway. We are more than doubling our space to serve you better. The design is both beautiful and spectacular. Dave Sutton, our architect, has done a marvelous job. I get more excited by the day and even more so as this excitement spreads through to my staff and all of our friends and clients who come in. We should be done by the second week of August and plan an open house for Thursday, September 4th.

Congratulations to our personality plus receptionist, Jill Kaczmierczak and her husband Ron, on the birth of their third baby girl, Brooke Frances, born June 10, 2003.

The best to you and yours for a wonderful summer and, as always, if you haven't been in for your annual financial planning review, please schedule in at your earliest convenience.

All the Best,

A handwritten signature in black ink, appearing to be the name 'Joe' with a large, stylized flourish at the end.



Financial Planning

By Jeffrey Hahn - CFP®

Over the past two and a half years, I successfully completed the course and examination work required to earn the Certified Financial Planner™ professional designation (There's a mouthful). The board certification exam was extremely difficult and I am both proud and relieved to have passed. Since then, many of you have asked if this allows me to do something I could not do before. The answer is both no and yes.

It's not that I can now offer some previously unavailable investment or retirement plan, or that there are special savings programs for CFP® professionals only, because there aren't. What it does enable me to do is service you with a greatly improved knowledge base and a much higher degree of understanding.

Part of financial planning involves technical information. Today there are literally hundreds of thousand of investment products available to us. The tax code is hundreds of thousands of pages long. No single individual can know it all. On the other hand, some part of these mountains of product and tax information touches each one of you. Understanding *that* part, analyzing it, and advising you on it, is part of my function.

There is also the human side to financial planning. It's not just charts and numbers and tax consequences. It's understanding your goals, responsibilities and tolerances and the reasons why. Financial planning is a cooperative activity. It requires an interchange of ideas and information toward the attainment of an objective. That is part of my function also. In a sense I can act as your assistant chief financial officer. You of course, retain the full title.

My studies for the CFP® designation included the subjects of insurances, income taxes, investments, retirement plans and estate planning. Each one could be a career. I am using that information to be more effective for you, that's why I did it.

These have been trying times for stock market investors. It's quite possible the tough times are not all behind us. I currently study four to six market research reports per day. The predictions are all over the board. All this uncertainty emphasizes the need for even more frequent contact and teamwork.

I look forward to seeing you in the near future and thank you for the support that's been shown. The referrals are greatly appreciated. I'd like nothing more than another great client like you. *As always, if you haven't been in recently, please call and schedule in.*

(Continued from page 1) will only be applicable to the portion of a stock mutual fund's income that actually comes from stock dividends. The portion that comes from other sources would be taxed as ordinary income.

Reduction of the Capital Gains Tax – The new law also reduces the tax on capital gains from 20% to 15% for those in the four highest income tax brackets and to 5% for those in the 10% and 15% brackets. These rates apply to capital gains earned from investment transactions between May 6, 2003 and January 1, 2009. The capital gain tax will drop to zero in 2008 for those in the 10% and 15% brackets.

The new tax law also increases the exemption for the alternative minimum tax from \$35,750 to \$40,250 for singles and from \$49,000 to \$58,000 for married couples. *This is a short synopsis of a very complicated tax law change that is very broad in its scope. I hope this helps you understand the new tax law and, as always, if you have questions please feel free to give us a call. See you at your next appointment!*

Firm "Addition"

If you have been in for an appointment lately (sorry for any inconvenience) or just driven by, you may have noticed that we are in the middle of expanding the office. Here is a short historical prospective of 965 Union Road: In 1981, Joe moves in. In 1986 (and 2 lots of land later), the office was expanded from 1200 square feet to 4500 square feet. In 1997, a third house was acquired, leveled and made into a parking lot. The 2003 expansion includes one more lot and an additional 4500 square feet. With the way things are looking as we go to print, we are tentatively planning our Open House for Thursday night, September 4, 2003. Look for more details to follow!



Employee Profile

Marie Szepler, Receptionist

Marie started with H. Joseph Sgroi & Associates on July 16, 2001 (before joining our firm she was Joe's favorite employee at Rite Aid in the Southgate Plaza). She was hired to assist Jill Kazmierczak with reception and handle the enormous task of maintaining our file room. Since that time Marie has grown to become an indispensable part of our team. She helps out wherever and whenever she is needed. With Jill currently out on maternity leave, the firm would be lost without her. She's not only everyone's favorite, she's the best!! Here's a few ☺ ☺ ☺ from Joe!!!

Marie is the proud mother of three children; Ron, Joe and Tammy and grandmother of six. In her spare time she loves to watch movies and spend time with her grandchildren. She is also very excited about Tammy's October wedding.

In addition, after 40 years of smoking, Marie has recently quit. Please congratulate her next time you call or stop in.

Congratulations to Jeff Hahn

On March 21st and 22nd, 2003 Jeff successfully passed the Certified Financial Planner™ (CFP®) board exam. He completed all the requirements to use the certification CFP®, well recognized as a symbol of excellence throughout the financial planning community. He is to be complimented on successfully fulfilling the rigorous requirements leading to the Certified Financial Planner™ designation. Awesome, Jeff!!

What is a Certified Financial Planner™?

The Certified Financial Planner Board of Standards Inc. (CFP Board) is a not-for-profit professional certifying organization founded in 1985 to benefit the public by fostering professional standards in personal financial planning. In 1991, CFP® Board introduced a single comprehensive examination to test the application of the knowledge gained from the personal financial planning curriculum. Modeled on the licensing examinations given to attorneys or Certified Public Accountants (CPAs), the CFP® Certification Examination was further evidence of CFP Board's progress in ensuring the qualifications of CFP® certificants in the practice of financial planning. As a first step to CFP® certification, you must master more than 100 integrated financial planning topics. These cover major areas such as:

- **General Principles of Financial Planning**
- **Insurance Planning**
- **Employee Benefits Planning**
- **Investment Planning**
- **Income Tax Planning**
- **Retirement Planning**
- **Estate Planning**

The program is broken down into six parts and usually takes two and a half years to complete (and sometimes longer). The exam is offered three times a year and is a grueling 10 hour event; with four hours on Friday and six more on Saturday.

On This Date in History

July 1, 1862, The Tax Man Cometh - The United States Congress gave the green light to the tax-centric Revenue Act. The legislation, which was soon signed into law by President Abraham Lincoln, imposed a three-percent tax on people with incomes between \$600 to \$10,000; and also called for a five-percent levy on people with incomes reaching over \$10,000. However, the Revenue Act was perhaps more notable for creating the Bureau of Internal Revenue, a government agency which was charged with collecting the revenue generated by the new taxes (known today as the Internal Revenue Service).

Client Appreciation Night

On Thursday, October 16, 2003, H. Joseph Sgroi & Associates will be honoring you at the Creekside Banquet Facility at 2669 Union Road (at William). Dinner stations and dessert will be served.

We will also have some of our mutual fund, REIT and insurance companies present during the evening to offer information and to answer any questions you may have. The event is a small way of thanking all of our clients, new and old, for choosing us as your financial planning source. Please put this date on your calendar, we would love to see you there. Look for your invitation in August!

Have you Scheduled an Appointment Lately?

At the end of every newsletter article we try to emphasize the importance of at least scheduling one appointment per calendar year, and in some cases more (depending on how your financial circumstances change). It is a team effort where both sides have to take responsibility. We try to initiate communication numerous times throughout the year and believe that the closer the relationship we have, the better your chances are of obtaining and maintaining your investment goals. If you are not scheduling in, we do not get the opportunity to review your portfolio and address any concerns that you may have. If you haven't been in to see us in a while, schedule an appointment at your earliest convenience; we can't stress it enough!

Broccoli Summer Salad

by Jean McCormick

5 Cups Raw Broccoli with stems cut off

1/4 Cup Red Onion, chopped

1/2 Cup Raisins

1/2 Cup Sunflower Seeds

10 Strips of Bacon

Dressing

1 Cup Mayonnaise

2 Tbsp Cider Vinegar

2 Tbsp Sugar

1. Mix together the dressing ingredients.
2. Pour dressing over broccoli, onions, raisins & let sit overnight in the fridge
3. Cook bacon very well, crumble or chop into pieces
4. Mix bacon & sunflower seeds together & add to mixture. Serve and Enjoy!!