Arizona Investment Alliance Financial Group, Inc.

The
Quarterly Rapport

4th Quarter 2011

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From the Desk of . . . .

Chuck Testino

There's something about the last quarter of the year that says it's time to get down to business. Summer vacations are over and life is running in routine with a focus on accomplishing business. This quarter our newsletter has taken on the tone of preparation for what lies ahead. In Market Moves we focus on the fact that with every action, there is a reaction an "ebb and flow." While the markets have gone down, they will rebound and we need to stay focused on our goals. Every year at this time we need to consider positioning ourselves for tax time. The upcoming changes to cost basis reporting are featured in the article, Cost Basis and Your Taxes. Lastly, we have tried to lighten the mood with a little quiz entitled, Is It Tax Deductible? We hope you not only enjoy but find some tips to help you come April 15th.

Cost Basis and Your Taxes

Beginning next year, mutual fund companies will be required to report to the IRS detailed cost basis information on shares that have been redeemed. Prior to this new regulation, companies reported the proceeds on transactions to the IRS, but shareholders and their tax advisors were responsible for calculating and reporting cost basis and capital gains or losses on their tax returns. For shares purchased on or after January 1, 2012, companies will track cost basis information for redeemed shares, and will begin reporting this information on Form 1099-B starting in early 2013.

The cost basis is the original cost paid for the shares of a stock or mutual fund shares when they were initially purchased. When these shares are sold, you may have a gain or a loss on that transaction, and you may have to pay taxes on any gains earned from the transaction. The capital gain or loss equals the amount realized on the sale minus the cost basis of the shares sold. This amount must be reported to the IRS on your tax returns.

There is a number of different cost basis reporting methods available. Many companies will default to the Average Cost tax reporting method that averages the cost for all shares in the account to determine the capital gain or loss on a specific transaction. However, you and your tax advisor may determine that it would be in your best interest to choose another method like the Specific Share Identification method, which requires you to identify the shares you want to sell at the time of the transaction and use the adjusted basis of those shares to determine your gain or loss. You can request a cost basis reporting method other than the Average Cost method at the time that you place your sell order or you can place a standing order with the company to use a specific method on every transaction.

You and your tax advisor will continue to report cost basis on both shares purchased before January 1, 2012 and on those purchased after January 1, 2012. For those shares both purchased and sold after January 1, 2012, the company holding your shares will report cost basis to the IRS and will send you a 1099-B for tax filing. For those shares held before January 1, 2012, reporting of cost basis will continue to be completed by you and your tax advisor.

For further information consulting shareholder services and your tax advisor are the two most direct sources of information regarding the cost basis tax reporting method that would be of most benefit to you.

Market Moves

The financial markets are experiencing volatility. Due to issues in Europe rather than here at home. What is occurring in the financial markets is a part of the natural cycle of expansion and contraction of the global economy. We can expect that the "ebb and flow" of the markets will happen; what we cannot predict is when, how large and for how long. History has shown that dramatic sell-offs in the market tend to reverse course just as dramatically. For example:

- *After losing 16 percent between April 23, 2010, and July 2, 2010, the market bounced back by 23%!*
- *After the U.S. stock market hit "bottom" on March 9, 2009, the S&P 500 rebounded by over 26% the next month and by mid-August 2011, the market had rebounded by a staggering 66%!*

Although market volatility is unnerving, rather than reacting emotionally, a more objective course of action is to review your goals and to remain consistent with your strategy or even to treat the situation as a buying opportunity. Year-end is also a great time for an annual review to discuss goals for the coming year and to begin planning for taxes. If you will be retiring within the next five years or, for other reasons, your risk tolerance has changed, let's discuss how we can best respond to your changing needs.

WE HAVE MOVED!

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Is It Tax Deductible? *The Quiz.*

The economy is still on the mend. All the more reason to keep more money in your pocket by finding every legitimate tax deduction you can. So here are 10 frequently asked tax questions. See if you can separate the legitimate deductions from the ones you only wish you could claim. The answers are below. We hope this quiz gives you some ideas for lowering your taxes throughout the year. Good luck.

1. You are volunteering your services as a carpenter to a non-profit community project. Nice tax deduction, right?

2. You accept a new job that requires you to move. You can write off your moving costs even though you don't itemize?

3. Alimony is tax deductible?

4. Court-ordered child care support payments are deductible, too.

5. Your children attend private elementary schools and private high schools. Is their tuition tax-deductible?

6. Your father made a payment on your college loan. Who gets to claim the student-loan interest tax deduction?

7. You can deduct the taxes you pay to your state on your federal income tax return even if you don't itemize your deductions.

8. You spent a few weekends in Vegas last year. One weekend, you won money. The other, your wallet came back a little worse for wear. Luckily gambling losses are tax deductible.

9. You have made a large number of charitable donations in one year. Sky's the limit on doing good and cutting down taxable income, right?

10. When you donate your old car to charity, what's the write-off?

a) Kelly's Blue Book

b) Price at which the donated car is sold by the charity.

Is It Tax Deductible? *The Answers.*

1. There are no federal tax deductions for the value of your time or labor donated to a charity. But you can deduct the cost of any materials you donate and 14 cents per mile driven in connection with your charitable work.

2. Job-related moving expenses are an above-line deduction; you can deduct them even if you take the standard deduction on your tax return. And, if you itemize your deductions, you can add your job-hunting costs, such as career counseling, resume printing and travel expenses to job interviews, to your miscellaneous deductions. But you can write off only those miscellaneous costs that exceed 2% of your AGI.

3. You can take a tax deduction for making alimony payments, even if you don't itemize your deductions.

4. Unlike alimony, the payer doesn't get a deduction and the recipient doesn't pay income tax on the money.

5. You can't deduct the cost of tuition. You can contribute up to $2,000 per year to a Coverdell Educational Savings Accounts and use the tax-free distributions to pay for qualified education expenses including tuition, books, supplies, uniforms.

6. The IRS says that if Mom or Dad makes a payment on your student loan debt, it's a gift that gives twice. You, the child, can qualify to deduct up to $2,500 of student loan interest paid, as long as your parents don't claim you as a dependent.

7. If you itemize your deductions, you can deduct either your state income taxes or your state sales taxes. In most cases, your state income tax will give you the bigger deduction, but for those people who live in a state without an income tax, deducting sales taxes including on big-ticket purchase like cars or boat can really add up.

8. You can deduct losses but only to the extent of the gambling winnings you report as taxable income. And, while the law calls for all gamblers to report 100% of their winnings, only those who itemize deductions can deduct their losses. That means the 75% or so of taxpayers who claim the standard deduction can't deduct their gambling losses. One bright spot: Although gambling losses are considered miscellaneous expenses to be deducted on Schedule A of the Form 1040, this write off is not restricted by the rule that allows miscellaneous expenses only to the extent that they total more than 2% of your adjusted gross income.

9. In the eyes of the IRS, it is possible to be too generous. Generally, your deduction for donations to charity in one year cannot exceed 50% of your adjusted gross income for that year (30% in the case of donations of appreciated assets and contributions to private foundations). But any excess can be carried over for the following five tax years and applied to reduce income then.

10. In most cases, your deduction is limited to the price paid for the vehicle when it is sold by the charity to raise cash. In general, no deduction is allowed unless you receive an acknowledgment from the charity within 30 days after the date the vehicle is sold.