



# OUTLOOK

JANUARY 2011

## Are You Ready for Tax Season?

**A**re you a tax procrastinator, who races for the post office on April 15? Or are you an early bird, who files as soon as possible in anticipation of a refund? No matter what your tax style is, it's essential to document your income, expenses and potential deductions for the IRS. To that end, keep your eyes open for the following tax forms,<sup>1</sup> which should arrive in your mailbox shortly:

- **W-2 Forms** — Each of your employers will provide a W-2 form, which shows how much you were paid during the previous year; the amount of income, Social Security and Medicare tax withheld; and any contributions made to benefit programs, such as retirement plans and health and dependent care reimbursement plans.



- **1099 Forms** — There are many different types of 1099 forms. In general, these are used to report various types of taxable income, such as interest, dividends and self-employment income. Here are a few examples:

**1099-MISC** — If you are self-employed, everyone who paid more than \$600 for your services during the year is required to provide a 1099-MISC.

**1099-INT** — If you earned \$10 or more in interest on a bank account or certificate of deposit, you should receive one of these from the financial institution that paid the interest.

**1099-DIV** — If you have earnings from individual stocks or mutual funds, they will be reported on form 1099-DIV, which is sent by a brokerage or fund group.

**1099-SSA** — The Social Security Administration provides this form, which shows how much Social Security income was received during the previous year.

- **1098 Forms** — Financial institutions, governmental units and cooperative housing corporations are responsible for providing 1098 forms that show any interest or home mortgage-related expenses paid during the year. There are various types of 1098 forms, including 1098-E, which shows student loan interest.
- **5498 Forms** — The trustee or issuer of an individual retirement arrangement should send form 5498, which shows any contributions made to individual retirement accounts. Other types of form 5498 report contributions to health savings accounts and Coverdell education savings accounts.
- **Schedule K-1** — If you received money from an estate, trust, partnership or S-corporation during the year, the fiduciary will send the appropriate IRS forms so that you may complete Schedule K-1.



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In addition to collecting forms from third parties, you'll need to document any charitable contributions, job-related expenses, gambling losses or other expenses that may be deducted.<sup>2</sup> Once you have collected all of the documents required to report your income and expenses, you can file taxes.

### Create a tax file

It is a good idea to start a tax file. Every time you receive a tax document, put it in the file. That way you know what you have and where it is! If you don't receive forms

that you need, it's important to contact the appropriate institution and request a copy. Alternatively, you can request that the IRS fax or e-mail copies of all tax documents they have received for you, to-date — simply complete form 4506-T,<sup>3</sup> which can be found on the IRS Web site, [www.irs.gov](http://www.irs.gov). (IRS.gov is also a good source of information for all the documents listed in this article and for overall tax-filing information.) ■

<sup>1</sup>Bankrate.com, *Your tax documents are in the mail*

<sup>2</sup>About.com, *Tax Planning: U.S., Gathering Tax Documents*

<sup>3</sup>About.com, *Tax Planning: U.S., What if You Don't Have All Your Documents?*

## It's Never Too Early to Plan for Next Year

Why not start on next year's tax planning? Here are three areas to review for 2011:

1. **Complete an investment review.** It's important to have a portfolio check-up at least once a year. It should include an assessment of opportunities to reduce taxes.
2. **Adjust your payroll withholding.** Estimate your income for 2011 and set your withholding so that your tax payments match your estimated tax liability.
3. **Understand cost-basis changes.** The rules that guide cost-basis calculations are changing. ■

## It's Your Funeral: Should You Plan It?



Susan Boyle, the Scottish singer discovered on *Britain's Got Talent*, wants to leave her mourners laughing by having "Nellie the Elephant" played at her funeral.<sup>1</sup> Some may

applaud the sentiment; others may disapprove. Regardless, Boyle will have it her way, which is one of the primary reasons that people choose to pre-plan their funerals. If you've ever considered planning your funeral, here are a few reasons it may be a good idea:

1. **Have it your way.** When you plan the funeral, you know what will happen. You decide whether there will be a viewing, what will happen to your remains and how your life will be celebrated.
2. **Save some money.** Grieving family members rarely negotiate well. Planning ahead gives you a chance to negotiate pricing. You may even choose to pay for services ahead of time.
3. **Gain peace of mind.** Knowing that you have spared those who love you the anxiety and stress of planning a funeral provides many people with great peace of mind.

If you choose to plan your funeral, research your options. Funeral preferences are changing and alternatives to funeral home services are becoming popular, especially among Baby Boomers. You can learn more by reviewing National Public Radio's series, "The End of Life: Exploring Death in America," at [www.npr.org](http://www.npr.org). ■

<sup>1</sup>IrishCentral.com, *Susan Boyle plans to make them smile at her funeral*

# Recessions, Recoveries and Stock Market Performance

Historically, the American economy has grown in fits and starts. Periods of expansion are followed by periods of contraction, called recessions. Recessions are characterized by slowing economic growth, weaker corporate profits and higher unemployment. Expansions are accompanied by stronger economic growth, rising corporate profits and lower unemployment.

## If the recession is over, why is employment still weak?

The most recent recession, which began in December 2007, ended in June 2010.<sup>1</sup> In December 2010, *The Economist* reported that profit margins of American companies have already reached levels that took much longer to attain in prior economic expansions.<sup>2</sup> Regardless, many Americans question whether the recession has ended because employment gains have not been robust. Employment is a lagging economic indicator, which means it improves only after recovery has begun. A recent survey by Manpower International, a temporary employment firm, found that more American employers expect to add workers during the first quarter of 2011. In fact, employers were more optimistic about hiring than they have been since the last quarter of 2008.<sup>3</sup>



## How will the stock market behave?

Although the severity of the market's swings during the recession may have been unnerving, the basic principles of investing have not changed. It is still important for investors to:

- **Allocate assets**  
A well-chosen asset allocation can help ensure that investors don't take on too much risk.
- **Diversify well**  
Diversification can help reduce overall fluctuation in the value of a portfolio, even if it does not protect against loss in a down market.
- **Buy low**  
By making ongoing contributions to investment accounts, investors buy more shares when prices are low and fewer shares when prices are high — a strategy that produces a lower average price per share. ■

<sup>1</sup>National Bureau of Economic Research, *U.S. Business Cycle Expansions and Contractions*

<sup>2</sup>The Economist, *Gimme a "V" Companies are making profits faster than they are hiring workers*

<sup>3</sup>The Economist, *Employment Outlook*, December 11-17, 2010

	Date	Dow Jones Industrial Index
Pre-recession high	October 2007	Above 14,000
Recession begins	December 2007	About 13,300
Recession low	March 2009	About 6,500
Expansion begins	June 2010	About 10,000
Expansion-to-date	December 2010	Above 11,000

## Financial Literacy: Capital Gain

When an asset — a stock, bond, house or something else — has gained value and is worth more than you originally paid for it, then you have a capital gain. As long as you do not sell the asset, the gain is unrealized. If you sell the asset, you realize the gain and may owe capital gains tax. ■



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