

# Charting your secure financial future Money Matters



Financial news, information and advice for the savvy Mariner

from Transport Workers Tax Service, LLC and CFS/Retirement & Tax Solutions

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## Value of Using a Merchant Mariner Tax Specialist

COLLEEN H. EMERY, PRINCIPAL

### INDUSTRY KNOWLEDGE & EXPERIENCE

The maritime industry is a “niche” market as it pertains to tax preparation and advisement. Obviously, conditions related to your work are somewhat unique: job search expenses, travel, extended periods away from home, significant ongoing training & licensing requirements, etc.

Hence, selecting a tax preparer is a decision that you should not make hastily. Today’s economic climate only serves to underscore the prudence of attaining the highest possible value for expenditures on these services. Use of a competent, industry-specific tax professional is a good

choice for most active mariners.

For any consumer looking for a tax preparer, knowledge, competency, and ethics are necessarily core characteristics. But as mariners, finding a preparer who has expertise specific to your industry should be paramount. In fact, we would argue that it needs to be taken a step further and the maritime industry should be a mainstay of your preparer’s practice. The maritime industry is unique; many of your Federal and State tax liabilities and deductions are also unique; and tax law consistently changes and evolves.

### MARINER SPECIFIC TAX ISSUES

Here is a partial list of past and ongoing issues that we’ve worked on or heard about through industry colleagues. We share these to illustrate the complexities of your business. Maybe some will sound familiar:

- State residency issues / Multiple state returns
- DOT and non-DOT expenses
- Travel and job search expenses
- Incidental expenses / Per diem issues
- Education expenses / License renewal requirements
- Employer reimbursements
- So called “Mariners’ deductions”
- Voyage payoff issues
- California Franchise Tax Board issues
- State unemployment issues
- Alternative Minimum Tax
- Timing of Vacation Pay

### YOUR TAX PROFESSIONAL – EFFECTIVE AND PRUDENT

During these times of economic uncertainty and with some companies laying up ships, it may be the first time you need to rely on unemployment benefits. By collecting unemployment benefits from various states you need to ask yourself what are the tax implications? If you reside in Florida will your tax preparer know the tax laws surrounding unemployment that was drawn from Louisiana, New York or California? Make sure your preparer is well aware of the various states’ filing requirements.

If you prepare your own return or have a good relationship with a local accountant who is not versed in mariner tax issues, you may consider having a specialist prepare only that portion of your return that relates to mariner deductions (Schedule A). Significant savings can be realized by taking advantage of these unique deductions. These savings are magnified if you reside in a state that recognizes itemized deductions.

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### HONESTY & INTEGRITY

Some of the mariner specific tax issues have gained a measure of notoriety. It is the obligation of your tax preparer to insure they are fully versed in the marine industry and understand current IRS code and statutes that apply to your specific employment. It is incumbent upon the preparer to be versed in the *lawful and allowable* deductions that you are entitled to. Yet your preparer must clearly communicate what indeed are legitimate deductions and urge you to take them.

This next part is not unique to your industry - it applies to any consumer of tax preparation services and advice: your preparer needs and has an obligation to be honest and ethical. It is of course incumbent on the tax professional to prepare your return so that you pay only what you rightfully owe, but also that you DO pay that amount. Taxpayers should not be put at undue risk and a competent and honest tax professional will help assure your tax return will stand up to IRS review.

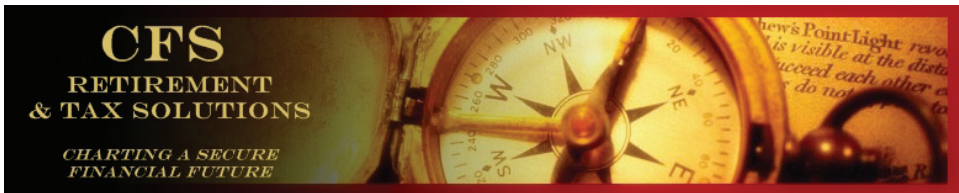
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## INVESTING - EMOTIONS, HISTORY, PERSPECTIVE, NEXT STEPS

These are extraordinary times for investors. The global economy and world markets are experiencing one of the most challenging periods in decades. Many investors have been faced with significant declines in the value of their portfolios – emotions are running high. Whether times are good or bad, emotions can drive investors to behave in ways that are potentially detrimental to their long-term goals. Euphoric investors often buy high and frightened investors tend to sell low. Staring at the waves (market volatility) can make you sea-sick but concentrating on the horizon (your long-term goals) can make the voyage more productive and successful.

2008 was one of the most trying periods on record for investors. However, the recent turmoil wasn't the first time the world's financial system seemed to be in jeopardy. As an example, in the early 70's we were faced with a multitude of issues: the Middle East wars, the OPEC oil embargo, an energy crisis and gasoline shortages, the Vietnam War, the Communist Cold War, nuclear proliferation, stagflation (high inflation and declining economic growth), wage and price controls, import surcharges, devaluation of the US dollar and the Watergate crisis. It seemed the country and the world would come apart. The Dow Jones Industrial Average declined by 45.1% from January 1, 1973 to December 6, 1974.<sup>1</sup> However, 12 months later the markets had recovered most of these losses. (See the attached chart - 1974 period. See disclaimer<sup>2</sup>.)

Markets have demonstrated remarkable strength and resiliency over the long-term and history shows how rapidly the markets can recover after hitting bottom. (See the attached chart.) Almost every bull market started from

a period of economic weakness, declining corporate profits and rising unemployment. That is why we believe it is important to stay invested and participate in the eventual recovery. You simply do not make money by selling at the low point; in fact, you risk permanently losing a large amount of money by doing so.

Bear market lows and recoveries			
S&P 500 date of low	3 months after low	6 months after low	12 months after low
6/1/1932	96.61%	58.97%	137.60%
7/8/1932	56.13	69.83	189.59
2/27/1933	77.33	109.76	105.43
3/14/1935	28.25	49.15	88.37
4/28/1942	18.73	29.87	64.26
6/13/1949	18.17	27.77	52.74
9/14/1953	10.53	21.07	45.46
10/22/1957	6.91	12.03	36.30
6/26/1962	8.27	22.74	37.42
10/7/1966	13.38	24.28	37.34
5/26/1970	18.41	25.26	48.96
10/3/1974	15.08	34.15	44.43
8/12/1982	38.14	47.93	66.11
12/4/1987	20.44	21.21	25.92
10/11/1990	7.73	30.05	33.55
8/31/1998	22.02	30.27	39.81
10/9/2002	19.98	12.53	36.15
<b>Median</b>	<b>18.73%</b>	<b>29.87%</b>	<b>45.46%</b>

Dates for market lows are based on a decline of at least 15% in Standard & Poor's 500 Composite Index. A new decline is considered to have begun after the market recovered 100% of the value lost in the previous decline. (See disclaimer 4).

Traumatic and costly in the short-term, financial failures have served to expose weaknesses and excesses in the system. New regulations will emerge to prevent this type of disaster from occurring again and the result will be a stronger global financial system.

Try to put your emotions aside, put things in perspective and place events in the appropriate historical context. Difficult periods force

companies and individuals to adapt and innovate. Adaptation is not without challenges, but in the long-run it makes us stronger and better. Although we don't know when, it is our conviction that markets will recover and investors who take a long-term approach will prosper. (See disclaimer<sup>3</sup>.)

<sup>1</sup> About.com: Mutual Funds - <http://mutualfunds.about.com/cs/history/p/crash7.htm> (Investors can not directly invest in indices.)

<sup>2</sup> Disclaimer: Past performance does not guarantee future results. Investing involves risk / may lose value / not FDIC insured. Historical references do not assume that any prior market behavior will be duplicated.

<sup>3</sup> Disclaimer: The opinions expressed are those of Mark E. Engberg, CFP® and are not to be construed as specific individual investment, tax or legal advice.

<sup>4</sup> American Funds®, Capital Research and Management, Insights - Winter 2009. Investors can not invest directly in indices. Past performance does not guarantee future results.



(left to right: Stephanie Brown, MBA, Bruce W. Robson, CFP®, Angie Haray, and Mark E. Engberg, CFP®.)

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To make this newsletter as helpful as possible, we welcome your input. Please call us toll-free or e-mail comments, suggestions or questions to us. Answers to questions of general interest may be published.

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## What to do now?

Make sure you have an emergency reserve cash savings account, at least 6 to 12 months of current monthly expenses. Avoid having to access long-term investments for unexpected costs.

Review your investment allocation. In most cases your retirement plan sponsor will offer on-line asset allocation tools to help you assess your current allocation and evaluate how much risk (market volatility) you are exposed to. In addition, most mutual fund families offer professionally managed asset allocation funds that are broadly diversified between stocks / bonds / cash.

Continue to invest. If you are still working, contribute to your employer sponsored plan or fund an IRA. If you have been sitting on the sidelines, consider adding to quality investments at what many financial professionals consider very attractive valuations.

Seek help. If you feel overwhelmed by all of this, seek out a competent and experienced financial planner. One source might be the Certified Financial Planners Board of Standards, Inc. – [www.cfp.net](http://www.cfp.net) There are strategies available that can help investors ride out additional downturns and position them to capture future gains. Sometimes you just need a second opinion or someone to talk to that can help you weigh your options.

At CFS we are committed to honesty, integrity and the investor's long-term success. If we can be of help, don't hesitate to contact us.

While we are reorganizing our investment portfolios, we might also reorganize various parts of our life so this economic downturn could actually turn into a positive:

- Create a solid foundation for your financial future by reducing debt and improving savings. If needed, seek out a competent credit counselor.
  - Improve health and fitness by making lasting lifestyle changes. Not only will you feel better, but this could also reduce downtime and healthcare costs.
  - Replace lost income due to the bear market – rethink how you feel about work. Work can have positive elements such as socialization and feelings of accomplishment.
  - Reduce stress and set aside time for yourself.
  - Stay engaged, continue to learn and seek opportunities that may add to your long-term success. Such endeavors can be rewarding and add to the quality of your life.
  - Set measurable goals and a timeline to accomplish these goals.
- Take an objective look at where you are financially, emotionally and physically and create a plan to rebalance your life along with your portfolio.

## Attention Early Retirees

### – Bear Market Strategies - IRS Section 72(t)

The IRS permits early retirees to access their retirement funds prior to age 59 1/2 without penalty as long as they take distributions under a plan of substantially equal periodic payments [IRC 72(t)(2)(A)(iv)]. Once started, these payments must continue for the longer of 5 years or their attainment of age 59 1/2. Therefore, once a 72t distribution plan is started, these become required mandatory distributions subject to the early withdrawal penalties and interest penalties if ceased.

For an individual who begins distributions using either the fixed amortization or annuitization method, the IRS allows a one time switch to the life expectancy (RMD) method. Once the change is made, the RMD method must be followed in all subsequent years. The payment under the RMD method is normally the lowest payout calculation so someone making this change should expect a reduction in income. The annual RMD payment is recalculated each year based on the account balance and the appropriate mortality factor – in general this should result in a somewhat higher payment year over year. The one time reduction to the RMD method does not reset the minimum five year period for IRS 72(t) distributions.

Always seek competent tax, legal or financial planning advice related to this or any other important financial issues. Reference: IRS Revenue Rule 2002-62; 2002-42 IRB 1 (3 Oct 2002)

### - Historically Low Interest Rates Create Generous Lump Sum Benefits for 2009

For those contemplating retirement in 2009, the IRS Section 415 limits on retirement benefits have increased by more than 5% as compared to 2008 figures. Remember, there are multiple factors to consider when planning retirement from the industry - you actuarial age, additional pension credits and earned income, financial goals and objectives, and a myriad of personal factors. We would be happy to help you sort through these important and often irrevocable decisions. Please feel free to contact us.

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Every year at this time you hear about someone who received astronomical refunds. Is this really such a good thing? Recognize they may have had excessive withholdings, essentially giving the government an interest free loan for many months. A full service preparer would help assure you are not over or under withholding and help you keep your money working for you.

Simply selecting a preparer based on who figures out the lowest tax is a short-sighted and perhaps a risky strategy. There should be no bidding war to win tax clients. You are only entitled to legitimate deductions and anyone who promises a significantly lower tax obligation should be viewed with caution. *If it sounds too good to be true, it normally is.*

Conversely, you want a preparer who will take an aggressive stance on your behalf in the appropriate situation. But remember, you are ultimately responsible for the return. In the case of an audit, you (the tax payer) must have proof of expenses and substantiation as may be required by the IRS. Your preparer is not obligated to audit every tax return item. There has to be a level of trust between the tax preparer and the tax payer. The tax preparer must be provided accurate information and have assurance the tax payer can back it up. If you want to be aggressive, you still need a preparer who will find a legal basis for your return.

## ESTABLISH THE GROUND RULES

Once you've selected a preparer, you should set some ground rules.

- First, tell your preparer you want to be called if there are any questions about your records or your situation. You don't want them to jump to conclusions without checking with you first. Since the IRS is encouraging preparers to e-file returns make sure you review a scanned copy of your return prior to authorizing your preparer to e-file. (Note: some mariner returns can not be e-filed)
- Second, have your preparer let you know in writing what judgment calls were made one way or the other.
- Finally, make sure your preparer signed the return. This does mean something to the IRS: that professional work was done. That's a message that you want to get across.

## RUN, DON'T WALK, IF YOUR PREPARER

- Is under scrutiny by the IRS.
- Is not aware of your unique industry.
- Charges a fee based on the size of your refund – this is illegal
- Offers to create documents to support false or exaggerated deductions.

We pride ourselves in building professional relationships with you. To our current clients we say, "Thank You." To our future clients be assured we will do everything we can to gain your confidence and provide the level of service you deserve. To all of you, we extend the offer to assist you in preparing your taxes as specialists that are knowledgeable and versed merchant mariner tax professionals.

- Early Retiree Strategies
  - Next Steps and Opportunities
  - Investing – Emotions, History and Perspective
- CFS**
- Avoid Unlawful Tax Strategies
  - stands it complexity
  - Your industry is unique - you need a preparer who under
  - Choosing a knowledgeable and competent tax preparer
- TWTS**

## NEWSLETTER CONTENT

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Helping your secure financial future