

## Networking to Increase Business Relations

Most of us have attended a number of professional, social, and business events. But do you do more than hand out your business card and collect the ones handed to you? Make optimal use of these social power meetings by following these helpful tips.

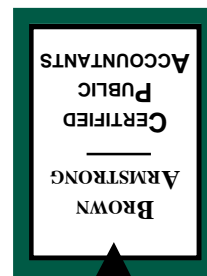
Identify the people or person you actually would like to meet and talk with before the event. This helps you focus on a purpose and avoid the fruitless card collecting.

Don't underestimate the power of small talk. Small talk can lead to bigger things. Don't dismiss gatherings because you rarely get past the chitchat. Take the opportunity to lead small talk into more meaningful and valuable exchanges.

Go in with an agenda. Ask yourself what you really want to get out of going to these networking sessions. And then ask yourself what you can give to someone else.

Conversely, when someone asks you for your input, be aware of what you can provide them. Introduce yourself in a memorable way. The first thing you tell someone about yourself should capture their attention. For example, if you're a computer programmer, introduce yourself as "the person who makes computers work for people".

Reconnect after the meeting. Don't just exchange business cards. Set a specific time and day to meet again, either in person or with a phone call. Do it within the first week of the event. This is a sure way to say you were sincere in making their acquaintance.



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FINANCIAL NOTES

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### Lower Capital Gains Rates Take Effect on January 1, 2001

If you own capital assets such as corporate stock or shares in mutual funds, you may already be aware that a new — and reduced — set of long-term capital gains tax rates will be applicable to some sales transactions beginning January 1, 2001. There is a "catch," however. These new rates will apply only to gains realized on sales of capital assets that have been owned for more than five years.

For someone in the 15% tax bracket for ordinary income, the capital gains tax rate is now 10% on most types of assets held for more than one year. Starting on January 1, 2001, that 10% rate will drop to 8% on assets held for more than five years. Let's assume that you purchased shares in a corporation back in 1994 at a cost of \$1,000 and those shares are worth \$3,000 on January 15, 2001. If you sell the shares on that date, your long-term capital gain will be \$2,000. For your 2001 tax year, then, you will pay a maximum rate of 8% on that gain (or \$160) rather than 10% (or \$200), as long as you are in the 15% bracket.



#### Contrasting Rules

Individuals who fall into the 28% tax bracket or above will also see a drop in their capital gains rates, but the rules for them are a bit different. For these taxpayers, the 20% rate that applies to long-term capital gains is scheduled to drop to 18% for assets held for more than five years — but the holding period for these higher bracket taxpayers has to begin after the year 2000. Thus, while taxpayers in the 15% ordinary income-tax bracket can take advantage of the new lower 8% rate as of January 1, 2001, taxpayers in the 28% (or above) bracket may have to wait until tax year 2006 to benefit from the 18% capital gains rate.

We will assume that you are in the 28% ordinary income bracket. On January 25, 2001, you purchase shares in BigCorp. If you sell those shares on February 1, 2006, you will be able to take advantage of the 18% capital gains rate as you will have met the five-year holding

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By Paul Merriman  
Mutual Funds Columnist  
Founder and president of Merriman Capital Management

**Question:** *A friend and I were discussing the issue of buying mutual fund shares before or after a capital-gains distribution. Am I right that if you buy a fund soon before a distribution, the share price is reduced by the amount of gain and all you end up with is a tax liability?*

You've got it exactly right. Mutual funds are required to distribute their capital gains to shareholders every year. The tax effect is the same whether you have gains reinvested (as most shareholders do) or take them in cash. The gain is added to your taxable income, and you pay whatever taxes are due.

This creates a trap for anybody who invests in a fund right before a distribution. Effectively, the fund will refund part of your money, and the government will tax you for the refund.

Here's an example to show how it works. Let's say a mutual fund sells some stocks at a profit throughout the calendar year, planning to distribute them to shareholders on Dec. 30.

Now imagine that you, not knowing about these capital gains, invest \$20,000 in the fund during Christmas week. On December 30, the fund distributes its capital gains, paying you \$1,000.

Following the instructions you gave when you opened the account, the fund reinvests the money for you. Your account value is unchanged. Your fund's shares have gone down in price, but you have more of them, so what do you care? It all looks like a mere bookkeeping transaction to you.

You'll probably start to care a lot in January, when you get a Form 1099, DIV from the fund showing a \$1,000 capital gain on which you must pay taxes. It's true that the \$1,000 was just a return of your own money. But that argument won't do you any good against the Internal Revenue Service. As unfair as it seems, the law says you must pay the taxes.

If you had known about this distribution, you could have waited a few days to buy the fund and avoid that tax trap. You'd buy at the new, lower price and wind up with more shares.

Therefore, whenever you're investing a significant amount of money in a taxable account, it's an excellent idea to call the fund company and find out if any capital-gains distributions are planned for the near future. If there are, delay your purchase.

Capital-gains distributions are most often paid late in December. But a fund can declare a distribution at any time, so its best to investigate before you invest.

### ( Lower Capital Gains Rates, Cont.)

period requirement for the Big Corp stock. But, you may ask, what happens if you bought shares of a company in mid-1998 and sell them late in 2003, after having held them for more than five years? Will the beneficial 18% rate be available to you? No, it will not. However, there is a way to capture the 18% rate treatment for assets purchased prior to 2001.

### A Special Election

You may make an election to "restart" your holding period on any qualifying capital asset you own as of the beginning of the 2001 tax year. If you should make the election, however, there is a price to be paid — up front. You must include any unrealized appreciation on the asset (in general, any increase in the value of the asset since you first purchased it) in your income for 2001 and pay tax on it at the current rate. Then, if you hold the asset at least until the five-year holding period has been met in 2006, any additional gain you realize on the sale will qualify for taxation at the 18% rate. The IRS is expected to release further details about the special election.

Note that, if you own a capital asset that has not appreciated much (or at all) since you purchased it, you might want to consider making the election for 2001 — assuming you think the asset will appreciate in the future and you plan to hold onto it until the five-year holding period has been satisfied. Your up-front cost of making the election is likely to be minimal, and your future tax savings could be substantial.

### In for the Long Term?

If you are a long-term investor, the new lower capital gains tax rates offer planning opportunities worth looking into. A number of strategies are available that may help you take advantage of this new tax regime. Why don't you call us and we can discuss various approaches that would be suitable for your financial and tax situation.

### Company picnic enjoyed by all



On October 21, the employees of Brown Armstrong gathered at Pioneer Village for the annual company picnic. Children of employees had a great time riding the ponies (provided by Countryside Pony Ranch), carving pumpkins, and using the energy gained from mass consumption of cotton candy

to participate in a 3 legged race. Delicious food was provided by the BBQ Factory and lunch was followed by a pie eating contest and more games.

### Promoted to Manager



We are proud to announce that **Joan Anderson** has been promoted to Manager. Joan has been with Brown Armstrong for 5 years. She has focused her expertise on the areas of financial statement and compliance auditing. Her experience focuses on SEC accounting and reporting, Non-profit and governmental financial audits, and the oil and gas industry, including audits of joint interest operations and audits in accordance with GAAP. Joan will be a valuable member of the management team and we congratulate her on her success.

### Brown Armstrong Holds Second AgStar Software Training Seminar

On October 18, Brown Armstrong hosted its second AgStar Seminar for our agriculture and farming clients. Senior Accountant Melinda McDaniels and Bookkeeper Darlene Phillips conducted the 4 class modules, which were attended by 19 AgStar users. AgStar software is a specialized accounting package for agri-business and is widely used in the Kern county and surrounding areas by many agriculture businesses.

Please contact us at (661) 324-4971 if you would be interested in attending our future AgStar seminars or would like more information on the AgStar software.



Brown Armstrong's certified AgStar representatives Melinda McDaniels and Darlene Phillips prepare for the seminar.

### The Firm Celebrates Burt Armstrong's 60th Birthday



The Firm celebrated Burton H. Armstrong's 60th Birthday on October 25th at the Wool Grower's Restaurant. A fellow classmate from Burt's high school, Bakersfield High, dropped by to sing him a song.



(Sherry Fortino of the Bakersfield Melodrama plays the role of a BHS Classmate)

Congratulations Burt, it only get's better from here.