BATES
Financial Advisors, Inc.
8437 Northern Avenue • Rockford, Illinois 61107
RETURN SERVICE REQUESTED

PRSRT STD
U.S. POSTAGE
PAID
ROCKFORD, IL
PERMIT NO. 885

George E. Bates
George D. Bates
Mark Jones
(815) 332-4020
(800) 223-2137

8437 Northern Avenue
Rockford, IL 61107

Beckie Ethell

(217) 525-8833

901 South Second Street
Springfield, IL 62704

This newsletter is a publication of Bates Financial Advisors, Inc. This newsletter is not an offer to buy or sell securities or insurance. Any results shown here are not guaranteed and may, in the future, be better or worse than indicated. Many mutual funds or other investments include sales charges or have operating expenses. For more information on such charges, consult a prospectus. Information and sources referred to are believed to be accurate. If you have any questions or comments, contact Bates Financial Advisors, Inc., 8437 Northern Avenue, Rockford, IL 61107. (815) 332-4020 or (800) 223-2137.

2013

Mark Your Calendar For CLIENT APPRECIATION DAY!

www.batesfinancialgroup.com

Our website is now up and running!

We hope you'll take a few moments to visit us at www.batesfinancialgroup.com

Winter 2013

BATES Briefings

from George's Desk

Congratulations to

Gerald and Juanita Wallace

on their 70th

Wedding Anniversary,

February 3, 2013.

Taxes…as of this writing we now have some new tax laws. Though things may change again in the next two months, those families earning $450,000 and above are facing an increase in their taxes.

The President ran a campaign emphasizing that high income people should pay "a little bit more in taxes; it is only fair." I would like to ask his definition of "a little bit." As I calculate it, those taxpayers will pay 24% higher taxes on their "earned income" (that is what they earn from working), rental income, and any other form of investment income. They will pay 58.7% more tax on dividends and capital gains.

If that does not sound like more than "a little bit," hold on, because now the President and his supporters in Congress are suggesting that we need more increases on the revenue side.

According to the Heritage Foundation website, the federal government is now spending 22.9% of our gross domestic product. Federal outlays have grown 71% more than the rate of inflation in the last 20 years.

Recently, I learned that ten years ago our neighbor, Canada, was facing a debt to GDP ratio of 130% (the United States' approximate ratio now is 105%). The Canadians realized that was not acceptable, so they reduced their national government spending 10% across the board and their debt ratio is now a little over 30% of GDP. I would suggest if they could reduce spending 10%, so can we. It is not just political rhetoric that we are piling on a debt to our children and grandchildren that is unsustainable.

I find it "underwhelming" that I am already hearing or reading of employers laying off or reducing the hours of their employees due to the new taxes. I do not think that is what most Americans bargained for.

Now for the good news: 2012 is history and good stock mutual funds realized over 15% increases. Furthermore, 2013 is off to a good start, though I am concerned about potential volatility between now and Congress' vote on raising the debt ceiling. I believe 2013 could be another decent year for our investments in stocks and stock mutual funds. Let us hope so.

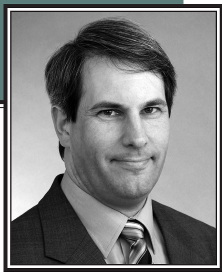
We need to support the Congress' decision to reduce federal government spending (the state of Illinois government spending as well) in this debt ceiling agreement, because most financial gurus believe it will be very positive for the stock market if they do.

BATES Financial Group, Inc.

- ***Business Succession Planning***
- ***College Expense Planning***
- ***529 Plans***
- ***Estate Planning***
- ***Financial Planning***
- ***Income Tax Planning***
- ***Income Tax Preparation***
- ***Insurance***
  - *Life*
  - *Health*
  - *Long-Term Care*
  - *Medicare Supplement*
- ***Retirement Plans***
  - *IRA/SEP-IRA Plans*
  - *403(b) Plans*
  - *Keogh Plans*
  - *401(k) Plans*
  - *Pension and Profit Sharing Plans*
- ***Stock Brokerage***
  - *Stocks and Bonds*
  - *Mutual Funds*
  - *Annuities*
  - *Treasury Bills, Notes and Bonds*

Call us at 815-332-4020 or 1-800-223-2137

Client Appreciation Day Speaker



DAVID OPPEDAHL,
Business Economist
Federal Reserve Bank of Chicago

David Oppedahl is a business economist in the economic research department at the Federal Reserve Bank of Chicago. Oppedahl conducts research on the agricultural sector and rural development, as well as conducting microeconomic research. He directs the Chicago Federal Reserve District's survey of agricultural banks on agricultural land values and credit conditions, and publishes the *AgLetter* – the Chicago Fed's quarterly agricultural publication. In addition to his research, he regularly briefs the Chicago Fed's president on the agricultural economy.

Before starting his career at the Chicago Federal Reserve as an associate in 1998, Oppedahl was a consultant in the economic research department at the Federal Reserve Bank in Dallas. While at the Dallas Fed, he provided research support in the area of econometrics.

Oppedahl received a B.S. in Mathematics from Wheaton College, Wheaton, Illinois, and a M.S. in Statistics from the University of Wisconsin–Madison. He also completed graduate-level course work in Economics while attending Southern Methodist University.

ATTENTION!

For those of you over 70-1/2 that take required minimum distributions from your IRA, there is good news. The legislation passed on New Year's Day by the U.S. Congress that renewed the provision for you to make charitable contributions directly from your IRA without paying income tax, which can be part or all of your RMD. It can be a significant tax savings for many people in one or more of the following situations:

- You do not itemize deductions on your tax return.
- You would not have enough deductions without your charitable contributions to help through itemizing.
- You are on the bubble of paying tax on none or 25% of your Social Security and 85% of your Social Security.
- It reduces your total income to lower your Medicare premiums.

Please feel free to call if you have any questions as to how this might save you taxes.

DID YOU KNOW…?

With all the news, comments, and conversations about taxes, I have been surprised at how few people I talk to do not understand why dividends from most corporations are taxed at lower rates than interest earned.

The reason is that corporations have to pay taxes on their profits. Currently, the rate varies depending or their taxable income, but for the most part it is 35%. When a corporation pays a dividend to its owners (shareholders), it does not get a tax deduction for the dividend it paid. Thus, when the shareholder has to pay tax on the dividend, it is being taxed a second time.

Let me give you an example: Corporation ABC had a profit of $10,000,000 dollars in 2012. They would have to pay approximately $3.5 million in taxes. Then they paid out $3 million in dividends to their shareholders. Those shareholders in the 25% tax bracket or higher would have to pay 15% on their portion of the dividends. Thus, if they received $100,000 in dividends, $15,000 would be due in federal taxes. The consequence would then be 47.5% of the corporate profits paid in dividends, which is the effective tax rate to that shareholder.

Another scenario would be if a person in the 35% tax bracket owned rental property and had a taxable profit, the owner would pay 35% in taxes. However, if that person owned the same property in a regular corporation, then the corporation would pay 35% – then if the balance was paid to the owner of the corporation as a dividend, that person would pay another 15%.

The news gets worse…under the new tax law the dividend would be taxed at 20% plus another 3.8% Medicare tax if the owner was married and had total taxable income over $450,000. So for the high income people, the total tax rate on his or her dividends would be 50.47%. The bottom line is do not assume that the high income earner is getting a tax break on their corporate dividends.

Recently I heard of, and found on the internet, an article that was re-published in the London Times in 2009 entitled "The Obituary of Common Sense." The article was originally written by Lori Borgman, and published in the Indianapolis Star on March 15, 1998. Though I understand it does not have much to do with finances, I think it is so appropriate to our lives that I have chosen to include it in Bates Briefings… I hope you will agree.

Today we mourn the passing of a beloved old friend, Common Sense, who has been with us for many years. No one knows for sure how old he was, since his birth records were long ago lost in bureaucratic red tape. He will be remembered as having cultivated such valuable lessons as:

Knowing when to come in out of the rain; accidents may happen; if it isn't broken, don't fix it; why the early bird gets the worm; life isn't always fair; and, maybe it was my fault.

Common Sense lived by simple, sound financial policies (don't spend more than you can earn) and reliable strategies (adults, not children, are in charge).

His health began to deteriorate rapidly when well-intentioned but overbearing regulations were set in place. Reports of a 6-year old boy charged with sexual harassment for kissing a classmate; teens suspended from school for using mouthwash after lunch; and a teacher fired for reprimanding an unruly student, only worsened his condition.

Common Sense lost ground when parents attacked teachers for doing the job that they themselves had failed to do in disciplining their unruly children.

It declined even further when schools were required to get parental consent to administer sun lotion or an aspirin to a student, but could not inform parents when a student became pregnant and wanted to have an abortion.

Common Sense lost the will to live as the churches became businesses, and criminals received better treatment than their victims. Common Sense took a beating when you couldn't defend yourself from a burglar in your own home, but the burglar could sue you for assault.

Common Sense finally gave up the will to live after a woman failed to realize that a steaming cup of coffee was hot. She spilled a little on her lap, and was promptly awarded a huge settlement.

Common Sense was preceded in death by his parents, Truth and Trust, his wife, Discretion, his daughters, Responsibility and Integrity and his son, Reason.

He is survived by his 4 stepbrothers; I Know My Rights; I Want It Now; Someone Else Is To Blame and I'm A Victim. Not many attended his funeral because so few realized he was gone. If you still remember him, pass this on. If not, join the majority and do nothing.