



**GROUP ESTES** *realty*

## **It's Tax Time: Are You Prepared?**

Hello Friend,

*February 2012*

Did you know that taxpayers spend over 3.5 billion hours each year preparing for and completing their tax forms?\* Given that the instructions for the forms seem to increase each year, this number is likely to increase. Even if you are among the 3-in-5 Americans who pays a professional to complete their tax forms, there are ways to streamline the process and make it as painless as possible.

\* Source: President's Advisory Panel on Federal Tax Reform

This month, I'm sending timely information designed to help you prepare for tax time. Page one offers tips to help you become organized, including things to keep in mind if you bought a home, got married or donated to a charity in 2011. (And if you bought or sold a home with us, you already have a copy of your HUD Statement to help you with this part!) Page two provides an overview of three of the most popular tax preparation software programs on the market. Please do share this pertinent information with your family or friends. We are all about sharing information!

And just as we have household maintenance resources for you, yes, we have tax advisor and accountant resources as well! Please call me if you need any kind of referral.

So what else do we have for you this month? Articles that we think will be helpful or interesting, of course, and an update on the market (although one month of data isn't substantive), and this month's highlighted vendors. Also a sneak peek at our next event!

We have posted quite a few articles lately, including the January jobs report (some good news!), a comparison of how far your dollars go when interest rates are low... and when they're not (When is \$300,000 worth \$337,735? And when it is worth \$367,000???) Check out our enclosed chart), a look back at the volume of existing home sales over the past 20+ years, as well as median pricing and the interest rates during those years, a summary on several tax-code benefits that have gone with 2011, new 401(k) plan increased contribution limits, and digital estate planning (does anyone you trust know what your passwords are? Or where they are kept? Or where your files are backed up? Or where your online money is?!) Advice on how to choose which home repair jobs to do first and how to keep your energy bills low. Lots of predictions for 2012 (pricing, interest rates, jobs) have also been posted, and several articles on the \$25 billion settlement with five of the big banks and what it means to the average homeowner. Also an article specific to what that settlement means in Washington State. There is a fascinating article on psychology and how it relates to our use of credit vs. cash. Another on how the companies we buy from are predicting our next move. And even some advice on what you can do about a difficult neighbor.

The market overview that I have for you this month is quite brief because, again, it is only one month of data. Rather than compare this January to January 2011, although you can find that on the website, I think it is more relevant to look at January 2012 as it compares to the averages for 2011. Short version:

- Inventory is up a little in many areas, although less than ½-month in King County, the Eastside, Seattle, and SE Snohomish. SW Snohomish and Pierce County are a little more than ½-month, although less than one month.

*Christine Estes* 206-910-7926

Chris@GroupEstes.com

www.GroupEstes.com

AN AFFILIATE OF THE IRWIN GROUP

Group Estes Realty  
23515 NE Novelty Hill Road  
Suite B-221, #402  
Redmond WA 98053

- Days on Market (the time it takes to actually get a contract) are relatively stable in all areas except SW Snohomish, where the number is down by 26 days.
- Average pricing. Down in King County as a whole, as well as Seattle, but stable on the Eastside. SE Snohomish is relatively stable; SW Snohomish and Pierce are down.

When we are able to report on the March numbers, then we will have some more statistically relevant information to use for comparison. Until then, let's cheer on the hiring employers!

I promised you a sneak peek at our upcoming April event. The genesis of our wine tasting events was my business partner, Phil, and me standing outside for the Food Drive in October last year... in the rain and the wind. You sent me checks for Northwest Harvest (thank you!) but you didn't come to see us. Yes, we were very wet... the balloons were especially pitiful, cascading down the side of Phil's SUV ☺ So! We know you appreciate our commitment to Community Service, however it is clear that we need to offer you more than stopping by a parking lot to drop something off. And that was how we got to wine tasting.

It was great to see those of you who joined us at Dusted Valley in January. And now on April 14<sup>th</sup>, we have a fun afternoon planned at Ballard's new venue, The Amber Den. Nick Simonton, owner and client, will set us up in a semi-private space. We'll do some wine tasting and have some light bites (The Amber Den has tapas-style food). And for those of you who don't drink, I'm sure Nick will have some tea as well. How does this tie into Community Service? The wine tasting and munchies are on us – please just bring a donation to Northwest Harvest. How easy is that? And we've got a private event on the calendar in the Woodinville Warehouse District for an August evening... Just keep an eye out for your postcards and future newsletters will tell you more too.

Before wrapping up, here are the five highlighted vendors for this month.

Spotlight Vendors for February:

Chris Mathews - Arbonne - 206-300-5992 - [chrismathews26@msn.com](mailto:chrismathews26@msn.com)  
Arbonne

Eden Advanced Pest Technologies - 800-401-9935 - [Info@edenpest.com](mailto:Info@edenpest.com)  
Pest Control

Dr. Jeff Files - 425-885-0008  
Dentist

Ian Maccallum - Trees For Life, Inc. - 425-485-4758 - [treesforlife@earthlink.net](mailto:treesforlife@earthlink.net)  
Arborist

Berenice Brambila - Brambila Landscaping - 425-765-4206 - [brambilalc@msn.com](mailto:brambilalc@msn.com)  
Landscape / Yard Maintenance

It is a pleasure to be of service to you, your family and friends. I appreciate the opportunity – and your referrals!

Sincerely,



*Always looking for more ways to be of service ... if you know of someone who would appreciate the level of service I provide, please call or email me with their name and business number, and I'll be happy to follow up and take great care of them.*



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## When is \$300,000 worth \$337,735???

It's all in the interest rates. Let's start with an historical perspective and look at interest rate averages since 2000:

January 2012:		December 2011: 3.96%					
2011	4.45%	2010	4.69%	2009	5.07%	2008	6.03%
2007	6.34%	2006	6.41%	2005	5.87%	2004	5.84%
2003	5.83%	2002	6.54%	2001	6.97%	2000	8.05%

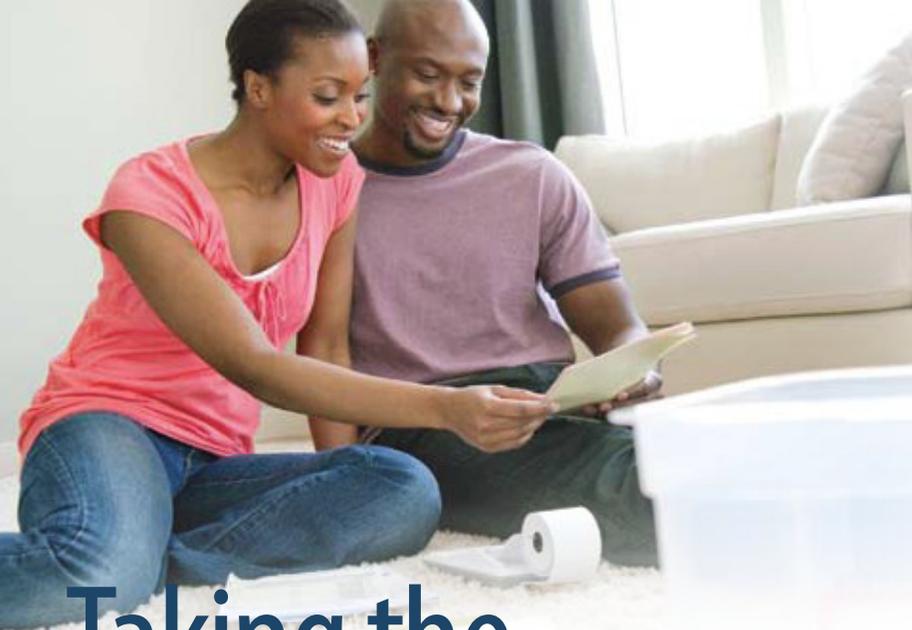
So what does this math look like when you're evaluating when to buy? Here is a dollar-for-dollar comparison for you:

- At 4%, you could borrow \$337,735 for the same Principle and Interest payment that \$300,000 would cost you at 5%
- At 5%, you could borrow \$335,195 for the same Principle and Interest payment that \$300,000 would cost you at 6%
- And the Buying Power erodes even faster as interest rates go above 6%... to almost 20% with rates at 7%

Check out the *Comparative Loan Amount* column to see what lower interest rates do for your Buying Power

Base Line Loan Amount	30-Year Fixed Interest Rate	Payment Factor	Principle & Interest*	Comparative Loan Amount	30-Year Fixed Interest Rate	Payment Factor	Principle & Interest*
\$300,000	5%	5.37	\$1,611.00	\$337,735	4%	4.77	\$1,611.00
\$300,000	5.25%	5.53	\$1,659.00	\$337,195	4.25%	4.92	\$1,659.00
\$300,000	5.5%	5.68	\$1,704.00	\$336,095	4.5%	5.07	\$1,704.00
\$300,000	5.75%	5.84	\$1,752.00	\$335,632	4.75%	5.22	\$1,752.00
\$300,000	6%	6.00	\$1,800.00	\$335,195	5%	5.37	\$1,800.00
\$300,000	6.25%	6.33	\$1,899.00	\$343,400	5.25%	5.53	\$1,899.00
\$300,000	6.5%	6.65	\$1,995.00	\$351,232	5.5%	5.68	\$1,995.00
\$300,000	6.75%	6.99	\$2,097.00	\$359,075	5.8%	5.84	\$2,097.00
\$300,000	7	7.34	\$2,202.00	\$367,000	6%	6.00	\$2,202.00

\*Principle and interest only; before fees, mortgage insurance and impound accounts. Payment Factors calculated per \$1000 borrowed



It's getting close to that time of year again—tax time. No one likes paying taxes; however, the more prepared you are now, the fewer surprises you'll experience come **April 17th**. Here are some practical tips to get you through tax season.

*The Internal Revenue Code contains more than 1.4 million words, making it twice as long as the King James Bible.\**

# Taking the Pain Out of Tax Time

## Be Prepared

- ✓ **Create a tax checklist** to gather all of the documents you'll need.
- ✓ **Download the latest catalog of forms and publications** from **IRS.gov** or have it mailed to you.
- ✓ Most tax software programs will allow you to input your information early. **Start filling in your information now**, so that you're not rushing to complete it in April.
- ✓ If you have dependents, **make sure you know their social security numbers**, so that your return isn't delayed. If you are divorced, decide which parent will claim the children beforehand to prevent an audit or delay.
- ✓ **You have until April 17, 2012 to contribute to your traditional IRA for 2011.** Check the IRS website to see if you're eligible to deduct your contribution on your taxes.

*Keep important receipts and information in an expandable folder, organized by month or activity, so you won't have to search for the information next year.*

## Did You...

- **Have a major life change in 2011**, such as a new mortgage, marriage, divorce or baby? You may need to file a new W-4.
- **Donate to charity?** Be sure to keep your receipts to claim the deduction on your taxes.
- **Move?** Update your mailing address with your employers, clients and institutions that hold your investments and bank accounts. If the forms have already been sent, contact the companies and ask them to send copies through the mail, fax or email.

*Individual taxpayers spend 3.5 billion hours each year doing their taxes.\**

## The Consequences of Filing Late

File **Form 4868** by April 16, 2012 for a six-month extension. If you're requesting an extension, you must estimate your tax liability and pay the balance when you file the request. If your paperwork is late, you may be subject to a **late-filing penalty of 4.5%** per month of tax owed and a **late-payment penalty of 0.5%** per month of tax due.

**60%** of Americans have a paid preparer deal with their tax forms.\*

\* Source: President's Advisory Panel on Federal Tax Reform



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23515 NE Novelty Hill Rd  
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**Christine Estes**

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Chris@GroupEstes.com  
www.GroupEstes.com

# Top Tax Preparation Software

Though it's always a good idea to consult a tax preparation professional, here are three popular DIY alternatives.

## TurboTax® Software

*(TurboTax® Basic starts at \$29.95 for federal filing, plus \$39.95 for state filing)*

### Highlights:

- Available software packages include Basic, Deluxe, Premier, Home & Business and Business
- Import your W-2s and 1099 from participating employers
- If you need help, click the "Guide Me Through" button for step-by-step instructions.
- Features full access to 700 live tax advisors

## TaxACT Software

*(Standard software package features free federal filing, plus \$13.95 for each state filing)*

### Highlights:

- Available software plans include Standard, Deluxe and Ultimate Bundle
- Consistent navigation from previous versions
- Deluxe and Ultimate versions use tax information to populate a college financial aid worksheet to help parents and students fill out the Free Application for Student Aid (FAFSA).

## H&R Block® at Home™ Tax Preparation Software

*(Basic software package starts at \$19.95, plus \$29.95 per state tax filing)*

### Highlights:

- Available software packages include Basic, Deluxe, Premium and Premium & Business
- FAQ answers are written by H&R Block staff
- Features "Guide Me" questions intended to walk users through the forms
- Premium users are also entitled to one free session with a tax preparer.

### Should You e-File?

Many Americans file their federal taxes online. By filing your taxes online, the IRS is able to check your return for errors right away and ensure that it's complete. If you e-file and owe money, you can send a check, pay with a credit card for a small fee or direct debit your account and delay the debit payment until the filing deadline.

### Free Web Tools

If you meet certain qualifications, you can file some forms for free on [IRS.gov](http://IRS.gov). Additionally, twenty states have created free state income tax filing programs for those who meet certain income requirements.



# Beware of These Errors

- **Overstating charitable contributions.** If you contributed to charities throughout the year, keep your receipts so you can calculate exactly how much you donated.
- **Incorrectly deducting mortgage points.** "Points" are charges that you may have paid in the process of getting a home mortgage. Visit [IRS.gov](http://IRS.gov) to see if you qualify for a deduction.
- **Excluding small interest payments,** even for interest amounts of less than \$10. An omission here can make the IRS think that you may have forgotten to declare other things.

*In 1940, instructions for Form 1040 were two pages long.*

*Currently, the instructions for Form 1040EZ are nearly 40 pages long.*

Source: President's Advisory Panel on Federal Tax Reform