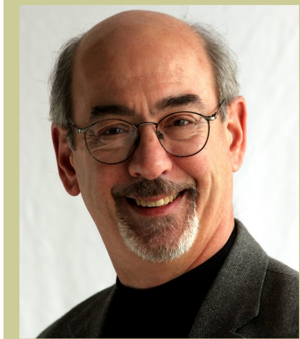


THE PERSONAL PLANNER

Personal Financial Planning Tips for Today and the Rest of Your Life

January 2011

Heling Associates Inc.
Bruce R. Heling, CFP(R)
CPA
PO Box 1385
Brookfield, WI 53008-1385
262-821-1008
bheling@helingassociates.com
http://HelingAssociates.com

Happy New Year!

Another interesting year under the belt. December saw more compromise in Washington than in the last two years as both sides sought to get at least part of their agendas passed before the new House is seated. Let's see if that continues in 2011.

The income and estate tax situation is settled for now and, surprisingly, there seems to be talk of serious systemic tax reform. It would be great if that debate were part of the next Presidential election campaign but only time will tell.

If you itemize deductions, don't be too anxious to file your 2010 tax return. The IRS announced last week that it won't be able to accept them until at least mid-February. More on that in the Monthly Bulletin. Keep you jackets zipped and do your best to enjoy our Wisconsin winter!
Bruce Heling, CFP CPA

December 29, 2010

In this issue:

HELING ASSOCIATES
Bringing the Personal to Financial Planning

Five Hot Topics in 2011

Roth conversions, mortgages, and health-care reform were a few of the most talked about topics in 2010. Here's a look at five topics you're bound to hear about in 2011.

Social Security: saving the system

How to strengthen Social Security has been a political hot potato for many years, but calls for reform are growing louder as the time when program costs will permanently exceed tax revenues draws closer. The most recent annual report from the Social Security Board of Trustees projects that this will occur in 2015 (one year earlier than last year's report predicted) and notes that trust funds will be exhausted in 2037. Social Security is the most common source of income for retirees, and debate over how to save it will rage in 2011.

Microlending: small loans count

Microlending--the practice of extending small loans to individuals and businesses who otherwise could not borrow money--has traditionally targeted entrepreneurs in developing countries. But as the credit crunch prevents many Americans from borrowing money through traditional channels, more are turning to microlending sites and companies to obtain funds. And more investors are offering to make microloans in return for the potential to earn somewhat higher returns than a savings account can offer. Until the economy improves, look for this trend to continue.

Microlending recently got a boost from the Small Business Jobs Act, passed in September, that expanded the Small Business Administration's microlending program. Funding for the program was increased, and business owners may now be able to borrow up to $50,000 (previously, the limit was $35,000) to use for working capital or other needs.

Education: expanding opportunities

Education-related debates will certainly heat up in 2011. The current administration is committed to reforming primary and secondary education and has drawn up a blueprint for overhauling the Elementary and Secondary Education Act. This Act (currently known as No Child Left Behind) is long overdue for reauthorization, and Congress will likely be debating it in 2011.

In addition, much attention is being focused on ways to make college more accessible and affordable. One initiative funded by the Bill and Melinda Gates Foundation awards grants to nonprofit and governmental institutions to develop effective online education opportunities. Currently the focus is on developing online courses and tools that can help more Americans attend college and prepare for careers, while saving students and schools money.

Energy: greener days ahead

"Going green" is a catchphrase that's likely to get even more press in 2011. One important green initiative currently pending in the Senate is the Homestar Act. This Act provides substantial rebates to homeowners who purchase and install energy-saving equipment or goods or who complete whole home retrofits.

Even the lowly lightbulb finally gets a makeover in 2011. The Federal Trade Commission is requiring that lightbulb packages carry labels that estimate yearly energy costs, the bulb's life span and light appearance, and brightness measured in lumens so that consumers can better compare new energy-efficient bulbs.

Wellness: saving lives and money

Look for employers to roll out, or expand, employee wellness programs this year in an effort to promote healthier living and curtail health insurance costs. The Health-Care Reform Act passed last year included funding for new wellness programs established by small employers, and makes it easier for all employers to offer substantial incentives to employees for participating. Also, new health insurance plans and many existing plans (including Medicare) must now fully cover preventive care services such as immunizations and screenings for certain health conditions.

Estate Tax Update

For 2010 through 2012, there is an estate tax exemption equivalent amount of $5 million (indexed for inflation in 2012), and the top estate tax rate is 35%.

You can also make federal tax-free gifts by paying for someone else's medical expenses or college tuition. Payments must be made directly to the medical care provider or educational institution, and other requirements may apply.

Once again, Congress waited until the eleventh hour to extend, patch, and reinstate old tax laws, and once again, they made most changes temporary (generally, for two years). The Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 (the 2010 Tax Act), signed into law on December 17, 2010, dramatically changes the federal transfer tax landscape. The biggest news: the estate and generation-skipping transfer (GST) taxes have been reinstated for 2010. And, to the delight of some and great disappointment of others, for 2010 through 2012, the estate tax exemption equivalent amount is increased to $5 million (indexed for inflation in 2012), and the top estate tax rate is set at 35%. Here is a brief summary of all the changes.

For 2010

For 2010, the federal gift tax is unchanged by the 2010 Tax Act. The gift tax remains in force with an exemption equivalent amount (called the "applicable exclusion amount") of $1 million and a top tax rate of 35% (also, remember that if you file as single, you can exclude gifts of up to $13,000 per recipient, or if you're married and file jointly, you can exclude gifts of up to $26,000 per recipient).

The estate tax has been reinstated for 2010, with a "basic" exclusion amount (the name has been changed from the "applicable" exclusion amount) of $5 million. That translates into a tax credit of $1,730,800. The top estate tax rate is 35%.

The 2010 Tax Act gives estates of decedents dying after December 31, 2009, and before January 1, 2011, the option to elect to apply (1) the reinstated estate tax with a step-up (or step-down) in basis, or (2) no estate tax with a modified carryover basis. The modified carryover basis allows an increase in basis of $1.3 million, plus an additional $3 million for property that passes to a surviving spouse.

The GST tax (a separate tax on assets transferred to grandchildren and lower generations) has also been reinstated, but at a rate of zero percent.

Note: *The 2010 Tax Act provides an extension of sorts to pay estate taxes for decedents dying after December 31, 2009, and before the date of enactment of the 2010 Tax Act. The due date for filing an estate tax return, paying estate taxes, or disclaiming an interest in property passing to a beneficiary from a decedent's estate is nine months after the date of enactment of the 2010 Tax Act.*

Note: *IRS Form 8939 is necessary to allocate the $1.3 million basis adjustment allowed for any heirs and the additional $3 million basis adjustment allowed for surviving spouses of decedents who die in 2010. Originally, the form was due on the same date as the decedent's final income tax return (April 18, 2011). The 2010 Tax Act also extends this deadline to nine months after the Act becomes effective.*

For 2011 and 2012

For 2011 and 2012, the gift tax is reunited with the estate tax. There is a lifetime basic exclusion amount of $5 million (which will be indexed for inflation in 2012). The top tax rate is 35% (for taxable gifts/estates in excess of $500,000).

The basic exclusion amount is portable (new in 2011). That means a surviving spouse can use that portion of the exclusion that was left unused by a deceased spouse. This "deceased spousal unused exclusion amount" (DSUEA) is available only from the estate of a spouse who dies in 2011 or 2012. For gift tax purposes, the DSUEA is available for an unlimited number of deceased spouses. But there can be only one DSUEA at a time. For gift tax purposes, the DSUEA is determined on the last day of the year using the DSUEA of the last deceased spouse as of such date. For estate tax purposes, however, the DSUEA is available only from the last deceased spouse as of the date of death of the surviving spouse. Thus, the DSUEA can change if the surviving spouse remarries, and is then widowed for a second time.

Note: *An election is required on the estate of the first spouse to die in order to preserve the ability of the surviving spouse's estate to use the DSUEA.*

The GST tax rate for transfers made after 2010 is equal to the highest estate tax rate in effect for the year. The GST exemption for 2011 is $5 million, which will be indexed for inflation for 2012.

Note: *The GST tax exemption is not portable.*

For 2013 and beyond

If there is no further legislation, the changes described above will sunset after 2012. The transfer tax rules that were in effect in 2000 will apply for 2013 and beyond. That means a gift and estate tax exemption equivalent amount of $1 million and a top tax rate of 55%.

Fixed Annuities vs. CDs: Is One Better Than the Other?

For most people, the answer to this question is *it depends*. While some features are similar, fixed annuities and bank certificates of deposit (CDs) also have characteristics that differ. What works for you may depend on which features best fit your financial situation and investment objectives.

Are you looking for safety?

Both CDs and fixed deferred annuities are generally considered "low-risk" investments compared to other investment options. CDs are sold by banks; fixed annuities are issued by insurance companies. In most instances, CDs are insured by the Federal Deposit Insurance Corporation (FDIC) for up to $250,000 per account. Fixed annuities are not insured by the federal government, but are backed by the financial strength of the insurance company that issues the annuity. Of course, annuity guarantees are subject to the claims-paying ability of the issuing company, so when considering a fixed annuity, make sure the issuing company is financially sound. You can get an idea of the financial strength of a company by referring to an independent rating company such as Moody's, A.M. Best, or Standard & Poor's, which evaluate the financial strength of insurance companies and publish ratings based on their assessments.

How long is your investment horizon?

CDs are often used for short-term accumulation. CDs are issued in a variety of maturity periods, from as short as one month to three years or longer. On the other hand, fixed annuities are better suited for long-term accumulation. Most fixed annuities have maturity periods of five years or longer, although some fixed annuities have maturity periods as short as two years.

In any case, most CDs and fixed annuities assess a penalty for taking money out of your account prior to the maturity date. Some CDs allow you to withdraw interest as it's earned. However, if you want to withdraw principal, you'll likely be assessed an early withdrawal penalty. Likewise, many fixed annuities allow you to receive earned interest, and some annuities even allow a limited penalty-free withdrawal of up to 10% of the account value annually. But annuity withdrawals exceeding any penalty-free amount will also be subject to a withdrawal or surrender charge.

What type of return do you want?

Both CDs and fixed annuities credit interest to your account. The rate of interest is often based, at least in part, on the maturity period of the vehicle: the longer the investment period, the higher the interest rate likely to be offered. CDs generally pay a fixed interest rate for the entire term. The interest rate paid by a fixed annuity may change annually, subject to a minimum interest rate that lasts for the entire term. There are some fixed annuities that pay a fixed rate of interest for a fixed period of time, usually to maturity. While the interest rates of CDs and fixed annuities with similar maturity periods are often similar, since most fixed annuities have longer maturity periods than CDs, the interest rate offered may be a little higher than a CD with a shorter maturity term. It's also worth noting that fixed annuity companies guarantee a minimum interest rate for the term of the annuity, and sometimes, may guarantee a higher interest rate for a certain period of time.

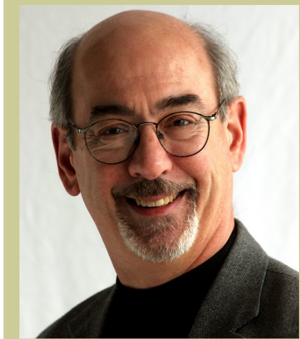
Are taxes an issue?

If income taxes are a concern, be aware that the interest you earn on your CD (presuming it's not held within an IRA) is taxable in the year it's earned, even if you don't take the money. Conversely, the interest earned in a fixed annuity is not subject to income tax until you actually take the money out. With a fixed annuity, you have a little more control over when you'll pay taxes on your interest earnings. Also, interest earnings from CDs must be included as income when calculating whether a portion of your Social Security benefits will be subject to income tax. However, interest earned within a fixed deferred annuity (so long as it's not withdrawn) is not included in this calculation.

While some features are similar, fixed annuities and bank certificates of deposit (CDs) also have characteristics that differ. Fixed annuities are not FDIC insured, are not issued by a bank or government agency, and are not a deposit.

Withdrawing money at maturity

When your CD matures, you're able to take the principal and any interest earnings out in a lump sum, or you can usually renew the CD for the same or a different term, and often at a different interest rate. You can do the same thing with money from a deferred annuity. You'll be taxed on the interest earnings at that time, and, if you're not at least age 59½, you may also face a 10% tax penalty on earnings as well, unless an exception applies. However, a deferred annuity provides you with the option to convert your account to a stream of payments that can last for your entire life. Known as annuitization, this gives you the option to receive periodic payments (e.g., monthly, quarterly, or annually) from your annuity for a fixed period of time, such as ten years, or for the rest of your life.



Heling Associates Inc.
Bruce R. Heling, CFP(R)
CPA
PO Box 1385
Brookfield, WI 53008-1385
262-821-1008
bheling@helingassociates.com
http://HelingAssociates.com

Ask the Experts

Is buying a condo for my college student a good idea?

When parents estimate the amount of money they'll be spending on dorm rooms and off-campus apartments for the next several years, it's easy to see why many parents like the idea of buying a condo for their college student. But, assuming your child is responsible enough to take care of such a property, whether it makes financial sense to do so depends on several factors.

Recouping costs: The costs of owning the condo, minus any rent paid by roommates, should be less than what you would pay for a dorm or apartment over the same time period. Costs may include a mortgage (including points and fees), property taxes, homeowners insurance, condo dues, and maintenance costs. And if your child plans on having roommates, you may want to add an umbrella liability policy to your homeowners insurance to protect you now that you're a landlord.

Will you come out ahead in the end? The rate of housing appreciation varies by geographic area, so research the location you're targeting. And don't forget to factor in a broker's commission when you sell the property.

The right mortgage: For long-term real estate ownership, it often makes sense to choose the certainty of a fixed-rate mortgage. But for short-term real estate ownership, a three- or five-year adjustable-rate mortgage may make more financial sense because the lower initial interest rate translates into a lower monthly payment. But be aware that if housing prices drop before you can sell the property, you may end up owing more than the house is worth--a situation you want to avoid.

Tax benefits: You may be able to deduct mortgage interest and property taxes on a second property; however, the IRS limits the amount of itemized deductions high-income taxpayers can take. In addition, if rent is collected, rental property rules will apply: rent you receive will be considered income, and you'll be entitled to claim some expenses as business deductions. But second homes and rental property aren't eligible for the $250,000 per person exclusion that you get when you sell your primary residence. To learn more, consult a tax professional.

I plan to buy my child a condo for off-campus college housing. Is this purchase considered a qualified 529 plan expense?

Money withdrawn from a 529 plan to pay the beneficiary's qualified higher education expenses is tax free at the federal level (and typically at the state level too). Unfortunately, the purchase price of your child's condo is not a qualified higher education expense for 529 plans under IRS rules. But a room-and-board allowance may be.

IRS Publication 970, *Tax Benefits for Education,* spells out the rules for counting your child's room-and-board costs as qualified higher education expenses under your 529 plan. (Publication 970 refers to a 529 plan as a "qualified tuition program" or QTP.)

First, the student needs to be enrolled at college at least half-time.

Next, for students who live on campus, the room-and-board allowance figure is equal to the actual amount charged by the college.

For students who live off campus, the amount of room-and-board expenses that you can safely withdraw tax free from your 529 plan is equal to the "allowance" figure that the college determines for off-campus housing.

This room-and-board allowance figure is the one included in the official cost of attendance for your child's school and used for purposes of awarding federal financial aid. If you can't find this figure in the college's literature or website, call the bursar's office to determine the current qualified room-and-board costs for off-campus housing. The allowance for off-campus housing will not be greater than the amount for on-campus housing.

Before you buy your child a condo for college housing, make sure you understand the potential risks involved in such a transaction. Be careful not to overestimate your possible savings or the potential appreciation of the property, especially considering today's real estate market. And don't forget to objectively evaluate your child's ability to responsibly care for the property and act as landlord if roommates will be in the picture.