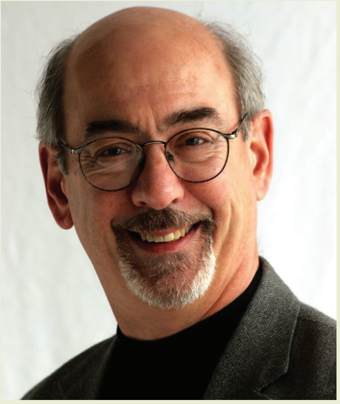
THE PERSONAL PLANNER

Personal Financial Planning Tips for Today and 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

Another month, another wild ride in the financial markets, thanks again to the ongoing Euro-zone debt difficulties and, again, to Congress' failure to come together on a deficit reduction plan. For HA clients, though, the month saw only a mild deterioration in portfolio values due to a gradual weakening of our remaining foreign bond exposures. Our Active Portfolio Risk Management strategy is, indeed, limiting our downside volatility, just as was intended.

Enjoy this month's articles and accept my wishes for a peaceful and joyful holiday season. From our house to yours, may all the joys of the season be yours.

Bruce Heling
November 30, 2011

December 2011

HELING ASSOCIATES
Bringing the Personal to Financial Planning

Qualified Charitable Distributions Qualify for RMDs

If you're an IRA owner who must take a required minimum distribution (RMD) in 2011, you can avoid some or all of the resulting income tax liability by donating a portion of it to charity. A qualified charitable distribution (QCD), also known as an IRA charitable rollover, can not only save you income taxes, it can help minimize your taxable estate and fulfill your philanthropic desires. Through December 31, you can make tax-free transfers of up to $100,000 directly from your IRA to qualified charities. Here are the details.

Background

The QCD provision was enacted in 2006, and was scheduled to end in 2009, but last-minute legislation extended it into 2010 and 2011.

Prior to 2006, if a donor withdrew funds from a traditional IRA in order to contribute to charity, the withdrawal had to be reported as ordinary income and was taxed at regular income tax rates. Once the contribution was made, the donor was generally entitled to an income tax deduction for the value of the charitable contribution, calculated and reported on Schedule A of Form 1040 (subject to certain limitations), which could potentially offset some or all of the taxable income generated by the withdrawal.

With a QCD, you can exclude from taxable income any IRA funds directly transferred to a charity as an outright contribution.

Note: *There is currently legislation being considered in Congress that would make this provision permanent. It would also get rid of the $100,000 cap, reduce the minimum age at which taxpayers are able to take advantage of certain giving vehicles (e.g., charitable remainder trusts) from 70½ to 59½, and make it easier for donors to give through supporting organizations, private foundations, and donor-advised funds.*

Who might consider this strategy?

You would benefit most from implementing this strategy if you:

- Do not need all of the income from your RMDs
- Make charitable gifts, but don't itemize deductions (generally, only taxpayers who itemize get federal income tax-saving benefits from charitable donations)
- Make large charitable gifts, but are unable to deduct all of them in a given year because of adjusted gross income limitations
- Want to avoid being taxed on your RMDs

Certain limitations apply

Certain limitations apply to these nontaxable charitable distributions from an IRA:

- You must be at least 70½ years of age when the gift is transferred
- Total gifts cannot exceed $100,000 per year, per IRA owner or beneficiary (married taxpayers with separate IRAs can give up to $200,000 total per year, but no more than $100,000 may be distributed from each spouse's IRA)
- Gifts must be made directly from your IRA to a public charity (i.e., they cannot be made to a private foundation, a supporting organization, or a donor-advised fund)
- The gifts must be outright (i.e., they cannot be used to establish a charitable gift annuity or fund a charitable remainder trust)

Note: *Transfers must come from the IRAs directly to the charity. If you have retirement assets in a 401(k) or 403(b), for example, you must first roll those assets into an IRA, and then make the transfer from the IRA directly to the charity.*

Note: *You cannot do a QCD from a SEP-IRA or SIMPLE IRA.*

What are the income tax implications?

- Federal--You do not recognize the transfer as income, as long as it goes directly from the IRA to the charity. However, you are not eligible for an income tax charitable deduction.
- State--State laws vary, so check with your financial professional.

For more information, visit the Social Security website at www.socialsecurity.gov or call 800-772-1213.

How Much Do You Know about Social Security?

Social Security is in the news more and more, as the first wave of baby boomers retire and economic pressures on the program increase. More than 90% of Americans are covered by Social Security,* but how much do you know about this important program?

How is Social Security funded?

Unlike many government programs, Social Security is funded primarily through the collection of payroll taxes. In 2010, 81.9% of funding came from this source, with the rest derived from interest earned on government bonds held by Social Security trust funds and income taxes paid on benefits.* That's why Social Security is known as a "pay-as-you-go" system. However, someone working and paying Social Security taxes today is not funding his or her own benefits, but is funding the benefits of someone who is receiving them now or in the near future--one of the reasons why Social Security is facing a potential funding shortfall. According to the Social Security Administration (SSA), the number of retired workers will double in less than 30 years, but there will be fewer workers paying into the system. And with life expectancies increasing, benefits will be paid for a longer period.*

How are earnings reported to the SSA?

If you work for an employer, your employer will send a copy of your W-2 form annually to the SSA. If you're self-employed, the IRS will report your earnings to the SSA annually after your federal income tax return has been processed.

What benefits are available?

Although Social Security is known as a retirement program, benefits are paid to people of all ages, including surviving family members and disabled individuals. In 2010, 5.7 million people were awarded Social Security benefits. Of those, 46% were retired workers, 36% were survivors or spouses/children of retired or disabled workers, and 18% were disabled workers.*

How do you qualify for benefits?

As you work and pay payroll taxes, you earn Social Security credits. Generally, you need to work 10 years to earn enough credits to qualify for retirement benefits--other benefits have different requirements. Contact the SSA if you have any questions about your benefit entitlement.

Do most people apply for early retirement benefits?

Yes. According to a report by the Government Accounting Office (GAO), 43% of people take early retirement benefits at age 62, while almost 73% of people apply for benefits before they reach full retirement age.**

How much more will you receive if you delay applying for benefits?

For each year past your full retirement age you delay receiving benefits, your Social Security benefit will increase by a certain percentage (8% for anyone who was born in 1943 or later). For example, if your full retirement age is 66 and you delay receiving benefits until age 70, your annual benefit will be 32% higher.

Can you receive benefits based on an ex-spouse's record?

You may qualify for divorced spousal benefits if you were married for at least 10 years, you haven't remarried, you are age 62 or older, and you don't qualify for a higher benefit based on your own work record.

Do workers with lower earnings receive more from Social Security?

A worker who has lower earnings will receive a lower monthly benefit than someone with higher earnings because benefits are based on average lifetime earnings (the highest 35 years of earnings are used in the calculation). However, the Social Security benefit formula is designed to ensure that workers with lower earnings receive a greater percentage of their preretirement earnings. For example, a worker with relatively low earnings may receive a benefit that is approximately 55% of his or her preretirement earnings, while a worker with relatively high earnings may receive a benefit that is approximately 25% of his or her earnings.***

Do you have to stop working to receive Social Security retirement benefits?

No. As long as you've reached early retirement age and meet eligibility requirements, you can apply for Social Security benefits even if you decide to continue working. However, if you're younger than full retirement age and earn more than a certain amount, your benefits will be temporarily reduced (once you reach full retirement age, your benefits will be increased to account for the money that was withheld).

***Source:** *Fast Facts & Figures About Social Security, 2011*

****Source:** *GAO-11-400, Retirement Income, June 2011, based on data compiled by the SSA Office of the Chief Actuary*

*****Source:** *SSA Publication No. 05-10045, 2011*

Open Sesame: Strong Passwords Key to Account Security

Most of us have significant financial and personal information that's readily accessible through the Web, in most cases protected by nothing more than a username and password.

In a well-known story, a simple woodcutter overhears a secret password--"Open Sesame"--that a group of thieves uses to unlock a magically sealed cave containing a vast treasure. Because the password was easy to remember, the woodcutter was ultimately able to appropriate the treasure for his own use. Had the thieves taken just a few simple common-sense precautions to protect their password, however, the story might have turned out very differently.

Substitute "online account" for "magically sealed cave," and the same holds true today. Most of us have significant financial and personal information that's readily accessible through the Web, in most cases protected by nothing more than a username and password. Given the damage that can result from unauthorized access to this treasure trove of information, it makes sense to pay attention to a few simple common-sense rules that apply to online passwords.

Don't share your password

The thieves in the story were doomed from the start--all shared the same password, and had to yell it out loud to open the cave. Today, we type passwords into computer keyboards, phone and ATM keypads, and at checkout registers. Just as you wouldn't shout your password out for all to hear, don't make it easy for others to see you entering your password (e.g., by looking over your shoulder). And don't share your username or password with anyone, for any reason.

Do use strong passwords

Your password should never be a word that can be found in a dictionary; today's cybercriminals use sophisticated dictionary programs that can quickly try to enter every word in the list as your password. Better to use a combination of numbers, uppercase letters, lowercase letters, and symbols. And a longer password is generally better than a shorter password. Your password also shouldn't contain personal information that's easy to guess--children's names, names of pets, or phone numbers, for example.

Many websites provide specific criteria for passwords. For instance, you may have to choose a password that is exactly eight characters long, contains both uppercase and lowercase letters, at least two numbers, and at least one punctuation symbol. The tradeoff, of course, with such "strong" passwords is that they're not always easy to remember.

You might try using mnemonic devices to remember your passwords (tnwoeIgtra33p!!= there's no way on earth I'm going to remember all 33 passwords!!). In practice, though, like many, you may find yourself breaking the next general rule.

Don't write down your passwords

You may keep track of all of your different account and website passwords by writing them down. That's really not a good idea, though. It's a particularly bad idea to keep your list of passwords on a file stored on your computer or mobile device. The risks are obvious--just imagine the consequences if your password list were to fall into the wrong hands.

If all the mnemonic tricks in the world aren't going to help you remember the seemingly countless number of passwords you need to be able to recall on a regular basis, and there's just no way that you're going to part with that password list, consider a password manager program or application. These programs encrypt your login and password information--basically, you only need to memorize one password: the one that lets you access the password manager.

If you do keep a password list, make sure the list is stored someplace safe, and that it's not readily accessible by others. For example, don't leave your list of passwords open on your desk, right next to your computer.

Do use different passwords for different accounts

When you spend the time coming up with a strong password that you can remember, there's an overpowering temptation to use that same password everywhere you can. Bad idea. You should always try to use a different username and password with each account. The danger in using the same username and password for everything is that if one of your accounts is compromised, all of your accounts are at risk. And change your password periodically; change it immediately if you see any suspicious activity in your account.

Don't let your guard down

Good password practices and a little common sense can go a long way in protecting you from cyberthieves. The key is to avoid common mistakes, educate yourself on basic Internet security practices, and stay on top of things by regularly checking your accounts. Above all, don't be lazy--the time and effort you'll spend today implementing effective passwords is nothing compared to the problems you'll face if you find that you're not the only one with access to your accounts.

Ask the Experts

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

Heling Associates, Inc. is a fee-only financial and investment advisory firm that has been providing financial planning, financial counseling, and portfolio management services since 1991. The firm is registered as an investment advisor with the Department of Financial Institutions of the State of Wisconsin. If you've been thinking about seeking help from an objective and professional financial advisor, we welcome your inquiry. While every effort has been made to ensure that information and data presented in this publication is accurate, we cannot, in fact, assure such accuracy is achieved. While publications may, on occasion, mention specific securities and investment vehicles, readers are advised that such mention does not constitute an investment recommendation. You should only invest after consulting us or another professional financial advisor who can assist you in determining your goals, risk capacity, and risk tolerance.

HELING ASSOCIATES
Bringing the Personal to Financial Planning

Are hobby expenses deductible?

So, you have a hobby that you enjoy. Lately, you have been viewing the hobby as a possible source of income. Of course, you will have to report that income on your income tax return. But can you deduct your hobby expenses?

If your activity qualifies as a business, you are able to deduct qualified business expenses, even if they exceed income from your business. However, there is a hobby loss rule designed to limit the deduction of losses when an activity is not carried on to make a profit. (The rule does not apply to C corporations.)

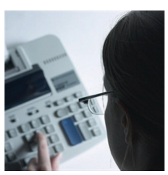
Whether you carry on an activity to make a profit is determined by all relevant facts and circumstances. However, your activity will be presumed carried on for profit if it produces a profit in at least three of the last five years (two out of seven for certain activities involving horses). The IRS can rebut this presumption.

When you first start out, it may be difficult to show a profit. You can elect to have the three out of five years (or two out of seven years) presumption made after you have the five (or seven) years of experience allowed by the test. You do this by filing Form 5213 (generally, within three years of the due date--determined without extensions--for filing your income tax return for the first year of the activity). Filing the form delays the IRS determination of whether your activity was carried on for a profit. It also extends the period of limitations for possible denial of hobby loss deductions until two years after the end of the five- (or seven-) year period.

If your activity is not carried on for profit, deductions from the activity are limited:

1. You can take any deductions that would be allowable for personal purposes, such as real estate taxes or home mortgage interest.
2. Deductions that do not result in an adjustment to basis can be taken, limited to the excess of income from the activity over deductions in (1).
3. Deductions that result in an adjustment to basis (for example, depreciation) can be taken, limited to the excess of income from the activity over deductions in (1) and (2).

Deductions claimed under (2) or (3) are miscellaneous deductions, which are allowable only to the extent all such deductions exceed 2% of your adjusted gross income.



Are business start-up costs deductible?

Generally, costs that you incur prior to the time that you actually begin operating a business are treated as capital expenditures, which are part of your basis in the business. However, certain start-up expenditures may be deducted, either in the first year of business or over time (amortized).

Such start-up costs must be incurred before the business begins operation and be ones that otherwise would be deductible as a normal business expense. Certain syndication costs of marketing or selling interests in a new business cannot be deducted, and must be capitalized.

You may elect to deduct your business start-up costs. If you make the election, you may deduct up to $5,000 of start-up costs in the taxable year in which you actively start the business. The $5,000 amount is reduced (but not below zero) to the extent that start-up costs for the business exceed $50,000. Thus, no first-year deduction is available if start-up costs exceed $55,000. The remainder of the start-up costs are amortized over a period of 180 months. If you do not elect to deduct your start-up costs, you must capitalize them.

You deduct amortized start-up costs in equal amounts over a period of 180 months. You take the total start-up costs, reduced by the amount you deduct in the year you start the business, and divide that amount by the 180 months in the amortization period. This figure is the amount deductible each month. If the business is terminated before the end of the 180-month amortization period, you may be able to deduct as a business loss any remaining start-up costs that have not been previously deducted.

Example: *You incur $52,000 of costs starting up your business before it begins operation and elect to deduct start-up costs. In the year your business actively starts, you can deduct $3,000 of start-up costs [$5,000 - ($52,000 - $50,000)]. You can also deduct the remaining $49,000 ratably over 180 months, or $272.22 a month for 180 months; your deduction for a year with 12 months of amortization would be $3,266.67.*

Tip: *You are deemed to have elected to deduct eligible start-up expenses unless you affirmatively elect to capitalize the expenses on a timely filed federal income tax return.*