



**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

What a wonderful month May has been. The weather here in Wisconsin has finally become "seasonal" and it began to look like Spring. After dealing with a growing sense of overvaluation and political problems both domestic and international, the markets finally turned positive and it looks like we'll end the month with all client portfolios advancing for the month, continuing our pattern of zig-zag monthly returns and keeping all client portfolios in positive territory for the year. Likewise, all investment categories remain up for 2014 with the exception of US small company stocks.

Kate and I will be spending a week in Bayfield in mid-June but I should otherwise be available for meetings or conversations. Have a great month of June!

Bruce Heling, CFP CPA  
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**June 2014**

Top 10 Tax Breaks You'll Miss in 2014

Financial Choices: College, Retirement, or Both?

Some Things to Consider about Gifts to Children

Are con artists adopting trendy twists on old scams?

# THE PERSONAL PLANNER

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

## Top 10 Tax Breaks You'll Miss in 2014



You probably didn't notice, but when the clock struck midnight on December 31, 2013, a number of popular tax benefits, commonly included in the list of provisions referred to as "tax extenders" expired. While it's possible that Congress could retroactively extend some or all of these items, you'll have to evaluate your 2014 tax situation based on the fact that they're no longer available.

### 1. Qualified charitable distributions

For the past few years, a qualified charitable distribution (QCD) of up to \$100,000 could be made from an IRA directly to a qualified charity if you were age 70½ or older. Such distributions were excluded from income *and* counted toward satisfying any required minimum distribution (RMD) that you would otherwise have had to take from your IRA for that tax year. QCDs aren't an option for 2014, however.

### 2. Qualified small business stock exclusion

For qualified small business stock issued and acquired after September 27, 2010, 100% of the capital gain resulting from a sale or exchange could be excluded from income, provided certain requirements, including a five-year holding period, are met. For qualified small business stock issued and acquired after 2013, however, the amount that can be excluded from income drops to 50%.

### 3. Deduction for higher education expenses

The above-the-line deduction for qualifying tuition and related expenses that you pay for yourself, your spouse, or a dependent is not available for 2014.

### 4. Classroom educator expense deduction

The above-the-line deduction for up to \$250 of unreimbursed out-of-pocket classroom expenses paid by qualified education professionals also expired at the end of 2013.

### 5. State and local sales tax deduction

If you itemize deductions for the 2014 tax year, you won't have the option of claiming a deduction for state and local sales tax in lieu of the deduction for state and local income tax.

### 6. Depreciation and expense limits

The maximum amount that can be expensed under Internal Revenue Code Section 179 drops significantly from its 2013 level of \$500,000 to \$25,000 for 2014. The special 50% "bonus" first year additional depreciation deduction has also ended.

### 7. Mortgage insurance premiums

Starting in 2014, individuals who itemize deductions will no longer have the ability to treat premiums paid for qualified mortgage insurance as deductible interest on IRS Form 1040, Schedule A.

### 8. Employer-provided commuter expenses

For 2013, you could exclude from income up to \$245 per month in transit benefits (e.g., transit passes) and \$245 per month in parking benefits. For 2014, the monthly limit for qualified parking increases to \$250, but the monthly limit for transit benefits drops to \$130.

### 9. Energy efficient home improvements and property

The nonbusiness energy property credit offset some of the costs associated with the installation of energy efficient qualified home improvements (e.g., insulation, windows) and qualified residential energy property (e.g., water heater, central air). Specific qualifications and limits applied, and an overall lifetime cap of \$500 was in effect for 2013. The credit is not available at all in 2014.

### 10. Discharge of debt on principal residence

Since 2007, individuals have generally been allowed to exclude from income amounts resulting from the forgiveness of debt on their principal residence. This provision expired at the end of 2013.

## Financial Choices: College, Retirement, or Both?



### A juggling act

*It's the paramount financial conflict many families face, especially as more couples start having children later in life. Should you save for college or retirement? The pressure is fierce on both sides.*

### Note

*\*All investing involves risk, including the possible loss of principal, and there can be no guarantee that any investing strategy will be successful.*

Life is full of choices. Should you watch *Breaking Bad* or *Modern Family*? Eat leftovers for dinner or order out? Exercise before work or after? Some choices, though, are much more significant. Here is one such financial dilemma for parents.

### Should you save for retirement or college?

It's the paramount financial conflict many parents face, especially as more couples start having children later in life. Should you save for college or retirement? The pressure is fierce on both sides.

Over the past 20 years, college costs have grown roughly 4% to 6% each year--generally double the rate of inflation and typical salary increases--with the price for four years at an average private college now hitting \$192,876, and a whopping \$262,917 at the most expensive private colleges. Even public colleges, whose costs a generation ago could be covered mostly by student summer jobs and some parental scrimping, now total about \$100,000 for four years (Source: College Board's Trends in College Pricing 2013 and assumed 5% annual college inflation). Many parents have more than one child, adding to the strain. Yet without a college degree, many jobs and career paths are off limits.

On the other side, the pressure to save for retirement is intense. Longer life expectancies, disappearing pensions, and the uncertainty of Social Security's long-term fiscal health make it critical to build the biggest nest egg you can during your working years. In order to maintain your current standard of living in retirement, a general guideline is to accumulate enough savings to replace 60% to 90% of your current income in retirement--a sum that could equal hundreds of thousands of dollars or more. And with retirements that can last 20 to 30 years or longer, it's essential to factor in inflation, which can take a big bite out of your purchasing power and has averaged 2.5% per year over the past 20 years (Source: Consumer Price Index data published by the U.S. Department of Labor, 2013).

So with these two competing financial needs and often limited funds, what's a parent to do?

### The prevailing wisdom

Answer: retirement should win out. Saving for retirement should be something you do no matter what. It's an investment in your future security when you'll no longer be bringing home a paycheck, and it generally should take precedence over saving for your child's college education.

It's akin to putting on your own oxygen mask first, and then securing your child's. Unless your retirement plan is to have your children be on the hook for taking care of you financially later in life, retirement funding should come first.

### And yet ...

It's unrealistic to expect parents to ignore college funding altogether, and that approach really isn't smart anyway because regular contributions--even small ones--can add up over time. One possible solution is to figure out what you can afford to save each month and then split your savings, with a focus on retirement. So, for example, you might decide to allocate 85% of your savings to retirement and 15% to college, or 80/20 or 75/25, or whatever ratio works for you.

Although saving for retirement should take priority, setting aside even a small amount for college can help. For example, parents of a preschooler who save \$100 per month for 15 years would have \$24,609, assuming an average 4% return. Saving \$200 per month in the same scenario would net \$49,218.\* These aren't staggering numbers, but you might be able to add to your savings over the years, and if nothing else, think of this sum as a down payment--many parents don't save the full amount before college. Rather, they try to save as much as they can, then look for other ways to help pay the bills at college time. Like what?

Loans, for one. Borrowing excessively isn't prudent, but the federal government allows undergraduate students to borrow up to \$27,000 in Stafford Loans over four years--a relatively reasonable amount--and these loans come with an income-based repayment option down the road. In addition, your child can apply for merit scholarships at the colleges he or she is applying to, and may be eligible for need-based college grants. And there are other ways to lower costs--like attending State U over Private U, living at home, graduating in three years instead of four, earning credits through MOOCs (massive open online courses), working during college, or maybe not attending college right away or even at all.

In fact, last summer, a senior vice president at Google responsible for hiring practices at the company noted that 14% of some teams included people who never went to college, but who nevertheless possessed the problem solving, leadership, intellectual humility, and creative skills Google is looking for ("In Head-Hunting, Big Data May Not Be Such a Big Deal," *New York Times*, June 19, 2013). One more reason to put a check in the retirement column.

## Some Things to Consider about Gifts to Children



*If you have property that would produce a loss if sold, you should consider selling the property, claiming the loss, and transferring the proceeds to the child, rather than transferring the property to the child who would not be able to claim the loss.*

If you make significant gifts to your children or someone else's children, or if someone else makes gifts to your children, there are a number of things for you to consider.

### Transfers that are not taxable gifts

There are a variety of ways for you to make transfers to children that are not treated as taxable gifts for gift tax purposes. Filing a gift tax return is generally required if you make gifts (other than qualified transfers) totaling more than \$14,000 to an individual during the year.

- **Providing support.** When you provide support to a child, it should not be treated as a taxable gift if you have an obligation to provide support under state law. This may provide a large umbrella for parents of minor children, college-age children, boomerang children, and special needs children.
- **Annual exclusion gifts.** You can generally make gifts of up to \$14,000 per child gift tax free each year. If you split gifts with your spouse, the amount is effectively increased to \$28,000. In the case of a gift to a qualified tuition program (529 plan) for a child, the annual exclusion can be effectively increased to five times the above amounts (i.e., to \$70,000, or \$140,000 if you split gifts with your spouse).
- **Qualified transfers for medical expenses.** You can make unlimited gifts for medical care gift tax free, provided the gift is made directly to the medical care provider.
- **Qualified transfers for educational expenses.** You can make unlimited gifts for tuition gift tax free, provided the gift is made directly to the educational provider.

The same exceptions for transfers that are not taxable gifts generally apply for purposes of the generation-skipping transfer (GST) tax. The GST tax is a separate tax that generally applies when you transfer property to someone who is two or more generations younger than you, such as a grandchild.

### Income tax issues

A gift is not taxable income to the person receiving the gift. However, when you make a gift to a child, there may be several income tax issues regarding income produced by the property or from sale of the property.

- **Income for support.** Income from property owned by your children will be taxed to you if used to fulfill your obligation to provide support.
- **Kiddie tax.** Children subject to the kiddie tax are generally taxed at their parents' tax rate

on any unearned income over a certain amount. For 2014, this amount is \$2,000 (the first \$1,000 is tax free and the next \$1,000 is taxed at the child's rate). The kiddie tax rules apply to: (1) those under age 18, (2) those age 18 whose earned income doesn't exceed one-half of their support, and (3) those ages 19 to 23 who are full-time students and whose earned income doesn't exceed one-half of their support. If the child's income would be taxed at the parents' high tax rates, it may make sense to invest in ways that can produce nontaxable income (e.g., tax-exempt bonds) or defer taxation (e.g., Series EE bonds) until after the kiddie tax period.

- **Basis.** When you make a gift, the person receiving the gift generally takes an income tax basis equal to your basis in the gift. (This is often referred to as a "carryover" or "transferred" basis.) The carried-over basis is increased--but not above fair market value (FMV)--by any gift tax paid that is attributable to appreciation in value of the gift (appreciation is equal to the excess of FMV over your basis in the gift immediately before the gift). The income tax basis is generally used to determine the amount of taxable gain if the child then sells the property. However, for purpose of determining loss on a subsequent sale, the carried-over basis cannot exceed the FMV of the property at the time of the gift.

### Gifts to minors

Outright gifts should generally be avoided for any significant gifts to minors. In that case, you may wish to consider a custodial gift or a trust for a minor.

- **Custodial gifts.** Gifts can be made to a custodial account for the minor under your state's version of the Uniform Gifts/Transfers to Minors Acts. The custodian holds the property for the benefit of the minor, generally until an age (often 21) specified by state statute. Generally, any adult or trust company can be the custodian, but check state law.
- **Trust for minor.** A Section 2503(c) trust is a trust specifically designed to obtain the gift tax annual exclusion for gifts to a minor. Principal and income can be distributed to the minor before age 21, but there is no requirement of any distribution to the minor before age 21. The minor does generally gain access to undistributed income and principal at age 21.

Consult a tax professional for more information about your specific situation.

## 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>

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## Are con artists adopting trendy twists on old scams?

In a word, yes. You may be great at deleting e-mails from Nigerian princes to avoid online phishing, but fraudsters keep coming up with new schemes for prying information or money from potential victims. And while scams sometimes involve hot topics that are getting a lot of attention in the news, which may make them seem legitimate, they still may be based on old-school techniques such as phone calls.

If a broker contacts you about investing in high-yielding certificates of deposit, don't provide any information or send money right away. Why? Because of reports that scammers have been posing as brokers to pitch CDs, claiming to represent a legitimate firm--perhaps even one that you already do business with. They may give you a number to call or offer to have their supervisor send you forms to help you transfer funds in an attempt to acquire data that can be used to steal either your money or identity. Even caller ID can be rigged to fake a firm's number; check the number independently with the firm's website or your own records and call directly to verify the caller's identity.

Another area ripe for fraud is linked to the

recent legalization of medical or recreational marijuana in some states. As with any enterprise making headlines, so-called "pump-and-dump" artists have begun touting small, thinly traded companies linked to that industry. In many cases, they hope to inflate demand and drive up the stock price quickly--the "pump"--and then dump their vastly inflated shares at a profit, leaving their victims holding the bag(gie). Any unproven company in a relatively new industry deserves extra scrutiny of its financials, management, business plan, and other information. Don't be rushed into a decision just because a stranger tells you the window of opportunity is closing or promises fast profits.

Finally, if you receive a phone call threatening you with jail time or the loss of your driver's license unless you pay what you owe the IRS, don't panic, even if they cite part of your Social Security number or you also get a call from your local police department or motor vehicles department that seems to "verify" the claim. Again, your first step should be to contact the IRS, police, or motor vehicles department on your own, using a phone number you obtained yourself rather than one provided by a caller.

# THANK YOU



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LET MUSIC SWELL THE BREEZE,  
AND RING FROM ALL THE TREES,  
SWEET FREEDOM'S SONG