Summer 2004

Your Bottom Line

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Navigating a clear course toward your financial security.

The Falling Dollar


David A. Batchelder

You may have heard about the "falling dollar," but not paid much attention. Perhaps you should. If you travel overseas, invest domestically or internationally, or buy any imported products, the falling U.S. dollar has an impact on your personal finances. In short, a "falling" dollar buys less abroad than it once did. Here are the major effects and changes you might make in your finances to minimize or take advantage of the impacts.

Consumer goods. Many products that Americans buy, from cars to electronics to apparel, are imported. Some foreign products, such as many Asian cars, are actually manufactured in the United States to mitigate the effect of fluctuating currency. Still, numerous imported products have risen in price. The obvious counter strategy, of course, is to buy American.

Travel. It is likely that hotels, meals and tourist sites are going to cost more for Americans traveling to certain parts of the world, including Europe, Japan, Canada and Australia because U.S. dollars will not buy as much of the local currency as before. The dollar is not falling everywhere. For example, the dollar has risen against the currencies of Mexico and several Latin American nations, making them cheaper travel destinations.

Investing. While you may not want to travel overseas in the near future because of the cost, you may want to consider investing abroad. Many foreign stocks and bonds have performed well for U.S. investors, and no small part of those good returns has been due to the falling dollar.

As with any investment decision, you should be wary of chasing performance. Many experts predict that the U.S. dollar will remain weak for much, if not most, of 2004. However, the risk here, naturally, is that they could be wrong and the dollar unexpectedly begins to rebound against foreign currencies. That would influence international investment returns and returns of American companies that conduct business abroad.

Ultimately, most investors should think long term. For one thing, currency fluctuations generally even out over time. Second, the primary benefit of devoting a portion of your portfolio to overseas investments is not to ride the winds of currency fluctuations, but to diversify and reduce overall investment risk. ❖

Summer Day Camp

Many working parents must arrange for care of their younger children during the school vacation period. A popular solution – with favorable tax consequences, according to the IRS – is a day camp program. Unlike overnight camps, the cost of day camp counts as an expense towards the child and dependent care credit. Of course, even if your child care provider is a sitter at your home, you'll get some tax benefit if you qualify for the credit.

You figure the credit on up to $3,000 of expenses, $6,000 for two or more children. The credit rate ranges from 20% to 35% of expenses, depending on your income. The 35% rate applies if your income is under $15,000; the 20% rate, if your income is over $43,000.

For more information, see IRS Publication 503, Child and Dependent Care Expenses, available on the IRS Web site at www.irs.gov in the Forms and Publications section, or order it by calling toll free 1-800-TAX-FORM (1-800-829-3676). ❖

2004 Retirement Plan Contribution Limits

Retirement Plan	Amount	Over Age 50
IRA & Roth IRA	$3,000	$3,500
401(k), 403(b)	$13,000	$16,000
457, SEP	$13,000	$16,000
SIMPLE 401(k)	$9,000	$10,500

Moving This Summer? . . . .

Warren Mackensen

Many people with children find it less disruptive to move during the summer months when school is not in session. Whether you have children or not, you may find these reminders helpful:

Your moving expenses may be deductible on your federal tax return if you meet certain tests relating to all three of the following requirements:

- Your move is closely related to the start of work at a new job location,
- You meet the distance test, and
- You meet the time test.

However, if your employer reimburses you for the cost of the move, the reimbursement may have to be included on your tax return.

Many people find that home ownership allows them to itemize deductions on their tax returns. If you're a first-time homeowner, you should know that mortgage interest, "points" paid to obtain the mortgage, and real estate taxes are deductible expenses that can be itemized to help reduce the amount of taxes you owe. Other expenses that can be itemized and deducted include medical costs, certain state and local tax payments, charitable contributions, casualty losses and certain miscellaneous deductions. If the total amount of your itemized deductions is more than the standard deduction amount, you usually benefit by itemizing your deductions.

If you sell your main home, you may be able to exclude up to $250,000 of gain ($500,000 for married taxpayers filing jointly) from your federal tax return when it's time to do your taxes. This exclusion is allowed each time that you sell your main home, but generally no more frequently than once every two years. To be eligible for this exclusion, your home must have been owned by you and used as your main home for a period of at least two out of the five years prior to its sale. You also must not have excluded gain on another home sold during the two years before the current sale.

If you and your spouse file a joint return for the year of the sale, you can exclude gain if either of you qualify for the exclusion. But both of you would have to meet the use test to claim the $500,000 maximum amount.

If you do not meet the ownership and use tests, you may be allowed to use a reduced maximum exclusion amount if you sold your home due to health, a change in place of employment or unforeseen circumstances. Unforeseen circumstances can include divorce or a disaster resulting in a casualty to your home, for example.

If you have a new address, notify the U.S. Postal Service, so it can forward your mail. The Postal Service will also pass your new address on to the IRS, which will update your account.

You may also notify the IRS directly by sending Form 8822, Change of Address. Remember to let your employers know about any address changes so you'll receive your W-2s after the end of the year. ❖

Procrastination Costs Money . . . .

Over 25% of affluent Americans have not properly planned the disposition of their estates. Among less wealthy Americans, the percentage is far higher. The major reason for this inaction is simple procrastination. People do not plan on dying any time soon, so what's the rush? The reality is that we never know when we will die.

In the next 50 years, there will be a wealth transfer of over $40 trillion dollars. Of that amount, about $25 trillion will go directly to heirs. The $15 trillion dollar difference amounts to "friction" during the transfer process. The friction appears in the form of needless legal fees and unnecessary estate taxes. With proper planning, the transfer wheels can be greased to reduce the friction.

Start by creating an inventory of your assets. Subtract your liabilities. Add in the face value of your life insurance policies. The total is the value of your estate. Then make an appointment with an estate planning attorney. If you are unsure who to call, we can help. ❖

Mackensen & Company, Inc., is a fee-only financial planning and investment management firm. No commissioned products are sold. For further information, call:

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