



Your Bottom Line

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Navigating a clear course toward your financial security.



Warren Mackensen

Energy Conservation Incentives

Congress passed a new law, the Energy Tax Incentives Act of 2005, which promotes conservation and alternative energies. The law, which became effective January 1, contains many homeowner-friendly tax credits that encourage energy conservation through the purchase and construction of energy-saving equipment and property.

Energy-saving improvements: You may claim a tax credit, up to a maximum of \$500, for improvements to your principal residence. There are two parts to the credit.

Part 1 is a 10% credit for qualifying improvements to the “building envelope.” These include insulation material, exterior windows (including skylights), and exterior doors that meet certain energy standards.

Part 2 is a credit of (a) \$50 for each advanced main air circulating fan; (b) \$150 for each qualified natural gas, propane, or oil furnace or hot water boiler; and (c) \$300 for qualified energy-efficient property, including heat pumps, water heaters, and central air conditioners.

Residential alternative energy credit is available for the acquisition of equipment that heats

water or generates electricity for use around the home. A homeowner may claim an energy credit for up to 30% of the cost of photovoltaic cells (i.e., solar electric panels), up to a maximum credit of \$2,000 credit. Similarly, an energy credit of up to 30% is allowed for the installation of a solar hot water system, up to a maximum credit of \$2,000.

Clients who buy gasoline/electric hybrid automobiles qualify for a \$2,000 tax credit. The amount of the new credit is the sum of both the fuel efficiency credit and the conservation credit. The fuel economy credit is based on a vehicle’s increase in fuel economy over a 2002 comparable vehicle standard. The conservation credit is based on the estimated lifetime fuel savings of a qualifying vehicle compared to a comparable 2002 model year vehicle. The largest credit available for a passenger automobile is \$3,400. ❖

2006 Retirement Plan Contribution Limits

Retirement Plan Contribution Limit	Under Age 50	Age 50 or Over
IRA & Roth IRA	\$4,000	\$5,000
401(k), 403(b), 457	\$15,000	\$20,000
SIMPLE IRA	\$10,000	\$12,500
SIMPLE 401(k)	\$10,000	\$12,500
SEP, Profit Sharing	\$44,000	\$44,000

Car Donations

The rules for car donations have been tightened. No deduction is allowed for a donation of a car with a claimed value of more than \$500 unless the charity provides the donor with a contemporaneous written acknowledgment, which must be included with the donor’s tax return.

If the charity sells the vehicle, the deduction is limited to the gross proceeds received from the sale (typically less than the vehicle fair market value). There are three exceptions: The gross proceeds limitation does not apply (1) when there has been “significant intervening use” of the vehicle by the charity before the sale; (2) when the charity makes material improvements to the vehicle; or (3) when there is a bargain sale or a gift of the vehicle by the charity to a needy individual. To qualify for this exception, the sale or gift must directly advance a charitable purpose of the charity to help the poor, distressed or underprivileged in need of a means of transportation.

Charities face penalties unless they provide their donors with proper acknowledgments and provide the IRS with required information reports using Form 1098-C. ❖



David A. Batchelder

Prepaying for Your Funeral

Preplanning your own funeral, while difficult for most of us, can help ease the emotional and financial burden for your survivors at a stressful time. But should you *pay* in advance for your funeral?

Prepaying for a cemetery plot, for the funeral service, and for funeral merchandise such as a casket or headstone has its benefits. But as with many financial purchases, one should explore the options carefully before deciding.

Prepaying can provide peace of mind for you and your loved ones. It also generally ensures that you get what you want, such as the casket or type of service. This is especially true of a cemetery plot. The location you desire today might not be available 10 or 20 years from now if you wait until death to buy it.

Experts also say that arranging and paying for a funeral in advance tends to result in lower cost, versus waiting until death when family emotions may drive decisions. You are also paying for tomorrow's funeral at today's prices.

But prepaying carries its risks. What if you move and want to be buried somewhere else, or you decide later to go with another funeral home? Does the plan allow for a full refund or can the funds be transferred to another funeral home? Often you will have to pay an administrative or penalty fee for the right to transfer or cancel a funeral contract.

Prepaying does not always guarantee that all future funeral expenses will be covered. For example, inflationary increases for some funeral expenses are not controlled by the funeral home, such as flowers or obituaries. These costs may outstrip the earnings of the prepaid plan. Thus, your loved ones either pay the difference or substitute something less expensive.

If you decide to prepay, you may have several options from which to choose. First, the funeral home may have established with a financial institution a trust designed to hold funds for future funerals (and the cemetery plot if they provide that). These usually are state-regulated irrevocable trusts in which all or most of the advance payment is invested (some states allow funeral homes to retain ten percent of the payment for current use).

Ideally, you should know the financial institution administering the trust and receive an annual statement to ensure the funds are being handled according to the contract. Also, find out what happens to the interest earned by the trust. Some funeral homes take that interest for administrative costs.

A third option is a payable-on-death Totten trust. In this case, you set up this payable-on-death (POD) account at a financial institution such as a bank, often with the funeral home named as the beneficiary, though it is not required. The funds are designated for funeral expenses and transfer without going through probate.

Another option is to simply set up your own investment account that you earmark for funeral expenses. Determine current expenses for the funeral you want and invest that amount. Inflation of funeral expenses typically has followed the general rate of inflation, so reasonable investments should give your loved ones enough funds at the time to arrange for the type of funeral you have preplanned.

This arrangement gives you more flexibility should you move or change plans; however, it cannot guarantee, as do the other options, that your loved ones will spend the money as you wish. ❖

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