



Your Bottom Line

PUBLISHED QUARTERLY BY: MACKENSEN & COMPANY, INC. FEE-ONLY FINANCIAL PLANNERS
Navigating a clear course toward your financial security.

Focus on Your Finances

Ahhh, welcome routine! Just as we looked forward to summer's pace – lounging in the hammock, spontaneous backyard get-togethers, visits to the beach – so do we welcome the fall and a return to order. The hint of cold weather reminds us that this is a season to get organized.



Susan Veligor

Fall is a good time to focus attention on finances (and plant mums!). As we approach the final months of the year, you should review a current

wage stub to evaluate how close you will come to maximizing contributions to your company retirement plan by year's end. In 2003, you may defer up to \$12,000 of taxable wages by investing in your 401(k), 403(b), or 457 plan (\$14,000 if you are age 50 or older.) If you are not on track to reach the maximum, talk to your benefits department about changing your paycheck contributions.

The best thing about company retirement plans is that they provide you with an opportunity for relatively painless saving: the money is withheld directly from your pay, so it never gets into your pocket.

Everyone should consider opening an Individual Retirement

Account. Consider investing in an IRA even when you don't have earned income, as long as you have a spouse who does. You may contribute up to \$3,000 to an IRA in 2003 (\$3,500 if you are age 50 or older,) and usually deduct this from taxable income. For painless saving, establish an automatic investment plan with an investment company and have money taken directly from your bank account on a regular basis to purchase shares of a mutual fund.

Consistent and disciplined investing is the key to growing a nest egg. Unfortunately, most people are not saving enough money for their future. In fact, more than 40% of the population over age sixty have saved less than \$10,000 for retirement. Many people believe that Social Security income will support them in retirement. The Social Security Administration will tell you that its benefits are not intended to meet 100% of your income needs in retirement.

The sun sits lower in the sky, the maple leaves are turning, it's time to buy a pumpkin. Think a moment about your own golden years – you will be there someday – and make a commitment to a financially secure future. And remember, it's never too late to get started! ❖

Warren Mackensen completes six years on NAPFA Board

Warren has just completed six years on the National Association of Personal Financial Advisors (NAPFA) Board of Directors, four of them as the association Treasurer.

NAPFA is the largest professional association of fee-only comprehensive financial planners in the United States. Over 900 members and affiliates nationwide provide consumers and institutions with objective financial advice on a fee-only basis.



Warren Mackensen

NAPFA members take a fiduciary oath that requires them to act in the best interests of the client. Members believe that to keep the best interests of clients in mind, neither the advisor nor any related party should receive compensation contingent on the purchase or sale of a financial product. ❖

Time to Review Your Charitable Giving



Jill Boynton

Do you donate to your favorite charity? If so, you should review your charitable giving plans in light of the new tax act. While the Jobs and Growth Tax Relief Reconciliation Act does not directly alter any charitable planning laws, the reduction of ordinary income tax rates and capital gains and dividend tax rates will have an impact on how you design a charitable giving program.

What are the positives and negatives? Donating to charities has become more expensive for taxpayers. For example, a taxpayer in the highest tax bracket in 2002 who donated \$10,000 in cash to a charity would save \$3,860 in federal income taxes. So basically, it cost the taxpayer \$6,140 out of pocket to make the \$10,000 gift. With the top rate lowered 3.6 percent for 2003, it will cost the taxpayer \$6,500 out of pocket to make the same gift – an increase of \$360. But the new lower tax rates mean taxpayers end up with more after-tax dollars in their pockets, giving them that much more money to donate to charity.

Do you donate appreciated assets such as stocks, bonds and real estate that have a low cost basis? If so, read on. The act lowered the maximum capital gains on stocks and bonds from 20 percent to 15 percent. That means it costs you more to gift such assets. Yet you're usually still better off donating appreciated stock rather than selling it first, paying 15

percent to taxes, then donating the remaining cash to the charity.

Are you better off donating other appreciated assets such as artwork or antiques, or other personal tangible property like jewelry? Yes. Any capital gains on those collectibles remain taxed at 28 percent. Therefore, you receive a better tax break donating a \$10,000 painting than \$10,000 in stocks, assuming each has the same amount of capital gains.

Important point – if the gift is related to the mission of the charity, you can deduct the fair market value of the asset – for example, donating a painting to an art museum. Donate the painting to your church and you can deduct only your adjusted basis for the painting.

Is there a better tax-valuable gift than stocks or bonds? Yes, there is: real estate. The difference between the original cost basis of the real estate and the amount deducted previously for depreciation is subject to a 25 percent recapture tax, which you can avoid through donation. However, the real estate must not be tied to a mortgage.

You should also review your charitable remainder trusts (CRTs) and charitable gift annuities if you have them. CRTs pay out income to the donor with the remaining assets eventually passing to the charity. To take advantage of the lower capital gains and dividend tax rates, consider shifting the trust's asset mix more

heavily into stocks, though you also have to consider the added investment risk.

A charitable gift annuity may look even more attractive than a CRT. With CRTs, the highest-taxed income – usually ordinary income – is distributed first. With a charitable gift trust, the charity pays out an annuity based on the donor's gift. A portion of each payment to you is a tax-free return of your basis. Also, capital gains and dividend income figure into a larger portion of each payment than they would under a CRT. Thus, with the lower capital gains rates, donors end up with a larger after-tax payout.

Even with the lower tax rates on gains and dividends, it generally still makes tax sense to donate appreciated property. But exactly how to do it best can be complicated, so please do not hesitate to contact us to see which strategy works best for you under the new tax act. ❖

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

MACKENSEN & COMPANY, INC.
FEE-ONLY FINANCIAL PLANNERS

6 Merrill Drive
Hampton, NH 03842-1970
603-926-1775
800-927-7365
fax: 603-926-1249

web address: www.mackensen.com
email: info@mackensen.com