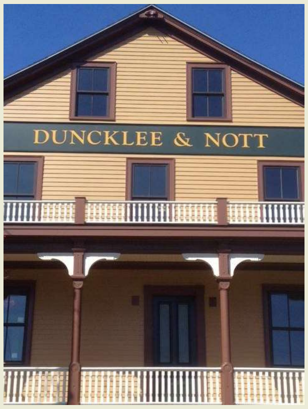

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Greetings,

Summer is on the way! That means we have a couple events coming up. First, we have our **Open House and Shredding Event on June 28th, from 4:00 - 4:30** . Feel free to stop by and drop off any shredding. Also, we have our **21st annual Duncklee & Nott Open golf tournament coming up on July 20th** . The details were in the paper newsletter, but give us a call with any questions or to sign up.

We also are pleased to announce that we will have two interns this summer, with one continuing on more permanently. Alex Guiou is currently a Junior at Saint Joseph's College studying finance (and also Ken's nephew) and will be around through mid-August. Derek Vigue will be starting in late June, and will be full time, year-round. If you see them around the office, be sure to say "hi!"

Enjoy the summer and this month's articles!

Ken, Megan, Sharon, Angela, and Alex

June 2018 Financial Fitness

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Duncklee & Nott Monthly Newsletter

Should You Buy Your Own Office Space?

Whether you are a long-time business owner or just starting out, this is a question you may eventually face at some point: Should you buy your own office space?

While the answer will depend on the needs of your business and your individual circumstances, you may want to consider the following questions to help determine whether buying your own office space is the best option.

Can you handle the up-front costs?

Do you have the capital to handle the up-front costs associated with buying your own office? Are you taking out a mortgage to purchase the property? If so, you'll have to come up with a down payment, which is usually 10% to 20% of the purchase price, depending on your lender and creditworthiness. You'll also be required to pay certain costs and fees associated with obtaining the mortgage and closing the real estate transaction.

Is the new space move-in ready, or does it need substantial renovations or improvements? Does the space come furnished and properly equipped, or will you need to purchase office furniture and equipment? If you need to make renovations or purchase your own furnishings, you'll have to factor in those costs as well.

What are the tax benefits?

Have you considered the tax benefits of purchasing your own office space? For example, if you are taking out a mortgage loan to purchase the property, the interest you pay on your mortgage loan may be tax deductible. You may be able to deduct other expenses as well, such as repair/maintenance costs and property taxes.

You might be able to minimize your tax liability even further through asset depreciation. The IRS allows business owners to take a depreciation deduction for a decline in property value over time.

Is there a potential for rental income?

Does the property have more space than you need for your current business? If the office space is big enough, one way to help defray the costs associated with owning your own space is by renting out any extra space you may have.

While you are likely to encounter expenses associated with managing the property for a tenant, you can use the extra rental income to either help increase your business's cash flow or pay down the existing mortgage loan on the property.

Is there room for growth?

Are you planning for your business to occupy your new space for a long period of time? If so, will your new space grow with you? When purchasing your own office space, you'll want to make sure that you will have enough room to grow if you ever choose to expand your business down the road.

How can you benefit from equity and asset appreciation?

Two of the main advantages of real estate investing are equity and asset appreciation. If you are planning on taking out a mortgage to purchase the property, your monthly payments will go toward paying down your principal loan amount, allowing you to build equity in the property. Once you have built up enough equity, you may be able to tap into it as a source of capital for the future growth of your business.

As for asset appreciation, the property may appreciate in value over time. If at a later date you sell the property, you can use any net sale proceeds however you choose, including to help fund additional business ventures or even your retirement savings.

Investing to Save Time Boosts Happiness Returns

"Time famine" is the feeling of being overwhelmed by the demands of work and life. Also known as time scarcity and time stress, this pressure is a "critical factor" in the rising rates of obesity.

Source: "Buying Time Promotes Happiness," PNAS, July 24, 2017

The more money you make, the more valuable you perceive your time to be — and the more time-strapped you may feel, according to University of British Columbia psychology professor Elizabeth Dunn.[1] So wouldn't it stand to reason that if you use some of your hard-earned money to buy yourself more time — for example, by paying someone to clean your house or mow your lawn — you might achieve a greater level of happiness? Indeed, that was the primary finding in a series of studies by Professor Dunn and other researchers published in the Proceedings of the National Academy of Sciences (PNAS).[2]

The discovery

The study's authors surveyed 6,000 individuals at diverse income levels in multiple countries, including the United States, Canada, the Netherlands, and Denmark. The surveys queried participants about whether they spent money on a monthly basis to hire others to take care of unpleasant or time-consuming daily tasks or chores — such as cleaning, yard work, cooking, and errand-running — and if so, how much they spent. Respondents were also asked to rate their "satisfaction with life" and report demographic information, such as their income level and whether they were married and had children.

Researchers found that across all national samples, 28.2% of respondents spent an average of about $148 per month to outsource disliked tasks, while in the United States, 50% of respondents spent an average of $80 to $99 on services that save time. Across all studies, those who spent money to outsource disliked tasks and/or save time had a stronger life satisfaction rating. Findings were consistent across income spectrums; in fact, in the United States, researchers found a stronger correlation among the less-affluent respondents. The authors noted, however, that their studies did not include enough people at the lowest end of the income spectrum to attribute similar findings to this group.

Of course, correlation does not necessarily indicate causality, so the researchers designed a follow-up experiment to further test their hypothesis.

In this experiment, researchers gave a group of 40 adults $80 each to spend over the course of two weekends. During the first weekend, they were to spend $40 on something that would save them time, such as ordering groceries online and having them delivered. On the second weekend, they were directed to spend $40 on a nice material purchase, such as clothes, board games, or a bottle of wine. On average, those who spent money to save time reported better moods at the end of the day than those who purchased material goods. And according to the researchers, over time, the effect of regular mood boosts can add up to greater overall satisfaction with life.

In a third study, researchers asked respondents how they would spend an extra $40. Just 2% indicated they would use the unexpected bonus to invest in time-saving services.

Perhaps most surprising of all the findings? Researchers polled 800 millionaires from the Netherlands about whether they spent money to save time. Despite the fact that these individuals could readily afford to hire others to take care of time-consuming tasks, only about half of them reported doing so on a monthly basis. Researchers surmise that the reason might be because such individuals feel guilty or don't want to be perceived as lazy for outsourcing chores they can easily do themselves.

The lesson

"If you have a lot of money and a lot of nice stuff, but you're spending your time doing things that you dislike, then your minute-to-minute happiness and overall happiness is likely to be pretty low," said Dunn in an interview about the research.[3] In the PNAS report, the study's authors contend that this may be especially true for women:

"Within many cultures, women may feel obligated to complete household tasks themselves, working a 'second-shift' at home, even when they can afford to pay someone to help. In recent decades, women have made gains, such as improved access to education, but their life satisfaction has declined; increasing uptake of time-saving services may provide a pathway toward reducing the harmful effects of women's second shift."

The bottom line? If you can afford it, don't shy away from spending money to save time. Doing so is an investment that provides immeasurable returns in the form of overall well-being.

1 "What Is Your Time Really Worth?" Elizabeth Dunn, TEDx Colorado Springs, December 1, 2014

2 "Buying Time Promotes Happiness," PNAS, July 24, 2017

3 "A Psychology Expert Says Spending Your Money on This Can Boost Your Happiness," CNBC, November 10, 2017

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Marriage and Money: Taking a Team Approach to Retirement

Open communication and teamwork are especially important when it comes to saving and investing for retirement.

Now that it's fairly common for families to have two wage earners, many husbands and wives are accumulating assets in separate employer-sponsored retirement accounts. In 2018, the maximum employee contribution to a 401(k) or 403(b) plan is $18,500 ($24,500 for those age 50 and older), and employers often match contributions up to a set percentage of salary.

But even when most of a married couple's retirement assets reside in different accounts, it's still possible to craft a unified retirement strategy. To make it work, open communication and teamwork are especially important when it comes to saving and investing for retirement.

Retirement for two

Tax-deferred retirement accounts such as 401(k)s, 403(b)s, and IRAs can only be held in one person's name, although a spouse is typically listed as the beneficiary who would automatically inherit the account upon the original owner's death. Taxable investment accounts, on the other hand, may be held jointly.

Owning and managing separate portfolios allows each spouse to choose investments based on his or her individual risk tolerance. Some couples may prefer to maintain a high level of independence for this reason, especially if one spouse is more comfortable with market volatility than the other.

However, sharing plan information and coordinating investments might help some families build more wealth over time. For example, one spouse's workplace plan may offer a broader selection of investment options, or the offerings in one plan might be somewhat limited. With a joint strategy, both spouses agree on an appropriate asset allocation for their combined savings, and their contributions are invested in a way that takes advantage of each plan's strengths while avoiding any weaknesses.

Asset allocation is a method to help manage investment risk; it does not guarantee a profit or protect against loss.

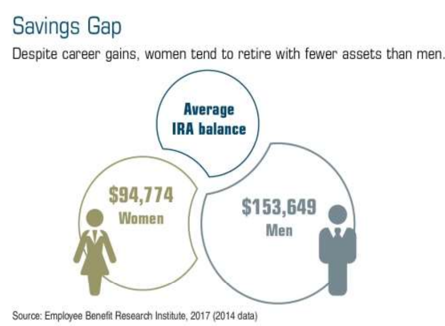
Spousal IRA opportunity

It can be difficult for a stay-at-home parent who is taking time out of the workforce, or anyone who isn't an active participant in an employer-sponsored plan, to keep his or her retirement savings on track. Fortunately, a working spouse can contribute up to $5,500 to his or her own IRA and up to $5,500 more to a spouse's IRA (in 2018), as long as the couple's combined income exceeds both contributions and they file a joint tax return. An additional $1,000 catch-up contribution can be made for each spouse who is age 50 or older. All other IRA eligibility rules must be met.

Contributing to the IRA of a nonworking spouse offers married couples a chance to double up on retirement savings and might also provide a larger tax deduction than contributing to a single IRA. For married couples filing jointly, the ability to deduct contributions to the IRA of an active participant in an employer-sponsored plan is phased out if their modified adjusted gross income (MAGI) is between $101,000 and $121,000 (in 2018). There are higher phaseout limits when the contribution is being made to the IRA of a nonparticipating spouse: MAGI between $189,000 and $199,000 (in 2018).

Thus, some participants in workplace plans who earn too much to deduct an IRA contribution for themselves may be able to make a deductible IRA contribution to the account of a nonparticipating spouse. You can make IRA contributions for the 2018 tax year up until April 15, 2019.

Withdrawals from tax-deferred retirement plans are taxed as ordinary income and may be subject to a 10% federal income tax penalty if withdrawn prior to age 59½, with certain exceptions as outlined by the IRS.



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Can I convert my traditional IRA to a Roth IRA in 2018?

If you've been thinking about converting your traditional IRA to a Roth IRA, this year may be an appropriate time to do so. Because federal income tax rates were reduced by the Tax Cuts and Jobs Act passed in December 2017, converting your IRA may now be "cheaper" than in past years.

Anyone can convert a traditional IRA to a Roth IRA in 2018. There are no income limits or restrictions based on tax filing status. You generally have to include the amount you convert in your gross income for the year of conversion, but any nondeductible contributions you've made to your traditional IRA won't be taxed when you convert. (You can also convert SEP IRAs, and SIMPLE IRAs that are at least two years old, to Roth IRAs.)

Converting is easy. You simply notify your existing IRA provider that you want to convert all or part of your traditional IRA to a Roth IRA, and they'll provide you with the necessary paperwork to complete. You can also transfer or roll your traditional IRA assets over to a new IRA provider and complete the conversion there.

If you prefer, you can instead contact the trustee/custodian of your traditional IRA, have the funds in your traditional IRA distributed to you, and then roll those funds over to your new Roth IRA within 60 days of the distribution. The income tax consequences are the same regardless of the method you choose.[1]

The conversion rules can also be used to contribute to a Roth IRA in 2018 if you wouldn't otherwise be able to make a regular annual contribution because of the income limits. (In 2018, you can't contribute to a Roth IRA if you earn $199,000 or more and are married filing jointly, or if you're single and earn $135,000 or more.) You can simply make a nondeductible contribution to a traditional IRA and then convert that traditional IRA to a Roth IRA. (Keep in mind, however, that you'll need to aggregate the value of all your traditional IRAs when you calculate the tax on the conversion.) You can contribute up to $5,500 to all IRAs combined in 2018, or $6,500 if you're 50 or older.

[1] If you choose to receive the funds first and don't transfer the entire amount, a 10% early withdrawal penalty may apply to amounts not converted.

Can I undo my Roth IRA conversion in 2018?

The answer is: It depends.

When you convert a traditional IRA to a Roth IRA, you include the value of your traditional IRA, reduced by any nondeductible contributions you've made, in your income for federal tax purposes in the year of the conversion. For conversions prior to 2018, if you subsequently decided to "recharacterize" or undo the conversion for any reason — e.g., the value of your IRA assets declined after the conversion, resulting in a bad tax deal — the IRS would permit you to do so, provided the recharacterization took place in a timely fashion.

For example, assume you converted a fully taxable traditional IRA worth $50,000 to a Roth IRA in 2016. You would have been required to include $50,000 in income on your 2016 federal income tax return. But shortly after the conversion, the value of your Roth IRA declined to $40,000. Suddenly you were faced with the proposition of paying taxes on $50,000, while your Roth IRA was worth only $40,000. Fortunately, you had until your tax return due date (including extensions) to undo all or part of a conversion. So in this example, you would have had until October 15, 2017, to recharacterize the conversion.

Unfortunately, the Tax Cuts and Jobs Act passed in 2017 eliminated the option to recharacterize a Roth conversion, with one exception: If you converted your Roth IRA in 2017 and have since changed your mind, you have until your filing deadline, including extensions (or until October 15, 2018), to recharacterize.

When you recharacterize, you need to withdraw the amount you originally converted, plus any earnings, out of the Roth IRA and transfer it back to a traditional IRA.

If you already paid your taxes for 2017, you'll need to file an amended return to obtain a refund for any taxes paid on the conversion. An amended return can generally be filed as late as three years after the original return was filed.

Undoing a Roth conversion can be complicated, so it's probably a good idea to consult your tax professional before taking action.

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