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Hi friends and clients!
Hopefully you have received our paper newsletter by now; they were mailed last week. The 17th annual Duncklee Open client appreciation golf tournament is set to tee off Friday, July 18th! Call us if you would like to join us or enter a team.
We have made the difficult decision to cancel the 5th annual Boothbay Harbor cruise this year...the boat company has changed management, changed schedules of cruises, changed the entertainment, and increased the price by 130%. We will miss an August event this summer but hope to plan a different one for next year. In the meantime, Jim has a boat mooring at Ocean Point… but no boat! So Jim has offered to share it in return for a few rides, just give him a call.
We hope to start the final renovations soon, and get our building work completed by early-to-mid autumn. Have a great summer and a wonderful 4th of July!
Jim, Ken, Megan, Sharon, & Susie

July 2014 Financial Fitness

Duncklee & Nott
INVESTMENT & RETIREMENT PLANNING

Financial Fitness

Duncklee & Nott Monthly Newsletter

Can You Make Some Green by Investing Green?

The release in April of the long-awaited report from the United Nations' Intergovernmental Panel on Climate Change has spurred renewed discussion of ways to combat climate change and its effects. The report, written by leading scientists from around the globe, says that to keep greenhouse emissions below critical levels, the world must make substantial changes--and quickly--in how energy is produced and consumed.

That finding has focused fresh attention on so-called "green investing." Here are some considerations that can be especially important in this arena.

No shortage of choices

If you're interested in exploring green investments, you have a variety of possible options. They include renewable energy sources, technologies that can improve the environmental footprint of existing energy sources, clean water, clean air, and technologies that can help reduce overall consumption, particularly of nonbiodegradable substances.

The broad scope of green technologies can make it difficult to choose among the myriad investment opportunities, especially if you don't have expertise in a particular field or the time or energy to acquire that knowledge. Unless you're familiar with the science behind a specific company's product or service, you might benefit from casting a wider net. Though diversification can't guarantee a profit or eliminate the possibility of a loss, it can help you manage the amount of risk you face from a single company.

A great technology is not the same thing as a great stock

Even if you have special knowledge of a particular field, don't let that blind you to a company's business fundamentals. If you're considering a small company stock, don't forget that small caps can be extremely volatile. In addition to the risks involved with all stocks, a small-company stock can be affected disproportionately by the actions of a single large investor or a report by a single investment research department, especially if the stock is thinly traded. If that worries you, one alternative might be to invest in larger companies that have made a significant commitment to initiatives in that field and that might have other business advantages. Though they may not have a small company's rapid growth potential or appeal as a possible takeover target, they often have more resources than a smaller company to make acquisitions or manufacture and market globally more efficiently.

Important considerations

Certain factors that apply to all stocks are especially important when considering an investment in green companies.

What's the competitive landscape? An idea that seems promising can quickly be superseded by the latest innovation. While it's difficult to forecast technical turning points, it's helpful to know the major players in that space, their key development efforts, and roughly how they're positioned.

How dependent is a company on external support? Many countries are making significant green investments, racing to establish dominance on the global playing field of green technologies. Emerging technologies often are dependent on some form of government support, such as tax credits, loan guarantees, or sponsored pilot programs. However, political support for such initiatives can come and go, as can investor enthusiasm for specific technologies.

How capital-intensive is the technology? Many green technology companies may have little or no profits yet but a substantial need for capital from a cash flow standpoint or as a result of the technology itself. That could make a company vulnerable to a potential credit crunch or rising borrowing costs, which could affect its ability to develop and market even the most promising technology.

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

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.

Tips for Traveling Abroad

Check with the U.S. State Department for travel alerts and warnings. You might also consider registering with the U.S. government's Smart Traveler Enrollment Program (STEP), at https://step.state.gov/step/. STEP assists U.S. citizens traveling and living abroad.

For many people, there's perhaps nothing more exciting than traveling to a new country, experiencing different cultures, tasting exotic foods, and exploring unfamiliar landscapes. But before you take off on an international adventure, consider that a little preparation and a few precautions can help prevent a lot of unexpected headaches.

Obtain and copy necessary documentation

Most U.S. citizens need a valid U.S. passport for international travel. Although some countries allow you to enter with just a birth certificate and driver's license, all people traveling abroad by air must have a valid passport to reenter the United States. Those traveling by land or sea must have proof of both their U.S. citizenship and identity; in many of these cases, the new U.S. passport card will suffice. You do not need a passport to travel to or from a U.S. territory (e.g., U.S. Virgin Islands or Puerto Rico).

It can take up to six weeks to receive a passport, so plan accordingly. Expedited options are available for additional fees. Also note that some countries will not accept a passport that expires within six months of your trip. Contact the embassy of your destination country for more information.

Finally, be sure to make copies of your passport, itinerary, airline tickets, and other important documents. Leave one set with a friend or relative at home and carry the other set with you, separately from the originals.

Plan ahead to stay healthy

Some countries require inoculations and other medical preparations before entering. You can research your destination at www.travel.state.gov. In addition, U.S. Centers for Disease Control offers information about your destination's medical requirements at www.cdc.gov/travel/.

Many health insurance companies do not cover policyholders while they are in a foreign country. Even if you and your family are covered, you may not receive the same benefits overseas. Contact your insurer's customer service department to find out if you have coverage while traveling abroad, and if any restrictions apply. If needed, you can typically purchase short-term supplemental health coverage from an insurance company, travel agent, tour operator, or cruise line. These policies are often combined with medical evacuation coverage, which helps defray the costs of an emergency medical trip back home.

If you take prescription medication, bring at least enough to last your entire trip. Carry medications in their original, labeled containers and pack them in your carry-on luggage. Ask your pharmacist for the generic name of your medications in case you need more while abroad, and ask your doctor to write a letter explaining your need for the medications. Some countries restrict the types of medications allowed into the country without medical documentation.

Finally, review the options for health care at your destination before you arrive. It's best to prepare for an unpleasant surprise rather than have to search for a doctor at the moment you need one.

Avoid costly mistakes

Planning to use your mobile phone? Contact your carrier and review your plan for international roaming. Calling, texting, and posting updates to your social media sites can be extremely expensive if you don't plan ahead.

Similarly, ask your credit or debit card bank about foreign transaction fees. Since many do not charge these fees, it may pay to shop around. Also, inform your card companies that you will be traveling so that they won't suspend your card for suspicious activity while you're away, and can provide a toll-free number should you need to contact them.

If you plan to use cash or traveler's checks, keep some on your person and some in a separate safe location. Also, before deciding to use traveler's checks, be sure to confirm they are readily accepted. And remember to check exchange rates so you can accurately calculate your vacation budget.

Consider travel/baggage insurance

In addition to supplemental health insurance coverage, you may want to consider purchasing travel insurance, particularly if the peace of mind outweighs the premium cost. Some types of policies protect you in case the trip is cancelled or interrupted due to certain events, such as weather, illness, or death of a loved one. Investigate whether your credit card or travel club offers this type of coverage as well.

Although most airlines will reimburse passengers for luggage lost during transit (up to certain limits), you might also want to consider baggage insurance for protection when your bags are not in possession of the airline.

These are just a few tips to consider before traveling overseas. For more comprehensive information, visit the U.S. State Department website at www.travel.state.gov.

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How much money should a student borrow for college?

There's no magic formula to determine how much you or your child should borrow to pay for college. That being said, there is such a thing as borrowing too much. How much is too much? Well, college counselors typically recommend that students borrow no more than the amount they expect to earn in their first year out of college, which in turn depends on a student's individual major and job prospects. So, for example, a student planning to get an engineering degree might borrow about $50,000 or $60,000 if he or she expects to obtain a job after college paying that much, while a student majoring in social work might borrow much less.

But this guideline is just that--a guideline. Just as many homeowners got burned taking out larger mortgages than they could really afford (even though their lenders may have told them they were "qualified" for that amount), many students are getting burned borrowing amounts that may have seemed reasonable at first glance but now in reality are not.

Remember, student loans will need to be paid back over a term of 10 years or longer. What if the engineering graduate doesn't have that steady, well-paying job for 10 years? What if he or she decides to step out of the workforce to care for children? What if the company downsizes? What happens when other expenses like housing, utilities, car payments, daycare, and home repairs come down the pike? What if he or she wants to go on to graduate school? Any interruption in the payment of these student loans via deferment or forbearance requests will only add to a borrower's overall balance.

According to the Project on Student Debt, 71% of students who graduated from college in 2012 had student loan debt, and the average balance was $29,400 *(Student Debt and the Class of 2012,* December 2013). With a 10-year term and a 3.8% interest rate (the current rate on federal Stafford Loans), the monthly payment would be $295. But borrow a bit more, say $40,000 total, and the monthly payment jumps to $401. And these figures are conservative, because the interest rates on federal Stafford Loans and private student loans have nowhere to go but up. So student borrowers beware! Don't be led blindly into excessive student loan debt based on a guideline you didn't create.

Is there a new one-rollover-per-year rule for IRAs?

Yes--starting in 2015.

The Internal Revenue Code says that if you receive a distribution from an IRA, you can't make a tax-free (60-day) rollover into another IRA if you've already completed a tax-free rollover within the previous 12 months. The long-standing position of the IRS, reflected in Publication 590 and proposed regulations, was that this rule applied separately to each IRA you own.

Using an IRS example, assume you have two traditional IRAs, IRA-1 and IRA-2. You take a distribution from IRA-1 and within 60 days roll it over into your new traditional IRA-3. Under the old rule, you could not make another tax-free 60-day rollover from IRA-1 (or IRA-3) within one year from the date of your distribution. But you could still make a tax-free rollover from IRA-2 to any other traditional IRA.

Recently a taxpayer, Mr. Bobrow, did just what the example above seemed to allow, taking a distribution from IRA-1 and repaying it back to IRA-1 within 60 days, and then taking a distribution from IRA-2 and repaying it back to IRA-2 within 60 days. Unfortunately for the taxpayer, the IRS decided this was no longer the correct interpretation, and told Mr. Bobrow that his transactions violated the one-rollover-per-year rule. The case made its way to the Tax Court, which agreed with the IRS and held that regardless of how many IRAs he or she maintains, a taxpayer may make only one nontaxable 60-day rollover within each 12-month period.

Not surprisingly, the IRS has announced that it will follow the Bobrow case beginning in 2015 (more technically, the new rule will not apply to any rollover that involves a distribution occurring before January 1, 2015). For the rest of 2014 the "old" one-rollover-per-year rule in IRS Publication 590 (see above) will apply to any IRA distributions you receive. But keep in mind that you can make unlimited direct transfers (as opposed to 60-day rollovers) between IRAs--these aren't subject to the one-rollover-per-year rule. So if you don't have a need to actually use the cash for some period of time, it's generally safer to use the direct transfer approach and avoid this potential problem altogether.

(Note: The one-rollover-per-year rule also applies--separately--to your Roth IRAs.)