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Hi friends and clients!
Even though we are in the middle of a harsh winter there is light at the end of the tunnel. Days are getting longer and March is right around the corner.
I encourage EVERYONE to read the first article, and share it with your friends, children, spouses, etc. It has a lot of very good advice. In the article, it comments that the most popular car brand among millionaires is Toyota. We were amused by this because at the client open house last month, the gentleman operating the shredding truck commented that it seemed like everyone at our open house was driving a Toyota!
Enjoy this month's articles!
Jim, Ken, Megan, Sharon, & Susie

February 2014 Financial Fitness

Duncklee & Nott
INVESTMENT & RETIREMENT PLANNING

Financial Fitness

Duncklee & Nott Monthly Newsletter

The Frugal Habits of Millionaires

The word "millionaire" typically conjures up images of a lavish, jet-setting lifestyle, but behind the scenes, that may not always be the case. Like Warren Buffett, who famously still lives in the relatively modest house in Omaha, Nebraska, that he bought in 1958 for $31,500, many millionaires (and billionaires) live a modest, if not downright frugal lifestyle--a lifestyle that may have helped them become millionaires in the first place.

We've all heard the saying "It takes money to make money." So how can you find extra dollars to save and invest? If you're looking to improve your financial position, consider putting some of these habits into practice.

Cultivate a frugal mindset

Many people equate being frugal with being cheap, but that's not really correct. Being frugal means carefully watching your dollars and not spending more than you need to--a trait many millionaires employ. To help cultivate a frugal mindset, get in the habit of asking yourself this question: "With a little extra effort and/or sacrifice on my part, is there any way I can save money here?" Having a frugal mindset can really help when it comes time to playing the role of American consumer, where temptation is everywhere.

Buy wisely and sparingly

We all need "stuff" now and then; the key is not overdoing it or overpaying for it. Try to buy mostly what you really need, not what you really want. Money you save can then be used to build your savings and investment accounts.

Don't let the price tag of your car, home, or designer suit define your character. For example, a reliable car that safely gets you from Point A to Point B may be completely sufficient for your needs. According to the book *The Millionaire Next Door,* the top car brand among millionaires is Toyota, not Mercedes or BMW. Even Mark Zuckerberg, the billionaire founder of Facebook, has been spotted driving an Acura TSX, an entry-level luxury car whose base price is about $30,000. The bottom line? As you move up the net worth ladder, avoid the temptation to elevate your "status" by overspending on luxury goods.

You can be smart about everyday consumer purchases, too. You might be surprised to learn that many millionaires clip coupons, buy in bulk, wait for sales, scour eBay and Craigslist for deals, limit clothing purchases, fly coach, avoid credit cards, and save half their restaurant meal for lunch the next day--habits that can free up cash for the occasional splurge.

Shun debt

Debt is bad. Well, mostly. At times taking on debt is necessary, for example when buying a home or attending college, because without it, many people won't have saved enough money. But generally speaking, you should be leery of taking on debt for things that cause you to live beyond your means. Remember, every dollar you borrow today is a dollar you'll have to pay back tomorrow, with interest.

People who turn a modest financial base into wealth often do so by living frugally, saving regularly, investing wisely, and avoiding debt. By contrast, people who end up in a perpetual cycle of debt are often those who spend and borrow excessively to support an unsustainable lifestyle.

Take action

What do CEOs Tim Cook (Apple), Ursula Burns (Xerox), Robert Iger (Disney), and Indra Nooyi (PepsiCo) have in common? They're all up by 5:00 a.m., hitting the gym, reading, working. As Benjamin Franklin famously quipped: "Early to bed and early to rise makes a man healthy, wealthy, and wise." And indeed, many millionaires and leaders aren't couch potatoes. They don't sit around waiting for things to happen; they make things happen--by getting up early, working hard, looking for opportunities, constantly educating themselves, taking calculated risks, networking, staying active, and generally trying to improve themselves day in and day out. And with the explosion of information online 24/7, learning new things has never been easier.

Filing Your 2013 Federal Income Tax Return

For most people, the due date for filing a 2013 federal income tax return is April 15, 2014. Here are a few things to keep in mind this filing season.

Lots of changes to consider

While most individuals will pay taxes based on the same federal income tax rate brackets that applied for 2012, a new 39.6% federal income tax rate applies for 2013 if your taxable income exceeds $400,000 ($450,000 if you're married filing jointly, $225,000 if married filing separately). If your income crosses that threshold, you'll also find that a new 20% maximum tax rate on long-term capital gain and qualifying dividends now generally applies (in prior years, the maximum rate was generally 15%).

You may also need to account for new taxes that took effect in 2013. If your wages exceeded $200,000 in 2013, you were subject to an additional 0.9% Medicare payroll tax--if the tax applied, you probably noticed the additional tax withheld from your paycheck. If you're married and file a joint tax return, the additional tax kicks in once the combined wages of you and your spouse exceed $250,000 (if you're married and file separate returns, the tax kicks in once your wages exceed $125,000). One thing to note is that the amount withheld may not accurately reflect the tax owed. That's because your employer calculates the withholding without regard to your filing status, or any other wages or self-employment income you may have received during the year. As a result, you may end up being entitled to a credit, or owing additional tax, when you do the calculations on your return.

And, if your adjusted gross income (AGI) exceeds $200,000 ($250,000 if married filing jointly, $125,000 if married filing separately), some or all of your net investment income may be subject to a 3.8% additional Medicare contribution tax on unearned income. Additionally, high-income taxpayers (e.g., individuals with AGIs greater than $250,000, married couples filing jointly with AGIs exceeding $300,000) may be surprised to see new limitations on itemized deductions, and a possible phaseout of personal and dependency exemptions.

New home office deduction rules

If you qualify to claim a home office deduction, starting with the 2013 tax year you can elect to use a new simplified calculation method. Under this optional method, instead of determining and allocating actual expenses, you simply multiply the square footage of your home office by $5. There's a cap of 300 square feet, so the maximum deduction you can claim under this method is $1,500. Not everyone can use the optional method, and there are some potential disadvantages, but for many the new simplified calculation method will be a welcome alternative.

Same-sex married couples

Same-sex couples legally married in jurisdictions that recognize same-sex marriage will be treated as married for all federal income tax purposes, even if the couple lives in a state that does not recognize same-sex marriage. If this applies to you, and you were legally married on December 31, 2013, you'll generally have to file your 2013 federal income tax return as a married couple--either married filing jointly, or married filing separately. This affects only your federal income tax return, however--make sure you understand your state's income tax filing requirements.

2013 IRA contributions--still time

You generally have until April 15 to contribute up to $5,500 ($6,500 if you're age 50 or older) to a traditional or Roth IRA for 2013. With a traditional IRA, you may be able to deduct your contribution (if you or your spouse are covered by an employer plan, your ability to deduct some or all of your contribution depends on your filing status and income). If you make contributions to a Roth IRA (your ability to contribute depends on your filing status and income) there's no immediate tax benefit, but qualified distributions you take in the future are completely free from federal income tax.

Filing for an extension

If you're not going to be able to file your federal income tax return by the due date, file for an extension using IRS Form 4868, *Application for Automatic Extension of Time To File U.S. Individual Income Tax Return.* Filing this extension gives you an additional six months (to October 15, 2014) to file your return. Don't make the mistake, though, of assuming that the extension gives you additional time to pay any taxes due. If you don't pay any taxes owed by April 15, 2014, you'll owe interest on the tax due, and you may owe penalties as well. Note that special rules apply if you're living outside the country or serving in the military outside the country on April 15, 2014.

2013 is the last year to take advantage of:

- *Increased Internal Revenue Code (IRC) Section 179 expense limits ($500,000 maximum amount decreases to $25,000 in 2014) and "bonus" depreciation provisions*
- *The $250 above-the-line tax deduction for educator classroom expenses*
- *The ability to deduct mortgage insurance premiums as qualified residence interest*
- *The ability to deduct state and local sales tax in lieu of the itemized deduction for state and local income tax*
- *The deduction for qualified higher education expenses*
- *Qualified charitable distributions (QCDs), allowing individuals age 70½ or older to make distributions of up to $100,000 from an IRA directly to a qualified charity (distributions are excluded from income and count toward satisfying any required minimum distributions (RMDs) for the year)*

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Gift Tax Strategies That Can Benefit Your Family

Now may be a great time to make gifts that take advantage of the current large gift tax applicable exclusion amount, low gift tax rates, depressed property values, and low interest rates.

Be aware, however, that if you make a gift to a person who is two or more generations younger than you, such as a grandchild, generation-skipping transfer (GST) tax may also apply. In general, annual exclusions, qualified transfers, and an exemption equal to the applicable exclusion amount are also available for GST tax purposes and the same 40% tax rate applies.

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Today's large gift tax applicable exclusion amount, low gift tax rates, depressed property values, and low interest rates create a favorable environment for making certain gifts.

Federal gift tax basics

Annual exclusion. Each year, you can give a certain amount ($14,000 in 2013 and 2014) to as many individuals as you like gift tax free.

Qualified transfers exclusion. You can give an unlimited amount on behalf of any individuals for tuition or medical expenses gift tax free. You must pay the amount directly to the educational or medical care provider.

Applicable exclusion amount. Gifts can also be sheltered by the applicable exclusion amount, which can protect gifts of up to $5,340,000 (in 2014, $5,250,000 in 2013). The dollar limit applies to all taxable gifts you make during your lifetime and to your estate at your death for federal estate tax purposes.

Basic planning

Generally, the first gifts you should consider making are annual exclusion and qualified transfer gifts. You can make annual exclusion gifts to anyone for any purpose. The annual exclusion is lost in any year in which you do not use it. While you can make unlimited gifts using the exclusion for qualified transfers, the gifts must be for educational and medical purposes.

You and your spouse can split gifts that either of you make. Doing so allows you and your spouse to effectively use each other's annual exclusions and applicable exclusion amount. For example, if you have 2 children, you and your spouse could make annual exclusion gifts totaling $56,000 to your children (2 spouses x 2 children x $14,000). If you make gifts of $56,000 for 10 years, you will have transferred $560,000 to your children free from gift tax.

Next, consider gifts that are sheltered by the applicable exclusion amount. But, remember that use of the applicable exclusion amount during life reduces the amount available for estate tax purposes at your death.

If you are likely to have a very large taxable estate at your death that could not be sheltered by the applicable exclusion amount, it might even make sense to make gifts that cause you to pay gift tax. For example, let's assume any additional transfer you make would be subject to the current top gift or estate tax rate of 40% and you make a taxable gift of $1 million to your child on which you pay $400,000 of gift tax. If you instead retained the $1,400,000 until death, $560,000 of estate tax would be due ($1,400,000 x 40%), and only $840,000 of the $1,400,000 would remain for your child. By making the taxable gift and paying gift taxes that reduced your taxable estate, you reduced taxes by $160,000 while increasing the amount transferred to your child by the same $160,000.

Gift considerations

If you have property whose value is depressed, now may be a good time to make a gift of it. The gift tax value of a gift is its fair market value, and a lower value means a smaller gift for gift tax purposes. However, you generally should not make gifts of property that would produce an income tax loss if sold (basis in excess of sales price). The person receiving the property would have a carryover basis and would not be able to claim the loss. In these cases, instead consider selling the property, claiming the loss, and making a gift of the sales proceeds.

Future appreciation on gifted property is removed from your gross estate for federal estate tax purposes. However, while property included in your estate generally receives a basis stepped up (or stepped down) to fair market value when you die, lifetime gifts do not. Therefore, you may wish to balance the gift tax advantage of a gift with carryover basis and income tax on gain if the property is sold against the income tax advantage of a stepped-up basis and estate tax (if any) if you retain the property until your death.

In the current low interest rate environment, you may wish to consider a grantor retained annuity trust (GRAT). In a GRAT, you transfer property to a trust, but retain a right to annuity payments for a term of years. After the trust term ends, the remaining trust property passes to your beneficiaries, such as family members. The value of the gift of a remainder interest is discounted for gift tax purposes to reflect that it will be received in the future. Also, if you survive the trust term, the trust property is not included in your gross estate for estate tax purposes. Any appreciation in the trust property that is greater than the IRS interest rate used to value the gift escapes gift and estate taxation. The lower the IRS interest rate, the more effective this technique generally is.

In the current low interest rate environment, you may also wish to consider a low-interest loan to family members. You are generally required to provide for adequate interest on the loan, or interest will be deemed for gift tax purposes. However, with the current low interest rates, you can provide loans at a very low rate and family members can effectively keep any earnings in excess of the interest they are required to pay you.

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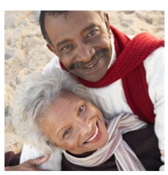
How much can I contribute to my IRA in 2014?

The amount you can contribute to your traditional or Roth IRA remains $5,500 for 2014, $6,500 if you're 50 or older. You can contribute to an IRA in addition to an employer-sponsored retirement plan like a 401(k). But if you (or your spouse) participate in an employer-sponsored plan, the amount of traditional IRA contributions you can deduct may be reduced or eliminated (phased out), depending on your modified adjusted gross income (MAGI). Your ability to make annual Roth contributions may also be phased out, depending on your MAGI. These income limits (phaseout ranges) have increased for 2014:

Income phaseout range for deductibility of traditional IRA contributions in 2014	
1. Covered by an employer-sponsored plan and filing as:	
Single/Head of household	$60,000 - $70,000
Married filing jointly	$96,000 - $116,000
Married filing separately	$0 - $10,000
2. Not covered by an employer-sponsored retirement plan, but filing joint return with a spouse who is covered by a plan	$181,000 - $191,000

Income phaseout range for ability to fund a Roth IRA in 2014	
Single/Head of household	$114,000 - $129,000
Married filing jointly	$181,000 - $191,000
Married filing separately	$0 - $10,000



Are you ready to retire?

Here are some questions to ask yourself when deciding whether or not you are ready to retire.

Is your nest egg adequate?

It's obvious, but the earlier you retire, the less time you'll have to save, and the more years you'll be living off of your retirement savings. The average American can expect to live past age 78. (Source: CDC, "Deaths: Preliminary Data for 2011") With future medical breakthroughs likely, it's not unreasonable to assume that life expectancy will continue to increase. Is your nest egg large enough to fund 20 or more years of retirement?

When will you begin receiving Social Security benefits?

You can begin receiving Social Security retirement benefits as early as age 62. However, your benefit may be 25% to 30% less than if you waited until full retirement age (66 to 67, depending on the year you were born).

How will retirement affect your IRAs and employer retirement plans?

The longer you delay retirement, the longer you can build up tax-deferred funds in your IRAs--remember that you need compensation to contribute to an IRA. You'll also have a longer period of time to contribute to employer sponsored plans like 401(k)s--and to receive any employer match or other contributions. (If you retire early, you may forfeit any employer contributions in which you're not yet fully vested.)

Will you need health insurance?

Keep in mind that Medicare generally doesn't start until you're 65. Does your employer provide post-retirement medical benefits? Are you eligible for the coverage if you retire early? If not, you may have to look into COBRA or a private individual policy--which could be an expensive proposition.

Is phasing into retirement right for you?

Retirement need not be an all-or-nothing affair. If you're not quite ready, financially or psychologically, for full retirement, consider downshifting from full-time to part-time employment. This will allow you to retain a source of income and remain active and productive.

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