Warren Wealth Wisdom

Putting Clients First

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Sue and Chris were able to spend a lot of time with son Garrett for his final undergraduate semester virtually, now onto his MBA. Son Zach lives and works in Boston but his long-distance girlfriend lives close to Mom and Dad, so they get to see him around once a month. Chris' family with be in Hilton Head later this summer for a big reunion. They can't wait to see everyone!

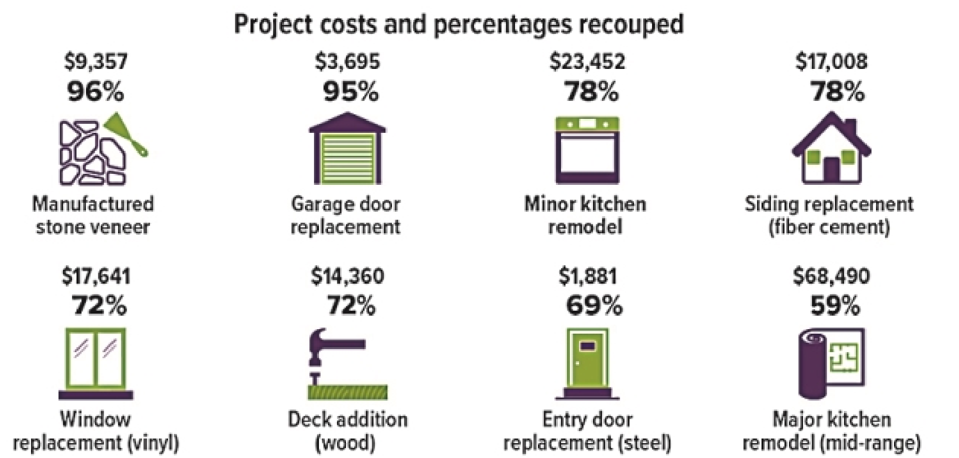
Scott, Jen, and Eleanor will be traveling to Michigan to see family over the July 4th holiday. Long overdue and looking forward to Eleanor trying to keep up with her big cousins. Otherwise, the narrative remains the same – Eleanor continues to grow and dominate on a daily basis and Scott is by far the weakest link!

Ronnie has been enjoying the great outdoors with hikes and walks. Now that things are opening up, a little trip to Cape May is planned in July and hopefully the postponed family picnic can be rescheduled.

Jenica has been hiking, gym-ing and beaching, and will continue in this vein all summer!

Unexpected Surge in Renovation Projects

Home-improvement spending normally lags during recessions, but COVID-19 sparked an unexpected surge in do-it-yourself renovation and maintenance projects. Many households whose finances held up during the pandemic devoted time and money to making their indoor and outdoor living spaces more functional and comfortable for working, learning, and recreation.



Sources: Joint Center for Housing Studies of Harvard University, 2020; 2020 Cost vs. Value Report, *Remodeling* magazine (national averages)

Considerations When Making Gifts to Children

If you make significant gifts to your children or someone else's children (perhaps a grandchild, a nephew, or a niece), or if someone else makes gifts to your children, there are a number of things to consider.

Nontaxable Gift Transfers

There are a variety of ways to make transfers to children that are not treated as taxable gifts. Filing a gift tax return is generally required only if you make gifts (other than qualified transfers) totaling more than $15,000 per 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. Parents of minor children, college-age children, boomerang children, and special-needs children may find this provision very useful.
- **Annual exclusion gifts.** You can generally make tax-free gifts of up to $15,000 per child each year. If you combine gifts with your spouse, the amount is effectively increased to $30,000.
- **Qualified transfers for medical expenses.** You can make unlimited tax-free gifts for medical care, provided the gift is made directly to the medical care provider.
- **Qualified transfers for educational expenses.** You can make unlimited gifts for tuition free of gift tax, provided the gift is made directly to the educational provider.

For purposes of the generation-skipping transfer (GST) tax, the same exceptions for nontaxable gift transfers generally apply. 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 rates on any unearned income over $2,200 (in 2021). 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.
- **Basis.** When a donor makes a gift, the person receiving the gift generally takes an income tax basis equal to the donor's basis in the gift. The income tax basis is generally used to determine the amount of taxable gain if the child then sells the property. If instead the property were transferred to the child at your death, the child would receive a basis stepped up (or down) to the fair market value of the property.

Gifts to Minors

Outright gifts should generally be avoided for any significant gifts to minors. For this purpose, you might 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 (an adult or a trust company) holds the property for the benefit of the minor until an age (often 21) specified by state statute.
- **Trust for minor.** A Section 2503(c) trust is specifically designed to obtain the annual gift tax exclusion for gifts to a minor. Principal and income can (but need not) be distributed to the minor before age 21. The minor does generally gain access to undistributed income and principal at age 21. *(The use of trusts involves a complex web of tax rules and regulations, and usually involves upfront costs and ongoing administrative fees. You should consider the counsel of an experienced estate professional before implementing a trust strategy.)*

Transfer by Gift Versus Transfer at Death

Difference in taxable gain when appreciated property is sold at fair market value (FMV) after the transfer.

Calculation Steps	Transfer by Gift	Transfer at Death
Sales price (FMV)	$100,000	$100,000
– Income tax basis	– $20,000 (carryover of donor's basis)	– $100,000 (stepped-up to FMV)
Taxable gain	= $80,000	= $0

International Investing: Opportunity Overseas?

For the past decade, U.S. stocks have outperformed foreign stocks by a wide margin, due in large part to the stronger U.S. recovery after the Great Recession. In general, U.S. companies have been more nimble and innovative in response to changing business dynamics, while aging populations in Japan and many European countries have slowed economic growth.[1]

Despite these challenges, some analysts believe that foreign stocks may be poised for a comeback as other countries recover more quickly from the effects of COVID-19 than the United States. On a more fundamental level, the lower valuations of foreign stocks could make them a potential bargain compared with the extremely high valuations of U.S. stocks.[2–3]

Global Growth and Diversification

Investing globally provides access to growth opportunities outside the United States, while also helping to diversify your portfolio. Domestic stocks and foreign stocks tend to perform differently from year to year as well as over longer periods of time (see chart). Although some active investors may shift assets between domestic and foreign stocks based on near- or mid-term strategies, the wisest approach for most investors is to determine an appropriate international stock allocation for a long-term strategy.

A World of Choices

The most convenient way to participate in global markets is by investing in mutual funds or exchange-traded funds (ETFs) — and there are plenty of choices available. In Q1 2021, there were more than 1,400 mutual funds and 600 ETFs focused on global equities.[4]

International funds range from broad, global funds that attempt to capture worldwide economic activity to regional funds and those that focus on a single country. Some funds are limited to developed nations, whereas others may focus on nations with emerging economies.

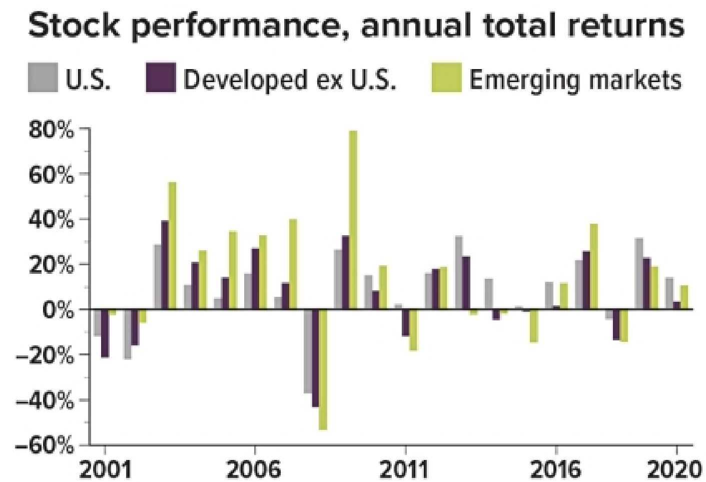
The term "ex U.S." or "ex US" typically means that the fund does not include domestic stocks. On the other hand, "global" or "world" funds may include a mix of U.S. and international stocks, with some offering a fairly equal balance between the two. These funds offer built-in diversification and may be appropriate for investors who want some exposure to foreign markets balanced by U.S. stocks. For any international stock fund, it's important to understand the mix of countries represented by the securities in the fund.

Additional Risks and Volatility

All investments are subject to market volatility, risk, and loss of principal. However, investing internationally carries additional risks such as differences in financial reporting, currency exchange risk, and economic and political risk unique to a specific country. Emerging economies might offer greater growth potential than advanced economies, but the stocks of companies located in emerging markets could be substantially more volatile, risky, and less liquid than the stocks of companies located in more developed foreign markets.

Domestic vs. Foreign

Over the past 20 years, stocks in emerging markets have outperformed U.S. stocks but have been much more volatile. Stocks of developed economies outside the United States have yielded less than domestic stocks over the 20-year period, but have outperformed in nine of those 20 years.



Source: Refinitiv, 2021, for the period 12/31/2000 to 12/31/2020. U.S. stocks are represented by the S&P 500 Composite Total Return Index, developed ex US stocks are represented by the MSCI EAFE GTR Index, and emerging market stocks are represented by the MSCI EM GTR Index; all are considered representative of their asset classes. The performance of an unmanaged index is not indicative of the performance of any specific investment. Individuals cannot invest directly in an index. Rates of return will vary over time, especially for long-term investments. Past performance is not a guarantee of future results. Actual results will vary.

Diversification is a method to help manage risk; it does not guarantee a profit or protect against loss. The return and principal value of all stocks, mutual funds, and ETFs fluctuate with changes in market conditions. Shares, when sold, may be worth more or less than their original cost. Supply and demand for ETF shares may cause them to trade at a premium or a discount relative to the value of the underlying shares.

Mutual funds and ETFs are sold by prospectus. Please consider the investment objectives, risks, charges, and expenses carefully before investing. The prospectus, which contains this and other information about the investment company, can be obtained from your financial professional. Be sure to read the prospectus carefully before deciding whether to invest.

1, 2) *U.S. News & World Report,* October 1, 2020

3) CNBC, January 23, 2021

4) Investment Company Institute, 2021

Is It Time to Cut Cable?

An explosion in the number and variety of streaming services, coupled with more time spent at home in the last year, might have you wondering whether it's time to cut the cord on cable. After all, cable isn't getting any cheaper. At the beginning of 2021, many large cable and satellite television companies announced higher prices and reinstated data caps, which were temporarily suspended in 2020 by the Federal Communications Commission.[1] But is it really worth it to ditch cable in favor of streaming services? Consider the following before you make the switch.

Determine how much of your cable subscription you *actually* use. Are you regularly watching all the channels you pay for, or do you watch only a few of them? Are the channels you watch worth what you pay each month? The answers to these questions may help you decide whether the cost of your cable subscription is worth it.

Know your viewing preferences. Streaming services often delay the release of new TV show episodes, which can be frustrating for dedicated viewers. And sports fans might be disappointed to learn that it's difficult to access live sports coverage through most streaming services. Comprehensive sports packages are offered by some services, but usually at a higher cost, and you may need to bundle a few services together depending on whether you want local, national, and/or international coverage. Plus, delays in live programming can make it tough to tune in to your favorite teams.

Compare streaming services. A dizzying array of streaming services are available. Narrow down your choices by making a list of the ones that most appeal to you. If possible, sign up for free trials to find out what is (and what isn't) a good fit. And investigate the terms and conditions of any service that you decide to try — look for termination fees and how much any add-ons might cost.

Consider the benefits and limitations. In addition to being less expensive than cable, most streaming services are user-friendly. And as long as you have an Internet connection, streaming services allow you to view your favorite shows on the go on your cell phone or tablet. But not all streaming services offer extras such as digital video recording (DVR) or live television pausing, which are cable features you might miss. You may also have to subscribe to multiple streaming services to access all your preferred programs, which could mean you won't save much (or any) money in the long run.

Factor in the cost of extra equipment. You may need to invest in special streaming devices to access the programs you want. You might also consider the cost of high-speed Internet — you won't be able to successfully stream without a relatively fast Internet connection.

1) *Consumer Reports,* December 21, 2020
