

WEALTH MANAGEMENT REPORT

Investment Planning & Wealth Management for Business Owners

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Ease Pressure On Loved Ones With Tax-Free Gifts

Economic pressure is taking its toll on virtually every segment of the population. Young newlyweds are finding it difficult to set aside funds for the down payment on a home, despite the now lower prices. Middle-aged parents are struggling to make ends meet and still squirrel away cash for their children's college costs. And older workers and retirees have seen their nest eggs eroded by the recent stock market downturn.

If you've been fortunate enough to escape major damage to your own finances, you may want to consider helping family members overcome economic hurdles. Providing tax-free gifts could improve their situations while benefiting your own estate planning as well. If you stay within tax law boundaries, you don't have to pay gift tax on cash or property transferred to relatives or any other recipient. At the same time, the gifts will reduce the size of your taxable estate.

The value of the latter benefit depends on the future of the federal estate tax, which remains uncertain. The estate of an individual who dies in 2009 can shelter up to \$3.5 million of assets from federal estate tax. That's an increase from a \$2 million exemption in 2008, as stipulated by the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA), which calls for the outright repeal of the estate tax in 2010. But that provision of the legislation expires at the end of 2010, and in 2011, pre-EGTRRA rules return. The estate tax exemption is scheduled to

revert to just \$1 million, and the estate tax rate will rebound to 55% from the current 45% unless Congress acts to change the law.

While a legislative compromise on the estate tax is likely, the tax will almost certainly continue in some form. And that likelihood only increases the appeal of making gifts now to help loved ones hurt by the recession. In 2009 and 2010, you can provide tax-free gifts of as much as \$13,000—in any combination of cash and



property—to as many recipients as you choose. (A periodic inflation adjustment resulted in an increase in this exclusion amount from \$12,000 in 2008.) You don't even have to file any tax forms or otherwise inform the IRS about such gifts (if those are the only gifts made and unless gift splitting with a spouse is elected).

The chance to provide unlimited numbers of tax-free gifts could multiply the benefits not only for recipients but also to your estate plan. For instance, if you have two children and three grandchildren, giving each of them \$13,000 in 2010 adds up to a total of \$65,000. If your spouse also makes such gifts (or consents to a joint gift by filing a gift tax return), that exemption jumps to \$26,000 per relative and a total of \$130,000 for five, all without gift-tax consequences. Continue this gift-giving program for five years and you'll have cut the value of your estate by \$650,000 while providing generous assistance at a time when it may be sorely needed.

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Bull Markets Climb A Wall Of Worry

After a dizzying downfall in 2008, the stock market recovered some of its value in 2009. The Standard & Poor's 500 index rose a heartening 67% between March and December.

However, at the end of 2009, that index's value remained more than 30% below its October 2007 peak. Those numbers illustrate the recurring dilemma for investors trying to decide whether to jump in when it looks as if a bull market may be under way. Though the recession may have ended, economic conditions remain weak, and it's difficult to feel bullish.

How do you know whether a long-term advance has begun or whether markets have simply gained back some lost ground before resuming their retreat? There is no surefire way to know. The progress markets make after a significant downfall could be the beginning of the next bull market—or not.

But there is one thing you can know. Sooner or later, the nation has climbed out of every recession and resumed its long-term growth, even if the exact pattern of growth and recovery varies in every instance.

In America, the entrepreneurial spirit has always reasserted itself, fueling the economic progress that has been a hallmark of this country since its founding. That's why bull markets always climb walls of worry. It's when everyone is worried that stocks are usually beckoning with new opportunity.

Financial Tips For Those Out Of Work

The numbers are scary. From December 2007 through December 2009, unemployment in the U.S. doubled from 7.6 million to 15.3 million. But the statistic that matters most is your own, and if you've been laid off or your company has gone under, you're competing with an army of others for the few available jobs. Still, manage your financial affairs carefully and you'll certainly survive the economic crisis. You might even emerge in better shape than you were before. These eight suggestions could help.

1. Don't panic. It's normal to be nervous if you've suddenly been sent packing after years of gainful employment. But now's the time to take stock of your situation as calmly as possible. Keeping your emotions under control will make it easier to find the way forward.

2. Reduce spending. Food and shelter are necessities, but other purchases are discretionary. Consider ways to trim your cable TV bill and think twice about dining out. Finding things you can do without may also help you overcome the feeling of powerlessness that often comes with unemployment.

3. Eliminate unnecessary debt. Cut up your credit cards? Maybe not, but charge only what you can afford to

repay each month. Otherwise, a small debt could quickly spiral out of control.

4. Take advantage of benefits.

These days, you can likely avoid those dispiriting visits to the unemployment office and apply for jobless benefits by mail or online. And if you need to continue your health insurance coverage under COBRA, a provision of the American Recovery and Reinvestment Act of 2009 will subsidize 65% of the cost for nine months.

5. Network, network, network.

Applying for posted jobs pits you against a host of other applicants. You may do better reaching out to friends, family, and business associates. Be casual—you don't want to seem desperate—but be sure they know you're job hunting.

6. Consider a career change.

If your industry or profession seems unlikely to rebound, you might broaden your search to include related fields—from print media, say, to work

on a website, in public relations, or in another job requiring writing and editing.

7. Start a new business. If you've always dreamed of turning a hobby or other passion into a profitable business, this might give

you the push you need to go for it. If you can fill a niche with high-quality services or products while keeping startup costs low, you'll stand a good



chance of success.

8. Stay positive. An extended job search may sap the energy you had when you were first laid off. But perseverance will pay off. And remember: If you're middle-aged or near retirement, your wealth of experience is an asset, not a liability.

Finally, in a pinch, you may need to tap your retirement plans. But money you pull out now will be difficult to recoup later on, so consider this option only for emergency purposes. ●

When Should You Amend A Tax Return?

Filing a tax return once is enough of a hassle. Doing an amended return for the same tax year—in other words, filing twice—seems like way too much. Yet millions of amended tax returns are filed by individual taxpayers each year.

Does an amended return increase your chance of being audited? Technically, no. But it will extend your exposure to IRS challenges. The agency can come after you for back taxes for up to three years from the date you file a return, and if you re-file, say, a year after the fact, that restarts the clock.

Still, filing an amended return can

put money in your pocket. So here are some of the most common reasons to file IRS Form 1040X.

You get an amended 1099, K-1, or W-2. These are forms sent to you by banks, brokerages, investment partnerships, employers, or others. It's not uncommon for these firms to make mistakes and resend a corrected form months after sending the original. And even if the corrected form will mean only a small change in your tax liability, you'll still need to file an amended return, since the government also receives a copy of revised forms and will match them to your return.

You're a sole proprietor, a

shareholder in an S-Corporation, or the owner of a partnership. As such, you may have strong incentives to file an amended return, since pension or profit-sharing plans for one year can oftentimes be funded with earnings from the following year. Say you receive a windfall prior to the due date for filing your return (excluding extensions), but after you already filed. You can use that windfall to increase your retirement plan funding for the prior year, retroactively giving yourself a larger deduction. You can reflect the change on an amended return.

You discover an overlooked deduction when checking through

What To Spend First During Retirement

Retirement day is a financial rite of passage, a transition from accumulating wealth to spending it. The leading edge of the massive baby boom generation is reaching age 59½. That's the age at which you may begin taking money from a traditional retirement account without incurring the dreaded 10% early withdrawal penalty. But distribution planning is complex, and just because you can take the money doesn't mean you necessarily should.

Which money should you spend first during retirement? The retirement plan? Personal accounts? What kind of holdings should you sell, and in what order? The answers depend on your circumstances. Key variables include:

- Expectations about future tax rates
- Your basis in taxable assets
- Whether your portfolio includes concentrated holdings
- Whether you hope to leave something to heirs
- Your charitable objectives
- Whether you'll pay estate tax

Still, many individuals—particularly if you won't owe estate tax—fare better spending non-retirement accounts first. Potential benefits of tapping personal accounts first include the following:

Lower current taxes. Cash in

personal accounts has already been taxed, and appreciated assets may qualify for taxation at long-term capital gain rates, currently a maximum of 15%. Withdrawals from employer plans and traditional IRAs are taxable at ordinary rates as high as 35%.

Continued tax-deferred growth.

Spending taxable accounts first allows your retirement account to keep growing free from current taxation.

More for heirs. Leaving an IRA to loved ones lets them continue the tax-deferred ride. With a "stretch" IRA, beneficiaries withdraw from the account over their life expectancies—especially attractive when their tax brackets are lower than the IRA owner's. Note that non-spouse beneficiaries are no longer required to empty company plan accounts, generating current taxes. Rolling plan assets to an IRA could allow your heirs to maximize your retirement money.

Which taxable assets should you sell first? Let annual rebalancing be your guide. By selling from portfolio positions that have grown larger than your target allocations, you get cash to live on while keeping your investments well diversified.

Estate tax liquidity. If your estate lacks the cash to pay estate taxes, heirs might have to raid your retirement account, triggering income tax. If estate taxes are likely, it may be wise to keep some taxable assets in reserve to cover the bill.

Highly appreciated assets. Currently, when you leave taxable assets to heirs, their basis in the property is normally its value on the date of your death. This increase—or step-up—in basis to the current value effectively eliminates capital gains tax liability for investment appreciation during your lifetime. So it could pay to leave such assets to heirs and live off other taxable assets and your retirement account instead. However, highly appreciated assets also make good charitable gifts, because you can deduct their fair market value when they're donated. It takes detailed analysis to determine the best approach.

Concentrated holdings. If you are retired or nearing retirement and much of your net worth is tied up in the stock of your company, trimming that exposure should be a priority. If the shares are in a retirement plan at work—and if you've participated in the plan for the past five years—you may benefit by taking the actual shares out of the plan when you leave the firm. You'll pay income tax on the shares' cost basis, but all of their prior appreciation will be taxed at lower, long-term capital gains rates. To benefit, however, the distribution must follow very specific rules. Don't make a move until you have received professional advice.

Changing tax rates. Higher tax rates for top earners are likely over the next few years, so it could make sense to begin withdrawing from tax-deferred retirement accounts. Depending on such variables as your age, health, financial needs, and current and future tax brackets, taking withdrawals and paying income tax at lower rates could be more valuable than tax-deferred growth. ●



your records, such as from a charitable contribution.

The law or IRS rules have changed.

Sometimes the IRS clarifies a rule or a court ruling will liberalize a tax break.

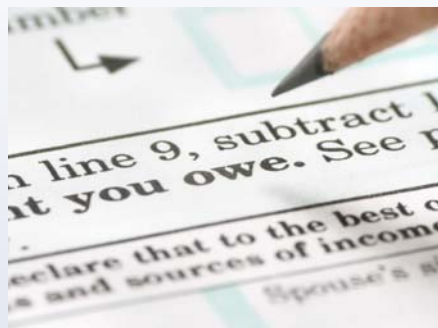
You miscalculated when figuring your tax liability for selling a mutual fund. Often, investors count only their original purchase

price as their cost, not realizing that reinvested income also qualifies. Your actual gain could be much lower than the amount you reported to the IRS.

In most cases, filing an amended

return will not be expensive. And if only one or two calculations have to be changed, it shouldn't be a big deal. No one likes to deal with the IRS and taxes, but you could be leaving money on the table by shunning a 1040X.

To keep up-to-date on tax law changes affecting your taxes and your business, visit www.irs.gov or call 800 829-1040 (individuals) or 800 829-4933 (businesses).



Do You Really Need That Inheritance?

Sometimes it pays just to say “no thanks” to a generous bequest—even from your own spouse. There may be estate planning benefits to having the assets go directly to contingent beneficiaries named by the decedent. If those beneficiaries are your children, this strategy could help them keep more of the bequest.

Officially declining an inheritance involves executing a legal document known as a “qualified disclaimer.” This refusal, which can apply to all or part of a bequest, must be executed within nine months of the donor’s death and before you’ve received any income from the inheritance. While this is generally a reactive measure, similar results can be obtained setting up a disclaimer trust as part of your estate plan.

One factor in deciding whether to refuse an inheritance is the uncertain future of the federal estate tax. Repealed for 2010, it will be revived in 2011 under unfavorable conditions.

The amount of an estate that’s exempt from federal tax, which was gradually increased to \$3.5 million for

those who died in 2009, will drop back to \$1 million for 2011, unless Congress enacts new legislation.

Also, after gradually being reduced to 45%, the top estate tax rate will return to 55%. The Obama administration and Congress will likely adjust the rules or change the timetable, but most experts expect the estate tax to continue to exist in some form. A qualified disclaimer or a disclaimer trust could help you prepare for whatever comes.

Suppose that under your current will, all of your assets are to go to your spouse if you die first, and vice versa. Then, at the death of the surviving spouse, the remaining assets will be divided among your children. With this arrangement, there’s no estate tax due after the first death—because a spouse can inherit an unlimited amount tax free—and the surviving spouse’s estate can be reduced, for tax purposes, by whatever individual exemption is in

effect at the time.

But this wastes the exemption of the first spouse to die. Instead, the surviving spouse could disclaim an amount equal to the estate tax exemption, passing it directly to contingent beneficiaries. The first spouse’s exemption relieves the heirs of any current estate tax liability, and later the surviving spouse’s own exemption can be used.

Before disclaiming any assets, one’s current and future potential need for the disclaimed assets needs to be carefully analyzed by a financial planner, since this is an irrevocable decision. We can work with you and your attorney to consider whether turning down an inheritance might make sense for you, and help you follow the rules that govern the process.

Also, if your net worth nears or exceeds federal estate tax exemption limits, we can discuss how setting up a disclaimer trust now can benefit your heirs. ●



Tax-Free Gifts

(Continued from page 1)

If the recipient is in a lower tax bracket, gifting shares of stock, mutual funds, or other assets that have appreciated will save you from paying capital gains taxes. But if you have assets with unrealized losses that you want to donate, it’s better to sell them first so that you can deduct the loss on your tax return and give your gift in cash.

If you exceed the annual limit on tax-free gifts, you still won’t necessarily owe money to the IRS. But larger gifts would count against your lifetime \$1 million gift-tax exemption, which might be put to better use in funding trusts or for other estate planning purposes. Plus, you’ll have to file a gift

tax return—or potentially two gift tax returns if you’re married.

Meanwhile, there are two special situations in which the normal giving limits don’t apply. The first involves money you provide directly to an educational institution on behalf of a student. The second is for direct payments to health care providers.

The unlimited exemption for education payments means you won’t owe gift tax if you cover college costs for children or grandchildren. Suppose your granddaughter is attending an Ivy League institution and the annual bill for tuition is \$50,000. You can pay that amount directly to the university and still give her an additional \$13,000 gift (or

\$26,000 with your spouse) that won’t be subject to gift tax.



If children or grandchildren are still years away from college, an even better approach might be to fund a Section 529 college savings plan that names the child as beneficiary. Income earned by plan investments won’t be taxed, and withdrawals to pay qualified educational expenses will also

be tax-free. Plus, a special provision allows five years’ gifts to be sent to a 529 plan in one fell swoop. That means you and your spouse could immediately provide \$130,000 to jump-start a 529 plan without gift-tax consequences (provided you file a gift tax return to elect to front-load the gift). ●