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New Tax Law Offers Unprecedented Planning Opportunities

On Dec. 17, 2011, the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 was signed into law. The provisions included in the act are set to expire on Dec. 31, 2012. This short window offers several tax and planning techniques that should be considered.

State Estate Taxes Loom as Big 2011 Issue

With the federal exemption rising to \$5 million, many families now have to worry more about [state taxes](#) than federal estate taxes.

Rich Folks Seek to Undo 2010 Taxable Gifts

Anticipating an increase in the gift tax rate, many estate planning lawyers suggested using taxable gifts in 2010 at the 35 percent rate. Now, with the lifetime exemption at \$5 million dollars and the gift tax rate remaining at 35 percent, many people who took the suggestion are looking for ways to [undo](#) them.

Ultra-wealthy Remain Risk-averse

The ultra-wealthy are still [risk averse](#), according to a recent survey by the Institute for Private Investors (IPI), a membership organization for ultra high net worth individuals and families. But they may begin increasing allocations to global emerging markets and reducing cash in 2011. The December survey of 72 IPI members, who have a mean net worth of \$100 million, revealed that they believe their own portfolios underperformed the S&P 500's 15 percent return for the year by about a third. But the interesting thing is, they weren't upset about it, said IPI president Kristi Kuechler.

Inflation Expectation Drives Steep U.S. Treasury Yield Curve

Speculation that U.S. inflation is on the verge of acceleration drove the difference in yield between two-year and 30-year Treasury securities to 4.01 percentage points, the [largest yield curve](#) since Bloomberg started keeping track in 1977.

Investors Flock to Hedge Funds That Buy Catastrophe Bonds

Investors are pouring money into hedge funds that purchase investments linked to natural disasters. Investing in catastrophe bonds and similar products is a move toward diversification. More than \$5 billion worth of [catastrophe bonds](#) were issued last year, according to data from Credit Suisse and Swiss Re.

Brokerages Will Have to Tell IRS What U.S. Investors Paid for Their Stocks

For equities purchased after Jan. 1, 2011, brokerage firms will be required to report the [cost basis](#) of equities purchased to the Internal Revenue Service.

Time-resistant Gifting

Drafting long-term gift documents, whether the gift is a traditional endowment, a foundation, a donor-advised fund or similar entity, is difficult. These gifts are designed to be perpetual, but it is impossible to predict the economic or social climate 100 or even 50 years from now. It is possible to create a [flexible structure](#) to achieve the client's long-term goals.

Getting the Boot

The fortunes at stake when estates transfer from parents to children are staggering. Research by Cornell University economists Robert B. Avery and Michael S. Rendall estimates that \$10.4 trillion in wealth will pass via inheritance to baby boomers between 1990 and 2044. That sum should give financial advisors

pause. Many often have relationships with high net worth clients that span decades. Sadly, those [relationships](#) often "pass on" when the clients do.

Roth IRA Conversions Raise Tax Questions

IRA expert Ed Slott responds to questions about the tax consequences for clients taking advantage of five-year [Roth IRA conversions](#). Advisors should inform clients about the option to claim the conversion fully in 2010 or spread the income over 2011 and 2012. Other issues include understanding income limits for Roth IRA holders and restrictions on IRA beneficiaries. Advisors should also note that the five-year period for conversions started on Jan. 1, 2010.

Rising Above the Chaos

The unsettled status of the estate tax shouldn't deter clients from taking care of their long-term wealth transfer planning. Over the past decade, wealthy Americans have grown accustomed to thinking of estate planning as a task with short-term consequences. Due to federal legislation, the rules have been changing year after year. The short-term chaos, however, may be distracting high net worth families from facing the realities of long-term [wealth transfer planning](#).

Polishing up Jewelry Insurance

Clients need to update their [jewelry insurance](#) to reflect the rising price of gold and other precious metals. The rise in the value of gold and other precious metals has been a boon to many client portfolios, but advisors would also be wise to consider the impact on their clients' jewelry. If clients have not adjusted their insurance to account for the higher prices, they could be in for a surprise if their keepsakes are lost or stolen.

Client Perspective

Married Couple's Guide to the New Estate Tax Law

The sweeping tax overhaul that President Obama signed Dec. 17, raising the exemption from federal estate tax to \$5 million a person, includes a wonderful new break for widows and widowers. Starting in 2011, they can add the unused estate tax exemption of the spouse who died most recently to their own. This dramatic change enables [spouses](#) together to transfer up to \$10 million tax-free. It also eliminates the need in many cases for the tax-planning gyrations that lawyers routinely recommended to preserve each spouse's estate tax exemption amounts.

Rewrite Your Will

Congress increased the exemption from the federal estate tax to \$5 million, leaving fewer than 4,000 families likely to be stuck paying the 35 percent tax in 2011. The generous \$5 million exemption, combined with a new portability provision, should allow many affluent couples to simplify their planning, leaving their assets outright to each other instead of to cumbersome bypass trusts. As a result, it may be time to [rewrite](#) your will or trust.

Writing off U.S. Citizenship

Some of the nation's wealthy are taking their unhappiness about taxes to an extreme by renouncing their U.S. [citizenship](#). Kenneth Rubinstein, a tax attorney, was at a party thrown by his clients – a husband and wife who are both physicians – when the conversation turned to President Obama's health care initiative. The hosts and two guests said if the plan's impact was as dire as they imagined, they would leave the country.

It's Time to Consider Often-overlooked Tax Elections

There are a host of commonly overlooked [elective tax benefits](#) that could offer taxpayers valuable opportunities. The list includes installment sales, deferral of interest income on U.S. savings bonds, unused passive activity credits, charitable contributions of capital-gain property and ordering rules for adjusting the basis of S corporation shareholders' interest.

Aging Workforce Changes the Meaning of Retirement Worldwide

People are working longer – out of necessity and choice – as the world undergoes one of the biggest demographic shifts in history. An aging population is redefining [retirement](#) throughout the developed world. In some cases, necessity is forcing workers to stay on the job. A bigger factor is that older workers are living longer and a declining birthrate is reducing the number of young people.

Boomers Reluctant to Cut Costs in Retirement

Workers who haven't saved enough to retire comfortably have three choices: work longer, save more or reduce standard of living in retirement. When workers on the verge of retirement who have lost money in the stock market were given these three choices, most said they would [delay retirement](#) and continue to save rather than cut costs, according to a recent Center for Retirement Research at Boston College study.

Failed Billionaire Tax Loopholes

Death and taxes are said to be the only two certainties in life. Billionaires are mortal, just like normal folks, but they do try to minimize the tax hits to their substantial wealth and sometimes succeed to an astonishing extent. In all fairness, individuals at many income levels use techniques to lower the taxes that are paid to the Internal Revenue Service (IRS), and many of them are perfectly legal. However, billionaires have an edge over most taxpayers in that they have sizable sums to pay tax attorneys and accountants to find what can be creative ways to minimize their taxes. These same tax attorneys and accountants come up with [complex strategies](#) to attract clients. The result: tax loopholes that are either dubious (or downright illegal) in the first place or operate in a gray area that catches the attention of the IRS or other government agencies.

IRS Raises Alarm Over Complexity of the Tax Code

Each year for the past decade, Nina Olsen, the national taxpayer advocate at the Internal Revenue Service, has issued a report to Congress on the most serious problems facing taxpayers. She usually focuses on individual provisions of the code, such as the alternative minimum tax, or vexing tax administration problems. This year, Olsen reached a quite different conclusion: The most serious problem encountered by taxpayers is ... the Tax Code. As the report says, "The most serious problem facing taxpayers – and the IRS – is the complexity of the [Internal Revenue Code](#)."

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59923 1/11 | INS-13601-11

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