



Secure Your Future!
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Hello Everyone,

Many of you have enjoyed a Spring Break vacation, and are welcoming this wonderful weather after a long Winter.

We are continuing to expand our College Funding workshops into the Fletcher and Hendersonville areas. We invite you to share this information with parents of college-bound students concerned about college costs and how to reduce them. Have them call us for a flyer for one of these free monthly workshops.

Linda

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How Will the Health-Care Bill Help You This Year?

The health-care bill that became law in March won't be fully implemented for several years. However, by the end of this year, six important measures (detailed below) will take effect.



Your health insurer can't drop you for making a mistake

In some cases, people have filed claims, only to be told that after reviewing their policy, the insurance company has rescinded their coverage because

of inconsistencies in the original application. The new law will require insurers to demonstrate fraud or intentional misrepresentation of a material fact--for example, deliberately concealing an existing illness--in order to rescind coverage after a claim is filed.

A child can stay on your health plan longer

If there's a recent high school or college grad in your family who's struggling to land that first job, you can choose to continue your child's dependent coverage under your plan until his or her 26th birthday. This applies to both individual and group policies (for existing workplace plans, it applies only if your child doesn't have his or her own employer's health plan).

If you or your child has a pre-existing condition, you'll be able to get health insurance

Under the health-care bill, children with pre-existing health conditions may not be denied health insurance coverage. Adults won't have that protection until 2014, but if you have a pre-existing condition, you may be able to obtain coverage beginning this summer through a temporary national high-risk insurance pool. However, only individuals with pre-existing conditions who have been uninsured for at least six months before applying for coverage through this insurance pool will be eligible.

Your total coverage will have no cap

In the past, some people were very happy with their health-care coverage--until they got really, expensively sick. Severe illness or an accident sometimes meant medical bills that exceeded the total amount of coverage their policy provided (so-called "lifetime limits" on coverage). The new law prohibits insurers from establishing lifetime limits on the total dollar value of health benefits that can be paid to any one insured individual.

You may get a rebate for some Medicare drug costs

The health-care bill gradually closes the Medicare prescription drug coverage gap known as the "donut hole." If you're covered by Medicare, you fall into this donut hole once your total prescription drug costs exceed \$2,830 a year; until you've spent an additional \$3,610 out of pocket, Medicare won't cover any of your prescription costs (figures are for 2010). If you're affected by this coverage gap this year, you can look forward to a \$250 rebate check from the federal government to defray at least part of your drug expenses. Next year's benefit could be even bigger; once you fall into the donut hole, you will receive a 50% discount on certain brand-name prescription drugs.

If you're a small business owner, you may receive a tax credit

If you're a qualifying employer who pays at least 50% of the cost of your employees' health insurance premiums, you may receive a tax credit to offset up to 35% of your premium contribution when you file your 2010 federal taxes. The credit is generally available to employers with fewer than 25 full-time workers with an average annual wage of less than \$50,000.



Note on 529 plans

Investors should consider the investment objectives, risks, charges, and expenses associated with 529 plans before investing. More information about 529 plans is available in each issuer's official statement, which should be read carefully before investing. Also, before investing, consider whether your state offers a 529 plan that provides residents with favorable state tax benefits.

529 College Savings Plans vs. Roth IRAs

According to an article in *The Wall Street Journal* ("More Parents Are Becoming 529 Dropouts," November 11, 2009), after the 2008/09 market collapse, some investors--and financial advisors--have reduced their reliance on 529 plans. Some of this pullback can be attributed in part to a broader retreat from the stock market as a whole. But another part can be attributed to parents who have opted to trade the tax benefits of 529 plans for college savings vehicles that don't have a "must-be-used-for-college" restriction. And as parents seek to save for their own retirement too, one such vehicle is a Roth IRA. So, just how does a favorite of the college savings world, a 529 college savings plan, stack up to a favorite of the retirement savings world, a Roth IRA, as an education-funding vehicle?

Tax benefits

Both 529 college savings plans and Roth IRAs offer federal tax-free earnings if certain conditions are met (and most states follow this tax treatment), but only 529 plans offer the possibility of a state tax deduction too.

For 529 plans, earnings are tax free at the federal level if the distribution is used to pay the beneficiary's qualified education expenses--a broad term that includes tuition, fees, room and board, books, and computers--at any accredited college in the United States or abroad. If the distribution is used for any other purpose, earnings are subject to income tax and a 10% federal penalty tax.

For Roth IRAs, earnings are tax free at the federal level if the distribution is "qualified." A distribution is qualified if a five-year holding period requirement is met and one of the following conditions is met: (1) you are at least age 59½; or the distribution is made (2) due to a qualifying disability; (3) to pay certain first-time homebuyer expenses; or (4) by your beneficiary after your death.

If you are younger than age 59½ and you have a taxable distribution, you will also pay a premature distribution tax (also called an early withdrawal penalty) equal to 10% of the earnings portion of the distribution. But there are exceptions to this penalty, and one is if the money withdrawn is used to pay your child's qualified higher education expenses.

Bottom line: if you withdraw money before age 59½ to pay your child's college expenses, you'll generally owe income tax on the earnings, but not an early withdrawal penalty. However, you

may not end up owing income tax on the earnings, because Roth IRA distributions generally aren't taxed as earnings until the principal has been fully withdrawn. (By contrast, a distribution from a 529 plan is considered part principal and part earnings.)

Financial aid

There is an important difference here. Under federal financial aid rules, 529 plans are counted as a parent asset (if the parent is the account owner), and 5.6% of all parent assets are deemed available for college costs. By contrast, the federal aid methodology doesn't count retirement assets in determining aid eligibility. So a Roth IRA won't impact the amount of federal aid your child may be eligible for. However, although Uncle Sam doesn't count retirement assets, colleges typically do when awarding their own institutional aid.

Investment choices

Roth IRAs have the edge here--you can choose from a wide range of investments to fund your Roth IRA, and you can buy and sell investments whenever you like. But with a 529 plan, you are limited to the investment options offered by the plan. If you're unhappy with the investment performance of the options you've chosen, most plans let you change the investment options for your future contributions at any time, but for existing contributions, you can only change investment options once per year (twice per year in 2009 only). In 2008 and 2009, this restriction proved costly for many 529 account owners: having reached their limit on investment changes for the year, they were unable to make further changes in response to deteriorating market conditions.

Lump-sum contributions and eligibility

If you have a lump sum to contribute, 529 plans allow individuals to gift up to \$65,000 in 2010 (\$130,000 for married couples) and avoid gift tax if certain conditions are met. By contrast, Roth IRAs have a contribution limit in 2010 of \$5,000 (\$6,000 for individuals age 50 or older). And your ability to contribute to a Roth IRA depends on your income level. But anyone can contribute to a 529 plan--there are no restrictions based on income.

Bottom line

Whether a Roth IRA or a 529 college savings plan is best for your college savings depends on your personal circumstances and the factors discussed here.

Got Stock? The Long and Short of Capital Gains

If you buy or sell shares of stock, you need to be familiar with the rules that govern the way capital gains are taxed. That's because the amount you owe in tax can depend on a number of factors, including the length of time you hold the shares and the federal income tax bracket you're in. Here are the basics.

Basis and holding period

"Basis" refers to your investment in the shares of stock you hold. Generally, your basis is the amount you paid for the stock, plus any commissions you paid to purchase the shares. (Note, however, that special rules apply if you received the stock as a gift or as part of an inheritance.) If you sell a share of stock and the sales price--less any commission--is more than your basis, you have a *gain*; if the amount you receive is less than your basis, you have a *loss*.

Your holding period is generally the length of time that you hold a share of stock before you sell or exchange it. If you hold a share of stock for a year or less before selling it, any gain you have is *short-term* capital gain. If you sell a share of stock after holding it for more than a year, any gain is *long-term* capital gain. Your holding period typically starts on the trade date the share is purchased, and ends on the trade date it's sold.

Short-term capital gain

Short-term capital gain is treated as ordinary income, just like interest on your savings account or wages from your employer. It's added in with all of your other income, and the amount of federal income tax you owe depends on the federal marginal income tax bracket you're in. For example, if you're in the top tax bracket in 2010, you'll pay tax on ordinary income at a maximum rate of 35%.

Long-term capital gain

If you sell shares of stock that you've held for more than a year, any gain is long-term capital gain, and special maximum tax rates apply. If you're in the 10% or the 15% marginal income tax bracket in 2010, you'll pay no federal income tax on long-term capital gains (a "0% tax rate" applies). So, for single individuals with taxable income of \$34,000 or less (\$68,000 for married individuals filing jointly), long-term capital gains are federal income tax-free in 2010.

For those who aren't in the lowest two federal income tax brackets (i.e., those in the 25%, 28%, 33%, and 35% brackets), a 15%

maximum tax rate generally applies to long-term capital gains. There are limited cases, however, when individuals in the higher tax brackets can still benefit from the 0% tax rate.

For example, a retired couple with taxable income of \$60,000 would be in the 15% marginal income tax bracket in 2010 if they file jointly (the bracket covers married couples with taxable income less than or equal to \$68,000). The couple sells stock, resulting in a long-term capital gain of \$40,000. This increases their taxable income to \$100,000, placing them in the 25% marginal income tax bracket. In this situation, they would pay no federal tax on the first \$8,000 of long-term capital gain, and the maximum 15% rate would apply to the remaining \$32,000 in gain.

Offsetting gains with losses

Any capital losses that you may have realized during the year can offset some or all of your capital gain. If your losses offset all capital gains, any excess capital loss can be applied against up to \$3,000 of ordinary income (\$1,500 for married individuals who file separately), and any unused capital loss can be carried forward to future years.

Big exception: retirement plans, IRAs

All of this assumes your stock is not being held in a tax-advantaged retirement account like a 401(k) plan or IRA. Special tax rules apply to investments, including stock, held within these plans. If you sell shares of stock within one of these plans, there's no immediate tax consequence. Instead, you'll generally pay federal income tax when you take withdrawals from the plan, and any income will be considered ordinary income--even if the earnings are attributable to capital gains. (Certain Roth retirement plans and Roth IRAs provide for tax-free treatment of qualified withdrawals.)

Uncertainty in 2011

The special federal income tax rates that currently apply to long-term capital gains expire at the end of 2010. Absent new legislation, in 2011, individuals in the 15% tax bracket (under current law the 10% bracket disappears in 2011) will pay tax on long-term capital gain at a rate of 10%. For everyone else, a 20% rate will generally apply. Special rules (and slightly lower rates) will apply for qualifying property held five years or more.



Small business stock

Special rules apply to qualified small business stock. Generally, a portion of any gain realized upon the sale of qualified small business stock held for more than 5 years can be excluded from income. The portion of the gain that is not excluded from income is generally taxed at a maximum rate of 28%. For additional information, see IRS Publication 550.



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Ask the Experts



I started a business that lost money this year. Do I have a net operating loss (NOL)?

If you're a sole proprietor and your business expenses exceed your business income, you have a reportable loss for income tax purposes. You're generally able to apply this loss against any wage income or other business income that you have (wages are considered business income) and any nonbusiness income (e.g., interest) that remains after taking your allowable nonbusiness deductions. If you still have a business loss remaining after offsetting all your income, you have a "net operating loss" for the year. The net operating loss (NOL) calculation is very complicated, though. For example, certain items, like personal exemption deductions and other nonbusiness deductions, aren't allowed in calculating an NOL.

The general rule is that you get to carry back an NOL for 2 years. This means that you can apply the NOL as a credit against income that was earned in--and reported on the tax returns

for--the 2 years preceding the year in which you have the net operating loss. Any remaining loss is carried forward for up to 20 years after the year in which you have the NOL. You can, however, choose not to carry back the NOL to the prior 2 years and simply carry forward the entire NOL.

While NOLs are generally allowed to be carried back 2 years, special rules apply to NOLs incurred in 2008 and 2009 that allow NOLs to be carried back for up to 5 years. There are also exceptions to the general 2-year carryback rule, and alternative minimum tax (AMT) implications. Even in the most straightforward cases, NOLs are complicated.

If you have an NOL, you'll want to read IRS Publication 536, *Net Operating Losses (NOLs) for Individuals, Estates, and Trusts*, and the instructions for IRS Form 1045, *Application for Tentative Refund*. You should also consider discussing your situation with a tax professional.



Is it too late to take advantage of the special 2009 net operating loss (NOL) rules?

The Worker, Homeownership, and Business Assistance Act of 2009 (WHBAA) included a provision that allows almost all taxpayers with business losses to make an irrevocable election to carry back losses incurred in *either* 2008 *or* 2009 for up to 5 years (the election can only be made for 1 year, however). Specifically, you're able to elect to extend the general 2-year NOL carryback period to 3, 4, or 5 years; NOLs carried back 5 years can offset up to 50% of the taxable income from the fifth year, and 100% of the taxable income from the other carryback years.

Even if you took advantage of a similar provision in earlier legislation to carry back a 2008 NOL, you're still able to elect to carry back a 2009 NOL under the provisions of the WHBAA. Certain taxpayers are specifically excluded from making the election, however. For example, any business in which the federal government acquired an equity interest pursuant to the Emergency Economic

Stabilization Act of 2008 (i.e., a "TARP" recipient) is not eligible. Special rules apply to insurance companies.

If you're a calendar-year filer, you have to make the WHBAA election by the due date of your 2009 federal income tax return, including extensions. This deadline applies regardless of whether you're making the election for a 2008 NOL or a 2009 NOL. If you filed your 2009 federal income tax return by April 15, 2010, without making an election, you have until October 15, 2010, to do so.

You can make the election in one of two ways. You can attach an election statement to the federal income tax return or amended return for the tax year in which the loss is incurred. Or, you can attach the election statement to the carryback form itself (1040 filers would use Form 1045 or Form 1040X). Your election statement must contain specific language. You can find more information by checking the IRS website (www.irs.gov) or by talking to a tax professional.