FINANCIAL SERVICES

McPherson Financial Group

EXECUTIVE BENEFITS:

UNDERSTANDING THE ADVANTAGES AND TAX CONSIDERATIONS

FOCUSED ON:

NET UNREALIZED APPRECIATION (NUA)

TAX IMPLICATIONS OF OWNING COMPANY STOCK

Employees with highly appreciated company stock in your 401(k) may realize big tax savings by understanding the NUA rule.

IRA Code Section 402(e)(4) outlines the rule allowing you to receive favorable tax treatment of net unrealized appreciation (NUA) of your employer stock held in your 401(k).

Many employees have the opportunity to purchase company stock inside their employer-sponsored retirement plan. For most employees, that is their 401(k).

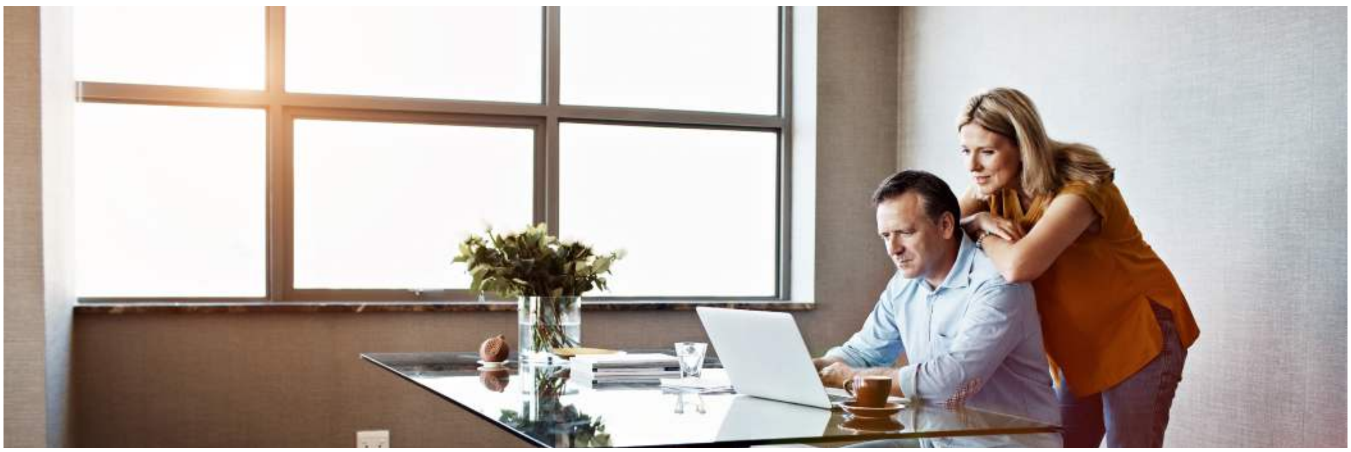
If you have been investing in your company stock for many years, chances are you have made a pretty good profit.

Understanding the tax implications of making withdrawals and/or rollovers from your 401(k) can have major tax implications. Not understanding the tax rules can result in your company stock going from having the potential to be tax-free to paying upwards of 40% tax on the distributions.

THE TAX BASICS

Under most circumstances, when an employee takes a distribution from their tax-deferred employer retirement plan, those distributions are taxed at ordinary tax rates. The rate is based upon the tax rates at the time of distribution. Ordinary income is taxed at a higher rate than capital gains.

Withdrawals from your retirement accounts prior to age 59 ½ may be subject to an early distribution tax penalty of 10% on the entire amount withdrawn.*



THE BASICS OF NUA

The NUA Rule:
Federal tax law contains a seldom-used and frequently misunderstood provision that can be used by employees owning company stock in their 401(k). This provision applies to the tax consequences on certain distributions of company stock from the company's 401(k) plan.

Under this provision, an employee may make an election for the NUA of employer stock to be taxed at the more favorable capital gains rates.

The election is only available for traditional retirement accounts. The election must also be made prior to any distributions from the employer plan.

**Exceptions apply; speak with a tax professional prior to any distributions from a retirement account.*

APPLYING THE RULE

Under separation from your employer (or age 59 1/2), you have the option to take distributions from your retirement plan. You may elect to take distributions from the plan itself, or you may opt to move your retirement funds into an Individual Retirement Arrangement (IRA).
There are many pros and cons of making the decision to move your retirement plan away from your employer. You should discuss these options with a trusted professional.

To take advantage of the NUA election, you must “roll over” your retirement plan into your IRA. You must elect NUA treatment of your employer company stocks when exercising the distribution.

The company stock subject to the NUA distribution will be transferred into a brokerage account (with custodians such as Schwab, Fidelity, and TD Ameritrade). The NUA distribution is a taxable event.

- The tax is only on the cost basis of the stock being transferred. The cost basis is the original value of the company stock. This means that any gain on that stock is not taxed on the distribution into the brokerage account.
- The NUA account is not subject to Required Minimum Distribution rules.
- Future withdrawals from the account as well as dividends from the company stock will be subject to capital gains tax, not ordinary tax.
- Upon death, the heirs receive a step-up in basis in the stock, thereby further reducing any potential exposure to tax.

Upon making a NUA election, you must distribute the remaining balance of your employer-sponsored retirement plan. Most often, you will choose to distribute those funds into an IRA, where you can continue to control your investments. This is called a rollover.

The “rollover” is called a trustee-to-trustee transfer and is not a taxable event. **All accounts** held with the employer must be moved within one year of your NUA distribution.

APPLIED TO YOU

Assumption: Purchased $50,000 (cost basis) in company stock that now has a fair market value of $300,000. Combined tax rate is 30%.

Lump Sum: If you were to take a lump sum of the $300,000, your tax would be $90,000.

Using NUA election: Tax on the basis would be $15,000. Tax on gain of $250,000 would be $50,000 for a total tax of $65,000.

Tax savings of **$25,000!**

The Medicare surcharge **does not** apply to NUA elections or to retirement plan distributions.

IF YOU:	NUA	ROLLOVER IRA
Have significant market appreciation in your company stock	X	
Are in a high tax bracket	X	
Need immediate income/distribution	X	
Are creating a legacy plan	X	
Are concerned about taxes in the future	X	
Are concerned about taxes today		X
Need diversification from company stock		X

Understanding your company benefits is paramount to having a successful retirement. For many employees, company stock holdings can be a significant part of their retirement savings accounts. Understanding the tax implications on distributions from these plans can also have a significant impact on the quality of your retirement as well as your ability to leave a legacy for future generations.

Please consult a qualified professional before making any retirement plan decisions, including the concepts discussed today.

MCPHERSON FINANCIAL GROUP

Our firm believes every retiree and those soon to be retired deserve to have a team working for them.

We have spent decades helping people just like you through the confusion of retirement. Our team of professionals understands the importance of creating a sound and secure income during retirement. We want to ensure that our clients never have to worry about running out of money during retirement. Creating that secure income allows our clients to plan for their long-term care needs as well as create a legacy plan to benefit their children, future generations, and for some, make a lasting gift to their favorite charity.

All this planning is incomplete without proper tax planning. Taxes can take a significant bite out of your retirement income. Our philosophy is, *"It does not matter how much you make. It matters how much you keep."* We strive to structure our clients' income, investments, and legacy to ensure that they pay the least amount of taxes legally possible. This allows our clients to put more money into their own pocket. "Uncle Sam" gets enough — don't give him more!

With today's technology, we are able to help retirees and those soon to be retired, regardless of where they live.

You worked hard to get to this point in life. You deserve to have a retirement team that will work just as hard for you!

We can be reached at 321-253-2016 or mcphersonfg.com.

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