1Q:2015

The Mosaic Financial Group LLC
Your Wealth Management Partner

Why Give Securities To Charity Instead Of Cash?

Want to make a sizable donation to your favorite charity? Of course, you could write out a big, fat check to the organization and claim a current tax deduction for your generosity. But you might fare even better, when taking taxes into account, by donating securities that have appreciated in value. As a bonus, you won't have to sell anything or dip into your cash to pay for the gift.

There's a simple tax incentive for donating stock rather than cash. If you write a check, you generally can write off the exact amount on your federal income tax return, subject to an overall charitable limit of 50% of your adjusted gross income (AGI) for the year. However, if you donate securities, you can deduct the fair market value (FMV) of the investments on the date of the contribution and avoid being taxed on the profit you would have made if you'd sold that holding.

In other words, you (and your charity) would benefit from the stock's appreciation without being taxed on it. It's as if your gains never occurred—except for the tax break you would get to enjoy.

But this works only if you've held an investment for more than a year. That's the definition of "long term" for calculating taxes on capital gains. With donations of stock that would have produced a short-term gain if you had sold it, your deduction is limited to your basis in the stock, which is usually what you paid for your shares. So there's no tax reward for giving away stock you've acquired within the year, no matter how much its price may have increased.

Let's take a look at two hypothetical examples to see the tax difference.

Example 1: Suppose you acquired ABC Co. stock nine months ago for $10,000. The stock is now worth $15,000. If you donate the ABC stock to a charity, your deduction is limited to your basis, or $10,000. There's no tax benefit from the $5,000 of appreciation in value. In fact, you would be giving that away for nothing.

Example 2: Suppose you acquired XYZ Co. stock two years ago for $5,000 that is now worth $15,000. In this case, if you donate your XYZ shares to charity, your deduction is based on its FMV, or $15,000. You would get to deduct the entire $15,000 even though you only paid $5,000 for the stock.

These rules lead to guidelines that can help you decide which investments to donate. For tax purposes, it's generally best to give the long-term holdings that have gained the most in value. But it makes little tax sense to donate stock that has moved up only a small amount, especially if you've owned it for a year or less. These differences may be especially important

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Spotlight On... Keith Goldstein

Hello, my name is Keith Goldstein and I am a member of The Mosaic Financial Group's tax advisory team.

I grew up in Buffalo Grove, Illinois, and obtained my Bachelor's degree from the University of Illinois at Urbana-Champaign. Following my graduation from the University of Illinois, I went on to receive a Juris Doctorate from the University of Texas School of Law in Austin. I briefly practiced in litigation at a boutique Chicago law firm before deciding to refocus my career in tax; it was one of the best decisions I have ever made! Currently, I am enrolled in the Master of Science in Accountancy program at DePaul University and am working toward becoming a CPA.

I joined Mosaic as an intern in February of 2013 and became a permanent member of the team a few months later. My time at Mosaic has been wonderful; I truly enjoy the work we do and the people I work with.

In August of 2014, I was lucky enough to marry my amazing wife Michelle! We are enjoying newlywed life and recently adopted a kitten from PAWS Chicago.

Outside of work, I enjoy movies, traveling, and exploring the wide variety of restaurants in Chicago. I am an especially big fan of sampling new pizzas and creating my own concoctions, such as pickle pizza!

FBAR Penalty Can Run Into Millions

No matter how old you are, the IRS isn't likely to show you any mercy, especially if you're trying to hide funds in offshore accounts without paying the required taxes. This has been demonstrated, in dramatic fashion, in a case involving an 87-year-old retiree who earned a fortune as a specialty-glass importer. Carl Zwerner, who lives in Florida, has been hit with penalties equaling 150% of the value of his foreign bank account, for a staggering total of $2.24 million.

Over the past decade, the IRS has ramped up its efforts to uncover tax cheats who are stashing cash in foreign accounts that were protected previously by privacy laws. Significantly, U.S. taxpayers are required to file a Report of Foreign Bank and Financial Accounts (FBAR). The penalty for failing to file the FBAR can equal 50% of the value of the unreported assets.

The IRS has joined forces with the Justice Department in using this weapon to ferret out tax cheats. Dozens of high-profile cases during the past few years have resulted in fines reaching into the millions.

The threat of paying excessive penalties has driven some tax evaders into an IRS-sponsored amnesty program. Under the program, taxpayers must fork over back taxes, fines, and penalties, in addition to providing information to the IRS about their foreign accounts. Since the program was authorized in 2009, more than 43,000 taxpayers have paid about $6 billion into government coffers.

Zwerner was a unique case. He said he didn't know he had to file FBARs for his account at ABN Amro Group N.V., one of the Netherlands' largest banks, until 2008. At that time, he couldn't enter the amnesty program due to income limits, so he amended his 2008 return. The IRS went after him for failing to file FBARs for four years—from 2004 through 2007—and sought the 50% penalty for each year. The jury in his trial handed down a verdict for the first three years.

For 2004, Zwerner's account was valued at $1.48 million; $1.49 million for 2005; and $1.55 million for 2006. The FBAR penalties assessed were $723,762, $745,209, and $772,838, respectively, adding up to a total of $2.24 million.

In another publicized recent case, H. Ty Warner, the billionaire founder of the Beanie Babies toy empire, pleaded guilty to evading taxes on assets of up to $107 million hidden in Swiss bank accounts. Warner ended up paying an FBAR penalty of $53.6 million.

The message is clear: The IRS will show no quarter. However, at least the income limits that barred Zwerner and others from entering the amnesty program have been removed, giving some wealthy U.S. taxpayers another option. ●

Taking RMDs Into Your Own Hands

IRS rules on required minimum distributions (RMDs) are aimed at people who can afford to pile up savings in tax-favored retirement accounts without ever again having to take out most of that money. In most cases, however, you eventually have to start taking annual RMDs whether you want to or not. But moves you make at year-end can help reduce the tax damage.

Although savings in employer-sponsored retirement plans such as 401(k)s, as well as in traditional IRAs, can grow without being eroded by current taxes, eventually the money must come out. RMDs have to begin by April 1 of the year after the year in which you turn 70½. (Roth IRAs are exempt from RMDs.) Then you must take an RMD by December 31 every year. Those withdrawals generally are taxed at ordinary income tax rates.

If you're still working full-time at a company you don't own, you may be able to postpone withdrawals from that company's plan until retirement. But this exception doesn't apply to IRAs.

The amount of the RMD is based on life expectancy tables and the value of your accounts on the last day of the previous tax year. Suppose you're 75 and the value of all your IRAs on December 31 of last year was $500,000. If your spouse is the sole beneficiary and he or she isn't at least 10 years younger than you are, the withdrawal factor under the appropriate table is 22.9. With an online calculator, you can determine that your RMD for the current tax year is $21,834.

If you have multiple IRAs, you can take the money from any one of them or from several in whatever proportions you choose. But the penalty for failing to take the full RMD is severe—equal to 50% of the amount that should have been withdrawn (or the difference between the required amount and any lesser amount you

The Energy Boost To The Economy

If gasoline prices in 2015 stay as low as they were in October |2014, the American economy literally would experience a major energy boost.

In 2013, Americans spent an amount equal to 2.4% of gross domestic product (GDP) on motor fuels and home heating oil. In late 2014, gasoline prices were down about 18% from $3.75 per gallon in 2013 to $3.08. If the 2.4% share of GDP spent on gasoline and diesel fuel in 2013 were reduced by 18%, it would mean that Americans would get an additional 0.43% of GDP (18% X 2.4%) to spend on all other retail categories.

Of course, consumers might choose to bank some of the savings they're getting from lower gas prices, and you can't assume that the GDP will get a.43% boost from energy savings in 2015. But, even if the boost to the economy were half of that amount, say .20% instead of .43%, it's a material plus looking ahead.

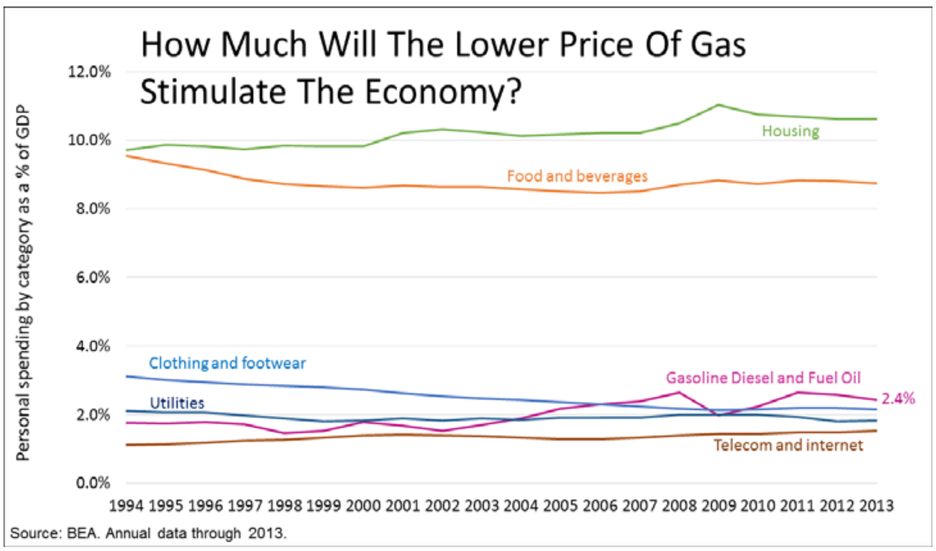
Even if consumers don't turn around and spend every dollar saved on lower gasoline prices, the stimulus to GDP provided by the energy boost is likely to have a noticeable effect on the economy. A three-tenth of 1% boost to GDP tacks on an additional 10% to GDP growth. That money stays in the U.S., and will help create jobs and trickle down through the system.

In addition to the energy boost resulting from lower gas prices, car sales and housing starts also are brightening the economic forecast for the U.S.

Car sales collapsed during the last recession but have recovered fully. We're running at about a rate of 17 million car sales per year, but the average cars in the U.S. fleet is 11 years old, and that is old by historical standards. As a result, it is likely that car sales will be robust for the foreseeable future as we replace old cars with new ones.

Housing starts also are experiencing a tailwind because of demographic factors. The U.S. population grows by three million annually, which requires adding about 1.5 million housing units a year to accommodate our growing population. At the rate the U.S. was building new housing as of October, we were set to build one million new housing units in 2015. To keep up with population growth, the rate at which new housing units are built in 2015 is likely to increase to the 1.5 million historical norm, further adding to the likelihood of a "Goldilocks economy" -- not too hot, not too cold, but just right.

Of course, the world and personal circumstances can impose a new reality on you at any moment. Jihadis, Vladimir Putin, China, and factors unknown to us currently can overtake economic fundamentals temporarily at any time. Still, the tailwind to economic growth is undeniable and perhaps explains why, in mid-November 2014, U.S. stocks, as measured by all major broad stock indexes, had broken through to new all-time highs. ●



Source: BEA. Annual data through 2013.

did withdraw). For instance, if you failed to make any withdrawal in the example above, the penalty would be $10,917, plus regular income tax.

Finally, taking an RMD can trigger other tax complications, including liability under the 3.8% "net investment income" (NII) tax. Although RMDs don't count as NII, they do increase your overall taxable income—and that, in turn, can make you subject to the NII tax.

One way to begin reducing your exposure to RMDs is to convert funds in traditional IRAs to a Roth IRA. Because Roth IRAs are exempt from RMD rules, you'll have more protection for the future, even though you'll owe tax on the conversion for the year in which it occurs. Another potential strategy is to transfer funds to a life insurance trust that isn't subject to the RMD rules. Just keep in mind that such arrangements generally require professional assistance.

The main point is that you don't have to sit back and accept dire tax consequences. Some astute year-end planning can give you more room to maneuver. ●

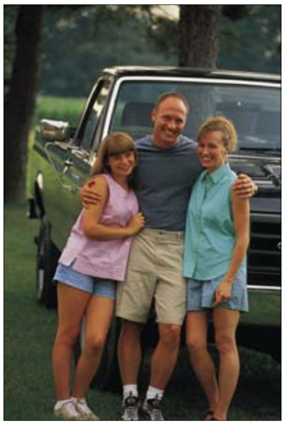
Keeping A 529 Plan Rolling Along

If you were thinking ahead, you may have set up a tax-advantaged Section 529 plan for your first child at an early age. Once your kid is ready for college, you'll reap the rewards of your foresight.

But what happens when your son or daughter graduates? If there's still money in the plan, your tax savings don't have to stop there. If you have other children, you could designate one of them to be next in line as the 529 plan beneficiary, and then choose another and another . . . possibly even extending the plan's benefits to your grandchildren!

Section 529 plans, sponsored and operated by individual states, encourage families to set aside funds for future education expenses of the younger generation. As long as certain requirements are met, the money invested in the plan can grow without any erosion by taxes; and distributions that go to pay qualified college expenses—including tuition, fees, books, supplies, equipment, and room and board for full-time students—are completely tax-free.

There are two main types of plans: prepaid tuition plans and college savings plans. A prepaid tuition plan enables you to lock in rates at an in-state public college, whereas a college savings plan gives you more flexibility—the money can be used at a public or private college of your choice—but doesn't offer guarantees.



Keep in mind that it doesn't matter which state's college savings plan you choose, because no matter where it's set up, you can choose where to spend money from the account. But there could be an advantage to using your home state's plan. More than half of the 50 states offer a state tax deduction or credit for Section 529 plan deposits made by residents.

Now suppose your daughter is finishing college and your son is poised to attend next fall. Assuming some funds are left in the account, you can simply switch the beneficiary designation for the 529 plan to the younger child. Typically, a plan will allow one such change each year. If a younger child will enter college before the older one graduates, you might want to set up a separate account.

Although a plan can continue indefinitely, with your grandchildren eventually becoming beneficiaries, it terminates when the latest beneficiary reaches age 30. Of course, if there's a gap—say, your youngest child turns 30 and you have no grandchildren— you still can set up a new plan for a grandchild in the future.

A final bonus: There's a special gift tax break for 529 plans. Not only are transfers to 529s considered gifts that qualify for the annual gift tax exclusion ($14,000 in 2015), you can make up to five years worth of contributions in one year. And your spouse can do the same. Together, you could transfer up to $140,000 into a child's or grandchild's 529 entirely exempt from gift tax. ●

Give Securities To Charity?

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to donors in high tax brackets.

If you donate stock that has lost value, your deduction will be based on the stock's FMV. In this case, it usually makes sense tax-wise to sell the stock first and then donate the proceeds to charity. This way, you can claim a capital loss that you could use to offset capital gains from other securities sales.

There are a few other tax wrinkles to consider when you're thinking about giving securities to charity. That 50%-of-AGI limit applies to all gifts during the year, whereas charitable gifts of property are limited to 30% of your AGI for the year—though you can carry over any excess to subsequent tax years. In addition, some itemized deductions for high-income taxpayers, including those for charitable contributions, may be reduced by the "Pease rule." Generally, this reduction is equal to 3% of deductions exceeding an annual threshold amount (indexed for inflation), but the reduction is capped at 80% of your total deduction. For 2014, the threshold for the Pease rule is $254,200 of AGI for single filers and $305,050 for those who file jointly.

Finally, there's more at stake here than just taxes. Investment factors, too, come into play, and it's usually better to choose stocks that you feel may have reached peak value than those that may continue to rise. You also may want to keep stocks that pay solid dividends. And there could be consequences relating to your estate plan and assets you might want to leave to your heirs instead of donating to charity.

The best approach is to consider all the significant factors before giving securities to a charity. We can help you coordinate your decisions with other aspects of your investment and estate plans. ●