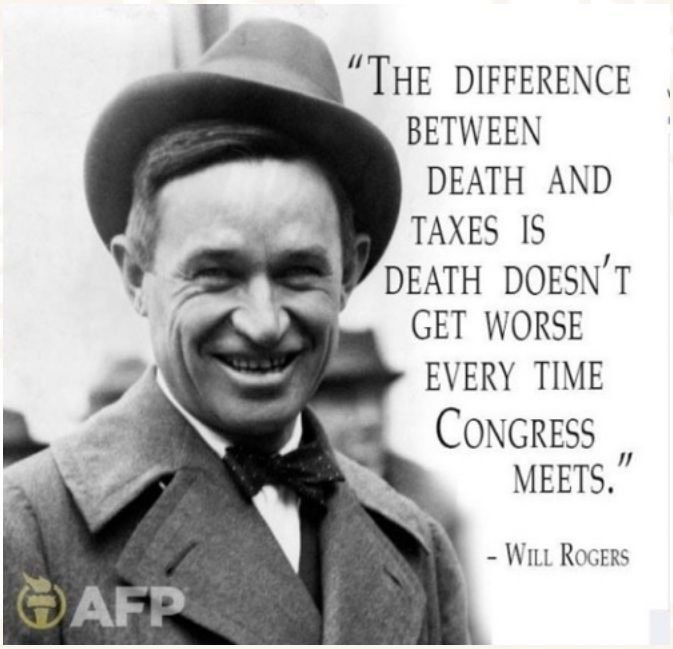
GEVERS™
WEALTH MANAGEMENT, LLC
RETIREMENT & WEALTH PLANNING • INVESTMENT MANAGEMENT & DESIGN

It's Almost Tax Time! What you Need – and Tax Planning with ATRA

February 2014



"Worried about an IRS audit? Avoid what's called a 'red flag.' That's something the IRS always looks for. For example, say you have some money left in your bank account after paying taxes. That's a red flag."

– Jay Leno

"The Internal Revenue Code is about 10 times the size of the Bible- and unlike the Bible, contains no good news."

- Don Rickles

What will you need to prepare your taxes this year? Here are a few of the items that you might require from your investment accounts, and where and how you can find them.

IRA (and other qualified) accounts:

1. **Distributions**: If you took a **distribution** last year, the IRA custodian will send you a form (1099R) indicating the amount. You should receive this in the mail in early February. Please retain this form and give to your CPA/accountant for preparation of your tax return. Please note that Pershing may mail **triplicate** copies of the 1099R this year.

2. **Rollover or Transfer**: If you did a rollover or transfer last year, this is typically a non-taxable event. The surrendering custodian, i.e. the place where the money was transferred or rolled over from, will send you a form indicating the amount. You should receive this in the mail in early February. Please retain this form and give to your CPA/accountant for preparation of your tax return.

3. **Sales, Reinvestments, Purchases or other Re-allocations**: These are typically not taxable events inside a tax-deferred account like an IRA, and you may not need or receive any tax documents regarding these.

4. **Roth Conversion**: If you did a **Roth Conversion** last year, the IRA custodian will send you a form (1099R) indicating the amount. You should receive this in the mail in early February. Please retain this form and give to your CPA/accountant for preparation of your tax return. Please note that Pershing may mail **triplicate** copies of the 1099R this year.

5. **IRA or Roth IRA Contribution**: If you made a contribution, the IRA custodian will send you a form indicating the amount and tax year the contribution was credited for. You should receive this in the mail in early February. Please retain this form and give to your CPA/accountant for preparation of your tax return.

Non-IRA/Taxable Accounts:

If you had **interest or dividend income**, you will receive a 1099 from the custodian in early February. Please retain this form and give to your CPA for preparation of your tax return.

If you **sold securities** during the last year, you may need a Realized Gains/Loss Report:

1. If you have an advisory (fee) relationship with us, you will automatically receive a realized gain/loss report for those accounts in the mail in early February. Please retain this form and give to your CPA for preparation of your tax return.

2. If you have a brokerage (non-advisory) account with us at Pershing, then you will receive a realized gain/loss report directly from the custodian for any sales you may have made during the course of last year. You should receive these reports by mid-February. If you are on e-delivery for your statements, you can also access these reports through your dedicated web access.

If you have an investment made many years ago, cost basis may need to be manually input. Although we will make every attempt to help document estimated cost basis, sometimes that information is not available

or incomplete, especially for investments made years ago, when investment tracking software was not always as robust as current technology.

3. If you have an investment held direct at a mutual fund, the fund company will prepare and mail you a realized gain/loss report for those accounts in early February. Please retain this form and give to your CPA for preparation of your tax return.

4. K-1: Some investments may send you a K-1. Please see your CPA/accountant regarding proper filing of these. Please note that the investment manager will typically send K-1's to all investors regardless of what kind of investor type they are. If you receive a K-1 for an investment that you own inside a tax-deferred account like an IRA, you may not have to file that K-1 with your tax return because of the tax-deferred nature of the IRA. Professional advice from your tax-preparer is important here.

Trust Accounts

Trust accounts typically require the same information as Non-IRA/Taxable Accounts (please see above.) There may be additional reporting necessary to complete a tax return for a trust depending on the nature of that trust. We will work with your CPA to help provide any information or reports that may be required.

Potential Delays of 1099's:

Timely delivery of 1099's has been an ongoing problem in the custodian world. Investment custodians like Pershing have sometimes struggled to meet their January 30th mailing deadline for 1099's and sometimes even file an appeal to extend their filing date. This year may be especially challenging because of the new ATRA rules. Watch for your 1099 from Pershing in early February – but don't be surprised if it is a few days late. Custodians like Pershing have sometimes filed amended or corrected 1099's after sending the original 1099. We will also receive electronic copies of your 1099's in our office.

Contributions to IRA/Roth IRA's:

If you are eligible and want to make a contribution for 2013 you have until April 15th (*but please do not wait that long!* ☺) or when you file your tax return to make a contribution. Please call Collyn or Dan if you need help with this. A note for 2014 – the contribution limit for tax payers over age 50 remains $6500 per year.

Tax Law Changes for 2014:

2013 saw major changes in the tax code. Congress passed the **American TaxPayer's Relief Act** (**ATRA**) – a new law with profound and potentially negative impacts for higher earning Americans.

Here is a brief summary of **ATRA** and some ways it could impact you.

The **American Taxpayer Relief Act** is a malapropism – in fact many taxpayers will pay more taxes under **ATRA**. **ATRA** is projected to take $600 Billion in new taxes from US taxpayers over the next ten years.

First the good news – if you are a retiree with no earned income and are about or under $150k or so in income - **ATRA** should leave you almost unscathed and untouched. And, since the federal income tax rates are now permanent, we have some clarity for future tax planning. Other positive provisions include a major loosening of the Federal estate tax with an exemption of up to $10.5M for married couples, and an extension for potentially tax-free gifts from an IRA to charities.

The bad news is mostly for successful folks with higher incomes – much of the new $600 billion in increased revenue will be coming from them. If your income is higher, you might be hit with a higher Medicare tax, a new surtax on your interest and investment income (NIIT), higher capital gains and dividend tax rates, loss of your deductions and exemptions, and a higher income tax rate. In addition, the Alternative Minimum Tax (AMT) is now a permanent part of the tax code.

There are several income thresholds that we should be aware of in 2013 and future years. Here are some of the income levels where new taxes kick in and/or your income tax burden may become more substantial.

AGI greater than $200k (single)/$250k (married joint)?

- If yes, 3.8% **net investment income tax**
- If yes, **additional 0.9% Medicare tax** on earnings & self-employment income above $200k/$250k

AGI greater than $250k (single)/$300k (married joint)?

- If yes, **phase-out of personal exemptions** begins
  - Reduced by 2% for each $2,500 by which AGI exceeds threshold
  - Can lose 100% of personal exemptions; no further personal exemptions at $372,500 AGI (single) & $422,500 AGI (married joint)
  - If yes, **phase-out of itemized deductions** begins
  - Otherwise allowable itemized deductions reduced by of 3% of AGI above threshold
  - Amount of itemized deductions will be not reduced by more than 80%
  - Certain deductions not lost: medical expense, investment interest, theft/wagering losses

Taxable Income greater than $400k (single)/$450k (married joint)?

- If yes, **new 39.6% income tax rate** applies to income above threshold
- 20% **long-term capital gains rate** applies if client above threshold
- 20% **qualified dividends rate** applies if client above threshold
-

Trust & Estate subject to 3.8% NIIT if it

- Has undistributed net investment income, AND
- Has AGI greater than the dollar amount at which the highest tax bracket for a trust or estate begins ($11,950 for 2013)
- Grantor trusts & tax-exempt trusts exempt from NIIT

(This information is provided for planning purposes only. We encourage you to consult with your tax professional or CPA for further details, clarifications, and application to your individual situation.)

We are reviewing and watching these tax changes and working with our clients' CPAs and tax professionals to see if there are any modifications, strategies, or planning that might be appropriate to try and avoid some of the thresholds and higher taxes mentioned above.

There are several strategies that may be worth researching and considering if they are appropriate to your situation. One simple and important strategy is to consider additional deferrals into tax qualified vehicles to keep your income thresholds below some of the levels mentioned above. If you have the ability to use qualified or non-qualified plans, like 401(k), 457, 403(b), deferred compensation, HSA, or other similar plans, consider using those to reduce your annual income.

Another simple idea is to review your non tax-deferred investments. Tax-free income will generally not be counted for these income tax thresholds and may be another strategy to keep your income below the thresholds mentioned above. A little more esoteric strategy is to move higher income tax burden accounts, like annuities, and transform them into tax-free long term care benefits by using a 1035 exchange into a long-term care policy.

We can review these strategies and their applications to your situation when we meet in person at your next review meeting. The **American Taxpayer Relief Act** has changed the landscape of tax planning dramatically and we would be wise to be alert for opportunities to reduce our taxes and decrease our tax burden in any legal way that we can.

American Taxpayers Relief Act Summary:

- Federal Income tax rates are now permanent. (*At least until Congress changes them again.*)
- The Payroll tax rollback expired and the rate went up 2% for earned income up to $113,700 per year.
- Phase out of both deductions and credits for higher incomes. (*AGI >250k single, >300k married.*)
- A new tax – Net Investment Income Tax (NIIT) of 3.8% for higher incomes. (*AGI >200k single, >250k married.*)
- An additional Medicare tax of 0.9% on earned income for higher incomes. (*MAGI >200k single, >250k married.*)
- A higher income tax rate of up to 39.6% for higher incomes. (*TI >400k single, >450k married.*)
- A higher capital gains and dividends rate of 20% for higher incomes. (*TI >400k single, >450k married*.)
- Federal Estate Tax exemption increases to $5.25M and indexed for inflation.
- Alternative Minimum Tax (AMT) exemption amount increased, indexed for inflation, and made permanent.
- Intra-plan conversions to Roth accounts allowed inside 401(k), 403(b), 457(b) plans.
- Qualified tax-exempt distributions allowed from IRA accounts directly to charity (*>70.5 and only until 12/31/2013*)
- Net Investment Income (NIIT) defined as: Interest, Dividends, Rents, Royalties, Capital gains, Annuity income, Passive activity income BUT NOT: IRA or Qualified Retirement Plan Distributions, Tax-exempt bond interest.
- NIIT will only apply to the lesser of: Net investment income, OR Excess MAGI above threshold amount

	2012	2013
Income tax rates	10, 15, 25, 28, 33 35%	10, 15, 25, 28, 33, 35, 39.6% - top bracket applies to income above $400k single,$450k married joint filers
Qualified dividends	0% - 10,15% brackets 15% - other brackets	0% - 10,15% brackets 15% -other brackets 20% - 39.6% bracket
Capital gains	0% - 10, 15% brackets 15% - other brackets	0% - 10,15% brackets 15% -other brackets 20% - 39.6% bracket
Social Security (FICA)	4.2%	6.2%
Itemized deduction & Personal exemption	Full use at all income levels	Phase-out at $250k AGI singles, $300k AGI married joint filers
Medicare tax on earned income	1.45%	2.35% - 0.9% increase applies to earned income exceeding $200k singles, $250k married joint filers)

	2012	2013
Medicare tax on net investment income	0%	3.8% - on lesser of 1) net investment income or 2) excess MAGI above $200k singles, $250k married joint filers
Estate, gift $ GST tax exemption amount	$5,120,000 (portable)	$5,250,000 (portable & (adjusted for inflation)
Highest estate tax rate	35%	40%
Annual gift tax exclusion	$13,000	$14,000

(*Special thanks to Stan Smiley, JD)*

Charitable Gifts from IRA's

Qualified taxpayers have been able to make tax-free charitable donations from their IRAs in 2013 and other years past. Taxpayers 70 and older have made such donations, often in lieu of their Required Minimum Distributions.

Comment: It is unclear yet if Congress will allow that for 2014. We will try and let our clients know if that becomes available again this year.

Converting a 401(k) to a Roth in 2014

The American Taxpayer Relief Act of 2012 (the Act) allows 401(k) plan participants to convert funds held in their traditional 401(k)s into Roth 401(k)s. Like an IRA-to-Roth-IRA conversion, this move allows 401(k) account owners to pay the taxes on the funds when they are rolled over into the Roth—so that the funds can then grow tax-free within the Roth, where they can be withdrawn without tax liability in the future. The Act does not impose any limits on the amount that can be transferred from the 401(k) to the Roth.

These types of rollovers were always permitted, but, under prior law, a 401(k) account owner was permitted to convert only the funds that he could otherwise withdraw without penalty. This limitation effectively confined conversions to those clients who had already reached age 59 ½, or who had died, become disabled, or separated from service. Other clients were required to pay a 10% penalty if they converted where distributions were not otherwise permitted.

(Please see article pasted below regarding Roth Conversions – "Roth IRA Tax Break Lures Millionaires."

Future Trends in Income Taxes

It is difficult to be optimistic about the future of income tax rates in the US, especially given the immense US National Debt of over $17 Trillion and rising rapidly – and a continued annual deficit which is projected once again at about a stunning $1 Trillion this fiscal year – coupled with projections that future government revenues may be sluggish due to slow economic growth.

Where will the money come from to help the US meet their deficits and debt payments? A recent study from the non-partisan US Congressional Budget Office (CBO) suggests that,

…between 2012 and year-end 2014, revenues in CBO's baseline shoot up by more than 30 percent, mostly because of the recent or scheduled expirations of tax provisions, such as those that lower income tax rates and limit the reach of the alternative minimum tax (AMT), and the imposition of new taxes, fees, and penalties that are scheduled to go into effect. Revenues continue to rise relative to GDP after 2014 largely because increases in taxpayers' real(inflation-adjusted) income are projected to push more of them into higher tax brackets and because more taxpayers become subject to the AMT.

(http://www.cbo.gov/ftpdocs/126xx/doc12699/01-31-2012_Outlook.pdf)

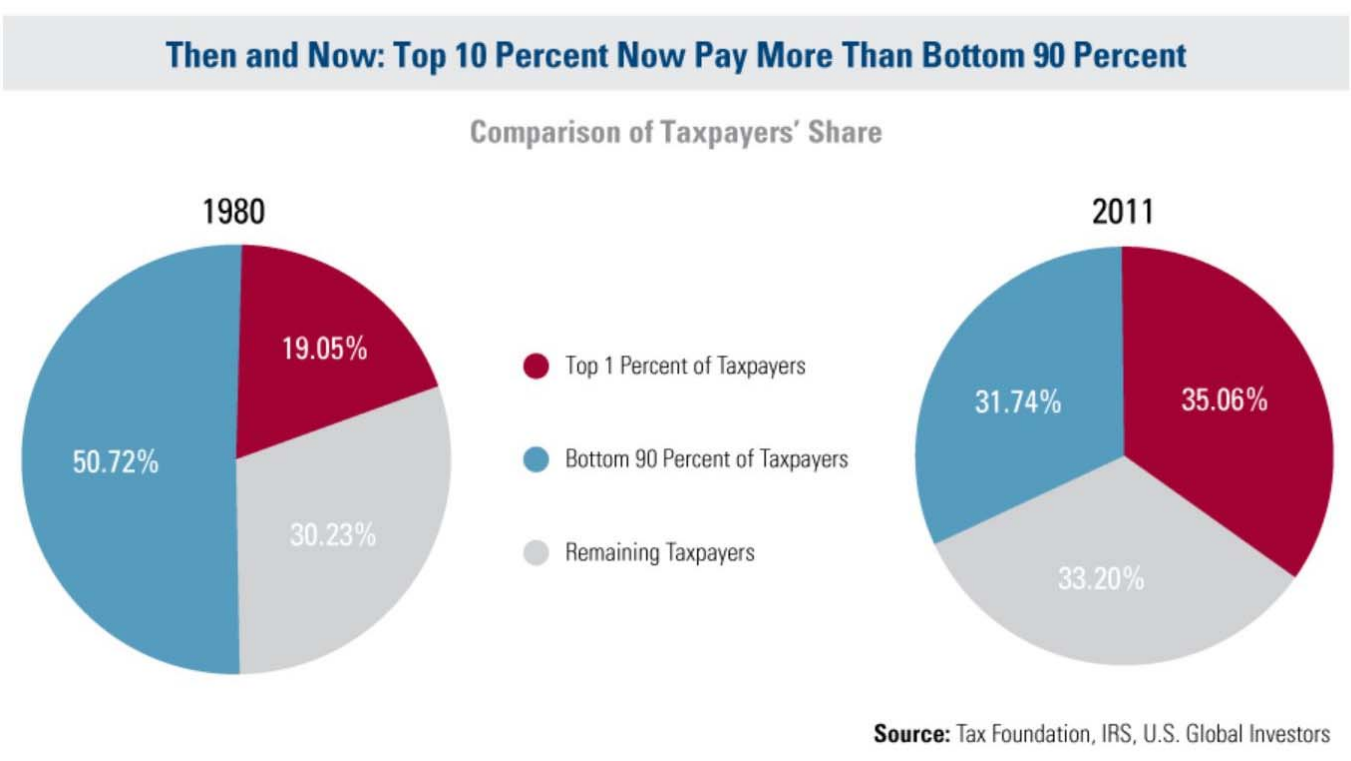
Translation – the amount of taxes the US government is planning to take from you and me over the next 2 years will increase by **Thirty Percent**!

Let's review this at our next meeting, and the brand new tax changes, and discuss any strategies that might be appropriate.

On the same subject, the Tax Foundation has shown that the top 1 percent of households collectively pay more in taxes than all of the tax-paying households in the bottom 90 percent – in stark contrast to the picture often painted in the media of wealthiest Americans not paying their fair share..

Take a look at how much this has changed over the past few decades. In 1980, the bottom 90 percent of taxpayers paid about half of the taxes. The top 1 percent contributed about 20 percent.

In 2011, the top 1 percent paid more than the bottom 90 percent, and with the new ATRA tax act, the top 1 percent will be paying an even bigger share of the overall total Federal Income Tax bill



We are committed to helping you any way that we can to complete your tax return, and please feel free to call us for any help or clarification. We also welcome calls from your CPA's or tax-preparers, and with your permission can provide them with information.

We purposely keep our schedule light in late March and April to be as responsive to our clients as we can, however it does tend to get very hectic the last week or so before April 15th, and if you delay your request for information until then, it may take a while for us to respond, or perhaps you may consider filing an extension. I am sure you have heard the old joke, "*A procrastinator's work is never done.*" ☺

"I'm proud to be paying taxes in the United States. The only thing is -- I could be just as proud for half the money."

Arthur Godfrey

Thanks for your trust and relationship. We remain committed to your financial well being.

Warm Regards,

William R. Gevers
Financial Advisor

PS: *We have been repeatedly asked by clients if they could share these e-mail notes with their friends or neighbors. Please feel free to forward this with the stipulation that it may only be forwarded if done so in its entirety with no portions omitted. We would be delighted to share our comments and opinions with your friends, and welcome your comments and feedback. If you received this and would like to be included on our newsletter list, please email us at wgevers@geverswealth.com*

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PPS: Interesting article from Financial Planning regarding the great popularity of Roth conversions among well to do Americans.

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Roth IRA Tax Break Lures Millionaires

BY: RICHARD RUBIN AND MARGARET COLLINS

(Bloomberg) -- Congress dangled an incentive for high-income Americans to convert their tax-deferred individual retirement accounts into post-tax plans. Their response was overwhelming.

Conversions from regular IRAs to Roth retirement accounts **increased more than nine times in 2010, rising to $64.8 billion from $6.8 billion in 2009**, according to data released Friday by the Internal Revenue Service.

That marked the first time Roth conversions were greater than contributions. Conversions were especially common among IRA holders with annual incomes exceeding $1 million. More than 10% of them converted to a Roth account, the IRS said.

The increase in conversions stemmed from a 2006 law that set 2010 for ending a $100,000 income limit on Roth conversions. There’s no ceiling on conversions if an investor has multiple IRAs and no cap on the amount that can be shifted.

“There was a rush of interest in 2010,” when the restrictions on conversions were lifted, said Thomas Rowley, director of retirement business strategies for Atlanta-based Invesco Ltd. Wealthy investors could better manage their tax liability in retirement and pass the Roth accounts to heirs free of income tax, he said.

ESTATE PLANNING

“It’s the cheapest estate planning you can find,” Rowley said. “You’re paying the taxes for these beneficiaries.”

Taxpayers also could split the taxes owed because of the conversions between their 2011 and 2012 returns, giving them until early 2013 before they had to pay the full balance. Wealth advisers pitched Roth conversions to their clients as a pay-now, save-later strategy.

Taxpayers with incomes exceeding $1 million made up 4% of the 869,400 Roth conversions in 2010; they moved $14.4 billion, or 22% of the money.

When Congress passed the law, the Joint Committee on Taxation estimated that it would raise $6.4 billion for the U.S. government over 10 years. Because Congress looks only at the revenue effects for the first decade, changes that make retirement tax breaks more generous in the long run can be used to offset tax cuts.

At the time, the Tax Policy Center estimated that the break would cost the government the net present value of $15 billion in revenue over the long run.

Congress passed a similar law in 2013 allowing for easier conversions into Roth 401(k) accounts.

Both changes to Roth plan rules were a “classic budget timing gimmick,” said Ed Lorenzen, senior policy adviser at the Committee for a Responsible Federal Budget and a former House Democratic aide.

LATER LOSSES

“You know by its very design it’s going to be raising revenues now and losing revenues later,” he said. “It’s usually done purely for the purposes of meeting budget rules to appear to be generating revenues.”

Contributions to a regular IRA are tax-deferred, with up- front deductions and taxes owed when the money is withdrawn from the account.

In contrast, Roth accounts are built with post-tax money. Account holders owe no taxes when they withdraw the money and don’t have to make withdrawals once they reach age 70 1/2.

Assets in individual retirement accounts, known as IRAs, totaled $6 trillion as of Sept. 30, according to the Investment Company Institute. Almost 4 out of 10 U.S. households owned IRAs in 2013, ICI data show.

About 16% of U.S. households, or 19 million, have Roth IRAs compared with about 36 million owners of traditional IRAs in 2013, according to ICI. Roth IRAs, named for former Senate Finance Committee Chairman William Roth of Delaware, were first available in 1998, ICI said.

http://www.financial-planning.com/news/tax-break-for-roth-ira-conversion-lured-10-percent-of-millionaires-2687834-1.html?zkPrintable=true

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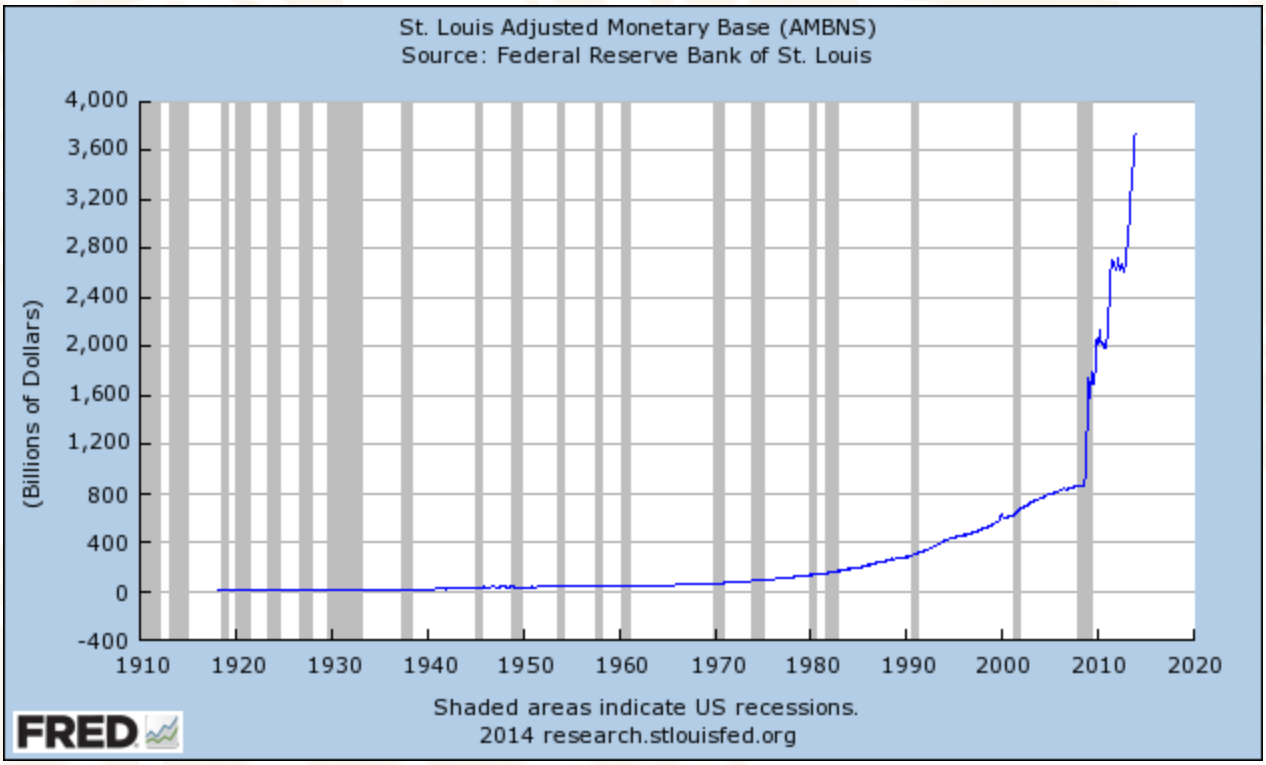
US Money Supply, US Dollar, and Inflation/Deflation Watch

"Neither a wise man nor a brave man lies down on the tracks of history to wait for the train of the future to run over him."

- Dwight D. Eisenhower

US Money Supply – Adjusted Monetary Base

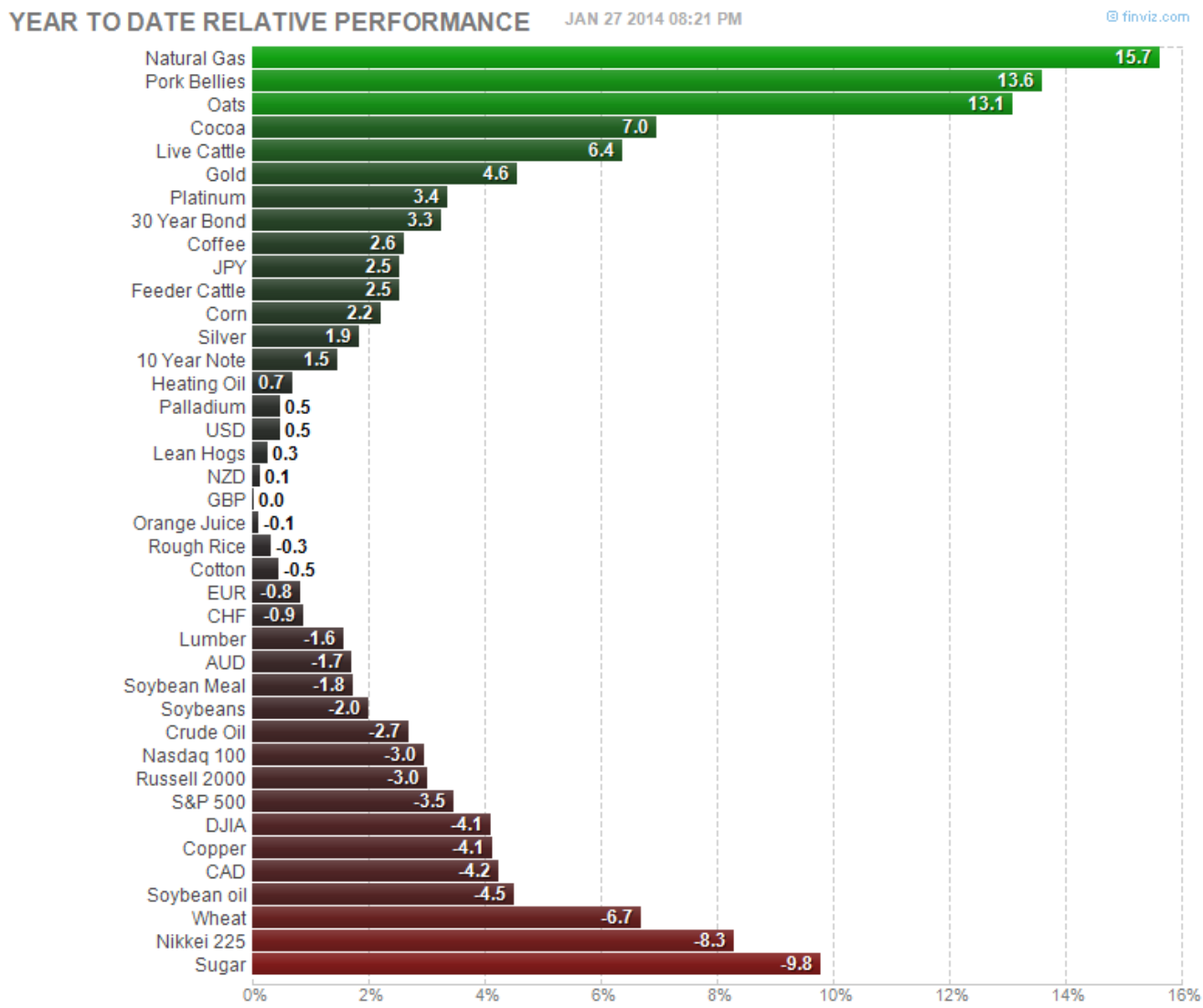


http://research.stlouisfed.org/fred2/graph/?s%5B1%5D%5Bid%5D=AMBNS#

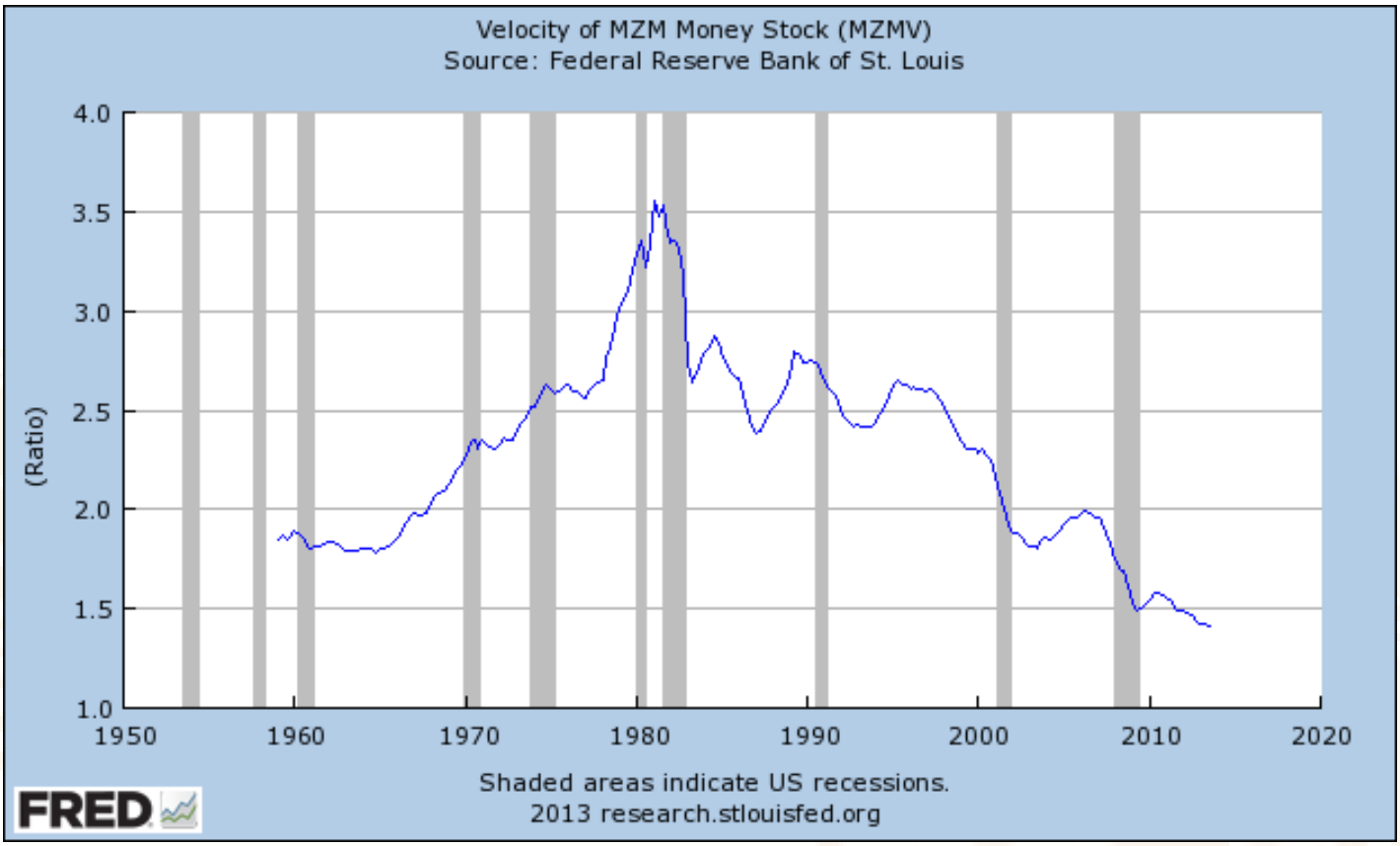
US Dollar Price – (DXY) USD Index Measured against Other Currencies

(http://www.fxstreet.com/rates-charts/usdollar-index/?version=0)

Inflation/Deflation -Year to Date Price Increase in Commodities and Basics as Measured by Futures



(http://www.finviz.com/futures_performance.ashx?v=17)



Velocity is a measure of how quickly money is spent. High velocity is typically a precondition for inflation.

(http://research.stlouisfed.org/fred2/series/MZMV)