

FINANCIAL SERVICES

POSSIBILITIES

Tax-Free Charitable Contributions from IRAs Extended Once Again

OVERVIEW

The Pension Protection Act of 2006 first allowed taxpayers age 70½ or older to exclude from gross income otherwise taxable distributions ("qualified charitable distributions," or QCDs) from their IRA that were paid directly to a qualified charity. Taxpayers were able to exclude up to \$100,000 in both 2006 and 2007. The law was extended through 2009 by the Emergency Economic Stabilization Act of 2008, and has just been extended again, through 2011, by the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 (the Tax Relief Act).

How QCDs work for 2011

You must be 70½ or older in order to make QCDs. You direct your IRA trustee to make a distribution directly from your IRA (other than SEP and SIMPLE IRAs) to a qualified charity. The distribution must be one that would otherwise be taxable to you. You can exclude up to \$100,000 of QCDs from your gross income in 2011. If you file a joint return, your spouse can exclude an additional \$100,000 of QCDs in 2011. Note: You don't get to deduct QCDs as a charitable contribution on your federal income tax return—that would be double dipping.

QCDs count toward satisfying any required minimum distributions (RMDs) that you would otherwise have to receive from your IRA in 2011, just as if you had received an actual distribution from the plan. However, distributions that you actually receive from your IRA (including RMDs) that you subsequently transfer to a charity cannot qualify as QCDs.

Example: Assume that your RMD for 2011, which you're required to take no later than December 31, 2011, is \$25,000. You receive a \$5,000 cash distribution in February 2011, which you then contribute to Charity A. In June 2011, you also

make a \$15,000 QCD to Charity A. You must include the \$5,000 cash distribution in your 2011 gross income (but you may be entitled to a charitable deduction if you itemize your deductions). You exclude the \$15,000 of QCDs from your 2011 gross income. Your \$5,000 cash distribution plus your \$15,000 QCD satisfy \$20,000 of your \$25,000 RMD. You'll need to withdraw another \$5,000 no later than December 31, 2011, to avoid a penalty.

Example: Assume you turned 70½ in 2010. You must take your first RMD (for 2010) no later than April 1, 2011. You must take your second RMD (for 2011) no later than December 31, 2011. Assume each RMD is \$25,000. You don't take any actual distributions from your IRA in 2011. Prior to April 1 you make a \$25,000 QCD to Charity B. Because the QCD is made prior to April 1, it satisfies your \$25,000 RMD for 2010. Prior to December 31, you make a \$75,000 QCD to Charity C. Because the QCD is made prior to December 31, it satisfies your \$25,000 RMD for 2011. You can exclude the \$100,000 of QCDs from your 2011 gross income.

As indicated above, a QCD must be an otherwise taxable distribution from your IRA. If you've made nondeductible contributions, then normally each distribution carries with it a pro-rata amount of taxable and nontaxable dollars. However, a special rule applies to QCDs—the pro-rata rule is ignored and your taxable dollars are treated as distributed first. (If you have multiple IRAs, they are aggregated when calculating the taxable and nontaxable portion of a distribution from any one IRA. RMDs are calculated separately for each IRA you own, but may be taken from any of your IRAs.)

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Planning for Succession of a Business Interest

Business Succession Planning—What is it?

One of the important decisions a business owner must face is when and how to step out of the business—in other words, business succession planning. Do you expect to retire from your business? Do you have a plan in place? What would happen to your business if you were to die today? Do you have children you hope to bring into the business? These are questions only you can answer, and your answers will lead you and your financial and legal advisors to a course of action. When you develop a succession plan for your business you have two basic choices: you can sell your business, or you can give it away. Once you choose to either sell or gift, you can structure your plan to go into effect during your lifetime or at your death.

Transferring Your Business Interest With a Buy-sell Agreement

You can transfer your business interest with a buy-sell agreement, a legal contract that prearranges the sale of your business interest. It allows you to keep control of your interest until the occurrence of an event specified in the agreement, such as your death, disability or retirement. A buy-sell agreement can help you to solve the problems inherent in attempting to sell a closely held business. When you structure your agreement, you can tailor it to your needs.

With a buy-sell agreement, you choose the events requiring a sale.

When you draft your buy-sell agreement, you establish the triggering events, meaning those events under which the sale can or must happen. Common triggering events include death, disability or retirement. Other events like divorce or bankruptcy can also be included as triggering events under a buy-sell agreement.

A buy-sell agreement provides a ready buyer for your interest.

At the occurrence of the triggering event, the buyer is obligated to buy your interest from you or your estate. The buyer can be a person, a group (such as co-owners), the business itself, or a combination. You (or your family or estate) are spared the task of trying to find a buyer when you are ready to sell.

Price and sale terms are prearranged.

A major function of the buy-sell agreement is the establishment of the pricing mechanism for the sale of the business interest. The payment method is typically also determined at the time the agreement is drafted. The major sale negotiation is conducted at a time when there is no pressure to sell. This eliminates the need for a fire sale when you retire, become ill or die; and it may result in greater overall fairness in the deal.

A buy-sell agreement can interfere with other estate planning.

Once you are bound under a buy-sell agreement, you can't sell or give your business to anyone except the buyer named in the agreement without the buyer's consent. This could restrict your ability to reduce the size of your estate through lifetime gifts of your business interest, unless you carefully consider and coordinate your estate planning goals with the terms of your buy-sell agreement.

Sell Your Business Interest

The major benefits when you sell your business interest are control and cash: you keep control of your interest or business assets until you are ready to let go, and you decide how much or how little you want to sell.

Selling allows you to receive cash (or convertible assets) and choose the timing.

When you sell your business interest or assets, you receive cash (or assets you can convert to cash) that can be used to maintain your lifestyle or pay your estate expenses. You can choose when you want to sell—now, at your retirement, at your death or at some point in-between. You can sell your interest during your lifetime, and receive cash to use for your retirement, a new business venture, or that trip around the world you've been putting off. When done at your death, an asset sale can provide cash for your estate to use in paying your final expenses or for distribution to your beneficiaries.

A limited market means a sale could be difficult.

There is often no market for the sale of a closely held business, which could make finding a buyer for your interest difficult. Some assets, such as equipment, may have a specialized use or a



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short time frame of technological usefulness. If your business is a service business, it may be hard to find a buyer for intangible assets such as your customer list. The level of competition in your geographic area or business field could also affect your ability to find a buyer. When the sale occurs after your death, your family or estate may be at a distinct disadvantage when negotiating with a potential buyer. The interested buyer can be expected to try to take advantage of your family's need for cash to settle your estate expenses and offer a price that is below a fair market value. A buy-sell agreement might be the solution to prevent this from happening, because it guarantees a buyer for your interest.

Size of business interest, estate could make sale difficult.

The larger the size of your business interest, the more difficult it may be to find a buyer with access to sufficient cash or credit on short notice. In addition, the larger the size of your business relative to your entire estate, the greater the need for cash to settle your estate expenses. Again, transferring your business interest with a buy-sell agreement might help you to solve these potential problems. Smaller business interests are not without their own problems. Buyers may be reluctant to purchase a minority interest because such an interest doesn't carry with it the ability to control the business.

Transfer Your Business Interest Through Lifetime Gifts

You can transfer your business interest through lifetime gifts by doing just that—making gifts during your lifetime. You can choose to make smaller gifts of portions of your business interest over a period of time or make a gift in total at your retirement.

Lifetime gifting reduces the value of your estate and could lower your estate taxes.

A lifetime gifting program removes the value of the business from your estate as you make gifts to the recipient. The benefit to you is a reduction in the value of your total estate, thus the possibility of lower estate taxes at your death. Not only do you remove the value of the gift itself from your estate, but you also remove

the future appreciation on the gift and taxes that would be associated with the gain.

Lifetime gifting allows you to take advantage of the annual gift tax exclusion, which may help you reduce total gift and estate taxes.

You could make gifts of unrestricted stock over a period of time by arranging the gifting program to maximize the annual gift tax exclusion, which allows you to (currently) gift up to \$13,000 per donee per year without incurring federal gift tax (although you may have to pay state gift tax). The benefit to you is a tax-free, systematic reduction in the size of your estate. When you make gifts of portions of your stock, you ultimately pay less total gift tax than if you made one large gift, thanks to the valuation discount.

Lifetime gifting requires you to give up part or all of your business.

As you make gifts of your business interest, you might also be giving up some of your ownership control over the business, while the recipient of the gift gains control. If you have co-owners, your relative percentage of control will diminish. If you are the majority stockholder, it might take a long time before you are in a position of significantly less control. If you hold equal ownership with co-owners, it may not take long before you become a minority shareholder.

Transfer Your Business Interest at Death Through Your Will or Trust

If you wish to keep control of your business until your death and transfer your interest to someone at that time, you could transfer your business interest at death through your will or trust. This method of business succession can be effective when the intended receiver of your bequest is currently active in your business and would be able to carry on the business activities.

Will provisions can authorize the continuation of your business.

A will provision can direct the executor of your estate to continue your business for a specified period of time or purpose, thus granting permission to carry out activities that otherwise may not be allowed. If the business is continued, the executor may be held personally liable for losses of the business. Caution should be taken



When the sale occurs after your death, your family or estate may be at a distinct disadvantage when negotiating with a potential buyer. The interested buyer can be expected to try to take advantage of your family's need for cash to settle your estate expenses and offer a price that is below a fair market value. A buy-sell agreement might be the solution to prevent this from happening, because it guarantees a buyer for your interest.

Why I Don't Want to Buy Life Insurance

If you're like most people, you hesitate to buy life insurance. It's not that you don't appreciate the value of life insurance. In fact, you may believe you need more coverage; however, you just don't want to buy it.

Thinking about buying life insurance, talking about buying life insurance, discussing the reasons for buying life insurance—all of this can make people feel uncomfortable. Here are just a few of the reasons why you may be putting off buying the life insurance you know you need.

I Don't Have Enough Time

You'll get around to buying life insurance ... but not today. With all the things you've got to do, buying life insurance can come off as a low priority—just one more thing you ought to do. Plus, the whole idea of discussing life insurance isn't a whole lot of fun. Who wouldn't rather take the dogs for a walk on the beach, attend a child's softball game, or spend those precious few hours of free time in the evening visiting with friends?

Nonetheless, buying life insurance is really an important task that should be addressed. Life insurance can help ensure that your family will have enough money to meet their financial obligations in the event of your death.

The Subject is Boring ... and Morbid

If you really don't like to think about death, you're not alone. Death is an unpleasant subject, and life insurance raises issues of our own mortality. Some people say that the very thought of starting the life insurance buying process makes them feel stressed-out. There's no great appeal to contemplating our own mortality. It's a subject we'd rather ignore than address. The result can be inertia or denial.

It doesn't have to be that way. People who do act on their life insurance needs tend to focus on the positive aspects: the idea of meeting their responsibilities to provide and care for their loved ones. They think of it as contingency planning, protecting their families against the uncertainties of life. They also recognize that

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Buying life insurance is one way you can help secure your family's financial future.



life insurance is really about life and love, about helping to ensure a positive quality of life for their spouse and children if they die prematurely.

I Don't Know Where to Start

If you don't have a clue about which type of policy is right for you, or how much life insurance you need, join the club. Few of us truly understand life insurance: why we need it, what type of policy is best, how much we need, when and how benefits are paid, how benefits may be taxed, and more. That's okay. It's not your job to know everything about life insurance. That's the job of an insurance professional.

Thinking you need to have all of the answers about which type of life insurance is best for you is sort of like needing surgery and thinking you need to know which type of scalpel to use. That's the surgeon's job. In the same respect, the right insurance professional can guide you through the process of selecting the policy that best suits your needs, budget and objectives, and can answer your questions.

Life Insurance Isn't a High Priority Compared With the Other Expenses I Have

For many underinsured people, it's not so much that they don't want the life insurance they need; it's just difficult to find the extra dollars to pay for it.

Buying life insurance you can't afford benefits no one. If it causes your family hardship or requires you to make choices that seem incongruous ("Gee kids, I'd love to take you on vacation, but our life insurance premium is due"), you'll eventually discontinue the policy. Then you lose, and your family loses.

That's why it's important to purchase a policy that meets your needs and your budget. Fortunately, there are many types of life insurance available. These include term life insurance policies and various types of permanent (cash value) life insurance policies. Term policies provide life insurance protection for a specific period of time. If you die during the coverage period, your beneficiary receives the policy's death benefit. If you live to the end of

the term, the policy simply terminates, unless it automatically renews for a new period.

Permanent insurance policies offer protection for your entire life, regardless of future health changes, provided you pay the premium to keep the policy in force. As you pay your premiums, a portion of each payment goes toward building up the policy's cash value, which may be accessed through loans or withdrawals. (Keep in mind, though, that loans and withdrawals will reduce the cash value and the death benefit, and could cause the policy to lapse.) The cash value continues to grow—tax deferred—as long as the policy is in force.

Several different types of permanent life insurance are available, including:

- Whole life insurance
- Universal life insurance
- Variable life
- Variable universal life

Note: Variable life and variable universal life insurance policies are offered by prospectus, which you can obtain from your financial professional or the insurance company. The prospectus contains detailed information about investment objectives, risks, charges, and expenses. You should read the prospectus and consider this information carefully before purchasing a variable life or variable universal life insurance policy.

The Bottom Line

It's easy to understand why people tend to put off purchasing the life insurance they know they need. But look at it this way: Buying life insurance is one way you can help secure your family's financial future. And what could be better than knowing your loved ones will be protected, even if you're no longer around to take care of them?

Five Reasons to Buy Life Insurance

- To provide continuing income for your family members
- To pay off debts you leave behind
- To pay final expenses and taxes
- To provide an estate for your loved ones
- To leave money to charity

CONTACT

- Talk to your local Eide Bailly financial advisor
- Call 866.740.4100 for more information

Retirement Planning Key Numbers

While an increasing number of retirement plan and IRA limits are indexed for inflation each year, most of the limits eligible for a cost-of-living adjustment (COLA) did not adjust upward for 2011. Some of the key numbers for 2011 are listed below, with the corresponding limit for 2010. (The source for these 2011 numbers is IRS Information Release IR-2010-108.) ■

	2010	2011
Elective deferral limits		
401(k) plans, 403(b) plans, 457(b) plans, and SAR-SEPs ¹ (includes Roth 401(k) and Roth 403(b) contributions)	Lesser of \$16,500 or 100% of participant's compensation	Lesser of \$16,500 or 100% of participant's compensation
SIMPLE 401(k) plans and SIMPLE IRA plans ¹	Lesser of \$11,500 or 100% of participant's compensation	Lesser of \$11,500 or 100% of participant's compensation
IRA contribution limits		
Traditional IRAs	Lesser of \$5,000 or 100% of earned income	Lesser of \$5,000 or 100% of earned income
Roth IRAs	Lesser of \$5,000 or 100% of earned income	Lesser of \$5,000 or 100% of earned income
Additional "Catch-up" Limits (Individuals age 50 or older)		
401(k) plans, 403(b) plans, 457(b) plans, and SAR-SEPs ²	\$5,500	\$5,500
SIMPLE 401(k) plans and SIMPLE IRA plans	\$2,500	\$2,500
IRAs (traditional and Roth)	\$1,000	\$1,000
Income Phaseout Range for Determining Deductibility of Traditional IRA Contributions for Taxpayers:		
1. Covered by an employer-sponsored plan and filing as:		
Single/Head of household	\$56,000 - \$66,000	\$56,000 - \$66,000
Married filing jointly	\$89,000 - \$109,000	\$90,000 - \$110,000
Married filing separately	\$0 - \$10,000	\$0 - \$10,000
2. Not covered by an employer-sponsored retirement plan, but filing joint return with a spouse who is covered by a plan	\$167,000 - \$177,000	\$169,000 - \$179,000
Income Phaseout Range for Determining Ability to Fund a Roth IRA for Taxpayers Filing as:		
Single/Head of household	\$105,000 - \$120,000	\$107,000 - \$122,000
Married filing jointly	\$167,000 - \$177,000	\$169,000 - \$179,000
Married filing separately	\$0 - \$10,000	\$0 - \$10,000

¹Must aggregate employee deferrals to all 401(k), 403(b), SAR-SEP, and SIMPLE plans of all employers; 457(b) contributions are not aggregated. For SAR-SEPs, the percentage limit is 25% of compensation reduced by elective deferrals (effectively a 20% maximum contribution).

²Special catch-up limits may also apply to 403(b) and 457(b) plan participants.

College Cost Trends

Every October, the College Board releases its *Trends in College Pricing* report that highlights college cost increases and trends. While costs can vary significantly by region and individual college, the College Board publishes average cost figures, which are based on its survey of 3,500 colleges across the country.

Report Highlights:

At four-year public colleges for in-state students, tuition and fees increased an average of 7.9% from last year to \$7,605, and room and board costs increased an average of 4.6% to \$8,535. Total average cost for 2010/2011 is \$20,339.

At four-year public colleges for out-of-state students, tuition and fees increased an average of 6.0% from last year to \$19,595, and room and board costs increased an average 4.6% to \$8,535. Total average cost for 2010/2011 is \$32,329.

At four-year private colleges, tuition and fees increased an average of 4.5% from last year to \$27,293, and room and board costs increased an average of 3.9% to \$9,700. Total average cost for the 2010/2011 year is \$40,476.

“Total average cost” includes tuition and fees, room and board, books and supplies, transportation, and a small amount for miscellaneous expenses.

To read the *Trends in College Pricing* report, visit www.trends-collegeboard.com. ■

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Planning for Succession—from page 3

by authorizing the executor to incorporate the business, which may limit liability to the activities of the continued business. After your death, the business can be maintained until your family can take control and continued income from your business can be provided to your family and heirs.

With a living trust, you can see your continuation plan in action.

A living trust would allow you to make a revocable transfer of your business interest, providing you with the opportunity to see your continuation plan in action while you are alive. You can see your successor management operating the business, while you are afforded continued control and input. This gives you the chance to be completely satisfied with your decision before it becomes irrevocable at your death.

A living trust can provide income to you or your heirs.

Depending upon the structure of your living trust, you may receive an income from the trust during your retirement until your death. At your death, the business may provide income to your family or heirs, or the business can be maintained until your family or heirs can take over.

Use of a trust can be efficient and private.

When you establish a living trust, it requires you to organize your property during your lifetime. In doing so, your assets are transferred at death in an orderly fashion as you intended and not at the discretion of the court. The use of a trust will be less expensive overall, because your assets pass from the trust directly to the people you designate to receive them, avoiding the costly probate court process. This would be considered a private transaction, keeping the transfer free of any publicity.

Choosing the right type of succession plan.

The various succession strategies can be used to achieve specific goals for your business interest. Depending upon your particular situation, one or more of these tools may be appropriate for you. The tricky part is, how do you decide? Once you have narrowed down your choices, meet with your attorney and tax or financial planner to develop your personal business succession plan. ■

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Charitable Contributions—from page 1

Why are QCDs important?

Without this special rule, taking a distribution from your IRA and donating the proceeds to a charity would be a bit more cumbersome, and possibly more expensive. You would need to request a distribution from the IRA, and then make the contribution to the charity. You'd receive a corresponding income tax deduction for the charitable contribution. But the additional tax from the distribution may be more than the charitable deduction, due to the limits that apply to charitable contributions under Internal Revenue Code Section 170. QCDs avoid all this by providing an exclusion from income for the amount paid directly from your IRA to the charity—you don't report the IRS distribution in your gross income, and you don't take a deduction for the QCD. The exclusion from gross income for QCDs also provides a tax-effective way for taxpayers who don't itemize deductions to make charitable contributions.

QCDs in 2010

As indicated earlier, the Tax Relief Act also allowed QCDs to be made for 2010, but the deadline for making 2010 QCDs (January 31, 2011) has passed. If you made QCDs in 2011 that you elected to apply to 2010, you must subtract those QCDs from your December 31, 2010, IRA balance when calculating your RMD for 2011. ■

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