



# The Rice Paper - June 2011

## Brian with son Jack and Jack's 1st fish!

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### The Power of Persistence and Vision - Look for the Teachable Moment

One thing we have realized over the last decade or so is that when times get tough and you feel like a bunch of curve balls have been thrown your way you need to stop and think of this as a double dose of your "life lesson" education.

It's more important than ever to find value in the lessons you have learned and put them to good use. Realize that all of those obstacles you have faced are preparing you for one thing and one thing only - to be the success story you were meant to be. See further than the crisis you may be facing and know that it's more important than ever to have discipline, perseverance, patience and your eye on the prize.

Be patient, continue to learn from those teachable moments and have faith that the next phase in your life is going to be more exciting than you could have ever imagined - because most likely, it will be.

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## Mid-Year Tax Considerations



Though it may seem as if the ink has barely dried on your 2010 federal income tax return, the end of 2011 is now visible on the horizon. Here are some things to consider as you

take stock of your current tax situation.

### The 2% difference

If you're an employee, 6.2% of your wages (up to the taxable wage base--\$106,800 in 2011) would normally be withheld for your portion of the Social Security retirement component of FICA employment tax. But legislation passed in December 2010 included a temporary one-year 2% reduction in this tax. That means for 2011, you're paying the tax at a rate of 4.2%. If you're self-employed, the 12.4% you would normally pay for the Social Security portion of your self-employment tax is reduced to 10.4%.

Have you earmarked the resulting extra dollars in your paycheck efficiently by, for example, paying down high-interest debt or saving for retirement? If you haven't, consider making up for it by contributing an extra 4% of your income to your 401(k) or an IRA for the remainder of the year. By applying the extra money toward a long-term goal, the potential benefit of the temporary tax reduction can extend beyond 2011.

### Tax rates

The same federal income tax rates that applied in 2010 continue to apply in 2011 and 2012 (depending on your taxable income, you'll fall into either the 10%, 15%, 25%, 28%, 33%, or 35% rate bracket). And, as in 2010, long-term capital gains and qualifying dividends in 2011 and 2012 continue to be taxed at a maximum rate of 15%; if you're in the 10% or 15% marginal income tax brackets, a special 0% rate will generally apply. So, unlike this time last year, you don't have to contend with the uncertainty of not knowing what next year's tax rates will be.

That consistency, however, does not apply to the alternative minimum tax (AMT)--essentially a parallel federal income tax system, with its

own rates and rules. While the December legislation extended regular income tax rates through 2012, it only extended AMT relief (in the form of increased AMT exemption amounts) through 2011. You can probably expect another AMT fix in legislation later this year, since without it there would be a dramatic increase in the number of individuals subject to AMT in 2012. But that leaves a fair degree of uncertainty today, however, as you consider your overall tax situation.

### Also worth noting

**Small business stock:** Generally, individuals may exclude 50% of any capital gain from the sale or exchange of qualified small business stock provided they meet certain requirements, including a five-year holding period. For qualified small business stock issued and acquired after September 27, 2010, and before January 1, 2012, however, 100% of any capital gain may be excluded from income if the stock is held for at least five years and all other requirements are met.

**IRA qualified charitable distributions:** Absent additional legislation, 2011 will be the last year that you'll be able to make qualified charitable distributions (QCDs) of up to \$100,000 from an IRA directly to a qualified charity if you're age 70½ or older. Such distributions may be excluded from income and count toward satisfying any required minimum distributions (RMDs) that you would otherwise have to receive from your IRA in 2011.

**Depreciation and IRC Section 179 expensing:** If you're a business owner or self-employed individual, you're allowed a first-year depreciation deduction of 100% of the cost of qualifying property acquired and placed in service during 2011 (the "bonus" first-year additional depreciation deduction will drop to 50% for property acquired and placed in service during 2012). For 2011, the maximum amount that can be expensed under IRC Section 179 is \$500,000, but in 2012 the limit will drop to \$125,000.

# The New Face of Socially Responsible Investing



*Though past performance is no guarantee of future results, you should make sure your expectations (both financial and social) are realistic and in line with what you hope to achieve.*

Feeling strongly about the societal benefit or harm your money might be supporting doesn't mean you have to forgo pursuing a return on your investments. Socially responsible investing allows you to further both your own economic interests and a greater good.

The concept of putting your money where your mouth is first gained widespread attention during the 1970s, when such highly charged political issues as the Vietnam War and apartheid in South Africa led some investors to try to make sure their money didn't support policies that were counter to their beliefs. Since then, a wide variety of investment products, such as socially conscious mutual funds, have been developed to help people invest in ways consistent with a personal philosophy. However, individuals aren't the only ones to adopt responsible investing principles; many colleges and universities, government pension and retirement funds, and religious groups do so as well.

There are many approaches to what may also be known as mission investing, double- or triple-bottom-line investing, ethical investing, socially conscious investing, green investing, sustainable investing, or impact investing.

## Screening potential investments

This is perhaps the best known aspect of socially responsible investing: evaluating investments based not only on their finances but on their social, environmental, and even corporate governance practices. The process may be negative, eliminating companies whose products or actions are deemed contrary to the public good. Examples of companies that are frequently excluded from socially responsible funds are those involved with alcohol, tobacco, gambling, defense, and those that contribute to environmental pollution or that have significant interests in countries considered to have repressive or racist governments.

However, as socially responsible investing has evolved, the screening process has become increasingly positive, using screens to identify companies whose practices actively further a particular social good, such as protecting the environment. For example, green technology that can help address environmental problems has attracted the interest of many investors who see not only a social good but an opportunity for profit.

## Shareholder activism

Both individual and institutional shareholders have become increasingly willing to pressure corporations to adopt socially responsible practices. In many cases, having a good social

record can enhance business, making a company more attractive to investors. Shareholder advocacy can involve filing shareholder resolutions on such topics as corporate governance, climate change, political contributions, environmental impact, and labor practices. Such activism got a boost from the SEC when it adopted the so-called "say on pay" rule as part of the Dodd-Frank financial reforms. As of April 2011, companies over a certain size must allow shareholders a vote on executive pay at least once every three years. Though the vote is nonbinding, it could give institutional investors a stronger hand in advocating for other interests.

## Community investing

Still another approach involves directing investment capital to communities and projects that may have difficulty getting traditional financing. Investors provide money that is then used to make or guarantee loans to organizations that help traditionally underserved populations with challenges such as gaining access to affordable housing, finding jobs, and receiving health care.

## Impact investing

A recent development focuses not only on investment returns and social benefit, but on measuring and managing performance in both of those arenas. So-called "impact investing" aims not only to minimize negative impact and enhance social good, but to do so in a way that maximizes efficient use of the resources involved, using business-world methods such as benchmarking to compare returns and gauge how effectively an investment fulfills its goals. In fact, some have made a case for considering impact investing an emerging alternative asset class, since such investments may not be highly correlated with traditional assets such as stocks or bonds.

## Know your goals

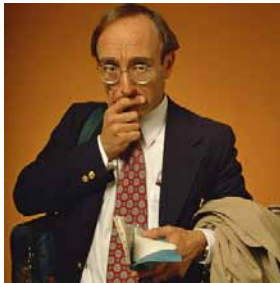
When investing for the greater good, make sure your expectations are clear and realistic. "The public good" may be defined differently by every investor. Also, many socially responsible funds achieve solid financial returns; others may not.

**Note:** Before investing in a mutual fund, carefully consider its investment objectives, risks, fees, and expenses, which can be found in the prospectus available from the fund; read it carefully before investing.

## Deciphering Health Savings Vehicles



***Beginning January 1, 2011, for HSA, MSA, FSA, and HRA programs, a drug or medicine is considered a qualified medical expense only if it is obtained with a prescription, or is insulin.***



***Effective January 1, 2013, contributions to a flexible spending account will be limited to \$2,500 per year, increased annually by cost-of-living adjustments.***

Health savings accounts (HSAs), Archer medical savings accounts (MSAs), health reimbursement arrangements (HRAs), and flexible spending arrangements (FSAs) are all personal health accounts that may help you control your health-care costs. But trying to figure out what's what can be confusing. Here's a brief description of each type of account, including some of their major features and benefits.

### **MSAs/HSAs**

As of January 1, 2008, the MSA program expired and no new MSAs can be established, although if you already participate in an MSA, you can continue to receive contributions. HSAs have generally taken the place of MSAs because of their greater flexibility and options. In fact, in most instances you can roll over an existing MSA into an HSA. MSAs and HSAs are set up in a trust account with a financial entity. Contributions made through your employer are pretax dollars (or you can contribute to the account directly and deduct the contribution), no tax is due on funds in the account, or on any earnings until withdrawn, and if funds are used for qualified medical expenses, the withdrawals are not taxed. However, account withdrawals that aren't used for qualified medical expenses are subject to a tax penalty of 20%, in addition to regular income tax. Your account is portable, meaning if you change employers or leave the workforce, you can keep the account. To be eligible, you must be insured by a high deductible health plan (HDHP) that you maintain (if self-employed) or that's provided through your employer.

However, there are also differences between MSAs and HSAs. Generally, anyone with an HDHP can participate in an HSA. But to qualify for an MSA, you must have been either an employee of a company that employs 50 or fewer people, or be self-employed (or the spouse of such an employee or self-employed person). With an HSA, contributions can be made by you, your employer, or anyone else on your behalf within the same plan year. But MSA contributions can only be made by either your employer or yourself, but not both, in the same plan year. Contribution amounts also differ. In 2011, maximum HSA contributions are limited to \$3,050 for single HDHP coverage and \$6,150 for family HDHP coverage. MSA contributions can be up to 75% (65% if you participate in a self-only plan) of the annual deductible of your HDHP, but no more than your annual earnings from employment.

### **FSAs**

If you don't participate in an HDHP, you still can set money aside for uninsured medical expenses through an employer-established FSA. Unlike an HSA, you must be an employee of the employer providing the FSA in order to participate (self-employed persons are not eligible and certain limitations may apply if you are a highly compensated participant or key employee). Pretax contributions can be made by either you, your employer, or both of you (except employer contributions used to pay long-term care premiums must be included in income). You determine how much money you want deposited each year up to the plan's maximum dollar amount or percentage of compensation; funds in the account are not subject to tax; and distributions are tax free if used to pay for qualified, unreimbursed medical expenses you've incurred (no advance payments for anticipated expenses). Unlike HSAs, if you leave your employer, you can't keep the money in the account or take it with you to another employer (it's not portable). Also, what you don't spend on medical expenses by the end of the plan year is forfeited and not available the following year (i.e., you must use it or lose it).

### **HRAs**

Like FSAs, HRAs are only available to employees, not to self-employed individuals. And HRAs must be funded solely by an employer; you can't contribute directly to the account. The terms of the HRA are generally determined by the employer. For example, your employer's plan may or may not require you to have health insurance in order to participate. The plan sets the maximum amount of contributions, and determines whether a credit balance in the account can be rolled over from year to year, and if so, how much of the account can be rolled over. But contributions and reimbursements for qualified medical expenses are tax free. Reimbursements can be made to current and former employees, including spouses and dependents of employees and deceased employees. However, if the plan allows for any distribution to you or anyone else (e.g., spouse, dependent, estate at your death) for other than reimbursement for qualified medical expenses, then any distribution, whether for qualified medical expenses or not, is included in gross income.



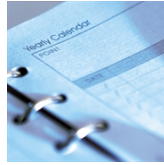
## Ask the Experts

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### Can the IRS waive the 60-day IRA rollover deadline?

If you take a distribution from your IRA intending to make a 60-day rollover, but for some reason the funds don't get to the new IRA trustee in time,

the tax impact can be devastating. In general, the rollover is invalid, the distribution becomes a taxable event, and you're treated as having made a regular, instead of a rollover, contribution to the new IRA. But all may not be lost. The 60-day requirement can be automatically waived in some cases, and the IRS has the discretion to waive the rule in others. The 60-day requirement is automatically waived if *all* of the following apply:

- The financial institution receives the funds on your behalf before the end of the 60-day rollover period
- You followed all the procedures set by the financial institution for depositing funds into an IRA within the 60-day period (including giving instructions to deposit the funds into an IRA)
- The funds are not deposited into an IRA within the 60-day rollover period solely because of an error on the part of the financial institution

- The funds are deposited within 1 year from the beginning of the 60-day rollover period
- It would have been a valid rollover if the financial institution had deposited the funds as instructed

If you don't qualify for an automatic waiver, you can apply to the IRS for a discretionary waiver. The IRS may waive the 60-day requirement where failure to do so would be against equity or good conscience, such as in the event of a casualty, disaster, or other event beyond your reasonable control. The IRS will consider all relevant facts and circumstances, including:

- Whether errors were made by the financial institution (in addition to those described under automatic waiver, above)
- Whether you were unable to complete the rollover on a timely basis due to death, disability, hospitalization, incarceration, restrictions imposed by a foreign country, or postal error
- Whether you used the amount distributed
- How much time has passed since the date of distribution



### What is the IRA one-rollover-per-year rule?

The one-rollover-per-year rule is a little known provision that says you can only make one rollover from a particular IRA to any other IRA in any

12-month period. A violation of the rule can have serious adverse tax consequences. Luckily, it's a problem that's very easy to avoid.

Here's how the IRS states the rule: "If you make a tax-free rollover of any part of a distribution from an IRA, you cannot, within a 1-year period, make a tax-free rollover of any later distribution from that same IRA. You also cannot make a tax-free rollover of any amount distributed, within the same 1-year period, from the IRA into which you made the tax-free rollover. The 1-year period begins on the date you receive the IRA distribution, not on the date you roll it over to an IRA."

This is best understood with an example. Assume you have three IRAs, A, B, and C. On January 1, 2011, you receive a distribution from IRA A and, within 60 days, you roll that distribution over to IRA B. The one-rollover-per-year rule says that any other distribution from IRA A that you receive before January 1, 2012, can't be rolled over. Similarly,

any distribution from IRA B that you receive before January 1, 2012, can't be rolled over. You can, however, receive a distribution from IRA C and roll it over to any other IRA without restriction.

What happens if you violate the rule? The disallowed rollover is taxed as a distribution to you; if you're not age 59½, the additional 10% early distribution penalty may apply; you're treated as having made a regular, rather than rollover, contribution to the receiving IRA, so a 6% excess contribution penalty may apply; and you may be subject to additional penalties if you fail to report the "rollover" as a distribution on your income tax return.

So how do you avoid the problem? It's easy. Use direct transfers instead of 60-day rollovers. The rule doesn't apply when IRA funds are transferred directly from one trustee to another trustee (you never receive the funds). The rule also doesn't apply to conversions of traditional IRAs to Roth IRAs. So you can make as many trustee-to-trustee transfers, or Roth IRA conversions, as you like in any year--the one-rollover-per-year rule will not apply.