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Harvesting Capital Gains Reaps New Rewards In 2013

Traditionally, investors try to “harvest” capital losses at the end of the year to offset gains realized earlier in the year. But there’s a new twist to tax planning for 2013.

If you sell stock at a loss in 2013, that loss generally can be used to offset taxes on capital gains of up to the same amount, plus as much as \$3,000 of ordinary income, which is taxed more heavily. A loss could offset tax on a gain dollar for dollar. And, if you have more losses than gains, you can carry them over to reduce your gains taxes next year. This is a central strategy in yearend tax planning for investors, and depending on your situation, harvesting capital losses to offset gains still may make perfect sense in 2013.

However, due to changes in tax laws, your focus might shift to the other side of the equation: harvesting capital gains in the current tax year. Those gains might let you take advantage of losses you’ve realized during the year, or they could be advisable for other reasons. To understand this shift in emphasis, consider the rules for how capital gains are now taxed.

Prior to 2013, the maximum tax

rate on long-term capital gains for investors was 15% (and 0% for those in the regular 10% and 15% income tax brackets). Long-term gains come from the sale of capital property, such as securities and real estate held more than a year. However, under the American Taxpayer Relief Act (ATRA), the

maximum tax rate for capital gains increases to 20% for single filers with taxable income above \$400,000 and joint filers above \$450,000. (For other taxpayers, long-term gains still are taxed at either 15% or 0%.)

Meanwhile, the tax for ordinary income, such as salary, bonuses, and other compensation, is based on a graduated rate structure. Before 2013, the top tax rate was 35%, but ATRA added a higher bracket of 39.6% for taxpayers whose income exceeds the same income thresholds as those for long-term capital gains. Short-term capital gains, from the sale of capital property held for a year or less, are taxed at ordinary income rates and could be subject to the new top rate.

To further complicate matters, a 3.8% Medicare surtax now applies to the lesser of “net investment income” or the amount of your modified adjusted gross income (MAGI) that

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Many Women Face Special Challenges As Retirement Nears

Women often find themselves at a disadvantage when it comes to providing for their retirement years. Data shows women tend to live longer than men do, to earn and save less, to bear the financial brunt of divorce and widowhood, and to spend more time and money taking care of family members.

Life expectancy is increasing for both men and women. But women outlive men by an average of five years, according to the Centers for Disease Control and Prevention. Once a U.S. woman reaches age 65 she is likely to live to the age of 85. That makes women far more likely to outlive their assets.

Advocates debate the reasons behind income disparity, but the fact is that women earn 77 cents for every dollar men earn, according to the U.S. Census Bureau. That means women have fewer dollars to put toward retirement savings, and earn less in Social Security benefits.

Historically, women save less money than men. They usually make less, first of all, and thus are more likely to depend on their spouse’s earnings for savings. Women also spend more time and money helping ill family members than do men.

For all of these reasons, losing a spouse, whether through divorce or death, can have a more drastic impact for a woman than a man.

The message is clear: Retirement planning is a vital necessity for women. We recognize the challenges you may face, and we can help you overcome them.

Colleen & Rob

6 Bad Money Habits For You To Avoid

Take the time to give an honest answer to this question: “Are you mismanaging your money?”

Though your first reaction may be to say “no,” upon more reflection you might have to reply “yes,” especially if your spending continues to outpace your earnings.

To avoid making the same mistakes over and over, try to identify your bad money habits and eliminate or at least curtail them. Consider these six common problems:

1. You let emotions rule.

Do you shop to relieve stress, escape boredom, or entertain yourself? Do you experience anxiety, guilt, or remorse after shopping? You could be an emotional shopper, genetically programmed to spend excessively. The trick is to keep emotions from getting in the way so that you buy only what you need. One option is to give yourself a cooling off period of a couple of days before making a major purchase to determine whether it’s really worthwhile.

2. You feel entitled. Maybe you feel you deserve more than you have regardless of how much you earn or what you own. Why should you be deprived of a top-of-the-line car or your dream house? But smart money-

managers train themselves to shy away from such notions and buy only what they can afford.



3. You crave instant gratification.

If you need to get things right away—the latest electronic gadget or designer clothes—you may pay a premium, plus interest on any amount you need to borrow. That’s a sure-fire way to sink deeper into debt. If you resolve to pay cash for all your purchases you may be able to hold back and consider the big picture.

4. Your self-worth is defined by possessions. Advertising pitches are designed to make you believe you’ll be happier if you buy particular products. But you’re much more than what you own, and if you can remind

yourself of that, you may be able to look at prospective purchases in terms of whether they answer actual needs.

5. You’ve become

complacent. Many people have the tendency to accept the status quo, even if that means continuing to pile up debts. Complacency is a dangerous emotional state because it lets you disassociate the pleasure you get from buying from the pain you’ll feel when the credit card bill arrives. Realizing that you need to change is the first step toward making it happen.

6. You don’t have a plan.

Those with bad money habits tend to look at what they earn, spend, and save as separate things rather than acknowledging that they’re all tied together. Creating a budget and a retirement savings plan, and sticking to it, are essential. Otherwise, mounting debt becomes a self-fulfilling prophecy.

One way to teach yourself better money habits is to try to run your personal affairs like a business. Set asides reserves for emergencies and allot funds for retirement saving on a monthly basis. Make a few important changes and you’ll see the difference very soon. ●

How To Guard Against “Skimmers”

In this age of technology, you probably don’t think twice about using the ATM at your bank, the self-checkout machine at the supermarket, or various credit card terminals around town. It’s never been a problem before. But a new type of crime called “skimming” may give you pause.

Essentially, skimming is the practice of stealing your credit card information, usually through the use of high-tech equipment. Then the thief makes purchases under your name or sells the data to someone else. Either way, you could end up with an exorbitant credit card bill or an empty

bank account.

Typically, a skimmer installs an electronic device over the actual card reader on the ATM or credit card machine. As your card slides through, the device reads its magnetic strip, capturing your vital financial information. The level of sophistication can vary from cheap skimmers that should be relatively easy to spot to more expensive versions that are virtually undetectable by the naked eye.

Usually, the skimming device captures and stores your PIN (personal identification number) as well as the card’s security code. Some

skimmers feature a false keypad that goes on top of the actual keypad reading the PIN, while newer devices utilize pinhole cameras mounted above the keypad. The information may be stored locally and picked up by the thief or transmitted via a phone line or even wirelessly.

How can you protect yourself against skimming? Here are a few practical suggestions.

- Look carefully at the ATM or credit card terminal before using it. Although sophisticated skimming devices may be hard to detect, cheaper versions are often clumsily attached to the reader. If something is sticking out

A SEP or SIMPLE? Small Biz Owners Have Choices

If you own a small business or are self-employed, you have plenty of retirement plan options. You could go with a traditional 401(k) plan, for instance, or even a defined-benefit pension plan designed to fund a particular level of retirement income for you and your employees. But those choices can be complicated and expensive to administer, and the pension plan could tie you into annual contributions that might be difficult to make in some years. Two of the most popular retirement plans for small businesses may be better alternatives, particularly if you are self-employed or have relatively few employees. They are the Simplified Employee Pension (SEP) and the Savings Incentive Match Plan for Employees (SIMPLE). As the names imply, they offer relatively simple solutions. Here's a side-by-side comparison:

SEPs at a Glance

To set up a SEP, a plan administrator (probably you) must fill out a one-page IRS form and give copies to participants. A SEP doesn't require you to provide the IRS with annual reports. Consider these other key aspects:

Eligibility: Contributions must be made for all employees age 21 and over who have worked for your company during three out of the previous five years. (You might have different obligations if your employees work under a union contract.)

Employees who meet those criteria but work only part-time, or for just part of the year, must be covered under the plan if they earn a minimum amount (\$550 for 2013).

Contributions: The maximum annual contribution you can make on behalf of an employee—and can deduct from the company's income—is the same as it is for other defined-contribution plans. The limit for 2013 is the lesser of 25% of compensation or \$51,000. The maximum amount of compensation that may be taken into account for this purpose is \$255,000. These contributions go into a SEP-IRA that each participant opens. They are responsible for managing the account and selecting investments, reducing your obligations and risks.

The amount you contribute is discretionary. For instance, you can boost contributions in profitable years or reduce or eliminate them in down years. However, you must contribute the same percentage of compensation to every plan participant.

Vesting: Contributions to a SEP are vested immediately. Even if employees quit right after you make a contribution, they get to keep that money.

Distributions: As with other qualified retirement plans, distributions must begin by April 1 of the year following the year in which an employee reaches age 70½ (or the year a non-owner employee retires, if that's later). Withdrawals made prior to age

59½ will normally be subject to a 10% penalty tax as well as regular income tax.

Deadline: A SEP can be set up and funded after the close of the tax year as long as you complete the paperwork by the company's tax return due date (plus extensions, which could be as late as October 15 of the following year).

SIMPLEs at a Glance

Like SEPs, SIMPLEs are generally exempt from most reporting rules that burden other qualified retirement plans. There are actually two varieties: the SIMPLE-IRA and the SIMPLE-401(k). For ease of administration, most small employers favor the SIMPLE-IRA. Here are the key aspects:

Eligibility: A SIMPLE is available only to employers with 100 or fewer employees. Any worker who made at least \$5,000 during any two previous years at the company (and who expects to receive at least that amount in the current year) is eligible to participate.

Contributions: For 2013, eligible employees may elect to contribute up to \$12,000 to the plan (\$14,500 if age 50 or over). As a general rule, the employer must provide matching elective contributions of up to 3% of compensation (but no less than 1% in more than two out of five years) or non-elective contributions of 2% of each eligible employee's compensation (based on maximum compensation of \$255,000 in 2013). Matching contributions are deductible by the employer.

Vesting: As with SEPs, contributions to SIMPLEs are vested immediately. Therefore, employees are free to withdraw the funds at any time, subject to an early withdrawal penalty.

Distributions: The rules for mandatory distributions from qualified plans after an employee turns age 70½ also apply to SIMPLEs. In addition, withdrawals made prior to age 59½ normally are subject to a tax penalty. But note that the penalty is increased from the usual 10% to 25% for early withdrawals within the first two years of participation. After two years, the normal 10% penalty applies.

Deadline: A SIMPLE must be set up before October 1 of the current tax year. ●

or doesn't fit with the rest of the machine, walk away.

- Before you insert your credit card, pull on the reader or jostle the card around the slot to see if anything is loose. Again, don't use the terminal if your suspicions are aroused.

- Be aware of people hanging around the ATM for a long time. The skimming criminal could be lurking nearby to collect the information.

- Avoid ATMs in isolated locations that don't seem to be part of a store or bank. There have been instances where fake terminals



have been set up without an establishment's knowledge.

- When you enter your PIN, use your free hand to block the view. That can shield your information from a camera mounted above the PIN keypad.

Finally, pay close attention to your credit card and bank statements. Fraudulent charges or unauthorized cash withdrawals often indicate that your data

has been compromised. If that's the case, contact your bank or credit card issuer right away.

Avoid Squabbling Over Your Estate

Don't assume that you're immune from the sort of dire consequences that can tear apart a family after you're gone. What often starts as a minor beef over a few prized possessions can turn into a full-fledged war. Things can get even worse if distant relatives show up out of the blue, staking their claim. But you might be able to avoid future family squabbles by addressing these issues now. Start by listing your assets and deciding who will get what and when.

Here are several areas that may require some extra attention:

Business ownership. This can be complex if you run a company and have to decide who will be named as your successor. Figure out the best person (or persons) to take the helm. If that arrangement disproportionately benefits one or more heirs, you might designate other assets to go to the others to keep things fair. One possibility is to use a buy-sell agreement facilitating the sale of business interests. Note that it may be crucial to start by establishing the value of any business you own.

Vacation homes. Transferring

rights to a principal residence is often straightforward, but what about that cabin in the woods or your seaside cottage? If you have several children, splitting ownership may be a problem if one child's family expects to get more use out of the place. If you can't work out an equitable solution, consider selling the vacation home and dividing the proceeds.

Second marriages. Suppose you've remarried (perhaps more than once) and you or your spouse—or both of you—have children from a prior marriage. Depending on how your will is worded, all of the children from both sides of the family may share evenly in the estate. As an alternative, you could use a trust as a vehicle for passing assets to particular beneficiaries you've chosen.

Jewelry and other valuables. When it comes to handing down your

assets, don't leave any stone unturned, especially if it's a rare diamond. Catalog all valuables and family heirlooms and make sure you've accounted for the major pieces in your will.



Of course, it's your business, house, and valuables, and you can do whatever you want with them. But it probably won't hurt—and it most likely will help—to open a dialogue with other family members. You may be able to head off

potential problems by clearing the air instead of letting things fester.

One of the best things you can do is spell out your wishes clearly in your will and attach a letter of instructions for clarification. In some cases, it also makes sense to film a video showing that you were of a "sound mind" at the time that you made these decisions. ●

Capital Gains Reap Rewards

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exceeds \$200,000 for single filers and \$250,000 for joint filers. Thus, your effective tax rate on some income could be as high as 43.4%.

These new rules could result in situations in which it would be important to reap tax benefits from capital gains. Consider the following:

- If you already have realized capital losses this year, any capital gains you take between now and the end of the year will be effectively tax-free up to the amount of your net loss—and thus could help you avoid paying the higher rates on long-term gains.

- If you happen to qualify for the 0% long-term capital gain rate for 2013, be sure to take advantage of this

unique tax shelter. The upper income limit for avoiding tax on long-term gains is \$36,250 for single filers and \$72,500 for joint filers. That might apply if, for example, you're an S corporation owner and your firm is operating at a loss this year. In that case, you might forego the traditional strategy of harvesting tax losses at year-end and hold those losses until 2014.

- If you qualify for the maximum 15% tax rate on long-term capital gains, you still might as well cash in your gains this year, especially if you think you might have to pay the higher 20% rate next year. It's not often you would volunteer to pay taxes sooner rather than later, but this may be one of those times.

- Even if you must pay the 20%

maximum tax rate on long-term capital gains this year, your situation still might call for harvesting some gains. There's also a chance that future rates could be higher.

- But if you carried over a short-term capital loss from 2012, try not to realize long-term capital gains in 2013. Though the loss could offset those long-term gains, using it in that way would waste the benefit of the preferential tax treatment that long-term gains receive. You might postpone taking long-term gains until 2014, or you could realize a short-term capital gain in 2013 instead. Keep in mind that the gap between tax rates for short- and long-term gains for investors in the top regular income tax bracket is very wide—19.6 percentage points (39.6% - 20%). ●