

FINANCIAL INDEPENDENCE TODAY~TOMORROW®

Five Easy Tax-Saving Steps to NUA

Presented by Sharon Duncan

What is NUA?

This white paper addresses a relatively unknown tax rule regarding employer securities called Net Unrealized Appreciation (NUA). NUA is the difference between the original value and the fair market value of employer securities held inside a qualified plan such as a 401(k). Even though this best-kept secret tax break has been around for years, people don't often take advantage of it, mostly because they're unfamiliar with it or because the rules surrounding it are complex.

To take advantage of this special tax break for NUA, the plan must contain employer stock from a publicly traded company and there must be a triggering event:

- Separation from service (unless self-employed)
- Disability (only if self-employed)
- Attainment of age 59 ½
- Death

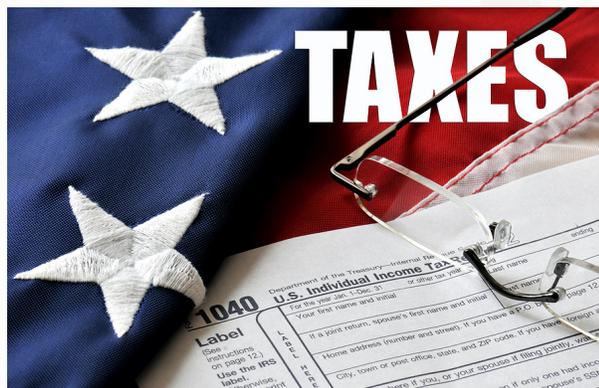
When should you consider using NUA?

You should consider using NUA when the cost basis of employer securities in your plan is much lower than the current market value. The special tax break for NUA allows you to pay long-term capital gains rates instead of ordinary tax rates, and you will not owe that tax until the shares are sold outside the plan. This can create up to a 20% tax savings.

#1 First things first. Look for employer securities and their cost basis on your plan statement. See if the cost basis is higher or lower than the market value. If it is lower, consider NUA.

#2 Be direct with your rollover. Do a direct rollover of the assets that you want to remain tax-deferred to an IRA or other qualified plan. This will avoid any mandatory withholding and eliminate the possibility for 60-day rollover mistakes.

#3 Kindly transfer in-kind. Next, transfer the shares of employer securities in-kind (as stock) to a taxable (non-retirement plan) account (this is not a rollover). Do not sell the shares while they are still in your plan. When the employer securities are transferred in-kind to a taxable account, ordinary income tax is owed on the basis of the shares.



#4 The early bird gets a lump-sum distribution. In order to qualify for the special NUA tax break, you must make a "lump-sum distribution" where the entire plan balance is distributed in one calendar year. Start the distribution early in the calendar year to ensure it is completed in time.

#5 RMD perk. The cost basis of the employer securities in the NUA distribution can be used to satisfy your Required Minimum Distribution (RMD) for the year of distribution (if you have one).

How can we help you?

Although NUA is a little confusing, it is one of the things we do all day long. Please let us know if we can answer any of your questions or if you'd like to schedule a complimentary appointment.

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