February 2015 Financial Planning Bulletin

**Net Unrealized Appreciation (NUA) - a tax savings strategy for employer stock**

According to the Pew Research Center, roughly 10,000 individuals in the "Baby Boom" generation will be retiring every day over the next 15 years. Yes, over a quarter million people every month ready to tackle retirement in the lowest interest rate environment in our nation's history. Some of these retirees were fortunate enough to work for the same company for most or all of their career. Many "lifers" consistently purchased company stock and received matching contributions in stock through their 401(k)/profit sharing plan. If this scenario applies to you, please read below **before** you initiate a rollover IRA.

Net unrealized appreciation (NUA) is an advanced tax strategy that subjects only the cost of employer stock on the date originally received to ordinary income treatment, while the resulting appreciation can be treated as capital gains when ultimately sold. This is quite the contrary to regular 401(k) or rollover IRA rules where all withdrawals are taxed as ordinary income at time of receipt. Furthermore, in an era where surtaxes exist on taxable income and means testing applies to both social security and Medicare benefits, reducing your adjusted gross income in retirement will provide optimal tax efficiency.

The most critical requirement for these favorable NUA tax rules to apply is the carve-out of employer stock must be part of a complete **lump-sum distribution**. To qualify as a lump-sum distribution, the entire plan balance must be paid out or rolled over within a single tax year from all applicable qualified plans and you must be separated from service or have attained age 59 1/2. NUA is not an all or nothing decision - you can select partial shares for this treatment, while directing remaining shares to a Rollover IRA.

Many major corporation's stock (including most oil companies based in Texas) have appreciated by significant measures over the last few decades and this NUA strategy could therefore apply to you. Fortunately, HR departments should be well equipped to assist you on this topic since many departing executives have received proper counsel and executed this strategy in the past. There is a high level of administrative detail required to properly execute the NUA strategy, so clear communication between your HR department, CPA and investment advisor will be critical.

**Specific action items required**

1) Do not initiate ANY distributions from your employer plans until you fully understand these rules.
2) Contact your HR/Benefits department to ask if NUA may apply to your shares and request forms.
3) Request a detail of average cost basis by share lots to discuss NUA strategies with your advisor.
4) Set up proper financial accounts to receive both the NUA shares and the residual rollover IRA funds.
5) The timing and sequence of transactions is critical for NUA eligibility.

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