Schneider
WEALTH STRATEGIES

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WEALTH MANAGEMENT REPORT

Sizing Up The Energy Boost To The Economy

If gasoline prices in 2015 stay as low as they were in October 2014, the American economy literally would experience a major energy boost.

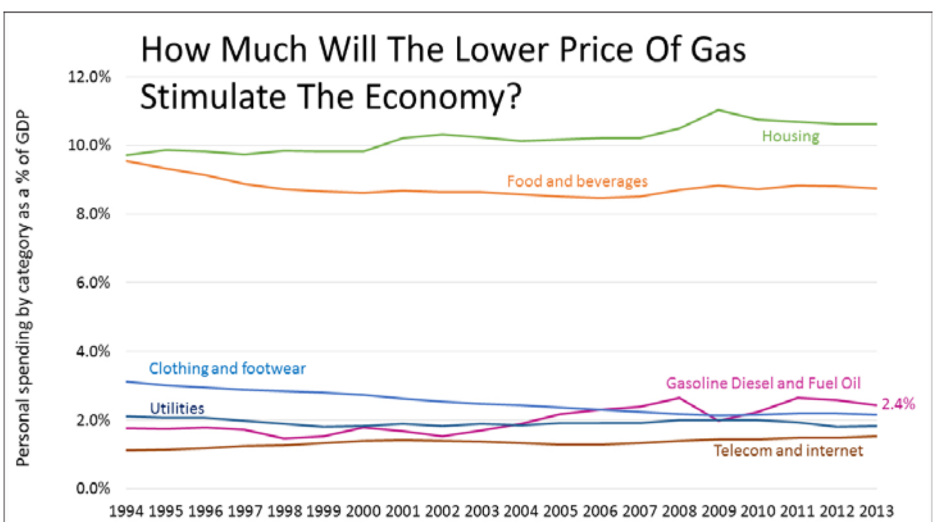
In 2013, Americans spent an amount equal to 2.4% of gross domestic product (GDP) on motor fuels and home heating oil. In late 2014, gasoline prices were down about 18% from $3.75 per gallon in 2013 to $3.08. If the 2.4% share of GDP spent on gasoline and diesel fuel in 2013 were reduced by 18%, it would mean that Americans would get an additional 0.43% of GDP (18% X 2.4%) to spend on all other retail categories.

Of course, consumers might choose to bank some of the savings they're getting from lower gas prices, and you can't assume that the GDP will get a.43% boost from energy savings in 2015. But, even if the boost to the economy were half of that amount, say .20% instead of .43%, it's a material plus looking ahead.

Even if consumers don't turn around and spend every dollar saved on lower gasoline prices, the stimulus to GDP provided by the energy boost is likely to have a noticeable effect on the economy. A three-tenth of 1% boost to GDP tacks on an additional 10% to GDP growth. That money stays in the U.S., and will help create jobs and trickle down through the system.

In addition to the energy boost resulting from lower gas prices, car sales and housing starts also are brightening the economic forecast for the U.S.

Car sales collapsed during the last recession but have recovered



Source: BEA. Annual data through 2013.

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Want To Get A Copy Of Your Credit Report? It's Free!

Are you inundated with telephone calls, online offers, and other come-ons offering you a report on your credit rating? Don't pay anything for this service because you're legally entitled to some freebies.

For starters, there are three major credit bureaus operating in the U.S.: Experian, Equifax, and TransUnion. Each one compiles your credit history and summarizes the findings into a report. Under the Fair Credit Reporting Act (FCRA), you can obtain a free copy from each credit bureau once a year.

The credit report will include information on where you live, how you pay your bills, and whether you have been sued or ever have filed for bankruptcy. This data is available at a price to others—insurance companies, landlords, employers, and the like—to help them evaluate your creditworthiness.

How do you request a free copy? It's easy. The three bureaus have centralized their operations. Simply log on to www.annualcreditreport.com, call1-877-322-8228, or complete the Annual Credit Report Request Form and mail it to Annual Credit Report Request Service, P.O. Box 105281, Atlanta, GA 30348-5281.

Be aware of imposters. Don't use any other service and don't even try to contact an individual bureau. And, most importantly, don't provide any personal information that someone could use to scam you.

How To Downplay The Kiddie Tax

From a tax-planning standpoint, it's often good to get investments out of the hands of highly taxed parents and into the accounts of children or grandchildren who are in much lower tax brackets. This can result in overall savings on current taxes while also removing assets from the parents' taxable estate. Of course, you have to be willing to part with your stocks or bonds, but that might make sense for other reasons, too.

Still, there's one problem with this simple solution. A tax-law provision known as the kiddie tax could negate many of the advantages of giving investments to your offspring.

Generally, investment income is taxed to the person who receives it—to the owner of the assets. So if you move stocks or mutual funds into the names of your children, they (rather than you) will be taxed, often at a much lower tax rate than yours. Suppose you're paying at the highest possible rates—you're in the top 39.6% income tax bracket and you also owe the 3.8% surtax on net investment income. That gives you a combined federal tax rate of 43.4%, whereas your son or daughter might be in the 10% or 15% tax bracket for ordinary income. On an investment generating $10,000 a year, having a child own it potentially could save your family the difference between 43.4% and 10%, or $3,340 in tax cost.

But then there's the kiddie tax. For a child who is your dependent and under age 19, or a full-time student under age 24, unearned income from investments that exceeds a specified threshold—$2,000 in 2014—is taxed at the parents' tax rate. So in the example of an investment generating $10,000 a year, $8,000 of the income could end up being taxed at the 43.4% rate, and then your family would lose all but $668 of the overall tax savings.

Nevertheless, there are several ways you can mitigate the effects of the kiddie tax. For instance:

- Keep an eye on the annual threshold. You might limit the asset transfer to an amount that would generate no more than about $2,000 in unearned income. Once the child is old enough to avoid the kiddie tax, you could give more.
- Suggest that your children manage their own holdings to keep investment income at a minimum—for example, by holding municipal bonds or stocks that don't pay dividends. Again, that could change once they're no longer subject to the kiddie tax.
- Consider other ways to transfer income—perhaps by hiring your son or daughter to work for your company. Because wages aren't unearned income, that amount won't count toward the kiddie tax threshold.

In any event, be aware of the possible tax ramifications of family income-shifting. It can be a sound technique for many parents, but you need to consider your own situation, with help from your tax advisor. ●

Amnesty Offer For Offshore Accounts

In 2009, the IRS created an amnesty program that let taxpayers confess their sins about offshore accounts. The program—known as the Offshore Voluntary Disclosure Program (OVDP)—has been successful. And now the IRS has tweaked the rules and opened the doors to more taxpayers.

Since 1969, taxpayers owning interests in, or signature authority over, foreign accounts have had to disclose them by filing a Report of Foreign Bank and Financial Accounts by June 30 of the subsequent year. For many years, it has been commonplace for investors to dodge taxes (illegally) by hiding assets in foreign banks shrouded in secrecy. Under the Foreign Account Tax Compliance Act (FATCA), taxpayers no longer can avoid disclosure of their foreign accounts by such foreign banks .

Under the prior iterations of the amnesty program, taxpayers were assessed a penalty equal to 20%, 25% or 27.5% of the highest aggregate balance in the unreported foreign bank accounts or the value of their foreign financial assets during the past eight tax years. The OVDP also requires taxpayers to file amended income tax returns and FBARs. Finally, they must pay back taxes, interest, and any applicable IRS penalties thereon.

The latest OVDP changes expand streamlined procedures and modify other aspects. Here's a brief summary:

1. **Streamlined procedures.** These procedures are now available to a wider population of U.S. taxpayers living outside the country and, for the first time, to some U.S. taxpayers who live here. The changes include:

- Eliminating a requirement that the taxpayer have $1,500 or less of unpaid tax per year;
- Eliminating a required risk questionnaire; and
- Requiring the taxpayer to certify that previous failures to comply were due to non-willful conduct.

For eligible U.S. taxpayers residing

Live Long And Prosper: Roll Out A Stretch IRA

The individual retirement account (IRA) is a time-tested way to save for retirement. Typically, you make contributions to an IRA during your working career, or you roll over funds to an IRA from a 401(k) or another employer plan, or both. You might end up with a sizable stash from which you'll be able to withdraw during retirement.

But you may not have to tap that part of your nest egg much if you can rely upon retirement income from other sources, though you will have to take required minimum distributions (RMDs). If it looks as if much of the account will survive you, you might consider the potential benefits of a "stretch IRA." That can help an IRA be there for your chosen beneficiaries long after you're gone.

Under the rules for IRAs, you can take as much as you want out of your account whenever you want, although there's normally a 10% tax penalty on distributions you take before you reach the age of 59½. At the same time, though, you can leave money in the IRA indefinitely, except for taking the RMDs that must begin when you hit age 70½. Those are taxed as ordinary income, which means the tax rate on that money may be as high as 39.6%. And there can be other tax consequences, too.

The idea behind the RMD rules is to force you to use, and pay tax on, the funds that have been accumulating in the account without being touched by taxes. The amount of your annual RMD normally will be based on your account balance on December 31 of the prior year, with that amount divided by your life expectancy according to an IRS table. For example, a 75-year-old with $500,000 in IRA assets would use a factor of 22.9 from the universal life expectancy table to get an RMD of $21,834 for the current tax year.

This system is designed to exhaust the account if you live long enough. But there's an alternative that could reduce the size of the RMDs. If you designate your spouse as the IRA's sole beneficiary, and if your spouse is more than 10 years younger than you, RMDs can be based on your joint life expectancy. Assuming our 75-year old owner with $500,00 in IRA assets has a 60-year-old spouse, their joint life expectancy would be 26.5, resulting in an RMD for the year of $18,868.

The basic concept behind the stretch IRA is to postpone withdrawals as long as possible and to minimize RMDs both before and after your death. The following steps could help you get there:

- Make sure you have properly established beneficiaries, both primary and secondary, for all of your IRAs. Double-check your paperwork.
- Limit your RMDs to the amount you're required to withdraw. Withdrawing the bare minimum allows you to preserve a larger nest egg.
- When you die, your beneficiaries who inherit what's left of your account can arrange payouts based on their life expectancies. If they're younger than you were, the RMDs will be smaller.
- If you have multiple beneficiaries, each one should establish a separate account for his or her inherited IRA assets. RMDs have to begin in the year following the year of death. Without separate accounts, RMDs will be based on the life expectancy of the oldest beneficiary. Dividing your account will reduce the RMDs for younger beneficiaries.
- Name successor beneficiaries. This ensures that RMDs will be withdrawn over your beneficiaries' entire life expectancies, even if they don't live that long. Otherwise, a beneficiary's estate might have to pay out the entire amount.

Timing can be crucial in establishing a stretch IRA. To qualify for the benefits, your beneficiaries must establish accounts in your name by December 31 of the year after the year of your death. That leaves some time for making decisions about inherited IRA funds, but it's important not to dilly-dally.

It's also essential for your heirs to follow the rules on RMDs. The tax penalty for failing to take one, whether you're the original IRA owner or a beneficiary of an inherited account, is equal to 50% of the required amount (less any amount that actually was withdrawn). Returning to our example of a 75-year-old IRA owner with $500,000 of assets, failing to take the RMD this year could result in a penalty as high as $10,917 (half of $21,834). And that's on top of regular income tax.

Note that lifetime RMDs aren't mandatory for Roth IRA owners. And while beneficiaries who inherit a Roth must take RMDs based on their life expectancies, those distributions generally aren't taxable. ●

outside the U.S., all penalties will be waived. For eligible U.S. taxpayers residing in the U.S, the only penalty will be a miscellaneous offshore penalty equal to 5% of the foreign financial assets resulting in the tax compliance issue.

2. **OVDP modifications.** The IRS also made important modifications to the OVDP, including:

- Requiring additional information from taxpayers applying to the program;
- Eliminating the existing reduced penalty percentage for certain non-willful taxpayers in light of the expansion of the streamlined procedures;
- Requiring taxpayers to submit all account statements and pay the offshore penalty at the time of the OVDP application;
- Enabling taxpayers to submit voluminous records electronically rather than on paper; and
- Increasing the offshore penalty percentage from 27.5% to 50% where accounts were held in an institution publicly identified as under investigation by the IRS or the Department of Justice.

The OVDP may be an appropriate recourse for wayward taxpayers. Those who have been evading taxes illegally are urged to come forward. The alternative, should the IRS come knocking on your door, could include up to 300% FBAR penalties and criminal prosecution. ●

Can You Avoid Estate And Gift Tax?

Are you hoping to pass investment assets to your heirs without any tax damage? Under the current rules, you have plenty of leeway to avoid estate and gift taxes on the federal level, although state taxes may be another story. However, keep in mind that your investment returns may outpace the inflation adjustments to the personal gift and estate tax exemption—and this could mean that your wealth will grow enough to be subject to taxes when you die.

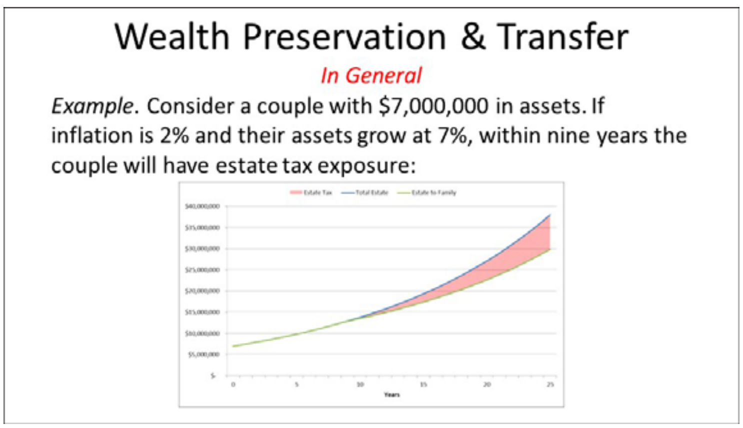
There are two main estate and gift tax breaks: the annual gift tax exclusion and the unified estate and gift tax credit.

1. Annual gift tax exclusion. You can give each recipient, such as a younger family member, assets valued up to $14,000 a year without paying any gift tax (or even having to file a gift tax return). The exclusion is doubled to $28,000 for joint gifts made by a married couple. So, if you and your spouse each give the maximum $14,000 to five other family members, you can reduce your taxable estate by $140,000. And you can do this year after year.

The annual gift tax exclusion is indexed for inflation but rises only when the cost of living increases enough to result in a $1,000 bump to the exempt amount. With inflation very low in recent years, increases have slowed to a crawl. The last adjustment was made in 2013, from $13,000 to the current $14,000.

2. Unified estate and gift tax credit. This generous credit can wipe out either estate taxes, gift taxes, or a combination of the two.

After a decade of gradual increases, Congress permanently locked in the exemption amount at an inflation-adjusted $5 million. For 2015, the exemption is $5.43 million (up from $5.34 million in 2014). That means a couple easily can shelter more than $10 million in assets from estate tax, although any lifetime gifts exceeding the annual gift tax exclusion will reduce the amount available to help an estate avoid estate taxes.



But you can't simply take this tax shelter for granted. Remember that your assets may appreciate in value at a rate greater the annual inflation adjustments for the estate tax exemption. (Of course, assets also might decline in value.) This is especially true if the recent trend in low inflation persists. For example, suppose a couple has $7 million in assets and earns an annual average return of 7%. If the inflation rate remains at 2%, it will only take nine years for the couple to face federal estate tax exposure.

For those in the danger zone, tax-sheltered trusts and other techniques could help safeguard assets from estate tax. In addition, making annual tax-exempt gifts for several years can help reduce the eventual size of the estate. ●

The Energy Boost

(Continued from page 1)

fully. We're running at about a rate of 17 million car sales per year, but the average cars in the U.S. fleet is 11 years old, and that is old by historical standards. As a result, it is likely that car sales will be robust for the foreseeable future as we replace old cars with new ones.

Housing starts also are experiencing a tailwind because of demographic factors. The U.S. population grows by three million annually, which requires adding about 1.5 million housing units a year to accommodate our growing population. At the rate the U.S. was building new housing as of October, we were set to build one million new housing units in 2015. To keep up with population growth, the rate at which new housing units are built in 2015 is likely to increase to the 1.5 million historical norm, further adding to the likelihood of a "Goldilocks economy" -- not too hot, not too cold, but just right.

Of course, the world and personal circumstances can impose a new reality on you at any moment. Jihadis, Vladimir Putin, China, and factors unknown to us currently can overtake economic fundamentals temporarily at any time. Still, the tailwind to economic growth is undeniable and perhaps explains why, in mid-November 2014, U.S. stocks, as measured by all major broad stock indexes, had broken through to new all-time highs. ●

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