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**COULD A RETIREMENT PLAN DISTRIBUTION
 BE TAXED AS A LONG TERM CAPITAL GAIN?
 IF YOU QUALIFY, YES, IT COULD...**

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If your retirement assets are in employer stock, you may want to weigh the benefits of rolling the plan assets into an IRA against those of a Net Unrealized Appreciation (NUA) strategy.

Rolling over retirement plan assets from a former employer’s plan into an IRA is intended to preserve the tax-deferred status of your retirement assets. But there may be another advantageous option if you are holding employer stock with a very low cost basis.



How the NUA rule works

If a portion of your plan assets is invested in highly appreciated employer stock, and you are considering rolling the assets into an IRA, the NUA rule may offer a tax advantage. To benefit:

1. You would withdraw all of their retirement plan assets — including the stock in-kind (as shares) — and roll over to the IRA only your non-stock assets.
2. You would pay ordinary income taxes on the cost basis of the stock at the time of the distribution.
3. The difference between the current market value and the cost basis of the employer stock at the time of the distribution is known as the net unrealized appreciation (NUA). **When the stock is sold, the NUA would be taxed at long-term capital gains tax rates** — currently a maximum of 15% — instead of ordinary income taxes. Any subsequent appreciation above the NUA would also be taxed at the same long-term capital gains tax rates if the stock is held for at least one year after the distribution.
4. Compare this NUA treatment to what would happen if the employer stock is rolled over to an IRA or liquidated in the plan and the proceeds rolled over. Distributions from the IRA would be taxed as ordinary income and the benefits of any NUA would be lost.

Example:

Clark owns 500 shares of employer stock in his retirement plan with a cost basis of \$10 a share.	500 shares x \$10 = \$5,000
When Clark leaves the company, the stock is trading at \$40 a share.	500 shares x \$40 = \$20,000
The NUA of the stock is therefore \$30 a share or \$15,000.	\$40 - \$10 = \$30 500 shares x \$30 = \$15,000

Now let's say Clark is in the 28% income tax bracket and rolls the full \$20,000 into an IRA.

If he were to withdraw that amount at a later time, the ordinary income tax on the distributions would be \$5,600.	$\$20,000 \times 28\% = \$5,600$
If Clark uses an NUA strategy and sells the stock immediately after the distribution, assuming capital gains holding period has been met, the taxes would be calculated as follows:	tax on basis: $\$5,000 \times 28\% = \$1,400$ tax on NUA: $\$15,000 \times 15\% = \$2,250$ total tax: $\$1,400 + \$2,250 = \$3,650$
Taxes with NUA \$3,650 < Taxes with rollover \$5,600	

For more information on this and other Retirement Plan rollover strategies, please contact this office at (949)766-7808 or toll free (800)350-1299. More information on NUA income could be found in IRS Publication # 575 (<http://www.irs.gov/pub/irs-pdf/p575.pdf>).



Tax information is provided for illustration purposes only, not to be construed as advice. Tax laws are subjected to change; Tax advice should be obtained from a tax advisor. Nadine Lord is an Enrolled Agent, enrolled represent Taxpayers before the Internal Revenue Service (IRS EA #89416).

Nadine Lord, is located in Southern California and has been a firm believer of the financial planning concept since she opened her financial planning practice in 1983. In addition to her EA designation, mentioned above, she is a Certified Financial Planner PractitionerTM, Investment Advisor Representative and Registered Representative with National Planning Corporation, member FINRA/SIPC. Nadine is an independent life and disability insurance agent in the states of California (CA Life Insurance Lic # 0706223), Oregon (OR Life Insurance Lic # 737955), Nevada (NV Life Insurance Lic #46096), and Arizona (AZ Life Insurance Lic # 54598).

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