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Net Price College Calculators



In the world of higher education, it's common to hear industry experts say that few students attending college pay full "sticker price," which is the official version of a college's total costs. Yet with nothing else to go on,

many students end up basing their college search, and ultimate school selection, on just that--pure sticker price. But this may be about to change.

The Higher Education Act of 2008 requires colleges to install "net price" calculators on their websites by the fall of 2011. "Net price" is what a student actually pays to attend a college, after subtracting merit aid and need-based grant aid from the sticker price. The government's intent in mandating net price calculators is to provide students with a more accurate picture earlier in their college search of what they will likely need to pay at specific colleges based on their own financial and academic circumstances.

The problem

Each year, colleges publish their sticker prices on their websites and written materials. In a typical scenario, a college's sticker price may cause a prospective student (and his or her parents) to cross that college off the list early in the selection process, even though the student may have had a very good chance of receiving merit or need-based grant aid that would have resulted in a much lower net price.

This scenario is likely to play out more frequently as more colleges surpass the \$50,000 mark. According to the Chronicle of Higher Education, 100 colleges charged \$50,000 or more for tuition, fees, room, and board in 2010/2011. And more colleges will join their ranks next year if costs increase at the typical rate of about 5% per year.

The net price difference

The idea behind net price calculators, which are expected to take about 15 minutes to complete, is to give students information at the beginning

of their college search about the merit and need-based aid they are likely to receive from a particular college based on the student's own financial and academic position and the college's specific criteria for awarding grant aid. The intended result is a closer estimate of the true costs of attending a specific college, as compared to the figures provided by a general college cost calculator or the federal government's aid application, the FAFSA, which provides families with their expected family contribution but does not take into account the aid awarding criteria of individual colleges.

In the typical financial aid cycle, high school students don't find out about their net price costs (and out-of-pocket costs) until spring of senior year, when colleges send out their financial aid award letters to accepted students. But by then, it's too late to plan. The hope is that by using a net price calculator much earlier in the process, students can make more informed decisions.

Tip: "Net price" cost is different than "out-of-pocket" cost. Net price equals sticker price minus merit and need-based grant aid, while out-of-pocket cost equals net price minus work-study and federal student loans.

The calculator source

One final thing to consider: The federal government has created a net price calculator template that colleges can use on their websites to meet the calculator requirement. However, the early buzz from industry experts is that the government's "one-size-fits-all" calculator template doesn't always provide an accurate estimate of net price, especially for colleges that distribute a large amount of scholarships and merit aid. Rather, a calculator that is specifically tailored to a college's own aid awarding and packaging criteria is likely to offer a more accurate net price estimate. So if you run some numbers on a net price calculator, consider asking the college if they developed it or if they are using the federal government's calculator template.

These Deferred Annuity Mistakes Can Be Taxing



The situations described here relate to deferred annuities. Different tax rules may apply to annuities in the payment stage (annuitization).



The tax treatment of nonqualified deferred annuities (annuities that are not part of a tax-qualified plan such as an IRA or 401(k)) appears to be fairly clear-cut:

- A distribution that represents a return of your investment in the contract is not taxed
- Earnings aren't taxed until they're withdrawn
- Earnings are taxed as ordinary income and not capital gains, and
- A distribution of earnings taken before age 59½ is subject to a 10% tax penalty unless an exception applies

Simple, right? Yes--except for those particular circumstances that trigger unexpected tax consequences.

Ownership by a "non-natural entity"

"Non-natural entity" is tax speak meaning the annuity owner is not a human being, but is an entity (e.g., trust, partnership, corporation). This creates a situation where the annuity is not treated as a tax-deferred annuity, so any earnings will be taxed to the annuity owner/entity as ordinary income during the current year--even if the earnings haven't been distributed.

There are some exceptions to this rule. It doesn't apply to immediate annuities or those considered qualified funding assets (e.g., annuities held for periodic payments due to personal injury settlements). Also, the annuity may not lose its tax-deferred status if the non-natural entity/owner is acting as the agent for a natural person. For example, ownership of the annuity by the estate of a deceased annuity owner, or the trustee of an IRA or qualified plan, will not, in and of itself, remove its tax-deferred status.

Certain revocable (grantor) trusts may also be the annuity owner without negating the annuity's tax-deferred status, as long as all of the trust beneficiaries are natural persons. However, if an irrevocable (non-grantor) trust, such as a credit shelter trust, is the annuity owner, distributions of earnings from the annuity may be subject to an additional 10% tax penalty. That's because exceptions to this penalty that are available to a person/annuity owner don't apply to a non-natural entity. For example, a non-natural entity can't claim to be over age 59½, nor can it be disabled from work.

Gifting an annuity contract

If you make a gift of an annuity you own, special income tax rules apply. If you owned the annuity for some time before making the gift, you are subject to a tax on the difference between the value of the annuity (its cash

surrender value) and the amount you have invested in the contract (your premiums). You would have to claim the income in the tax year you make the gift. This rule applies to gifts of annuities to charities and charitable remainder trusts as well. A gift of an annuity contract between spouses generally does not trigger this tax, however.

A trust as your annuity beneficiary

Revocable living trusts are a common estate planning tool. Often, an annuity owner/trustor will name the trust as beneficiary of an annuity. However, if you're survived by a spouse, naming the trust as the annuity beneficiary may remove some settlement options your spouse would otherwise have.

Generally, a surviving spouse named as beneficiary of a deferred annuity has four options available: (1) take the full death benefit in a lump sum (the earnings will be treated as taxable income at the time the benefit is paid); (2) take the annuity proceeds over a period of five years; (3) elect to receive the annuity payments over a period of time not to exceed his or her lifetime (with the last two options, each payment is part nontaxable return of investment and part taxable earnings); or (4) the surviving spouse may also have the unique option of becoming the new owner of the inherited annuity, in which case the annuity can continue in deferral (the spouse doesn't have to take any payments).

However, by naming the trust as beneficiary instead of your spouse, you'd be eliminating the last two options for your spouse--even if your spouse is the beneficiary of the trust. With the trust as beneficiary, the annuity proceeds would have to be paid in a lump sum or over five years following your death. If your annuity has significant earnings, those earnings would be taxed upon distribution, even if your spouse neither needs nor wants the proceeds.

Using an annuity as collateral for a loan

Using your deferred annuity as collateral for a loan may result in the unwanted realization of taxable income to you. For instance, say the basis (premiums paid) in your annuity is \$100,000 and it's now worth \$150,000. If you use this annuity as collateral for a loan, the collateral assignment is treated like a distribution and all of the gain (i.e., \$50,000) will be taxable to you as ordinary income.

The income tax rules for deferred annuities can be tricky, so before making any ownership or beneficiary designation changes, consult your financial or tax professional.





What is a MEC?

A life insurance policy purchased after June 20, 1988, is a modified endowment contract if the accumulated premiums paid at any time during the first seven years exceed the sum of the net level premiums for a policy that would be paid up after seven years. A single premium policy is one example of a modified endowment contract. (Your life insurance company or life insurance agent can tell you if a policy is a modified endowment contract.)

Life Insurance Policy Loans: Tax and Other Implications

As the owner of a life insurance policy, you can generally borrow the policy's cash surrender value and use the proceeds for any purpose. Before you take a policy loan, be sure you understand the implications of the loan on the policy itself as well as any tax implications, now and in the future.

Effect of policy loan on policy

You can generally borrow an amount up to the policy's cash surrender value (less an adjustment for interest) from the insurer. The insurer will charge you interest on the loan. Generally, interest is not actually paid, but is added to the amount of the loan. Interest charged on a policy loan is not generally deductible for income tax purposes. There could be other adjustments as well under the contract; for example, a participating policy may restrict the payment of dividends to you while a loan is outstanding.

You are not required to repay a life insurance policy loan. But you can generally repay a life insurance policy loan at any time while the insured is alive. If you do not repay the loan, the cash surrender value paid to you or the policy proceeds at death will be reduced by the amount of the loan (plus interest). Thus, a loan generally reduces life insurance protection.

If the amount borrowed plus interest ever equals or exceeds the cash surrender value, the policy can terminate if additional amounts are not paid into the life insurance policy. Life insurance protection could be lost.

If you have any incidents of ownership in a life insurance policy on your life, proceeds paid at death are includable in your gross estate for federal estate tax purposes. The right to obtain a policy loan is an incident of ownership. Generally, life insurance proceeds received at death by your beneficiary are received income tax free.

Taxation of policy loan

You can borrow against your life insurance policy, and the loan proceeds are generally not taxable to you (unless the policy is a modified endowment contract (MEC), see sidebar).

A loan from a MEC is treated as a distribution from the MEC. A distribution from a MEC is subject to the income-out-first rule. As amounts are distributed, they are treated as consisting of taxable income to the extent that they do not exceed the excess of the cash surrender value of the policy over the investment in the contract (generally, premiums paid less tax-free distributions). The taxable income will also be subject to a 10% penalty tax unless the distribution is made after age 59½, on account

of disability, or as part of a series of substantially equal periodic payments.

Example(s): *You have a MEC with a cash surrender value of \$100,000. You have paid premiums of \$50,000. You take a policy loan for \$60,000. The first \$50,000 (\$100,000 cash surrender value - \$50,000 investment in the contract) of the loan is taxable income to you.*

Lapse or surrender of policy

An outstanding loan is generally treated as an amount received if a policy lapses or is surrendered and may result in taxable income. A policy can lapse if premiums are not paid and the policy terminates when any policy benefits are exhausted as a result. Also, as noted above, if the amount borrowed plus interest ever equals or exceeds the cash surrender value, the policy can terminate if additional amounts are not paid into the life insurance policy. You can cash in a policy by surrendering the policy to the insurer in return for the policy's cash surrender value (as reduced by the amount of the loan plus interest).

If you surrender your policy to the life insurance company or the policy lapses, any gain realized is taxable at ordinary income tax rates. The gain is the excess of the amount you receive over the net premium cost. The net premium cost is the total premiums you paid less any tax-free distributions received. An outstanding loan is generally treated as an amount received if a policy is surrendered or lapsed and may result in taxable income.

Example(s): *You have a life insurance policy with a cash surrender value of \$200,000. You have paid premiums of \$75,000. You also have an outstanding policy loan of \$175,000. There have been no distributions from the policy. You surrender the policy to the insurer for \$25,000 cash. You have taxable ordinary income of \$125,000 (\$25,000 cash + \$175,000 loan - \$75,000 premiums). If you have not prepared for it, it may come as quite a shock.*

Example(s): *You have a life insurance policy with a cash surrender value of \$200,000. You have paid premiums of \$75,000. You also have an outstanding policy loan of \$200,000. There have been no distributions from the policy. The policy lapses. You have taxable ordinary income of \$125,000 (\$200,000 loan - \$75,000 premiums). Once again, if you have not prepared for it, it may come as quite a shock.*



Ask the Experts

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Can the IRS waive the 60-day IRA rollover deadline?

If you take a distribution from your IRA intending to make a 60-day rollover, but for some reason the funds don't get to the new IRA trustee in time,

the tax impact can be devastating. In general, the rollover is invalid, the distribution becomes a taxable event, and you're treated as having made a regular, instead of a rollover, contribution to the new IRA. But all may not be lost. The 60-day requirement can be automatically waived in some cases, and the IRS has the discretion to waive the rule in others. The 60-day requirement is automatically waived if *all* of the following apply:

- The financial institution receives the funds on your behalf before the end of the 60-day rollover period
- You followed all the procedures set by the financial institution for depositing funds into an IRA within the 60-day period (including giving instructions to deposit the funds into an IRA)
- The funds are not deposited into an IRA within the 60-day rollover period solely because of an error on the part of the financial institution

- The funds are deposited within 1 year from the beginning of the 60-day rollover period
- It would have been a valid rollover if the financial institution had deposited the funds as instructed

If you don't qualify for an automatic waiver, you can apply to the IRS for a discretionary waiver. The IRS may waive the 60-day requirement where failure to do so would be against equity or good conscience, such as in the event of a casualty, disaster, or other event beyond your reasonable control. The IRS will consider all relevant facts and circumstances, including:

- Whether errors were made by the financial institution (in addition to those described under automatic waiver, above)
- Whether you were unable to complete the rollover on a timely basis due to death, disability, hospitalization, incarceration, restrictions imposed by a foreign country, or postal error
- Whether you used the amount distributed
- How much time has passed since the date of distribution



What is the IRA one-rollover-per-year rule?

The one-rollover-per-year rule is a little known provision that says you can only make one rollover from a particular IRA to any other IRA in any

12-month period. A violation of the rule can have serious adverse tax consequences. Luckily, it's a problem that's very easy to avoid.

Here's how the IRS states the rule: "If you make a tax-free rollover of any part of a distribution from an IRA, you cannot, within a 1-year period, make a tax-free rollover of any later distribution from that same IRA. You also cannot make a tax-free rollover of any amount distributed, within the same 1-year period, from the IRA into which you made the tax-free rollover. The 1-year period begins on the date you receive the IRA distribution, not on the date you roll it over to an IRA."

This is best understood with an example. Assume you have three IRAs, A, B, and C. On January 1, 2011, you receive a distribution from IRA A and, within 60 days, you roll that distribution over to IRA B. The one-rollover-per-year rule says that any other distribution from IRA A that you receive before January 1, 2012, can't be rolled over. Similarly,

any distribution from IRA B that you receive before January 1, 2012, can't be rolled over. You can, however, receive a distribution from IRA C and roll it over to any other IRA without restriction.

What happens if you violate the rule? The disallowed rollover is taxed as a distribution to you; if you're not age 59½, the additional 10% early distribution penalty may apply; you're treated as having made a regular, rather than rollover, contribution to the receiving IRA, so a 6% excess contribution penalty may apply; and you may be subject to additional penalties if you fail to report the "rollover" as a distribution on your income tax return.

So how do you avoid the problem? It's easy. Use direct transfers instead of 60-day rollovers. The rule doesn't apply when IRA funds are transferred directly from one trustee to another trustee (you never receive the funds). The rule also doesn't apply to conversions of traditional IRAs to Roth IRAs. So you can make as many trustee-to-trustee transfers, or Roth IRA conversions, as you like in any year--the one-rollover-per-year rule will not apply.