

NET UNREALIZED APPRECIATION (NUA) VS. IRA ROLLOVER?

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INTRODUCTION

Consideration of NUA strategy is important if you are distributing highly appreciated employer securities from your prior employer's qualified plan, such as 401(k). Cost basis, the value of the employer contribution on your behalf is subject to ordinary income tax upon distribution. In addition, the 10% early distribution penalty may apply unless you have an exception (i.e. attained age 55 or older and separated from service). Taking in-kind distribution allows the appreciation (NUA) above the cost basis to be taxed at the more favorable capital gains tax rate. For this reason, upon separation from service it may be more tax advantageous to transfer the employer securities to a regular taxable account instead of rolling the asset into an IRA where future distribution will be taxed as ordinary income.

SUMMARY OF INPUT

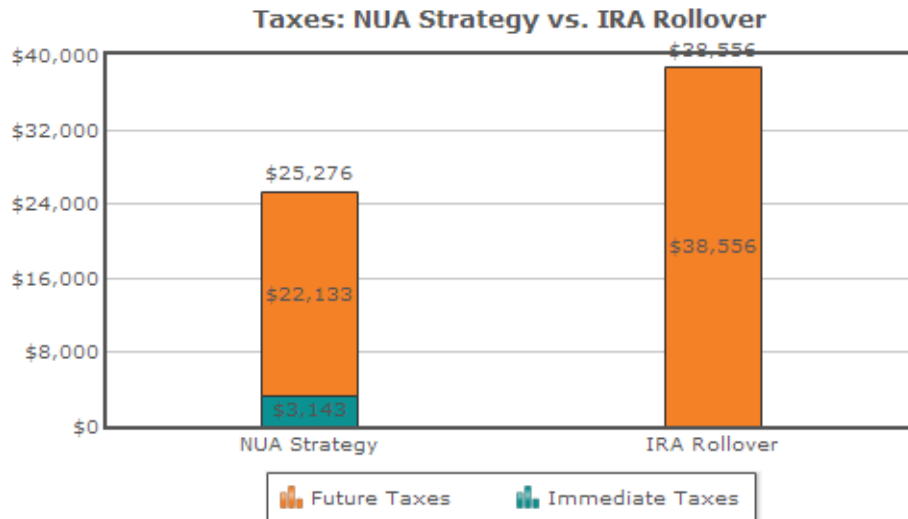
Current 401(k) company stock balance	\$74,412
Total stock purchases (cost basis)	\$13,094
Anticipated investment return	8.00%
Holding period after 401(k) (years)	10
Holding period after 401(k) (months)	0
Marginal income tax rate	24.00%
Capital gains tax rate	15.00%
Separated from service PRIOR to age 55?	No
Current distribution PRIOR to age 59 1/2?	No
Final distribution PRIOR to age 59 1/2?	No

ANALYSIS

It appears that you may save up to \$13,280 in taxes by taking advantage of the capital gains NUA tax break rather than implementing a rollover into a qualified plan like an IRA.

	NUA Strategy	IRA Rollover
Current 401(k) Distribution		
Net Unrealized Appreciation (NUA)	\$61,318	\$0
Tax Summary		
Immediate Income Tax	\$3,143	\$0
10% Penalty Tax	\$0	\$0
Total Immediate Taxes	\$3,143	\$0
At Final Distribution		
Balance at Final Distribution	\$160,650	\$160,650
Additional Capital Gains	\$86,238	\$0
Tax Summary		
Tax on Additional Capital Gains	\$12,936	\$0
Tax on NUA	\$9,198	\$0
10% Penalty Tax	\$0	\$0
Income Tax on Final IRA Distribution	\$0	\$38,556
Total Future Taxes	\$22,133	\$38,556
Total Taxes Paid	\$25,276	\$38,556

This information may help you analyze your financial needs. It is based on information and assumptions provided by you regarding your goals, expectations and financial situation. The calculations do not infer that the company assumes any fiduciary duties. The calculations provided should not be construed as financial, legal or tax advice. In addition, such information should not be relied upon as the only source of information. This information is supplied from sources we believe to be reliable but we cannot guarantee its accuracy. Hypothetical illustrations may provide historical or current performance information. Past performance does not guarantee nor indicate future results.



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