Financial Services Advisory
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Why Give Securities To Charity Instead Of Cash?

Want to make a sizable donation to your favorite charity? Of course, you could write out a big, fat check to the organization and claim a current tax deduction for your generosity. But you might fare even better, when taking taxes into account, by donating securities that have appreciated in value. As a bonus, you won't have to sell anything or dip into your cash to pay for the gift.

There's a simple tax incentive for donating stock rather than cash. If you write a check, you generally can write off the exact amount on your federal income tax return, subject to an overall charitable limit of 50% of your adjusted gross income (AGI) for the year. However, if you donate securities, you can deduct the fair market value (FMV) of the investments on the date of the contribution and avoid being taxed on the profit you would have made if you'd sold that holding.

In other words, you (and your charity) would benefit from the stock's appreciation without being taxed on it. It's as if your gains never occurred—except for the tax break you would get to enjoy.

But this works only if you've held an investment for more than a year. That's the definition of "long term" for calculating taxes on capital gains. With donations of stock that would have produced a short-term gain if you had sold it, your deduction is limited to your basis in the stock, which is usually what you paid for your shares. So there's no tax reward for giving away stock you've acquired within the year, no matter how much its price may have increased.

Let's take a look at two hypothetical examples to see the tax difference.

Example 1: Suppose you acquired ABC Co. stock nine months ago for $10,000. The stock is now worth $15,000. If you donate the ABC stock to a charity, your deduction is limited to your basis, or $10,000. There's no tax benefit from the $5,000 of appreciation in value. In fact, you would be giving that away for nothing.

Example 2: Suppose you acquired XYZ Co. stock two years ago for $5,000 that is now worth $15,000. In this case, if you donate your XYZ shares to charity, your deduction is based on its FMV, or $15,000. You would get to deduct the entire $15,000 even though you only paid $5,000 for the stock.

These rules lead to guidelines that can help you decide which investments to donate. For tax purposes, it's generally best to give the long-term holdings that have gained the most in value. But it makes little tax sense to donate stock that has moved up only a small amount, especially if you've owned it for a year or less. These differences may be especially important

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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.

Jim Joseph, CFP®
Vice President

Social Security: Taxes In And Out

It seems like the IRS has you coming and going on Social Security. While you are working for a living, you must pay taxes into the system to provide benefits for current retirees. Then, when you finally retire, you're entitled to receive retirement benefits but they might be subject to tax as well.

Don't confuse the two taxes. The Social Security tax you pay as an employee is a payroll tax that applies to wages, commissions, and other compensation as part of the FICA tax. An employee's combined FICA rate for Social Security and Medicare in 2014 is 7.65% on the first $117,000 of compensation and 1.45% (Medicare only) above that. But the tax that may apply to Social Security benefits you get in retirement is a federal income tax that is reported along with other items on Form 1040. It's more complicated than the payroll tax.

Here's how it works: You're liable for tax on Social Security benefits if your provisional income (PI) exceeds certain thresholds in the tax law. For this purpose, PI is the total of (1) your adjusted gross income (AGI), (2) your tax-exempt interest income (for example, from municipal bonds), and (3) one-half of the Social Security benefits you received. For example, if the combined AGI of you and your spouse is $100,000 and you collect $5,000 in municipal bond income and $20,000 in Social Security benefits, your PI is $125,000 ($100,000 + $5,000 + $20,000).

There are actually two thresholds for computing the tax on Social Security benefits.

Threshold 1: For a PI between $32,000 and $44,000 ($25,000 and $34,000 for single filers), you're taxed on the lesser of one-half of your benefits or 50% of the amount by which PI exceeds $32,000 ($25,000 for single filers).

Threshold 2. For a PI greater than $44,000 ($34,000 for single filers), you're taxed on 85% of the amount by which PI exceeds $44,000 ($34,000 for single filers) plus the lesser of the amount determined under the first tier or $6,000 ($4,500 for single filers). Silver lining: You'll never owe tax on more than 85% of your total benefits.

These two thresholds aren't indexed annually for inflation. If your PI exceeds a relatively low level of $32,000 ($25,000 for single filers), you'll owe the tax year in and year out. And you'll get hit with the higher tax rate every year that your PI exceeds just $44,000 ($34,000 for single filers).

What can you do about it? You might lower your PI by harvesting capital losses to offset capital gains or deferring taxable income to the following year. But remember that the income from tax-free municipal bonds counts against you in the calculation of PI. Consider all the relevant factors, including the potential tax implications for Social Security benefits, in your investment decisions. ●

Franchise Costs Range From $10,000 To $14.6 Million

Franchises are a lot like wine and people: They come in all price ranges and sizes. For example, a Choice Hotel International franchise is reputedly the world's most expensive, at $14.6 million. On the other hand, you can buy a Win Home Inspection or a Cruise Planner (American Express Travel) franchise for a mere $10,000. Those are two of the cheapest.

Some other very expensive franchises include Amazing Spaces (storage units), for $8.25 million; Golden Corral for $6.76 million, KFC for $2.5 million, and Hardee's for $1.6 million. At the other end of the cost spectrum are Tru Blue Total House Care ($20,000), Good Feet ($75,000), Sport Clips Haircuts ($100,000), and Yum Yo's Frozen Yogurt ($150,000). The cost of owning a McDonald's franchise depends on a number of considerations.

For 35 years, Entrepreneur Magazine has published its own top 10 list of franchises. The magazine's honor roll (with price ranges) for 2014 includes:

1. **Anytime Fitness, $56,290 - $353,890**
2. **Hampton Hotels, $3.69 million - $6.57 million**
3. **Subway, $85,690 - $262,850**
4. **Supercuts, $113,750 - $233,600**
5. **Jimmy John's Gourmet Sandwiches, $330,500 - $519,500.**
6. **7-Eleven Inc., $50,000 - $1.63 million**
7. **Servpro, $138,550 - $187,190**
8. **Denny's Inc., $1.12 million - $2.61 million**
9. **Pizza Hut Inc., $297,000 - $2.1 million**
10. **Dunkin' Donuts, $294,000 - $1.51 million**

Entrepreneur's selection process for the 2014 list began with a survey in July 2013. Of the 853 companies that survived a first round of culling, the top

4 Tips For Assembling A College Savings Plan

Sooner or later, most parents hoping to send their children to college must face a harsh reality: It's going to take a boatload of money to pay for four years or more at a top-flight college or university.

According to the latest figures released by the College Board, the ever-rising cost of higher education continues to outpace inflation. The average cost of tuition and fees at a private college for the 2013-14 academic year is $30,094. An out-of-state student at a public college or university will pay $22,203 on average.

If you hope to save some, or all, of that hefty sum, you'll need to start early. Even then, you'll have several options in terms of how to proceed. One of the foremost authorities on college savings plans is the Financial Industry Regulatory Authority (FINRA), the largest independent regulatory agency in the country. Here's a summary of four tips from FINRA:

1. Understand the tax benefits. You may be eligible for tax breaks, on both the federal and state levels, that can help defray the cost of saving for college. For instance, FINRA points out that contributions made to a 529 college savings plan can grow tax-deferred while withdrawals are tax-free if they are used for qualified education expenses. Similar advantages are available for a Coverdell Education Savings Account (CESA), but contribution limits are much lower than for a 529 plan. Also, all 529 plans allow you to maximize the usual gift-tax exclusion ($14,000 for 2014) by making five years' worth of contributions in one year.

In addition, many states allow you to deduct part or all of your contributions to a 529 plan if you're a resident of the state sponsoring the plan—a good reason to check out your own state's plans before sorting through those of other states. Finally, note that parents may be eligible for a federal tax break in years they pay for higher education expenses, although these tax benefits are phased out for upper-income taxpayers.

2. Examine fees and expenses. Most of the time, you get what you pay for, but you should ensure that any college saving option with high costs would outperform the lower-cost options. FINRA emphasizes that even small differences in fees and expenses can translate into a big difference over time. This applies to various expenses relating to many 529 plans as well as mutual funds or stocks purchased through a CESA. For mutual funds, check the fee table in the prospectus to see how the costs can add up. If you invest in stock, understand the method used to determine commissions and factor them into any gains you may realize.

3. Know the risks and the rewards. Compared to saving for retirement, your college-saving timeline is relatively short. Therefore, the ability to recover from a sudden market decline is reduced. Spread savings over many types of investments so that your entire college fund won't get wiped out if one sector or asset class—such as stocks or bonds—falls.

4. Carefully evaluate any college saving vehicle, and its investment options, before you invest. Some options with higher rates of return may include risks that are beyond your comfort level and don't match up to your goals. As usual, diversification is recommended. To learn more about the investment strategies and risks of the options you are considering, read all of the relevant materials. For instance:

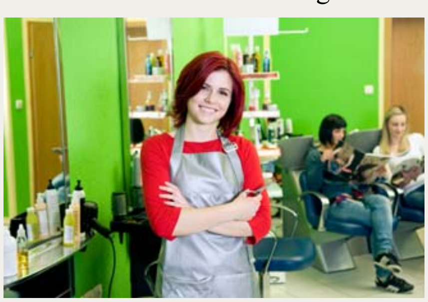
- 529 plans. Read the offering circular or prospectus. It usually contains the investment strategy and risks of the plan in addition to its portfolios. Most 529 plans provide this document on their websites.
- Mutual funds. Read the prospectus and shareholder reports. These are generally available from the mutual fund company or your financial professional.
- Stocks and other securities. Read the company's registration statement or annual (Form 10-K) and quarterly (Form 10-Q) reports. These are typically available in the SEC's Electronic Data Gathering, Analysis and Retrieval (EDGAR) database. For companies that haven't filed in EDGAR, contact the SEC Office of Investor Education and Advocacy to see if the company has filed any documents with the SEC.

Beyond all of these tips, be sure to look at possible limitations or restrictions that could affect your savings. What happens to your college savings plan if your child decides not to attend college, you have another child, or you lose your job? These events could have a significant impact on your education savings strategy. We can help you review the college saving options you're considering to ensure they offer the flexibility and control you need. ●

Source: http://www.finra.org/Investors/SmartInvesting/SmartSavingforCollege/P123936

500 made the magazine's Franchise 500® ranking, based on financial and statistical data from July 2011 through July 2013.

All companies, regardless of size, are judged by the same criteria: objective, quantifiable measures of a franchise operation. The most important factors include financial strength and stability, growth rate, and size of the system.



The magazine also considers the number of years a company has been in business and the length of time it has been franchising, startup costs, litigation, percentage of franchise terminations, and whether the franchising company provides financing. An independent CPA analyzes financial data. Subjective elements such as franchisee satisfaction or management style are not included in the analysis. The objective factors are plugged into a special formula, with each eligible company receiving a cumulative score. The 500 franchises with the highest cumulative scores become the magazine's Franchise 500®. ●

What's The Step-Up In Basis Worth?

When you're developing an estate plan for your family, several elements factor into the equation, including a lot of tax ramifications—which may include both estate taxes and income taxes. They're not mutually exclusive and, in fact, they're often intertwined.

A case in point is the so-called "step-up in basis" on inherited assets. That can be a reason to keep some assets in your estate rather than trying to reduce the estate's value.

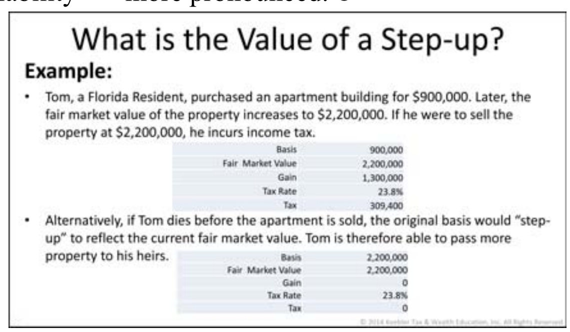
Slimming down an estate, particularly by making gifts to family members during your lifetime, is often a good idea. However, there's a marital deduction that normally allows you to leave unlimited assets to your spouse free of estate tax, while transfers to other heirs are sheltered by a generous individual estate tax exemption that's inflation-indexed. Each person can shield $5.43 million from estate and gift taxes in 2015, up from $5.34 million in 2014.

Meanwhile, if you sell real estate or other assets before you die, you'll owe capital gains tax on your profits. The maximum tax rate on a long-term gain (on assets you've held longer than a year) is 15%, or 20% for investors in the top ordinary income tax bracket. In addition, you may be liable for a 3.8% surtax on net investment income (NII), including capital gains, that exceeds an annual threshold. That adds up to a possible effective tax rate of 23.8% on capital gains at the federal level.

But if you bequeath appreciated assets to your heirs, they can largely avoid capital gains taxes. Those taxes are calculated according to how much the price has gone up from your "basis" in the asset—basically what you paid for it, subject to adjustment. When you die, the basis of the assets your heirs receive is "stepped up"—increased to their value on the date of your death. That eliminates tax liability on the appreciation of the assets during the time you owned them. Of course, those assets have to be in your estate to qualify for that benefit, but the generous exemptions for estates will help your heirs avoid estate taxes, too.

Consider this example. Tom, a resident of Florida, bought an apartment building for $900,000 that is currently worth $2.2 million. If Tom sells the building now, he must pay an effective tax rate of 23.8% on a $1.3 million capital gain, or $309,400 (23.8% of $1.3 million). But what if he keeps the property and leaves it to his heirs? The basis of the property is stepped up to the full $2.2 million, and they'll owe capital gains taxes only if it appreciates further before they sell it. What's more, the estate tax exemption means they won't owe estate taxes on their inheritance.

Note that Florida doesn't have a state income tax. If Tom resided in a high tax state, such as California or New York, the savings would be even more pronounced. ●


What is the Value of a Step-up?

Example:

- Tom, a Florida Resident, purchased an apartment building for $900,000. Later, the fair market value of the property increases to $2,200,000. If he were to sell the property at $2,200,000, he incurs income tax.

Basis	900,000
Fair Market Value	2,200,000
Gain	1,300,000
Tax Rate	23.8%
Tax	309,400

- Alternatively, if Tom dies before the apartment is sold, the original basis would "step-up" to reflect the current fair market value. Tom is therefore able to pass more property to his heirs.

Basis	2,200,000
Fair Market Value	2,200,000
Gain	0
Tax Rate	23.8%
Tax	0

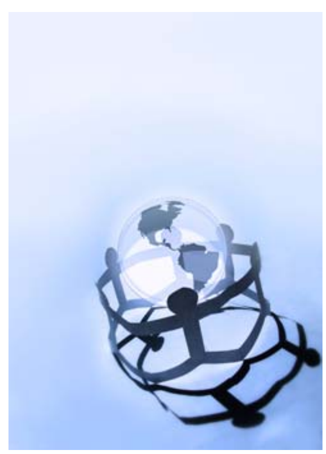
Give Securities To Charity?

(Continued from page 1)

to donors in high tax brackets.

If you donate stock that has lost value, your deduction will be based on the stock's FMV. In this case, it usually makes sense tax-wise to sell the stock first and then donate the proceeds to charity. This way, you can claim a capital loss that you could use to offset capital gains from other securities sales.

There are a few other tax wrinkles to consider when you're thinking about giving securities to charity. That 50%-of-AGI limit applies to all gifts during the year, whereas charitable gifts of property are limited to 30% of your AGI for the year—though you can carry over any excess to subsequent tax years. In addition, some itemized deductions for high-income taxpayers, including those for charitable contributions, may be reduced by the "Pease rule." Generally, this reduction is equal to 3% of deductions exceeding an annual threshold amount (indexed for inflation), but the reduction is capped at 80% of your total deduction. For 2014, the threshold for the Pease rule is $254,200 of AGI for single filers and $305,050 for those who file jointly.



Finally, there's more at stake here than just taxes. Investment factors, too, come into play, and it's usually better to choose stocks that you feel may have reached peak value than those that may continue to rise. You also may want to keep stocks that pay solid dividends. And there could be consequences relating to your estate plan and assets you might want to leave to your heirs instead of donating to charity.

The best approach is to consider all the significant factors before giving securities to a charity. We can help you coordinate your decisions with other aspects of your investment and estate plans. ●