



JANNSEN + COMPANY

EYE ON MONEY

MAR
APR
2012

Business Retirement Plans

A Smart Choice for
You and Your Business

Plus...

Five 401(k) Mistakes to Avoid

Your Child's Investment
Income and Taxes

Employee Stock Options

IMPORTANT TAX DATES

Get tax stuff to the tax preparer pronto!

April 1
Last day to...

Take a 2011 RMD if you turned age 70½ in 2011.

If you reached age 70½ in 2011 and have a traditional IRA, you have until April 1, 2012 to take your required minimum distribution (RMD) for 2011.

You may also have to take RMDs from 401(k) accounts and other retirement plan accounts if you reached age 70½ in 2011. Some employer-sponsored plans may permit you to postpone RMDs if you are still working, as long as you are not a 5% or greater owner of the business.

April 17
Last day to...

File your 2011 personal income tax returns.

Although April 15 is the normal deadline for filing income tax returns, you have until April 17 this year because April 15 falls on a Sunday and April 16 is a legal holiday (Emancipation Day) in the District of Columbia.

Request an automatic 6-month extension of time to file your tax returns.

If you need extra time to complete your tax return, you can request an automatic 6-month extension.

You will still have to pay your taxes by April 17, or you'll be stuck paying interest and penalties on the unpaid amount.

Make an IRA contribution for 2011.

You have until April 17 to make a contribution to your IRA for 2011—and perhaps snag a tax deduction for your contribution.

The 2011 contribution limit is \$5,000 for individuals under age 50; \$6,000 for individuals age 50 or older. Other limits may apply.

You can make your contribution for 2012 at the same time.

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Will the person you intend inherit your retirement account?

The person you name on your individual retirement account (IRA) or 401(k) retirement account as your beneficiary will inherit your account... usually. There are a few situations where the outcome may not be quite what you expect. Here are two areas to pay close attention to when choosing your beneficiaries.

Naming someone other than your spouse as your beneficiary. If you are married and want to leave your 401(k) account to someone other than your spouse, be sure to get your spouse's permission in writing. Without it, your 401(k) account will go to your spouse regardless of who you name on the 401(k)'s beneficiary designation form.

The rules for IRAs are a bit different. In most states, you can name anyone you want as your IRA beneficiary without getting your spouse's permission. In community property states, though, you will generally need your spouse's written consent to name a beneficiary other than your spouse.

Naming a minor as your beneficiary. You can name a minor child as the beneficiary of your IRA or 401(k) account, but if you die while the child is still a minor, a court may need to appoint a financial guardian to manage the account until the child reaches the age of majority.

If you prefer not to leave that decision up to the court, you have a few options, including naming a custodial account, such as an UGMA/UTMA, or a trust as your beneficiary. With an UGMA/UTMA account, the custodian you name manages the retirement assets until the minor child reaches the age of majority, at which time the child gains full control. With a trust, the trustee you name manages and distributes the assets to the child according to your guidelines.

There are pros and cons to each approach, so be sure to consult your estate planning professional before naming a minor as your beneficiary. ■

Please consult your estate planning professional about your beneficiary choices.

Did you know?

The beneficiary designations on your retirement accounts—not your will—determine who will inherit those accounts.

How to Avoid Defaulting on Student Loans

HARD ECONOMIC TIMES are making it increasingly difficult for many student loan borrowers to repay their loans. Recent data from the U.S. Department of Education indicates that 8.8% of borrowers (up from 7% in the prior year) whose first loan repayments came due between October 2008 and October 2009 defaulted on their loans by October 2010.

Defaulting on a federal student loan can have serious consequences. In addition to harming your credit rating and adding late fees to what you already owe, a default may result in loan payments being deducted from your paycheck and your income tax refunds being withheld and applied to your loan.

If you are having trouble repaying your Stafford or PLUS loans, there are steps that may help you avoid default. These steps fall into two camps—lowering your monthly payment amount or temporarily stopping your payments.

For a lower monthly payment . . .

Switch to a repayment plan with a longer repayment period or payments based on your income. Keep in mind though that you may ultimately pay more interest with a lower-monthly-payment plan than with the standard 10-year repayment plan.

Extended repayment plan. This plan is designed for student or parent borrowers with more than \$30,000 in outstanding Federal Family Education Loans (FFEL) or \$30,000 in outstanding Direct Loans. It offers smaller monthly payments stretched over a longer repayment period—up to 25 years versus the standard 10 years.

Graduated repayment plan. Payments under this plan start out relatively low and then increase usually every two years for up to 10 years, making this plan suited for student or parent borrowers who expect their incomes to increase in the future.

Income-sensitive repayment plan for Federal Family Education Loans. With this plan, your monthly payment amount is based on your annual income. As your income increases or decreases, so do your monthly payments, over a maximum of 10 years.

Income-contingent repayment plan for Direct Loans. This plan increases the repayment period to up to 25 years and bases the amount of the monthly payment on your annual income (and your spouse's income, if married), your family size, and the total amount of your Direct Loans. (Parent borrowers are not eligible for this repayment plan.)

Income-based repayment plan (*original version*). Student borrowers may qualify for this repayment plan that caps the monthly payment amount at 15% of discretionary income and increases the repayment period to up to 25 years. (Parent borrowers are not eligible for this repayment plan.)

Under the income-contingent repayment plan or the income-based repayment plan, the remaining balance will generally be forgiven after 25 years—and perhaps after just 10 years for public service employees. Thanks to the Public Service Loan Forgiveness Program, Direct Loan

borrowers or loan consolidators who work full-time for a public service organization (such as a public school or government agency) while paying off the loan may be eligible for forgiveness of the remaining loan balance after 120 monthly payments. Only payments made after October 1, 2007 count toward the required 120 payments.

For a temporary postponement of your loan payments . . .

Ask your loan servicer for a deferment or forbearance.

Deferment. If you are unable to make your loan payments, you may be eligible for what is known as a deferment—a temporary postponement of your loan payments. Deferments are typically granted by loan servicers when, for example, the borrower is enrolled in college at least half-time, unable to find a full-time job, experiencing economic hardship, or on active military duty.

Forbearance. If you do not qualify for a deferment, you may still qualify for a forbearance, which postpones or reduces your payments for a limited period of time. Your loan servicer may grant you forbearance if you are ill or experiencing financial hardship. In some situations, such as if you are serving in a medical internship or residency, the servicer is required to grant you forbearance. ■

Please consult your financial advisor for advice on planning and saving for a college education.

2012 Federal Student Loan Changes

MAY HELP
NEW
BORROWERS

Improvements to the income-based repayment plan • A new version of this plan caps the monthly payment at 10% of discretionary income rather than the original 15% and forgives the remaining loan balance after 20 years instead of the original 25 years. The new version will only be available to borrowers whose first loan was taken out after 2007 and who have at least one loan from 2012 or later. Borrowers who do not qualify for the new version may still be eligible for the original version with its 15% cap and forgiveness after 25 years.

MAY HELP
BORROWERS
IN REPAYMENT

Limited-time loan consolidation offer • Student borrowers with both a Direct Loan and a Federal Family Education Loan who consolidate their loans into the Direct Loan program will receive up to a 0.5% reduction in the interest rate on some of their loans. Ask your loan servicer for details.

Business Retirement Plans:

A Smart Choice for You and Your Business

Starting a business retirement plan can be a very smart choice for a self-employed individual or a business owner. For starters, a retirement plan is a great way for you to build wealth for retirement and reduce your current income taxes while you are at it. Plus, adding a retirement plan to your employee benefit package can help you attract and retain valuable employees. There are few better ways to express how much you care about your employees and their futures than offering a retirement plan.

Tax advantages.

A retirement plan offers tax breaks for both you and your business.

On the personal side, the income that employees (including you) contribute to their retirement accounts reduces their taxable income dollar-for-dollar for the year. For example, contribute \$5,000 to your tax-deferred account, and you will not have to pay income tax on that \$5,000 this year. The income tax is deferred until the money is withdrawn from the account.

Plus, investment earnings accumulate tax-deferred until withdrawn. Because they are not subject to tax every year, earnings compound faster in a retirement plan than in a taxable account.

These tax advantages are also generally available with a personal IRA, so why not just use an IRA to save for retirement? The reason is simple: you may be eligible to contribute up to ten times more to a business retirement plan than to a personal IRA. While a personal IRA allows contributions of up to \$5,000 in 2012, some business retirement plans allow contributions up to as high as \$50,000.

On the business side, contributions that

your business makes to your account and your employees' accounts are generally tax-deductible as a business expense. And your business may also claim up to a \$500 federal tax credit in each of the first three years of the plan for expenses related to starting and administering the plan.

All businesses welcome.

Retirement plans can be established by businesses of all types and sizes, from self-employed individuals to the largest corporations. All it takes is one employee—and that employee can be you! You can even start a retirement plan for a side business, such as consulting or landscaping, if you want to sock away the income you receive from it for retirement.

Types of business retirement plans.

There are several types of business retirement plans, ranging from low-cost, easy-to-manage IRA plans to more complex defined-contribution plans, such as 401(k) plans. You may also want to consider a defined benefit plan if you want to contribute more each year than other types of plans allow.

Here's an introduction to a few retirement plans that are especially well-suited for self-employed individuals and small businesses.

SEP. A Simplified Employee Pension (SEP) plan is one of the easiest and most flexible retirement plans around.

With a SEP plan, the employer contributes to IRAs for all eligible employees, including the employer's own IRA. The contribution can range anywhere from 0% to 25% of compensation up to a maximum of \$50,000 in 2012. (Self-employed individuals can contribute up to 20% of their self-employment income, up to a maximum of \$50,000.)

Although the percentage of compensation that your business contributes must be identical for all eligible employees, the percentage can vary from year to year, enabling you to adjust contributions according to business conditions. You can even skip making contributions some years if you wish.

With a SEP plan, all contributions are made by the employer. Employees are not permitted to contribute.



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Why start a retirement plan for your business?

- Employee contributions generally reduce their current income taxes.
- Employer contributions are generally tax deductible to the business.
- Investment earnings grow tax-deferred.
- Higher contribution limits than a regular IRA.
- Builds employee loyalty.
- Helps attract new employees.
- Retirement plan assets are generally protected from creditors.

Federal tax breaks
may help your retirement
plan savings grow faster.

SIMPLE IRA. If you are looking for an easy-to-manage, low-cost plan that allows both the employer and the employees to contribute, consider a SIMPLE IRA plan.

This plan is open to businesses with 100 or fewer employees and serves as a simple, low-cost alternative to a 401(k) plan.

With a SIMPLE IRA, employees can contribute as much as 100% of their compensation, up to a maximum contribution of \$11,500 in 2012. Employees age 50 or older can make up to an additional \$2,500 catch-up contribution each year.

Your company can either match your employees' contributions (100% of the first 1–3% of compensation contributed) or make a 2% contribution for all eligible employees.

401(k). 401(k) plans are popular for good reason: they typically offer greater flexibility in plan design and higher contribution limits for employees than IRA-based plans.

Employees can contribute as much as \$17,000 in 2012 to their 401(k) accounts. If they are age 50 or older, they can make

catch-up contributions of up to \$5,500 per year. These limits are significantly higher than those offered by a SIMPLE IRA plan.

Employers can also contribute by matching employee contributions or by making discretionary profit-sharing contributions of up to 25% of compensation. The combination of employee and employer contributions can be as high as \$50,000 in 2012; \$55,500 if the employee is age 50 or older.

401(k) plans generally offer bells and whistles you just can't get with an IRA-based plan. For example, you can choose to have employer contributions vest over time, which can help you retain employees. Plus, you may choose to offer Roth accounts that allow employee contributions to be made with after-tax income so that withdrawals are generally tax-free in retirement.

Although 401(k) plans are very popular, they may not be your best choice if you have fewer than, say, 20 employees. This is because most 401(k) plans are subject to strict IRS regulation, requiring annual IRS filings and testing to ensure that the plan does not favor highly compensated employees. Owners

of smaller businesses may prefer the simplified administration of an IRA-based plan.

There is, however, a simpler type of 401(k) plan designed specifically for self-employed individuals and business owners with no employees other than a spouse. It goes by several names, among them the Solo 401(k), and while it offers the same high contribution limits of other 401(k) plans, it is much easier to administer. Be sure to give this plan a look if you meet the no-employees criteria, particularly if you are age 50 or older and want to contribute the maximum amount to your retirement account. Between employer and employee contributions, you may be able to sock away \$5,500 more each year with a 401(k) plan than you can with a SEP plan.

Please consult your advisors.

If you own a business or are self-employed, talk to your tax and financial advisors about establishing a business retirement plan. Your advisors can help you determine which type of plan best suits your business, as well as your personal retirement goals. ■



Compare business retirement plans.

	SEP	SIMPLE IRA	Solo 401(k)	401(k)
Eligibility	Any self-employed individual or business.	Any self-employed individual or business with 100 or fewer employees that does not maintain another retirement plan.	Self-employed individuals or business owners with no employees other than a spouse.	Any business, although it is generally best suited for businesses with 20 or more employees.
Considerations	<p>Easy to set up and operate.</p> <p>Funded by employer contributions only.</p> <p>Very flexible. Employers can change the percentage of compensation they contribute each year. They can even skip making contributions altogether.</p>	<p>Easy to set up and operate.</p> <p>Funded by employee and employer contributions.</p> <p>An easy, low-cost alternative to a 401(k) plan.</p>	<p>Easy to set up and operate.</p> <p>Funded by employee and employer contributions.</p> <p>Allows larger employee contributions than IRA-based plans.</p> <p>Roth accounts are an option.</p> <p>Requires annual IRS filing once the plan's assets exceed \$250,000.</p>	<p>Greater flexibility in plan design.</p> <p>Funded by employee and employer contributions.</p> <p>Allows larger employee contributions than IRA-based plans.</p> <p>Roth accounts are an option.</p> <p>Requires annual IRS filing and testing to ensure that the plan does not favor highly compensated employees.</p>
2012 Maximum Contribution Limit	<p>EMPLOYER: Up to 25% of each eligible employee's compensation¹, but no more than \$50,000.</p> <p>Contributions are discretionary.</p>	<p>EMPLOYEE: \$11,500 if under age 50. \$14,000 if age 50 or older.</p> <p>EMPLOYER: The employer must either match employee contributions (100% of the first 1–3% of compensation contributed) or make a 2% nonelective contribution for all eligible employees².</p>	<p>EMPLOYEE: \$17,000 if under age 50. \$22,500 if age 50 or older.</p> <p>EMPLOYER: The employer may make profit sharing contributions of up to 25% of compensation¹, but no more than \$50,000.</p> <p>TOTAL EMPLOYER/EMPLOYEE: \$50,000 if under age 50. \$55,500 if age 50 or older.</p>	<p>EMPLOYEE: \$17,000 if under age 50. \$22,500 if age 50 or older.</p> <p>EMPLOYER: The employer may make matching contributions or profit sharing contributions of up to 25% of compensation, but no more than \$50,000.</p> <p>TOTAL EMPLOYER/EMPLOYEE: \$50,000 if under age 50. \$55,500 if age 50 or older.</p>

- Withdrawals before age 59½ are subject to a 10% tax penalty, unless an exception applies.
 - Early withdrawals from a SIMPLE-IRA within the first two years of plan participation are subject to a 25% tax penalty.
- ¹ Employer SEP and Solo 401(k) contributions are limited to 20% of self-employment income for self-employed individuals.
- ² The maximum compensation on which a nonelective contribution can be based is \$250,000 for 2012.

Your Child's Investment Income and Taxes

EVEN LITTLE KIDS may have to pay tax on their investment income, depending on the amount of interest, dividends, and capital gains they receive during the year. If it was more than \$950 in 2011, Uncle Sam expects a cut of it. Here's how it works.

In general, the first \$950 of a dependent's investment income is exempt from federal tax. The next \$950 is taxed at the child's tax rate. And the amount above \$1,900 is taxed at the parents' tax rate. (The threshold amounts for 2011 and 2012 are used here.)

This tiered method of taxing children's investment income is known as the "kiddie tax" and is intended to limit the tax benefit of parents in high tax brackets shifting investments to children in low tax brackets.

Despite its name, the kiddie tax applies to more than just little kids these days. The definition of kiddie was expanded a few years ago to include all children under age 18, as well as 18-year-olds and full-time college students up to age 24 whose earned income is less than half of their overall support.

If your "kiddie" has investment income in excess of \$950, he or she will generally

have to file a tax return unless you are able to include the income on your own tax return. You can generally include your child's income on your own return as long as your child's gross income is less than \$9,500 and consists only of interest and dividends, including capital gains distributions and Alaska Permanent Fund dividends.

Be sure to consider the impact on your taxes before including your child's investment income on your tax return. For example, an increase in your income may reduce certain deductions and credits that hinge on the amount of your adjusted gross income. Also, the tax on your child's investment income may be higher (by up to \$95) if it is included on your return where the income between \$950 and \$1,900 will be taxed at 10%. If reported on your child's return, capital gains distributions and dividends between those amounts may qualify for the zero-percent tax rate.

It is a lot to consider and things get more complicated if your child has both earned income and investment income. Please consult your tax advisor about the best way to handle your child's taxes. ■

Example

Let's say your 8-year-old son received \$4,000 in income in 2011, all of it interest income. The first \$950 of the income is tax-free. The next \$950 is taxed at 10%, the rate for your son's tax bracket, which results in a tax of \$95. The remaining \$2,100 is taxed at your tax rate. If you are in, say, the 35% tax bracket, the tax on the \$2,100 is \$735, for a total tax of \$830.



How a child's investment income is generally taxed.

(2011 and 2012 federal thresholds used.)

First \$950

Tax-free.

Next \$950

Taxed at the child's tax rate.

Amounts over \$1,900

Taxed at the parents' tax rate.

5 Mistakes to Avoid with Your **401(k)**



To get the most out of your 401(k) retirement plan, it is important to avoid costly mistakes when investing and withdrawing your money. Here are five common mistakes to watch out for. Your financial advisor can tell you more.

1 Investing only enough to get the company match.

If your company is willing to match part of the money you contribute to your 401(k) retirement account, take them up on their offer—but don't stop there! Companies typically limit the amount they will match to, say, five or six percent of a participant's salary. Most people will need to contribute significantly more than five or six percent of their salary to stand a chance of reaching their retirement goals.

What percentage of your salary should you contribute? The answer will depend on how much you have saved so far, your other retirement resources (such as a pension), and the time remaining until your retirement. Your financial advisor can help you pinpoint a contribution rate that is appropriate for your specific circumstances.

There is a good chance that you may need to save more each year for retirement than your 401(k) plan will allow. If this is the case, it is generally a good idea to contribute the maximum amount to your 401(k) account first, in order to make full use of its tax advantages, before contributing to other types of accounts.

401(k) Contribution Limits for 2012

\$17,000;

individuals age 50 or older may be allowed to contribute an additional \$5,500.

2 Never changing your investment picks.

Many people pick their initial 401(k) investments and then let them ride—forever. This can be a big mistake. It is important to review and adjust your 401(k) investments periodically. Here are a few reasons why.

First, your mix of stocks, bonds, and cash equivalents will stray over time from your target percentages due to differences in performance. This will result in either more risk than you intended (if stocks have outperformed) or less potential for reward (if bonds or cash have outperformed). Adjusting your mix back to your target percentages can help manage risk and get your 401(k) account back on track to your savings goal.

Second, it is generally a good idea to shift to more conservative investments as retirement draws closer. Unless you are solely invested in a target-date fund that automatically makes the shift for you, you will need to adjust your investments yourself.

Third, there may be some underperforming investments lurking in your 401(k) account. Unless you have reason to expect a turnaround, consider cutting them loose and investing in something with brighter prospects.

Talk to your financial advisor about when and how to adjust your 401(k) investment choices.



3 Loading up on too much company stock.

Owning too much company stock can have devastating consequences. If its value plummets—and even the stock of successful companies can experience wide swings in value from time to time—the impact to your overall 401(k) account can be significant. And if your company goes belly up, it won't just be your 401(k) account that is impacted—you will be out of a job!

To limit the risk of too much company stock wreaking havoc on your 401(k) balance, it is important to limit the amount of company stock you own. Instead of loading up on any one investment, such as company stock, it is better to spread your 401(k) investments across a wide range of investment categories (stocks, bonds, and cash equivalents) and individual investments within those categories. This way, if one investment takes a nose dive, its impact on your 401(k) balance is cushioned.

Company stock you purchased with your own 401(k) contributions can be traded at any time. Company stock that your employer contributed to your 401(k) account can generally be traded after you have been with the company for three years, although some 401(k) plans may permit you to trade it sooner.

Your financial advisor can offer guidelines about what is a reasonable amount of company stock in your situation.

4 Cashing out before retirement.

Sure, it may only be a few thousand dollars, but cashing out even relatively small amounts from your 401(k) when you change jobs can impact your future retirement security. That's because even small amounts have the potential to grow to much larger amounts over time, particularly when their earnings are sheltered from taxes while in the account, as is the case with your 401(k) savings.

Think of it this way. You could withdraw \$5,000 when you leave a job and enjoy a great vacation with it. Of course, you would have to pay income tax on your withdrawal and a 10% penalty if you are not yet age 55. So maybe you end up with \$3,500 or so remaining for that vacation. Or you could keep the \$5,000 invested for another 30 years. If your savings earn 8% each year, in 30 years your \$5,000 will grow to nearly \$55,000. While this is a hypothetical example and your actual returns will vary, the point remains that it is important to consider the potential future value of your 401(k) savings before cashing them out.

To keep your 401(k) savings invested and preserve their tax-deferred growth potential, you can generally transfer them to an IRA, leave them in your former employer's 401(k) plan, or transfer them to your new employer's 401(k) plan. Your financial advisor can help you determine which option is best for you.

5 Failing to take RMDs after age 70½.

Let's say you forgot to take your required minimum distribution (RMD) from your 401(k) account for the year. The IRS will cut you a break, right? Not always. They will generally slap a 50% tax on the amount you failed to withdraw that year.

RMDs are minimum amounts that you must withdraw annually from your 401(k) account beginning at age 70½. Some 401(k) plans may allow you to postpone the start of RMDs until you retire if you continue to work past age 70½.

Your RMD for the year is calculated by dividing your 401(k) balance from last December 31st by a life expectancy factor that the IRS publishes. Can you take more than the required amount each year? You bet; just not less.

On a related note, if you have a Roth 401(k), you can avoid having to take RMDs by transferring your savings to a Roth IRA, which does not require account owners to take RMDs. ■

PLEASE NOTE:

- Asset allocation and diversification do not ensure a profit or protect against a loss in declining markets.
- All investments are subject to risk. Bonds are subject to credit, interest rate, and inflation risk.
- Before investing in mutual funds, investors should consider a fund's investment objectives, risks, charges, and expenses. Contact your financial advisor for a prospectus containing this information. Please read it carefully before investing.



Know Your Employee Stock Options

Before You Exercise Them

Work hard and your employer may reward you with a stock option—that is the right to buy company stock at a stated price after a stated date. If the market value of the stock increases above the option's stated price, you stand to make a tidy (and sometimes stupendous) profit. But due to the complexity surrounding how employee stock options are exercised and taxed, it is easy to make choices that unnecessarily reduce your potential profit. To help maximize the wealth-building potential of your employee stock options, it is important to understand your options before you exercise them. Employee stock options are introduced here. Your tax and financial advisors can tell you more.

What is an employee stock option?

An employee stock option is an agreement with your employer that grants you the right to buy a certain number of shares of company stock at a specified price after a certain period of time. The specified price, known as the exercise price, is usually the stock's fair market value at the time the option is granted. The hope is that the value of the stock will increase while you are waiting for your option to vest so that you can buy shares for less than their actual market value.

For example, let's say your employer grants you an option to purchase 1,000 shares of company stock for \$10 per share. If the value of the stock increases to, say, \$30 per share by the time you are permitted to purchase the shares, you can purchase shares at \$10 each and either immediately sell them for \$30 each or hang on to them in the hope that their value will continue to increase and you will be able to realize a larger profit later. The process of purchasing the shares is known as exercising the option.

Employers offer stock options as a way to attract, reward, and incentivize key employees. With stock options in their pocket, it is in the employees' best interest to do everything possible to help the company's share price increase, which benefits not only the employees with stock options, but also the company and its shareholders.

There are two types of employee stock options—nonqualified and incentive. They differ significantly in how they are taxed. In order to help ensure that you do not pay more tax than necessary, it is important to know before you exercise an option which type of option you have (check your option agreement if you are unsure) and how your type of option will be taxed. With some advance planning, you may be able to minimize your taxes and maximize your potential profit.

How nonqualified stock options are taxed.

Nonqualified stock options are generally taxed in two stages—when you buy the stock and when you sell it.

When you exercise a nonqualified stock

option to buy the stock, the difference between the price you pay (the exercise price) and the stock's fair market value on that day is added to your compensation for the year.

Continuing with the example, if you purchase 1,000 shares at \$10 each when their fair market value is actually \$30 each, you must report the \$20,000 difference as compensation income on your tax return.

Your employer is required to withhold income and employment taxes on the compensation when you exercise the option, so you will generally need to have enough cash to cover the taxes, in addition to the exercise price.

Some employers may allow you to exercise an option without cash. Generally, a cashless exercise is done with the help of a brokerage that essentially lends you the money to buy the stock and then immediately sells enough shares to cover the loan, taxes, and brokerage commissions and fees. Or your employer may allow you to cover the cost of the shares using company stock you already own, although you will still need to come up with cash to cover your taxes.

When you sell the stock, you will have either a capital gain or loss. Your basis for determining the gain or loss is the amount you paid for the stock plus the amount you included in compensation at exercise.

Continuing with the earlier example, your basis in the stock would be \$30 per share. So if you sell at, say, \$35 per share, the \$5 difference per share is treated as a capital gain. To take advantage of long-term capital gain tax rates (the maximum rate is 15% for 2012), you generally must own the stock for more than one year before selling it. If you sell any sooner, your gain will be a short-term gain, which is taxed as ordinary income.

How incentive stock options are taxed.

Incentive stock options offer two potential tax advantages that nonqualified stock options do not—and one potential catch.

The first tax advantage is that you are generally not taxed when you exercise an

incentive stock option. Unlike a nonqualified stock option where you must report compensation income at exercise, there is no income to report for regular income tax purposes when you exercise an incentive stock option.

But there is a potential catch—unless you sell the stock in the same year that you exercise the option, you must include the difference between the price you pay and the stock's value at exercise when you calculate the alternative minimum tax (AMT). As a result, there is a chance that you may have to pay AMT in the year you exercise the option. If you do, you may get some or all of your payment back later on by claiming the AMT credit on your tax return.

The second tax advantage is that if you wait long enough before you sell your stock, any profit you realize from the sale will be treated as a long-term capital gain, which can potentially save you a bundle in taxes. How long is long enough? Before you sell the stock, you must wait more than one year after you purchase it and more than two years after your employer grants you the option. If you sell any sooner and realize a profit, part of your profit (the part between what you paid for the stock and its value at exercise) will be taxed as ordinary income and any remaining profit will be taxed as a capital gain (which may be short-term or long-term depending on how long you owned the stock).

Please consult your tax and financial advisors before exercising stock options.

There is so much to consider before you exercise your employee stock options—much of it complex and we have only scratched the surface of it here—that professional guidance is highly recommended. Talk to your tax and financial advisors. They can help determine when to exercise your options, how to pay for the stock (cash or cashless, if that is a choice), and when to sell the stock. Plus, they may be able to help minimize the tax bite and possibly avoid the AMT through the strategic exercise of your options. ■



South Korea: World Heritage Sites

BY BRIAN JOHNSTON

Korea is a place of awesome natural beauty, where mountains tumble into the sea and dissolve into dazzling offshore islands. It's also a place where history and tradition sit comfortably against a backdrop of modernity and high technology. And when it comes to outstanding sights, this little country has no fewer than eight World Heritage properties waiting to be explored.

Start off in Seoul, where World Heritage listed Changdeok Palace lies at the edge of the city. A favored residence of the kings of the Joseon Dynasty, the palace was first built in 1405 and reconstructed in 1592, and is the best preserved and most interesting of several palaces in Seoul. Descendants of the royal family still live here, so it can only be visited on guided tours, which last about an hour and a half. The royal residence is especially known for its superb traditional gardens, framed by a backdrop

of forested hills. Full of ancient trees, fountains and pavilions, the gardens are at their most beautiful in autumn.

Also in Seoul, World Heritage Jongmyo Shrine is dedicated to the memories of Korea's kings and queens. The Confucian shrine has been around since the fourteenth century, and Confucian rituals and traditional music are still performed several times a year among its tranquil and colonnaded cloisters.

Just south of the capital, Suwon is easily reached by train from Seoul. The city was laid out by King Jeongjo in the eighteenth century and is crowned by a magnificent fortress, now another World Heritage site. Built with cutting-edge technology in its day, Hwaseong Fortress is an outstanding example of military architecture.

The walls run for nearly four miles and are punctuated by four massive gates. Inside, there are more than forty towers and

brightly painted pavilions made of stone, brick, and wood. Scenic walking tracks link them all, along which it is easy to spend a happy afternoon.

In the eastern part of the country, Gyeongju was the capital of ancient Korea and of the great Silla Dynasty, which flourished between 57 BC and 935 AD. Remnants of these times are scattered around town and include royal tombs and an ancient observatory. There is so much lying about that the whole area is now designated a World Heritage site and is one of the largest open-air museums in the world. The magnificent items unearthed from the royal burial mounds—including gold crowns and dazzling lapis lazuli—can be admired in the National Museum.

For most people, Bulguksa Temple on a hillside ten miles outside of Gyeongju is the real highlight of the area. Indeed, this is Historic and Scenic Site Number One and

Left, the Changdeok Palace gardens in Seoul. Below, 80,000 wooden printing blocks containing the oldest collection of Buddhist scriptures are housed in Haeinsa, a temple complex in South Korea.

is itself home to seven national treasures, not to mention being a World Heritage site in its own right.

Bulguksa Temple was created during the golden age of the Silla Dynasty in the sixth and eighth centuries. Most of what you see today was reconstructed after the Japanese invasion. Never mind; the temple's Buddha has a smile of serene benevolence, not surprising considering the glorious architecture of the colorful pagodas and the beauty of the surrounding hillsides. This is certainly one of Asia's most beautiful temples and a highlight of a visit to Korea.

Just a few miles to the east, Seokguram Grotto is also a World Heritage site. The Buddhist hermitage overlooks the sea from a vantage point high on the side of Mt Tohamsan and is particularly fine at sunrise. It

as a depository for the Tripitaka Koreana, a collection of wood printing blocks of Buddhist scriptures, which have somehow withstood the fires and invasions that have plagued every other Korean building. The temple has 80,000 printing blocks containing 52 million characters, making up the world's most comprehensive and oldest collection of Buddhist canon.

Just as intriguing is the science of this artistry. The blocks were soaked in sea water for three years, boiled in salt water, and exposed to wind for another three years before being ready for carving, then lacquered against insects. A clever arrangement of ventilation, floors specially designed to absorb humidity, and other ancient techniques not fully understood were also used to preserve the blocks. They remain in almost perfect condition. Indeed,

a welcome vegetarian meal, and get some tips on Buddhist etiquette. At the evening service in the main hall, visitors bow 108 times, just like the monks, in order to be freed of the 108 periods of anguish experienced in a lifetime.

There is also a 3 a.m. wake-up call (large drums do the trick) for a morning service. The hour is cruel, but the atmosphere is wonderful. The Buddha statue glows serenely behind candles and flowers, the dim hall rustles as unlit paper lanterns tied with prayer slips sway in the gloom, and the monks chant.

Perhaps the least exciting World Heritage site, at least for the uninitiated, is the dolmen sites at Gochang, Hwasu, and Ganghwa. The megalithic stones mark the sites of aristocratic graves in which pottery, jewelry, bronze, and other artifacts have been found. The dolmens are three thousand years old, but will probably only impress the most avid archaeologists.

Save the best for last: the most recent World Heritage listing is Jeju Volcanic Island and Lava Tubes. Jeju is a favored destination among Korean holidaymakers and honeymooners. The balmy, semi-tropical island lies off the southern coast of Korea, where rocks, wind, and women are said to be the three factors contributing to the island's beauty. Certainly there are balmy breezes laden with the smell of tangerines, spectacular sea cliffs and waterfalls, and hexagonal rock formations rising out of the waves.

And when it comes to rocks, you can always scale the island's Mt Hallasan, Korea's highest mountain. Actually an extinct volcano, it has a landscape of twisted rock and colorful azaleas, and is home to rare animals and plants. It also has some of the largest lava tubes in the world; the large tunnel-like caves run for miles under the mountain. When you scramble to the summit, you get another treat in the unexpected hidden lake lying in the mountain crater—yet another of Korea's many secret attractions just waiting to be discovered. ■



contains some of the world's best Buddhist sculptures, dating from the eighth century, including a huge seated Buddha on a lotus throne, surrounded by other figures and motifs of Buddhist art.

There is one more World Heritage temple in Korea: Haeinsa, or the Temple of Reflection on the Smooth Sea. It's chiefly famous

a modern storage facility designed in 1970 failed to prevent the blocks from getting mildew, and they were simply returned to their centuries-old original housing!

A temple stay is an excellent way to enjoy Haeinsa and see beyond just the World Heritage listing to what is still a very active temple. Visitors don monk's clothing, have

Tours of Private Gardens



Ever wonder what lies on the other side of the garden wall? A private sanctuary perhaps? Lush gardens overflowing with roses, lilies, and clematis? You can satisfy your curiosity this summer when many private homes throw open the gates to their gardens for a day or two.

- Annapolis, MD Secret Garden Tour** June 2–3, 2012 www.hammondharwoodhouse.org
- Austin, TX Gardens on Tour 2012** May 12, 2012 www.wildflower.org
- Napa County, CA Bay-Friendly Garden Tour** May 6, 2012 www.bayfriendlycoalition.org
- Boise, ID Garden Tour 2012** June 24, 2012 www.idahobotanicalgarden.org
- Boston, MA Hidden Gardens of Beacon Hill** May 17, 2012 www.beaconhillgardenclub.org
- Charleston, SC Festival of Houses & Gardens** March 22–April 21, 2012 www.historiccharleston.org
- Charlotte, NC "Art in the Garden" Garden Tour** April 21–22, 2012 www.charlottegardenclub.org
- Houston, TX Azalea Trail Home and Garden Tour** March 9–11, 2012 www.riveroaksgardenclub.org
- Louisville, KY Old Louisville Garden Tour** July 7–8, 2012 www.oldlouisvillegardentour.com
- Madison, WI Olbrich Home Garden Tour** July 13–14, 2012 www.olbrich.org
- Maricopa County, AZ Real Gardens for Real People** March 31, 2012 cals.arizona.edu
- Maryland Maryland House & Garden Pilgrimage** May 2012 www.mhgp.org
- New Orleans, LA The Secret Gardens Tour** March 23–24, 2012 www.secretgardentour.org
- Saratoga Springs, NY Secret Gardens Tour** July 8, 2012 www.soroptimistsaratoga.org
- Venice, CA Venice Garden & Home Tour** May 5, 2012 www.venicegardentour.org
- Virginia Historic Garden Week** April 21–28, 2012 www.vagardenweek.org
- Washington, DC Capitol Hill Annual House & Garden Tour** May 12–13, 2012 www.chrs.org
- West Hartford, CT 2012 Garden Tour** June 2, 2012 www.westhartfordgardenclub.org
- Wilmington, NC Azalea Garden Tour** April 13–15, 2012 www.capefeargardenclub.org



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2012 MAJORS

MEN

The Masters

Augusta National Golf Club, Augusta, GA
April 5–8, 2012

U.S. Open

The Olympic Club, San Francisco, CA
June 14–17, 2012

British Open

Royal Lytham & St. Annes Golf Club,
Lancashire, England
July 19–22, 2012

PGA Championship

The Ocean Course, Kiawah Island, SC
August 9–12, 2012

WOMEN

Kraft Nabisco Championship

Mission Hills Country Club,
Rancho Mirage, CA
March 26–April 1, 2012

Wegmans LPGA Championship

Locust Hill Country Club, Rochester, NY
June 7–10, 2012

U.S. Women's Open

Blackwolf Run, Kohler, WI
July 5–8, 2012

Ricoh Women's British Open

Royal Liverpool Golf Club, Hoylake, England
Sept. 13–16, 2012

QUIZ

Tee Time

- The record for the most wins (82) on the PGA Tour is held by:
 - Tom Watson
 - Sam Snead
- The Open Championship is the official name of the:
 - British Open
 - U.S. Open
- Which golfer has won more Masters Tournaments?
 - Tiger Woods
 - Jack Nicklaus
- This Swedish-American golfer had 89 career wins before stepping away from competitive golf in 2008.
 - Anna Nordqvist
 - Annika Sorenstam
- The record for the most wins (50) on the European Tour is held by:
 - Seve Ballesteros
 - Colin Montgomerie
- The trophy, referred to as the Claret Jug, is awarded to the winner of the:
 - PGA Championship
 - British Open
- Who won The Masters Tournament in 2011?
 - Charl Schwartzel
 - Phil Mickelson
- Golf has been played on this Scottish course since the 15th century:
 - St. Andrews Links
 - Pebble Beach Golf Links
- The Masters Tournament is held each year on the same course. True or false?
 - True
 - False
- This golfer's nickname is The Great White Shark.
 - Fred Couples
 - Greg Norman

ANSWERS: 1-B, 2-A, 3-B, 4-B, 5-A, 6-B, 7-A, 8-A, 9-A, 10-B.

With an Eye on Money for You and Your Family.

Your family's future begins with a plan, a plan that should parallel your long-term goals. In order to ensure that you and your goals stay in focus, it's important to partner with a well educated financial professional who respects your current financial picture and places priority on you and your family's best interest now and into the future.

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