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WEALTH MANAGEMENT ADVISOR

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For investors, higher income can be preferred

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Giving from the heart — and head

Find the right charitable giving option

Giving to charity is emotionally satisfying, and it can provide you with compelling tax advantages. But if you're thinking of making a large gift, it's more complicated than choosing a recipient and remembering where you put your checkbook.

In fact, there are many ways other than a cash donation to make large gifts — let's look at three of the most common.

1. Charitable remainder trusts

A charitable remainder trust (CRT) lets you help organizations that are important to you while providing you (or your heirs) with a regular income stream.

Generally, you fund a CRT with highly appreciated assets, such as low-basis stock. Your designated trustee sells the assets free of capital gains tax and reinvests them into a more diversified portfolio, which is then used to provide payments for the rest of your life or a term of up to 20 years. You'll generally owe taxes on any trust distributions you receive, enabling you to spread out your income tax liability over time. After your death or the trust's expiration, the assets left over are distributed to your designated charity.

There may be other tax benefits to a CRT. When you fund the trust, you receive an income tax deduction equal to the present value of the remainder interest that will eventually go to charity. And if a CRT is created at your death, your estate may be able to claim a tax deduction for the charitable portion of the bequest. But a drawback to a CRT is the considerable administrative effort and cost involved with setting it up and managing it, particularly to avoid unrelated business taxable income (UBTI).

2. Donor-advised funds

With a donor-advised fund (DAF), you make a gift to a sponsoring organization, such as a community foundation, mutual fund or brokerage company. You can recommend which charities should receive gifts from that sponsoring organization.

DAFs offer several potential tax benefits. First, you receive an income tax deduction in the current year. Second, you can avoid capital gains tax on donations of any highly appreciated assets. Finally, you can remove assets from your estate, potentially reducing estate tax, allowing more of your retained assets to go to your heirs.

DAFs also offer:

Convenience. The fund's sponsoring organization handles all the back-end administrative, legal and tax work.

Low minimums. In many cases, you can establish a DAF with as little as $10,000.

Low costs. DAFs are relatively inexpensive, with fees ranging from less than 0.5% to 3%, depending on the account size and how your assets are managed.

However, keep in mind that, once you establish a DAF, the assets legally belong to the sponsor (although it would be unusual for a sponsor not to carry out your wishes). Also, DAFs don't generally allow gifts to individuals, such as scholarships, or to international charities.

Direct gift benefits and limits

Although formal structures such as trusts, donor-advised funds and foundations have their place, cash contributions made directly to a charity are often the easiest and least costly way to give something back.

If you make cash gifts, you may deduct donations of up to half of your adjusted gross income (AGI) in the current tax year for gifts to a public charity, including a DAF, and up to 30% to a private foundation. Deductions for gifts of appreciated securities are limited to 30% of AGI if made to a public charity, and 20% if made to a private foundation. Deductions for contributions over these amounts potentially can be spread over the following five years.

3. Private foundations

Unlike a DAF, a private foundation is an independent legal entity with complex financial reporting and record-keeping requirements. Foundations are operated by a board of directors — generally, you along with family members and others you designate.

In some cases, a donor-advised fund might be your best bet, while in others a CRT could be an appropriate giving vehicle.

Foundations are particularly well suited to individuals who want to create a long-term "culture of giving" that spans multiple generations. In addition, they may be appropriate if you want to make frequent gifts directly to individuals or to nondomestic charities.

Foundations' complexity and administrative costs mean that they are best used by individuals who plan to give away large amounts of money. If you don't have the time, inclination or funds to run what is essentially a small business, you may be better off with a DAF.

What's your goal?

There are lots of different ways to give to charity, and no single approach is right for every situation. In some cases, a donor-advised fund might be your best bet, while in others a CRT could be an appropriate giving vehicle. Your financial services representative, legal or tax advisor might even suggest a combination of strategies that will best help you do good for others — and yourself. ■

Two great plans in one

Roth 401(k)s combine features of popular retirement savings vehicles

On Jan. 1, 2006, the Roth 401(k), yet another in a growing number of retirement savings vehicles, made its debut — but only for those whose employers offer it as an option. The Roth 401(k) combines features of traditional 401(k) and Roth IRA plans.

How it works

As with regular 401(k)s, you can contribute as much as $15,000 in 2006 ($20,000 if you reach age 50 by the end of the year) to a Roth 401(k). If your company's plan allows it, you may split contributions between traditional, income-tax deductible contributions and nondeductible Roth contributions, as long as the combined total doesn't exceed the above limits for 2006.

Like Roth IRA contributions, Roth 401(k) contributions are made with after-tax dollars but qualified withdrawals aren't subject to income tax. That means you never owe tax on growth within the account when you take money out. For withdrawals to be qualified, you must be at least

age 59½ and at least five years must have passed since you initially began contributing to the account. The exceptions are distributions made because of death or disability, or for qualified first-time home purchases up to $10,000.

If your 401(k) plan includes a matching employer contribution (such as 50% of your contribution up to the first 6% of your salary), that match applies both to traditional and Roth contributions. The company match, however, is separated from any Roth 401(k) contributions you make and treated like a pretax contribution. This means that, when you later make account withdrawals, the matching funds will be subject to income taxes — including on earnings and appreciation.

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As with other provisions of the 2001 tax law, the Roth 401(k) plan is set to expire at the end of 2010. But it's possible the plan will be made permanent — and, even if it is allowed to expire, any contributions are likely to be allowed to remain as Roth 401(k) contributions indefinitely, subject to the same rules currently in effect.

Who should contribute

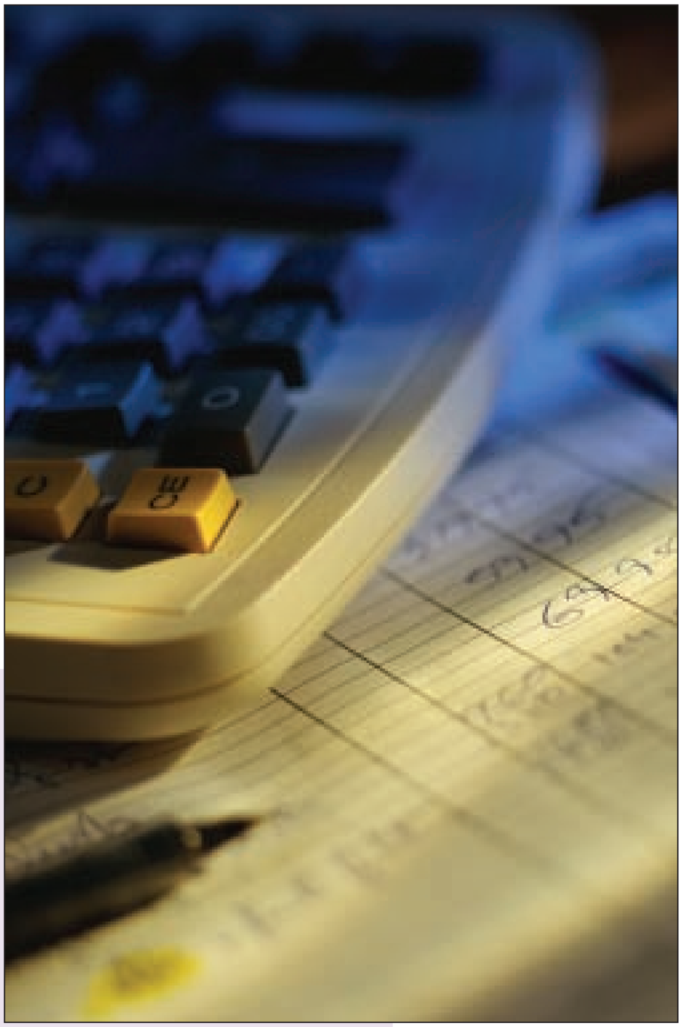
Regular Roth IRAs aren't available to those with higher incomes: The ability to contribute phases out with adjusted gross incomes (AGI) between $95,000 and $110,000 for a single return, and between $150,000 and $160,000 for a jointly filed return. The new Roth 401(k), on the other hand, has no AGI limitations. This means the Roth concept is now available to those who are best able to afford to take advantage of it (though not necessarily those who will benefit the most).

If you're on a tighter budget, you may find it harder to contribute to the new plan. Making a Roth 401(k) contribution costs more in current cash flow than the same amount to a traditional 401(k) because you must pay tax on the income before it's contributed. So your take-home pay is lower, even though your retirement fund (after future taxes are taken into consideration) is larger. If you find contributions difficult to afford, consider making a Roth contribution in a smaller amount — keeping in mind that any company matching funds will be affected.

Roths — both the IRA and 401(k) versions — generally work best for younger individuals and those currently in a lower income tax bracket that is expected to rise. But don't rule out Roths even if you're close to retirement and at or near the highest tax brackets. Tax rates may still increase, making the benefit of future tax-free withdrawals more profound.

Maximizing opportunities

If you still aren't sure if a Roth 401(k) will eventually make sense for you, consider splitting your contribution between it and your company's traditional 401(k) plan. You may also want to discuss your financial situation and future plans with a financial services representative or tax advisor to ensure you're maximizing your opportunities to build wealth. ■



Protect yourself from identity theft

Thanks to modern communications technology, you can open a credit card account in your pajamas or get cash from an ATM thousands of miles from your local bank. But such convenience comes at a cost. Your personal information is stored in more and more places, and identity thieves are constantly finding new and creative ways to steal it.

According to the Federal Trade Commission (FTC), approximately 10 million people fall victim to identity theft each year. If you're unlucky enough to be part of that group, it may take years before you can repair the damage to your credit record.

How, then, can you reduce the risk of identity theft? And if you do become a victim, what should you do to reclaim your identity?

Practice vigilance

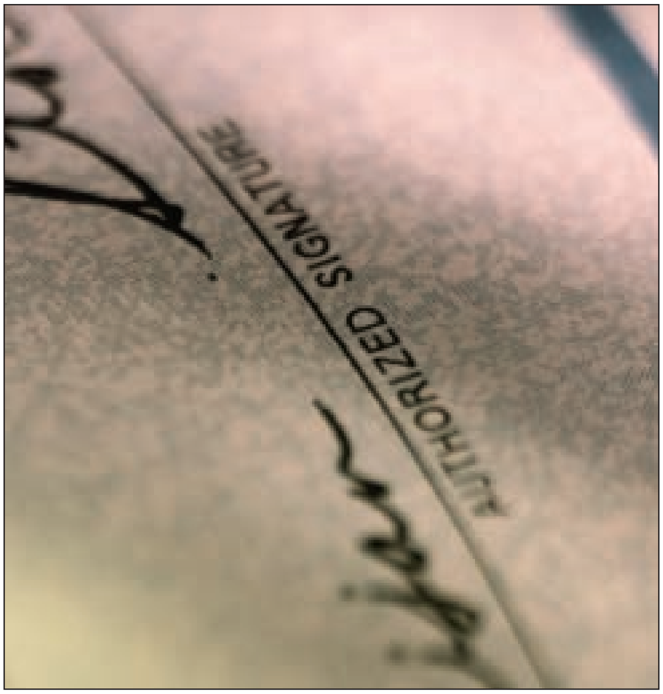
There's no way to eliminate entirely the risk of identity theft, but you can reduce it by safeguarding your personal data and minimizing the information that could potentially get in the hands of thieves. Start with these steps:

Check your credit report. Experts recommend checking your credit report at least annually for fraudulent or incorrect information. Thanks to the Fair and Accurate Credit Transactions Act, you may be entitled to a free credit report once a year. For information, go to www.annualcreditreport.com.

Monitor your financial statements. When your bank and credit card statements arrive, check each transaction carefully to ensure they're accurate and authorized. If not, contact your financial institution.

Protect your Social Security number. Avoid carrying your card in your wallet, which can be lost or stolen, or including the number on personal checks, which are widely seen by strangers.

Destroy sensitive documents. Use a paper shredder to dispose of credit card receipts and other financial documents you don't plan to save.



You should also exercise caution online. Keep your computer up-to-date with virus and spyware protections. If you receive suspicious e-mail, don't respond to it or disclose personal or financial information if you are unsure about the requester's identity.

Clear your name

No matter how careful you are, you can't protect yourself completely. If you become a victim of identity theft, follow the course of action recommended by the FTC. First, place a fraud alert on your credit report as soon as possible — preventing more accounts from being opened in your name. Just contact any of the three major credit-reporting agencies, Equifax, Experian or TransUnion, each of which is legally required to contact the other two on your behalf.

After you place a fraud alert, you're entitled to receive free copies of your credit reports. Review these for suspicious activity, such as financial accounts you didn't open or unfamiliar debts. Correct any mistaken personal information and continue to monitor your credit history.

Next, contact the fraud departments of the financial institutions you do business with, and close any compromised accounts. Remember to follow up in writing on your request, sending all documents by certified mail with a return receipt so you can document your correspondence.

Finally, file a report with your local police or the community in which the identity theft occurred. This allows you to document what happened to any creditors who need evidence of the crime.

Take heart

As frustrating as the growing problem of identity theft may be, it's possible to reduce your risk and even recover after you become a victim. For a more detailed discussion about how to guard and reclaim your financial identity, download the FTC's full report, *Take Charge: Fighting Back Against Identity Theft*, available at www.ftc.gov/idtheft. ■

Like-kind exchanges: A powerful tax-deferment tool

For decades, real estate in just about every part of the country has appreciated in value — in many cases, greatly so. Many owners of investment or rental real estate therefore potentially face substantial income taxes when they sell.

That tax may be even more than you might think. Depreciation deductions taken over the years on a rental property reduce your tax basis in the property, and therefore increase your gain. What's more, while long-term capital gains are normally taxed at 15%, a special 25% rate applies to the portion of your gain attributable to recapture of depreciation deductions taken. Finally, if the property is outside your state of residence, you'll owe taxes to the state where it's located, and the credit you get in your home state may cover only part of that cost.

As a result of this substantial looming tax, you may want to look for ways to defer it. A like-kind exchange can help you do exactly that.

Deferring taxes

The exchange rules don't apply to a personal residence, and you can't exchange property for an interest in a limited liability company (LLC) or partnership, or vice versa. But if you comply fully with the rules, you can defer tax on as much as the entire gain, regardless of its amount.

The tax is deferred rather than eliminated because your tax basis in the new property is reduced by the gain deferred. If the new property is rental property subject to depreciation, you are giving up future depreciation deductions. And your capital gain will be larger some day when you sell the new property unless you continue to do exchanges each time you sell.

Following the rules

While you don't physically have to exchange one property for another, you must carefully follow the rules to qualify. When you sell, arrange for your net proceeds to go directly into an escrow account that will be used to purchase the new property. Expenses of sale or of purchase

can be paid out of the account. If you withdraw a portion of the cash — referred to as "boot" — you may still have a qualifying exchange, but now only a partial one and you'll be taxed on part of the gain.

Once you've sold the property and set up the escrow account, closely watch the calendar. Within 45 days after closing on the sale, you must identify in a written document up to three properties you might potentially purchase. (You can list more, as long as their combined value doesn't exceed 200% of the value of the property sold.)

Then you must close on the purchase or purchases within 180 days of the sale and by the due date of your tax return (including extensions) for the year of sale. If you sell late in the year, you can extend your tax return and thereby give yourself the full 180 days.

Even if you use up all the net proceeds on the new property within the time period, you may still incur a current tax: If you have a smaller mortgage on the new property than you did on the old, you will be considered as having been "relieved of liabilities" on the sale and at least part of the transaction may be taxable.

Does it make sense?

An exchange can be complicated, and expenses include professional fees and transfer costs. So be sure your gain and resulting tax are large enough to make it worthwhile.

Also, be sure you really want to keep your funds tied up in an investment in real estate. If so, an exchange can be a powerful tool to help you continue to invest with pretax dollars. ■

For investors, higher income can be preferred

When investors talk about their stock holdings, they're usually referring to common stock. But many companies also offer another type of equity — preferred stock — an investment that can behave very differently.

Both common and preferred shares represent a corporate ownership stake. But unlike common shares, which pay a dividend at the discretion of management, preferred stock dividends are fixed. They must be paid until the shares are retired or called, or unless the company suspends dividends because of financial trouble.

Preferred stock dividends generally exceed those paid to common shareholders. This type of stock offers another advantage: It's senior in the corporate capital structure — meaning preferred shareholders get paid before common shareholders (but after bondholders) if a company is liquidated.

Preferred stock comes in several different flavors. These include *cumulative preferred* shares, which enable shareholders to collect all accrued dividends in the event the shares are suspended, and *convertible preferred* stock, which can be converted into common stock at a certain price.

If you seek a larger income stream than is provided by corporate bonds, you might instead consider buying companies' preferred shares. Preferred dividend yields tend to be higher than those of corporate bonds, in part because bondholders have a higher claim on corporate assets.

But preferred stock isn't without risk — including the risk you'll lose your investment money — and it doesn't have the same upside potential as common stock. These shares generally perform more like bonds than common stocks; they tend to rise in value when interest rates decline and fall when rates rise.

You also need to be careful about the tax treatment of dividends on preferred stock. Generally, preferred stock dividends qualify for the more favorable 15% dividend tax rate. But certain securities that look like preferred stock are in fact considered to be debt instruments (sometimes referred to as hybrid or synthetic preferred), and their income is classified as interest taxable at ordinary income rates. So before considering an investment in preferred stock, talk with a tax or investment professional.

Your source for customized investment and financial planning

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A Certified Public Accountant (CPA), Personal Financial Specialist (PFS) and Certified Investment Management Consultant (CIMC), Jim is the founding shareholder and President of CFSE Wealth Management, Inc. He is actively involved in local organizations including: Morning Star Charities, Inc. (President), Winter Park Chamber of Commerce, the University of Central Florida Golden Knights Club, Winter Park YMCA (Board of Directors), Entrepreneurship Society at Rollins College (Board of Directors) and is an Inductee in the UCF College of Business Administration Hall of Fame.

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Please call us today at 407-629-7008 (Winter Park) or 239-598-3146 (Naples) to discuss your needs, or visit www.CFSEonline.com for more information on our services.

Successfully managing personal and family finances means making the right decisions today while considering their implications for the future. At CFSE Wealth Management, we believe financial decisions are not one-time events — as life changes, so must your financial strategy. By working with our experienced team of advisors, you will benefit from the independent perspective necessary to make your financial vision a reality.

We provide a full range of investment consulting and financial planning services including:

- Investment Policy Review/Creation
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- Tax and Estate Planning
- Asset Allocation Modeling
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We welcome the opportunity to show you how CFSE Wealth Management can help you with your personal and family financial affairs.

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