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**About New Wealth
Advisors.**

New Wealth Advisors is an independent, fee-only, SEC-registered investment advisor, operating as a multi-family investment office. We work with newly wealthy individuals and families to protect, grow and manage assets.

**Announcing Stephen F. Fusi,
CFA, CFP®**

New Wealth Advisors is pleased to announce the addition of Mr. Stephen Fusi to our team of financial advisors.



Mr. Fusi is a senior investment portfolio manager with over 30 years of experience building strong client relationships and managing all aspects of high net worth investment portfolios. He is well regarded for his advice on total investment design, client risk control, asset allocation mix, and financial planning as it applies to tax, estate, and charitable gift giving and management.

In addition to being a Certified Financial Planner (CFP®), Steve is also a Chartered Financial Analyst (CFA). The CFA charter is one of the most respected designations in finance and is considered by many to be the gold standard in the field of investment analysis. Throughout the years, clients have benefited from Steve's depth of investment experience, knowledge, and perspective. As such, he has developed strong working relationships with clients and is highly regarded for his skilled ability in providing comprehensive investment solutions to a wide variety of client situations.

Prior to his role with New Wealth Advisors, Steve spent 23 years with Boston Advisors, most recently in the capacity of Senior Vice President and Portfolio Manager/Limited Partner. His diverse background also includes varied financial management and engineering roles at such companies as Bank of New England, EF Hutton, Parsons Corporation and Facilities Systems Engineering Corporation.

We are excited to have Steve on board, and look forward to a prosperous future working with our clients to develop smart, efficient financial wealth plans that support their unfolding life plans.

Five Hot Topics in 2011

Roth conversions, mortgages, and health-care reform were a few of the most talked about topics in 2010. Here's a look at five topics you're bound to hear about in 2011.

Social Security: Saving the system

How to strengthen Social Security has been a political hot potato for many years, but calls for reform are growing louder as the time when program costs will permanently exceed tax revenues draws closer. The most recent annual report from the Social Security Board of Trustees projects that this will occur in 2015. This is one year earlier than last year's report predicted and notes that trust funds will be exhausted in 2037. Social Security is the most common source of income for retirees, and debate over how to save it will rage in 2011.

Microlending: Small loans count

Microlending – the practice of extending small loans to individuals and businesses who otherwise could not borrow money – has traditionally targeted entrepreneurs in developing countries. But as the credit crunch prevents many Americans from borrowing money through traditional channels, more are turning to microlending sites and companies to obtain funds. And more investors are offering to make microloans in return for the potential to earn somewhat higher returns than a savings account can offer. Until the economy improves, look for this trend to continue.

Microlending recently got a boost from the Small Business Jobs Act, passed in September, which expanded the Small Business Administration's microlending program. Funding for the program was increased, and business owners may now be able to borrow up to \$50,000 to use for working capital or other needs. Previously, the limit was \$35,000.

Education: Expanding opportunities

Education-related debates will certainly heat up in 2011. The current administration is committed to reforming primary and secondary education and has drawn up a blueprint for overhauling the Elementary and Secondary Education Act. This Act (currently known as No Child Left Behind) is long overdue for reauthorization, and Congress will likely be debating it in 2011.

In addition, much attention is being focused on ways to make college more accessible and affordable. One initiative funded by the Bill and Melinda Gates Foundation awards grants to nonprofit and governmental institutions to develop effective online education opportunities. Currently the focus is on developing online courses and tools that can help more Americans attend college and prepare for careers, while saving students and schools money.

Energy: Greener days ahead

"Going green" is a catchphrase that's likely to get even more press in 2011. One important green initiative currently pending in the Senate is the Homestar Act. This Act provides substantial rebates to homeowners who purchase and install energy-saving equipment or goods or who complete whole home retrofits.

Even the lowly light bulb finally gets a makeover in 2011. The Federal Trade Commission is requiring that light bulb packages carry labels that estimate yearly energy costs, the bulb's life span and light appearance, and brightness measured in lumens so that consumers can better compare new energy-efficient bulbs.

Wellness: Saving lives and money

Look for employers to roll out, or expand, employee wellness programs this year in an effort to promote healthier living and curtail health insurance costs. The Health-Care Reform Act passed last year included funding for new wellness programs established by small employers, and makes it easier for all employers to offer substantial incentives to employees for participating. Also, new health insurance plans and many existing plans (including Medicare) must now fully cover preventive care services such as immunizations and screenings for certain health conditions.

Transferring Your Family Business to Your Children

You've spent years building your family business. It's been a source of pride and income for both you and your family. But now you may be thinking about how to hand over the reins to your children. Because transferring your business interest to your children may have income, gift, and estate tax consequences, it can take careful planning to prevent some or all of the business assets from having to be sold to pay those taxes. Your business succession planning should include ways to ensure the continuity of your business with the smallest possible tax consequences.

Some common strategies for minimizing taxes are discussed briefly below, but remember, none of these strategies are without drawbacks. Before you act, consult a tax professional as well as your estate planning attorney.

Gifting or bequeathing your interest outright

If you don't need continued income from the business and you don't want to retain some control, you can simply give the business to your children outright. To minimize the gift tax consequences, you can first use your \$5 million lifetime exemption available for 2011 and 2012. Then, you can begin a systematic program of making annual gifts to your children in amounts that equal the annual gift tax exclusion which is currently \$13,000 per year per recipient. By transferring your interest in this manner, you may be able to transfer all or a significant portion of the business free from federal gift tax although these transfers may still be subject to state gift tax. The disadvantage here is the amount of time that may be needed to transfer your entire interest.

If you can wait and transfer your business at your death, Section 6166 of the Internal Revenue Code allows any estate taxes incurred because of the inclusion of your family business in your estate to be deferred for 5 years with interest-only payments for the first 4 years and interest plus principal due in the fifth year, and then paid in annual installments over a period of up to 10 years. This will allow your beneficiaries more time to raise sufficient funds to pay the taxes or obtain more favorable interest rates if they need to borrow the money. Be aware that the business must exceed 35% of your gross estate and other requirements must be met.



Selling your interest outright

If you need income from your business, you can sell your business interest for full fair market value to your children. This will avoid gift and estate taxes, but you may owe capital gains taxes. Long-term capital gains tax rates, however, are currently lower than gift and estate tax rates.

Using a buy-sell agreement

If you want to sell your business interest to your children but retain control over the business for a while, consider using a buy-sell agreement. This is a legal contract that prearranges the sale to happen when a specific event occurs, such as your retirement, disability, divorce, or death. When the triggering event occurs, the children will be obligated to buy your interest from you or your estate. The price and sale terms will have been predetermined. Remember, however, you will be bound under a buy-sell agreement: you won't be able to sell or give your business to anyone except the buyers named in the agreement unless they consent.



Using a grantor retained annuity trust (GRAT)

A GRAT is a trust into which you would transfer your business interest. The value of the gift is determined using the IRS's current interest rate. This information is published monthly by the IRS. The trust must terminate at a specified time (e.g., 10 years). You receive annuity payments during the term of the trust, and at the end, your children will receive the business. Hopefully, the business will have appreciated beyond the IRS's interest rate, allowing the excess to pass tax free. Be aware however, that if you die during the GRAT term, your entire business interest will be included in your gross estate for federal estate tax purposes. You will have failed to transfer your business interest and lost the tax advantages of the GRAT, and you will have incurred the costs of creating and maintaining the GRAT so structure your GRAT carefully.

With a GRAT, you receive a fixed dollar amount that does not change even if the value of the trust property (corpus) increases or decreases. You may, alternatively, retain the right to receive a fixed percentage of the trust corpus, determined annually. That type of trust is called a grantor retained unitrust (GRUT).

Creating a family limited partnership (FLP)

An FLP is a type of business entity. First, you establish a partnership with both general and limited partnership interests. Then, you transfer the business to this partnership. You retain the general partnership interest for yourself, allowing you to maintain control over the day-to-day operation of the business. Over time, you gift the limited partnership interests to your children, leveraging your lifetime gift tax exemption and the annual gift tax exclusion. You also save taxes because the value of the gifts may be eligible for valuation discounts, such as the minority interest and lack of marketability discounts.

The CPAs at New Wealth Advisors can work with you and your family to determine what strategy or combination of strategies is best for your family.

A rolling or cascading GRAT is a technique that involves creating a series of short-term GRATs (typically two or three years) with each successive GRAT being funded by the annuity payments from the previous ones. This technique can minimize the risk of the grantor dying during the GRAT term, and can also minimize interest rate risk.

ASK THE EXPERTS

Is buying a condo for my college student a good idea?

When parents estimate the amount of money they'll be spending on dorm rooms and off-campus apartments for the next several years, it's easy to see why many parents like the idea of buying a condo for their college student. But, assuming your child is responsible enough to take care of such a property, whether it makes financial sense to do so depends on several factors.

Recouping costs: The costs of owning the condo, minus any rent paid by roommates, should be less than what you would pay for a dorm or apartment over the same time period. Costs may include a mortgage (including points and fees), property taxes, homeowners insurance, condo dues, and maintenance costs. And if your child plans on having roommates, you may want to add an umbrella liability policy to your homeowners insurance to protect you now that you're a landlord.

Will you come out ahead in the end? The rate of housing appreciation varies by geographic area, so research the location you're targeting. And don't forget to factor in a broker's commission when you sell the property.

The right mortgage: For long-term real estate ownership, it often makes sense to choose the certainty of a fixed-rate mortgage. But for short-term real estate ownership, a three- or five-year adjustable-rate mortgage may make more financial sense because the lower initial interest rate translates into a lower monthly payment. But be aware that if housing prices drop before you can sell the property, you may end up owing more than the house is worth – a situation you want to avoid.

Tax benefits: You may be able to deduct mortgage interest and property taxes on a second property; however, the IRS limits the amount of itemized deductions high-income taxpayers can take. In addition, if rent is collected, rental property rules will apply: rent you receive will be considered income, and you'll be entitled to claim some expenses as business deductions. But second homes and rental property aren't eligible for the \$250,000 per person exclusion that you get when you sell your primary residence. To learn more, consult a tax professional.



ASK THE EXPERTS (CONTINUED)

I plan to buy my child a condo for off-campus college housing. Is this purchase considered a qualified 529 plan expense?

Money withdrawn from a 529 plan to pay the beneficiary's qualified higher education expenses is tax free at the federal level (and typically at the state level too). Unfortunately, the purchase price of your child's condo is not a qualified higher education expense for 529 plans under IRS rules. But a room-and-board allowance may be.

IRS Publication 970, *Tax Benefits for Education*, spells out the rules for counting your child's room-and-board costs as qualified higher education expenses under your 529 plan. (Publication 970 refers to a 529 plan as a "qualified tuition program" or QTP.)

First, the student needs to be enrolled at college at least half-time.

Next, for students who live on campus, the room-and-board allowance figure is equal to the actual amount charged by the college.

For students who live off campus, the amount of room-and-board expenses that you can safely withdraw tax free from your 529 plan is equal to the "allowance" figure that the college determines for off-campus housing.

This room-and-board allowance figure is the one included in the official cost of attendance for your child's school and used for purposes of awarding federal financial aid. If you can't find this figure in the college's literature or website, call the bursar's office to determine the current qualified room-and-board costs for off-campus housing. The allowance for off-campus housing will not be greater than the amount for on-campus housing.

Before you buy your child a condo for college housing, make sure you understand the potential risks involved in such a transaction. Be careful not to overestimate your possible savings or the potential appreciation of the property, especially considering today's real estate market. And don't forget to objectively evaluate your child's ability to responsibly care for the property and act as landlord if roommates will be in the picture.

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Photograph courtesy of John Ferrara

