

# ADVISOR

THE

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Kim Lear

*At our 2013 Client Forum, we had a generational expert from BridgeWorks speak about communication amongst the four different generations. Because everyone enjoyed their presentation so much, we thought it would be fun to team up over the next year to bring cutting edge generational research and insights to the readers of Market Street's newsletter. Throughout the year we'll look at how parenting has changed through the generations, how teenagers are growing up today, new consumer trends and more. We'll look at these topics and explore the implications of these trends on our families, culture, companies and our communities.*

*BridgeWorks has been dedicated solely to the study of generational differences since its inception in 1998 and is the company who wrote the best-selling business books When Generations Collide: Who They Are. Why They Clash. How to Solve the Generational Puzzle at Work (HarperCollins) and The M-Factor: How the Millennial Generation is Rocking the Workplace (HarperBusiness). BridgeWorks has worked with clients varying from the AARP to MTV and over 30 Fortune 100 companies in between.*

## ReGENERate

*New Years Resolutions for Every Generation*

*By: Kim Lear, Generational Expert*

That time of year is once again upon us where many vow to aimlessly shoot for blurred and broad resolutions. While I can be of no service in helping you lose 15 pounds or act cordial to your mother-in-law, I can provide some insight into generational trends and resolutions for the coming year:

### **Traditionalists:**

(born pre-1946): *Tell Your Story*

The days of gathering around the fire while Grandma shares stories of "days gone by" have all but disappeared. As children are bombarded with distractions, anything that takes longer than 90 seconds to communicate seems to fall by the wayside. It takes time and maturity to learn that the good stuff is in the long (seemingly drawn out) stories of the past that help people learn where they came from. These rituals, traditions and stories are so important and, although difficult to see as a self-obsessed teenager, at a certain point, everyone is hungry for the stories that create the tapestry of our lives. In a youth-obsessed culture, it can be easy to forget that the greatest stories and lessons are those that are rooted in history and experience. So in 2014, whether it's to a child, a grandchild, a tape recorder or a piece of paper, share your story. The stories of triumph and defeat, the stories of holidays and ritual, the stories of love and loss. No matter how the world changes, these stories and lessons will continue to create the ties that bind.

### **Baby Boomers:**

(born between 1946-1964): *Seek Adventure*

Whether you Boomers know it or not, your redefinition of aging and retirement is inspiring to anyone paying attention. Boomers are no strangers to reinvention and you're approaching retirement as you've approached all life stages: completely shattering the mold of what has been done before. My Baby Boomer parents rented a condo in the heart of downtown Chicago for 6 weeks. Though both of my parents continue to work, they simply decided to take a short sabbatical to live in a city they

have always loved. Just as I enter a life stage that requires me to burn the midnight oil, my parents are doing the same. The difference is that I am at the office and they are at a concert at the House of Blues. When I went to visit them, it was clear that this adventure had reinvigorated both of them. My parents are not unique in their quest for adventure in this stage of life. Thrill-seeking tourism is on the rise with the Boomer demographic, rentals in urban areas are skyrocketing, and new Boomer-centric exercise classes are more popular than ever before. The generation that coined “Don’t Trust Anyone Over 30” is now the generation saying and LIVING the mentality that “Age is a State of Mind.” So Boomers, think of something you’ve always wanted to do, and now do it. It will invigorate you and inspire everyone around you.



### **Generation X:**

(born between 1965-1979): *Learn a New Skill*

Gen Xers are in the midst of a rewarding, yet time consuming, life stage. With children on one side and aging parents on the other, time is tight. In addition to personal time constraints, you are also the generation doing your utmost to prove yourselves while you wait for the next big leadership opportunities professionally. Gen Xers are famous for being like sharks, if you aren’t moving, you feel like you’re going to die. But with every part of life vying for attention, it can be difficult to tap into the Xer inclination to continue learning, growing and developing. One of the Gen Xers that I work with recently got certified in scuba diving. He has three children and a demanding job but found that just the act of learning

that new skill proved to be incredibly rewarding. Take action and carve out some time to step back from your demanding life and give yourself the space you need to continue developing. In 2014, learn something new even if it has nothing to do with your job. Let yourself develop and grow.

### **Millennials:**

(born between 1980-1995): *Own Something*

I know what you’re thinking....that sounds horrible. Trust me, I get it. For us Millennials, being an un-owner is easy, accessible and gives us the one thing we want over everything else: absolute freedom. From AirBNB to Spotify to Zipcar to Rent-the-Runway, I usually have no reason to own a single thing. This past year, I was urged by others to make the plunge and actually own something worth owning and make an investment. Fear not, I didn’t buy real estate, that is far too much of a commitment. I invested in a really nice bed. (Keep in mind; I define “really nice” as something not bought off of Craigslist). Either way, I can honestly say that it taught me something about responsibility. Making a big purchase not only requires responsible, logical thinking, it also forces you to take care of something. In 2014, think of something you need, research it, find the best options, purchase it, and take care of it. Take pride in ownership, and sleep more soundly knowing that not everything in your life is temporary.

One resolution for ALL the generations is that the next time you bump up against one another, stop trying to figure out who is right, wrong, better or worse...and instead embrace your differences and the natural strengths of every generation.



*Happy New Year to all!*

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# CLOSING OUT 2013 A TAX UPDATE



By: Susan Doud  
Tax Manager

We are pleased to report the completion of another successful tax season. During the year, we welcomed two additions to the Tax Team; Christina Pryslopski, Junior Accountant, transferred from accounting and Jessica LaBar, Tax Assistant, replaced Roxanne Burton who retired after 25 years of service to Market Street.

The Tax Team prepared over 540 tax returns this year which includes federal, state, trust, and gift tax returns. In addition, returns were filed in twenty different states. We would like to take this opportunity to express our thanks to Market Street's Tax Team, Tax Manager, Susan Doud, Senior Accountants, Martha Ronsheim and Andrea McClure, Junior Accountant, Christina Pryslopski, and Tax Assistant, Jessica LaBar for a tough job, very well done!

## ESTATE PLANNING UPDATE

Market Street works diligently to identify estate planning opportunities that enable clients to save tax dollars and preserve wealth for future generations.

### *Grantor Retained Annuity Trusts (GRATs)*

One area where we assisted clients was in the creation and management of grantor retained annuity trusts (GRATs). During 2013, nine GRATs terminated and approximately \$2 million moved tax free to remainder beneficiaries of these GRATs.

GRATs are irrevocable trusts established for a set period of time, typically two years or greater, and are funded

with assets that have a reasonable chance of growing at a rate greater than the Section 7520 rate (determined monthly by the IRS). A formula is applied to determine the gift tax amount due on the creation of the GRAT, based on the amount of the fixed annuity payments back to the Grantor, the term of the GRAT and the applicable 7520 rate. At the end of the term of the trust, any amount the trust has appreciated in excess of the required annuity payments is distributed gift tax-free to the beneficiaries. We have formed numerous short term GRATs (two to four year durations) over recent years to capture historically low interest rates and occasionally depressed stock prices; many of these GRATs have performed well and provided a tax free transfer of wealth to future generations.



### *Gifts*

During 2012, we advised many of our clients to make significant taxable gifts to trusts for their families to take advantage of the then \$5,120,000 federal exemption amount. At that time, a great deal of uncertainty existed over the future of the federal estate, gift and generation-skipping transfer (GST) tax; fortunately the higher exemptions were made permanent by the American Taxpayer Relief Act of 2012, signed into law on January 2, 2013. The new law also provides for an annual inflation adjustment for these estate, gift and GST exemptions. Accordingly, all taxpayers have an additional \$130,000 exemption available for 2013 which many of our clients have taken advantage of by making additional 2013 gifts. The exemption is scheduled to increase another \$90,000 for 2014 to a total of \$5,340,000.

### *Annual Exclusion*

As you probably are aware, the annual gift exclusion amount is \$14,000 (\$28,000 if you gift split) for 2013. The amount will remain the same for 2014.



## 2013 INCOME TAX CHANGES

Many of the income tax changes in the Affordable Care Act became effective this year. The Tax Team at Market Street has spent the year planning ways to minimize the impact of these changes on you and included the effect of the changes when calculating estimated taxes for 2013. A few of the notable changes are highlighted below.

- The payroll tax “holiday” for employees ended on January 1, 2013 and the payroll tax rate went from 4.2% back up to 6.2% for wage earners.
- Under the new act, tax rates stayed the same for all but the highest earners. Married taxpayers filing jointly with income in excess of \$425,000 (single filers with income over \$400,000) are now taxed at the new highest marginal tax rate of 39.6% and face a capital gains and qualified dividend rate of 20%.
- In addition to the increased tax rates, dependency exemptions are now phased-out again. Married taxpayers filing jointly with income over \$300,000 will lose those exemptions at a rate of 2% for each \$2,500 in earnings up to \$422,501 at which point the exemption is eliminated (single filers \$250,000 to \$372,501.)
- Itemized deductions will also once again be subject to a “phase out”. Phase outs begin at \$300,000 for joint filers (\$250,000 for singles) and are reduced by 3% of AGI exceeding the threshold amount up to 80% of the allowable deduction.
- The Affordable Care Act added two new taxes which took effect in 2013. The 3.8% Net Investment Income Tax will begin to affect joint filers at a Modified Adjusted Gross Income (MAGI) of \$250,000 (\$200,000 for singles.) Accordingly, the ordinary income rate could be as high as 43.4% for high income taxpayers. The Additional Medicare Tax Rate of 0.9% will also apply to wages in excess of \$250,000 for joint filers (\$200,000 for singles.)

- One additional note, taxpayers subject to Alternative Minimum Tax (AMT) will find that beginning in 2013 AMT is now indexed for inflation. While this will not offset the tax increases, it may help to minimize some of the impact.

All of these changes together have created greater income tax bills for most high income taxpayers. It is now more important than ever to plan carefully for income taxes. We are on top of these changes and continue to identify planning opportunities to reduce taxes.

## LEGISLATIVE OUTLOOK

The Obama administration’s budget plan for fiscal 2014, released in April of 2013, includes a number of proposed changes to the estate, gift and generation-skipping transfer tax laws. These changes have been proposed in the past and not been enacted. With the current budget debate, many tax experts believe that the administration’s changes could be forthcoming. Thus, the permanency of the American Taxpayer Relief Act of 2012 might be temporary. These proposed changes include:

### *Return to 2009 Transfer Tax Laws*

The federal estate and GST exemptions would be reduced to \$3.5 million and the gift tax exemption would be lowered to \$1 million. The estate, gift and GST tax rates would increase to 45% from the current 40%.

### *Minimum GRAT Terms*

GRATs funded after the date of enactment would be required to have a minimum term of ten years which would prohibit two year GRATs favored by many clients. This proposal increases the risk that the person creating the GRAT would not survive the term thus significantly reducing the potential benefits of the GRAT.

The Tax Team will continue to attend seminars and monitor legislation to keep up to date on potential tax changes; as always we will continue to apprise you of strategies to save taxes.

