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An economic and investment update

THE FINANCIAL INSIDER

Securities and advisory services offered through Packerland Brokerage Services, Inc., an unaffiliated entity, Member FINRA & SIPC

Volume XXXV, Number IV

Planning for the Life Stages of Your Business

Innovation. Perseverance. Accomplishment. Every business owner committed to success starts with an idea, works hard to make it happen, and believes in the potential for great things.

As an entrepreneur, you must manage your business for growth, as well as your personal wealth for accumulation and preservation. Building your financial freedom, while growing your business, is a process that begins in a business's infancy and continues throughout its maturity. Depending on the stage of your business, you will have different needs and priorities. For example, startups often must raise capital or secure financing, while owners of more established businesses may be focused on developing exit strategies and funding retirement.

Let's take a look at some important considerations and opportunities at the various life stages of your business.

Surviving Infancy

While most young companies are born on a wave of energy and enthusiasm, it is challenging to survive infancy. Financially, this phase is usually the most difficult. Oftentimes, startup entrepreneurs funnel their personal savings into the company and use their assets as collateral for loans. All this may be at stake, and the business may not be generating profits. But this is the risk business owners take on their

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Tax Deductions for Donating Art

If you collect art, donating a painting, sculpture, or other object of fine art to a museum or a favorite charity can be a great way to share your passion with a wider audience, support your institution of choice, and get a break on your Federal income taxes. But before donating artwork, it is important to consider the nature of the organization receiving the gift, as well as how the institution will handle the gift, as these factors can make a big difference in how much you are permitted to deduct from your taxes.

You can expect to receive a higher income tax deduction for your gift if you are donating an art object that has appreciated in value over the time you have owned it. Generally, you can deduct the full fair market value (FMV) of the donation as of the date of the contribution, if you have held the object for at least one year, and if the item's FMV sale on the date of the contribution would have resulted in a long-term capital gain.

In order to claim a deduction for the FMV, it is, however, imperative that you know what the organization or charity intends to do with your gift. The tax code provides incentives for taxpayers to donate works of art to tax-exempt organizations, such as qualified museums, universities, and other public charities, that display and use works of art to further their tax-exempt purposes. For an appreciated work of art to receive a full current value deduction, the donation must be "of related use," or it will be used in the ordinary course of the organization's tax-exempt activities, i.e., exhibits or displays of artwork.

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quest for success. Like most of the challenging phases we experience on the road to maturity, this too shall pass—more easily with a solid business plan.

An important complement to your business plan is a fine-tuned marketing strategy. In order to promote your company and generate business, you must make your product or services known. Then, when the money comes in, cash flow management becomes crucial. Even profitable businesses may flounder if they fail to have cash on hand to meet their financial obligations. If you need more incentive, know that wise cash flow management may help you attract potential lenders and investors. Success in these areas will help you achieve a measure of stability and get on track for the next phase: growth.

Managing the Adolescent Growth Phase

With a growing client base, steady income, and profitability at hand, the potentially successful business owner faces various decisions. Should you offer new products and services? What role should investors play in the company? Do you need to hire more staff? What benefits are best for attracting and retaining valuable employees? All of these questions have answers, but the most appropriate solutions for your business will depend on your unique situation.

During the formative years, it's important to keep an eye on your personal financial future when reinvesting in your business. One area of concern is asset protection. Businesses often start out as sole proprietorships or partnerships, but it may be in your best interest from both a tax and liability perspective to consider structuring your business as an S corporation or a limited liability company (LLC).

In the early stages, employee benefits can be a significant cost burden, but they play an important role in your company's success and your own financial security. In addition to providing you with the resources you need personally, attractive benefit plans will help you attract and retain qualified employees.

Qualified retirement plans offer tax-advantaged opportunities for both your business and participating employees. There are many options, including Simplified Employee Pensions (SEPs) and Savings Incentive Match Plans for Employees (SIMPLEs), which are relatively cost effective and easy to administer. More flexible plans that allow you to save more annually are 401(k)s (with variations including Safe Harbor and Solo 401(k)s), profit sharing plans, and defined benefit plans. To enhance benefits for key employees, you may want to consider nonqualified plans such as deferred compensation or executive bonus plans, which can help you selectively reward and retain your best and brightest.

As you accumulate wealth, protecting your earnings and lifestyle is paramount. Planning for life's uncertainties with proper insurance coverage may help minimize your risk of loss. Life insurance offers financial protection for your family after your death, and disability income insurance replaces a portion of your income should you experience a qualifying injury or illness and be unable to work for a period of time. You may also wish to consider long-term care insurance, which can help pay for medical expenses should the need arise. In all three areas, group coverage is available for your employees.

If you have key employees or business partners, weigh the benefits of key person life insurance and key person disability income insurance to protect your business. To cover business expenses such as salary or benefit costs if you or a partner experiences a disability, consider business overhead expense insurance.

Reaching Maturity

As your business matures, it may be time to shift your focus from wealth accumulation to wealth preservation. Two areas of focus are key: business succession and estate planning. With the appropriate strategies, you can minimize estate taxes and maximize the amount passed to your heirs.

A well-developed succession plan can help you smoothly transfer or sell your company. If you wish to keep ownership and control of your business within your family, assess the interest and qualifications of potential parties and develop a transition strategy. If you plan on selling your business, it is important to properly valuate your business and prepare for the sale. A buy-sell agreement can formally prearrange a buyer for your business and stipulate the price that buyer will pay. The deal may be funded with a life insurance policy to ensure that cash will be available to purchase the business when necessary, should you die unexpectedly.

At every developmental stage, professional guidance can help you survive the growing pains and make the most of your opportunities. For more information, be sure to consult your legal, tax, and financial professionals. $

A Financial Review Can Pay Off at Year End

Today, many people find themselves bombarded by a constant stream of financial news from television, radio, and the Internet. Yet, does all this "information age" data really help you manage your finances any better now than in the past? Often, what are considered old-fashioned practices, such as performing periodic financial reviews, can lead to greater success in the long run. Why not spend a few hours reviewing your finances? The changes you make today could result in increased savings. Consider the following seven important items:

1) **Analyze your cash flow.** When your income is greater than your expenses, the excess is called a positive cash flow. When your expenses exceed your income, the shortfall is termed a negative cash flow. A positive cash flow means that you may have funds you can set aside as savings. A negative cash flow indicates that it may be time to reorganize your budget to minimize unnecessary expenses.

2) **Develop a plan for special goals.** For every financial and retirement goal you establish, identify a projected cost, a timeline (how long it will take to reach the goal), and a funding method (through savings, liquidating assets, or taking a loan). Consider your goals in terms of a "hierarchy of importance." The bottom, or "foundation" tier, may include emergency funds to cover at least six months' worth of living expenses. The middle tier may include essentials, such as your children's education. Place less important goals, such as renovating your home or taking a vacation, on the top tier.

3) **Boost your retirement savings.** Social Security and pensions may not provide sufficient income to maintain your current lifestyle in retirement. Therefore, it is essential to identify your retirement needs and plan a disciplined savings program for the future. Maximize your contributions to your retirement accounts, and if possible, make "catch-up" contributions.

   The elective contribution limit for those who participate in **401(k)**, **403(b)**, or **457 plans** is $18,000 for 2015. The catch-up contribution limit for taxpayers age 50 and over who participate in 401(k), 403(b), and most 457 plans is $6,000 in 2015, bringing the total contribution limit for those age 50 and over to $24,000 in 2015.

   In addition, traditional **Individual Retirement Account (IRA)** and eligible **Roth IRA** holders age 50 and over can save an extra $1,000 a year, bringing the contribution limit to $6,500 in 2015.

4) **Minimize income taxes.** Consider taking advantage of all income tax deductions to which you are entitled and exploring ways of reducing your income taxes. For instance, under appropriate circumstances, losses or expenses from prior years may be carried over to the next tax year. A qualified tax professional can help you implement a tax strategy that meets your needs.

5) **Beat inflation.** Your income and retirement savings must keep pace with inflation in order to maintain your buying power. This means that if the inflation rate is currently 3%, you need to achieve at least a 3% annual increase in income just to break even. If your long-term savings plan fails to keep pace with inflation, you may be unable to maintain your current standard of living.

6) **Manage unexpected risks.** Without warning, a disability or death can cause financial hardship for your family. Adequate **insurance** is an important foundation for your financial plan—it offers protection to help cover potential risks and liabilities.

7) **Consult a qualified financial professional.** In today's complex financial world, everyone needs help making informed decisions. Sound financial planning can help ensure that your current needs and long-term goals are on track.

An annual financial review can help bring focus and clarity to your overall financial picture. In the future, you may wish to modify your plans according to changing goals and circumstances. By reviewing your finances periodically and tracking your progress, you may be in a better position to achieve financial independence and realize the retirement of your dreams.$

Subtract Inflation and It All Adds Up!

Some of us may remember the "good old days," when gasoline prices were as low as 25¢ per gallon. Others may recall when a can of soda cost 15¢. But prices tend to rise over time—sometimes steadily and sometimes abruptly. In the years ahead, **inflation** will most likely decrease the purchasing power of your money, which means that during retirement, your dollars will buy less than they do today.

It is easy to misinterpret inflation as the rise in price of *individual* goods and services. However, inflation is the increase in the average price level of *all* goods and services. For example, the price you pay for oranges may rise during the winter due to unseasonably cold temperatures in Florida. On the other hand, the average price of other items in your local supermarket, like peanut butter and paper towels, may remain relatively level. So, the increase in the price of oranges is not a result of inflation but, rather, a function of **supply** and **demand**.

What Causes Inflation?

Inflation can result when either: 1) the total of all goods and services demanded exceeds production, or 2) the amount of all goods and services supplied by producers decreases. Note how, as inflation is defined here, the supply and demand for oranges alone would have no effect on inflation. However, changes in supply and demand on a broader scale can result in inflation.

Consider the following economic scenario: suppose business is booming, unemployment is low, and the average worker's wages are increasing. As a result, consumers have more disposable income available and may therefore be able to purchase more goods and services. Average prices tend to rise under these circumstances due to the increase in *demand* for all goods and services.

In another scenario, suppose the economy is suffering. As unemployment rises and wages remain stagnant, consumers may be unable to purchase additional goods and services. Production may then slow down, with prices going up to minimize the losses. In this cycle, average prices tend to rise due to a decrease in the *supply* of all goods and services.

It is important to keep in mind that individual consumers are not the only participants in the market that can affect the economy. Businesses, government agencies, and foreign markets also spend billions of dollars on U.S. goods and services. Their spending, or lack thereof, can equally influence increases or decreases in supply and demand that, in turn, can result in inflation.

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Subtract Inflation and It All Adds Up!

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Inflation and Economic Policy Decisions

To a certain extent, *some* inflation may be a sign of a healthy economy. In fact, one of the economic policy goals of the U.S. government is to maintain an inflation rate ranging from 0% to 3% per year. Too much inflation or no inflation at all can be a sign of troubling economic times. So one of the greatest challenges facing policymakers is making decisions that lead to the optimum level of inflation.

Two Federal economic policies are used in an attempt to control the economy. **Fiscal policy**, which falls under the auspices of Congress, uses taxation and spending to reach full employment, stabilize prices, and boost economic growth. In contrast, **monetary policy**, which is controlled by the Federal Reserve Bank (the Fed), manipulates the money supply and short-term interest rates in an attempt to spur growth or control inflation.

Congress, and especially the Fed, looks at the **Consumer Price Index (CPI)** when making policy decisions. The CPI is considered by many to be one of the best measurements of inflation. The CPI gauges the average change in prices paid by urban consumers for a fixed market basket of goods and services over a period of time. The CPI represents all goods and services purchased by urban consumers. Each month, the CPI is calculated, and constant fluctuations in the CPI will ultimately result in Congress or the Fed taking appropriate measures to regain control of inflation. Note that the Fed has the ability to react quickly. However, Congress must pass legislation, which requires debate and time, before its fiscal decisions can be carried out.

On a Personal Level

In addition to creating higher costs for goods and services, inflation creates depreciation in currency values. So, as prices increase, the purchasing power of your income—dollar for dollar—decreases. During sound economic times, price increases will usually be accompanied by wage increases that are equal to, or greater than, inflation. However, during economic downturns, when wages remain level, the cost of living increases as your purchasing power diminishes.

Regardless of what state the economy is in, one of your greatest long-term financial challenges may be planning for your retirement savings to outpace inflation. Therefore, it is always important to consider inflation, not only as you save, but also as you make purchasing decisions. $

Who Decides How Your Charitable $$ Will Be Spent?

If you are making a large donation to a charity, you may have a specific goal in mind for the use of the money. Whether it is to fund a particular program or support a new project, you may want some control over how your donation is used by the charity. This may be accomplished through **donor advised funds** or **private foundations**.

Many larger public charities offer donor advised funds, which involve an agreement between the donor and the charity that the charity will consider the wishes of the donor with respect to the ultimate use of donations. However, the agreement is non-binding, and the charity exercises final control over the disposition of the funds, consistent with the charitable purposes of the organization.

A private foundation may be a better choice for donors who do not want to rely on the ultimate discretion of a public charity regarding the use of contributions. A private foundation

is a nonprofit organization, usually created by a primary donation from an individual or a business, whose funds and programs are managed by its own trustees or directors. The benefits of increased donor control through the use of a private foundation come at a price, with restrictions on the types and amounts of gifted funds.

For more information regarding these charitable giving strategies, the rules governing their uses, and tax benefits, consult your legal and tax professionals.$

Stretching an IRA into Future Generations

Imagine that you could wave a magic wand and turn your new grandchild into a millionaire for a head start in life. Believe it or not, even a relatively modest amount tucked away using a "stretch" IRA strategy could, under certain market conditions, evolve into a rather substantial nest egg that your grandchild, or other beneficiary, may enjoy in years to come.

A Long-Term Strategy

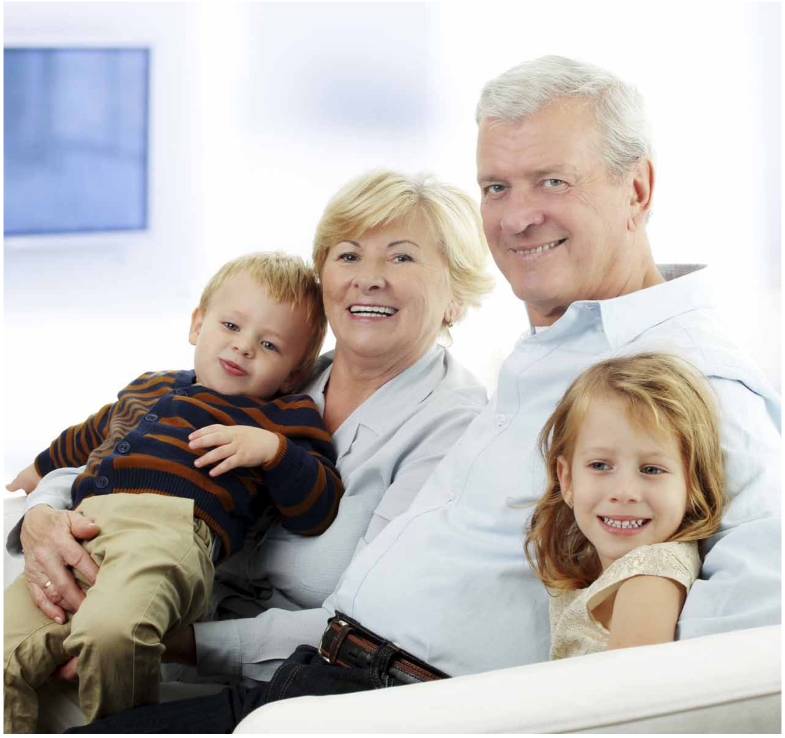
The stretch IRA strategy is an Individual Retirement Account (IRA) in which earnings are allowed to grow tax deferred over a beneficiary's lifetime. If you have an IRA that you do not need for retirement income, you can opt to restrict your withdrawals to the minimum annual distribution required by the Internal Revenue Service (IRS) starting at age 70½. Required minimum distributions are based on your life expectancy and the amount of funds in your account.

If you decide you want to stretch your IRA into future generations, you can establish a trust that allows for the distribution of IRA assets to primary, and possibly secondary, beneficiaries. Upon your death, your beneficiary will be permitted to take distributions over time, based on his or her age and life expectancy. This not only gives the investments in the account a chance to grow and compound, but it also means that income taxes owed on the IRA can be paid over an extended period of time.

If you choose a very young beneficiary, such as a grandchild, the funds in the IRA may compound substantially over the course of a lifetime. Provided the beneficiary does not access funds in the account along the way, due to a disability or other hardship, a considerable sum could amass by the time he or she reaches retirement.

Risks Involved

Before you integrate the stretch IRA strategy into your estate plan, it is important to note that this approach does carry some risk. If IRA assets decline in value, or if inflation erodes the value of your savings, the substantial returns for your heirs may not materialize.



Should you live a very long life, it is also possible that the funds in your IRA may not grow because you must continue to take required distributions. If, for example, longevity is on your side and you live to age 95, the amount you leave to a grandchild may be less than if you had passed on a decade earlier.

Keep in mind, too, that a stretch IRA strategy works best when only the required minimum distributions are withdrawn. If your beneficiary were to withdraw additional funds to buy a car or pay the rent, the account could be quickly depleted.

Finally, it is important to consider the tax implications of including a stretch IRA strategy in your inheritable estate. Under the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 (2010 Tax Relief Act), the Federal estate tax and generation-skipping transfer (GST) tax, which had been repealed in 2010, has been reinstated, with an exemption amount of $5.43 million and a top tax rate of 40% through 2015.

Despite the inherent risks, a stretch IRA strategy can be a tax-efficient means for passing on savings to future generations. While there is no guarantee that inheriting a stretch IRA can turn your grandchild into a millionaire, it could help contribute toward making his or her retirement more comfortable. $

Insuring a Stay-at-Home Parent

The job of homemaker can be rewarding, and the care a stay-at-home parent provides is invaluable to his or her family. However, when it comes to calculating life insurance needs, many families obtain only coverage for the primary breadwinner. They may not want to consider that the death of a stay-at-home parent would not only be difficult emotionally for the family, but could also create financial challenges for the surviving spouse and children.

Since homemakers generally do not earn a paycheck, estimating the economic benefit of their contributions to the family may be complicated. Clearly, the cost of the services provided by a stay-at-home parent can be substantial, but what those costs involve depends on the family's circumstances. For example, if the children are younger, child care costs need to be budgeted. If the surviving spouse works long hours, the family may also want to factor in the cost of a housekeeper or landscaper.

The first step in calculating an appropriate amount of life insurance coverage for a stay-at-home parent is to assess how much it would cost to pay others to perform the tasks currently performed by the homemaker.

Here are some examples of tasks typically performed by a stay-at-home parent:

1) Family Care
2) Shopping
3) Recordkeeping and Household Management
4) Food Preparation
5) Housekeeping and Maintenance
6) Yard and Car Care
7) Laundry and Clothing Care

In addition to having to pay for help in these areas, a family that has lost a parent may find that other expenses may increase due to pressure and time constraints. For example, the family may dine out or buy expensive convenience foods more frequently. Also, a working parent may have less time to devote to shopping for bargains on groceries, clothing, school supplies, and other items.

Replacing the contributions of a homemaker and caregiver can be very expensive, especially when factoring in the number of years it takes to raise a family. Therefore, it makes sense to obtain life insurance for the parent who works at home, not just the family's main income earner. If something were to happen to a stay-at-home parent, life insurance could help the family through the difficult period of adjustment.

Proceeds from a life insurance policy may be used to help cover final expenses or allow the surviving spouse to take a leave of absence from work in order to spend time with the children. A lump sum could also be used to help clear debt. In some cases, the policy proceeds may be used to help pay for child care or housekeeping services after the surviving spouse returns to work. Or, it may be possible to save a portion of the life insurance proceeds to help pay for future college expenses.

Although losing a parent can be devastating, financial hardship as a result of that loss does not have to be inevitable. Life insurance coverage can help ensure that the surviving spouse is not forced to work long hours or take a second job in order to pay the bills. Instead, the surviving spouse may focus on caring for the children.

It is important to assess your family's specific needs. Consult with a qualified insurance professional to review your options for life insurance coverage and prepare for the future accordingly. $

Tax Deductions for Donating Art

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If, however, the organization's purpose does not involve displaying artwork, or if the charity sells the object to raise money, your deduction will be limited to your cost basis, or the FMV, if it is less than the price you originally paid. This also applies if you have owned the object for less than a year, or if you are the artist who created the object.

If, for example, you paid $1,500 for a painting 10 years ago that is now valued at $5,000, you are allowed to take a $5,000 deduction if the work goes to a museum or to your alma mater's art department. If, however, you donate the painting to a local television station's auction and the item is sold, you are only permitted to take a $1,500 deduction. Similarly, if you donate the painting to a public charity, such as a hospital, which has an exempt purpose that is unrelated to the donated painting, you will only be able to claim a deduction of $1,500.

Before making a donation, be sure that the institution wants the artwork for its collection. After discussing the prospective donation with representatives of the organization, you should ask them to provide you with a written acceptance indicating that the organization is a qualified public charity, and that it satisfies the related use rule regarding the particular donation.

The IRS requires any deducted item over $5,000 to be appraised by a qualified appraiser no earlier than 60 days before the gift is transacted. The appraiser should be encouraged to be conservative in estimating the value of the artwork, as larger donations may be audited, and the value could be adjusted downward. Additional documentation is generally required for objects appraised at $20,000 or more.

In order to qualify for a tax deduction, you must donate the artwork as an outright gift, not as a permanent loan. But instead of making the entire donation at one time, you also have the option of transferring a percentage, or "fractional interest," in the artwork each year. This method is useful if the total deduction exceeds 30% of your adjusted gross income (AGI), the maximum for charitable deductions. However, all of your fractions must be donated within 10 years, and the receiving institution must take substantial physical possession or make use of the object during its allotted time period each year, or penalties may apply. Other planned giving strategies for donating artwork while maximizing tax deductions include the use of charitable remainder trusts, charitable gift annuities, and donor-advised funds.

If a qualified charitable organization is interested in purchasing your artwork, you may also want to consider a bargain sale, which will provide you with both a lump sum of cash and a charitable tax deduction. A bargain sale, which involves the sale or exchange of the item for less than its FMV, is partly a charitable contribution, and partly a sale or exchange. In addition to collecting cash for the sale, you can take a charitable income tax deduction for the difference between the amount you received for the sale, and what you could have received if you had sold the object for its full FMV. $