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Taxpayer Bill of Rights

After years of discussion in Washington about the need for a document that formally enumerates the rights of taxpayers, the IRS announced in June 2014, that it is adopting a "Taxpayer Bill of Rights." According to the IRS, the document will provide the nation's taxpayers with a better understanding of their rights that are already embedded in the tax code, including the right to confidentiality, the right to retain representation, and the right to challenge the agency's position.

Modeled on the U.S. Constitution's Bill of Rights, the Taxpayer Bill of Rights brings together 10 broad categories of rights scattered throughout the tax code. Thus, it builds on previous efforts to identify and specify these rights, making them more visible and easier for taxpayers to call upon when needed. Although the Taxpayer Bill of Rights is not legally enforceable, the IRS has said taxpayers can rely on it with confidence, as the rights listed are already statutorily guaranteed.

The Taxpayer Bill of Rights contains the following 10 provisions:

1) The Right to Be Informed.
2) The Right to Quality Service.
3) The Right to Pay No More than the Correct Amount of Tax.
4) The Right to Challenge the IRS's Position and Be Heard. (This means that taxpayers have the right to raise objections and provide additional documentation in response

(Continued on page 2)

Employee Life Insurance May Hold the "Key"

If your key employee significantly contributes to the success of your business, have you considered how losing such an employee could impact your operations? Key employee life insurance can help protect your business from the financial consequences of a key employee's death. During the key person's tenure with the company, life insurance may strengthen the credit of the business, as well as provide needed cash for emergencies. In addition, when the key employee dies, key employee life insurance may reinforce the capital structure of the business, maintain lines of credit, and pay for training costs of a replacement.

Consider the variables by looking at a hypothetical case: Alfred, a talented chemical engineer, works at XYZ Plastics, Inc., a plastics fabrication company. In his seven years with the company, Alfred has developed several important compounds, in addition to an innovative new process for manufacturing automobile engine blocks. Because he has been so instrumental to XYZ Plastics, and his work has propelled the company to the forefront of its industry, Alfred is considered one of the company's key employees.

XYZ Plastics' owners realize the importance of Alfred to the success of the company and have purchased a key employee life insurance policy. This type of policy could be of great benefit in the event of the loss of such a valuable employee.

(Continued on page 8)

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Taxpayer Bill of Rights

(continued from page 1)

to formal IRS actions or proposed actions, to expect that the IRS will consider their timely objections and documentation promptly and fairly, and to receive a response if the IRS does not agree with their position.)

5) The Right to Appeal an IRS Decision in an Independent Forum. (This means that taxpayers are entitled to the following: a fair and impartial administrative appeal of most IRS decisions, including many penalties; the right to receive a written response regarding an Office of Appeals's decision; and the right to take their cases to court.)

6) The Right to Finality. (This means that taxpayers have the right to know the maximum amount of time they have to challenge the IRS's position and the maximum amount of time the IRS has to audit a particular tax year or collect a tax debt, and they have the right to know when the IRS has finished an audit.)

7) The Right to Privacy.

8) The Right to Confidentiality.

9) The Right to Retain Representation. (This means that taxpayers have the right to retain an authorized representative of their choice to represent them in their dealings with the IRS, and the right to seek assistance from a Low Income Taxpayer Clinic if they cannot afford representation.)

10) The Right to a Fair and Just Tax System. (This means that taxpayers have the right to expect the tax system to consider facts and circumstances that might affect their underlying liabilities, ability to pay, or ability to provide information in a timely fashion. And they have the right to receive assistance from the Taxpayer Advocate Service if they are experiencing financial difficulties or if the IRS has not resolved their tax issues properly and in a timely manner through its normal channels.)

The IRS said it released the document following extensive discussions with the Taxpayer Advocate Service, an independent office within the IRS that represents the interests of U.S. taxpayers. Adopting a Taxpayer Bill of Rights has been a goal of National Taxpayer Advocate Nina E. Olson since 2007, and it was listed as the Advocate's top priority in her most recent annual report to Congress.

Commenting on the adoption of the rights, Olson noted that a survey by the Taxpayer Advocate Service in 2012 found that only 46% of U.S. taxpayers believed they had rights in relation to the IRS, and only 11% knew what those rights were.

"Congress has passed multiple pieces of legislation with the title of 'Taxpayer Bill of Rights,'" Olson said. "However, taxpayer surveys conducted by my office have found that most taxpayers do not believe they have rights before the IRS and even fewer can name their rights. I believe the list of core taxpayer rights the IRS is announcing today will help taxpayers better understand their rights in dealing with the tax system."

Olson and IRS Commissioner John A. Koskinen added that they would continue to seek a formal enactment of taxpayer rights by Congress. Koskinen further emphasized that the document would be used to support his continuing advocacy for budgetary resources for the IRS to fulfill its commitments to protect taxpayers.

The IRS reported that starting in 2014 a printed version of the document will appear in Publication 1, "Your Rights as a Taxpayer," which will be sent to taxpayers when they receive IRS notices on issues ranging from audits to collection, and the rights will also be publicly visible on IRS.gov and in all IRS facilities. Publication 1 is available in English, Spanish, Chinese, Korean, Russian, and Vietnamese. $

It's Your Money . . . Who Decides How Your Charitable $$ will be Spent?

When you give $100 to your favorite charity, you are probably not overly concerned about how your donation is spent, as long as it advances the mission of the charity. On the other hand, if you are making a large donation, it is more likely that you have specific goals in mind, whether to fund a particular program or support another endeavor. This desire to specify exactly where your donation dollars will go may jeopardize your ability to claim an income tax deduction. Therefore, proper planning is essential.

If you want more control over how your donation is used, consider either **donor advised funds** or **private foundations**. Let's take a closer look at these two options.

Donor Advised Funds

Many larger public charities, particularly those that support a variety of different charitable activities and organizations, offer donor advised funds. This type of charitable giving vehicle is based upon an agreement between the donor and the charity stating that the charity will consider the donor's wishes with respect to the ultimate use of the donated funds. However, the agreement is non-binding, and the charity will exercise final control over the disposition of the funds, consistent with the organization's mission.

Private Foundations

A private foundation is a nonprofit organization that typically has been created via a single donation from an individual or a business, and whose funds and programs are managed by its own trustees or directors. Through the choice of directors or trustees, the donor has greater control over the specific use of funds, rather than relying on a public charity.

Private foundations generally fit into two categories: private operating foundations and private non-operating foundations. Private operating foundations actually run the charitable activities or organizations they fund, while private non-operating foundations simply disburse funds to other charitable organizations. A private foundation can also serve as a "family enterprise," whereby members of the family can work together in supporting charitable causes over the long term.

However, the benefit of increased donor control through the use of a private foundation may come at a price. The following rules are designed to ensure that private foundations serve charitable interests and not private interests:

- Private foundations are generally required to pay out for charitable causes at least 5% of their asset value annually or be subject to a penalty.
- Substantial penalties are imposed on transactions between the foundation and its donors or managers, although payment of reasonable salaries is permitted.
- Private foundations are generally prohibited from benefiting a private individual.
- A private foundation is responsible for ensuring that the funds it distributes to a private charity are expended properly. (Schools, hospitals, and churches are examples of public charities, to which this does not apply.)
- An excise tax of up to 2% of investment income is imposed annually on investments.
- There are restrictions on the types of investments made by private foundations.

The deductibility of contributions to private foundations is more limited than for contributions to public charities. Depending upon whether cash or property is being donated, deductions to private foundations are limited to 20% to 30% of adjusted gross income, whereas deductions to public charities have higher limits of 30% to 50%. Finally, the administrative and legal costs of creating and managing a private foundation need to be considered.

Depending on the circumstances, a private foundation may allow for greater control over how your charitable donation is spent. It can be highly rewarding to be involved in charitable endeavors, however, be sure to consult your tax and legal professionals for specific guidance. $

The Fed: A Driving Force on the Economic Scene

Even casual observers of financial news know that "Fed watching" is a serious activity in the financial and business communities. Currently, Janet Yellen is Chair of the Board of Governors of the Federal Reserve System, commonly known as the "Fed." An understanding of the establishment of the Fed, its basic operation and powers, and its relationship with the Federal government and the banking community is especially important at a time when the direction of the economy is under constant scrutiny.

Historical Perspective

The United States was the only major industrial nation without a central bank until Congress established the Federal Reserve System in 1913. The economy had grown without any central control or coordination of banking activity, the direction of which had been left to local discretion. To establish the Fed, all member banks were required to make deposits into the new centralized system, thus creating a pool of reserves.

The Fed acquired two important powers as the system developed: first, the funds that banks are required to hold in reserve against customer deposits (reserve requirements) could be used to control the growth of banks; and second, decisions made by business leaders—and the business cycle itself—could be affected by the centralized control of the banking system. In the years that followed, the Fed exercised increasing power over the American economy, leading it into occasional conflict with American business people, the president, and Congress.

At various times, critics viewed the Fed as too restrictive, not permitting the economy to grow rapidly enough. At other times, the Fed was cited for being too lenient, permitting demand to grow so rapidly that inflation threatened the economy. Such conflicts are a natural result of the Fed's relationship with Congress and the president. Although the Fed is not an agency of the United States government,

(continued on page 5)

Credit Card Debt after the Death of a Loved One

After a loved one dies, who is responsible for his or her remaining credit card debt? This is a question you are unlikely to be thinking about in the days and weeks after the death, but it is one you will ultimately need to face.

In many cases, family members are not responsible for the debt, but there are a few exceptions. Luckily, while you and other family members sort out the financial impact of the death, you are protected by the Federal Fair Debt Collection Practices Act (FDCPA), which prevents debt collectors from using abusive or deceptive practices to collect a debt. According to the FDCPA, a debt collector might be a collection agency, a lawyer who regularly collects debts, or a company that buys debts and later attempts to collect payment.

When a spouse or other individual is a joint owner of a credit card account, that person is obligated to pay the debt after the death of the other co-owner. Most often, the co-owner is a spouse, but adult children will sometimes become authorized to use a parent's credit card account, to help the aging parent with financial matters. They then become liable for unpaid credit debt after the death of the parent.

If the widowed spouse lives in a "community property" state, such as California and a handful of other states, he or she may be liable for the credit card debt, even if the account was not co-owned. In such states, debts incurred after the marriage may qualify as community property, which means that, regardless of the credit card agreement, the surviving spouse is responsible for the debt. Also, some states may require that particular kinds of debt, such as debts related to health care, be paid by the spouse. Particularly given the differing state laws, it's a good idea to speak to an attorney to better understand your obligation.

When a relative or other person is not responsible for the uncollected debt, the responsibility falls to the deceased person's estate. The executor of the estate (or an administrator appointed by the court if there is no executor) is responsible for using the estate assets to pay the debt. If the assets do not cover all or any of the debt, the debt is wiped out. This means that the deceased person's heirs will not inherit the debt. $

The Fed: A Driving Force on the Economic Scene

(continued from page 4)

its policies may, at times, reflect the wishes of Congress and/or the president; however, it is not bound to do so. Instead, it is a corporation owned by banks that have purchased shares of stock. While only federally chartered banks are required to purchase stock and become members of the Federal Reserve System, all banks are subject to the Fed's financial controls.

How the Fed Does It

The Fed can manipulate the money supply in hopes of obtaining a desired effect over time. However, the Fed's most effective short-range policy decisions used to manipulate the economy are those involving short-term interest rates. Consequently, the Fed can realistically have only one target—inflation. If the Fed perceives that the prevailing forces of the economy will increase inflation, it will attempt to slow the economy by raising short-term interest rates—the assumption being that increases in the cost of borrowing money are likely to dampen both personal and business spending behavior. Conversely, if the Fed perceives that the economy has slowed too much, it will attempt to stimulate growth by lowering short-term interest rates—in other words, lowering the cost of borrowing in an attempt to stimulate personal and business spending.

In carrying out this balancing act, a very cautious Fed walks a fine line. If it does not tighten the reins soon enough (by raising interest rates), it runs the risk of inflation getting out of control. If it fails to loosen them soon enough (by lowering interest rates), it can plunge the economy into recession. Indeed, some individuals argue that the primary goal of the Fed is to keep inflation low enough that it is not a factor in business decisions. $

Manage Debt Wisely

Regardless of whether the economy is weak or strong, it is important to manage your personal debt wisely. One way to get a handle on debt is to distinguish between "good" debt and "bad" debt. *Good debt* refers to borrowing in order to buy assets that are likely to appreciate in value, such as a home or business. Good debt may become even "better" if you are able to itemize certain repayments, such as home mortgage interest on your tax return and, as a result, qualify for certain tax deductions. *Bad debt* happens from borrowing to buy consumable items, such as a vacation, or to purchase assets that are likely to depreciate in value, such as an automobile.

To get a jumpstart on managing your debt *today*, you may want to consider the following:

Pay off the "right" debt first. Generally, it's wise to pay off high interest debt first, particularly if the interest is not tax deductible. Extending payments is most appropriate for intermediate- and long-term debt. For short-term debt, it's ideal to have enough money in savings to pay it off, if necessary.

Limit your credit card use. Credit cards make life easier, but they can also tempt you to live beyond your means. If you tend to use credit cards to purchase consumables, rather than assets that appreciate, think about reducing your dependence on these items. Try to avoid the minimum payment trap. The

interest that accumulates over time can make even bargain purchases costly.

Control impulsive spending. If you have a tendency toward impulsive spending, avoid shopping unless you have a specific need or purpose in mind. Or try to delay any impulse purchases for 24 hours. You may find the desire for the item will pass once you've had a chance to sleep on it.

For some people, credit cards make it too easy to overspend. For other people, unpredictable events, such as car trouble or illness in the family, may require the occasional use of a credit card. Either way, knowing which debt is "good" and which is "bad" can help you to manage your debt wisely and proactively, which may be key to a brighter financial future. $

Shielding Your Insurance from Estate Taxes

L**ife insurance**, which can help to provide for your heirs in the event of your death, can be an important estate planning tool. It can provide funds to loved ones when they need it most and help meet your family's financial obligations. One issue overlooked by many people, however, is that life insurance can add significant wealth to an overall estate, potentially causing assets to exceed the 2015 **applicable exclusion amount** of $5.43 million, the amount that can be sheltered from estate taxes. Fortunately, with proper guidance, it is possible to keep your life insurance policy proceeds out of your estate and to also provide immediate funding for short-term financial needs.

You may already know that the inclusion of life insurance policy benefits in your taxable estate is contingent partly on **incidents of ownership**. Policy proceeds cannot be excluded from estate taxation if you have held any incidents of ownership on the policy during the three-year period preceding your death.

In general terms, an incident of ownership is the right to exercise control over the policy or to receive an economic benefit from the policy, including any powers to *surrender* the policy, to *pledge* the policy as collateral, or to *assign* the policy and any reversionary interest equal to 5% or more of the value of the policy before death. An incident of ownership also exists on a policy if you have any power to act as a fiduciary of a trust that holds insurance on your life if you established the trust, if you transferred the policy or consideration for the policy to the trust, or if you could have exercised any fiduciary power over the trust for your own benefit. However, your estate may not include your life insurance proceeds merely because you planned to purchase the insurance or gifted money used to pay premiums within three years prior to your death.

Again, entire policy benefits may be included in your estate unless all incidents of ownership are transferred more than three years before your death. In practice, the application of this rule is not always clear. Therefore, it is important to consult with your tax and legal advisors to ensure that your actions are consistent with your desired objectives.

A Plan of Action

Here is some additional information that you may want to discuss in detail with your advisors: For new life insurance policies, insurance proceeds are not included in the estate of the insured when another person (often an adult child or an **irrevocable trust** created by the insured) is the initial applicant on, and owner of, the policy, or when the insured never possessed an incident of ownership on the policy.

If you want to keep life insurance proceeds on existing policies out of your estate, you need to transfer any incidents of ownership on the policy to another person at least three years before your death. In addition, make sure that your estate is not the beneficiary of the policy *and* that the policy beneficiary is not required to use policy proceeds to pay estate claims and expenses.

Keep the above in mind as you develop a plan for keeping your life insurance proceeds out of your estate. Remember, before you take any action that might affect your policies, consider carefully all of the alternatives and seek professional counsel on how to best achieve your specific objectives. $

Are Good Grades the Only Key to College Admissions?

If you were asked how best to prepare your child for college, you might say that a well-rounded high school curriculum would be a good start. It may be true that your child needs to be a good student to compete for admission to a college or university. Today, however, *getting into* college and *graduating* are two distinct challenges.

Admissions: Increasing the Odds

Each college and university has admission guidelines that are followed when applications are reviewed. Naturally, the first items most likely to be examined are your child's high school academic record and SAT or ACT scores. However, academics are not the only items that catch the eye of an admissions officer.

Sometimes acceptance to a school depends on the applicant's participation in extracurricular activities and his or her civic involvement. Many admissions committees are as interested in grades as they are in the quality and character of individuals who may attend their college or university. Therefore, it is important for your child to include a résumé of achievements, interests, and volunteer efforts with his or her application.

Any of the following may enhance your child's college application:

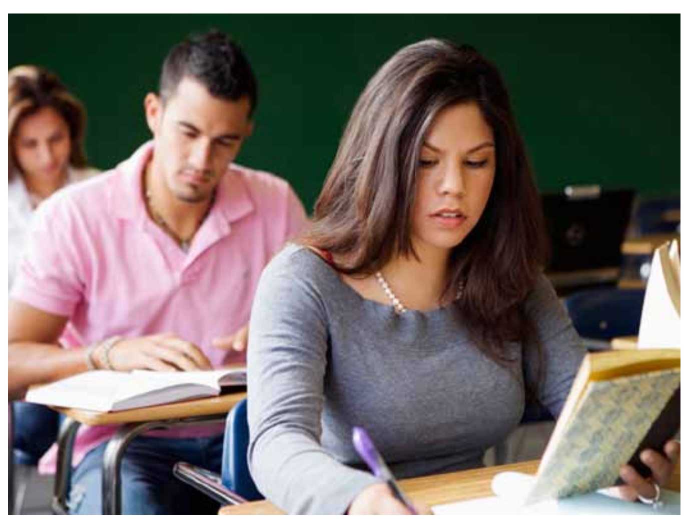
- **Awards** demonstrate formal recognition of an applicant's ability to excel in a particular area.
- **Sports participation** demonstrates an applicant's competitive spirit and winning attitude, along with the ability to be a team player.
- **Extracurricular activities** highlight an applicant's enthusiasm, leadership qualities, and specific interests.
- **Volunteering** or **religious involvement** can often indicate that an applicant is active in the community and possesses moral character and integrity.
- **Political activity** can demonstrate an applicant's strong leadership skills and awareness of current events.
- **Work experience** may indicate motivation, responsibility, and a strong work ethic.
- **Hobbies** and **special interests** can provide a better understanding of who the applicant is, in addition to highlighting areas of knowledge.

Building the Foundation for Long-Term Success

Many children today are exposed to an array of social pressures that may be unfamiliar to most adults. So parents and other role models may need to work harder to set positive examples and instill good values, in addition to teaching respect for others and emphasizing overall common sense.

Besides making the grade academically, a candidate for college needs to demonstrate a good attitude. Parents can help children recognize the value of learning and how education is often linked to future success. Learning to make sound choices is equally important. Being an individual rather than a follower isn't always easy, however, and your college-age children need ongoing encouragement to continually examine themselves and strive to reach their goals.

Although you hope your child will use sound judgment while navigating the maze of activities associated with college life, remember that maturing is a process, and there may be mistakes made along the way. The key is to encourage your child to learn from those mistakes, rather than keep repeating them. If you, as parents, and other role models can provide emotional support, encouragement, and guidance during these difficult years, the chances of your child transitioning smoothly to adulthood will be greatly enhanced. $



Employee Life Insurance May Hold the "Key"

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How Does the Employer Benefit?

A company like XYZ Plastics may benefit from life insurance held by the company on key employees in the following ways:

- Proceeds from the policy can provide XYZ Plastics with funds to compensate for the loss that could result in the event of a key employee's death. The company could then use the money to recruit a new employee with credentials and capabilities similar to those of Alfred, train the new employee, promote additional sales, or provide for improvements that would eventually compensate for the loss sustained following the death of such a valuable employee.
- Permanent life insurance on a key employee could provide XYZ Plastics with an accumulation of funds to be used in emergencies. Payment of the annual premiums provides an orderly accumulation of funds with an increasing **cash surrender value**. Ordinarily, the policy has a guaranteed cash value, as the cash surrender value can be determined for any period of time. Guarantees are based on the claims-paying ability of the issuing company.
- By maintaining key employee insurance, XYZ Plastics may strengthen its credit. The insurance may be used as supporting collateral for loans and may be considered evidence that the company will continue to meet its debt obligations in the event of the key insured employee's death.

How Does the Key Employee Benefit?

While life insurance on a key employee can help protect XYZ Plastics against the premature death of Alfred, there is no guarantee that such a key employee will remain with the company until retirement or death. Therefore, establishing a **deferred compensation plan** for that employee may provide an incentive for the desired employee to stay with the company.

Under this plan, XYZ Plastics would enter into a contract with Alfred to pay certain benefits upon his retirement. XYZ Plastics may also require Alfred to promise not to compete (a **noncompete agreement**) with the company after his retirement. The contract is a separate plan and is not tied directly to the insurance policy. However, life insurance can be an advantageous way to fund the deferred compensation plan.

A combination key employee deferred compensation plan may be adopted and funded with a single life insurance policy. That policy would provide indemnity to XYZ Plastics in the event of Alfred's death and would also serve as a source of retirement income for Alfred upon his retirement. XYZ Plastics would take out a life insurance policy on Alfred; he would not be a party to this insurance contract. Then, at the same time, XYZ Plastics and Alfred would both enter into the deferred compensation plan.

Therefore, XYZ Plastics would have indemnity protection until Alfred's retirement date. Upon that date, the company can surrender the policy and use the proceeds to make the deferred compensation payments. This type of key employee insurance plan does not have to cover any specific number or class of employees. It may be particularly appropriate for companies that do not wish to establish qualified deferred compensation plans.

If you have employees who are vital to the successful operation of your company, you may want to consider taking the steps that XYZ Plastics took in the example and purchase life insurance as protection and incentive for your key employees. $

The information contained in this newsletter is for general use, and while we believe all information to be reliable and accurate, it is important to remember individual situations may be entirely different. The information provided is not written or intended as tax, legal, or financial advice and may not be relied on for purposes of avoiding any Federal tax penalties. Individuals are encouraged to seek advice from their own tax or legal counsel. Individuals involved in the estate planning process should work with an estate planning team, including their own personal legal or tax counsel. Neither the information presented nor any opinion expressed constitutes a representation by us or a solicitation of the purchase or sale of any securities. This newsletter is written and published by LIBERTY PUBLISHING, INC., BEVERLY, MA COPYRIGHT 2015.

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NEXT ISSUE 5/07 and beyond.... move up disclosure and LEAVE 3/4" CLEAR ZONE AT BOTTOM OF THIS PAGE FOR ACCOUNT