EYE ON MONEY

JAN
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2014

Retirement Plan Options for Business Owners

Plus...

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NEW TREASURY OPTION: FLOATING-RATE NOTES

IN JANUARY 2014, THE U.S. TREASURY plans to add floating-rate notes (FRNs) to its lineup of debt securities.

A Treasury floating-rate note is exactly what its name implies—a Treasury note with an interest rate that floats up and down based on changes to an index, resulting in fluctuating interest payments to investors.

The interest rate for Treasury FRNs will be reset weekly based on the most recent 13-week Treasury bill auction High Rate. As interest rates rise, interest payments to investors will increase. As interest rates fall, interest payments to investors will decrease.

Treasury FRNs will be offered initially with a two-year maturity and will pay interest on a quarterly basis.

For the Treasury, the addition of FRNs may help it manage the maturity profile of the outstanding debt, as well as expand the Treasury's investor base.

For investors, a floating rate offers some protection from a potential rise in interest rates. Typically, when market interest rates increase, the price of existing fixed-rate securities decreases because investors can buy new notes or bonds that pay more interest. An increase in market interest rates has less of an impact on the price of existing floating-rate notes because their interest payments increase as market interest rates increase. ■

PLEASE NOTE:

- *When interest rates rise, bond prices generally fall, and vice versa. The effect is usually more pronounced for longer-term securities.*
- *You may have a gain or a loss if you sell a bond prior to its maturity date.*
- *Fixed income securities also carry inflation risk and credit and default risks for both issuers and counterparties.*

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UP FRONT

FEATURES

FYI

SIX SURPRISING USES FOR LIFE INSURANCE

As almost everyone knows, life insurance can help your family manage financially after you are gone. But you may be surprised to learn that life insurance can also...

1 **Help cover expenses during your lifetime.** With permanent life insurance, such as whole life or universal life, your policy generally accumulates a cash value that you can draw on for any reason. If you need cash for, say, college tuition or to supplement your retirement income, you can generally withdraw or borrow from your policy's cash value. It is important to remember, though, that interest is charged on loans, and withdrawals and unpaid loans reduce the policy's cash value and death benefits.

2 **Serve as a business-succession tool.** Life insurance is frequently used by owners of small businesses to fund buy-sell agreements. When an owner dies, the life insurance policy provides the cash necessary for the business or the surviving owners to purchase the deceased owner's interest in the company from his or her estate or heirs.

3 **Protect your company from the loss of a key employee.** The death of an executive who plays a crucial role in your company can have serious financial consequences for your business, such as lost sales, lost clients, and the cost to recruit and train a replacement. A type of life insurance policy known as key person insurance can help your company weather the loss. Key person insurance is simply a life insurance policy that a company purchases on the life of a key executive. The company pays the premiums and is the policy's beneficiary. If the key executive dies, the life insurance proceeds are paid to the company so that the company has the cash to help cover the financial losses it may suffer as a result of losing the employee.

4 **Equalize inheritances.** If you plan to leave a sizable asset, such as a business or a house, to just one of your heirs, the proceeds from a life insurance policy can provide a comparable cash inheritance to your other heirs.

*

If your estate will be subject to estate taxes, it is a good idea to have an irrevocable trust own the life insurance policy on your life. This way, the proceeds will not be part of your estate and will avoid estate taxes.

5 **Replace wealth donated to charity.** The proceeds from a life insurance policy can help replace for your heirs the value of assets that you donate to charity. For example, let's say you want to make an immediate gift to a charitable remainder trust in order to improve your income from a highly appreciated asset (stock, land, or other property) that is currently generating little or no income. While you stand to benefit financially from your gift during your lifetime, the assets remaining in the trust when you die will pass to your chosen charity, not your heirs. For this reason, a charitable remainder trust is sometimes paired with a life insurance policy whose proceeds can provide an inheritance for the heirs.

6 **Pay estate taxes.** If your estate will be subject to estate taxes (most will not be), the proceeds from a life insurance policy can help provide the cash needed to pay those taxes so that family businesses, farms, and other assets do not have to be sold simply to pay the taxes. ■

Talk to your financial advisor about whether life insurance should be part of your wealth management strategy. If so, your advisor can help you pinpoint the type and amount of life insurance appropriate for your financial objectives.

How Can Investing Make You Money?

Investing has the potential to make you money in three main ways: capital gains, interest, and dividends.

CAPITAL GAINS

The first way that investing can make you money is if the price of your investment appreciates while you own it and you sell it for more than you paid for it. For example, if you purchase a share of stock for $50 and later sell it for $60, you make a profit, known as a capital gain. Of course, it is important to remember that prices move up and down and investors may get back more or less than they invested.

INTEREST

Investments, such as bonds and certificates of deposit (CDs), generally pay you interest in return for the use of your money. If you invest in individual bonds or CDs, the interest is usually paid at a fixed rate and at regular intervals (quarterly, for example) until the bond or CD matures. If you invest in mutual funds or exchange-traded funds (ETFs), they will periodically pass along to you your share of the interest that they receive from their underlying investments.

DIVIDENDS

If you own stock or a mutual fund or ETF that invests in stock, you may receive dividends. Dividends are payments from companies that have chosen to distribute part of their earnings to their shareholders. Dividends are usually paid in cash, distributed on a quarterly basis, and expressed as a certain amount per share, such as $0.50 per share. Dividends are not guaranteed and can fluctuate in value. Not all companies pay dividends. Some companies choose instead to reinvest all of their earnings in growing the company, which benefits investors if it increases the share price. ■

PLEASE NOTE:

Before investing in mutual funds or ETFs, investors should consider a fund's investment objectives, risks, charges, and expenses. Contact your financial advisor for a prospectus containing this information. Please read it carefully before investing.

When interest rates rise, bond prices generally fall, and vice versa. The effect is usually more pronounced for longer-term securities. Fixed income securities also carry inflation risk and credit and default risks for both issuers and counterparties.

Please consult your financial advisor for help in developing and implementing an investment plan.

FR2013-1007-0073/E

IRS RECOGNIZES SAME-SEX MARRIAGES FOR FEDERAL TAX PURPOSES

ALL LEGALLY MARRIED SAME-SEX couples are now recognized as married for federal tax purposes—a change that will significantly affect the taxes of many same-sex couples.

The U.S. Department of Treasury and the Internal Revenue Service (IRS) announced the ruling on August 29, 2013, in response to the Supreme Court's decision in June 2013 to strike down a key provision of the Defense of Marriage Act that had barred federal recognition of same-sex marriages.

The IRS ruling states that same-sex couples, who are legally married in a jurisdiction that recognizes their marriage, will be treated as married for all federal tax purposes. And the ruling applies no matter where the couple lives—even if the couple lives in a place that does not recognize same-sex marriages.

"[The] ruling provides certainty and clear, coherent tax filing guidance for all legally married same-sex couples nationwide. It provides access to benefits, responsibilities, and protections under federal tax law that all Americans deserve," said Treasury Secretary Jacob J. Lew on the day the ruling was announced. "This ruling also assures legally married same-sex couples that they can move freely throughout the country knowing that their federal filing status will not change."

The ruling applies to legal marriages that are conducted in the United States, a U.S. territory, or a foreign country that recognizes same-sex marriage. At the time of the ruling, that list included thirteen states, the District of Columbia, and a handful of foreign countries. The ruling does not apply to registered domestic partnerships, civil unions, or similar relationships recognized under state law.

If you are in a same-sex marriage, please note that the ruling applies to all federal tax provisions where marriage is a factor and will affect your income taxes, as well as your gift and estate taxes.

The ruling is already in effect so when you file your 2013 federal tax return, you will file as a married person, by choosing either married filing jointly or married filing separately. Head of household may be an option in some cases. Single is no longer an option for you on the federal level, although you may still need to file your state tax return as a single individual.

If you were married prior to 2013, you may be able to claim a tax refund for some earlier years. Your tax advisor can help you determine if filing as a married couple in earlier years would have resulted in lower taxes. If it looks like you are owed a refund, you can file an amended return and refund claim with the IRS, provided the tax year is still open under the IRS's statute of limitations.

A refund claim can generally be filed up to three years from the date the return was filed or two years from the date the tax was paid, whichever is later.

Your gift and estate tax situation may also benefit as a result of your marriage being recognized for federal tax purposes. One benefit is that gifts between married spouses are generally not taxable. Prior to the ruling, gifts that you gave your same-sex spouse in excess of the annual gift tax exclusion ($14,000 in 2013) would have reduced the amount of your lifetime exclusion. Another benefit is that married couples can shelter up to $10.5 million of their estate from federal estate taxes, thanks to the "portability" of the lifetime exclusion between spouses. Prior to the ruling, you could only use your own lifetime exclusion—$5.25 million—to shelter your estate from taxes.

If you made taxable gifts to your spouse in recent years, talk to your tax advisor about filing an amended return that sets the record straight.

It is also a good idea to check in with your estate planning professional to see whether adjustments are needed to your estate plan.

The bottom line is that the IRS ruling recognizing same-sex marriages will have a wide-reaching impact on the taxes of same-sex couples. Please consult your tax advisor for advice on your situation. ■

Retirement Plan Options
for Business Owners

A retirement plan is a great way for business owners and self-employed individuals to build wealth for retirement. Most plans are easy to set up and operate and offer significant tax advantages. Here's an overview of your main options.

SEP IRA

- ✓ Easy to set up and operate.
- ✓ High contribution limits.
- ✓ Funded by employer contributions only.
- ✓ Offers employers the flexibility to skip making contributions in any year.

A Simplified Employee Pension plan, commonly known as a SEP IRA, is one of the easiest retirement plans to set up and operate.

With this type of plan, separate IRA accounts are set up for yourself and your eligible employees. The accounts are funded solely by employer contributions, with each account receiving a uniform percentage of the employee's compensation.

Contributions can range from 0% to 25% of compensation, up to a maximum of $52,000 in 2014. (Self-employed individuals can contribute up to 20% of their self-employment income, up to a maximum of $52,000.) The percentage can vary from year to year, providing you with the flexibility to adjust the contributions based on business conditions. You can even skip making contributions altogether.

Keep in mind that your company must contribute the same income percentage to each eligible employee's account. So if your goal is to max out your own retirement account by contributing an amount equal to 25% of your compensation, your company will also have to contribute amounts equal to 25% of your employees' compensation (up to a maximum of $52,000 per employee) to their accounts. With this in mind, SEP IRAs typically make the most sense for high-income business owners with just a few employees or who work alone.

There may still be time to set up a SEP IRA for 2013 and reduce your 2013 taxes. You have until the due date on your tax return (including extensions) to set up and fund a SEP IRA. Money that your company contributes to the plan is generally deductible as a business expense.

A tax deduction is not the only tax benefit. Income tax is deferred on the contributions and investment earnings until they are withdrawn from the SEP IRA.

SIMPLE IRA

- ✓ Easy to set up and operate.
- ✓ Your employees can contribute.
- ✓ Employer contributions are required.

A SIMPLE IRA is an easy, low-cost retirement plan that enables you and your eligible employees to contribute to tax-deferred IRA accounts.

All eligible employees (including the business owner) may contribute as much as 100% of their compensation, up to $12,000 in 2014. Employees who are age 50 or older may contribute up to an additional $2,500 per year as a catch-up contribution.

Employer contributions are required each year, but you have some flexibility in this area. Your company can either match your employees' contributions (100% of the first 1–3% of compensation contributed) or make a 2% annual contribution for all eligible employees. Because employer contributions are required annually, a SIMPLE IRA is best suited for companies that are confident that they can afford to make the contributions each year.

A SIMPLE IRA offers many of the same benefits as a more complex retirement plan, but without all of the administrative tasks and expenses associated with operating a complex plan. First, the tax benefits. Employer contributions to SIMPLE IRAs can be deducted as a business expense. Contributions that you make to your own account as an employee reduce your current-year taxable income. And your earnings compound tax-deferred while in the account. Second, easy administration. Unlike more complex plans, SIMPLE IRAs do not require discrimination testing or government filings, making them ideal for businesses who want to keep retirement plan administration to a minimum.

SIMPLE IRAs are available to self-employed individuals and businesses with 100 or fewer employees that do not maintain another retirement plan.

A SIMPLE IRA must generally be established by October 1 to be effective for that year.

A retirement plan offers tax breaks for both you and your business.

Contributions that you and your employees make to your own retirement accounts are generally made with pre-tax income, which reduces your taxable income for the year. For example, if you contribute $10,000 of your salary to your tax-deferred account this year, you will not have to pay income tax on that $10,000 this year. Income tax is deferred until the money is withdrawn from the account.

Contributions that your company makes to your employees' accounts, as well as your own account, are generally deductible as a business expense.

Your investment earnings accumulate tax-deferred, meaning that they are not subject to taxation until withdrawn from the account. Because earnings are not taxed each year (as they would be in a taxable account), they compound faster than in a taxable account.

PLEASE NOTE: Withdrawals prior to age 59½ are subject to an additional 10% early withdrawal penalty unless you meet an exception. Early withdrawals from a SIMPLE IRA within the first two years of plan participation are subject to a 25% tax penalty unless you meet an exception.

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A business retirement plan offers higher contribution limits than a traditional or Roth IRA.

2014 CONTRIBUTION LIMITS

Traditional or Roth IRA

$5,500 if under age 50
$6,500 if age 50 or older

SEP IRA

EMPLOYER:
Up to 25% of each eligible employee's compensation[1], but no more than $52,000. (Funded by employer contributions only; contributions are discretionary.)

SIMPLE IRA

EMPLOYEE:
$12,000 if under age 50
$14,500 if age 50 or older

EMPLOYER:
The employer must either match employee contributions (100% of the first 1–3% of compensation contributed) or make a 2% nonelective contribution for all eligible employees.

401(k)

EMPLOYEE:
$17,500 if under age 50
$23,000 if age 50 or older

EMPLOYER:
The employer may make profit-sharing contributions (and matching contributions for plans other than solo plans) of up to 25% of compensation[1], but no more than $52,000.

TOTAL EMPLOYEE/EMPLOYER:
May not exceed $52,000 if under age 50; $57,500 if age 50 or older.

PLEASE NOTE: These 401(k) limits do not apply to SIMPLE 401(k) plans.

[1] Employer contributions to SEP IRAs and solo (individual) 401(k)s are limited to 20% of self-employment income for self-employed individuals.

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401(k)

- ✓ Greater flexibility in plan design.
- ✓ High contribution limits.
- ✓ Allows larger employee contributions than IRA plans.
- ✓ Roth accounts are an option.

A 401(k) plan typically offers bells and whistles that you cannot get with an IRA plan. For example, you can choose to have employer contributions vest over time, which can help you retain employees. You can offer Roth accounts that allow employee contributions to be made with after-tax income so that withdrawals are generally tax-free in retirement. Participant loans and hardship withdrawals may be an option for employees. And employees may contribute more to a 401(k) with its higher contribution limits than to an IRA plan.

In 2014, all eligible employees (including the business owner) may contribute as much as $17,500 of their compensation to a 401(k) account. Employees who are age 50 or older may contribute up to an additional $5,500 per year as a catch-up contribution. (Employee contributions are immediately 100% vested.)

Employers can also contribute by matching employee contributions or by making discretionary profit-sharing contributions of up to 25% of an employee's compensation. The combination of employee and employer contributions can be as high as $52,000 in 2014; $57,500 if the employee is age 50 or older.

There are a few types of 401(k) plans available, enabling you to choose a plan that is as simple or complex as you want.

A traditional 401(k) plan offers the most flexibility. With this type of 401(k), your company can make contributions for all participants, match employee contributions, do both, or do neither. Plus, you can impose a vesting schedule on contributions that your company makes so that employees forfeit part of the employer contributions if they are not 100% vested when they leave your company. This degree of flexibility in plan design, however, necessitates the need for complex, annual testing to ensure that the plan does not discriminate in favor of highly compensated employees.

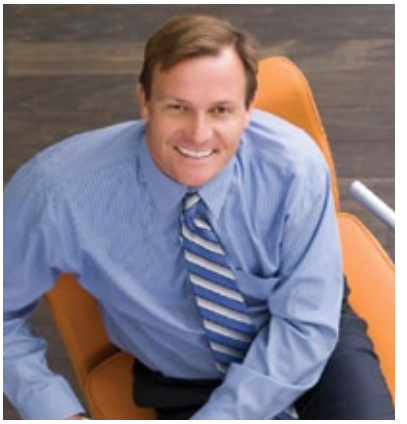
You can eliminate the need for annual nondiscrimination testing with what is known as a safe harbor 401(k) plan. This type of plan avoids testing by requiring a certain level of employer contributions each year that are fully vested when made.

A third type of 401(k), the solo or individual 401(k), is designed specifically for self-employed individuals and owner-only businesses with no employees other than a spouse. A solo 401(k) is generally easy to set up and operate and IRS filings are not required until the plan's assets exceed $250,000.

It is a good idea to consider a solo 401(k) if you meet the no-employee criteria, particularly if you are age 50 or older and want to contribute the maximum amount to your retirement account. You may be able to sock away $5,500 more per year to a 401(k) than you can to a SEP IRA, due to your ability to make catch-up contributions to a 401(k).

Like the IRA plans mentioned here, employer contributions to a 401(k) plan are made with pre-tax income and are deductible as a business expense. Unlike the IRA plans, however, employees have the option to make their contributions with pre-tax or after-tax income. Pre-tax contributions provide an immediate tax benefit to employees by reducing their taxable income for the current year and postponing income tax until the money is withdrawn from the account. After-tax contributions, known as Roth contributions, provide a future tax benefit. Although Roth contributions are subject to income tax in the year of the contribution, withdrawals in retirement are generally tax-free.

Your financial advisor can provide more details about the various 401(k) plans available to your company. ■



If you own a business or are self-employed, please talk to your tax and financial advisors about establishing a retirement plan for your company. Your advisors can help you select the plan that best suits your business and personal goals.

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Key Ages in Your Financial Life

Will you or anyone in your family celebrate one of the following birthdays this year? If so, some of the rules regarding your finances may change and certain financial opportunities may open up. Here are a few key ages to watch and plan for. Your financial advisor can help you incorporate them into your financial plan.

18, 19 or 24

The kiddie tax no longer applies. If your young children have investment income in excess of $2,000 per year (for 2014), part of that income may be taxed at your tax rate rather than your child's tax rate. This tax treatment applies to children under age 18, children age 18 who earn less than half their support, or children under age 24 who are full-time students and who earn less than half their support.

26

Your children cannot remain on your health insurance. Children can remain on their parent's health insurance plan until age 26 if the plan covers children. When your children are no longer covered by your health insurance, they must find their own coverage, perhaps through an employer or a health insurance marketplace. If they do not have coverage, they will generally have to pay a penalty unless their income is determined to be too low for them to afford coverage.

30

Deal with any money remaining in a Coverdell account. Unless the account's beneficiary is a special needs individual, the balance in a Coverdell education savings account must be distributed within 30 days of the beneficiary reaching age 30. The earnings portion of the distribution will be subject to income tax and a 10% tax penalty. The tax and penalty can be avoided if the balance is rolled over to another Coverdell account for a younger member of the beneficiary's family.

50

Time to play catch-up with your retirement plans. Beginning at age 50, you may contribute extra amounts each year, known as catch-up contributions, to your IRA and employer-sponsored retirement plan (if your employer's plan permits catch-up contributions). For 2014, the maximum catch-up amounts are:

$1,000	Traditional or Roth IRAs
$5,500	401(k), 403(b), SARSEP, or governmental 457(b) plans
$2,500	SIMPLE IRAs or SIMPLE 401(k)s

55

Some retirement plan withdrawals may be penalty-free. If you are at least age 55 (age 50 for qualified public safety employees) when you leave a company, you can generally withdraw your savings from that company's qualified retirement plan after you leave without having to pay a 10% federal tax penalty for an early withdrawal. (This item does not apply to IRAs.)

55

Contribute an extra $1,000 to your HSA. If you will be age 55 or older by the end of the year, you may contribute up to an extra $1,000 per year to your Health Savings Account (HSA).

59½

Penalty-free withdrawals can be made from IRAs and other retirement plans. Once you reach age 59½, you can generally withdraw amounts from your traditional IRAs, Roth IRAs, and employer-sponsored retirement plans without incurring the 10% tax penalty for an early withdrawal. Roth IRAs generally have the additional requirement that they must be open for at least five years before the earnings can be withdrawn tax-free and penalty-free. (Roth IRA contributions can be withdrawn tax-free and penalty-free at any time.) SIMPLE IRAs have the additional requirement that they must be open for at least two years before withdrawals can be made without a 25% penalty. And please note that some employer-sponsored plans may not permit withdrawals while you still work for that employer.

62

First chance to claim Social Security benefits. Most people become eligible to claim Social Security retirement benefits at age 62. Claiming them at age 62, however, will reduce your monthly benefit amount by as much as 30%. You will receive a larger monthly benefit if you delay the start of your benefits to, say, your full retirement age or even later.

65

Eligible for Medicare. Most people become eligible for Medicare at age 65. If you are already receiving Social Security, you will automatically be enrolled in Medicare. Otherwise, you should sign up for Medicare about three months before your 65th birthday.

66-67

Full retirement age for Social Security. If you were born between 1943 and 1954, you become eligible for your full Social Security retirement benefit at age 66. People born between 1955 and 1959 become eligible a few months past their 66th birthday. And people born in 1960 or later become eligible at age 67.

70

Your Social Security benefit reaches its max. If you put off starting your Social Security retirement benefits in order to maximize the amount of your monthly benefit, wait no longer. Your benefit will not increase past age 70 even if you continue to delay the start.

70½

RMDs begin. At age 70½, you generally must begin withdrawing a minimum amount each year from your traditional IRAs and employer-sponsored retirement plans, such as 401(k) plans, 403(b) plans, 457(b) plans, profit-sharing plans, SEPs, SARSEPs, and SIMPLE IRAs. These annual minimum withdrawals are known as required minimum distributions (RMDs). Your employer's non-IRA plan may permit you to postpone RMDs if you are still working. ■

Divorce and Your Tax Return: Three Things You Need to Know

Divorce can have a huge impact on your tax situation. If you have recently split from your spouse, here are three things you need to know before you file your tax return. Your tax advisor can tell you more.

1 Your filing status is…? Good question! And an important one, too, because your filing status has a significant impact on the amount of tax you pay.

Your filing status depends in part on whether you are married or unmarried on the last day of the year.

If you do not receive your final divorce decree or separate maintenance decree by the end of the year, you are married. You and your spouse can file joint or separate tax returns, using a filing status of married filing jointly or married filing separately.

If you receive your final divorce decree or separate maintenance decree by the end of year, you are unmarried for the entire year. As an unmarried person, your filing status is single or, in some cases, head of household.

Filing as head of household is generally preferable to filing as single because it offers a larger standard deduction ($2,850 larger in 2013) and more favorable tax brackets. To qualify for head of household status, you generally must be unmarried, have your dependent child living with you for more than half the year, and pay more than half the cost of keeping up your home for the year.

In some cases, you may be able to file as head of household even if you are not divorced or legally separated. To do this, you must meet all of the other requirements for head of household plus your spouse must not have lived in your home for the last six months of the tax year. Filing as head of household is generally preferable to filing as married filing separately because it offers a larger standard deduction, more favorable tax brackets, and may allow you to claim certain tax credits not allowed with the filing status of married filing separately.

2 Who gets to claim the dependent exemption? In general, the parent who has a dependent child for the most nights during the year is considered the custodial parent and is entitled to claim the dependent exemption.

However, the noncustodial parent may claim the dependent exemption if the custodial parent agrees not to claim it and signs IRS Form 8332. The form needs to be attached to the noncustodial parent's tax return. (Different rules apply if the divorce decree or separation agreement went into effect before 2009.)

The exemption for 2013 is $3,900 per dependent. If you are a high-income individual, it is important to remember that the value of your personal exemptions will be reduced (perhaps all the way to $0) if your adjusted gross income (AGI) exceeds $250,000 (single), $275,000 (head of household), $300,000 (married filing jointly), or $150,000 (married filing separately). Exemptions phase out by 2% for every $2,500 (or part of $2,500) that your AGI exceeds the applicable threshold amount. Your exemptions will be completely eliminated if your AGI exceeds $372,500 (single), $397,500 (head of household), $422,500 (married filing jointly), or $211,250 (married filing separately).

3 What are the tax implications of payments to or from your ex-spouse? The tax treatment of payments between you and your spouse or ex-spouse depends on the type of payment and whether you are the one doing the paying or the receiving.

Alimony or separate maintenance is deductible by the person paying it and must be included in the taxable income of the person receiving it. Keep in mind that alimony only includes certain amounts required by a divorce decree or a separation instrument. It does not include, among other things, child support, noncash property settlements, and voluntary payments that you make to your spouse.

Child support is not deductible by the payer nor is it considered taxable income by the recipient.

The tax aspects of divorce are complex, and this article only scratches the surface of the IRS rules regarding filing status, dependent exemptions, and the tax implications of payments between former spouses. Please consult your tax advisor for more details about these and other aspects of your tax situation. ■

You've split up... Are you still married for tax purposes?

If you obtained a final decree of divorce or separate maintenance by the last day of your tax year, you are unmarried for the whole year. No final decree yet? Then you are still married for federal income tax purposes, even if you and your spouse have separated.

Manage Your 401(k) Withdrawals Wisely

DECIDING HOW TO HANDLE THE savings in your 401(k) or similar workplace retirement plan when you retire is a big decision. The tax rules regarding these types of retirement plans are complex, and a misstep may result in you paying more taxes than necessary as you withdraw your retirement savings. Here are a few things to consider before deciding how to handle your 401(k) savings.

When you retire, you generally have three main choices of how to handle the savings in your 401(k). You can cash them out, transfer them to an individual retirement account (IRA), or perhaps leave them in your former employer's plan. Before deciding, it is important to consider the tax impact of each option.

Cashing out your tax-deferred 401(k) savings will result in an immediate tax bill. Your tax-deferred contributions and earnings will be taxed as ordinary income when they are withdrawn from your 401(k). Depending on your annual income, as much as 39.6% of your savings may be lost to federal income tax alone in the year of the withdrawal. Add to that state and local income tax if you live in an area with those taxes. And if you cash out before age 59½, the taxable portion of your withdrawal may also be subject to a 10% early withdrawal penalty unless you meet an exception to the IRS's age 59½ rule.

Instead of immediately handing Uncle Sam a large portion of your 401(k) savings in the form of taxes, you may be better off transferring your tax-deferred savings to an IRA or leaving them in the 401(k) plan. Both options enable the full amount of your savings to remain invested and to continue to potentially grow tax-deferred until you withdraw them from the IRA or the 401(k).

Age is another factor to consider, especially if you retire before age 59½. The taxable portions of withdrawals from a 401(k) or an IRA prior to that age are subject to an additional 10% early withdrawal penalty unless you meet one of the IRS's exceptions. There are several. One exception that applies to 401(k) plans, but not IRAs, goes like this: If you are at least age 55 (age 50 for qualified public safety employees) when you leave a company, you can generally withdraw money from that company's qualified retirement plan after you leave without having to pay the early withdrawal penalty. There are several other exceptions that if met will allow you to withdraw money early from your retirement accounts without incurring the penalty. It is a good idea to explore them with your tax and financial advisors if you are planning to retire early.

Age becomes a factor again at age 70½, the age when you are required to begin withdrawing at least a minimum amount each year from your 401(k) plans and traditional IRAs. These annual withdrawals, known as required minimum distributions (RMDs), are required for most types of retirement plans with the exception of the Roth IRA. So if you have Roth savings in your 401(k) that you would prefer to leave undisturbed, consider transferring them to a Roth IRA where account owners do not ever have to withdraw a cent (unless they want to) and where your savings can continue to potentially grow tax-free.

Employer stock is another factor to consider. If you have employer stock in your 401(k) that has appreciated greatly in value, you may be able to reduce the eventual taxes on the stock by transferring it to a taxable brokerage account instead of transferring it to an IRA or selling it in your 401(k).

Moving employer stock to a taxable account enables you to treat the stock's net unrealized appreciation (NUA) as a long-term capital gain when the stock is sold. The stock's cost basis is taxed as ordinary income when you transfer the shares to the taxable account. In contrast, if you sell the stock in either your 401(k) or IRA, the proceeds will be taxed as ordinary income when withdrawn from your account. If you have employer stock in your 401(k), please consult your tax or financial advisor before you move it. If you transfer it to an IRA, you lose the opportunity to use the NUA strategy.

For advice on how to handle the savings in your 401(k) when you retire, please consult your tax and financial advisors. ■

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401(k) Options in Retirement

Transfer your savings to an IRA

Preserves the tax advantages.

Access to a wider range of investment options than most 401(k) plans.

Can combine multiple retirement accounts into one IRA, making it easier to manage your retirement savings.

Required minimum distributions begin at age 70½ from traditional IRAs. Account owners are not required to take distributions from Roth IRAs at any age.

Remain in the 401(k)

Preserves the tax advantages. Your tax-deferred savings can continue to grow tax-deferred, and your Roth savings can continue to grow tax-free.

Typically fewer investment options than IRAs.

Required minimum distributions begin at age 70½ from tax-deferred and Roth 401(k)s. You may be able to postpone RMDs if you are still working.

Cash out your 401(k) savings

The taxable portion of your 401(k) (which may be all of it) will be added to your taxable income in the year that you cash out.

You give up the potential for your savings to grow tax-deferred or, in the case of a Roth account, tax-free.

Distributions are not required.

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SLOVENIA | European Union

BY BRIAN JOHNSTON

YOU CAN HIKE AT OVER 6,500 FEET through an alpine meadow one day, sip a Campari at a Mediterranean beach bar the next. Explore a medieval castle before lunch and attend an alternative music festival after dinner. Hang out with students at a trendy nightclub or sit among farmers with bristling moustaches in a village inn.

Follow the wine trail, sail the coast, kayak through gorges, or be a von Trapp by an alpine lake. In Slovenia, you don't have to make those difficult holiday choices, because you'll find a condensed version of all of Europe inside its compact borders. And, while you'd expect a country alternatively controlled by Austria-Hungary, Italy, Germany, and Yugoslavia to have eclectic historical influences, its vibrant and sophisticated cultural scene is a surprise.

"We may be a small country, but our cultural offerings rival anywhere else in Europe, even major cities," says Mitja Huplic, manager of the trendy Gustaf concert hall in Maribor. "You find similar things in Berlin or London, but here alternative venues are everywhere, even in small villages."

Over the last decade, other Europeans have begun taking notice of Slovenia. In 2012, the town of Maribor became a European Capital of Culture. Ljubljana has extended its airport and the rest of the world is waking up to Slovenia's charms. Go now when it's at its sparkling best: a boutique Europe without the crowds.

Start off in the pocket-sized Ljubljana, whose old town is a huddle of medieval, Baroque, and Art Nouveau buildings, plus some unfortunate Yugoslav additions. The beer is Germanic in quality, the ice cream Italian, the rustic street markets distinctly central European. Give into the delightful stereotypes by staying in the old town, where eclectic accommodations range from luxe loft apartments to budget gems. The old town is also a lovely place for informal dining: just the chance to try specialties such as local venison with wild berries, fresh Croatian seafood or, more daringly, horse fillet.

On one level, Ljubljana might be quaint old-time Europe, but here low-key

A bridge (left) leads to the old town section of Ljubljana, Slovenia. The Church of the Assumption (below) rises above a small island in Slovenia's Lake Bled.

charm and cutting-edge ideas coexist. Some compare its buzz to the Prague of the mid-1990s. Theatres are bursting, its philharmonic orchestra renowned, and rather provocative Slovene conceptual art is showcased at the Moderna Galerija, when it isn't rocking the international art world. Summer provides endless festivals, and the students that make up a fifth of its population sit along the Ljubljanica River promenades, enjoying Lasko beer to the sounds of buskers. In the recently renewed Metelkova City, live music hums and the former Yugoslav People's Army complex packs in bars, artists' studios, and designer spaces.

Only 31 miles to the northwest, Bled is a world away. Like a scene in a snow globe, it combines a Midori-blue lake, alpine peaks, and a castle on a rocky crag, and barely seems changed since the genteel days of the Hapsburgs. The beauty of the surrounding Julian Alps invites comparison with Switzerland, but the landscapes are wilder and less touristy.

Lake Bohinj is another scenic gem, yet has only a scattering of accommodations and eateries. Languid service is actually a blessing at its little country restaurants, many with terraces offering splendid mountain views; try the lake trout and you can hardly go wrong. Boating, hiking, and toe-chilling swimming are among the activities. Then hike up to the Savica Falls, immortalized in Slovene poetry, or take a cable car to the scenic summit of Mt Vogel. When Agatha Christie holidayed here in the 1960s she was asked by a local journalist whether she was about to set a book in the Lake Bohinj region. The crime writer replied it was far too beautiful for murder.

Further northwest, the Soča River features tumbling, turquoise alpine waters surrounded by the pine forest and peaks of Triglav National Park. It has been singled out by the EDEN (European Destinations of Excellence) project for the environmental eco-credentials in which this little nation leads the way.

Fly fishing, white-water rafting, kayaking, biking, and hiking have made it the adventure capital of Slovenia. Don't miss the magnificent clamber through Vintgar Gorge on wooden footbridges above foaming glacial waters.

Head west from Ljubljana instead of north and you get a karst landscape of vineyards, olive groves, and horse farms instead of Alps. Horse lovers will want to visit the Lipica Stud Farm, where Lipizzaner horses have been bred since 1580, to watch dressage performances of these famous dancing horses, whose agility and strength allow them to perform the most amazing pirouettes. These are the horses used by the prestigious Spanish Riding School from the days of imperial Vienna; now you can actually arrange to ride one yourself.

In just an hour, you've reached the Adriatic coast, wedged like an afterthought between Italy and Croatia. Piran was once a salt-trading port controlled by the Venetian Empire, which explains the winged lions that smirk from its pastel-pretty facades. Piran is all about wandering cobblestone lanes and harbor-side promenades before tucking into seafood. A friendly family atmosphere makes this a pleasant destination for eating, with simple but delicious local dishes ranging from homemade pâté to peppered swordfish filets.

Alps to the north, beaches to the west, but head east and you get another slice of Europe in the vineyard-clad hillsides around Maribor. A 30-day hiking route running from Ankaran on the coast across the Julian Alps will get you there, but so too will a few hour's drive. Maribor is a university town of baroque chapels and little rococo palaces, where longhaired university students flop under chestnut trees.

Maribor has a reputation for avant-garde jazz, artistic creativity, and a mind-boggling array of festivals. "You meet all types here," says Srdjan Trifunovic, who recently helped reopen one of Maribor's 1930s cinemas for independent movie screenings. "Musicians, actors, doctors, welders. But everyone is on the same level, and looking for something new."

What's new is that Maribor was chosen as one of Europe's two Capitals of Culture in 2012, bringing it to wider attention. Its castle has been refurbished, old-town squares pedestrianized, and the former Pekarna military bakery is now a hip cultural center with a concert hall for alternative music.

Maribor sits among vineyards and has some new wine-tasting rooms and sleek cellar doors which demonstrate how much Slovenia's wines have improved of late. At the Victorian-era cellar Toti Rotovz, for example, you can match your wines with classic dishes, such as wild boar or strudel made from sour cherries. Just don't forget to toast Slovenia for offering the best of Europe in such effortless style. ■

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WINTER EVENTS

Don't stay inside when the temperature drops—celebrate! Winter carnivals, ice climbing, and snow-sculpting competitions are some ways to enjoy winter to the fullest.

Ouray Ice Festival
Ouray, CO · January 9–12, 2014

The Ouray Ice Park, a spectacular natural gorge just outside of the town of Ouray, CO, attracts ice climbers from around the world each January to compete in the annual Ouray Ice Festival. The four-day event (the largest of its kind in North America) is filled with ice-climbing competitions, clinics, and demonstrations. Ice-climbing enthusiasts and spectators are welcome!

International Snow Sculpture Championships
Breckenridge, CO · January 21–February 2, 2014

Five-person teams from around the world compete in Breckenridge, CO each January in hopes of winning a medal in the International Snow Sculpture Championships. Last year's winners included teams from Mongolia, Catalonia-Spain, and Estonia. This year, sculpting begins on January 21 and lasts for five days, with the winners being announced on January 26. The sculptures will remain on display through February 2, weather permitting.

Lake George Winter Carnival
Lake George, NY · Saturdays and Sundays in February

Nestled in the foothills of the Adirondacks, the village of Lake George cuts loose every weekend in February with a wide array of activities—many held right out on the frozen lake! If past carnivals are any indication, you may find golf tournaments, motorcycle and ATV races, car races, and kite flying—all on the ice (depending on ice conditions). The fun continues onshore with activities, such as snow tubing, cook-offs, bonfires on the beach, and fireworks over the lake.

Steamboat Springs Winter Carnival
Steamboat Springs, CO · February 5–9, 2014

The town of Steamboat Springs, CO showcases its western heritage and winter-sports tradition each year with a winter carnival. The event typically features ski jumping, a cross-country obstacle race, snow-boarding jam sessions, and a biathlon competition. The fun continues in the heart of town where kids are pulled on skis down the main street by horses or soar through the air off the Donkey Jump, while adults hop on shovels to find out who can be pulled down the street the fastest.

Madison Winter Festival
Madison, WI · February 15–16, 2014

Strap on your snowshoes and head to Madison's Capitol Square where over 90 truckloads of snow will transform the square into a venue for sledding, snowshoeing, and other winter activities for a weekend this February. The festival also features cross-country ski races, a 5K run and walk, and a 1-mile dog jog.

Fur Rondy Festival
Anchorage, AK · February 21–March 2, 2014

In 1935, some fun-loving Anchorage citizens decided to hold a sports festival to coincide with the time when miners and trappers came to town with their goods. 70-odd years later, the festival is still going strong, with an expanded lineup of events that includes the World Championship Dogsled Race, a carnival, a parade, snowshoe softball, a blanket toss (a Native Alaskan tradition), and a Grand Prix auto race through the streets of Anchorage. ■

QUIZ

Where in the world are you?

1. If you are crossing a footbridge, high in the rainforest canopy near the Arenal Volcano, you are in:

A. Canada
B. Costa Rica

2. If you are driving amidst a herd of wildebeests on the Serengeti, you are in:

A. Tanzania
B. Peru

3. If you are learning to surf on Bondi Beach, you are in:

A. New Zealand
B. Australia

4. If you are venturing into Panna National Park in search of leopards, sloth bears, and Bengal tigers, you are in:

A. Brazil
B. India

5. If you are cruising between the rocky mountain peaks of the Nærøyfjord, you are in:

A. Norway
B. Alaska

6. If you are riding the tram up Victoria Peak for a bird's eye view of the skyscrapers and harbor, you are in:

A. Sydney
B. Hong Kong

7. If you are being seduced by *Carmen* in the Teatro alla Scala, you are in:

A. Italy
B. France

8. If you are walking among giant, prehistoric statues, known as Moai, you are in:

A. Galapagos
B. Easter Island

9. If you are strolling across the skybridge between the Petronas Twin Towers, you are in:

A. Malaysia
B. China

ANSWERS: 1–B, 2–A, 3–B, 4–B, 5–A, 6–B, 7–A, 8–B, 9–A.