

Estate and Gift Tax Update

Keep up With the Rules

Four years ago, Congress unexpectedly raised the individual lifetime exclusion for estate and gift tax from \$3.5 million to \$5 million, effective for 2011 and 2012. Due to the concern that the exclusion would go back to \$1,000,000 for 2013, the increase resulted in a great rush to complete gifting by the end of 2012. Ultimately, Congress left the increase in place. With all of the excitement generated by this change, it may have been overlooked that Congress made another major change: the lifetime exclusion will be indexed for inflation.

Therefore, the individual lifetime exclusion for estate and gift tax has increased every year, from \$5,000,000 in 2011 to \$5,120,000 for 2012; \$5,250,000 for 2013; and is currently \$5,340,000 for 2014. Therefore, if a married couple in 2012 utilized their entire lifetime exclusion of \$10,240,000 (\$5,120,000 x 2) through gifting of assets to their beneficiaries, in 2014 they would have an additional \$440,000 (\$220,000 each) of lifetime exclusion to be able to gift to their beneficiaries, gift tax free in 2014 due to the increase in the exclusion as a result of the inflation adjustment.

Additionally, the "annual exclusion" for gifting purposes is \$14,000 for 2013 and 2014. This is the amount that each person can gift annually to any number of beneficiaries without generating the requirement of a gift tax return. Gifts up to this amount will not reduce the lifetime exclusion as well.

This is a very brief discussion of the general changes in the lifetime exclusion and annual gift exclusion. There are many factors and circumstances that need to be considered before making a gift and we are happy to help you determine the best plan for your gifting desires.



Retirement Planning

Retirement Readiness

At SPS, we utilize a team of outside specialists to handle the needs of our clients when required. Richard Myerson is the owner of The Myerson Agency – a boutique wealth and estate-planning agency. We've asked Richard to write a short piece on retirement planning.

Planning for retirement means different things to different people. In the final analysis, however, it's the same for everyone: to provide a safe harbor of financial freedom and flexibility at the time we choose to slow down or cease working completely. That's naturally a very relative and subjective goal, usually consistent with one's lifestyle, income earning capacity during one's working years, health, and outlook on life.

For almost everyone, however, the process should be the same: **START EARLY!** Remember the miracle of compound interest!

Your plan should contain all of the following, if not more, but these are the basics:

- Time horizon to desired retirement date
- Quantification in today's dollars of what kind of lifestyle you wish to have at retirement
- Special needs, both planned and unplanned, that may come up during retirement



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- Current investable resources and resources available over the course of your remaining working years to move toward retirement assets
- Realistic liquidity events, or possible inheritances
- An estimate of growth on invested assets during your working years, and at retirement
- An estimate of inflation over your lifetime that will naturally increase the current dollar requirement at retirement
- Make sure your investment plan is well-diversified and includes **growth, preservation and protection**.
- Stay the course. This is easier said than done, especially in turbulent times. During these times rely on your financial advisor to keep you on course. Remember, there has never been a storm, no matter how bad or how long, that hasn't been followed by sunshine.
- Avoid the short-term sin of greed and it's equally debilitating cousin, fear. If properly planned, the natural order of things will get you through the volatile periods.
- Tweak the plan as necessary, for both changes in goals, resources, and the market, but never overreact. Know that the plan includes provisions for market volatility.
- Stay healthy! This is not some sentimental rhetoric that your grandmother used to espouse. If you haven't gotten there yet, I'm quite certain one day the light will suddenly turn on and you'll be confronted with the following question: what is the point of building financial health if one's physical health cannot enjoy it?



Taiwan: a Native's Perspective

Questions and Answers with Carrie Chiang, SPS staff accountant and recent USC graduate

What do you miss most about living in Taiwan?

I miss its convenience. Taiwan is a small but very densely populated island, especially in Taipei, the capital. Different kinds of public transportation are easily accessible and convenience stores are everywhere offering everything from meals and books to daily necessities.

What is your favorite restaurant or meal in Taiwan?

My favorite meal is Taiwanese xiaochi. It is like Taiwanese style tapas. At the night market, there are a lot of food stands and small restaurants serving different meals. The portion of the dish is generally small so people can have many little dishes with a good variety of food for one meal.

What is something that you and your friends would typically do for fun in Taiwan?

My friends and I love to go to the night market. Other than Taiwanese xiaochi, there are many shops for clothes, shoes, etc. Also, there are many stalls for games, such as catching fish with a paper net and shooting balloons with a BB gun.

What is something that most Americans would be surprised by about life in Taiwan?

Most people would be surprised about people's friendliness in Taiwan. In general, people are warm, very friendly, and willing to help others.

What is something that a visitor to Taiwan should make sure not to miss?

The Alishan National Scenic Area and Taroko National Park are two remarkable places with many attractive sights in Taiwan. At the same time, these two places comprise a lot of Taiwanese culture and history. Also, Tainan City, the oldest city in Taiwan, is known for its food.

What is the most common misconception people have about Taiwan?

A lot of people get confused about Taiwan and Thailand. They are two different countries with different languages. Taiwan is an island in the Pacific Ocean, located south east of China, and Thailand is located in the south of China.

Cloud Computing – The Future is Here But Is it Safe to Put Your Business in the Cloud?

No doubt many are unclear as to what "cloud computing" even means. A Wakefield Research survey revealed that 20% of respondents pretended to know more about cloud computing than they actually did and 60% suspected their colleagues were also feigning knowledge. Sounds like a modern variation on the old Emperor's New Clothes fairytale.

So what is "the cloud"? At its essence, the cloud consists of computer servers connected via the internet that provide a platform for storing and retrieving data as well as running programs. If you've ever used Netflix, YouTube, Dropbox or online banking, you have accessed "the cloud."

Large cloud service providers, such as Amazon and Microsoft, offer cloud solutions to all types of businesses. So instead of businesses buying servers, they "rent" space on these vast shared systems. The immediate advantage is the business doesn't have to spend a lot of money on hardware or worry about maintaining them. Further, cloud services can usually upscale or shrink quite easily. Dropbox backup full? Press a button and rent additional space. In theory, that means efficiency and flexibility.

Though cloud computing is over a \$100 billion a year business and growing, some fundamental doubts persist, mostly around security.

Experts are concerned that consumers and businesses don't understand that cloud systems are vulnerable, especially when protected by just a user chosen password. A primary reason for concern isn't that cloud services are poorly designed; the problem is those who use cloud services, humans, can be easily tricked.

For example, everyone's received emails asking to click a link to win a prize or "confirm their password." These emails look like they came from a bank or favorite store. But when clicking a link in these "phishing" emails, they end up with giving away their password or worse, a virus that sends personal information to online thieves. This can result in identity theft, unauthorized charges to credit cards and more.

We've all heard the warnings about the importance of picking secure passwords ad nauseam, but the problem is still rampant.

These non-secure passwords are easily "guessed" by sophisticated programs that hackers use to get at your personal or businesses data. If users don't use passwords with both lower and uppercase letters, numbers and symbols (such as "@" or "%") they're putting themselves at significant risk.

Poor password security doesn't only afflict individuals and small businesses; consider major retailer Target where intruders gained access (via a password breach) to 40 million customer credit and debit cards. According to BusinessWeek, lawsuits filed by customers and banks for negligence could cost them billions of dollars in damages. Additionally, Target's profit for the 2013 holiday season fell 46 percent from the prior year.

What's unique to "the cloud," in terms of security, is a third party is responsible for much of your security. Yet, in the end, if there's a data breach or loss, it's your brand and reputation on the line. You must help protect yourself by carefully determining who has access to your account credentials while making the passwords you choose to protect your data truly secure.

Also consider what happens if your business data (or a lifetime of personal family pictures) backed up to the cloud simply disappears. It can happen, so do you have other backups? My (former) cloud backup provider "lost" dozens of voicemails I had saved from my Mother (who recently passed away). Thank goodness I had backed up these irreplaceable memories to an external hard drive as well. So don't just run off putting all your eggs in one cloud, so to speak.

The cloud represents an amazing change in the way businesses and individuals work with computers, the Internet and each other. But we need to be mindful of what we are doing with it, and how cautious we are in safeguarding our business information, our personal memories and ourselves.

In the next issue of our newsletter we'll discuss how SPS is safeguarding their data in the cloud.

Steven Laff, a 25-year SPS client, is Principal of the web development firm "A Far Site Better" They developed SPS's current (and forthcoming) websites as well as these quarterly newsletters.

Please note that these articles contain general information and are not a complete analysis that you should rely on in making decisions. Our goal is to bring these matters to your attention and suggest that you review your practices. We are here to assist you. These may be difficult issues to address, and you may need to consult with your legal counsel.