breaks on the books for retirement-savers, but it is often overlooked.

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(This is the first in a three-part series on unique tax breaks for qualified plans and IRAs. Read Part II. Read Part III.)

Are you deeply involved in retirement planning for your top clients? According to some well-placed sources, this is the fastest growing business segment for CPAs and financial planners alike. If you haven't embraced this growing source of revenue for your practice, the time to do so is now.

Clients may not be aware of all the intricacies in the tax rules for retirement plans



completely avoid tax on the stock's appreciation in value when a payout is made. To sweeten the deal, when the stock is sold, if ever, it qualifies for preferential capital gain treatment.

Currently, the maximum tax rate on long-term capital gain is only 15 percent. It increases to 20 percent for someone in the top tax bracket, but that's still nearly half of the top ordinary income rate of 39.6%. What's more, payments from a qualified plan don't count as "net investment income" (NII) for purposes of the 3.8 percent NII tax.

But the special tax break for NUA isn't automatic. It is only available for distributions of stock acquired with pretax contributions and employer matching contributions if the following conditions are met:

- The distribution comes from a *qualified* retirement plan like a 401(k), pension or profit-sharing or stock bonus plan. Distributions from IRAs don't qualify.
- There must be a triggering event. For this purpose, a triggering event is separation from service, attaining age 59 ½ or the death or disability of the employee.
- The distribution must include all amounts in all qualified plans of the employer and must be made in a single year. You can't spread out distributiomns over time.

How powerful is the tax break for NUA? Just look at a hypothetical example.

Suppose Employee acquired 10,000 shares of company stock in her 401(k) plan over the course of her career. The average cost per share is $10 a share. Currently, the going price is $50 per share, so the total value is $500,000. For simplicity, let's say this is the only asset in her 401(k) account and she has no other accounts with the employer.

If Employee sells the stock and takes a cash payout from the plan upon retirement,



Alternatively, if Employee subsequently sells the stock for $500,000, the NUA is taxed as long-term gain. In that case, the tax on the $400,000 gain is $80,000. Overall, she pays tax of $119, 600 ($39,600 + $80,000) – still $78,400 less ($198,000 – $119,600) than before!

If you're looking for the "wow factor" to impress clients, this could be it. This technique could be worth hundreds of thousands of tax dollars or even more for someone who can manage to buy low and sell high. Caution: Congress has threatened to close this giant tax loophole in the past and it could resurface in proposed legislation again.

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