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SEC Plans to Limit 12 b-1 Fees (Sales Commissions)

As an investor, have you thought about compensating the salesperson who sold you a Mutual Fund for 10 - 20 years after the sale? This could be the case now, but the SEC has recently taken steps to limit fees passed on to purchasers of these funds and amounts spent on marketing.

The proposal calls for a cap on sales charges that would not exceed the maximum amount an investor paid up front. The original concept was to encourage brokers to sell *no-load* Mutual Funds, or funds with no upfront costs to the customer. The SEC has allowed these fees since 1980, to help compensate third-party financial advisers and intermediaries.

When implemented, these sales fees amounted to only a few million dollars, but by 2007, exceeded $13 Billion. In 2009 these fees drop to $9.5 Billion along with the decline in the Stock Market.

The new rules would also require fund managers to tell an investor how much brokers were paid for sales charges, and additionally disclose how much was spent on marketing and related expenses. Under the proposal, a fund could use a maximum of .25% of assets for marketing.

Along with this rule, the proposal requires investment advisers to provide clients with documentation containing *plain English descriptions* of the advisers' businesses, services, and any conflicts of interest.

ARE YOU READY FOR MORE PAPERWORK?

In an effort to stop “Tax Cheats” and fund the new health care changes, lawmakers have passed a provision requiring forms 1099 filed whenever a business purchases goods or services from any vendor that exceeds $600 a year. The provision makes no distinction whether buying from a self-employed plumber or Office Max. The idea is to reduce the tax gap and prevent the estimated loss of $300 billion of unreported income, or $100 billion of uncollected taxes.

The new rules take effect in 2012 and apply to all businesses, but the compliance burden will be carried on the shoulders of small businesses. Under current provisions, even people who work from a home office will be affected. These are the classes of businesses least able to support these additional paperwork burdens imposed.

The benefits of such provisions in relation to the requirements imposed are questionable. Take for example, if a person operates a business from home, a 1099 may be owed to the utility company. And, under the law, if a vendor doesn’t supply a tax ID number the business is supposed to withhold 28% of the amount due on the purchase and send this to the IRS.

Will the new provisions be beneficial to the nation? Or, will the medicine prescribed to cure the problem

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Last Week:

- Tax Changes in 2011
- Family Limited Partnerships

Important Links:

Internal Revenue Service
Indiana Department of Revenue

Know someone who would benefit from this Newsletter? Send us an e-mail address.

FOR SALE

BUSINESSES AVAILABLE

1. BRAND NAME garage door installation and repair

company - Marion County and surrounding counties.

2. "C" store
3. Office Industrial complex-occupied with long-term tenants, 3 acres of land.
4. Operating Day Care Franchise
5. Beauty shop – Fishers

put another nail in the coffin of small business.

YEAR-END ESTATE AND GIFT TAX PLANNING

The current federal estate tax exemption is $2.0 million, although this amount will be reduced to $1.0 million in 2011 unless Congress decides to increase it. An important method of ensuring that your estate will not be subject to estate tax is to make sufficient gifts during your lifetime so that at your death your estate is smaller than the then-current exemption amount.

Your lifetime gifts are, however, subject to a gift tax that is imposed at the same rate as the estate tax. This "unified" system is intended to eliminate any tax advantage to making gifts. But certain types of lifetime transfers are not subject to gift tax and the end of the year is a good time to make such tax-free exchanges.

The most commonly used method for tax-free giving is the annual gift tax exclusion. This allows making a gift of up to $13,000 annually to each person without paying gift tax. There is no limit on the number of people to whom gifts can be made, gifts to 10 different persons will exclude up to $130,000 from tax. In addition, if you are married you can double the amount of the exclusion to $26,000 per person, because you and your spouse can combine your exemptions into a single gift.

The annual gift tax exclusion expires at the end of each year, so year-end is the appropriate time to take advantage of it. If you want to make a gift that exceeds the amount of the exclusion, you can effectively double the exclusion by making one gift in December and the second in January. For example, if you are married, you can make a total tax-free gift of $52,000 to any individual by making a gift of $26,000 in December and another $26,000 in January.

As noted above, the annual exclusion is applied per-person. As a result, the exclusion may be leveraged by making gifts to multiple members of the same family. For example, you could make $13,000 gifts to each of your son, his wife and his daughter, for a total of $39,000 in tax-free gifts. The amount will double to $78,000 if a spouse joins in the gifts.

THESE ARTICLES MAY NOT BE USED FOR PENALTY PROTECTION