

2013 Year-End Tax Planning Checklist

Planning strategies to discuss with your Financial Advisor or Private Wealth Advisor and tax professional before year-end

GENERAL TAX ISSUES

- ☐ Find out if you have any loss carryovers from prior years to be applied against capital gains. If your current year's capital losses exceed your capital gains you have a net capital loss. You can use up to \$3,000 of that loss (\$1,500 if you are married filing separately) to offset other taxable income, such as salaries and wages, interest and dividends. If the capital loss is more than \$3,000, you can carry over the excess and apply it against capital gains the next year. You can continue doing this year-after-year until the capital loss is completely used up.
- ☐ When selling securities, ask your Financial Advisor or Private Wealth Advisor how to comply with wash sale rules that govern the purchase and sale of similar investments within a 30-day period.
- ☐ Have your tax advisor estimate your adjusted gross income and tax rate now to determine if you have any Alternative Minimum Tax ("AMT") liability for 2013. Work with your tax advisor on the timing of payments (i.e., state and local income taxes) in an attempt to mitigate your AMT liability. This may include accelerating or deferring income.
- ☐ Speak to your tax advisor about the two tax credits—American Opportunity Credit and Lifetime Learning Credit—to help fund higher education expenses.

RETIREMENT ACCOUNTS

- ☐ Consider funding your IRA and company retirement plan accounts as soon as possible. You generally have until April 15, 2014 to fund your IRA for 2013. You should consult your tax advisor to determine the deadline for contributing to your company retirement plan.
- ☐ Explore the benefits of a Roth IRA. A conversion of a traditional IRA to a Roth IRA can provide tax-deferred growth potential, as well as tax-free income in retirement.

RETIREMENT ACCOUNTS CONTINUED...

- ☐ Check with your employer if your company's retirement plan contains a designated Roth account. As a result of the Small Business Jobs Act of 2010 and the American Taxpayer Relief Act of 2012, you might be able to complete a Roth conversion within your employer sponsored plan.
- ☐ Review your retirement account holdings to ensure they are optimized for tax efficiency. While at certain times municipal bonds have offered compelling yields even in a retirement account, this may no longer be the case. You might consider alternatives such as higher yielding taxable fixed income products.
- ☐ If you are age 70½ or older and have a traditional Simplified Employee Pension (SEP), SAR-SEP or SIMPLE IRA, remember to take your required minimum distribution for 2013 by December 31, 2013, if required.
- ☐ Taxpayers age 70½ and older may direct up to \$100,000 of their IRA-required minimum distributions to charity. By doing so, the distribution does not count as taxable income, which has the potential of lowering taxation of Social Security benefits. This provision is scheduled to end December 31, 2013.
- ☐ If you own a business which has a calendar tax year, under most circumstances you only have until December 31, 2013 to adopt a qualified plan in order to deduct contributions for 2013. However, if you miss this deadline, a SEP plan can be established and funded by the due date for filing the plan sponsor's 2013 tax return (including extensions). This deadline could be up to six months after the original due date of your tax return.
- ☐ Diversifying your retirement portfolio with a variable annuity might help complement your existing investment strategy by providing a number of tax-advantaged benefits—including opportunities to reduce your current tax liability, increase retirement savings and possibly supplement social security and/or pension benefits.

GIFTING PLANS

- ☐ Complete any gift transfers to individuals or use the annual exclusion to make gifts to an Irrevocable Life Insurance Trust by year-end. Doing so will help you reduce the value of your estate and future estate taxes. You can transfer up to \$14,000 per recipient in 2013 without incurring any federal gift tax. Spouses together may gift up to \$28,000 per recipient.
- ☐ Speak with your Financial Advisor or Private Wealth Advisor about gifting through a 529 plan. Contributions to a 529 plan can help reduce income and future estate taxes. By taking advantage of a special provision in the tax code that allows you to take five years of gift tax exclusions in a single year, you can make an accelerated gift through a 529 plan, you can gift up to \$70,000 (\$140,000 for couples) per beneficiary—which effectively removes the assets from your taxable estate, yet does not force you to give up control.¹
- ☐ Consider making non-taxable gifts in excess of the annual exclusion using your federal gift tax exclusion of \$5.25MM (\$10.50MM for married couples). This is the largest gift tax exemption—and opportunity—in history. To take advantage of the opportunity, you might consider outright gifts or gifts in a trust, including trusts for your grandchildren's education. Gifts can be made with real estate, stock or other assets. Any gifts above the annual gift tax exclusion will require filing a gift tax return even if no tax is due. Before making such a gift, consult with your Financial Advisor or Private Wealth Advisor for assistance in determining whether such a gift is feasible given your level of assets and projected income and expenses.
- ☐ Gifting appreciated investments to charity is a way of reducing your tax burden. As long as the investment has been owned for a least one year and has appreciated in value, the owner may deduct the full market value without having to pay tax on the appreciation.
- ☐ A donor advised fund (DAF), such as Morgan Stanley Global Impact Funding Trust (GIFT), is a tax-efficient way of donating taxable stock, mutual funds or other appreciated assets. A tax deduction can be claimed for the entire market value of the donated assets. A DAF can be funded in years when the deduction will have the most impact. Distributions can be made in later years without consideration of the tax consequences.
- ☐ Remember that only donations to qualified charitable organizations are deductible. If you're uncertain of an organization's charitable status, request to see its qualifying letter from the IRS. Alternatively, you can search online by linking to IRS Publication 78, which lists qualifying organizations. Note that churches, synagogues, mosques and educational organizations can receive deductible donations even if they're not listed in IRS Publication 78.

BUSINESS OWNERS

- ☐ If your company has a 401(k), 403(b) or 457(b) plan, consider offering employees the opportunity to convert their existing retirement account to a Roth account.
- ☐ The 2012 American Taxpayer Relief Act extends a 50% bonus depreciation for qualified property. Bonus depreciation will be available for qualified property placed in service before January 1, 2014. In addition, the 2012 Act provides that, for tax years beginning in 2013, the Section 179 small business expensing deduction limitation will be \$500,000. The limitation will be reduced if the cost of the Section 179 property for that year exceeds \$2 million. Please refer to the tax disclosure on page 4.

OTHER ISSUES

- ☐ Set aside the maximum amount allowed for next year in your employer's healthcare Flexible Spending Account.
- ☐ Medicare: Annual Open Enrollment period starts mid-October and ends in early December. You may find yourself in the position of determining the best coverage options for yourself and loved ones. Getting this election correct is very important as a poor choice can impact out of pocket expenses. For help on these and other health care and long term care issues (regardless of your age), talk to your Financial Advisor or Private Wealth Advisor who can provide access to enrollment consultation and help you incorporate health care costs into the rest of your financial plan.
- ☐ Ask your Financial Advisor or Private Wealth Advisor for help rebalancing your portfolio to remain in line with your goals, time horizon and risk tolerance. Discuss any new opportunities for investing that might be appropriate for you.
- ☐ Consider using a securities-based loan to finance your tax liability. As an alternative to liquidating your assets, a securities-based loan may provide you with an opportunity to maintain your wealth management strategy and keep your investments on track for meeting your goals. Please refer to the tax disclosure on page 4.
- ☐ Same-sex couples should consult with their tax advisors about recent changes in federal law that could result in estate and gift tax planning advantages.

¹No further annual exclusion gifts and/or generation-skipping transfers to the same beneficiary by the donor may be made over the same five-year period, and the gift must be reported as a series of five equal annual gifts. If the donor dies within the five-year period, a portion of the gifted amount will be included in the donor's estate for estate tax purposes. If you revoke the account, its value comes back into your taxable estate.

DISCLOSURES

This material does not provide individually tailored investment advice. It has been prepared without regard to the individual financial circumstances and objectives of persons who receive it. The securities discussed in this material may not be suitable for all investors. Morgan Stanley Wealth Management ("Morgan Stanley") recommends that investors independently evaluate particular investments and strategies, and encourages investors to seek the advice of a Financial Advisor or Private Wealth Advisor. The appropriateness of a particular investment or strategy will depend on an investor's individual circumstances and objectives.

Tax laws are complex and subject to change. Morgan Stanley Smith Barney LLC, its affiliates and its Financial Advisors and Private Wealth Advisors do not provide tax or legal advice and are not "fiduciaries" (under ERISA, the Internal Revenue Code or otherwise) with respect to the services or activities described herein except as otherwise provided in a written agreement with Morgan Stanley. This material was not intended or written to be used for the purpose of avoiding tax penalties that may be imposed on the taxpayer. Individuals are encouraged to consult their tax and legal advisors (a) before establishing a retirement plan or account, and (b) regarding any potential tax, ERISA and related consequences of any investments made under such plan or account.

Bonds are affected by a number of risks, including fluctuations in interest rates, credit risk and prepayment risk. In general, as prevailing interest rates rise, fixed income securities prices will fall. Bonds face credit risk if a decline in an issuer's credit rating, or creditworthiness, causes a bond's price to decline. Finally, bonds can be subject to prepayment risk. When interest rates fall, an issuer may choose to borrow money at a lower interest rate, while paying off its previously issued bonds. As a consequence, underlying bonds will lose the interest payments from the investment and will be forced to reinvest in a market where prevailing interest rates are lower than when the initial investment was made. NOTE: High yield bonds are subject to additional risks such as increased risk of default and greater volatility because of the lower credit quality of the issues.

529 college savings plan funds not used for qualified educational expenses are subject to applicable taxes and penalties. Before investing, investors should consider whether tax or other benefits are only available for investments in the investor's home-state 529 college savings plan.

Variable annuities are sold by prospectus. The prospectus contains the investment objectives, risks, fees, charges and expenses, and other information regarding the variable annuity contract and the underlying investments, which should be considered carefully before investing. Prospectuses for both the variable annuity contract and the underlying investments are available from your Financial Advisor. Please read the prospectus carefully before investing.

Variable annuities are long-term investments designed for retirement purposes and may be subject to market fluctuations, investment risk, and possible loss of principal. All guarantees are based on the claims-paying ability of the issuing insurance company. Taxable distributions (and certain deemed distributions) are subject to ordinary income tax and, if taken prior to age 59½, may be subject to a 10% federal income tax penalty.

Insurance products are offered in conjunction with Morgan Stanley Wealth Management's licensed insurance agency affiliates.

Rebalancing does not protect against a loss in declining financial markets. There may be a potential tax implication with a rebalancing strategy. Please consult your tax advisor before implementing such a strategy.

Securities-based Lending Risks: Borrowing against securities may not be suitable for everyone. You should be aware that securities-based loans involve a high degree of risk and that market conditions can magnify any potential for loss. Most importantly, you need to understand that: (1) Sufficient collateral must be maintained to support your loan(s) and to take future advances; (2) You may have to deposit additional cash or eligible securities on short notice; (3) Some or all of your securities may be sold without prior notice in order to maintain account equity at required collateral maintenance levels. You will not be entitled to choose the securities that will be sold. These actions may interrupt your long-term investment strategy and may result in adverse tax consequences or in additional fees being assessed; (4) Morgan Stanley Bank, N.A., Morgan Stanley Private Bank, National Association, or Morgan Stanley Smith Barney LLC (collectively referred to as "Morgan Stanley") reserves the right not to fund any advance request due to insufficient collateral or for any other reason except for any portion of a securities-based loan that is identified as a committed facility; (5) Morgan Stanley reserves the right to increase your collateral maintenance requirements at any time without notice; and (6) Morgan Stanley reserves the right to call your securities-based loan at any time and for any reason.

Morgan Stanley Smith Barney LLC ("Morgan Stanley") is a registered Broker/Dealer, member SIPC, not a bank. Where appropriate, Morgan Stanley has entered into arrangements with banks and other third parties to assist in offering certain banking related products and services. **Unless specifically disclosed in writing, investments and services offered through Morgan Stanley are not insured by the FDIC, are not deposits or other obligations of, or guaranteed by, a bank and involve investment risks, including possible loss of principal amount invested.**