



Realization Models

This Training Guide will step you through the following:

- How to select/manipulate Realization Models.
- Impact on Cash Flow, Tax and Account Basis.
- How Realization effects Investment Cost Basis.

For Advisor Use Only

Realization Models

It is important to select the appropriate Realization Model for all taxable accounts because of the income tax consequences. The simulation engine refers to the Realization Tab under Taxable Investments in order to calculate the appropriate percentage of ordinary income, qualified dividends and capital gains. **Please note** that the default Realization Model for all Taxable Accounts is **"By Asset Mix"** and that the Realization Model is applicable to Taxable Accounts only.

Taxable Investment > Greengate Mutual Fund

| | | | | | | |
|---------------------------|---------------------------------|------|-------------|----------|-----------|-----|
| Basic | Ownership | Fees | Realization | Holdings | Asset Mix | Acc |
| Asset Name: | Greengate Mutual Fund | | | | | |
| Institution Name: | ABC Investment Company | | | | | |
| Type: | Manually Entered | | | | | |
| Holdings Value: | \$10,000 (from Holdings) | | | | | |
| Cash Balance: | \$0 | | | | | |
| Margin Balance: | \$0 | | | | | |
| Total Value: | \$10,000 | | | | | |
| Tax Basis: | \$5,000 (from Holdings) | | | | | |
| Pre-Retire Gross Growth: | Custom | ▼ | 5.00% | | | |
| Post-Retire Gross Growth: | Custom | ▼ | 5.00% | | | |
| Realization Model: | By Asset Mix ▼ | | | | | |
| Owner: | Richard and Emily (Joint/ROS) ▼ | | | | | |
| Under Our Management? | Yes ▼ | | | | | |
| Exclude from Planning? | No ▼ | | | | | |

There are 9 realization model options: **By Asset Mix**, **By Portfolio/Growth Rate**, **Tax-Free Income**, **Income Only**, **Enhanced Income**, **Growth & Income**, **Growth**, **Aggressive**, and **Custom**.

Realization

Model: Growth & Income ▼

- By Asset Mix
- By Portfolio/Growth Rate
- Tax-Free Income
- Income Only
- Enhanced Income
- Growth & Income
- Growth
- Aggressive
- Custom

As you select different realization models we apportion the growth into the various tax buckets. You may also override any model by selecting the Custom realization model and modifying the percentages. Please note that when you choose “**By Portfolio/Growth Rate**” the system will base the Realization Model on the applicable model portfolio’s growth rate chosen on the basic tab and not on an actual asset class.

1. Growth & Income Realization Model for Current Year

Taxable Investment > Greengate Mutual Fund

| | | | | | | | |
|-------|-----------|------|--------------------|----------|-----------|-----------------|--------------|
| Basic | Ownership | Fees | Realization | Holdings | Asset Mix | Account History | Sub-Accounts |
|-------|-----------|------|--------------------|----------|-----------|-----------------|--------------|

Realization

Model:

Of the account's expected \$500 of growth this year,

| | | | |
|----------------------------------|--|---|--|
| <input type="text" value="25%"/> | (or) \$125 | is Qualified Dividends (when applicable) | |
| <input type="text" value="20%"/> | (or) \$100 | is Investment Income subject to Ordinary Income Tax | |
| <input type="text" value="55%"/> | (or) \$275 | is Capital Gains (Short- or Long-Term) | |
| <input type="text" value="0%"/> | (or) \$0 | is Non Taxable | |
| 100% | | | |
| <input type="text" value="25%"/> | of the account is turned over annually | | |

Income Distribution

Percentage of dividends, investment, and/or non-taxable income that is to be distributed annually.

Pre-Retire:

Post-Retire:

Please note: if the “Pre-Retire” and “Post- Retire” fields in the Income Distribution section are left blank the system will assume a 0% income distribution

| | |
|--|--|
| Total Growth | \$10,000 (Market Value) x 5% (Growth Rate) = \$500 |
| Amount of Qualified Dividends | 25% x \$500 = \$125 |
| Amount subject to Ordinary Income Tax | 20% x \$500 = \$100 |
| Amount of Capital Gains that may be subject to taxes | 55% x \$500 = \$275 |
| Amount that is Non-Taxable | \$0 @ 0% tax = \$0 |

Qualified Dividends – In this example, 25% of the account growth or \$125 is **Qualified Dividends**.

Qualified Dividend defined:

First, the dividend must be received from a domestic corporation or a qualified foreign corporation. A foreign corporation is qualified if (1) it was incorporated in a possession of the United States, (2) it is eligible for the benefits of a U.S. income tax treaty that the IRS determines to be satisfactory and that includes an exchange of information program, or (3) the stock is readily tradable on an established securities market in the United States. A corporation will be treated as having its stock traded on an established securities market in the United States if an American Depository Receipt is backed by such stock.

Second, the dividend must be paid from the corporation's current or accumulated earnings and profits. On the other hand, interest earned in money market funds designated as "dividends" does not meet the definition. Regulated Investment Companies (RICs), including mutual funds, must notify shareholders within 60 days after the RICs' tax year-end of the amount of any qualified dividends distributed during the year.

Third, the individual shareholder must have held the stock for a specific amount of time. For common stock, the shareholder must have held the stock more than 60 days during the 120-day period beginning 60 days before the stock became ex-dividend. For preferred stock, the required holding period is 90 days during the 180-day period beginning 90 days before the stock became ex-dividend.

Please note: since Qualified Dividends are taxed identically to Long-Term Capital Gains the taxes on these two items will be combined in the Capital Gains Tax column on the Income Tax Report.

Ordinary Income - In this example, 20% of the account growth rate or \$100 is *subject to Ordinary Income Tax*.

On the 2011 Income Tax Report, you can see Total Income of \$151,544 (\$150,000 Salary, \$69 Short-term Capital Gain and \$225 of Investment Income).

Income Tax

Base Facts (All Years)

Prepared for Richard and Emily Smith

The Income Tax report projects your future Federal, Capital Gains, Dividends, and Other Income taxes.

| Year | Age | Gross Total Income | Regular Federal Income Tax | Capital Gains Tax | Other Income Taxes | Total Income Tax | Effective Income Tax Rate |
|------|-------|--------------------|----------------------------|-------------------|--------------------|------------------|---------------------------|
| 2011 | 40/40 | \$151,544 | \$25,042 | \$206 | \$6,661 | \$31,909 | 21.06% |
| 2012 | 41/41 | 156,856 | 29,238 | 168 | 9,119 | 38,525 | 24.56 |
| 2013 | 42/42 | 162,442 | 32,049 | 159 | 9,463 | 41,671 | 25.65 |
| 2014 | 43/43 | 168,291 | 33,232 | 130 | 9,810 | 43,172 | 25.65 |

On the Income Tax Report, drill down on the **Gross Total Income Column** and you will see **Investment Income** of \$169 (\$100 Ordinary Income + \$69 Short-term Capital Gains), **Dividends (Qualified)** of \$125 and **Recognized Long-Term Capital Gains** of \$1,250.

Income

Base Facts (All Years)

Prepared for Richard and Emily Smith

The Income report projects your future income.

| Year | Age | Earned Income | Investment Income | Dividends | Capital Gains | Total Income | Non-Taxable Income | Gross Total Income |
|------|-------|---------------|-------------------|-----------|---------------|--------------|--------------------|--------------------|
| 2011 | 40/40 | \$150,000 | \$169 | \$125 | \$1,250 | \$151,544 | \$0 | \$151,544 |
| 2012 | 41/41 | 155,565 | 173 | 129 | 989 | 156,856 | 0 | 156,856 |
| 2013 | 42/42 | 161,336 | 179 | 132 | 795 | 162,442 | 0 | 162,442 |
| 2014 | 43/43 | 167,322 | 183 | 136 | 650 | 168,291 | 0 | 168,291 |

On the 2011 Cash Flow Report, **you will not see any Investment Income** because “Income Distribution” in the Realization Model indicates that no Investment Income should be distributed.

| Year | Age | Income Flows | Investment Income | Total Inflows | Total Expenses | Total Outflows | Net Cash Flow | Total Portfolio Assets |
|------|-------|--------------|-------------------|---------------|----------------|----------------|---------------|------------------------|
| 2011 | 40/40 | \$150,000 | \$0 | \$150,000 | \$31,909 | \$31,909 | \$118,091 | \$128,591 |
| 2012 | 41/41 | 155,565 | 0 | 155,565 | 38,526 | 38,526 | 117,039 | 246,155 |
| 2013 | 42/42 | 161,336 | 0 | 161,336 | 41,675 | 41,675 | 119,661 | 366,367 |
| 2014 | 43/43 | 167,322 | 0 | 167,322 | 43,180 | 43,180 | 124,142 | 491,088 |

Please Note: The term “Investment Income” is not identical on the Cash Flow Report and the Income Tax Report. On the Cash Flow Report Investment Income is actually Income from Investments (Qualified Dividends, Ordinary Income and Municipal Bond Income). On the Income Tax Report Investment Income is the traditional tax term (Ordinary Income + Short Term Gains) used for taxation purposes.

However, in the Realization Model, **if we change Income Distribution to be 100%**, you will see \$225 (Qualified Dividends of \$125 + Ordinary Income of \$100) of Investment Income in the 2011 Cash Flow Report.

| Year | Age | Income Flows | Investment Income | Total Inflows | Total Expenses | Total Outflows | Net Cash Flow | Total Portfolio Assets |
|------|-------|--------------|-------------------|---------------|----------------|----------------|---------------|------------------------|
| 2011 | 40/40 | \$150,000 | \$225 | \$150,225 | \$31,909 | \$31,909 | \$118,316 | \$128,591 |
| 2012 | 41/41 | 155,565 | 231 | 155,796 | 38,525 | 38,525 | 117,271 | 246,145 |
| 2013 | 42/42 | 161,336 | 238 | 161,574 | 41,671 | 41,671 | 119,903 | 366,338 |
| 2014 | 43/43 | 167,322 | 244 | 167,566 | 43,172 | 43,172 | 124,394 | 491,030 |

Drill down on the **Investment Income Column** in order to see the Greengate Mutual Fund detail. You will also notice that the investment income grows each year as the account becomes larger.

| Year | Age | Greengate Mutual Fund | Investment Income |
|------|-------|-----------------------|-------------------|
| 2011 | 40/40 | \$225 | \$225 |
| 2012 | 41/41 | 231 | 231 |
| 2013 | 42/42 | 238 | 238 |
| 2014 | 43/43 | 244 | 244 |

Capital Gains – Short and Long-Term

55% of the growth rate or \$275 may be subject to taxes. Please note that this \$275 is a Capital Gains estimation but is actually utilized in deriving the Short-term Gain amount.

For tax purposes, the Turnover Ratio is applied to the current year projected capital gains to determine the **Recognized Short-term Capital Gains** (\$275 x 25%) = \$69. To determine the **Recognized Long-Term Capital Gain** the turnover ratio is applied to the difference between market value of \$10,000 and the tax basis of \$5,000 (\$5,000 x 25%) = \$1,250.

Turnover Ratio is the projected percentage of an account’s assets that have been sold during the year.

15% & 0% Gains Rates: The rate applied to Long-Term Capital Gains will differ based upon a client’s income bracket. Based on the client’s income tax base the system will apply either a 15% or a 0% rate to Long-Term Capital Gains. On the Income Tax Report for those whose Capital Gains will be taxed at the 15% rate, the appropriate gains tax will appear in the Capital Gains Tax column. For those whose appropriate Capital Gains tax rate will be 0%, no tax will be appear in the Capital Gains Tax column.

On the 2011 **Ledger - Assets Report**, go to the Greengate Mutual Fund and see that \$225 (Ordinary Income + Qualified Dividend) is distributed. \$1,250 of **Reinvested Long-Term Capital Gains due to turnover** plus \$69 of **Reinvested Short-term Capital Gains** are an increase to **Basis**. The total **Growth** (recognized and unrealized) on the account is \$500.

Asset Ledger

Base Facts in First Year (2011)
Prepared for Richard and Emily Smith

The Asset Ledger report shows the projected transactions and changes in value that are used to calculate the future value of your assets.

GREENGATE MUTUAL FUND

| Description | Type | Transaction | Other Account | Amount | Basis |
|--------------------------|--------|-------------|-------------------------|-----------------|----------------|
| Beginning of Year | | | | \$10,000 | \$5,000 |
| Realized Gain - Turnover | Debit | | | \$0 | \$1,250 |
| Growth | Debit | | | \$500 | \$294 |
| Income Distribution | Credit | | Richard and Emily Smith | (\$225) | (\$225) |
| End of Year | | | | \$10,275 | \$6,319 |

Please Note: For more information on readjusted basis please see Section 4 at the end of this module.

On the 2011 **Ledger – Tax Events Report**, you can see all of the income and gains that impact taxes. \$1,250 in recognized Long-Term Gains due to turnover, \$125 in Qualified Dividends, a \$150,000 salary, \$100 of Ordinary Income, and \$69 in Short-term Gains.

Tax Event Ledger

Base Facts in First Year (2011)
Prepared for Richard and Emily Smith

The Tax Event Ledger report shows the projected tax events used to calculate your income and gift taxes.

RICHARD AND EMILY SMITH

| Type | Description | Deduction Type | Transaction | Account | Amount |
|-------------------|--------------------------|----------------|-------------------|---|-----------|
| Capital Gains | Realized Gain - Turnover | | Growth | Greengate Mutual Fund | \$1,250 |
| Dividends | Dividends | | Growth | Greengate Mutual Fund | \$125 |
| Earned Income | Cash Flow | | Salary | Richard and Emily Smith - Core Cash Account | \$150,000 |
| Investment Income | Investment Income | | Investment Income | Greengate Mutual Fund | \$100 |
| Investment Income | Short-Term Capital Gains | | Investment Income | Greengate Mutual Fund | \$69 |

2. Tax-Free Income Realization Model for Current Year

In this example, 100% of the growth rate or \$500 is tax-free income.

Taxable Investment > Greengate Mutual Fund

Basic Ownership Fees **Realization** Holdings Asset Mix Account History Sub-Accounts

Realization

Model: **Tax-Free Income**

Of the account's expected \$500 of growth this year,

| | | | |
|----------------------------------|--|------------|---|
| <input type="text" value="0"/> | 0% | (or) \$0 | is Qualified Dividends (when applicable) |
| <input type="text" value="0"/> | 0% | (or) \$0 | is Investment Income subject to Ordinary Income Tax |
| <input type="text" value="0"/> | 0% | (or) \$0 | is Capital Gains (Short- or Long-Term) |
| <input type="text" value="100"/> | 100% | (or) \$500 | is Non Taxable |
| 100% | | | |
| <input type="text" value="0"/> | of the account is turned over annually | | |

Income Distribution

Percentage of dividends, investment, and/or non-taxable income that is to be distributed annually.

Pre-Retire:
 Post-Retire:

| | |
|--|--|
| Market Value as of today | \$10,000 (Market Value) x 5% (Growth Rate) = \$500 |
| Amount of Qualified Dividends | 0% x \$500 = \$0 |
| Amount subject to Ordinary Income Tax | 0% x \$500 = \$0 |
| Amount of Capital Gains that may be subject to taxes | 0% x \$500 = \$0 |
| Amount that is Non-Taxable | \$500 @ 0% tax = \$500 |

The Greengate Mutual Fund growth is not subject to **Income Tax** because the growth is 0% non-taxable. The only income items represented on the Income Tax Report are a Salary of \$150,000 and a non-taxable income source of \$500.

Income Tax

Base Facts (All Years)

Prepared for Richard and Emily Smith

The Income Tax report projects your future Federal, Capital Gains, Dividends, and Other Income taxes.

| Year | Age | Gross Total Income | Regular Federal Income Tax | Capital Gains Tax | Other Income Taxes | Total Income Tax | Effective Income Tax Rate |
|------|-------|--------------------|----------------------------|-------------------|--------------------|------------------|---------------------------|
| 2011 | 40/40 | \$150,500 | \$25,000 | \$0 | \$6,661 | \$31,661 | 21.04% |
| 2012 | 41/41 | 156,065 | 29,109 | 0 | 9,119 | 38,228 | 24.49 |
| 2013 | 42/42 | 161,836 | 31,962 | 0 | 9,463 | 41,425 | 25.60 |
| 2014 | 43/43 | 167,822 | 33,143 | 0 | 9,810 | 42,953 | 25.59 |

Please Note: While the non-taxable income generated from the Tax Realization Model is included on the Income Tax Report as part of the Gross Total Income, it is appropriately identified as Non-taxable on the drill down report.

Income

Base Facts (All Years)

Prepared for Richard and Emily Smith

The Income report projects your future income.

| Year | Age | Earned Income | Investment Income | Dividends | Capital Gains | Total Income | Non-Taxable Income | Gross Total Income |
|------|-------|---------------|-------------------|-----------|---------------|--------------|--------------------|--------------------|
| 2011 | 40/40 | \$150,000 | \$0 | \$0 | \$0 | \$150,000 | \$500 | \$150,500 |
| 2012 | 41/41 | 155,565 | 0 | 0 | 0 | 155,565 | 500 | 156,065 |
| 2013 | 42/42 | 161,336 | 0 | 0 | 0 | 161,336 | 500 | 161,836 |
| 2014 | 43/43 | 167,322 | 0 | 0 | 0 | 167,322 | 500 | 167,822 |

For 2011, the \$500 of **Investment Income** is reflected on the **Cash Flow Report, Base Facts, All Years**.

| Year | Age | Income Flows | Investment Income | Total Inflows | Total Expenses | Total Outflows | Net Cash Flow | Total Portfolio Assets |
|------|-------|--------------|-------------------|---------------|----------------|----------------|---------------|------------------------|
| 2011 | 40/40 | \$150,000 | \$500 | \$150,500 | \$31,661 | \$31,661 | \$118,839 | \$128,839 |
| 2012 | 41/41 | 155,565 | 500 | 156,065 | 38,228 | 38,228 | 117,837 | 246,676 |
| 2013 | 42/42 | 161,336 | 500 | 161,836 | 41,425 | 41,425 | 120,411 | 367,087 |
| 2014 | 43/43 | 167,322 | 500 | 167,822 | 42,953 | 42,953 | 124,869 | 491,956 |

Drill down on **Investment Income** in order to see the Greengate Mutual Fund detail.

| Year | Age | Greengate Mutual Fund | Investment Income |
|------|-------|-----------------------|-------------------|
| 2011 | 40/40 | \$500 | \$500 |
| 2012 | 41/41 | 500 | 500 |
| 2013 | 42/42 | 500 | 500 |
| 2014 | 43/43 | 500 | 500 |

On the 2011 **Ledger-Assets Report**, go to the Greengate Mutual Fund and see that this \$500 of **Growth** is not an increase in **Basis** because the growth is distributed.

| GREENGATE MUTUAL FUND | | | | | |
|-----------------------|--------|-------------|-------------------------|-----------------|----------------|
| Description | Type | Transaction | Other Account | Amount | Basis |
| Beginning of Year | | | | \$10,000 | \$5,000 |
| Growth | Debit | | | \$500 | \$500 |
| Income Distribution | Credit | | Richard and Emily Smith | (\$500) | (\$500) |
| End of Year | | | | \$10,000 | \$5,000 |

3. Income Only Realization Model for Current Year

In this example, 25% of the account growth is Qualified Dividends and 75% of the growth is **Ordinary Income**.

Taxable Investment > Greengate Mutual Fund

Basic Ownership Fees **Realization** Holdings Asset Mix Account History Sub-Accounts

Realization

Model:

Of the account's expected \$500 of growth this year,

(or) \$125 is Qualified Dividends (when applicable)

(or) \$375 is Investment Income subject to Ordinary Income Tax

(or) \$0 is Capital Gains (Short- or Long-Term)

(or) \$0 is Non Taxable

100%

of the account is turned over annually

Income Distribution

Percentage of dividends, investment, and/or non-taxable income that is to be distributed annually.

Pre-Retire:

Post-Retire:

| | |
|--|--|
| Market Value as of today | \$10,000 (Market Value) x 5% (Growth Rate) = \$500 |
| Amount of Qualified Dividends | 25% x \$500 = \$125 |
| Amount subject to Ordinary Income Tax | 75% x \$500 = \$375 |
| Amount of Capital Gains that may be subject to taxes | 0% x \$500 = \$0 |
| Amount that is Non-Taxable | \$0 @ 0% tax = \$0 |

The Greengate Mutual Fund growth is subject to Income Tax which can be verified on the **Income Tax Report**.

Please note: Since Qualified Dividends are taxed identically to Long-Term Capital Gains, the taxes on these two items will be combined in the Capital Gains Tax column on the Income Tax Report. In this example there are no capital gains but there is \$125 of Qualified Dividends, hence \$19 appears in the Capital Gains Tax Column.

Income Tax

Base Facts (All Years)

Prepared for Richard and Emily Smith

The Income Tax report projects your future Federal, Capital Gains, Dividends, and Other Income taxes.

| Year | Age | Gross Total Income | Regular Federal Income Tax | Capital Gains Tax | Other Income Taxes | Total Income Tax | Effective Income Tax Rate |
|------|-------|--------------------|----------------------------|-------------------|--------------------|------------------|---------------------------|
| 2011 | 40/40 | \$150,500 | \$25,094 | \$19 | \$6,661 | \$31,774 | 21.11% |
| 2012 | 41/41 | 156,065 | 29,239 | 19 | 9,119 | 38,377 | 24.59 |
| 2013 | 42/42 | 161,836 | 32,102 | 0 | 9,463 | 41,565 | 25.68 |
| 2014 | 43/43 | 167,822 | 33,283 | 0 | 9,810 | 43,093 | 25.68 |

Drill down on **Gross Total Income** to view the components. **Investment Income (Ordinary Income) = \$375, Qualified Dividends = \$125 and Capital Gains = \$0.**

Income

Base Facts (All Years)

Prepared for Richard and Emily Smith

The Income report projects your future income.

| Year | Age | Earned Income | Investment Income | Dividends | Capital Gains | Total Income | Non-Taxable Income | Gross Total Income |
|------|-------|---------------|-------------------|-----------|---------------|--------------|--------------------|--------------------|
| 2011 | 40/40 | \$150,000 | \$375 | \$125 | \$0 | \$150,500 | \$0 | \$150,500 |
| 2012 | 41/41 | 155,565 | 375 | 125 | 0 | 156,065 | 0 | 156,065 |
| 2013 | 42/42 | 161,336 | 375 | 125 | 0 | 161,836 | 0 | 161,836 |
| 2014 | 43/43 | 167,322 | 375 | 125 | 0 | 167,822 | 0 | 167,822 |

You can see this information on the **Cash Flow Report, Base Facts, All Years**. There is \$500 of distributed **Investment Income** (\$125 of Qualified Dividends + \$375 of Ordinary Income).

| Year | Age | Income Flows | Investment Income | Total Inflows | Total Expenses | Total Outflows | Net Cash Flow | Total Portfolio Assets |
|------|-------|--------------|-------------------|---------------|----------------|----------------|---------------|------------------------|
| 2011 | 40/40 | \$150,000 | \$500 | \$150,500 | \$31,774 | \$31,774 | \$118,726 | \$128,726 |
| 2012 | 41/41 | 155,565 | 500 | 156,065 | 38,377 | 38,377 | 117,688 | 246,414 |
| 2013 | 42/42 | 161,336 | 500 | 161,836 | 41,565 | 41,565 | 120,271 | 366,685 |
| 2014 | 43/43 | 167,322 | 500 | 167,822 | 43,093 | 43,093 | 124,729 | 491,414 |

Drill down on **Investment Income** in order to see the Greengate Mutual Fund.

| Year | Age | Greengate Mutual Fund | Investment Income |
|------|-------|-----------------------|-------------------|
| 2011 | 40/40 | \$500 | \$500 |
| 2012 | 41/41 | 500 | 500 |
| 2013 | 42/42 | 500 | 500 |
| 2014 | 43/43 | 500 | 500 |

On the 2008 **Ledger-Assets Report** go to the Greengate Mutual Fund and see that the \$500 of **Growth** is not an increase in **Basis** because the growth is distributed.

| GREENGATE MUTUAL FUND | | | | | |
|-----------------------|--------|-------------|-------------------------|-----------------|----------------|
| Description | Type | Transaction | Other Account | Amount | Basis |
| Beginning of Year | | | | \$10,000 | \$5,000 |
| Growth | Debit | | | \$500 | \$500 |
| Income Distribution | Credit | | Richard and Emily Smith | (\$500) | (\$500) |
| End of Year | | | | \$10,000 | \$5,000 |

Please Note: If you do not enter basis information (leave the field blank), the simulation engine will assume basis = market value. If you enter basis = \$0 then the simulation engine will assume that 100% of the current market value is subject to capital gains. We suggest you make an attempt at determining the tax basis at the account level. Having accurate tax basis will increase the accuracy of the tax calculation and in turn increase the validity of the cash flow projections.

4. Adjustments Made to Basis

On the Advisor Platform, the basis of an Investment may change due to portfolio turnover, distribution, and/or reinvestment. Our system makes all adjustments to cost basis in the Asset Ledger Report. These adjustments will effect how the assets are taxed when they are finally sold in the system. To illustrate how adjustments are made to the cost basis of an investment we will review the mutual fund and its realization model from the first section of this document.

a) Investment :

Taxable Investment > Greengate Mutual Fund

| | | | | | | |
|---------------------------|--|------------------------------------|-------------|----------|-----------|---------|
| Basic | Ownership | Fees | Realization | Holdings | Asset Mix | Account |
| Asset Name: | <input type="text" value="Greengate Mutual Fund"/> | | | | | |
| Institution Name: | <input type="text" value="ABC Investment Company"/> | | | | | |
| Type: | Manually Entered | | | | | |
| Holdings Value: | \$10,000 (from Holdings) | | | | | |
| Cash Balance: | <input type="text" value="\$0"/> | | | | | |
| Margin Balance: | <input type="text" value="\$0"/> | | | | | |
| Total Value: | \$10,000 | | | | | |
| Tax Basis: | \$5,000 (from Holdings) | | | | | |
| Pre-Retire Gross Growth: | <input type="text" value="Custom"/> | <input type="text" value="5.00%"/> | | | | |
| Post-Retire Gross Growth: | <input type="text" value="Custom"/> | <input type="text" value="5.00%"/> | | | | |
| Realization Model: | <input type="text" value="Growth & Income"/> | | | | | |
| Owner: | <input type="text" value="Richard and Emily (Joint/ROS)"/> | | | | | |
| Under Our Management? | <input type="text" value="Yes"/> | | | | | |
| Exclude from Planning? | <input type="text" value="No"/> | | | | | |

b) Realization Model :

Taxable Investment > Greengate Mutual Fund

Basic Ownership Fees **Realization** Holdings Asset Mix Account History Sub-Accounts

Realization

Model:

Of the account's expected \$500 of growth this year,

| | | |
|----------------------------------|--|---|
| <input type="text" value="25%"/> | (or) \$125 | is Qualified Dividends (when applicable) |
| <input type="text" value="20%"/> | (or) \$100 | is Investment Income subject to Ordinary Income Tax |
| <input type="text" value="55%"/> | (or) \$275 | is Capital Gains (Short- or Long-Term) |
| <input type="text" value="0%"/> | (or) \$0 | is Non Taxable |
| 100% | | |
| <input type="text" value="25%"/> | of the account is turned over annually | |

Income Distribution

Percentage of dividends, investment, and/or non-taxable income that is to be distributed annually.

Pre-Retire:

Post-Retire:

c) Taxable Events:

| | |
|--|--|
| Total Income | \$10,000 (Market Value) x 5% (Growth Rate) = \$500 |
| Amount of Qualified Dividends | 25% x \$500 = \$125 |
| Amount subject to Ordinary Income Tax | 20% x \$500 = \$100 |
| Amount of Capital Gains that may be subject to taxes | 55% x \$500 = \$275 |
| Amount that is Non-Taxable | \$0 @ 0% tax = \$0 |

Ledger Growth & Adjustment – first year

| GREENGATE MUTUAL FUND | | | | | |
|--------------------------|-------|-------------|---------------|-----------------|----------------|
| Description | Type | Transaction | Other Account | Amount | Basis |
| Beginning of Year | | | | \$10,000 | \$5,000 |
| Realized Gain - Turnover | Debit | | | \$0 | \$1,250 |
| Growth | Debit | | | \$500 | \$294 |
| End of Year | | | | \$10,500 | \$6,544 |

In the Asset Ledger we find the Greengate Mutual Fund. On the far right side we see the “Amount” Column and the “Basis” Column.

- ❖ Under the **Amount Column** we see the Beginning of Year Balance (BOY), the annual Growth, and finally the End of Year Balance (EOY).
- ❖ Under the **Basis Column** we see the original investment basis then two changes to the basis. The first adjustment is to account for reinvested realized Long-Term Gains. The second adjustment is to account for reinvested qualified dividends, ordinary income and Short-term gains. The calculations to arrive at each adjustment is as follows:
 - ❖ First Adjustment - Realized Long-Term Gain = difference between market value and the tax basis multiplied by the Turnover ratio. $(\$10,000 - \$5,000) * .25 = 1,250$
 - ❖ Second adjustment = Qualified Dividends + Ordinary Income + Realized Short-term Gains (turnover ratio multiplied by amount subject to capital gains). $125+100+ (.25 * 275) = 294$

Ledger Growth & Adjustments – Second Year

| GREENGATE MUTUAL FUND | | | | | |
|--------------------------|-------|-------------|---------------|-----------------|----------------|
| Description | Type | Transaction | Other Account | Amount | Basis |
| Beginning of Year | | | | \$10,500 | \$6,544 |
| Realized Gain - Turnover | Debit | | | \$0 | \$989 |
| Growth | Debit | | | \$525 | \$308 |
| End of Year | | | | \$11,025 | \$7,841 |

| | |
|--|--|
| Total Income | \$10,500 (Market Value) x 5% (Growth Rate) = \$525 |
| Amount of Qualified Dividends | 25% x \$525 = \$131 |
| Amount subject to Ordinary Income Tax | 20% x \$525 = \$105 |
| Amount of Capital Gains that may be subject to taxes | 55% x \$525 = \$289 |
| Amount that is Non-Taxable | \$0 @ 0% tax = \$0 |

- ❖ First Adjustment - Realized Long-Term Gain = difference between market value and the tax basis multiplied by the Turnover ratio. $(\$10,500 - \$6,544) * .25 = 989$
- ❖ Second adjustment = Qualified Dividends + Ordinary Income + Realized Short-term Gains (turnover ratio multiplied by amount subject to capital gains) . $131+105+ (.25 * 289) = 308$

Please note: In the previous example there were no distributions therefore everything was reinvested. If you change the Portfolio turnover the previous calculations would change in regards to the amount of capital gains recognized and realized. If you were to change the income distribution percentage the previous calculations would change in regards to the amount reinvested.