

# Making the most of the company stock in your Puerto Rico 1081.01(d) plan account

**Advice. Beyond investing.** Are you a long-time employee with your current firm? Have you recently changed jobs? Have you separated from service with your employer? The answers to these questions may help you determine if your employer-sponsored retirement accounts are working in harmony to help you reach your life goals.

## Are there tax planning opportunities when employer stock is distributed as part of a qualifying lump-sum distribution?

If you receive a qualifying lump-sum distribution from a Puerto Rico-only qualified Cash or Deferred Arrangement (CODA) or 1081.01(d) plan and the distribution includes stock of the employer, you are subject to a special tax treatment in connection with the increase in value of the stock at the time of distribution and any increase in value that may subsequently occur until you decide to sell the stock. A distribution is considered a qualifying lump-sum distribution if all of the benefits under the Puerto Rico-only qualified plan are paid to the employee within a taxable year and is on account of the employee's separation from service or plan termination.

First, you are not taxed on the distribution of employer stock. Each share of employer stock you receive includes appreciation and will also include any "after tax" amounts that you contributed to the plan for the acquisition of the stock. For example, say you contributed an "after tax" amount of \$10 to buy a share of stock through your employer's Puerto Rico-only qualified retirement plan. If the share is worth \$25 at the time of the qualifying lump-sum distribution, the appreciation is \$15 per share (\$25 value minus \$10 cost). Since you would not have sold the share of stock at the time of the distribution, you would not be subject to Puerto Rico income tax on this part of the distribution.

Second, you will be taxed when you sell the stock and you may take advantage of long-term capital gains tax treatment if you have possessed the stock for more than one year.

## Am I permitted to rollover the employer stock to a Puerto Rico IRA (PR IRA)?

A rollover of qualifying lump-sum distribution to a PR IRA must be in the form of cash and invested by the PR IRA in accordance with certain investment requirements. Under these rules, employer stock received as part of a qualifying lump-sum distribution may not be rolled over into a PR IRA unless the IRA has received an authorization from the Office of the Commissioner of Financial Institutions of Puerto Rico to treat employer stock as a permitted IRA investment.

If the employer stock is rolled over to a PR IRA that has received an authorization to treat the employer stock as a permitted IRA investment, the distribution of the proceeds subsequently realized by the PR IRA from the sale of the stock may be taxed as ordinary income, regardless of whether the PR IRA has held the stock for more than one year. In addition, the 10% early withdrawal penalty may apply if the distribution of the proceeds by the PR IRA occurs before you attain the age of 60.

If you decide not to rollover to a PR IRA the employer stock that you receive through a qualified lump-sum distribution, you can have the potentially significant benefit of shifting what would otherwise be ordinary income to a long-term capital gain at the time of sale. Furthermore, if the stock is not immediately liquidated, any additional appreciation after the stock is distributed would be taxed at capital gains rates (short-term rate if held one year or less, or long-term rate if held longer).

## Who should consider taking an in-kind distribution of employer stock and not rolling it over into a PR IRA?

Determining whether the strategy of not making a rollover to a PR IRA is appropriate for you depends on a variety of factors. You may potentially benefit from not making a rollover into a PR IRA if you:

- have highly appreciated employer stock
- expect to be or are in a high tax bracket
- have a diversified portfolio

### Why consider taking an in-kind distribution of employer stock and not rolling it over to a PR IRA?

- *Long-Term Capital Gains Rates*—potential tax savings attributable to the long-term capital gains tax rate, which is typically lower than the tax on ordinary income.
- In addition, if you are under the age of 60, you will be entitled to receive the proceeds from the sale of the stock and not be subject to the 10% early withdrawal penalty that would otherwise apply in the case of a rollover to a PR IRA.

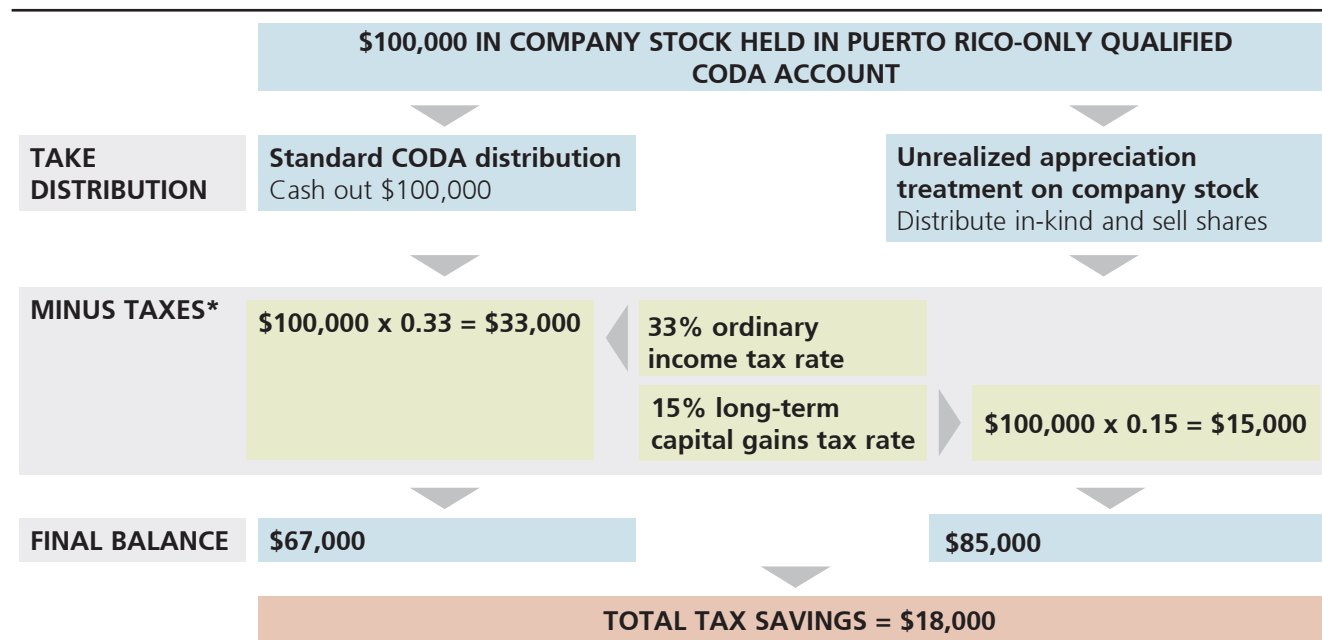
of the stock to a PR IRA. Rolling it over to a PR IRA causes it to lose eligibility for special tax treatment so you must make this decision at the time of the rollover.

Due to the highly complex nature of retirement plan distributions, we should discuss your options and you should talk to your legal and/or tax advisor before making any final decision.

### How do you take advantage of the special tax treatment relating to employer stock received as part of a qualifying lump-sum distribution?

When you receive employer stock as part of your qualifying lump-sum distribution, you may elect to take an in-kind distribution of employer stock or to rollover all or a portion

#### Unrealized Appreciation: Example



\*Assumes a 33% ordinary income tax rate and 15% long-term capital gains tax rate. Tax rates reflect income tax rates in effect as of April 2015, which rates may change. There may be additional tax considerations.

UBS Trust Company of Puerto Rico is the trustee of the UBS Puerto Rico IRA and the UBS Puerto Rico Roth IRA. The UBS Puerto Rico IRA and UBS Puerto Rico Roth IRA provide for penalties upon withdrawal, which are the following: 4%, 3%, 2% and 1% of the amount withdrawn within the first, second, third and fourth year, respectively, from the date of contribution, with such penalty being eliminated after four years. Such penalties are waived with respect to initial contributions which are invested in shares of common stock of the U.S. Municipal & Income Fund, Inc. ("USMIF") or units of any of the portfolios of the Multi-Select Securities Puerto Rico Fund ("MSSPRF"), both of which are advised by UBS Asset Managers of Puerto Rico, a division of UBS Trust Company of Puerto Rico. Please note that the amounts withdrawn from the UBS Puerto Rico IRA and the UBS Puerto Rico Roth IRA may also be subject to statutory penalties. These statutory penalties could reduce the earnings on your investment.

**More detailed information about the investments available through UBS Puerto Rico IRA, UBS Puerto Rico Roth IRA, as well as the USMIF and MSSPRF, including applicable sales charges and other fees, costs (plus annual operating expense ratios, when applicable), penalties, investment objectives and policies, risk factors, and the effects of leverage, is further described in the applicable offering and IRA account opening documentation, which you should read carefully prior to making an investment and is available from your Financial Advisor and on our website [ubs.com/prfunds](http://ubs.com/prfunds).** Investments in the USMIF and MSSPRF, as well as other investments available through the UBS Puerto Rico IRA and UBS Puerto Rico Roth IRA are not intended to provide a complete or balanced investment program but rather, are one component of a long-term program to accumulate assets for retirement. An IRA investment is not a deposit or obligation of UBS Financial Services Incorporated of Puerto Rico or its affiliates and is not insured by the FDIC, the U.S. Federal Reserve Board, or any other U.S. Government instrumentality. **An IRA investment may lose value.** UBS Financial Services Incorporated of Puerto Rico and UBS Trust Company of Puerto Rico do not provide legal or tax advice. You should contact your lawyer or tax consultant. This is not an offer, or a solicitation of an offer, to buy or sell any particular investment or a recommendation to roll over your retirement assets into an IRA. Such offering is made only by the corresponding investment's offering documentation.

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