

RETIREMENT PLANNING

There are several methods to plan for retirement and reduce your current and future tax liability. These slides offer a few suggestions for 2009 and 2010.



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Experience extends to helping clients find out where they are financially, where they need to be, and then create plans to help clients achieve their long-term goals

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Vehicles for Nonbusiness Owners

- 401(k) or 403(b)
 - If the employer is matching, this is generally the best option
 - Maximum contribution for 2009 and 2010 is \$16,500
 - If 50 or older, maximum contribution is \$22,000
- Traditional IRA (deductible)
 - Maximum contribution for 2009 and 2010 is \$5,000
 - If 50 or older, maximum contribution is \$6,000
 - Phase out for MFJ if AGI is between \$89,000 - \$109,000

□ □ □ □ Vehicles for Nonbusiness Owners

- Traditional IRA (nondeductible)
 - Maximum contribution for 2009 and 2010 is \$5,000
 - If 50 or older, maximum contribution is \$6,000
 - No phase out for contributions
- Roth IRA (nondeductible)
 - Maximum contribution for 2009 and 2010 is \$5,000
 - If 50 or older, maximum contribution is \$6,000
 - Phase out for MFJ if AGI is between \$166,000 - \$176,000

Vehicles for Nonbusiness Owners

- Traditional IRA vs. Roth IRA
 - Traditional, deductible IRA distributions are taxed at ordinary tax rates
 - Traditional, nondeductible IRA distributions – only earnings are taxed at ordinary tax rates
 - Roth IRA distributions, including earnings, are nontaxable
- Tax planning strategies
 - If current tax bracket is low, consider funding Roth IRA before a Traditional IRA.
 - If taxable income is low, or negative, convert Traditional IRA to a Roth IRA

Roth Conversion in 2010

- Defer tax to 2011 and 2012, but can elect to report entirely in 2010
- Create multiple new Roth's (split investments – recharacterize losers)
- Can recharacterize back to traditional IRA by due date of 2010 tax return (10/15/11 if 2010 tax return is extended)
- Reasons to convert
 - Favorable tax rate spread
 - No Required minimum distributions at 70½
 - Pay tax with outside funds
 - Time horizon
 - Use of funds at retirement
 - Expiring carryovers

Property Ownership in IRA

- Generally not a good idea
- Must be investment without personal use
- Prohibited transactions disqualify entire IRA
- Unrelated business income if debt financed
(possibly pay tax)

Retirement Planning Vehicles and Other Considerations

- Retirement Planning Vehicles for business owners
 - SEP
 - Simple IRA
 - Defined Benefit
 - Defined Contribution
 - 401(k)
 - One-person 401(k) plans
- General items to consider
 - Cost to administer plan
 - 401(k), Defined Benefit, and Defined Contribution plans are more expensive
 - IRS tax returns to file
 - Contribution requirements to employees

Simple IRA

- Compensation is deferred tax-free
- Employers can make matching contributions for employees who participate OR
- Nonelective contributions for all eligible employees
- No Form 5500 required
- Can contribute \$11,500 for 2009 (\$14,000 if over 50)

□ □ □ □ One-Person 401(k)

- Can contribute up to 100% of compensation
- Maximum contribution for 2009 and 2010 is \$16,500
- If 50 or older, maximum contribution is \$22,000
- Employer can also contribute up to 25% of compensation
- Combined deferral and employer contribution can be up to \$49,000 (\$54,500 if over 50)