

TAX AND INVESTMENT SOLUTIONS

The old adage is certainly true, “If you fail to plan, you plan to fail.” These slides offer a few suggestions for ensuring that you have planned to succeed as you go to school, enter your career, retire and assist the next generation for whom you are responsible for.



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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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□ □ □ □ Tax and Investment Solutions

- Financial Planning
- Tax Planning
- Retirement Planning
- Education Planning
- Tax Credits

Financial Planning

Personal Financial Planning

- Where do you want to be in 5, 10, 20 years?
- Where are you now?
- What will it take to get there?

□ □ □ □ Planning items to consider

- Current Financial position (Net Worth)
- Cash flow
- Status of wills and any trusts
- Income tax
- Capital needs at retirement
- Capital needs for education

Tax Planning

□ □ □ □ Tax Law

- Enacted by Congress
- IRS interpretation and compliance
- Courts provide dispute resolution and interpretation

Retirement Planning

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)

Education Planning

☐☐☐☐ Qualified Tuition Plans (529 plans)

- Can contribute \$13,000 each year or \$65,000 without gift tax
- Contributions are nondeductible
- No AGI limitations
- Distributions for qualified higher education expenses are tax-free
- Reduces taxable estate
- Georgia tax credit available for Georgia 529 plans

□ □ □ □ Coverdell Education Savings Accounts

- Can contribute \$2,000 per beneficiary each year
- Contributions are nondeductible
- AGI phase-out for MFJ contributors is \$190,000 - \$220,000
- Contributions can be made by April 15th of following taxable year
- Withdrawals for education expenses are tax-free

Custodial account

- Set-up account with joint ownership
- No tax consequences
- Teach children/beneficiary responsibility early

Education Tax Credits

- American opportunity tax credit (enhanced Hope credit)
 - 100% of first \$2,000 of eligible expenses and 25% of next \$2,000
 - Credit is per student, per year
- Lifetime learning credit
 - 20% of up to \$10,000

Student Loans

- Interest rates are low
- Student loan interest paid is tax deductible
- Not forgivable under any condition

Tax Credits

Residential Energy Credits

- 2009 and 2010
- 30% up to \$1,500 (over 2-yr period)
(\$5,000 x 30% = \$1,500)
- Insulation, exterior doors, windows, furnace, heat pump, water heater, central air conditioner, certain metal roofs
- Nonrefundable credit



Residential Green Credit (Res. Energy Efficient Property Cr.)

- 30% of the cost of qualified property
- Solar water heating, geothermal heat, wind and solar electric property
- Nonrefundable credit, but can carry forward indefinitely

1st Time Home Buyer Credit

- \$8,000 refundable credit
- No prior home ownership for 3 years
- Binding contract by 4/30/2010, close by 6/30/2010
- Can claim credit for 2010 purchase in 2009
- Phase-out starts at \$225K of AGI for couples
- Effective 11/6/2009, purchase price limited to \$800K
- Recapture if not principal residence during first 36 months
- 2008 “credit” was \$7,500 with 15 year payback



Extended Ownership Credit (enacted 11/6/2009)

- \$6,500 refundable credit on new home purchase
- Primary residence 5 consecutive out of last 8 years
- Same contract dates as above
- Same income and home cost phase-outs as above