Tax Power News & Research Reports

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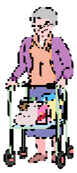
Tax and Financial Strategies that Save You Money



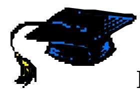
Elder Care Planning affects us as well as those we love and needs to be addressed now before it's too late.

Pitfalls to Avoid include designating retirement plan beneficiaries without considering the tax impact to the recipient. When you open your IRA or pension savings plan at work you are asked to designate a beneficiary to receive your money if you die. Although the normal retirement benefits are often taxed to the retiree at reduced rates, should you die the named beneficiary of your fund (other than your spouse) is taxed on the lump sum received, usually at a substantially higher tax rate than you. Too often have we seen situations where account beneficiaries end up paying huge tax bills on the distribution after they have spent the money.

Powers & Company can help identify strategies to avoid such problems.

Planning for Elder Care Assistance can literally save your estate hundreds of thousands of dollars. The money and effort spent working with a qualified Elder Care Attorney today can avoid compromising situations tomorrow. Powers & Company can refer you to a professional who is both an Elder Care Attorney and Certified Financial Planner.

Faster Refunds will be available for the 2002 filing season. Now that most of the bugs are out of the system Powers & Company is registering to file returns for our clients electronically beginning in 2003.



Educational Planning

Student Loan Interest for higher education loans is now deductible when paid even if the loan is more than 60 months old. Also, the phase out income range is now increased to $50,000 to $65,000 (double for married persons filing joint returns)).

Qualified Tuition Programs (QTPs) - State Sponsored 529 Plans provide substantial tax benefits. Although there are no immediate tax benefits, generally there is no income or age limitation restricting the use of 529 plans and up to $200,000 can be contributed for each beneficiary. Earnings of the plan remain free from federal income tax and between now and 2010 (or longer if Congress approves to extend the benefit) distributions from the plan for educational purposes by the beneficiary are federal tax-free as well. Unlike Coverdell ESAs, which require that the beneficiary use their ESA funds before age 30, 529 plans can be used at any age, so why not save for your own education.

Students receiving benefits from QTPs may also receive benefits from ESAs or claim the Hope or Lifetime Learning Credit provided that the different programs do not pay the same expenses.

Distributions not used for qualifying higher education expenses are now subject to an additional 10% tax.

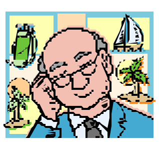
Coverdell Education Savings Accounts (ESAs)- formerly known as Educational IRA's-also do not allow any immediate tax benefits but allow beneficiaries to accumulate tax free earnings for education. Under the new tax laws, annual contribution limits have been raised from $500 to $2,000 per beneficiary and the annual income eligibility limit for married contributors has been increased to $190,000, with a contribution limit phase out at $220,000. These ranges are double those for unmarried contributors.

Distributions from ESAs used to cover elementary and secondary school costs now qualify for tax benefits, and college students who use ESA funds may also claim the Hope or Lifetime Learning Credits so long as the credit is claimed for different expenses from those paid from ESA funds. Additionally, a beneficiary may have contributions made to both an ESA and a state 529 plan. The deadline for making contributions to ESAs is now extended to the due date of the contributor's tax return rather than December 31. Corporations may now contribute to ESAs without Income limits.

If you are planning to establish one of these plans it is advised that you call Powers & Company to determine which plan is best for your needs.

Deductions for Higher Education Expenses up to $3,000 for qualified higher education courses taken during 2002 are now available to taxpayers with incomes up to $65,000 ($130,000 for joint returns). This is available even if you do not itemize your deductions; however persons who may be claimed as a dependant on someone else's return and married persons filing separately may not claim this deduction.

Series EE and Series I Savings Bond Interest Income is partially exempt from tax if the bond proceeds are used to pay expenses of higher education for a taxpayer, the taxpayer's spouse, or dependents. Although this is not new, taxpayers often overlook it as a means of educational savings.



Retirement Saving now offers enhanced tax benefits.

Saver's Tax Credits of up to 50% of the first $2,000 contributed to IRA, 401(k) and certain other retirement plans are now available to taxpayers with incomes of up to $25,000 ($37,500 for head of household and $50,000 for married couples). The Saver's Credit is available in addition to other retirement plan contribution tax benefits.

Contribution limits for both traditional and Roth IRAs are now increased to $3,000 in 2002 and will increase gradually to $5,000 per year between 2003 and 2008. Elective annual deferral limits for most employer-sponsored plans (401(k), 403(b) and 457 plans) is now $11,000. For SIMPLE plans the limit is $7,000.

Taxpayers who are at least 50 years old may "catch up" and contribute more, depending on the type of plan. For IRAs and SIMPLE plans, the additional contribution is $500. For other elective deferral plans the extra amount is $1,000.

The new tax law now permits greater flexibility for retirement plan rollovers as well as increasing the limits on employer contributions to retirement plans.

New Capital Gains Tax on Inherited Property after 2009

Beginning in 2010, Inherited Property will be subject to a new capital gains tax to replace the estate tax. Instead of inheriting property with a tax basis equal to the fair market value at the time of inheritance and paying income tax (i.e. capital gains tax) only on the increase in value from that amount, the property will then have a tax basis equal to that of the decedent (usually original cost). Better keep those old records and receipts, and tell the same to anyone from whom you may be inheriting appreciated property as well. Planning today can save you money in the future.

The new estate, gift and capital gain laws will impact everyone and should be tied into your retirement, estate and elder care planning.

Stock Options and AMT Although taxpayers who exercise qualified stock options may not pay income tax until the stock is sold, they may be subject to an Alternative Minimum Tax instead. Call Powers & Company if you are in this situation.

Powers & Company is available year round to help you with your tax planning. Call us and let us know of any unusual transactions that may impact your personal tax situation.