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HOT OFF THE PRESS

AGE RELATED TAX MILESTONES

In an era filled with uncertainty, you can count on one thing for sure: Time marches on! This article covers some important age-related tax and financial planning milestones that you should keep in mind for yourself and loved ones.

Age 0–23: The so-called Kiddie Tax rules can potentially apply to your child's (or grandchild's) investment income until the year he or she reaches age 24. Specifically, a child's investment income in excess of the applicable annual threshold is taxed at the parent's marginal federal income tax rates (typically 15% on long-term capital gains and dividends and up to 35% on ordinary income). For 2011, the investment income threshold is \$1,900 (same as for 2010). A child's investment income below the threshold is taxed at very favorable rates (typically 0% on long-term capital gains and dividends and only 10% or 15% on ordinary income). Note that between ages 19 and 23, the Kiddie Tax is only an issue if the child is a student. For the year the child turns age 24 and for all subsequent years, the Kiddie Tax ceases to be a threat.

Age 18 or 21: A custodial account set up for a minor child comes under the child's control when he or she reaches the age of majority under applicable state law (usually age 18 or 21). If there's a significant amount of money in the custodial account, this issue can be a big deal. Depending on the child's maturity level and dependability, you may or may not want to take steps to ensure that the money in the custodial account is used for expenditures you approve of (like college costs).

Age 30: If you set up a Coverdell Education Savings Account (CESA) for a child (or grandchild), it must be liquidated within 30 days after he or she turns 30 years old. To the extent earnings included in a distribution are not used for qualified higher education expenses, they are subject to federal income tax plus a 10% penalty tax. Alternatively, the CESA balance can be rolled over tax-free into another CESA set up for a younger family member.

Age 50: If you're age 50 or older as of the end of the year, you can make an additional catch-up contribution to your 401(k) plan (up to \$5,500 for 2011), Section 403(b) plan (up to \$5,500 for 2011), Section 457 plan (up to \$5,500 for 2011), or SIMPLE plan (up to \$2,500 for 2011), assuming the plan permits catch-up contributions. You can also make an additional catch-up contribution (up to \$1,000 for 2010 and 2011) to your traditional or Roth IRA.

Age 55: If you permanently leave your job for any reason, you can receive distributions from the former employer's qualified retirement plan(s) without being hit with the 10% premature withdrawal penalty tax. This is an exception to the general rule that the taxable portion of qualified retirement plan distributions received before age 59½ are hit with the 10% penalty tax.

Age 59½: You can receive distributions from all types of tax-favored retirement plans and accounts (IRAs, 401(k) accounts, pensions, and the like) and from tax-deferred annuities without being hit with the 10% premature withdrawal penalty tax. Before age 59½, the 10% penalty tax will hit the taxable portion of distributions unless an exception to the penalty tax applies.

Age 62: You can choose to start receiving Social Security retirement benefits. However, your benefits will be lower than if you wait until reaching full retirement age, which is age 66 for those born between 1943 and 1954. If you also work before reaching full retirement age, your 2011 Social Security retirement benefits will be further reduced if your income from working exceeds \$14,160 for 2011.

Age 66: You can start receiving full Social Security retirement benefits at age 66 if you were born in 1943–1954. You won't lose any benefits if you work in years after the year you reach age 66, regardless of how much money you make in those years. However if you will reach age 66 this year, your 2011 benefits will be reduced if this year's earnings exceed \$37,680.

Age 70: You can choose to postpone receiving Social Security retirement benefits until you reach age 70. If you make this choice, your benefits will be higher than if you start earlier.

Age 70½: You generally must begin taking annual Required Minimum Distributions (RMDs) from tax-favored retirement accounts (traditional IRAs, SEP accounts, 401(k) accounts, and the like) and pay the resulting income taxes. However, you need not take any RMDs from Roth IRAs set up in your name. The initial RMD is for the year you turn 70½, but you can postpone taking that one until as late as April 1 of the following year. If you chose that option, however, you must take two RMDs in that year: one by the April 1 deadline (the RMD for the previous year) plus another by December 31 (the RMD for the current year). For each subsequent year, you must take another RMD by December 31. There's one more exception: If you're still working after reaching age 70½ and you don't own over 5% of the employer, you can postpone taking any RMDs from the employer's plan(s) until after you've actually retired.

Conclusion

If you or a loved one are affected, or are about to be affected, by any of these age-related milestones, please contact us if you have questions or want more information. One more thing: Almost all adults should do at least some estate planning. In some cases, nothing more than a simple will may be required. If you have a large estate, taking steps to reduce your exposure to estate taxes is a good idea.

FEDERAL ESTATE TAX-WHAT YOU NEED TO KNOW

With all of the estate and gift tax changes over the past few years, including the recent expansion of the gift tax and estate tax exemptions to \$5 million for the next two years, you should be reviewing your will. Over the past 26 months, four sets of estate tax rules have been in effect, with the individual exemption ranging from \$2 million, to unlimited, to \$5 million.

The clause that causes the most concern, that is included in most wills, deals with what is known as "formula clauses". These are provisions tying bequests to the amount of the estate tax exemption. In the past, attorneys have used these clauses to maximize the amount a couple could pass on tax-free. Through 2009, the value of one exemption could be lost if assets passed directly to a surviving spouse.

The problem occurs because this year's \$5 million exemption is substantially greater than the exemption just 5 years ago, \$1.5 million. Therefore, if a spouse dies this year with a \$3 million estate and unchanged formula clauses, a surviving spouse might not get anything outright because all assets would go to a trust.

Another significant change in the new estate rules is called portability. Portability allows each partner of a married couple to use the rest of the other's estate tax exemption. It especially eases the planning when one spouse has a large indivisible asset.

Although portability eases some of the burden of post-death planning, and may eliminate the need for trusts, the impact of the recent estate tax changes on cost basis of assets and other issues make it important that your will be reviewed in light of these changes.

REPEAL OF EXPANDED 1099 REPORTING RULES FOR RENTAL REAL ESTATE

Before 2011, the 1099 reporting requirements applied only to payments made in the course of a trade or business. Payments made in a passive investment activity were not subject to these requirements. The Small Business Jobs Act (SBJA) of 2010 provided that any person receiving rental income from real estate would be considered to be engaged in a trade or business, and therefore, would be subject to the same 1099 reporting requirements that apply to businesses.

Thanks to SBJA, for 2011, all landlords would be required to file from 1099-Misc. to report payment of \$600 or more made to noncorporate service providers (for things like lawn care, painting and accounting).

Fortunately, the 1099 Act, just passed, repeals the SBA extension of the 1099 reporting requirements to landlords who are not otherwise considered to be engaged in a trade or business of renting property.

The bottom line is that 1099 reporting rules for landlords do not change after 2010. The filing requirement prior to SBJA is back in place. Thus, no 1099 reporting is required unless the landlord's rental activities rise to the level of a trade or business.

OHIO USE TAX-LIMITED LOOK BACK WITHOUT PENALTY

The Ohio Department of Taxation has begun a program with a goal of contacting and working with an estimated 300,000 small and mid-sized businesses in Ohio with potential use tax liabilities. The program includes a limited look back period with no penalty for entities that should have been paid the tax in the past.

The Department will allow a business to enter into an agreement to clear up past unpaid use tax liability, without penalty, if the business agrees to register and remit use tax prospectively, and pay use tax plus interest on untaxed purchases for the last four years or less. Under the agreement, the Department will waive the use tax liability for all years beyond the look back period, and waive the 15% penalty applicable for the unpaid use tax.

SPEAKERS 'R US

During the past year, we have provided speakers to various organizations on assorted topics. The most active person has been **Christine Bretz** who has made presentations to various banks, financial planning firms, and law firms on topics including *Tax Planning*, *Recent Tax Law Changes* and *Understanding Financial Statements*.

We are gearing up for another year of making this opportunity available to our clients and friends. If your group is looking for a speaker on accounting, tax, or planning topics, contact us and we will design a program for you.

NEWS AND NOTES . . .

The purpose of this column is to keep you informed of happenings within the office, and with our friends. If you have any items you would like to contribute, email the editor.

We are proud to congratulate **Bonnie Kantor-Burman**, wife of the esteemed Columbus attorney, **Robert Burman**, on her appointment by Governor Kasich to be the Director of the Ohio Department of Aging, . . . and **Jim Petro**, former attorney general, upon his joining the Governor's administration as Chief Executive of Ohio's education system. We wish them well in their new endeavors.

After years of toil, we are proud to announce a member of our extended family, **Rory O' Malley**, the son of **Gerry**, is one of the stars of the hit Broadway play, "The Book of Mormon". The Broadway mama was there for opening night and is rumored to have partied "all night long"!

Our favorite sports league, women's professional fast pitch softball, is expanding and will be airing some of their games on ESPN. The initial game will be on June 11th at 3:00. Future episodes may include our home team, the **Akron Racers**. See you at a Racers game.

During our extended tax season, we had the pleasure of receiving relaxing massages courtesy of Deborah **Niederlander**, of **Greentree Massotherapy**. Looking for a way to relax, we can vouch for the end result.

Last, but not least, congratulations to **Loren and Shira Berger**, children of **Alan and Bonni Berger** upon their being honored by the Michael J. Fox Foundation for Parkinson's Research for the monies they raised by running marathons, bartending, and other events.

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