

Tax Season Guide #9 - Retirement Part 2

Today's article continues where we left off last time.

Most of us fall into one of three belief categories about retirement planning. The first, as if retirement were a magical time with no work, no worries, and no problems. The second, a time of life confined to budgets, limited income and medical bills. Or the third group, those of us in the middle, trying to learn as much as we can.

INDIVIDUAL RETIREMENT ACCOUNTS (IRAs)

When it comes to retirement accounts, we are lucky to have several options. The most common is an Individual Retirement Accounts, or IRA. There are two main benefits to contributing to an IRA.

The amount you contribute to your IRA may be fully or partially tax deductible. (Of course, this depends on the type of IRA and your specific circumstances.)

Your IRA contributions, including the additional money it earns or gains, is not taxed until you take distribution of it. There are even instances when the distributions you receive are not taxable at all.

There is an annual limit to how much you can contribute to your IRA. For 2006, the maximum IRA contribution is \$4000, or your taxable compensation for the year—whichever is less. If you are 50 or older, you can contribute a maximum of \$5000.

You can make your IRA contributions at any time during the year. Make multiple small payments, or one large payment. You choose.

TIP: You can contribute to your IRA until the due date for your federal tax return (not including extensions).

You can withdraw or use your IRA assets at anytime. Timing determines if you have to pay taxes or penalties.

1. You can take out current year contributions before your filing deadline penalty free.
2. A 10% penalty will apply if you withdraw funds or assets before you turn 59 ½.
3. If you don't take distributions from your IRA after you turn 70 ½ you may have to pay penalties

Additional rules may apply. Refer to IRS Publication 590 for more information.
<http://www.irs.gov/publications/p590/ch01.html#d0e6464>

TIP: Remember, if you contribute more than the limit, you'll be taxed 6% on the excess. Take the excess out by your filing deadline penalty free!

For the most commonly asked questions, refer to the IRS website.
<http://www.irs.gov/faqs/faq17.html>

Some other helpful information can be found here:

Pub 590

<http://www.irs.gov/pub/irs-pdf/p590.pdf>

<http://www.irs.gov/pub/irs-pdf/p560.pdf>

SIMPLE Retirement Accounts

SIMPLE is an acronym for Savings Incentive Match Plans for Employees (of Small Employers). If your employer offers a SIMPLE plan, they have fewer than 100 employees. You can contribute up to \$10,000 of your salary, a little each paycheck. If you are 50 or over you can contribute an additional \$2,500 to help catch up. Additionally, your employer may also match your contributions, although certain dollar limits could apply.

401(k)

A 401(k) might be another option for you. Again, you can contribute portions of your salary, a little at a time. Your employer can also match your contributions. Take advantage of this free money if your employer is offering! The maximum 401(k) contribution is \$15,000 for 2006. Add an additional \$5000 if you're over 50 and catching up.

ESTATE PLANNING

How scary would it be to retire clueless about your money? Or to have made a huge omission in projecting your future financial needs? Consult with a professional who specializes in retirement planning. While a consultation with your accountant or tax pro may shed light on tax related issues, a meeting with a financial planner will help you see your money in a different light.

Estate planning is crucial because almost everything you own and use for personal or investment purposes is a capital asset. Capital assets are taxable. So, when we die we still have to settle up our taxes. Our belongings and assets become our "estate" and a representative will manage those items for you. A good financial planner will help educate you and walk the steps to make those arrangements with you.

GIFT GIVING

The IRS states “If you give someone money or property during your life, you may be subject to federal gift tax. The money and property you own when you die (your estate) may be subject to federal estate tax.”

Intro to IRS publication 950

<http://www.irs.gov/pub/irs-pdf/p950.pdf>

Each year we can gift money, up to federal limits. For 2006 the maximum annual gift exclusion is \$12,000. If you can access your cash without penalties this may be a helpful way to share your nest egg with your partner. The person giving the money pays gift taxes, not the recipient and there is a lifetime exclusion of one million dollars.

Kiplinger.com reports “You don't get an income tax deduction for such gifts, but there's an important advantage: Assets given away during your life -- and any future appreciation -- won't be in your estate to be taxed after you die.”

<http://www.kiplinger.com/columns/taxtips/archive/2006/tax1208.html>

Working your money when you're making it is one thing. Planning for living off a fixed income is another. With planning and persistence you'll be able to retire knowing you prepared your best!

<http://www.irs.gov/publications/p550/ch01.html>