

For Immediate Release

Tax Tips for the Top 10 Financial Concerns People are Talking About

New Brunswick, NJ – November 19, 2008 – WithumSmith+Brown, (www.withum.com), a full-service regional certified public accounting and consulting firm serving private and publicly-held companies, has compiled a list, created by Edward Mendlowitz, CPA, ABV, PFS, of the Top 10 financial concerns people are talking about at home and in the office, and offers tax tips to help minimize the effects caused by a struggling economy.

Individuals

- **Stock losses**

- Sell stocks and bonds with losses and immediately purchase similar risk securities. This recognizes losses while not changing the economic situation of the client. It also avoids the wash sale rule. One example is to sell recently (i.e. last 3 years) purchased drug company stocks and buy an Exchange Traded Fund (ETF) for the health care sector; or sell a portfolio of at least 5 stocks and buy the S&P 500 index fund (Ticker:SPY) or the Dow Jones Industrials index fund (Ticker: DIA) ETF.

- **529 Plans**

- If more than one child is in plan and funds dropped in value, transfer funds to the younger child to allow for tax free rebound and/or growth; or consider retaining in plan to fund the back end college payments.

- **Real estate taxes**

- Apply for a reduction in local real estate taxes due to a reduced property value.

- **Estate planning**

- Parents sell their presently reduced value house or vacation house to their children for a SCIN (Self Cancelling Installment Note) or through a QPRT (Qualified Personal Residence Trust). Note: Income in respect of a decedent (IRD) in a SCIN is not guaranteed to be taxable per some recent developments (but that should not stop transaction). Parents can give their children a long term mortgage on their residences at current low interest rates. When the parents die the note would be valued based on market interest rates and not the mortgage's interest rate assuming rates will be higher at that time. Example: A 20 year mortgage at the short term Applicable Federal Rate (AFR) which will be reset every 3 years; or fixed at the long term AFR rate. Payments will be interest only with a balloon payment at due date. Note: Parents must properly file mortgage so children could get the mortgage interest deduction.

- Executors of clients who died within the last six months should consider using the alternate valuation dates with today's disastrous stock and [bank, insurance and auto company] bond values.
- Family investment limited partnerships should consider gifts of additional shares using today's lower stock values.

- **IRAs**

- Clients with Adjusted Gross Income (AGI) under \$100,000 can convert to a Roth IRA at the lower security values. This can be done now and any growth and dividends will be completely tax free. The taxes should be paid from other funds to maximize the assets "working" in the Roth IRA.
- A tax efficient way to invest would be for fixed income taxable bonds to be owned in an IRA or tax sheltered account and stocks to be owned personally. By owning bonds or CDs in the IRA, a higher current yield will result than from Muni bonds in the individual name while the long term stock gains and dividends will be taxed at favorable rates and the stocks will get a stepped up basis upon the owner's death (instead of being eventually taxed at ordinary rates as IRD).

- **Guaranteed cash flow**

- Clients that are worried they will outlive their assets, and who are in poor health, can purchase an immediate annuity guaranteeing them a fixed above market cash flow for the rest of their life. Downside: Those funds are not recoverable should they die soon after purchasing the annuity. The trade off is current financial comfort and security for a reduced inheritance for the heirs.

Businesses

- **C -Corporations**

- C corporations with accumulated earnings that are invested in stocks should consider recognizing some gains so that the corporation has at least a \$75,000 profit. This will be taxed at federal rates of 15% or 25% instead of the 34% or 35% that will be in effect when the entire portfolio is eventually liquidated after the owner dies. The net proceeds can be distributed as a dividend and be reinvested personally in the same stocks (after diminution by the taxes paid). The income taxes on any resulting gains will be "forgiven" upon death of the owner since the basis will be stepped up. Also, the estate taxes will be lower due to the income taxes that were paid to effect this transaction. Note: The client will have to pay taxes now he wouldn't have, but the family will be richer in the long run. Also, any growth and dividends will not be locked in the corporation and accumulating to be taxed at the later time at the corporate tax rates.

- **Employee Benefit Pension Plan Funding**

- Businesses with defined benefit pension plans need to monitor their net worth bank loan covenants. The drop in the stock market will cause many plans to be underfunded. This will end up being shown on the financial statement as a hit to

net worth. Work out the scenario now and plan your strategy in dealing with the bank.

- **Terminated employees**

- Terminated employees that receive distributions of employer stock from their 401k plan should consider keeping the stock and paying tax now on the plans original cost rather than rolling over to an IRA. This will give them the ability to get capital gains at a later point on the appreciation and step up upon death.

- **Succession planning**

- With reduced market values and the precarious nature of the economy and World markets, now might be a good time to transfer ownership interests to the next generation since business values might be much lower than they were.

About the Author:

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