

# B.O.S.S.<sup>TM</sup> Workshops

*(Business Owner Strategy Sessions)*

## Reduce Taxes

*Year-end Tax Planning*

*December 8, 2011*



**envision**  
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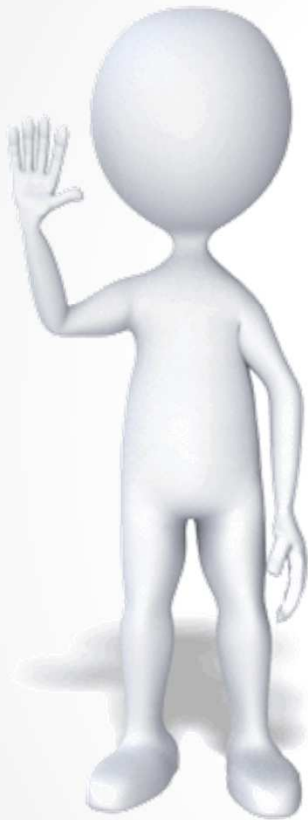
*Speaker: Ken Barton, CPA*



Director – Blue’s Ohio office

CPAs / ADVISORS





# Welcome

We are responsive. We are caring. We are advocates.

Blue Benefits Consulting, Inc.



# Why a retirement plan?

See article about couple retiring to Panama

We are all aware of concerns about the continued viability of social security

# IRA's, SEP's, SIMPLE's

- IRA's – deductible, non deductible, ROTH
  - Discuss features of each
  - \$5,000 annual limit, \$1,000 catch up (2011 and 2012)
  - Spousal
  - Stop at 70.5 except ROTH
  - Minimum distribution rules

# IRA's SIMPLE's SEP's

- SIMPLE IRA's
  - Employer sponsored plan
  - Employees can defer up to \$11,500 (\$2,500 catch up if 50+)
  - Company must either do 100% match up to 3%
  - OR 2% of pay to each eligible
  - No other contributions
  - Employer can NOT maintain another retirement plan
  - Advantage is low cost – no 5500, limited testing

# IRA's, SIMPLE's, SEP's

- SEP
  - Employer sponsored plan
  - Can exclude those employed less than 3 years
  - No deferrals or match – just employer contributions (like PSP)
  - Except for integration, must contribute same % of pay for all. No deferrals or match – just employer contributions (like PSP)
  - Inexpensive (no 5500, limited testing)
  - Easy to overlook technical requirements unless someone is paying attention!

# Retirement plan illustrations

| Sample 401 (k) profit sharing plan |     |         |         |          |             |         |                       |
|------------------------------------|-----|---------|---------|----------|-------------|---------|-----------------------|
|                                    |     |         |         | 401 (k)  | safe harbor | profit  | total                 |
|                                    | Age | Comp    |         | deferral | match       | sharing | employer contribution |
| <b>Owner</b>                       |     |         |         |          |             |         |                       |
| 1                                  | 53  | 245,000 |         | 22,000   | -           | 32,500  | 54,500                |
| sub total owner                    |     |         |         | 22,000   |             | 32,500  | 54,500                |
| <b>Staff</b>                       |     |         |         |          |             |         |                       |
| 2                                  | 26  | 35,000  | ee paid |          | 1,050       | 497     | 1,547                 |
| 3                                  | 28  | 28,000  | ee paid |          | 840         | 398     | 1,238                 |
| 4                                  | 44  | 47,000  | ee paid |          | 1,410       | 667     | 2,077                 |
| 5                                  | 39  | 23,500  | ee paid |          | 705         | 334     | 1,039                 |
| sub total staff                    |     |         |         |          | 4,005       | 1,896   | 5,901                 |
| TOTAL                              |     |         |         |          |             | 34,396  | 60,401                |

# Retirement plan illustrations

| Sample 401 (k) profit sharing plan combined with cash balance plan |                 |      |          |         |             |                |                     |                             |
|--|-----------------|------|----------|---------|-------------|----------------|---------------------|-----------------------------|
|  |                 |      |          | 401 (k) | safe harbor | profit sharing | cash balance credit | total employer contribution |
|  | Age             | Comp | deferral | match   |             |                |                     |                             |
| <b>Owner</b>   |                 |      |          |         |             |                |                     |                             |
|  | 1               | 53   | 245,000  | 22,000  | -           | 13,646         | 159,250             | 194,896                     |
|  | sub total owner |      |          | 22,000  |             | 13,646         | 159,250             | 194,896                     |
| <b>Staff</b>   |                 |      |          |         |             |                |                     |                             |
|  | 3               | 26   | 35,000   | ee paid | 1,050       | 1,327          | 1,050               | 3,427                       |
|  | 4               | 28   | 28,000   | ee paid | 840         | 1,061          | 840                 | 2,741                       |
|  | 5               | 44   | 47,000   | ee paid | 1,410       | 1,781          | 1,410               | 4,601                       |
|  | 6               | 39   | 23,500   | ee paid | 705         | 891            | 705                 | 2,301                       |
|  | sub total staff |      |          |         | 4,005       | 5,060          | 4,005               | 13,070                      |
|  | TOTAL           |      |          |         |             | 18,706         | 163,255             | 207,966                     |

# 2012 Cost of Living Adjustments

|                   |                             |
|-------------------|-----------------------------|
| 401 (k) deferral  | from \$16,500 to \$17,000   |
| 403 (b) deferral  | from \$16,500 to \$17,000   |
| DC funding limit  | from \$49,000 to \$50,000   |
| DB annual benefit | from \$195,000 to \$200,000 |
| Eligible earnings | from \$245,000 to \$250,000 |

# ROTH Conversion

- ROTH Conversions (DISCUSS BASICS OF ROTH)
- Available regardless of income beginning in 2010
- Why consider converting?
  - Future appreciation never income taxed
    - You think YOUR future tax bracket will be higher
  - ROTH not subject to minimum distribution requirements
    - So works really well for people who won't need the funds
    - Spouse beneficiary can treat as own ROTH (more later)
    - Non spouse beneficiary can make withdrawals from inherited ROTH over beneficiary life expectancy
  - You have funds outside of the IRA to pay the conversion tax

# ROTH conversion

- Couple each with \$500,000 in IRA's
- Convert in 2011 while working taxes at max current rate?
- Waiting to convert after retirement means lower(?) bracket - but what about appreciation?
- Using other funds now to pay tax uses up a lot of money (\$400,000)
- Can make a LOT of sense in low income years!!

# Idea if you like ROTH

- < age 50, IRA contribution limit \$5,000.
- In general, IRA contributions can be made by those < age 70 ½ who receive taxable earned income. (or married and spouse has earned income).
- IRA types:
  - Deductible (AGI limit if either spouse covered)
  - Non Deductible
  - ROTH (all tax free, AGI limit, no age limit)

# IRA idea (pg. 2)

- ROTH conversions – we talked a lot about last year. Now can be done regardless of AGI
- So, if you can't make a ROTH **Contribution** because of income limits, consider making a non deductible contribution and immediately convert to ROTH.
- WHY?
  - ROTH earnings never taxed
  - No RMD for ROTH IRA's (during participant lifetime)

# BIG FINISH

Business owners – section 179 and bonus depreciation will be less beneficial after 2011.

Don't forget about AMT impact on deductions.

Also social security benefit taxability (cap gains example)



# Thanks for your support

- Whether you are a client, prospective client, or just here for some information, we look forward to getting to know you better in 2012.

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Q & A