Tax Strategies That Count

Presented by

Ken Wundrow

Mennenga Tax & Financial Service
Tax Law Update

Energy Credit

IRA Transfers

Roth Conversion

Social Security Tax Reduction

Health Savings Accounts
Energy Credit

- It's Back Again
  - 2006 – 2007: $500 segregated credit
  - 2008: no credit was available
  - 2009 – 2010: $1500 unsegregated credit
  - 2011 $500: credit is re-instated
2011 Energy Credit

- 10% of first $5000 spent
- Must have qualifying purchase installed
- Furnace, AC, Windows, Doors and Insulation
- Some Roofs may qualify
- Must look back to 2006 with total < $500
Segregation of Credit

- $50 for main air circulating fan
- $150 for furnace or hot water boiler
- $300 for heat pump, water heater, AC
- $300 for bio-mass furnace
- $200 for window and door replacements
IRA Transfers

- IRA transfers to qualified charities tax free
- 70 ½ requirement
- Will satisfy Required Minimum Distribution
- No income reporting
- No itemized deduction
Roth Conversions

- Recognized by State of Wisconsin
- Tax paid in year of conversion
- 2010 conversions reportable in 2011 and 2012
- Many considerations
Conversion Considerations

- Tax Bracket at conversion
- Time until use
- Intended use
- Watch out for interference with social security
Social Security Tax

- FICA tax on employee was reduced by 2%
- Employers portion not reduced
- Cost covered from general tax revenue
Health Savings Accounts

- Only with high deductible plan
- Single = $1200 Family = $2400
- No Medicare insurance
Health Savings Accounts

- Contributions to account tax deductible
- Single max = $3050  Family max = $6150
- Add $1000 if over age 55
- Account value rolls forward
- Age 65, no penalty for non-qualified distributions
Tax Opportunities

- IRA Transfer to charities
- Gifting appreciated assets
IRA Transfers to Charity

- Must be over 70 ½
- Transfer of IRA goes directly to charity
- No income reporting
- No charitable deduction
Advantage

- Distribution from IRA is non-reportable
- May reduce taxable social security
- Could enhance other itemized deductions
- May reduce effect of alternative minimum tax
- May preserve other credits
- Will satisfy minimum required distribution
Example

Taxpayer has $18,000 of social security and has pension income of $20,000. His required minimum distribution is $6200. He also has medical expenses of $5000
Was it worth the Effort?

- Federal Savings = $630
- State Savings = $360
- Total savings = $990
Gifting an Appreciated Asset

- Must be held greater than one year to qualify
- An appreciated asset has a built-in tax gain
- Subject to capital gains tax rate
- Income may impact taxable Social Security, AMT, tax credits and deductions.
Indicators and Cautions

- Does not work with capital losses
- Cap Gains current tax rate 0% in lower tax brackets.
- Still can impact tax-ability of social security
- Works well with depreciated assets
Estate Tax Update

- Estate tax threshold at $5,000,000
- Currently no state estate tax but it's coming
- Estate tax was re-instated retroactive for 2010
- Basis adjustment option / Full step up
- Unused exclusion transferable to spouse
  - 2011 and 2012 for now
And Furthermore

- Current gift exclusion
  - Annual exclusion = $13,000
  - Life-time exclusion = $1,000,000
- Estate and Gift thresholds currently uncoupled
- All bets off in 2013
Strategies

- Annual Gifting
- 529 plans
- Irrevocable Trusts
- ILITs (Irrevocable Life Insurance Trusts)
Annual Gifting

- Works best for smaller estates at the threshold
- No control over gift
- Exclusion is per donee, per donor, per year
529 Plans

- Considered completed gift
- Restricted use for education only
- Control retained
Irrevocable Trust

- Up to $1,000,000 without tax
- Some income rights retention
- How to fund is the issue
ILIT

- Uses annual gifting exclusion for funding
- Growth and distribution is tax free
- Convince heirs to buy life insurance, not distribute
Questions?
What is the value of good planning?

Careful financial decisions can enhance the tax return just as good tax planning can enhance my financial progress.

At Mennenga Tax & Financial Service, we never consider one without the other.

To make an appointments

Call 608-241-5678

www.mtfteam.com