



## Dudley's Dogma



### Retirement & Estimated Taxes - Are You Withholding Enough?

For 2009, workers are eligible to receive a new payroll tax credit of \$800. Instead of being paid in a lump-sum distribution like the previous stimulus payments, workers are receiving this incentive in the form of reduced Federal income tax withholding. So, what does this have to do with people taking pension distributions? The new legislation revised the 2009 Federal income tax withholding tables. These same tables are used to calculate withholding on pension distributions. So, it could result in under withholding of income tax and prove to be a costly error. In addition to owing tax, the reduced withholding could result in penalties and interest for underpayment of required estimated income taxes. The good news is that it's not too late to do something about it. Please contact us if you would like help in evaluating whether or not you are withholding enough to avoid penalties and interest.

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## Planning Opportunity

### Converting Retirement Funds to Roth IRA's

Many of us have seen a decline in the value of our retirement accounts in the current economic downturn. It's hard to see an advantage in this situation, but for those with funds invested in a traditional IRA, SIMPLE, SEP, qualified plan\* (such as a profit sharing or 401(k) plan), 403(b) or 457 governmental plan, it might be an optimal time to consider converting these funds to a Roth IRA. (\*If a Roth option is available under the plan.)

Most retirement accounts are funded with pre-tax dollars. When distributions are made from these accounts, they are reportable as income on a taxpayer's return and are subject to income tax. In contrast, Roth IRA's are funded with after tax dollars and distributions are generally not subject to tax. Another benefit is that a Roth IRA allows a taxpayer to keep money invested for a longer period of time, as there are no required minimum distributions upon achieving a certain age.



Eligibility requirements are different for 2009 and 2010. For 2009, a single taxpayer's modified adjusted gross income (not including the conversion amount) cannot exceed \$100,000, (\$158,000 for married filing jointly) and married individuals filing separately are only eligible if they lived apart the entire conversion year. In 2010 (as the law is currently written), both of these restrictions are removed, allowing more people to take advantage of the benefits of a Roth IRA.

## Should I Keep it? When Can I Shred it?

### How Long to Keep Records and Receipts

Answers to these questions abound from many different sources. Factors to consider include statutes of limitations, personal judgment and preference, as well as the nature of the action, expense or event that is documented. For example, records should be kept at least as long as they may be needed to prove an item of income or deduction on a tax return.


If you want to make it easy on yourself, just remember two timeframes - 7 years and forever. Recommendations from most sources seem to

Conversion amounts are subject to regular income tax in the year of the conversion. The decline in the values of retirement accounts provides an opportunity to make conversions at a lower tax cost than when values are high. For 2009 conversions, the entire conversion will be subject to tax in one year. Conversions made in 2010 have the opportunity to spread the tax over two years.

To be eligible for the tax-free distribution benefits of the Roth IRA, and to avoid a 10% penalty on conversion funds withdrawn from a Roth IRA, the conversion must satisfy a five-year holding period beginning with the taxable year the conversion is made. Once the holding period is satisfied, taxpayers may withdraw conversion amounts, not including earnings, without penalty, and regardless of their age.

Sometimes, the amount in a traditional IRA includes previous nondeductible contributions. These contributions were not deductible either wholly or partially, due to situations such as income levels or participation in an employer's retirement plan. If the amount converted contains previous nondeductible contributions, that portion of the conversion is not taxable. These previous nondeductible contributions, when converted, may be withdrawn at any time, are not subject to tax or the 10% penalty, and have no holding period requirement.

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divide the majority of records into one of these two categories. In general, however, you would be perfectly in order if you follow the '7 or forever rule.' The enclosed chart provides details on how to apply the rules most effectively to your retention program. 



*For Details - Please See Insert.*

## Planning Opportunity, continued

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There are several items that must be carefully weighed when considering the Roth IRA conversion, including but not limited to: (1) Where the money will come from to pay the tax on the conversion; (2) Whether or not the income reported on the return from the conversion will push a taxpayer into a higher tax bracket, or disqualify a taxpayer from other tax benefits such as college tuition deductions;

## New COBRA Law

### How it Affects Employees

The new economic stimulus law - the American Recovery and Reinvestment Act of 2009 - subsidizes the cost of continuing COBRA medical coverage for some employees who have lost, or will lose, their jobs. But the burden of paying the rest of the premiums is shifting to employers.

The long-standing law known as COBRA (Consolidated Omnibus Budget Reconciliation Act of 1985) allows an employee who is terminated from employment to continue employer-provided health insurance coverage for up to 18 months. The maximum continuation period is extended to 29 months for an employee who suffers a disability; 36 months for a spouse or dependent facing loss of coverage due to death, divorce or legal separation.



The new law offers taxpayers a discount. An employee who is "involuntarily terminated" from a job between September 1, 2008 and December 31, 2009, may elect to pay only 35% of the required premiums for a nine-month stretch. It's up to the employer to pick up the remaining 65% of the tab.

## Thinking About a New Car?

### A New Vehicle Could Bring Tax Savings

If you're thinking of buying a new car, truck, motorcycle, or motor home this year, you might benefit from a tax break included in the American Recovery and Reinvestment Act of 2009.

The Act permits you to deduct state and local sales tax paid on the purchase of a qualifying vehicle up to \$49,500. Qualifying vehicles generally include new (not used) cars, light trucks, motorcycles and motor homes purchased after February 16, 2009 and before January 1, 2010.

The deduction can be claimed on your 2009 tax return regardless of whether or not you itemize other deductions. The deduction phases out for single taxpayers with income between \$125,000 and

(3) How much time a taxpayer has until retirement (generally, the longer the time until retirement, the better); (4) What the taxpayer's tax rate is now, compared to what the taxpayer expects it to be at retirement; and (5) How the conversion to a Roth IRA impacts a taxpayer's estate planning. ☞



If an employer is forced to make COBRA subsidy payments for employees who have been laid off or fired, the business is eligible for the new COBRA premium assistance credit. The new IRS guidance clarifies that a company can't claim the payroll tax credit until it has received the 35% payment from the former employee.

As an employer, you can claim a special tax credit on the quarterly employment tax return (Form 941). Also, you can choose to take the credit in a subsequent quarter in the same calendar year. For example, a credit for May can be claimed in the third quarter.

Another option for your company is to reduce regular employment tax deposits. For this purpose, the COBRA premiums will be treated as having been made on the first day of the quarter and will be applied against the usual deposit requirements for employment taxes. (Note: This does not otherwise affect an employer's obligation to pay employment taxes in a timely fashion.) ☞



\$135,000. For joint filers, the phase out range is \$250,000 to \$260,000.

The benefit of buying energy-efficient vehicles also continues. If you bought a hybrid car last year or if you're thinking of buying one this year, you may be entitled to a credit of up to \$3,000 for a 2008 model or even a newer 2009 model.

The exact amount of the hybrid vehicle credit depends on a computation of mileage savings and the fuel economy of the car's weight class. The better the car's performance, the higher the credit. However, tax credits may be reduced for the most popular models and, at a certain point, the credit is no longer available. ☞

## LITE BYTES

### Paying by Credit Card



Did you pay your individual income taxes with a credit card? If so, you may be entitled to an additional itemized deduction. Previously, the service fee charged by the IRS (typically 2.5% of the payment) was not deductible. Now it is considered a miscellaneous itemized deduction, subject to 2% of adjusted gross income. ☞

### New Form I-9



After delayed implementation, the new Form I-9 – Employment Eligibility Verification has been released. As of April 3, 2009, all employers must use the updated form. The date of revisions, February 2, 2009, is noted at the bottom (right corner) of the new I-9. The delay was announced by the US Citizenship and Immigration Services to allow time for additional public comments on the list of documents acceptable to verify employment eligibility. ☞

### Did you know?



The original date to file tax returns was March 1st. It changed to March 15th in 1918, and finally to April 15th in 1955. ☞



Contact us with questions.

jellenbogen@ce-cpa.com  
vdozzi@ce-cpa.com