Presents

Retirement Tax Planning Opportunities for 2013 & Beyond

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- Adam Bergman is a senior tax attorney at the IRA Financial Group, LLC.
- Prior to joining the IRA Financial Group, LLC, Mr. Bergman worked as a tax and ERISA attorney at White & Case LLP, Dewey LeBoeuf LLP, and Thelen LLP, three of the most prominent corporate law firms in the world. He has advised thousands of clients on a wide range of tax and ERISA matters involving limited liability companies and retirement plans for over 10 years.
- Mr. Bergman is recognized as a leading retirement tax-planning expert and has lectured attorneys on the legal and tax aspects of Self-Directed IRA LLC and Solo 401(k) Plans.
- Mr. Bergman is a member of the Tax Division of the American Bar Association and New York State Bar Association. Mr. Bergman has been quoted in Forbes, Businessweek, San Francisco Chronicle, Dallas Morning News, Chicago Tribune, USA Today, Daily Business Review, Law.com, and American Lawyer.
- Mr. Bergman received his B.A. (with distinction) from McGill University and his law degree (cum laude) from Syracuse University College of Law. Mr. Bergman also received his Masters of Taxation (LL.M.) from New York University School of Law.

The current environment – uncertainty rules

- What has changed, what might lie ahead, and how you can keep perspective in your planning
- New taxes in 2013
  - Net Investment tax
  - Medicare HI tax
  - Higher capital gains tax
- Higher IRA and 401(K) Plan contributions
- Roth conversion – Timing?
  - Estate Planning options
- Retirement Asset Limits – could this happen?
- Higher taxes on the horizon – what does that mean for me?

Obamacare Tax Increases

- **The Obamacare Surtax on Investment Income:** This is a new, 3.8 percentage point surtax on investment income earned in households making at least $250,000 ($200,000 single).
- **The Obamacare Medicare Payroll Tax Hike:** The Medicare payroll tax is currently 2.9 percent on all wages and self-employment profits. Under this tax hike, wages and profits exceeding $200,000 ($250,000 in the case of married couples) will face a 3.8 percent rate instead. This is a direct marginal income tax hike on small business owners, who are liable for self-employment tax in most cases.
- **Increase in FICA Taxes**: The fiscal cliff deal passed by Congress and signed by President Obama ended the temporary reduction in FICA tax.
  - As of January 1, there is a 12.5 percent tax on all earned income up to $110,000, which will be split evenly between the employer and the employee. That means that most of us saw a 2 percent tax increase in our most recent paycheck.
  - For someone earning $50,000 a year, that's a $1,000 tax increase—or $83 a month they won't have available to spend or save.

Impact of Obamacare on Retirement Planning

- Entering a higher tax environment
- Higher taxes meaning more benefits for tax deferral contributions
  - Traditional IRA & Roth IRA contribution limitation:
    - $5500 & $6500 if over the age of 50
  - SEP IRA contribution limitation
    - $51,000
    - No catch-up contribution
  - Solo 401(k) Plan
  - $51,000 & $56,500 if you are over the age of 50
    - Employee deferrals
    - Profit sharing contributions
  - Power of tax deferral or tax-free returns

Power of Tax-deferral

Tax Deferral: All income and gains generated by your pre-tax retirement account investment would generally flow back into the retirement account tax-free.

-Instead of paying tax on the returns of a real estate investment, tax is paid only at a later date, leaving the investment to grow unhindered.

-Investments are usually made when a person is earning higher income and is taxed at a higher tax rate. Withdrawals are made from an investment account when a person is earning little or no income and is taxed at a lower rate.

-Example: John is 30 years old and makes a $5,000 contribution to a Traditional IRA. Assume John continues to make a $5,000 annual Traditional IRA contribution until he reaches the age of 65. Assume further, that John is able to receive a 7% annual return on his Traditional IRA funds. If the prevailing income tax rate was 30% during that time, when John reached the age of 65, he would have **$792,950** in IRA funds. Whereas, if he would have used non-retirement funds, he would only have **$555,065** – a loss of **$237,885.**

Power of Tax-Free Compounding

Tax-Free Gains: In the case of a Roth IRA or Roth Solo 401(k) Plan, all income and gains generated from a real estate investment would be tax-free and one can live off that money without ever paying tax.

Example:

For example, a 20 year old that invests $10,000 in a Roth IRA or Roth Solo 401(k) Plan today and invests it in Treasury Bills, earning 4% on average for the next 50 years, will find himself or herself with **$71,060** of tax-free funds.

Had he or she invested Roth IRA or Roth Solo 401(k) Plan funds in stocks and real estate, earning a 12% average rate of return as a result of riding out the fluctuations, he or she would have ended up with **$2,890,022** in tax-free funds. Adding higher returning asset classes would result in 40.67 times more money thanks to the power of compound gains.

The Roth IRA Secret

- **Creating a Roth IRA can make a big difference in your retirement savings. There is no tax deduction for contributions made to a Roth IRA, however all future earnings are sheltered from taxes, under current tax laws. The Roth IRA can provide truly tax-free growth.**
- Example – John is 30 years old and makes a $5,000 contribution to a Roth IRA. Assume John continues to make a $5,000 annual Roth contribution until he reaches the age of 65. Assume further, that John is able to receive a 7% annual return on his Roth funds. If the prevailing income tax rate was 30% during that time, when John reached the age of 65, he would have **$792,950** tax-free and would have saved over **$490,000** in taxes.

Roth IRA Conversion – is 2013 the Right Year for me?

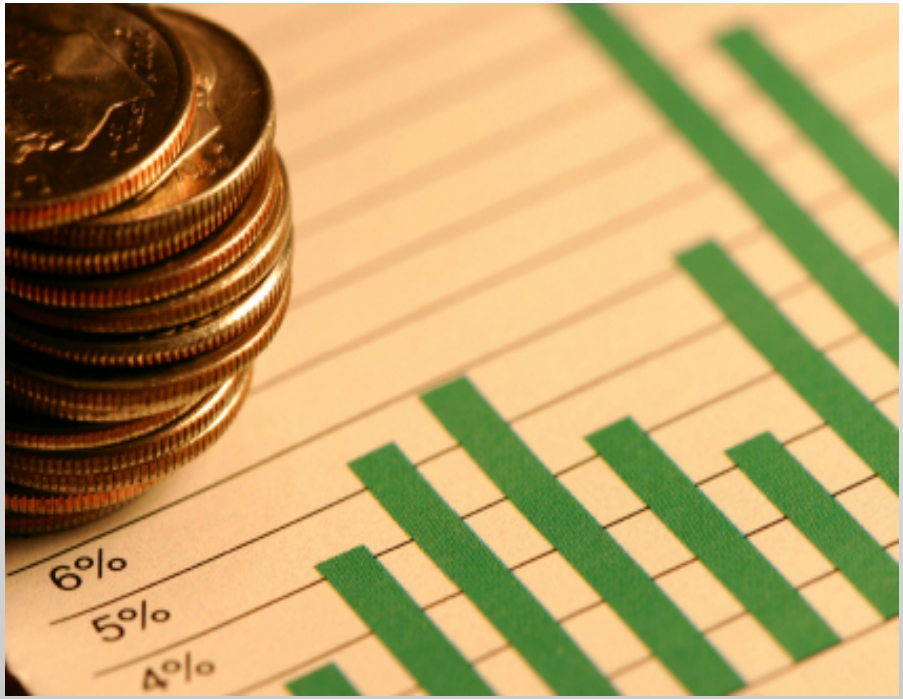
- **First things first – can you afford to pay the taxes on the conversion?**
  - Ordinary income
  - Added to income on IRS Form 1040
  - Payable with personal funds
    - Paying with converted funds does generally not make tax sense
- **Your age**
  - The younger you are more tax free growth available
- **Type of investments to be made with Roth IRA funds**
  - Memories of Enron
  - Tax-free income to supplement other sources of income
- **Higher tax rates in the future increase benefit of having a Roth**
  - What about argument that tax rates will be lower when I retire?
  - Power of tax-free compounding
- **Estate Planning opportunities**
  - Pay tax now and avoid estate and gift taxes on that amount
  - paying the taxes now reduces the size of your estate and any estate tax bill
  - conversion can provide lifetime income tax benefits to you that also can benefit your beneficiary
  - Spouse can live off Roth IRA funds tax-free or can have the Roth IRA grow for children tax-free

The Roth IRA – Estate Planning Opportunities

- An IRA, whether a traditional or a Roth, is included in the owner's gross estate. You can't avoid that.
- Traditional IRA:
  - If a traditional IRA is inherited, the beneficiary must include all distributions in gross income just as the original owner would have. The distributions are taxed at the beneficiary's ordinary income tax rate. The beneficiary is able to stretch out the distributions over his or her life expectancy, but annual distributions are required and will be taxed.
- Roth IRA:
  - With a Roth IRA conversion, you're in effect paying the taxes for your heirs.
  - Your heirs would have owed the taxes in the future when taking distributions from the IRA. Instead, you pay them now, and avoid estate and gift taxes on that amount. When your beneficiary takes distributions from the Roth IRA, those distributions are tax free.
  - Spouse beneficiaries - Roth IRA can be left to a spouse and the spouse will have tax-free income from the Roth IRA and can use the Roth IRA funds as he or she wishes.
  - Non spouse Roth IRA beneficiaries - Unlike the original owner, a beneficiary of a Roth IRA is required to take minimum distributions over his or her life expectancy. When the beneficiary is relatively young, there is the potential for the distributions to be less than the annual earnings of the IRA, so the IRA grows while the distributions are being taken. Of course, the beneficiary can take more than the minimum, even the entire Roth IRA, at any time tax-free.
  - Roth IRA can provide lifetime income tax benefits to you that also can benefit your beneficiary.

How Can a Self-Directed IRA Help Offset Higher Tax Rates?

- 2013 – Higher annual contribution limitation
  - Reduces taxable income
  - $5500 & $6500 over the age of 50
- Higher taxes more benefits to make tax-deductible contributions
  - Investment gains are tax-deferred
- SEP IRA for small business owner
  - $51,000 annual contribution limitation
  - SEP IRA vs. Solo 401(K) Plan - Profit sharing vs. employee deferral
- Reduce income tax and grow retirement funds



How Can a Solo 401(K) Plan Help Offset Higher Tax Rates?

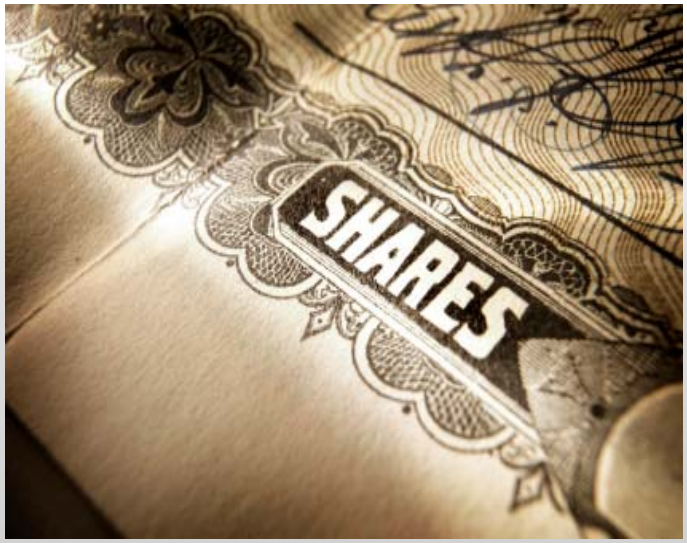
- 2013 – Higher annual contribution limitation
  - Reduces taxable income
  - $51,00 & $56,500 over the age of 50
  - Employee deferral - $17,500 or $23,000 if over the age of 50
  - Profit sharing – 25% of self-employment income
- Higher taxes more benefits to make tax-deductible contributions
  - Significant if income above Obama care tax threshold
- Investment gains are tax-deferred
- Reduce income tax and grow retirement funds

The Solo 401(k) Loan – Access Retirement Funds Without Tax or Penalty

- Borrow $50,000 or 50% of your Plan account value, whatever is less
- Use the Plan funds for any personal or business purpose:
  - Pay debt
  - Pay mortgage
  - Education costs
  - Travel
  - Business funding
- Loan re-payment terms:
  - At least quarterly
  - Interest rate of at lest 3.25%
- Tax-free and penalty free use of funds while growing retirement account
- Solo 401(k) Loan vs. Taxable Distribution
  - Loan payments Vs. Tax and, if applicable, 10% early distribution penalty

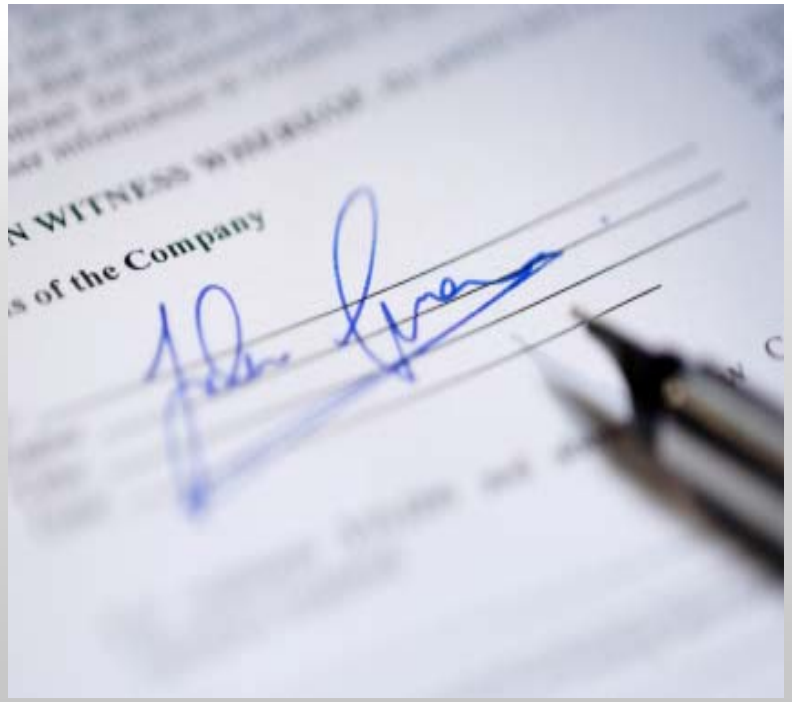
IRA Tax-Free Charitable Contributions

- Individuals age 70½ and older are generally required to withdraw money from their traditional IRAs and pay income tax on each distribution. But retirees in the fortunate position of not needing the money they have stashed away in their IRA can avoid paying income tax on their required withdrawals by donating up to $100,000 of their distributions to charity. To qualify for the tax break, charitable distributions for 2013 must be paid directly from the IRA to a qualified charity by the end of the calendar year.
- Give to charity instead of the IRS.



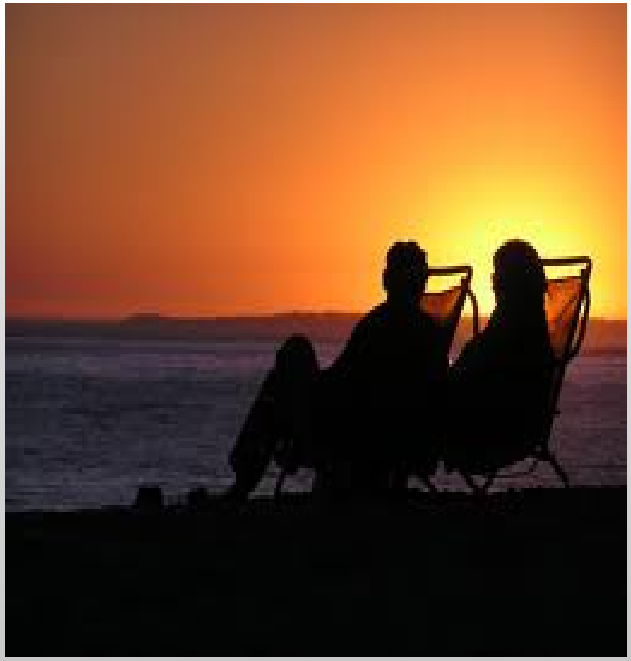
Saver's Credit

- Low- and moderate-income people who save for retirement in a 401(k) or IRA are eligible to claim the saver's credit, which can be worth up to $1,000 for individuals and $2,000 for couples. People age 18 and older who are not full-time students or dependents on someone else's tax return can claim this tax credit until their income exceeds $29,500 for singles, $44,250 for heads of household, and $59,000 for couples in 2013. The credit is calculated based on up to $2,000 of retirement account contributions and your income, with the biggest tax credit going to retirement savers with the lowest incomes. For example, a married couple earning $30,000 that contributed $1,000 to an IRA would get a $500 credit.
- Additional incentives to save for retirement.



Retirement savings is the best answer to higher income tax rates

1. Reduce tax liability
2. Grow assets tax-deferred or tax-free in the case of a Roth IRA or Roth 401(k) Plan
3. Pay tax on distributions when earning less income – lower tax rate
4. Congress reducing available deductions – retirement contribution deductions offer significant benefits
5. IRA Tax-Free Charitable Contributions
6. Saver's credit



Retirement Plans
Recent Developments

- Higher contribution limits for IRAs and 401(k) Plans
- Proposed cap on retirement account asset value
  - Cap at $3 million in retirement asset value part of Obama budget proposal
  - How significant is this?
    - Only around 0.06 percent of total IRA account holders had $3 million as of the end of 2011, and 0.0041 percent of 401(k) accounts had $3 million as of the end of 2012
  - What is the possibility of enactment?
    - Slim
  - What does this mean for retirement assets?
    - Obama administration attempt to limit the wealth of the upper class
    - Bad precedent
- Peek Vs. Commissioner (140 T.C. No. 12, May 9, 2013)
  - Prohibited transaction issue
  - Investing IRA funds in a business and personal guarantee of loan involving retirement funds
  - Reminder to focus on prohibited transaction rules when making an investment

IRA Financial Group

- Founded by a group of top law firm tax and ERISA lawyers
  - White & Case LLP
  - Dewey & LeBoeuf LLP
- Attorney owned and operated
- Market's leading Self Directed IRA LLC and Solo 401(k) Facilitator
- IRA Financial Group will take care of everything. The whole process can be handled by phone, email, fax, or mail. Our expert tax and ERISA attorneys are on-site greatly reducing the setup time and cost.
- Structure can be setup in days

QUESTIONS???

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