MIDPOINT

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Timing is Everything

Knowing when to act is often as important as knowing what needs to be done. This is especially true when it comes to tax planning. Here are some ideas for year-end 2010, along with others for the new year:

Before January 1, 2011:

■ Check your estimated tax payments and withholding to make sure you've paid in the proper amount to avoid a penalty. Most taxpayers must pay in at least 90% of their tax liability for 2010 (or 100% of the amount owed on your 2009 tax return).

■ Many expect Congress will renew for 2010 a law permitting charitable gifts from IRAs by people over age 70½. If you're eligible, check with us about making a gift this year.

■ Use all the funds in your flexible spending account to avoid losing the money. Buy a new pair of prescription glasses, stock up on medications or see your health care provider for a check-up.

■ Take required minimum distributions from IRAs and 401(k) accounts to avoid a 50% penalty.

■ Consider gifts to Midway College to increase 2010 charitable deductions. You can mail a check as late as December 31, but for gifts of stock or mutual fund shares, more time may be needed to complete the transfer.

After December 31, 2010:

■ If you're eligible to participate in a retirement plan, make your 2011 contribution as soon as possible, giving the funds longer to grow tax-deferred. If you haven't already done so, you have until April 15, 2011 to make your 2010 contribution to an IRA – up to $5,000, with an additional $1,000 make up contribution for those age 50 and older.

■ Revisit your withholding and estimated payments, particularly if you'll be getting a big tax refund. You can avoid giving the IRS an interest-free loan by paying in only what's required.

Always the right time:

■ Have your estate plan reviewed by your attorney to see if changes are needed. This may be especially important if estate tax rates change, as scheduled. Remember, you can add a bequest to Midway College through a simple codicil to your existing will.

■ Review beneficiary designations on retirement plans, insurance policies and financial accounts.

■ Call us about gifts that provide income for life to you or your family members, with eventual benefit for our programs.

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Is an Inheritance in Your Future?

An AARP study several years ago showed that the average inheritance received by baby boomers was $64,000. In the coming years, more boomers are likely to find themselves the recipients of at least one inheritance as members of the pre-boomer generations (those born before 1946) pass away. These sudden windfalls may create as many problems as opportunities. What issues face heirs?

■ Although an inheritance is generally income tax free, there may be income taxes to pay on certain assets such as qualified retirement accounts, U.S. savings bonds and other assets that have never been taxed. Taxes not only reduce the value of the inheritance, but heirs may land in a higher income tax bracket, as well, resulting in higher tax rates on other income.

■ Heirs may need to revise existing estate plans. An inheritance may push the recipient's gross estate beyond the amount sheltered from estate tax after 2010.

■ An investment portfolio may be thrown out of balance with the addition of new assets. Thanks to the step-up in basis at death for most estates, heirs can sell securities without having to worry about capital gains taxes on the appreciation. It's a good idea for a financial adviser to review the investments after an heir receives an inheritance. As a result of the increase in net worth, the heir may also receive higher income – and a larger income tax bill – in future years.

What to Do if You Receive an Inheritance

There are several steps to making the best decisions regarding an inheritance you receive:

1. Don't rush into anything. Take your time and consult with financial experts about how to structure your assets. You may wish to pay off debts or a mortgage or rebalance your portfolio.

2. Get expert advice on dealing with IRAs, 401(k)s and other retirement accounts. You may be able to spread the receipt of distributions over your life expectancy, providing you a steady stream of income and minimizing the taxes you pay each year.

3. Review your own estate plan. Many estates may be subject to estate taxes beginning next year, unless tax laws are changed. There may also be state estate and inheritance taxes to consider. If your estate is or will be above the amount sheltered from tax, consider the various charitable options that will provide for family members and Midway College, and entitle your estate to a deduction.

4. If your income in future years is likely to increase, we can show you gift ideas that provide you with income tax deductions today, income for life – some favorably taxed – and future assistance for Midway College. Feel free to call our office.

Home Sweet Tax Shelter

Most homeowners view their houses as a place to live and raise their children. But to the IRS, a home is no different than shares of stock that have gone up in value. Capital gains tax is generally due on the sale of real property that has appreciated, with one major exception: Owners can exclude a certain portion of the gain on a principal residence – $250,000 for single taxpayers or $500,000 for married couples.

Some homeowners still face capital gains taxes on the sale of a home:

■ Sally and her husband had lived in their home for only two years when he died in 2002. She received a stepped up basis in his half of the home at that time, but she will nevertheless have a gain of nearly $300,000 if she sells and relocates.

■ Marla and Curt own a lakefront home that now sits unused most of the year. If they sell it, all the appreciation – nearly $150,000 – will be subject to capital gains tax because the home is not their principal residence.

■ Janet and Ralph have lived in the same home for 42 years, but are now getting ready to move. The home, which they bought for $19,000, is now worth about $700,000, leaving them with significant capital gains despite the $500,000 exclusion.

Some homeowners have discovered that they can avoid or reduce the capital gains tax through charitable gifts that also allow them to benefit the organizations they support. For example, Sally could contribute a percentage interest – say 25% – of her home to Midway College before any sale is finalized. In addition to qualifying for an income tax deduction, she could reduce the capital gain when the home is sold. Marla and Curt could use their vacation home to fund a charitable remainder trust that will provide them with income for life from the full value of the home when sold. When the trust ends, the assets would then be paid to Midway College. To learn more about how helping us can save on capital gains tax, please call our office.

Make Recovery Easier

Starting over, as many victims of flooding, hurricanes, fires and other disasters have discovered, can be a monumental task. What are some of the steps you should take to be financially prepared for a disaster?

■ Take photos or videos of your possessions to document your losses for insurance purposes. Keep the originals in a safe place, such as a safe-deposit box. Update your records regularly for new acquisitions.

■ Keep important documents – or copies of them – in a safe-deposit box. These can include passports, birth and death certificates, Social Security cards, copies of your driver's license, deeds to property, titles to vehicles, insurance policies, income tax returns and copies of estate planning documents such as wills, living trusts and health care directives.

■ Compile a list of names and numbers you would need in the event of a disaster: insurance agent and all policy numbers, brokerage accounts, checking and savings accounts, lawyer, accountant and physicians.

Better Living Through Charitable Giving?

Our supporters know that their gifts will mean advancing the mission of Midway College. That important knowledge is obviously a source of deep personal satisfaction.

A desire to "do good" is, in fact, the starting point in all gift planning. But gifts can also be planned to provide donors with significant tax and financial rewards, and in many cases can help achieve personal and family goals. Indeed, friends of Midway College may find that they truly can enjoy "better living through charitable giving."

Here are just a few of the personal objectives that people can accomplish with their gifts:

■ provide financial assistance for parents or other loved ones;

■ supplement the college savings of grandchildren;

■ augment retirement nest eggs;

■ leave assets or income in private to family members or friends;

■ reduce income taxes and estate taxes for your heirs;

■ provide financial management for family members who need it;

■ delay full distribution of estate assets to young heirs by five or ten years (or longer);

■ leave a lasting legacy that will allow your name to live on.

We have a new booklet, ***Better Living Through Charitable Giving***, that explores all of these ideas and many others. We would be pleased to send you a copy – just return the enclosed card or call our office. We would also be happy to sit down with you to design gifts that will "do good" for you, your family and Midway College.

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