

# RETIREMENT PLANNING NEWSLETTER

Published by Walter C. King Associates, P.C., 991 Post Road East, Westport, CT 06880, 203-227-1414

Volume 1 Issue 13 Website-[www.wckcpa.com](http://www.wckcpa.com) / Email:[wckcpa@sbcglobal.net](mailto:wckcpa@sbcglobal.net) July 2008

## Difficult Economic Times:

This issue of the Retirement Planning Newsletter is dedicated to our clients and friends who are feeling financial pressures in these difficult economic times.

## Early IRA Withdrawals & Dreaded Penalties:

During difficult economic times, individuals are often forced to withdraw from their IRA's to meet living costs. For individuals under the age of 59 ½, these withdrawals are greeted by the IRS with not only regular income taxes rates, but a 10% penalty tax, which bring the combined tax rate to around 50%. The good news is that there are many exceptions to the dreaded penalty tax. The most frequent exception is withdrawals to pay qualifying education expenses. Also, an individual who is over the age 55 and has lost their job, may be exempt.

## Down-Sizing and Home Sale Exclusion:

The housing boom is now behind us and many are feeling the need to down-size and sell their residence. In this connection, one of the most valuable parts of our tax law is Section 121, which allows an exclusion of the sale of a residence of up to \$500,000 on a joint return. The requirement here is that the residence must be the principal residence for two of the five years prior to the sale; however, there are many exceptions, which allows the exclusion to be prorated. These exceptions include loss of employment, change in health and unforeseen circumstances.

## Roth IRA's:

If a taxpayer has little or no taxable income for 2008, they should consider converting regular IRA's to Roth IRA's. This strategy has the potential to convert taxable income into tax-free income.

## Capital Losses:

Many of us will have substantial capital losses in 2008. The good news is that these losses can be used to offset capital gains in the future. In fact, capital losses not used in 2008 can be carried forward indefinitely!

## Day Traders:

Day traders who are suffering losses in the market should consider "mark to market" elections (Section 475(f)). This will cause capital gains and losses to become ordinary gains & losses. This decision is critical and should be done in concert with a tax professional.

## Estimated Taxes - Penalties:

In difficult economic times, taxpayers miss estimated payments and incur large penalties. These penalties can be reduced or eliminated by increased withholding on IRA withdrawals.

## Forensic Accounting –

### Divorces:

As forensic accountants we are often engaged in divorces to assist in determining alimony, child support or asset division. These engagements occur when one spouse has a closely held business. Closely held businesses are frequently used to pay personal expenses, such as personal car, travel entertainment and country club expenses – there are many, many more. Our job is to determine the disposable income of the couple resulting from the business. Therefore personal expenses must be purged from the operating expenses of the business – this process is called *normalization*.

Overly aggressive spouses may pocket the sales of business without reporting it. This happens most frequently with businesses that receive cash rather than checks or credit card payments. It is most common in restaurants, grocery stores, gas stations, beauty salons, and dry cleaners. Owners of closely held businesses may also cash customer checks and not record the

checks and not record the transaction. One of our procedures used to estimate the amount of unreported income is to reconstruct revenue using purchases and profit margins. For example, if a restaurant purchases \$100,000 in wine and the gross profit is 75%, the revenues should be \$400,000.

Closely held businesses are typically a marital asset and must be considered in asset division. In order to fairly divide assets among the couple, values must be known and placed on the business. Valuing closely held businesses is a specialized profession, requiring appropriate credentials. Again, we must normalize income and apply generally accepted valuation techniques to arrive at the fair market value of the business.



*Walter C. King Associates, P.C., founded in 1978, provides accounting, auditing, financial and tax planning, litigation support and business valuation services...copyright pending.*