

Drown, Tread Water, or Swim

Dealing with Tax and Financial Issues in a Changing Environment

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Council of
Residential Specialists

The Proven Path To Success

Stay the course!!!!!!!

- We have been through this before
- Watch your money closer, and get in control of the financial aspects of both your business and personal life. Do not “hole up”
- If you have the money, this is the time to buy, including real estate, stocks and mutual funds.

Opening thoughts

- **With the utmost certainty that tax rates will be increasing, now is the time to consider converting some of your IRA's to ROTH IRA's**
- **Why?-3 reasons**
 - Tax rates are lower today than they will be in the future
 - The value of your IRA's are down, so the tax you will owe on the conversion will be less
 - Due to the economy, your marginal tax rate may be lower than in previous years, meaning that the tax on the conversion will be lower.

- **How do you access funds that are tax free or minimally taxed if you need the money?**
- **“It's my money and I need it now!!!!!!!!!!!!!!”**

If you need money to pay personal or business expenses, and other sources have dried up

- **Consider:**
 - 1. Cashing in some of your retirement assets, such as SEP IRA's, IRA's etc. If your marginal tax rate is low due to the economy, the tax and penalty pain may be very low. If you are 59 ½ or older, the 10% penalty does not apply at all, so the marginal tax rate is your only consideration.
 - 2. Consider rolling your IRA's or SEP IRA's into a 401(k) for the self employed and BORROW the funds from the 401(k) instead of taking a distribution.

401(k) Loans

- **Terms of loan:**
 - Maximum loan amount is the lesser of \$50,000 or 50% of the amount in the 401(k)
 - Repayment is required over a period not to exceed 60 months
 - Current interest rate is in the 5-6% range

- 3. Take withdrawals from your ROTH IRA's up to the amount of your non-deductible contributions. These withdrawals are **NON-TAXABLE**
- 4. Consider the 60 day rollover from one IRA to another. This money is not taxed as long as you put the funds back into the IRA by the 60th day.

Where are marginal tax rates going?

	2002	2003-2010
Top Bracket	38.6%	35%
Fifth Bracket	35%	33%
Fourth Bracket	30%	28%
Third Bracket	27%	25%
Sec. Bracket	15%	15%
Initial Bracket	10%	10%

Where are capital gains and dividend tax rates going????????

	2002	2003-2010
Capital Gains Rate	20%	15%
Capital Gains Rate for L/I	10%	5% thru 2007, 0% in 2008-2010
Dividends Tax Rate	As high as 38.6%	15%
Dividend Tax Rate for L/I	As high as 38.6%	5% thru 2007, 0% in 2008-2010

Future of Tax Rates

- The issue is whether the current administration will let the original tax rate reductions expire at the end of 2010 or accelerate the tax increases that automatically go into effect in 2011 into an earlier tax year, such as 2009 or 2010.
- It appears that the administration is looking at 2011 for the first change

IRA Conversions to ROTH IRA

- **\$100,000 limit removed in 2010**
- **Most of you should consider this, if politicians leave this tax law change alone**
- **Issue is entirely one of timing, and assumptions regarding tax rate increases**

Net Operating Loss Carrybacks

- **This is huge-----instead of a 2 year carryback, affected taxpayers will be able to carryback losses from their businesses in 2008 and possibly 2009 for 5 years, resulting in large refunds of taxes paid in previous years. Let your builder's, subdivision developers etc. know as these refunds could help them stay in business**

Federal Estate Tax Changes

- **As of 1/1/09, the Federal Estate Tax Exemption increased from \$2M per person to \$3.5M per person. On 1/1/10, The Federal Estate Tax is repealed in total for one year only. Then, in 2011, The Federal Estate Tax Exemption returns, but at a level of \$1M. Politics will never allow the repeal of the Estate Tax for even one day, so watch in 2009 as Congress negotiates a permanent \$3.5M exemption starting 1/1/10. If you have an estate plan in place, you need to contact your advisors regarding these changes.**

The Asset Accumulation Stage

“Lord, give me one more good year and I promise I won’t blow it like I have done every year before

Evaluate Your Financial Assets

- **Assess current spending habits**-watch your spending
- Develop a **Business Plan**
- Prepare a **Net Worth Statement**
- Purchase **Quicken, Money, or Quickbooks**
- Purchase a **NEAT RECEIPTS SCANNER**-they are slick!!!!!!!!!!!!!! (Costco \$132.00)

Understand Your Income and Expenses

- Real Estate is a business where you can spend yourself into oblivion if you don’t watch how you spend your money
- Pay heed to Income Statement information in “Millionaire Real Estate Agent”, especially percentages of expenses and profit

**Retirement Plan
Contribution Limits**

Year	IRA	Simple	401(k)	SEP IRA	% of Profit
2008	5000	10500	15500	46000	20/25
2009	5000	11500	16500	49000	20/25

**Retirement Plan Catch-Up
Provisions 50 years old or more**

Year	IRA	Simple	401(k) 403(b) 457
2006 and later	\$1,000	\$2,500	\$5,500

The 401(k) series

- A good way to increase retirement plan contributions on lower levels of profit. (or S Corporation Salaries)
- Must be started by end of first year, you can't wait until the following year to set up like a SEP IRA
- Only problem is that if a self employed person is not maximizing contributions to their current retirement plan, they won't do it to the 401(k) either
- **YOU CAN BORROW FROM YOUR 401(k)!!!!!!!**

The 401(k) series

- Solo (k) or Safe Harbor 401(k)
- Profit \$50,000 \$80,000 \$220,000
- Cont: \$16,500 \$16,500 \$16,500
- +25% 12,500 20,000 32,500*
- =401(k) **\$29,000** **\$36,500** **\$49,000**
- **If 50+** **\$34,500** **\$42,000** **\$54,500**
- **SEP IRA** \$10-12K \$16-20K \$49,000

Roth 401(k)

- NOT SUBJECT TO INCOME LIMITS OF ROTH IRA
- Not Tax Deductible, but distributions are generally tax free
- 401K Loans available
- Maximum deferral per employee will be \$16,500/year OR \$22,000/year for age 50+
- Combined contribution between employer and employee not to exceed \$49,000/year (2009)

The Defined Benefit Plan

- This is the retirement plan that will let you put really significant amounts of money away for retirement. And those that have used these plans have more assets to access in the current times
- Best for those in high 40's and older
- Best for those at the top of their game, income wise
- Best for those most disciplined financially
- Enables the self employed person to maximize contributions to a retirement plan
- Contributions based on age, income, and present retirement balances

The Asset Distribution Stage-Planning for Withdrawals

- Assume you start out in retirement with \$1M and earn 6.5% on your savings each year. Assuming you want \$50,000 a year after taxes to live on and that you increase your withdrawals by 3% each year to adjust for inflation. The following chart illustrates how taxes would affect your retirement plans:

	Taxes	Initial W/D	How long will it last?
ROTH IRA	Zero	\$50,000	37 Years
Taxable Stk/Mutual Fund	You pay 15% on Cap Gain	\$53,529	32 Years
401(k) or other T/D	25% Tax Bracket	\$66,667	21 Years
401(k) or other T/D	35% Tax Bracket	\$76,923	17 Years

New Tax Law 2009

- If you or someone close to you is 70 ½ or older, they are probably having to take withdrawals from their retirement accounts called RMD. (Required minimum distributions)
- If they do not want to take these distributions in 2009, they can do so, and not be subject to any penalties (50%)

New Tax Laws for 2009

- And, if individuals have already taken money from their retirement plans in 2009, they have until November 30, 2009 to put it back. IRS Notice 2009-82
- Sales Tax Deduction for purchase of NEW vehicle between 2/16-12/31/2009
- Higher Education Tax Credits
- Purchase a NEV for a net cost of \$3,000+ or -

First Time Homebuyers Tax Credit

- We may see an extension of this bill past November 30, 2009
- Possible scenarios in Congress as of this date

Real Estate in Your Retirement Plan

If you no longer trust the stock and equity markets, AND you are a real estate investor, there is no better time than now to consider the purchase of real estate investments with your retirement accounts.

Why Should I Consider Real Estate in my Retirement Account ?

- **Choices!**
- **Earn a rate of return based on what you know.**
- **Tax deferred growth or tax free growth.**
- **Take charge of building your long term equity.**

And let us not forget the boys and girls who make vehicles

- **If you have the money, the deals on vehicles are out there, and if you purchase BSN, the deductions will knock your socks off. However, to take the big depreciation write-offs, you cannot deduct the standard mileage rate, which is 55.0 for 2009.**
- **Well-what does this mean????????**

The SUV write-off

- Vehicle must have a GVWR>6,000 lbs.
- Cannot ever use standard mileage rate on same vehicle (55cpm for 2009)
- Law change effective for vehicles acquired after 10/22/04

The Luxury Car Limit on Depreciation



Total first year deduction in 2009 is \$2,960 if used, \$10,960 if BSN in 2009

Example of a qualifying SUV-the good old days!!!!!!!

• Cost	\$55,000
• B/U	90%
• Bus Base	\$49,500
• IRC 179	\$49,500



Huge writeoff, if purchased new or used 10/22/04 or before

• **And if purchased in 2009**

Cost	\$55,000
Bus Use	90%
Basis	\$49,500
IRC 179	\$25,000
Remaining	\$24,500
Bonus Dep	\$12,250
Reg Dep.	\$ 2,450
Total	\$29,900 in
	2009 if used, and
	39,700 if BSN in 2009

Full Size Pick-up Truck Write-off

(with bed length of at least 6 feet)

Cost	\$55,000
Business Use	90%
Basis	\$49,500
Total =	\$49,500



THANK YOU!!!!

I am honored to speak in front of
a group of this caliber.
