

TAX BEAT

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Welcome again to Tax Beat. As we mentioned in the last issue, tax legislation seems to be passed around the time we are to put out a new issue. Well, it has happened again. Inside we have highlighted some of the new tax law changes. One of the most important pieces of the new law is that qualified distributions from state sponsored Section 529 plans are now permanently tax-free. Between this change and the extension of the “kiddie tax” from the last law change, Section 529 plans are quickly becoming the best way to save for college in most cases.

Other articles included with this issue include when to start taking your social security benefits and maintaining your estate plan. With all the debate surrounding the long-term future of social security, this important decision should not be ignored, especially by those close to retirement age.

As always, past issues of Tax Beat can be found on our website, www.komisarbrady.com, along with breaking news and other helpful information. If you would rather receive further issues via e-mail, or if you have any other comments about the newsletter, please let us know at taxbeat@komisarbrady.com.

Our Mission Statement

We are dedicated professionals working together to provide comprehensive quality services to satisfy the needs of clients, business advisors, and each other.



NEW TAX LAW CHANGES

by Stephen Bjork, CPA

On August 17th, the Pension Protection Act of 2006 was signed into law. This bill strengthens traditional pension plans, makes many retirement tax savings benefits that were to expire permanent, makes permanent the benefits of Section 529 college savings plans, and makes changes to charitable contributions.

Roughly 44 million Americans are covered by traditional defined benefit pension plans. The new law is designed to stabilize private pension plans and identify troubled plans. The law also creates a definition for "at-risk" plans and subjects those plans to even stricter funding requirements.

Even though the majority of the Pension Protection Act deals with defined benefit pension plans, the new law also addresses retirement savings held in IRA, 401(k), SIMPLE, and other defined contribution plans. These provisions affect tens of millions more people than the pension rules do. Even though many of the provisions permanently extend benefits that were set to ex-

pire, new provisions are also created. Some companies already automatically enroll employees in retirement savings plans; the new law clarifies and makes it easier to implement automatic enrollment in a 401(k) plan. Studies have shown that companies have higher employee participation rates when automatic enrollment is part of the retirement plan. Another benefit of automatic enrollment is that due to non-discrimination rules, when greater plan participation by employees in the lower pay ranges occurs, upper income employees will be allowed to contribute more to their retirement accounts. Other new provisions allow 401(k), IRA, and similar providers to offer personalized investment advice to accountholders and simplifies the process of rolling over amounts from a qualified retirement plan to a Roth IRA. This can now be done directly, skipping the two step process.

The bill also makes permanent many of the enhanced retirement plan provisions

which were set to expire after 2010. Some of these now permanent provisions include increased contribution amounts to IRA and retirement plans, catch-up contributions for persons age 50 or over, start-up tax credit for new small employer-sponsored plans, and Roth 401(k) and 403(b) plans. Also made permanent is the saver's credit which was set to expire after 2006. The saver's credit allows lower and middle-income taxpayers to claim a credit for contributions or deferrals to retirement savings plans and IRAs.



ESTATE PLANNING— TIME FOR A CHECK UP

by Jennifer Medley, MST



It is commonplace for folks to take their cars in for regular maintenance. And most people see their doctor for regular check-ups. But when it comes to an estate plan, most people do not apply the same thought process, as more often than not we take a “set it and forget it” approach. This frame of mind can prove to be costly. There are many times in a person’s life when they should revisit their estate plan (or have one put in place). Tax law changes can often affect the plan but the most common reason an estate plan requires updating is a life changing event. Life changes such as marriage, birth of a child, divorce, remarriage, or an inheritance are all good reasons to review your existing plan.

Has there been a recent tax law change? Your tax advisor and attorney can help you by reading through your existing documents to help determine if the law changes affect your existing plan. The tax law in regards to estate tax has changed dramatically over the past several years and it is important to note differences in federal and state law. As an example – federal law allows for \$2,000,000 to pass through to heirs tax free but the State of Wisconsin allows only \$675,000. This difference of \$1,325,000 means your heirs could be facing a Wisconsin estate tax bill of roughly \$93,000. Good

estate planning will help minimize the amount of federal and Wisconsin estate tax – but only if the plan is in place.

Are you getting married? This time in a person’s life can be quite exciting and the inevitable is not foremost on your mind during this happy time. You may not have a plan in place because you did not deem it necessary but now is a good time to meet with your advisor to discuss what documents would be appropriate for your situation. If you have children from a previous relationship you will especially want to discuss how the new union will affect the potential inheritance issues.

Have you recently divorced? This is a difficult time for most people and one of the last things on your mind is your estate plan. However, it is very important to look at your existing documents and have them revised and updated. You will want to look closely at your beneficiary designations because a future spouse will not want to find out after your death that your ex is the sole beneficiary of your IRA. Also important are your power of attorney documents – in times of medical emergencies it would be best that your ex-spouse not have full medical and financial power over decisions affecting your life. If you have children you will want to discuss with your soon to be ex-

spouse issues such as life insurance needs and what the appropriate beneficiary designations should be. In addition the issue of a guardian should be discussed. You may want to include provisions in your marital settlement agreement to ensure that the proper steps are taken to protect your children’s interests.

Other changes including an **inheritance**, the **birth of child**, or the looming prospect of an **empty nest** are all good reasons to evaluate the plan you have in place and/or put into place a new plan.

Whether you have an existing estate plan or need to put one in place, this is a reminder that there is no time like the present to revisit (or visit for the first time) your estate plan. The thought of an estate plan can be frightening but by meeting with the right advisor it can be made much less intimidating. The bottom line is that it is important to have a plan in place – no matter what your circumstances may be. Please feel free to contact our office if you have any questions or would like further information.

WHEN TO START RECEIVING SOCIAL SECURITY BENEFITS

by Stephen Bjork, CPA

Even though most of the talk about Social Security revolves around its solvency and long-term future, another important subject, especially to those nearing retirement, is the best age to start receiving retirement benefits. Even though conventional wisdom says that since you do not know what the future will bring you should start taking benefits as soon as you are eligible, delaying may allow you to maximize the total amount of benefits paid to you over your lifetime. Regardless of when you ultimately decide to begin receiving Social Security benefits, make sure you



sign up for Medicare close to your 65th birthday, even if you have not retired by that time.

Social Security benefits are

calculated starting with your base amount assuming you begin drawing them at your "normal" or "full" retirement age. This age ranges from 65 to 67 based upon your year of birth (a chart to determine your full retirement age as well as the payment you will receive at age 62 is on our website www.komisarbrady.com). You are allowed to start collecting benefits any time after age 62, but the monthly amount will be permanently reduced by a percentage based upon the number of months before normal retirement age that you start drawing benefits (if you start receiving benefits at age 62, your benefits will be between 70% and 80% of the amount you would receive at normal retirement age, depending on your year of birth). You can get an even higher monthly payout by delaying receiving Social Security benefits past your normal retirement age, up to age 70. The percentage calculation is designed so that those who start receiving

benefits at age 62 and those that wait until normal retirement age receive roughly the same amount by the time they reach age 77. Those who wait until age 70 to receive benefits will not catch up until their 80th birthday. To calculate how much you will receive over your lifetime depends on two factors, how long you live, and when you start receiving benefits.

Life expectancy and the age you start receiving benefits are not the only factors you should consider. If you are working more than part-time at age 62, before your full retirement age, your Social Security will be reduced by \$1 for every \$2 you earn over \$12,480 (this earnings limit is adjusted annually). Your benefits will not be reduced regardless of your earnings after you reach your full retirement age.

Another consideration is income taxes. Up to 85% of your Social Security benefits can be subject to income tax. If your plan is to start taking benefits as soon as you are eligible to and invest the money, between the reduction due to the early receipt of benefits and amount of income tax you will pay on them, the amount you have to invest could be less than you thought and less than if you delayed receiving benefits. Each year of delaying benefits and leaving the money "in the system," increases your benefit approximately 8% from the year before. This increase is tax-free and does not depend on how the stock market performs or what happens with interest rates.

A third consideration involves the Social Security benefits that your spouse may receive. The size of your benefit may determine the benefit your surviving spouse receives. If you have a spouse who is younger or has not earned nearly as much as you over his or her lifetime, any survivor benefits will be higher if you delay taking benefits.

So what should you do? Of course there is no "one-size-fits-all" answer,

even though over 50% of all men and women start taking benefits at age 62 and well over 90% of men and women are taking benefits by age 66. Needs and circumstances may dictate beginning to receive benefits as soon as you can, but if you have enough money to meet your needs, you are in good health, and your family has a history of living into their 80's and beyond, delaying receiving Social Security benefits may put you far ahead in the long run and provide yourself with a higher annual income in the years ahead when expenses could outpace your resources. This was the finding of a recent study by the Center for Retirement Research at Boston College with one exception, married women. Married women should take Social Security benefits early. Single men and women and married men should wait and take benefits later. The reason behind this recommendation is that on average, women will survive their husbands, so their reduced benefits will only be temporary; their benefits will increase when their husband passes.

To assist you in your decision, the Social Security Administration (SSA) provides you an annually updated benefit estimate approximately three months before your birthday, complete with your employed earnings history. SSA's website, www.ssa.gov, also contains a variety of information on retirement, Medicare, disability benefits, and other applicable topics. Your long-term financial future is contingent on the age you decide to begin receiving Social Security benefits. If you would like additional information or assistance in weighing your options, Komisar Brady & Co. can help you consider your individual situation and your plan to meet your retirement goals.

WORKPLACE POSTERS

by Bill Wright, CPA



Hiring qualified employees is one of the most important tasks a business owner takes on. Along with the task of recruiting and screening prospective employees, certain federal and state employment laws must be followed. Business owners need to be aware of and comply not only with the numerous laws that protect themselves and their employees, but also with the requirements of posting these laws at the workplace. While knowing all of the laws can be quite a challenge, complying with the posting requirements is actually quite easy. All of the necessary posters are available on federal and state websites. Once you have the correct posters they need to be posted in a prominent area such as a cafeteria or break room.

Required federal posters can be downloaded from the United States Department of Labor website, <http://www.dol.gov/elaws/posters.htm>. Wisconsin posters can be obtained through the Wisconsin Department of Workforce Development website, <http://www.dwd.state.wi.us/dwd/posters.htm>. The requirements of other states can be found on their Department of Labor websites. You may also choose to purchase posters from various private companies that combine all of the necessary posters in a large, laminated display board that makes it even easier to hang them.

Posting requirements are as follows:

Poster	Required to Post
*Federal:	
Federal Minimum Wage	All employers
Job Safety & Health Protection	Private employers
Employee Polygraph Protection Act	Private employers
Notice to Workers with Disabilities Paid a Special Minimum Wage	Every employer paying workers with special minimum wage certificates
Family and Medical Leave Act	Employers with greater than 50 employees
Uniformed Services Employment & Reemployment Rights Act	Employers with employees who voluntarily or involuntarily leave for military service
Migrant & Seasonal Agricultural Worker Protection Act	Agricultural employers, agricultural associations, and farm labor
Wisconsin:	
Fair Employment Law	All employers
Minimum Wage Rates	All employers
Unemployment Benefits	All employers subject to Wisconsin's Unemployment Compensation Law
Employee Rights Under Wisconsin's Business Closing/Mass Layoff Law	Employers with 50 or more employees
Notification Required for Cessation of Health Care Benefits	Employers with 50 or more employees
Wisconsin Family & Medical Leave Law	Employers with 50 or more employees
Hours & Days Minors May Work in Wisconsin	All employers who hire minors, except agricultural and domestic service
Minimum Wage, Workers with Disabilities Paid at Special Rate	Employers with a special minimum wage license issued by the state
Employee Polygraph Protections	Employers who use polygraph machines
Retaliation Protection for Health Care Workers	All health care providers or owners/managers of health care facilities

*Additional posters are needed for employers with federal contracts.

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UPDATE TO PHONE EXCISE TAX REFUNDS



Earlier this year, the IRS announced that it will stop collecting the 3% federal excise tax on long-distance telephone services as well as refund back excise tax paid since March 2003. Individuals can apply for a refund on their 2006 tax returns. The IRS has now announced the safe harbor refunds which will allow you to request the refund without digging through old phone bills.

\$30 for a person filing with 1 exemption

\$40 for a person filing with 2 exemptions

\$50 for a person filing with 3 exemptions

\$60 for a person filing with 4 or more exemptions



For most people, this amount will be similar to or even greater than the actual amount, but you can still choose not to use the safe harbor amount, but you then must be able to substantiate your refund amount.

The IRS is also looking at making the refund process easier for businesses and nonprofits. Though they are required to request a refund based upon actual amounts paid, the IRS is considering estimate methods that businesses and nonprofits can use. We will keep you informed as things change.

Komisar Brady & Co., LLP offers much more than high quality tax, accounting and auditing services. We offer many types of consulting services to businesses, including business succession planning, sale or acquisition of a business, long range forecasts and budgeting, and valuation services. We also offer estate and retirement planning and aid in the choice and implementation of qualified retirement plans for business owners and sole proprietors. If you have any questions in regards to your individual or business financial matters, please give us a call and see what we can do to help, or if we can direct you to someone who can.

This document provides information of a general nature. None of the information contained herein is intended or written as a tax opinion relative to specific issues addressed in this document.