

# JOEL ISAACSON & CO., LLC

## FINANCIAL AND TAX PLANNING

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www.joelisaacson.com

(212) 302-6300

## Seven Tax Moves That Can Make 2010 Less Taxing

**F**or most people, tax planning comes down to an end-of-year scramble. You make a few charitable donations, do some tax-loss selling of disappointing investments, and maybe send in an early mortgage payment to increase your itemized deductions. Yet while such moves can reduce what you owe on April 15, you could save much more by taking a year-round approach. Here are seven tax-saving opportunities you might consider as the months roll along.

**1. Lock up the homebuyer's credit.** Under the recently revised rules for this tax break, a long-time homeowner can claim a credit of up to \$6,500 for purchasing a new home before May 1, 2010. To qualify, you must have owned your principal residence at least five out of the eight previous years. Are you running out of time? As long as there's a binding contract in place by the end of April, you have until July 1 to close the deal. (This credit is phased out for high-income taxpayers.)

**2. Avoid wash sales.** Normally, you can use capital losses from stock sales to offset capital gains plus up to \$3,000 of ordinary income. But that doesn't mean you can sell a stock to book a loss, then immediately replace the shares if you still like the investment. "Wash sale" rules say you can't deduct a loss if you acquire a substantially identical stock within 30 days of a sale. One way around the problem is to "double up," buying a new block of shares and then waiting

more than 30 days to sell your original holding. (Any loss that's disallowed can be added to your basis in the stock, reducing any future gain or increasing the loss.)

**3. Check your AMT status.** The alternative minimum tax (AMT) can sneak up on unsuspecting taxpayers. Each year, you must calculate your taxes under both normal and special AMT rules—and then pay whichever bill is higher. If your tax

advisor estimates your AMT liability midway through the year, you may have time to make adjustments, postponing "tax preference" items that increase your AMT levy—or, conversely, accelerating income to be taxed at AMT rates of 26% or 28% if you expect to be in a higher bracket in 2011, when income rates are scheduled to rise.

**4. Generate an energy credit.** You can claim a credit equal to 30% of the cost of making qualified energy-saving improvements to your home. Those can range from installing central air conditioning to adding new skylights or more insulation. But the maximum credit allowed for the period spanning 2009 and 2010 is \$1,500. If you haven't hit the maximum yet, consider the possibilities for cutting energy bills along with your taxes.

**5. Position your investments.** Most investment decisions have consequences come tax time, and you could save money with tax-aware moves. For example, if you acquire six-

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## The Economy Seems To Be Better, But Questions Remain

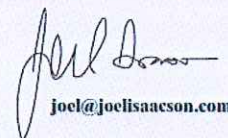
**A**fter a rough start, the S&P 500 was up 7.1% through the end of April. Economic indicators continue to improve. First quarter earnings season went quite well and this has been reflected in the equity markets.

Many questions about the recovery remain: concerns over the fiscal situation in Greece and the scope of government intervention in the health care and financial sectors. As we head towards 2011, several Bush-era tax cuts expire, several new tax initiatives will be put in place, and a ballooning budget deficit will alter the landscape.

The burden of the fiscal situation will fall largely on the shoulders of those earning over \$250,000 as increases in capital gains, Medicare, dividend, and ordinary income tax rates come into play. Historically, little if any game-changing legislation comes out of Washington ahead of mid-term elections, but the ideological divide between political parties should make for interesting times.

As always, if you have any questions about how any of today's issues affect your individual circumstances, please do not hesitate to contact us.

We have recently updated our Form ADV on file with the SEC. In keeping with Rule 204-3 of the Investment Advisors Act of 1940, we offer our clients a copy of the Part II disclosure form. Please contact Tracy Iovino (tracy@joelisaacson.com) for a copy

  
joel@joelisaacson.com

# Succession Planning After The Crisis

**T**he recession took its toll on businesses of all sizes, and the impact went beyond dwindling cash flow. Small-business succession plans—and their role in personal estate plans—have also been affected, and you may need to revisit your blueprint for leaving the company and make adjustments to address a changed economic landscape. But you might also find ways to turn the downturn to your advantage.

A succession plan maps out guidelines for when you're ready to call it quits. You may intend to hand over the reins to one or more new leaders gradually, staying on for awhile as an advisor, or you could plan to get out altogether. The plan may be to have a family member succeed you, or you could promote another company employee or sell to an outside group.

One crucial element of any succession plan is a buy-sell agreement that establishes how the value of the business will be determined when you leave. But in the wake of the economic downturn, your company may well be worth less than it was a few years ago. If you're counting on proceeds from a sale to fund your retirement, you could decide to delay your exit until the company's value rebounds, or you

might need to look for other income sources, perhaps from part-time consulting for other businesses that could supplement the sale proceeds.



If you're transferring all or part of the business to family members, however, a decline in its value could be helpful. Assuming the company profits from the economic rebound, shares you give away now should be worth more later, maximizing the

impact of current tax-free gifts.

Suppose you and your spouse have equal interests in a business that was worth \$5 million in 2007 but is now valued at \$3 million. Each of you is entitled to a \$1 million lifetime gift-tax exemption, and you might use the combined amount now to transfer two-thirds of the business to your heirs. Before the recession, a \$2 million transfer would have left \$3 million that could be subject to estate tax. Each spouse can also transfer an additional \$13,000 annually to each heir, so this can add up if there are multiple beneficiaries.

Other estate planning techniques can capitalize on a business's temporarily reduced value. For example, an intentionally defective grantor trust (IDGT) can effectively freeze the value of shares at current levels. Or, with a grantor retained annuity trust (GRAT), the assumed value of a future gift to your heirs will be reduced not only by the low current value of the business but also by today's rock-bottom interest rates. That could limit or eliminate your gift-tax liability. We can work with you and your attorney to evaluate your succession plan and consider whether these or other techniques and strategies could be financially advantageous. ●

## Quiz: The Rules Of Roth IRA Conversions

**R**oth IRA conversions aren't off limits to six-figure earners anymore. Starting in 2010, you can convert a traditional IRA to a Roth regardless of your income. Previously, such conversions were permitted only in a year in which your adjusted gross income (AGI) didn't exceed \$100,000.

Why would you want to convert to a Roth? It's a good idea for many retirement savers. Unlike withdrawals from a traditional IRA, which are taxed as income, "qualified distributions" from a Roth that has been established for at least five years are tax-free. And whereas a traditional IRA forces you to take taxable distributions during retirement, a Roth

IRA has no mandatory withdrawals.

Of course, there's no such thing as a free lunch. You must pay tax at ordinary income tax rates on the amount you convert from a traditional IRA to a Roth.

How well do you know the rules? Test your knowledge with these questions.

1. When are contributions to a Roth IRA tax-deductible?

- a) Only when your AGI is less than \$100,000
- b) Only when you don't have a traditional IRA
- c) Only when you itemize deductions on your tax return
- d) Never

2. The regular annual contribution limit

for a Roth IRA is:

- a) \$2,000
- b) \$5,000
- c) \$6,500
- d) Unlimited

3. A Roth distribution is not a qualified distribution if it's made:

- a) because of death or disability
- b) after reaching age 59½
- c) to pay first-time homebuyer expenses
- d) to pay higher education expenses

4. When can you contribute to a converted Roth IRA?

- a) Only when you don't have a traditional IRA
- b) Only when your AGI doesn't exceed an annual limit
- c) Only when you're disabled
- d) Never

# Sandwich Generation Estate Planning

**F**or the millions of baby boomers in the “sandwich generation,” these are worrisome times. Sandwiched between the financial needs of parents and children, they often end up having to contribute to both, and there may be particular urgency when elderly parents need to get their estate plans in order. Often, parents have put off making vital decisions, and face a future of uncertain means, declining control over their own lives, and increasing dependence on younger family members.

One way to address these issues is to view estate planning as a family affair. You could start by setting aside time for everyone involved—yourself, your spouse, and any siblings—to discuss the main aspects. But be prepared for a frank, often awkward discussion of sensitive concerns. Your parents or in-laws may regard this as an intrusion into their personal affairs, and emotions are likely to run high.

You probably won't solve everything in one meeting. Rather, it's likely to be the beginning of a long process. At some point, too, you may want to begin talking with your children, to let them know what's happening and to keep them up to date on your own estate planning.

Here are several things to discuss with your parents:

## Do they have an up-to-date will?

Most estate plans start with a will, and even if your parents have one (many don't), it may need to be updated to reflect changes in family circumstances, your parents' desires about how assets will be distributed, and frequent recent shifts in tax and estate laws. There could be new grandchildren to account for, or a divorce. You'll need the help of an experienced estate planning attorney, but first you'll have to persuade your parents to share this very personal document with you. Emphasize that your only goal is to make sure their wishes are successfully carried out.

**Where's the money?** A parent or in-law could have assets in many different accounts, and account information and statements may not be neatly filed in one easily accessible location. To make sure nothing is lost, you may want to take an inventory of all of the key documents. This will likely include bank account records, life and disability insurance policies, retirement plan and IRA statements, and the like. It's a good idea to assemble all of the pertinent information, including account and policy numbers and contact names, in one document and make copies for you and your parents or in-laws. Also note whether any accounts are in joint name or designated as “transfer on death” accounts, which will not pass under the terms of a will but rather to the

designated person on the account.

## How are assets being managed?

Pulling together account documents also provides a good opportunity to check on your relatives' investments. Do their holdings seem appropriate given their advancing age, financial needs, and risk tolerance? If there are many similar accounts, you might want to suggest consolidating them to simplify their management.

**Are tax records in order?** As part of this process, look at tax issues, and determine the tax basis of securities that may have been purchased decades earlier. It's also a good idea to know where your parents' tax records are kept and who their accountant is.

**What are their wishes about health care?** This can be a particularly touchy subject, so tread carefully, but it's also extremely important. Try to establish guidelines for what will happen if a relative is disabled or suddenly loses a spouse. If extra care is needed, do they prefer to have someone come into their home, or would they rather move into assisted-living or live with a family member? Laying the groundwork now for such major changes could help make a later transition somewhat easier. Also encourage your parents and in-laws to establish a living will and durable power of attorney that sets out their preferences for end-of-life care and specifies someone to handle health-care decisions if they're no longer able to make them. A general power of attorney is also needed for management of assets.

This list hardly covers everything you'll need to discuss, but it may help get you started. For affluent families, intergenerational issues are likely to be much more complex, perhaps including a variety of trust arrangements and sophisticated estate planning strategies. We can work with you and your parents to assess asset allocation plans, tax strategies, and other elements of their financial lives. And, of course, we're also happy to help you take stock of your own estate plan and the provisions you want to make for your children. ●

5. After 2010, contributions to a traditional IRA:

- a) will be subject to the old income limits for Roth contributions
- b) will no longer be subject to mandatory distributions
- c) will be eligible for conversion to a Roth IRA
- d) will be taxable

6. The tax on a Roth conversion in 2010:

- a) must be paid in full in 2010
- b) must be paid in full in 2011
- c) can be divided between 2011 and 2012
- d) can be postponed indefinitely

7. What is the age limit for Roth IRA contributions?

- a) 21
- b) 59½
- c) 70½
- d) There is none

8. When can you undo a Roth IRA conversion?

- a) Within one year
- b) By your tax return due date
- c) If your AGI is less than \$100,000
- d) Never

9. A Roth conversion is valued for tax purposes on:

- a) the date of conversion
- b) your tax return due date
- c) the last day of the prior year
- d) the first day of this year

10. How often are Roth conversions allowed?

- a) Only one per month
- b) Only one per year
- c) Once in a lifetime
- d) Unlimited

# Should Retirees Carry A Mortgage?

**Y**our home mortgage is likely to be the biggest debt you ever take on. And if you've moved or refinanced a few times since your first home loan, you may be years or even decades away from owning your house free and clear. But that begs the question: What about retirement? If you're getting ready to retire or already have stopped working, does it make financial sense to keep making monthly payments? Or should you use some of your savings to retire that debt?

Traditionally, paying off the mortgage was a pre-retirement objective, but the recent trend has been to carry the debt longer. A study by the Center for Retirement Research at Boston College found that in 2007, 41% of households with people in their 60s still had a mortgage, even though more than half owned sufficient assets to repay the loan.

Why would you hold a mortgage in retirement? Depending on your situation, you may value the tax benefits and liquidity. Consider these four critical factors.

**1. Investment returns.** Recently, the average 30-year fixed rate for

mortgages has been between 5% and 5½%. You might keep your mortgage if you think you can do better investing the money you would spend to retire it. But retirees who invest heavily in low-risk vehicles such as bank certificates of deposit (CDs) and Treasury securities are likely to come up short. And though stocks and mutual funds may provide higher rates of return, they carry greater risks, and if your portfolio plummets, you could have trouble making mortgage payments.

**2. Tax breaks.** You can generally write off mortgage interest if you itemize deductions. But people who claim the standard deduction—and that's almost two out of every three taxpayers—receive no tax benefit from mortgage interest payments. So if you're not an itemizer, it may make sense to pay off the mortgage. Also keep in mind that the tax benefit of itemized deductions will be reduced if

your income is high.

**3. Retirement accounts.** It's generally not a good idea to pay off your mortgage if you have to invade your retirement accounts to do it. The money you pull out of a 401(k) plan or an IRA will be reduced by taxes—at ordinary income rates of as high as 35%—plus you'll be hit with an additional 10% penalty if you're under age 59½. And you'll be left with fewer funds to draw upon during retirement.

**4. Refinancing.** One alternative to paying off the mortgage may be to refinance it at a lower interest rate. That can reduce your payments, or you could use the opportunity to pull out equity you've built. But the deep decline in real estate values has underscored the risks of financial strategies built around home loans.

Choosing what to do about your mortgage is a major financial decision. We can help you choose the best approach for your situation. ●



## Seven Tax Moves

*(Continued from page 1)*

month Treasury Bills after June 30, 2010, you won't be taxed on the income until 2011. Also, keep a running count of capital gains and losses that could offset each other. If you've already realized substantial gains, look for underperforming assets you might unload to limit your tax liability. Or, if you're showing a net loss for 2010, that may give you leeway to sell some appreciated positions.

**6. Keep your dependents.** Is this the year your family celebrates a high school or college graduation? Even if your child gets a full-time job, you can generally still claim an exemption if you provide more than half of the child's annual support. For 2010, the

exemption amount (the same as your personal exemption) is \$3,650. One idea is to give a generous graduation gift that is sure to put you over the half-support mark. But keep in mind that hiring your kids won't work—that money counts as support children provide for themselves.

**7. Send your kids to day camp.** If you pay someone to watch your children (under age 13) while you and your spouse work, you may be eligible for a dependent care credit. You can usually claim a credit equal to 20% of the first \$3,000 of qualified expenses

for one child, or of \$6,000 for two or more children. This tax break isn't limited to babysitters and day care centers—you may also get a credit for the cost of sending kids to summer day camp. But sleepaway camp doesn't count. These are just seven of many ways you may be able to minimize your taxes with careful planning. What's important is to start looking around now, not later,

for moves that could save you money. You can always make additional adjustments at year's end, but by then you may have missed out on larger opportunities. ●

