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A Quick Guide to Retirement Plan Limits in 2013

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Introduction

How much do you want to put into your retirement account this year? With the arrival of the new tax year, retirement account contribution limits change. Depending on your retirement account, you may be able to contribute $5500, or you may be able to contribute $51,000. Listed below is a description and general guide to each type of account for 2013.

Traditional 401(K)

The 401(K) is a retirement plan which arises from Section 401(K) of the Internal Revenue Code. 401(K)s are generally retirement plans sponsored by employers for their employees. However, specific sections of the code also make it advantageous for self-employed people to use 401(K)s. These self employed 401(K)s are typically referred to as Solo(K)s, the Self Employed(K), or even the Baby(K). 401(K) contributions are excludible from income in the year made. The annual deductible contribution limit to a 401(K) is now $17,500. For those turning 50 and older this year, "a catch-up" or additional contribution of $5,500 is allowed annually. When distributed, the distribution is taxable as ordinary income.

Roth 401(K)

The Roth 401(K) is similar in all respects to the traditional 401(K). However, instead of contributions being deductible, contributions are taxed at the current tax rate of the employee, but are not taxed upon distribution in the future. Roth 401(K) contribution limits are the same as traditional 401(K) limits as stated above.

Traditional 403(B)

This is generally a government employee retirement plan which is equivalent to the private sector 401(K) plans. The annual contribution limit is now $17,500, while allowing a $5,500 annual "catch-up" contribution for those 50 and older.

Roth 403(B)

This retirement plan is the same as the traditional 403(B). However, it allows for no tax deduction for contributions made. Roth plan distributions, when made are not taxed, the same as the Roth 401(K).

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A CASE STUDY

Appraiser's Documents

The US Court of Appeals found that an IRS summons for an appraiser's report was in good faith and resulted in the appraiser's report being discoverable by the IRS. In the case, the taxpayer had an appraisal done of an area of land. The land was valued at over $1,000,000 of which a charitable donation was made.

The couple deducted the gift as a charitable deduction over a period of years. The caveat was that the appraisal was done via the request by an attorney for the taxpayer. When the IRS called the appraisal into question, the taxpayer and attorney refused the summons due to attorney/client work product.

Continued on page 3

Cover Story

Traditional IRA

The traditional IRA is an individual retirement account. These can be set up by an individual at a bank or other financial organization. The annual contribution limit for 2013 is $5,500 and the law allows $1,000 annual "catch-up" contribution limits for those turning 50 years of age and older this year. Under the traditional IRA, contributions are deductible, but distributions are taxed when made in the future.

Roth IRA

This is also an individual retirement account. The contribution limits are the same as the traditional IRA; however they are not deductible in the year made. Staying true to the "Roth" form, the contributions are not deductible, but the distributions do not get taxed when made in the future.

Simplified Employee Plan (SEP)

An SEP is a retirement plan where the employer contributes directly to an IRA of an employee. The employer contributions are excluded from the employee's gross income up to a maximum of 25% of compensation or $51,000, whichever is less. The employee is also allowed to contribute to the plan. SEPs are set up by completing IRS form 5305-SEP and retaining the form as evidence of the plan. The form 5305-SEP is not submitted to the IRS but kept for reference and in the event of an audit of the plan. Proceeds are taxed as ordinary income when distributed.

SIMPLE IRA

This plan is established by an employer by completing forms 5304-SIMPLE, when the employee can choose the financial institution, or 5305-SIMPLE, when the employer chooses the financial institution, which will receive the contributions. The annual limit of contributions is now $12,000 annually, while allowing $2,500 in annual catch-up contributions. The contributions are not taxed when made, but are taxed as ordinary income when received.

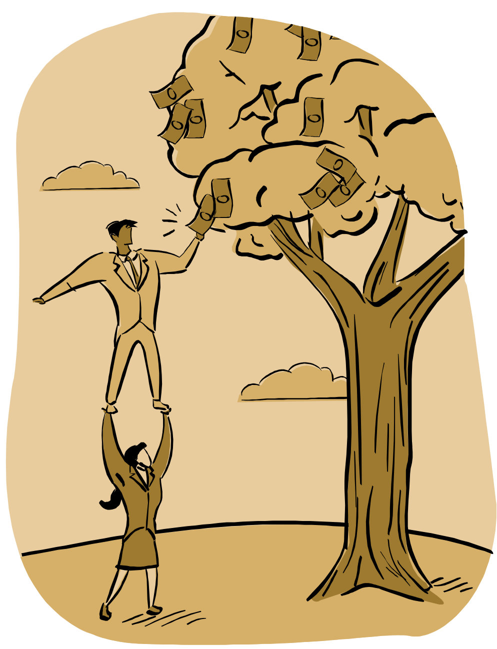
Conclusion

It is best to maximize your income by investing in your future and your retirement. Contributing money to a retirement plan not only invests in your retirement, but also puts the money in a place where creditors are usually unable to garner the money. There is still time to contribute to your retirement plan in order to reduce your taxes payable or increase your return amount, even for 2012. While the above amounts are for 2013, it is advisable to check and see if you contributed the maximum for 2012. Knowing the basics and amounts that can be contributed to the respective plan is always valuable knowledge to have when you are planning for your retirement.

Dr. Bart A. Basi is an attorney, CPA, and the Senior Advisor of The Center for Financial, Legal & Tax Planning, Inc, a full service company specializing in financial, legal & tax matters. Basi is a nationally recognized author, lecturer, and advisor on how to structure deals to minimize taxes. Tax structure makes the difference between getting the deal done and watching the deal fall apart. Many of you may be familiar with Basi and the topics he covers in the Financial, Legal & Tax Advisory which may be read in various industry-specific trade publications.

Points of Interest

- **Depending on your retirement account, you may be able to contribute $5500, or you may be able to contribute $51,000.**
- **[For the IRA]…The annual contribution limit for 2013 is $5,500 and the law allows $1,000 annual "catch-up"**
- **There is still time to contribute to your retirement plan in order to reduce your taxes payable or increase your return amount, even for 2012.**



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A CASE STUDY CONTINUED:

Editor's Comment: Had this document been prepared in anticipation of litigation, it could have qualified for work product doctrine exception. The court in this opinion gave a scathing review of the taxpayer's strategy to withhold the evidence as completely improper. It is important that the public understands that if an appraisal is done, the end product is discoverable by courts. This case is a good example of why a solid appraisal by a qualified appraiser should be done in every instance.

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Avoiding Common Mistakes in Selling Your Business – Waiting Too Long

Selling a business you've spent most of your working life to build is one of the most important personal and financial decisions most business owners will ever make, and for that reason, it's important not to wait too long.

The best time to sell any business is when you don't need to – not when the owner's health, or other personal circumstances, or business pressures demand it. When the business is doing well, and has a string of successful years immediately behind it, with the promise of doing as well or better in the coming years, it will attract the most qualified buyers and bring the best price and terms. When it appears that the business is no longer growing and may be headed for a period of declining sales and profits, its selling price will be much lower.

From experience, we recommend that our selling clients begin the process 2-3 years before they believe they will really need to sell the business. While some businesses have sold in as short as six months, the average tends to be closer to a year, with some businesses requiring 2-3 years before finding the right buyer and the right deal. In addition, some business may benefit from making a few changes/improvements to their business to command the best price and terms and it may take from a few months to a year or more to implement those changes.

If you know of a business owner who's thinking of selling or buying a business and who might benefit from a free, confidential, consultation with us, have them contact me directly at: mertel@lmaallc.com

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Frequently Asked Questions…

Q: Is it possible to have Roth and traditional IRAs as part of a comprehensive plan?

A: Yes. Individuals can have an assortment of Roth IRAs, traditional, and even employer retirement plans as their overall retirement plans. However, when funding the IRAs, it is important to mention the combined limit for both IRA types remains the same at $5500 per year.

Q: Are Roth and traditional IRAs taxed differently in an estate?

A: Yes and no. In an estate setting all property is considered part of the estate. As such, all property contained within the estate is subject to estate tax. Once the estate is taxed, the distributed property is subject to tax on its own character of gain. A Roth IRA is not subject to income tax as its character holds from one generation to the next. The traditional IRA's character remains ordinary income in nature, and in so far as the traditional IRA is income, it is subject to income tax.

Q: For the purpose of retiring, are there some states that are better than others from a tax standpoint?

A: Yes. Some states are better than others when dealing with taxes that are common to retirees on fixed incomes. Because every situation is different, retirees are best advised to do their research when choosing a state for tax reasons.