

Word to the *Wise*



A Newsletter for Clients and Friends of Wouch, Maloney & Co., LLP



October 2011

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Tax Filing Reminders

- October 17 - Filing deadline for 2010 individual tax returns on automatic six-month extension of the April 18th deadline. For PA and NJ residents living in counties designated as federal disaster areas, the October 17th deadline is extended to October 31st.
- October 17 - If you converted a regular IRA to a Roth in 2010 and now want to switch back to a regular IRA, you have until October 17, 2011, to do so without penalty.

Did You Know?

300,000 trees need to be cut down every year to produce enough paper for all IRS forms and instructions.

Effective Buy/Sell Agreements

Is your buy/sell agreement and its effect on your estate plan a “ticking time bomb”? Please join **John F. Maloney, CPA, CFF, CVA** as he presents on **October 19th**:

- **Buy/Sell Agreements**—Necessity for business owners. How will your company respond in the event of a change? Are you prepared for the “what-ifs”?
- **Valuations**—How much is your company worth? Is your buy/sell agreement clear in the determination of value?
- **Estate Planning**—How should you be leveraging opportunities within your estate? Are you protecting your wealth for future generations?

Date of event: Tuesday, October 19, 2011

Location: The Manor House at Commonwealth Country Club
300 Tournament Drive
Horsham, PA 19044

8:00am - Breakfast and Registration

8:30am to 10:00am - Program

REGISTRATION FOR THIS EVENT IS FREE AND SEATS ARE LIMITED.

To reserve your seat, please contact Beth Morgenroth by phone (215-675-8364) or E-mail bmorgenroth@wm-cpa.com by October 12, 2011 with the following information for each attendee: Name, Title, Company Name, E-mail and Phone Number.

Contact Us For a Year-End Tax Review

An important part of our service to you is to help identify actions you can take before year-end to minimize your 2011 income tax bill. Accelerating or delaying income and deductions, contributing to retirement plans, and taking investment losses are just a few of the strategies you might want to consider. There are also tax credits that require planning or they may be lost. If you would like to discuss tax-cutting options that fit your particular situation, please contact us soon for a year-end planning review.

Four Tax-Smart Ways to Save For College

The cost of sending a child to college is daunting. According to the latest figures from the independent College Board, the total average cost for the 2010/2011 academic year – including tuition and fees, room and board, books and supplies, transportation and other sundries – for in-state students at four-year public colleges was \$20,339. For out-of-state students, the average cost jumped to \$32,329. The cost at four-year private colleges averaged \$40,476. And costs are expected to keep rising.

Nevertheless, you can lighten the financial burden of putting your children through school by taking advantage of certain tax-favored vehicles. These techniques are generally available to grandparents as well as parents. Here are four prime examples.

1. **Section 529 plans:** There are two main types of Section 529 plans. With a “college savings plan,” you can make generous contributions to a special account established for a designated beneficiary. Every state offers its own versions of these plans. With the second type, you may arrange to pay future tuition costs in today’s dollars through a “prepaid tuition plan.”

Funds contributed to a Section 529 plan may accumulate without any current tax, and distributions are tax-free if the money is used to pay for qualified higher education expenses. When an older beneficiary (such as your first-born child or grandchild) graduates, you can transfer the remaining balance in the account to a younger beneficiary.

2. **Custodial accounts:** A custodial account established under controlling state law is a more traditional way to save for college. Typically, you create a bank account in a child’s name and manage the assets until he or she reaches the state-mandated age. The income is taxed at the child’s tax rate, which is usually lower than your rate. **Caveat:** Under the “kiddie tax,” unearned income above an annual threshold (\$1,900 for 2011) received by a child under age 19, or a full-time student under age 24, is generally taxed at the top marginal tax rate of the parents.

3. **Section 2503(c) trust:** This type of trust (sometimes called a “minor’s trust”) avoids kiddie tax problems because the income it generates is taxed directly to the trust. Furthermore, unlike a custodial account, you can set up the trust to continue past the state age of majority, as long the child doesn’t exercise a limited right to withdraw the funds.

The trust must comply with all the legal requirements.

4. **Coverdell ESAs:** The Coverdell Education Savings Account (ESA), initially dubbed the “Education IRA,” is essentially an IRA used to pay for education expenses. This type of account may be used for elementary and secondary school expenses as well as college. However, the annual contribution limit for Coverdell ESAs is only \$2,000, as opposed to Section 529 limits usually reaching six figures. Also, eligibility is phased out for high-income taxpayers.

Contact us if you would like to determine the best approach for your situation.

IRS Offers New Independent Contractor Settlement Program

The proper classification of workers as employees or **independent contractors** has long been a battleground between the IRS and employers. Significant dollar amounts are typically at stake. The IRS recently implemented a new program that greatly reduces the employer’s cost of losing the battle *if the employer comes forward now* and agrees to classify workers currently treated as independent contractors as employees going forward. If your business has exposure in this area, please contact our office for details about the Voluntary Classification Settlement Program. Additional Information can also be found on the IRS website.

Going Green?

If you would like to read **Word to the Wise** in electronic format, please visit our website at www.wm-cpa.com and click on