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ZINNER & CO. LLP

29125 Chagrin Boulevard
Cleveland, OH 44122-4692
ph: 216.831.0733
fax: 216.765.7118
email: info@zinnerco.com
www.zinnerco.com

# Education is key to participation in retirement plans

Almost any article on retirement savings efforts reaches the same conclusion: We aren't saving enough. A recent study by the nonprofit National Institute on Retirement Security puts the cumulative U.S. retirement savings deficit somewhere between $6.8 trillion and $14.0 trillion.

Employers who offer retirement savings plans for their employees are helping their workforce. But, not all employees take advantage of these plans. And many employees who contribute are doing so at rates that won't allow them to accumulate enough resources to retire comfortably. According to Fidelity Investments, the average balance in a typical 401(k) plan is only $81,000. So, how can you prompt employees to take advantage of your retirement savings programs?

## Education works

A study by the Principal Financial Group found that employees who attend retirement education sessions are more likely to participate in their employers' retirement plans and save more.

Employees aren't the only ones who can benefit from education. As employees' participation increases, some plan fees may come down. Plus, the more that a company's non–highly compensated employees sock away in a plan, the more its highly compensated employees can contribute.

## 6 cornerstones for an effective program

There are six elements that should be present in a retirement savings education program:

**1. The program should provide basic plan information.** This is not only common sense, but is a requirement under the Employee Retirement Income Security Act (ERISA). Information should include, among other items, the type of plan, its features, eligibility requirements, investment choices and fees.

Employees also should know how the plan works. For instance, can their contributions be automatically deducted from their paychecks? Does the company match employees' contributions?

**2. Offer general investment information.** A 2012 study by the FINRA Investor Education Foundation asked participants about basic economic and investing concepts. Just 39% were able to answer at least four of the questions correctly.

No employer can singlehandedly remedy this. But you can offer employees instruction on the benefits of compound interest, the tax implications of different savings plans, and the prescribed amounts participants need to save to reach a certain sum at retirement. This

## Owners and execs benefit when employees participate in retirement plans

Employees aren't the only ones who can benefit from retirement savings education.

At many companies, greater retirement plan participation by non–highly compensated employees allows highly compensated employees (HCEs) to boost their own contributions. For instance, a 401(k) plan, unless it meets the requirements of a safe harbor plan, must pass a nondiscrimination test each year. This test is intended to ensure that a plan doesn't benefit HCEs more than other workers. In many cases, the more that rank-and-file workers contribute to the plan, the more that HCEs can, as well.

can help your workers make informed decisions about their options.

**3. Advise employees on decisions they need to make.** For instance, do they need to enroll in the plan, or are they automatically enrolled? Once enrolled, workers should decide how much to contribute and how to allocate their money between different investments. Such questions can be overwhelming to employees who are signing up for the first time.

***Try to keep the size of education sessions smaller so employees feel comfortable asking questions.***

**4. Provide information in various formats.** Webinars or other online communication methods will resonate with some employees, while others will prefer printed material.

Some might get the most out of in-person meetings. By offering a mix of options, you'll likely be effective in reaching different segments of your workforce.

**5. Include face-to-face sessions.** Even if your business offers printed or electronic materials, in-person sessions can go a long way in helping workers understand the plan. These sessions also provide an opportunity to reinforce the value of a retirement plan as part of the worker's overall compensation package.

True, it might not be practical for some companies to host one-on-one sessions with a retirement plan expert. But try to keep the size of education sessions smaller so employees feel comfortable asking questions. Small groups can also make it easier to tailor the material to the audience. For instance, information that's useful to employees just entering the workforce will likely differ from that used for baby-boomer workers.

**6. Offer information regularly.** Providing consistent education is a great way to remind employees of the value of their retirement savings plans.

### The bottom line

A retirement savings plan can help your firm attract and retain top-notch employees, while also helping your workforce — including members of the executive team — prepare for retirement.

Providing information to help employees intelligently decide how best to participate can benefit all employees in an organization. ◈

# A look at Section 529 plans

## Understanding the rules is critical

The costs of higher education continue to rise. One estimate forecasts a price tag topping $300,000 for four years at an in-state public school by 2031. And that means most families will need to carefully consider how they can best manage this expense.

A great option is to sign up with a savings vehicle that offers a tax break as you sock away money. A qualified tuition plan — also known as a Section 529 college savings plan — is an example. Assets in 529 plans hit $166 billion in 2012, according to investment research firm Morningstar Fund Research.

### How the plan works

529 plans are operated by many states, as well as some educational institutions. Although every 529 plan differs slightly, most can be categorized as either a savings plan or a prepaid tuition plan. Prepaid plans generally allow you to pay for tuition (and in some cases, room and board) at today's rates for a student who will attend college in the future. A cautionary note: Many of these plans are sponsored by state governments, and require either the owner or beneficiary to be a state resident.

A college savings plan, in contrast to a prepaid plan, generally allows you — the account holder — to open an account for a student (the "beneficiary") and then choose among several investment options. These might include stock or bond funds, or age-based portfolios that automatically shift to more conservative investments as the beneficiary gets closer to college age.

### Why 529 plans are popular

Earnings on the funds in a 529 plan aren't subject to federal income tax. Earnings also escape state income tax in many — although not all — states.

Moreover, distributions from a 529 plan typically can be made without penalties or federal taxes, as long as the funds are used for qualified higher education expenses at eligible institutions. This typically includes tuition, room and board, books and computer technology.

Contributions to 529 plans are limited only to the extent that they shouldn't exceed the beneficiary's qualified education expenses. (Withdrawals can't exceed actual education expenses, either.) In addition, contributions to a particular beneficiary may trigger gift taxes if the amount, plus other gifts, exceeds the gift tax threshold.

Anyone can establish a 529 plan or be named a plan beneficiary. So, while many plans are set up by parents for their children, you can open one for a friend or other relative — even yourself. The government doesn't limit the number of plans you can open.

The donor(s) to a 529 plan, which in many cases are the parents, retain control of the funds until they're withdrawn.

But, what if your child makes it through college and by a stroke of good fortune has money remaining in his or her 529 plan? You typically can change the beneficiary to another family member without triggering federal income taxes, although there could be gift tax issues.

***Donor(s) to a 529 plan, which in many cases are the parents, retain control of the funds until they're withdrawn.***

While many state plans offer tax credits or deductions to win their residents' 529 business, you generally can invest in plans offered by any state. And, the funds in many plans can be used in any state.

Some plans are offered directly by a state or educational institution; you may even be able to open an account online. Others are sold through financial advisors or brokers, which may impose additional fees or charges.

### The downside

While Sec. 529 plans offer significant benefits, they're not without some drawbacks. If you withdraw money and don't use it for qualified educational expenses, for instance, the earnings generally will be subject to taxes as well as a 10% penalty. As with any investment, your account value can fluctuate.

In addition, as with any investment, you'll be charged some fees to cover managing the account. Research the fees to ensure they're reasonable.

### The bottom line

Despite these shortcomings, many 529 plans offer a worthwhile means of saving for college — which remains one of the best investments anyone can make. Make sure you work with your financial advisor when choosing a college savings plan. ◈

# How a buy-sell agreement can help save your company

There are many reasons why a business should create a buy-sell agreement. After all, you never know what may happen down the road. Your company might go through a change in ownership. Partners may choose to leave the business, die or become disabled. Such occurrences illustrate the need to have an ironclad agreement to ensure all partners are protected.

### Preventing conflicts

If you or one of your fellow owners leaves the company, the departing owner's business interests will probably need to be transferred. This is where a buy-sell agreement comes into play. It's a formal contract that estimates your company's value (or defines the valuation method to use) and outlines when and to whom the interests can be sold.

First and foremost, with a buy-sell agreement in place, you stand a better chance of preventing potential conflicts among remaining owners and with a deceased owner's family members. You can also preserve (or more smoothly transition) management control while creating a market for the sale of the withdrawing owner's business interest.

### Funding the transaction

Besides stipulating the terms of any ownership change, a buy-sell agreement specifies how the transaction will be funded. Typical options include life insurance, loans, savings plans, installment purchases and sinking funds.

Of these choices, life insurance tends to be the most popular. This is because, among other reasons, it both ensures beneficiaries receive the agreed-upon price for the business shares in a timely manner and helps prevent a buyout from choking a company's cash flow. Of course, the full face value of the policy becomes funded only in the event of a death.

### Determining the structure

Generally, buy-sell agreements are structured in one of two ways. Under the first option, a cross-purchase agreement, the withdrawing owner sells his or her interest to some or all of the remaining owners. In the case of a death, the insurance proceeds (assuming life insurance is the funding method) won't be taxable and the surviving owners will be provided with a tax basis equal to the purchase price of their new shares.

On the downside, because each shareholder must own an insurance policy on each other shareholder's life, the number of policies can quickly become unwieldy. (This problem can be alleviated, however, by forming a partnership to own the policies.) Additionally, age or insurability can create a disparity in premiums, with younger or healthier owners incurring higher premiums to cover older or less-healthy owners.

The other option is a redemption agreement, under which a withdrawing owner's shares are redeemed by the business itself. If the agreement is funded with life insurance and there are many shareholders, a stock redemption agreement is easier to administer than a cross-purchase because only one policy on each shareholder's life is required. The company also can absorb premium differences associated with age or health disparities among shareholders.

One reason some business owners decide against a redemption agreement is that the remaining shareholders don't receive the benefit of a step-up in basis when the company purchases the deceased shareholder's interest. Rather, they retain their original basis in the company.

So, compared with a cross-purchase agreement, the redemption agreement can create greater potential capital gains if the business is subsequently sold. It also can create an unexpected alternative minimum tax (AMT) bite for a C corporation in the year life insurance proceeds are received.

On the bright side, by following a stock redemption, the corporate assets should be relatively unchanged. The insurance proceeds will be used to buy the deceased's interest, but each owner will have acquired a greater ownership percentage.

### Involving a pro is critical

A buy-sell agreement can preserve or transition the management and control of a company in times of change. It can also offset conflicts among owners and family members. But creating the agreement should be left to the pros, so work with your CPA. ◈

# The AMT: Permanent “patch” provides relief, but not full protection

While the alternative minimum tax (AMT) initially was implemented to prevent wealthy Americans from claiming so many tax breaks that they owed little or no tax, it has steadily hit more middle and upper middle class taxpayers. About 4 million taxpayers paid the AMT in 2012, nearly double the approximately 2.1 million that did in 2002, according to the Tax Policy Center.

Even though Congress has made some AMT changes beginning in 2013, you might still be at risk.

## Many possible triggers

The AMT is a separate tax system that doesn’t allow certain deductions and income exclusions. Items treated differently that can trigger the tax include:

- State and local income and property taxes,
- Interest on home equity debt not used to improve your principal residence,
- Certain miscellaneous itemized deductions (such as professional fees, investment expenses and unreimbursed employee business expenses),
- Medical expenses (for taxpayers age 65 and older),
- Tax-exempt interest on certain private activity municipal bonds, and
- Incentive stock option exercises.

The AMT rates are lower than the top regular tax rates — 26% and 28% compared to 35% and 39.6% — but the AMT rates often apply to a larger income base. You must calculate your tax under both systems and pay the higher amount.

An exemption has protected many taxpayers from the AMT. But the exemption is phased out for higher-income taxpayers.

## The power of the patch

Unlike the regular tax system, where tax brackets, personal exemptions and many other breaks are automatically adjusted for inflation annually, the AMT system historically required congressional action for such adjustments, referred to as “patches.” This meant there was always the threat that Congress would fail to act, causing millions more taxpayers to become subject to the AMT.

Congress has now made the patch permanent by requiring the AMT brackets, exemptions and exemption phaseouts to be annually indexed based on the 2012 levels. For 2013, the exemptions are $51,900 for singles and heads of households and $80,800 for joint filers, with phaseout ranges of $115,400–$323,000 and $153,900–$477,100, respectively.

## The right strategy

You may be at risk if multiple triggers apply to your situation (especially large dollar amounts) and your income significantly exceeds the exemption (especially if your exemption will be phased out). But strategies are available for minimizing AMT liability or even taking advantage of the AMT’s lower rates. Contact your tax advisor to find the right strategy for you. ◈

THE RIGHT IDEAS

THE RIGHT RESULTS

ACHIEVED WITH THE RIGHT FIRM.


# IN 2013, YEAR-END TAX PLANNING IS A CHANGED GAME

## The rules of the tax game have changed again, and you need to prepare.

Did you know that there are 22 tax deductions, exclusions and credits that EXPIRE on 12/31/13? Small businesses and high income earners are once again facing new challenges in planning their taxes. Let your Zinner & Co. tax expert show you how these impending tax changes may impact your tax liability. By adjusting quickly to the new rules of the tax game, real opportunities exist for tax savings.

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### Are You Prepared For These Year-End Tax Changes?

Contact Zinner and Company today and schedule a 2013 year-end tax review.

We can project your pending tax liabilities while identifying potential money-saving moves to make between now and year's end.

29125 Chagrin Blvd.
216.831.0733
hkass@zinnerco.com

*www.zinnerco.com*