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Your Bottom Line

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Navigating a clear course toward your financial security.

Roth 401(k) and Roth 403(b) . . . .

Warren Mackensen

Roth options to long-established employer retirement plans have been made permanent by the *Pension Protection Act of 2006*. With a Roth 401(k) or a Roth 403(b), you pay taxes on your retirement contributions when you make them, i.e., you contribute after-tax dollars to your retirement plan. The benefit is that your withdrawals, which include all of your original contributions *and the earnings on your investments,* will be tax-free during retirement.

With conventional 401(k) and 403(b) plans, you contribute pre-tax dollars. When you take withdrawals during retirement, you have to pay taxes on both your contributions ***and*** your investment earnings. If you are in a higher tax bracket during retirement than you were in your earlier earning years, you will pay more taxes overall. Thus Roth retirement plans are especially valuable to younger workers who have the money to pay taxes now and who will, most likely, end up in the same or higher tax bracket in retirement.

An additional benefit of having a Roth 401(k) or a Roth 403(b) plan is that you can roll your plan to a Roth IRA at retirement. This rollover will avoid having to take required minimum distributions, which you may not financially need, during retirement. Of course, you can withdraw any amount that you want at any time from your Roth IRA account.

Clearly, selecting the Roth 401(k) or Roth 403(b) option requires forethought and a commitment to long-range planning. The enormous federal deficit points toward higher income taxes down the road, so it makes a fair amount of sense to pay taxes on retirement contributions as they are made in one's younger years rather than pay taxes later on distributions that also include investment earnings.

Employer matches are made with pre-tax dollars in both conventional and Roth 401(k) plans. This means that the matching dollars will continue to flow into the conventional 401(k) part of the plan while after-tax employee contributions are being made into the Roth 401(k) part of the plan. ❖

Cash Donations Without Receipts . . . .

The new tax law ends deductions for out-of-pocket cash donations unless a receipt is obtained from the recipient organization. For example, if you simply drop a $20 bill in the Sunday collection plate or put a few dollars in the Christmas kettle outside a department store, you will no longer be able to deduct it.

Starting in 2007, a deduction for any cash donation is disallowed unless the donor retains a bank record or a written communication from the recipient organization showing the name of the organization and the date and amount of the donation. ❖

Tax-exempt Interest . . . .

Tax-exempt interest will now be reported to taxpayers on Form 1099-INT. Although exempt from tax, the tax-exempt interest amount affects calculations on other lines on a tax return. ❖

2007 Retirement Plan Contribution Limits . . . .

Retirement Plan Contribution Limit	Under Age 50	Age 50 or Over
IRA & Roth IRA	$4,000	$5,000
401(k), 403(b), 457	$15,500	$20,500
Roth 401(k) & Roth 403(b)	$15,500	$20,500
SIMPLE IRA	$10,500	$13,000
SIMPLE 401(k)	$10,500	$13,000
SEP, Profit Sharing, Keogh	$45,000	$45,000

Deductions for Clothing and Household Items . . . . .

David A. Batchelder

After August 17, 2006, no deduction is allowed for a charitable donation of clothing or household items unless the clothing or household item is in "good" used condition or better. The IRS also has authority to deny by regulation a deduction for any donation of clothing or household items that have minimal monetary value. Household items include furniture, furnishings, electronics, appliances, linens, and other similar items.

If obtaining a receipt is impractical – for example, you drop off clothing at a self-service donation center – you must maintain reliable written information about the contribution, such as the type and value of the property. Charitable contributions of property of $250 or more must be substantiated by obtaining a contemporaneous written acknowledgement from the charity including an estimate of the value of the items. If your deduction for non-cash contributions is greater than $500, you must attach Form 8283 to your tax return. ❖

Medicare Part B Premiums . . . .

In November, Social Security began mailing notices of higher income-based Medicare Part B premiums. Medicare Part B covers doctor services, certain outpatient services and some home health care. Enrollees may request a recalculation of their premium if they think incorrect tax data has been used to determine their income and set their premium, or if they have recently experienced an income loss from a spouse's death, a divorce, or some other life-changing event.

The Medicare Part B premium increase was approved by Congress in 2003. Starting in 2007, the government's contribution toward premiums will be reduced for higher-income beneficiaries – defined as individuals with incomes of more than $80,000 and married couples who file joint tax returns showing incomes of more than $160,000. In the past, premiums increased on a uniform basis, regardless of income.

For 2007, a person with income of $80,000 or less and a married couple with income of $160,000 or less will pay $1,122 in annual Part B premiums. Individuals with incomes of $80,001 to $100,000 and couples with incomes of $160,001 to $200,000 will pay $1,269.60 in Part B premiums next year. At the top of the scale, individuals with incomes of more than $200,000 and couples with incomes of more than $400,000 will pay $1,936.80 for Part B coverage. ❖

Telephone Tax Refund . . . .

Taxpayers will receive a small credit on their 2006 tax returns to reimburse them for the now-defunct long-distance telephone tax. The exact refund will depend upon the number of exemptions claimed. The credit is $30 for a single person and up to a maximum of $60 for a four-person family. ❖

Tax Preparation Pitfalls . . .

Tax season could be dicey in 2007. Before adjourning for the November 7th elections, Congress failed to extend several tax deductions that expired at the end of 2005. The IRS, in the meantime, had to go to press with the 2006 tax forms. Lawmakers finally passed the Tax Relief and Health Care Act of 2006 in mid-December. The law retroactively extends the deductions for sales taxes, college tuition and teacher supplies. The actual deductions will be placed on your tax return on lines for other items using an identifying code. ❖

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