DYER & ASSOCIATES, P.C.
Certified Public Accountants
10415 Armory Avenue
Kensington, MD 20895
(301) 654-6200 FAX: (301) 692-1990

Client Information Bulletin

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Go Directly From a 401(k) to a Roth

Future incentives for rolling over funds

Do you want to transfer your 401(k) plan assets to a Roth IRA? Under a recent tax law change, you can make the move in one fell swoop. Previously, it took two separate steps. In addition, another tax law provision taking effect this year may encourage this direct approach.

Background: With a 401(k) plan, you can defer part of your salary to a separate account, within generous annual limits. For 2010, the deferral limit is $16,500 ($22,000 if you are 50 years of age or older). The deferrals, plus any employer "matching" contributions, can grow without any tax erosion.

However, when you withdraw amounts from the 401(k) account—usually upon retirement—the distributions are taxed at ordinary income rates. Currently, the top tax rate for ordinary income is 35%. The top rate is generally expected to rise in future years.

In contrast, "qualified distributions" from a Roth that has been in existence at least five years are completely exempt from tax. A qualified distribution is one that is made after reaching age 59½, received on account of death or disability, or used to pay first-time homebuyer expenses (up to a lifetime limit of $10,000). Thus, there is a tax incentive to transfer 401(k) assets to a Roth, even though you must pay income tax on the transfer of funds (as you do with a conversion of a traditional IRA to a Roth).

Initial problem: Prior to 2008, you could not roll over funds directly from a 401(k) to a Roth. Instead, you had to take two steps:

1. Transfer the 401(k) funds to a traditional IRA.
2. Convert the traditional IRA to a Roth and pay the tax liability.

Effective for transfers after 2007, you can use a direct 401(k)-to-Roth rollover. In other words, you no longer have to take the interim step of converting the 401(k) assets to a traditional IRA.

Another potential problem: Previously, you still could not complete a one-step transfer in a year in which your modified adjusted gross income (MAGI) exceeded $100,000. But this barrier has been removed.

Beginning in 2010, any individual—regardless of the amount of his or her income—can roll over funds directly from a 401(k) to a Roth. Furthermore, for a transfer occurring in 2010, you can elect to have the taxable income from the transfer split evenly over the following two years (2011 and 2012), if it suits your purposes.

Inside

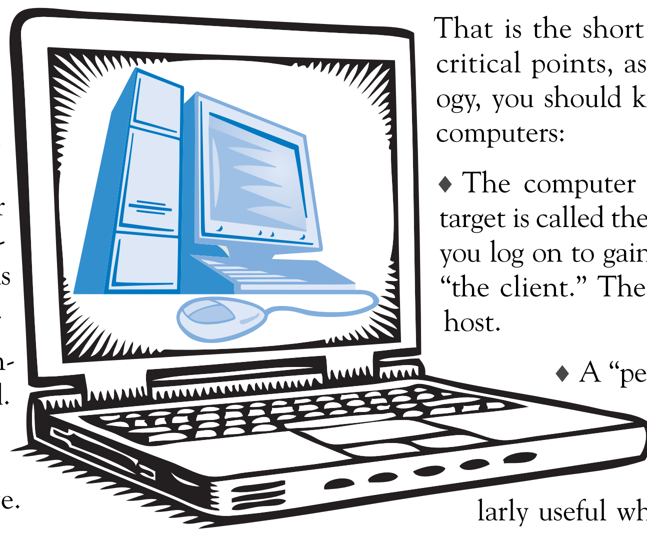
The IRS recently offered additional guidance for one-step transfers. It clarified that you can transfer funds directly from one of several types of qualified plans, including a 401(k), 403(b) and 457(b) plan.

Also, if you roll over funds directly to a Roth, the rollover is not subject to the usual automatic 20% income tax withholding requirement. Finally, a beneficiary may also roll over plan funds directly to a Roth. In this case, a surviving spouse (but not a nonspouse beneficiary) may treat the Roth IRA as his or her own.

Should you transfer funds directly from a 401(k) to a Roth? The answer depends on your family's circumstances. Your professional advisers can help determine the best course of action for your situation.

Gaining Remote Access to Your Computer

Know the basic options at your disposal



We have come a long way since desktop computers became a staple of the office and the home. Initially, you had to be stationed in front of your computer screen to view the files and use the programs on your desktop. As most of you are well-aware, the technology in this area has moved forward in leaps and bounds.

Now you can access your main computer from halfway around the world. Depending on your circumstances, this may be preferable to toting around a laptop or using a flash drive.

Essentially, you will need to have an Internet connection at both locations, the requisite software and permission. The advanced technology enables you to remotely control another computer, edit settings, read or write documents, and even transfer files and print out materials. Furthermore, software can provide security measures to guard against unauthorized access.

For starters, there are a myriad of ways to remotely access your computer. The fees for establishing and maintaining access vary, while some services are even free. In some instances, you may be required to install a Virtual Private Network (VPN).

Give Us A Call!

Do you have any questions or comments about this newsletter or your individual situation? Please do not hesitate to contact our office. We would be glad to serve you in any way we can.

That is the short story. Here are some other critical points, as well as the basic terminology, you should know about remote access to computers:

♦ The computer that you are attempting to target is called the "host." The computer where you log on to gain access is often referred to as "the client." The client has control over the host.

♦ A "persistent host" means the host software is always loaded and ready for a support connection. This is particularly useful when support is needed for an extended period of time.

♦ A session connection means that the connection door slams shut after you log off. This type of access may be preferable for short-term or occasional support. Security concerns are generally not as pronounced for session connections as they are for persistent connections.

♦ If your circumstances dictate so, you may opt for a persistent connection. In that case, be aware of the increased security implications for your client computer. Also consider setup or connection demands on the client. If you need to connect independently to the host, you will need to establish a persistent connection.

♦ Firewalls and corporate policies can also have an impact on your remote access options. In particular, spyware may catch and complain about a persistent connection. Again, appropriate software purchases can help alleviate these problems.

Of course, this article only presents some of the basic nuts and bolts. If you are not a sophisticated computer user, obtain expert advice before proceeding.

Should You Give to a Donor-advised Fund?

Advantages of alternative to private foundations

Wealthy entrepreneurs with charitable intentions may choose to set up a private foundation. But a more convenient alternative is gaining in popularity: the donor-advised fund.

This technique may be especially appropriate if you need to devote more time to business activities in the current economic environment. The fund does most of the hard work for you and requires less personal attention than a private foundation. In some cases, you might even convert an existing private foundation into a donor-advised fund.

Basic premise: You donate cash (or in some cases, property) to a special account managed by a sponsoring charitable organization. Then you recommend the charities you would like to see benefit from the funds.

Although you cannot legally require these organizations to be the recipients, the fund generally will go along with your suggestions, unless there is a legal reason not to. In other words, you pretty much decide who gets what and how much.

IRS Reveals "Dirty Dozen" Tax Scams

Every year, the IRS issues a list of "dirty dozen" tax scams to watch out for. The updated list for 2010 includes the following:

♦ Tax return fraud by unscrupulous preparers

♦ Phishing that tricks you into revealing personal information online

♦ False or misleading forms filed to claim unsubstantiated tax refunds

♦ Efforts to improperly shield trust assets from tax

♦ Abuses in retirement plan arrangements and IRAs

You can see the entire list of dirty dozen tax scams by visiting the IRS Web site.

Furthermore, you may qualify for a current tax deduction, based on the value of your contribution to the fund. Subsequent additions to the fund may also qualify for deductions. Thus, this arrangement may provide tax benefits for years to come.

Usually, the donor-advised fund will require a minimum initial outlay (e.g., $250,000) to get started. The sponsor will also likely charge a relatively small administrative fee for its services.

Here are some of the key advantages you may gain through a donor-advised fund:

♦ The sponsoring charity handles all of the administrative matters for you. From your perspective, it is a relatively simple arrangement.

♦ Your privacy is protected. If you wish, you can make gifts anonymously. In contrast, private foundations must make public disclosures.

♦ A donor may qualify for significant charitable deductions. For instance, higher adjusted gross income limits may apply to gifts made to donor-advised funds than charitable foundations.

♦ There are no mandatory distributions. On the other hand, a private foundation must distribute at least 5% of net assets annually.

Be aware that converting a private foundation to a donor-advised fund requires strict adherence to several arcane IRS rules. In addition, you must be sure to comply with any state law requirements.

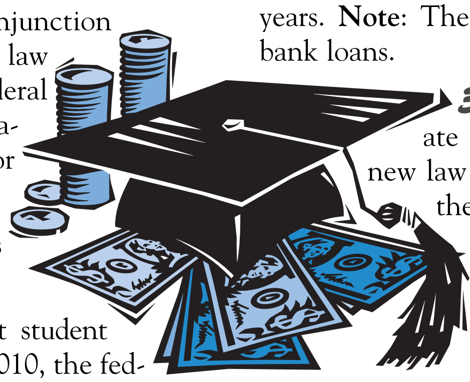
Although the sponsoring charity can provide guidance in this area, you should generally consult an experienced professional adviser. The adviser can take care of the required paperwork and handle related administrative matters.

With the proper assistance, you may be able to establish a donor-advised fund that accomplishes your main personal planning objectives. Of course, the arrangement is not for everyone. Consider this alternative carefully if you have the financial means to do so.

New Law Revamps Student Loan Program

Four key provisions can benefit borrowers

The new Health Care and Education Reconciliation Act of 2010—recently signed in conjunction with the monumental new health care law—includes dramatic reforms in the federal student loan program. This new legislation could affect families of all stripes for years to come.



Here is a brief summary of four points you should know about.

1. The new law changes the way that student loans are administered. Effective July 1, 2010, the federal government will be the originator of the loans. Previously, banks originated the loans, and the government guaranteed them. In other words, this provision effectively cuts out the "middle man." Under the new system, the process should be simplified. Students may apply for loans at a college's financial aid office. Each school will work with government-approved private companies to hand out the funds.

2. Students will benefit from more favorable repayment terms. Effective for loans signed after July 1, 2014, a loan payment cannot exceed 10% of the borrower's discretionary income, down from 15%. Furthermore, debts on student loans will be forgiven after 20 years, even if the student has not completely paid off the loan. The current period for such "forgiveness" is 25 years. Finally, if a student pursues certain public services—such as teaching, nursing or the military—the forgiveness period is only ten years. **Note**: These provisions do not apply to private bank loans.

3. Other changes are designed to alleviate economic hardship. For instance, the new law enhances the benefits available under the federal Pell Grant program. Unlike regular student loans, Pell grants do not have to be repaid. A student's eligibility for a Pell grant is determined by household income.

Beginning in 2013, the maximum Pell grant will gradually increase, based on consumer price inflation adjustments. The government says the maximum grant will rise from $5,550 to $5,975 by 2017. It also expects to provide 820,000 more grants by 2020.

4. Finally, the new law invests $2.55 billion in certain universities historically serving minorities to provide students with the support they need to stay in school and graduate. It also invests $2 billion in a competitive grant program for community colleges to develop and improve educational or career training programs.

If your family will need to borrow funds to finance a college education, the loans should be coordinated as part of an overall financial plan. Do not hesitate to seek assistance from your advisers.

Facts and Figures

Timely points of particular interest

➡**Mortgage Interest**—In a new case, a couple put a home in a trust but remained liable for the mortgage. They rented out the home to tenants who agreed to pay the mortgage, repairs and insurance. The Tax Court said that the tenants should be treated as equitable owners of the home. **Result**: Even though the payments were called "rent," the tenants can deduct a portion as mortgage interest.

➡**Innovative Ideas**—A recent nationwide study surveyed more than 3,000 successful entrepreneurs to find out where innovation comes from. The study showed that visionary leaders are more likely than ordinary people to ask "what if" questions. Based on their findings, the researchers suggest that business owners spend about 15 to 30 minutes a day jotting down questions that challenge the corporate status quo.