



Wealth Management

KANE COMPANY

A FEE-ONLY REGISTERED INVESTMENT ADVISOR

Certified Public Accountants and Financial Advisors

Kane Company, P.C.

515-270-2727

Summer 2014

4 Retirement Plan Options For Your Small Business

Do you own or manage a small business? If you do, the world is your oyster, at least when it comes to retirement plans. In a break from the not-so-distant past, there are now many options for small firms and even for sole proprietors to consider.

The actual list of possibilities is much longer, but the four main contenders in the retirement plan arena for small businesses are: (1)

Simplified Employee Pensions (SEPs), (2) Saving Incentive Match Plans for Employees (SIMPLEs), (3) traditional 401(k) plans, and (4) solo 401(k) plans. Here's the skinny on each one:

1. SEPs. Although a small business may use one of two varieties—the SEP-IRA or the SEP-401(k)—the SEP-IRA is much more common. Generally, the contributions you can make as an employer are based on a percentage of each participant's compensation, up to the annual tax law limits. In an off year, however, you don't have to make any contributions.

For 2014, deductible contributions to an employee's SEP can't exceed 25% of what the employee earns or \$52,000 (\$57,500 if age 50 or over), whichever is less. In most cases, you won't have to make an annual report on your plan to the IRS.

2. SIMPLEs. The SIMPLE format is available only if a business has no other retirement plan and employs no more than 100 workers making \$5,000 or more. You must match either

a predetermined portion of employee contributions to the plan or make a minimum contribution for all plan participants.

Each employee can contribute up to \$12,000 to a SIMPLE in 2014

(\$14,500 if age 50 or over). You don't have to file a yearly return for the plan nor are you required to do annual nondiscrimination testing.

3. Traditional 401(k) plans.

The same 401(k) setup that corporate giants use is also available to small businesses. But these plans normally require strict nondiscrimination testing; to avoid that, you could use a "safe harbor plan." That entails matching each eligible employee's contribution, dollar for dollar, up to 3% of compensation, and 50 cents on the dollar for employee contributions exceeding 3% (up to a 5% maximum). With these plans, you can use a system of gradual "vesting" over six years that will return some of your contributions if a worker leaves the company before the end of that time.

As in 401(k)s at larger companies, participants in smaller plans can elect to defer up to \$17,500 of their earnings in 2014 (\$23,000 if age 50 or over). As with a SEP-IRA, total deductible contributions in 2014 can't exceed 25% of compensation or \$52,000 (\$57,500 if age 50 or over), whichever is less.

4. Solo 401(k) plans.

A solo 401(k)



Four Ways To Offset Education Costs

It's that time of year where many will send children off to college, and thoughts will turn to what credits and deductions are available to help offset costs.

1. American Opportunity Credit can help pay part of the cost of the first four years. Maximum annual credit is \$2,500 per student, but completely phases out if adjusted gross income (AGI) exceeds \$90,000 single/\$180,000 joint.

2. Lifetime Learning Credit can help pay for higher education courses regardless of the number of years (including courses to improve job skills). Eligible taxpayers may qualify for up to \$2,000 per tax return, but the credit completely phases out if AGI exceeds \$63,000 single/\$127,000 joint.

3. Benefits for 529 College Savings Plans (i.e. College Savings Iowa) 529 plan distributions are tax-free as long as they are used to pay for qualified higher education expenses (tuition, required fees, books/supplies, computer technology, and room and board if student is at least ½ time). Plus, contributions made to College Savings Iowa in 2014 are tax deductible on your Iowa return up to \$3,098 per beneficiary.

4. Tuition and Fees Deduction is available for qualified tuition and expenses and may be beneficial if you do not qualify for education credits. Up to \$4,000 is deductible, but completely phases out if AGI exceeds \$80,000 single/\$160,000 joint.

For more information, please contact us.

Steven L. Kane, CPA/PFS, CFP®

(Continued on page 4)

IRA Rollovers: When Once Is Enough

Tax laws let you roll over money from one traditional IRA to another without owing taxes as

long as you follow the rules and get it done quickly enough. But there is one restriction you might not know about: IRA-to-IRA rollovers generally are allowed only once a year, and a new court ruling says this once-a-year rule applies to *all* of your IRAs and not just a particular account.

This decision runs counter to what most tax experts believe. The IRS itself has interpreted the rule differently in its own publication on rollovers. Yet the Tax Court decided firmly against the taxpayer in the new case (Bobrow, T.C. Memo 2014-21).

In most cases, you won't be taxed if you transfer funds from one IRA to another as long as the rollover is completed within 60 days. (If the money isn't moved directly between trustees, income tax will be withheld and you'll have to recoup it on your tax return). That effectively gives you interest-free use of the funds for almost two months.

But there's one fly in the ointment. According to the plain language of the tax law, a taxpayer may roll over funds from one IRA to another IRA only once a year. The Tax Court applied this

rule to all of a taxpayer's IRAs in the new case.



In this case, a taxpayer in 2008 received a distribution from traditional IRA #1 on April 14 and then took money out of IRA #2 on June 6. He repaid the required amount into IRA #1 on June 10 and did the same for IRA #2 on August 4. Because both repayments were made within the 60-day "window" for IRA rollovers, the taxpayer believed each rollover qualified for tax-free treatment.

Therefore, he did not report any tax liability for IRS rollovers on his 2008 tax return.

However, the Tax Court said the once-a-year limit on IRA rollovers invalidated the transfer to IRA #2, causing that second distribution to be taxable. Based on its reading of the law and legislative intent, the court determined that the rule applies to all of a taxpayer's IRA accounts. "Regardless of how many IRAs he or she maintains, a taxpayer may make only one nontaxable rollover contribution within each one-year period," the court concluded.

That interpretation directly conflicts with guidance in Pub. 590, *Individual Retirement Accounts (IRAs)*. On page 25, the IRS provides an example with similar facts in which the

once-a-year rule is applied to each IRA separately.

What happens now? As a follow-up, the IRS announced that it intends to follow the Tax Court ruling. Thus, it will likely pursue actions against other taxpayers who make multiple IRA rollovers in one year. As a result, it makes sense to stick to the strict letter of the law as defined by the court in the new case. ●

Are You Flying Below The Tax Radar?

Like a flight controller or a meteorologist, the IRS keeps an eye on the blips that show up on its monitoring screen when your income, tax payments, and investment activity are reported. There may be nothing you can do about much of that. However, by carefully monitoring the activities within your portfolio, you might manage to fly "under the tax radar." That could save you hundreds or thousands of tax dollars when you file your return.

Here's what we mean: The tax law provides certain thresholds for triggering higher taxes. Once you clear a threshold, you must pay tax at a higher rate—but stay below it, and you'll pay less. This can

involve any of several tax provisions:

Ordinary income tax. The graduated rate structure includes seven tax brackets ranging from a low of 10% to a high of 39.6%. Once you exceed the threshold for a new bracket, any additional earnings will be taxed at that higher rate. For 2014, the threshold for the 39.6% rate is \$406,750 for single filers and \$457,600 for joint filers.

Pease/PEP limits. Under the Pease rule, most itemized deductions—including those for charitable donations, state and local taxes, and mortgage interest expenses—are reduced to the extent that your adjusted gross income exceeds an annual limit. A comparable tax rule—called the personal exemption phaseout

(PEP) rule—reduces the tax benefits of personal exemptions. The threshold for the Pease/PEP rules in 2014 is \$254,200 for single filers and \$305,050 for joint filers.

Net investment income tax. The 3.8% Medicare surtax applies to the lesser of your "net investment income" (NII) or the amount of your modified adjusted gross income (MAGI) that exceeds an annual threshold of \$200,000 for single filers and \$250,000 for joint filers. Although NII includes most income items, others, such as distributions from IRAs and workplace retirement plans, are specifically exempted. Nevertheless, those distributions still increase your MAGI for this calculation.

Flying below the radar involves

Figuring Out How Much You Need In Retirement

At some point, almost everyone asks this question: How much do I have to save for retirement? Of course, there's no easy answer, but what may be even more disconcerting is the possibility that this may be the wrong question. It might be more beneficial to figure out how much income you will need annually in retirement than it is to pinpoint the amount you should try to set aside.

Start by Changing Your Mindset

You are who you are and that isn't likely to shift 180 degrees in retirement. Sure, you'll have more time to travel or pursue other activities, but you'll still be the same person with the same basic values, interests, and inclinations. Armed with this knowledge, you may want to shift from the notion of accumulating a specific amount for your retirement to figuring out what your expenses will be on a year-to-year basis.

Once you understand your financial liabilities, you'll be better prepared to devise a retirement saving strategy and at the same time eliminate fears that your money won't last long enough. Targeting a "magic number" for the future can be stressful. According to a recent survey, 82% of the respondents who have dependents

and are age 44 through 49 were more worried about outliving their money than they were about death. Concentrating more on your personal needs can help alleviate concerns.

Begin this process by calculating your true retirement liability. Rather than asking "How much money do I need to retire?" try to determine "How much money in future dollars will I need each year during retirement?"

Calculate Your Expected Expenses

Where and how will you spend most of your money during retirement? Everyone's situation is different, but recent statistics from the Bureau of Labor Statistics indicate the typical results, some of which you may find surprising. Here are a few findings to ponder about retirees age 65 and over:

- They spend 34.2% of their money on housing. If you're already an empty nester, or expect to be one in the near future, you might look to downsize soon to take advantage of the equity built up in your home. In any event, consider working out a plan that lets you live more economically than you could when you were in the middle of a career and raising kids.

- They spend 16% of their money on transportation. And it's not paying for gasoline that hurts the wallet most; the bulk of these expenditures come

from buying new cars. Instead of succumbing to the temptation to rush out and get a new vehicle every three years, consider keeping your existing car or buying a pre-owned model.

- They spend only 0.5% of their money on education. Just because you're retired doesn't mean you should stop learning. Going back to school on a part-time basis—even if you do it online—could improve your lifestyle and open up new opportunities.

This is just the tip of the iceberg. Also consider health care—often a big expense—food, entertainment, and retirement travel. No one knows better than you do where your money will go.

4 Steps to Prepare

It can be challenging to change the way you think about retirement planning, but here are four steps that may help:

1. Make retirement planning a top priority. It's been said that any plan is better than no plan at all. You're one step ahead of the game if you've already started to focus on the challenges ahead. Ignoring it could be the worst option.

2. Seek the counsel of others. We would be glad to provide whatever assistance you need in meeting your goals. It is often helpful if an impartial voice can provide guidance on emotional topics such as selling the family home or bypassing luxuries.

3. Create a range of estimates for what you will spend. Even if you knew with certainty how long you would live and how much you would spend, it still would be extremely difficult, if not impossible, to estimate their retirement liability exactly. Make reasonable estimates within a range and review the analysis annually.

4. Start sooner rather than later. Regardless of your age, it's not too early to begin planning. Your circumstances could change, so you'll need to build some flexibility into the plan. That's far easier at an early age than it is when retirement is knocking on the door. ●

closely watching these thresholds and trying to maximize your "tax bracket management" (see chart). For instance, you might invest in tax-exempt vehicles such as municipal bonds or in tax-deferred investments such as growth stocks or annuities to keep your current taxable income below a threshold. Similarly, if you find you have some leeway before you hit the next bracket, you might consider filling that space with income you generate by converting a

traditional IRA to a Roth IRA—a move that could reduce future tax bills. But for maximum effect in staying under the radar, try to look at your portfolio from a horizon of at least five years. ●

Bracket Management

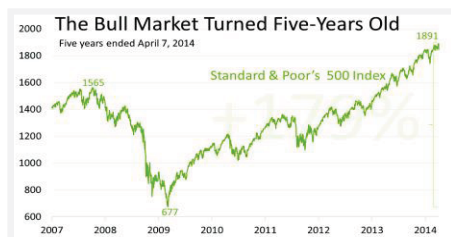
Bracket Management Example

	2013	2014	2015	2016	2017
MARGINAL INCOME TAX RATE	25.00%	25.00%	33.00%	33.00%	33.00%
MARGINAL CAPITAL GAINS RATE	15.00%	15.00%	15.00%	15.00%	15.00%
CURRENTLY SUBJECT TO NIIT	No	No	Yes	Yes	Yes
MARGINAL INC. RATE IF NIIT APPLIES	25.00%	25.00%	36.80%	36.80%	36.80%
MARGINAL CAP GAIN RATE WITH NIIT	15.00%	15.00%	18.80%	18.80%	18.80%
AVERAGE RATE	14.95%	14.95%	24.88%	25.21%	25.53%
DISTANCE TO NEXT TAX BRACKET	\$50,850	\$47,450	\$48,607	\$28,384	\$7,240
DISTANCE TO FOLLOWING BRACKET	226,150	222,750	Max	Max	Max
AMOUNT ABOVE 39.6% BRACKET	-	-	-	-	-

*Taken from a product created by Keebler & Associates, LLP for the AICPA called the "Tax Rate Evaluator: A Graphical Calculator for Tax Planning After ATRA" (PTX1307M). It is available at www.k2a200.com or by calling 1-888-777-7077.

©2014 Robert S. Keebler, CPA, NECT, AEP, ECFP, and Associates, LLP. All Rights Reserved.

Market Data Bank: First Quarter 2014^u



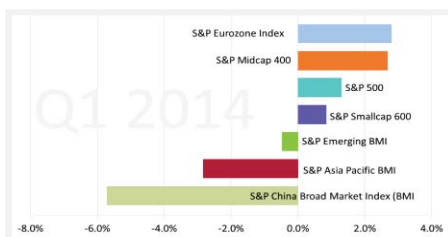
BIG PICTURE

1Q2014 marked the bull market's fifth anniversary. From the S&P 500's intraday low of 666 on 3/19/2009, the index was 7% short of tripling. It spawned headlines questioning how much longer it can last. Only three of the 23 bull runs since 1900 have lasted six years.



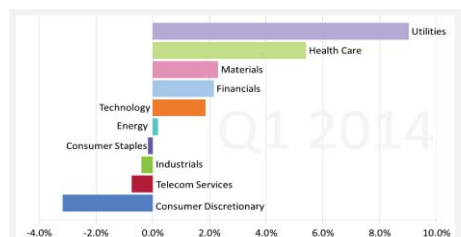
U.S. STOCKS

The S&P 500 gained 1.3% in 1Q2014, despite January's 5.8% correction after the Fed tapered its liquidity program. For the year ended March 31, 2014, the S&P 500 gained 19.3%. The stock market hasn't experienced even a 10% correction in three years.



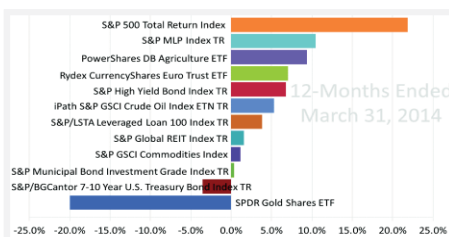
FOREIGN VS. U.S. STOCKS

Among global stock markets, for the first time in years, the Eurozone index led, with a first quarter gain of 2.8% compared to the Standard & Poor's 500 1.3% gain; whereas Asia Pacific and China trailed the U.S. with losses of 2.8% and 5.7%, respectively.



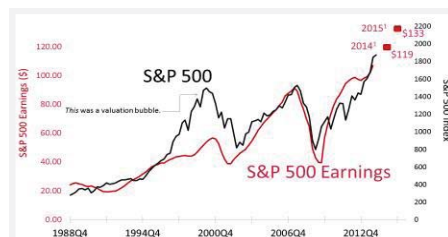
LARGE-CAP U.S. STOCKS BY INDUSTRY

Among the S&P 500's 10 sectors in 1Q2014, utilities were in first place with a gain of 9% versus consumer discretionary stocks in last place with a loss of 3.2%. Utilities' strong showing was a surprise, as the consensus among Wall Street strategists was for the sector to do poorly this year with an expected rise in bond yields.



ASSET CLASSES*

The returns of a broad range of asset classes for the 12-months ended 3/30/2014 are dispersed. Will stocks lead again a year from now? No one can know. That's why it's important to stay broadly diversified across a broad range of asset classes and rebalance to stay in your volatility comfort zone.



S&P 500 INDEX VS. EARNINGS*

Red squares show expected earnings on the S&P 500 index of blue-chip companies, based on a 3/27/2014 forecast of Wall Street analysts, for \$119 per share in 2014 and \$134 in 2015. Will stock prices follow the trajectory shown in the markers? Events could derail stocks, but the trajectory is positive.

Past performance does not indicate future results. *Indices and ETFs representing asset classes are unmanaged and not recommendations for any specific investment. Foreign investing involves special risks, including political or economic instability and currency fluctuation. Bonds offer a fixed rate of return while stocks fluctuate. *Estimated bottom-up S&P 500 earnings per share as of March 27, 2014 was \$118.98 for 2014 and \$132.59 for 2015. Sources: Yardeni Research, Inc. and Thomson Reuters I/B/E/S survey of consensus estimates. Standard and Poor's for index price data through March 30, 2014; and actual earnings data through December 31, 2013.

4 Retirement Plan Options

(Continued from page 1)

may cover a business owner who has no employees other than a spouse. Generally, these plans have the same rules and requirements as traditional 401(k) plans, including the same annual contribution limits. However, the solo 401(k) does have one decided edge: Under a special tax law provision, the normal 25% limit for annual contributions doesn't apply. For some sole proprietors, this rule will let them make larger tax-

deductible contributions.

Which of these four plans makes the most sense for you and your business? There are no hard-and-fast answers. Do your homework by

exploring all the alternatives and making comparisons (see box). Finally, don't hesitate to ask for our assistance to determine your best course of action. ●

Feature	SEPs	SIMPLEs	Traditional 401(k)s	Solo 401(k)s
Number of Employees	Unlimited	Limited to 100	Unlimited	One (plus spouse)
Contributors	Employer only	Employer and employees	Employee and employer optional	Employer and employees
Maximum Deferral	N/A	\$12,000 (\$14,500 if age 50 or over)	\$17,500 (\$24,000 if age 50 or over)	\$17,500 (\$24,000 if age 50 or over)
Maximum Deductible Contribution	Lesser of 25% of compensation or \$52,000 (\$57,500 if age 50 or over)	100% up to 3% match to participants or 2% to all eligible employees	Lesser of 25% of compensation or \$52,000 (\$57,500 if age 50 or over)	\$52,000 (\$57,500 if age 50 or over)
IRS reporting	No	No	Yes	Yes
Vesting	100% immediately	100% immediately	May be graded up to six years	100% immediately