



Stephen Molyneux

## ABCs of SIMPLE IRA PLANS

A SIMPLE (Savings Incentive Match Plan for Employees) IRA is a cost-effective retirement plan for small employers and their employees.

A SIMPLE IRA plan is an IRA based plan that offers small employers a simplified method to make contributions toward their employee's retirement and their own retirement. A wide variety of small businesses (including C or S corporations, partnerships, sole proprietors, and the self-employed) and their employees may benefit from the numerous advantages a SIMPLE IRA plan offers. It is an employer sponsored plan, like the more common plans such as the 401(k) and the 403(b), but offers simpler and less costly administrative rules and responsibilities. The SIMPLE IRA plan, like the 401(k), is a salary reduction retirement plan which means participants select the contribution amount to be deducted from their salary on a pre-tax basis. Like other salary reduction contributions, these deductions are subject to social security, FUTA, and Medicare.

Contributing to a SIMPLE IRA plan can help an employer save on taxes because contributions made on behalf of plan participants are generally deductible as a business expense. Beyond offering your employees the opportunity to reduce their own tax burden, a SIMPLE IRA plan gives the participating employee the ability to direct their own investments – all contributions to a SIMPLE IRA plan are directed into each participant's own separate SIMPLE IRA and each participant then makes and executes all investment decisions within his/her own account. Another great advantage for employees participating in a SIMPLE IRA plan is that

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Laurence Burnette, CFP

## End of Year Tax Planning and Charitable Donations Documentation is Critical to Claiming a Charitable Donation

With the end of the year comes another opportunity to include charitable donations in your tax planning. These tax planning decisions can involve assets ranging from investment holdings to sundry things piling up in your basement. Charitable giving is an important part of tax planning. It makes sense to contact a tax expert or financial planner to discuss the tax implications and benefits of any donations you may be thinking about making. The following checklist may be helpful when doing your tax planning:

**You Must Itemize – Form 1040 Required:** Only individual taxpayers who file Form 1040 and itemize their deductions on Schedule A can claim a deduction for charitable contributions. This deduction is not available to people who choose the standard deduction, including anyone who files a short form (1040A or 1040EZ). The amount of your deduction may be limited if certain rules and limits apply to your specific tax situation.

**Keep All Records:** Uncle Sam requires a record. To deduct any charitable donation of money, a taxpayer must have a bank record or a written communication from the charity showing the name of the charity and the date and amount of the contribution. It is probably wise to have both. Bank records mean canceled checks, bank or credit union statements and credit card statements. Bank or credit union statements should show the name of the charity and the date and amount paid.

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### HIGHLIGHTS

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Frank Johnson, CFP

# Planned Changes for 2009 Capital Gains Tax?

## New Administration Eyes Possible Adjustments in Tax Code

With the arrival of the new administration in Washington and their campaign promise to rewrite capital gains tax law, we thought it might be an appropriate time to examine this convoluted part of the tax code. While the details of what will emerge in the new tax code are unknown, the prevailing opinion of most political pundits is that a change is imminent. All investors owe it to their portfolios to have a basic understanding of existing capital gains tax law. After all, mastery of this knotty part of the IRS tax code can sweeten your gains and soften your losses.

Capital gains have been historically taxed at a preferential rate in comparison to ordinary income. They were given this preferential lower rate to encourage investors to make capital investments and to fund entrepreneurial activities. The IRS categorizes gains as being either short term or long term:

***Short-term capital gains are defined as investments held for a year or less before being sold. The tax code on short term gains is simple and straight forward – the gains are taxed exactly the same as the investor’s income tax rate.***

***Long-term capital gains apply to assets held for more than one year and are taxed at a lower rate than short-term gains, but at what lower rate is where the tax code becomes maddening. The current tax rate on long-term gains range from 0% to 28% depending on your tax bracket and what type of asset was sold.***

The IRS tax code employs various long-term capital gains tax rates for an array of asset classes. For example, the sale of your prized rare stamp collection would most likely be taxed at a higher rate than say the sale of some mutual-fund shares or investment property. The sale of investment securities, real estate investments, collectibles, homes, and some small business stocks are all taxed at different rates. Keep in mind that sometimes even calculating the “cost basis” (original purchase price) to determine the taxable amount of the gain itself can be mystifying. The original purchase price is subject to adjustment for various things including improvements, investments, depreciation, and specific deductible fees and expenses. The following chart offers a basic guide to capital gain tax rates, but the chart is in no way complete. Within each asset class there are various factors and baffling tax rules which could greatly impact your tax liability – deferments, exchanges, capital losses, etc. Also, if you’re subject to the alternative minimum tax, many of these tax rates listed below will need to be amended. In short, before you attempt to traverse the puzzling minefield of the IRS tax code regarding capital gain taxes, seek the counsel of a knowledgeable tax advisor or financial planner.

<b>Ordinary Income Tax Rate</b>	<b>Long- Term Capital Gain Rate</b>	<b>Short- Term Capital Gain Rate</b>	<b>Long-Term Gain On Collectibles</b>
<b>10%</b>	0%	10%	10%
<b>15%</b>	0%	15%	15%
<b>25%</b>	15%	25%	25%
<b>28%</b>	15%	28%	28%
<b>33%</b>	15%	33%	28%
<b>35%</b>	15%	35%	28%

***\* Long term gains on real estate is tricky. The capital tax rate is dependent upon numerous factors (investment vs. primary residence, years of residency, etc.). A percentage of certain small business stock can be excluded from capital gain taxes under specific tax regulations. Consult a tax pro if you are selling property or certain small business stocks.***

***Please consult your tax advisor or financial planner for full legal information. Hanover Advisors is a registered investment advisor that provides neither tax advice nor legal advice.***



Credit card statements should show the name of the charity and the transaction posting date. For payroll deductions, the taxpayer should retain a pay stub, Form W-2 wage statement or other document furnished by the employer showing the total amount withheld for charity, along with the pledge card showing the name of the charity. When it comes to the IRS - having detailed documentation is very important.

**Types of Qualified Organizations:** You need to make sure that the charitable organization you are contributing to is qualified for tax deductible contributions. IRS Publication 78, available online and at many public libraries, lists most organizations that are qualified to receive deductible contributions. To view the list online, just go to [apps.irs.gov/app/pub78](https://apps.irs.gov/app/pub78). A key exception to note is that churches, synagogues, temples, mosques and government agencies are eligible to receive deductible donations, even though they often are not listed in Publication 78. Keep in mind, there are numerous other deductions regarding charities which involve deductible expenses you may incur while giving service to a charity: gas mileage while doing charitable service, uniform allowance if you're required to wear a uniform while doing charitable work, costs incurred while housing a foster child or foreign exchange student, etc. If you are involved in doing charity work, you owe it to yourself to peruse IRS Publication 526. The deductible expenses listed in the publication are quite extensive – they even cover deductible expenses for Whaling Captains while carrying out sanctioned whaling activities!

**Document All Donated Property:** If you donate property, including clothing and household items, make sure you receive a receipt which includes a detailed description of the donated property. The IRS has really clamped down on charitable deductions; they require more documentation than in past years. If a donation is left at a charity's drop box site, keep a written record of the donation that includes a description of the property and its condition. For any kind of vehicle, boat or airplane, the deduction is now limited to the gross proceeds from its sale. This rule applies if the claimed value of the vehicle is more than \$500. Form 1098-C, or a similar statement, must be provided to the donor by the organization and attached to the donor's tax return.

**You Can't Deduct Junk:** Under a provision of the 2006 Pension Protection Act, contributions of physical items must be in good used condition or better to qualify for a deduction. That means that you can't deduct ripped or discolored clothing or appliances that don't work. If you donate noncash property that is valued at more than \$500, you need to report to the IRS how and when you acquired the property and your cost basis. You must file Form 8283, Noncash Charitable Contributions, for all donations of property valued at more than \$500.

**Seek Expert Advice About Giving Away Appreciated Securities:** This is where a financial planner or tax expert would come in handy – interpreting the tax code can be problematic and very complex. Generally, when you donate stocks or mutual fund shares held for more than one year you may deduct the stocks' current fair market value. Additionally, you can avoid paying capital gains taxes on the appreciated value, but be sure to check with an expert before taking any action.

*This column is provided by Laurence C. Burnette, CFP, and a member of the Financial Planning Association.*



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all SIMPLE IRA contributions are immediately 100% vested. Employees also benefit from the savings a SIMPLE IRA plan offers in administrative expenses and fees when compared to a 401(k) plan (visit our website at [hanoveradvisorsinc.com](http://hanoveradvisorsinc.com) and read our Winter 2008 newsletter regarding excessive fees and costs hidden in many 401(k) plans).

In general, a SIMPLE IRA plan is available to any business owner with less than 100 employees and which is not currently maintaining another employer-sponsored retirement plan such as a 401(k), Keogh 403(b), or a SEP-IRA. Once the business owner decides to establish a SIMPLE IRA plan, the employer will need to make it available to all employees who meet the following criteria: the employee must have worked for you for at least two years, and must have earned at least \$5000 dollars in compensation from your business during any two prior years and is expected to earn \$5000 dollars for the current year. Once established, the plan requires employers make a minimum contribution to all employee's accounts. The employer can opt to make the contribution in the form of matching funds or a fixed, non-elective contribution. The matching fund matches the contribution of the employee, dollar for dollar, up to specific IRS limitations. The other option for an employer is to choose to contribute a flat 2% of compensation for each employee regardless of the amount the employee contributes to their own account, again, following specific IRS guidelines. Employers are free to switch between contribution methods each year, as long as certain legal requirements are met for the timely notification of all participating employees.



## QUICK FACT CHECKLIST FOR SIMPLE IRA PLANS

- ✓ **A SIMPLE IRA plan offers small employers and their employees a simplified pre-tax retirement plan.**
- ✓ **An employer offering a SIMPLE IRA plan must have less than 100 employees.**
- ✓ **Employees may not make regular contributions to their SIMPLE IRA – only payroll contributions are allowable.**
- ✓ **The employee contribution limit for 2008 is \$10,500 and increases annually by the cost of living.**
- ✓ **A catch-up provision is available for participants over the age of 50.**
- ✓ **SEP IRAs, Traditional IRAs, and most other retirement plans cannot be rolled-over into a SIMPLE IRA.**
- ✓ **The plan requires a certain minimum contribution from the employer. See IRS code for exact limitations.**
- ✓ **All contributions to SIMPLE IRAs are directed into each participants own separate SIMPLE IRA.**
- ✓ **The employee makes and executes all investment decisions within his or her own account.**
- ✓ **SIMPLE IRAs have fewer administrative fees and responsibilities than other retirement plans.**

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