

WESCAP MANAGEMENT GROUP

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NEW IRA RULES - TAX AVOIDANCE OPPORTUNITIES

Roth IRA The new Roth IRA account (beginning in 1998) is funded with non-deductible contributions. **Qualified distributions from a Roth IRA (including income and gain accumulations) are Federal income-tax free.** These accounts are limited to contributions of \$2,000 per year per wage-earner (or spouse). They can only be funded by individuals below certain adjusted gross income (AGI) limits. The allowed contributions are phased out at AGI of \$150,000 to \$160,000 for joint taxpayers and \$95,000 to \$110,000 for a single taxpayer.

Qualified distributions from a Roth IRA are those made at least five years after the account is set up and:

After the beneficiary is age 59 1/2, or

After the beneficiary's death, or

Are attributable to the beneficiary's disability, or

Is a qualifying special purpose distribution including up to \$10,000 for a first-time homebuyer who is the taxpayer or one of his/her immediate family.

In addition, holders of current IRA can withdraw their balances and roll the proceeds (less income tax, but no penalty) into a Roth IRA. The rollover is allowed only to taxpayers with AGI less than \$100,000 (not including the rollover). If the rollover is completed in 1998, the income tax on the rollover may be paid over 4 years.

Regular (Non-Roth) IRA For those with qualified retirement plans, the phase-out income limits for deductibility of regular IRA contributions will be increased gradually from \$50,000-\$60,000 in 1998 to \$80,000-\$100,000 in 2004 for couples and \$30,000-\$40,000 in 1998 to \$50,000-\$60,000 in 2004 for singles. An income earner exceeding these limits (or spouse) may still make a non-deductible regular IRA contribution. After 1997 a non-working spouse can make up to a \$2,000 deductible IRA contribution at annual joint income up to \$150,000 even if the working spouse is covered by a retirement plan. Note that penalty-free withdrawals from regular IRA accounts are now allowed for higher education expenses.

Education IRA An Education IRA is a custodial or trust **account whose income and gain accumulations are Federal income-tax free if the proceeds are used for qualified post-secondary education expenses** of the account holder or account beneficiary. Beginning in 1998, after-tax contributions of up to \$500 per beneficiary per year (phased out at AGI \$150,000-\$160,000 joint or \$95,000-\$110,000 single) can be made for each beneficiary up to age

18. Qualified expenditures include tuition, books, and room and board (if student is full -time). At student's age 30, the unused balance in the Education IRA must be distributed and taxed and a penalty (10%) paid on accruals. To avoid this, at age 30, the unused balance may be rolled without cost to another qualified potential student within the family.

No more than \$2,000 total per year can be contributed to all IRA accounts of any kind for the benefit of any individual.

Planning Opportunities - General The most attractive IRA investment vehicle depends on the ultimate use of the funds:

- The non-deductible (but tax-free accumulation) Education IRA is clearly attractive for future education expenses. Note however that tax-free distributions from this vehicle can eliminate the use of new education tax credits and may affect the receipt scholarships.
- The non-deductible (but tax-free accumulation) Roth IRA is clearly attractive for retirement and certain other expenses.
- The non-deductible (but tax-deferred) regular IRA has some attractiveness (it beats annuities). However, since accumulations are taxed at ordinary tax rates when withdrawn, ordinary savings in growth-oriented investments may be more attractive, after taxes, due to the recent cut in capital gains tax rates.

Planning Opportunities - Specific

- The opportunity to accumulate earnings and gains tax-free in a Roth IRA may be sufficiently attractive to roll existing IRA accounts and pay the tax on the rollover (no penalty). The tax can then be spread over four years (if the account is rolled in 1998). Potential state taxes and penalties, however, will reduce this benefit.
- Gifts to adult children or for the benefit of grandchildren, nieces or nephews to fund these accounts can be a highly income tax efficient way to reduce potential estate taxes.

If you have questions about the above, please contact Mark Gleason, Rick Weinlein or Joel Edstrom at (818) 552-2130 or fax to (818) 552-2133. WESCAP Management Group has obtained information from sources believed to be reliable, but no guarantee can be made as to its accuracy. WESCAP Management Group provides high quality, personalized, objective financial and investment advice to individuals.