

QUESTIONS... AND ANSWERS

BY MIKE SLOTOPOLSKY

AT TAX TIME, I CAN ALWAYS

count on clients asking similar questions. Herein some of the more popular questions and basic answers to help navigate this year's tax codes.

What is the recovery rebate credit?

This one-time benefit is for people who didn't receive the full economic stimulus payment last year and whose circumstances may have changed making them eligible for some or all of the unpaid portion. Here's who's eligible:

- Individuals who didn't receive an economic stimulus payment.
- Those who received less than the maximum in 2008 – \$600 single, \$1,200, married filing jointly – because their income was too high or too low.
- Families who gained an additional qualifying child in 2008.
- Individuals who didn't have a valid Social Security number in 2007, but do have one in 2008.
- Individuals who could be claimed as a dependent on someone else's tax return in 2007 but cannot in 2008.

How does investment income of children under a certain age work?

Part of a child's investment income may be taxed at the parent's rate if:

- The child was under 18 at the end of the tax year.
- The child was under 19 and his income is not more than half of the child's support for the year.
- A student was a full-time student under 24 and the earned income is not more than half of the child's support, excluding scholarships.
- At least one parent was alive at the end of the tax year.

- The child's income was not more than \$1,800.
- The child is required to file a tax return.
- The child doesn't file a joint return.

How does the contribution to a Roth IRA work?

The Roth IRA should be the cornerstone of any retirement plan. Here are a few things you should know about Roth IRAs in 2008:

- The annual contribution limit has gone up to \$5,000. If you're more than 50, the contribution is \$6,000.
- If you're thinking of a large Roth IRA conversion soon, consider waiting until 2010 so you can spread the tax bite over two years. Investors who plan to do a conversion in 2010 have four years

age. If you're more than 55, there's an additional \$900 contribution allowed regardless of coverage. This is the maximum 2008 contribution, but should not be confused with account balance which may accumulate a much larger amount.

Is unemployment insurance taxable?

As more and more people get pink slips and file for unemployment insurance keep in mind that unemployment insurance is taxable. Unlike wages, no tax is withheld from unemployment unless you specifically request that it is.

Times are tough. I need to tap my 401(k) or IRA. What should I know?

This would be the last thing I'd recommend although I understand economic conditions have necessitated many folks

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(2008-2011) to accumulate the funds necessary to pay income tax on the conversion. If you convert in 2008, all taxes are due by next April's filing. Waiting allows you to plan the conversion better.

How do health savings accounts work?

A health savings account (HSA) is a tax-advantaged medical savings account available to people enrolled in a high deductible health plan (HDHP). HSAs were part of the Medicare bill enacted in 2003 and was designed to help people save for future medical and retiree health expenses on a tax-free basis. Unlike a flexible spending account (FSA), funds roll over and accumulate year to year if not spent. Funds can be used to pay qualified medical expenses without federal tax liability. The maximum contribution for 2008 is \$2,900, single coverage, and \$5,800 for family cover-

looking to cash out some plans. If you're under 59-and-a-half, there's a 10% penalty and that's why I advise against this. Exhaust all other options first. Usually you can borrow up to \$50,000 or 50% of your balance whichever is smaller.

Certainly fractious economic times force all of us to evaluate our financial portfolios. The more our savings and paychecks dwindle, the better prepared we must be to keep whatever money we have in our own pockets and to that end information is king. □

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