Dear Clients and Friends,

We have all heard the phrase, "Buckle up. It's the Law." Well, if you are a New York resident and you owe the State over $10,000 in past due taxes, you may not need to worry about buckling up as they may be suspending your license to drive (unless of course you are a passenger, but who wants to just go along for the ride?). Governor Andrew Cuomo announced a new initiative that will provide New York's delinquent taxpayers an additional incentive to pay their taxes. Taxpayers receiving one of the first 16,000 suspension notices being sent out will have 60 days from the mailing date of the notice to make arrangements to pay the outstanding taxes due. If they fail to do so, the Department of Motor Vehicles will send a second letter that will provide another 15 days for the delinquent taxpayers to respond. If payment arrangements are not made by then, their driver's licenses will be suspended until the debt is paid or a payment plan is established. Taxpayers may, however, apply for restricted licenses in order to drive directly to work and home again. Other states which have enacted similar legislation include: Massachusetts; Maryland, where you cannot renew a driver's license if you have not paid undisputed taxes; Connecticut, where you may have your driver's license suspended for having unpaid property taxes; and Rhode Island.

REMINDER FOR THOSE WHO FILED INCOME TAX EXTENSIONS

The due dates for income tax returns on extension are approaching:

- Partnership, Corporate, Trust and Estate Income Tax Return filings are due by September 16, 2013.

- Individual Income Tax Return filings are due by October 15, 2013.

REQUIRED MINIMUM DISTRIBUTIONS FROM YOUR IRA AND RETIREMENT PLAN ACCOUNTS

by Melanie Cobb, CPA and Robbin R. Weiner, CPA, CGMA

Understanding Required Minimum Distributions

A great strategy to reduce your income tax liability in the years that you are working and to save for retirement is to defer a portion of your earned income (subject to limits imposed by the IRS) into a tax deferred retirement account. In the year you turn 70 ½, you are required to start taking Required Minimum Distributions (RMD) from certain tax deferred retirement accounts, such as a Traditional IRA, SEP, and Roth 401(k). If you are still working, you may delay taking RMDs from a qualified employer plan, such as a Traditional 401(k), defined benefit plan, or 403(b), until you retire. However, if you are self-employed or a 5% or more owner of the business sponsoring the retirement plan, you will need to take RMDs even if you are still working. Please note that Roth IRAs do not have RMD requirements while the owner is alive, as they are funded with after-tax dollars.

Calculation of Required Minimum Distributions

The RMD is calculated by dividing the account balance of each tax deferred retirement account as of December 31st of the preceding year by the appropriate life expectancy factor (based on your age) that is published by the IRS in various tables found in Publication 590. You must determine the RMD for each retirement account separately. Traditional IRA and 403(b) account owners may withdraw the total amount of RMDs from one or more of the accounts. However, for other types of retirement plans, such as 401(k) and 457(b) accounts, you must calculate and withdraw the RMDs from each specific account separately.

You must take your first RMD in the year in which you turn 70 ½, or you may delay it until April 1st of the following year. As an example, if you turn 70 ½ in 2013, you are required to take the RMD either during 2013 or by April 1, 2014, and the amount of the RMD will be calculated based on the December 31, 2012 value of each of your tax deferred retirement accounts. You will also be required to take a RMD for 2014 by December 31, 2014. For all subsequent years, you must take your RMD by December 31st of the current year and that amount will be based on the value of each of your retirement accounts as of December 31st of the previous year. Please note that there are special rules for calculating RMDs and distributions to account owners and beneficiaries of tax deferred accounts upon the death of the owner, such as with an inherited IRA or Roth IRA. There are also special rules for pre-1987 funded 403(b) accounts.

The penalty for failing to take the correct RMD in any year is 50% of the required RMD amount that was not withdrawn. Penalties may be waived due to reasonable error and when measures are taken to correct the shortfall. As an aside, it is important to know that there is also a 10% penalty assessed for early distributions (pre-age 59 ½) that do not meet a penalty exception.

Planning for Required Minimum Distributions

Due to the significant penalties associated with the failure to take the correct amount of RMDs, some financial institutions will automatically send you your RMD, even if you did not request it. However, you should not rely on automatically receiving your RMDs for two reasons. First, the institution may not send you the RMD without your requesting it, as they are not required to do so, and you as the Taxpayer will be responsible for paying any resulting penalty. Second, as discussed above, for certain accounts you have the option to determine from which accounts you would like to withdraw your RMDs. Therefore, from a planning perspective, you may choose to withdraw the required funds for these accounts by considering what would be most beneficial to you, as determined by how those funds are invested.

Depending on your retirement needs and estate tax planning goals, you may wish to consider rolling over your Traditional IRA or Qualified Retirement Plan into a Roth IRA in order to avoid the requirements to take RMDs, thus preserving the principal of the funds for your heirs. Generally, a rollover will be a taxable event. Please note that rollovers have their own set of complicated rules, which are beyond the scope of this discussion. We recommend that you speak to your tax consultant or attorney, if you believe that this may benefit you.

E. MARTIN DAVIDOFF'S SPEAKING ENGAGEMENTS

On a regular basis, Marty speaks before tax professionals regarding IRS representation issues. Below is a summary of two popular programs that Marty has developed:

IRS Offers in Compromise: A Case Study

Description:

This comprehensive workshop takes participants on a hands-on journey through the entire IRS Offer in Compromise (OIC) process, including how to effectively complete the appropriate financial disclosure package for individuals [Form 433-A (OIC)]. The program will provide you with skills that will enable you to:

1. Compute Reasonable Collection Potential (RCP) for OICs in light of the new rules established in May 2012;
2. Determine acceptable Installment Agreement levels;
3. Determine whether a taxpayer qualifies for Currently Not Collectible Status;
4. Advise your clients regarding pre-submission planning for OICs; and
5. Become knowledgeable regarding the practical considerations.

Typically, this program runs from 100 - 125 minutes in length.

Navigating the IRS

Description:

This segment covers how to represent your clients before the IRS, from the first phone call through the resolution of the problem. The program details the steps in a tax controversy, describes tools in dealing with the IRS, provides practical guidance in dealing with the IRS, and discusses alternative resolution scenarios in dealing with collection matters. Handouts include numerous sample letters, such as penalty abatement letters, engagement letters, Examination Appeals, Request for Third Party Contacts, FOIA requests, and filled-in IRS forms (i.e., 2848, 8821, 9423, 12153, 911). The program will also discuss the current status of Streamlined Installment Agreements and Levy Withdrawals.

Typically, this program runs from 60 - 100 minutes in length and the topics can be tailored to the specific audience.

Each of these programs is regularly updated as the IRS landscape changes. If your professional group wishes to have Marty speak to your group on either of the topics above, please contact Joann Cleary of our office.

Dates and topics being presented to tax professionals are as follows:

August 29, 2013

Long Island University
Civil and Criminal Tax Controversy Updates for 2013
Lorber Hall, Room 100, Brookville, NY
Contact: Vincentia Simon at 516-299-2513
Topic: Navigating the IRS
Times: 11:00 a.m. - 12:00 p.m.
Click here to Register Now!

December 4, 2013

NJSCPA Middlesex/Somerset Chapter
Holiday Inn, Somerset, NJ
195 Davidson Ave, Somerset, NJ 08873
Contact: Theresa Hinton at 973-226-449
Topic: Offers in Compromise & Navigating the IRS
Times: 8:15 a.m. - 12:00 p.m.
(Registration 7:30 a.m. -8:15 a.m.)
Click here to Register Now!

December 12, 2013

Baruch College
Zicklin Tax Series 2013
Baruch College
55 Lexington Ave, New York, NY
Contact: Matthew LePere at 646-312-3231
Topic/Times: (to be determined)

With warm regards,

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