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AlaskaUSA
TrustNotes
A publication of Alaska USA Trust Company
January 2005 • Vol. 5, No. 1

Beneficial tax changes for the new year

Things are looking up for taxpayers in 2005. The Working Families Tax Relief Act of 2004 includes a number of changes in the federal tax law that could reduce your 2005 taxes. Here's a brief rundown of key provisions.

■ **10% bracket.** Individual taxpayers will enjoy a low 10% rate on more of their taxable income in 2005 because of a provision repealing a scheduled reduction in the 10% bracket.

■ **15% bracket.** Married individuals filing jointly will also see more of their income taxed at 15% (the next highest rate). Congress made this change to extend relief from the "marriage penalty" – quirks in the tax law that frequently result in a married couple paying more tax than they would as two single individuals earning the same incomes.

■ **Standard deduction.** The basic standard deduction for married joint filers will be twice that of single filers, also an extension of marriage penalty relief. The standard deduction is claimed by taxpayers who don't itemize their deductions.

■ **AMT exemptions.** The alternative minimum tax exemptions for individual taxpayers will remain at 2004 levels. They had been scheduled to decrease.

■ **Child tax credit.** The credit for dependent children under age 17 will remain at $1,000 per child. It was to have dropped to $700. The credit is subject to phase out at higher income levels.

■ **Clean-fuel car deduction.** The maximum deduction for purchasing a hybrid (or other clean-fuel) auto will be $2,000 – twice the deduction ceiling that was to have applied.

■ **Business credits.** A few business tax credits have been extended: the research credit, the work opportunity tax credit, and the welfare-to-work tax credit.

■ **Computer donations.** Also of interest to businesses, the enhanced deduction for donations of computer technology and equipment to U.S. schools and libraries has been extended. The deduction is available only to C corporations.

Dobbs named Senior Vice President

Alaska USA Trust Company has promoted David Dobbs to the position of Senior Vice President, Personal Trust Services. Dobbs has been with the Trust Company as Vice President of Trust Services since 2001. He has an extensive background in all aspects of personal trust, managed agencies, individual retirement accounts, estate administration and investment management and counseling. Dobbs is also active in professional associations and community groups, including the Anchorage Estate Planning Council, the National Association of Insurance and Financial Advisors, the Fairbanks Estate Planning Council, the Anchorage South Rotary Club and the Western Alaska Council of the Boy Scouts of America.

"My varied experience has given me valuable insight into client needs and the importance of understanding that each individual's assets are unique," said Dobbs. "Our approach at the Trust Company is to work closely with clients to find the right mix of investments and trust services to serve their needs now and into the future."

Prior to joining Alaska USA Trust Company, Dobbs was Vice President, Regional Trust Manager, Private Client Services for Wells Fargo Bank Alaska. He holds a BA in government and history and a BBA in business management from Texas Christian University.

Early retirement plan payout means tax decisions

Retirement is just one of many events that can trigger a retirement plan distribution – changing jobs, getting laid off, or losing a job due to a merger or acquisition are just a few other examples. Today, it is not unusual for a person who is years away from retirement to suddenly find him- or herself with a lump-sum plan payout of $50,000, $100,000, or more.

If you receive an early distribution of your retirement plan funds, you have to make some important decisions about what to do with your money. Income tax considerations may play a large role in this process.

Immediate and Full Taxation

The first alternative requires you to include the entire taxable amount in your income in the year you receive it. That amount is taxed at your ordinary income tax rate.

Note that when the distribution takes place before age 59½, it may also be subject to a 10% early withdrawal penalty in addition to income taxes. There are a number of exceptions to the penalty, however.

Rollover

Another alternative is to "roll over" the taxable portion of the lump-sum distribution to an Individual Retirement Account (or a new employer's eligible plan). You won't owe any tax or penalty on the amount distributed until it is withdrawn from the rollover IRA or plan. Earnings on the rolled-over distribution continue to be tax-deferred. But you must make the rollover within 60 days after your payout, or you forfeit your ability to do so. Therefore, you must decide fast what tax route you want to follow.

Be aware that distributions other than lump-sum distributions also may qualify for rollover treatment. An "eligible rollover distribution" is defined as any distribution from a tax-qualified plan other than: (1) one of a series of annuity payments made at least once a year for life; (2) one of a series of substantially equal payments made at least annually over a specified period of ten years or longer; or (3) a required minimum distribution made after age 70½.

All eligible rollover distributions are subject to a 20% withholding tax unless the distribution is directly transferred from the paying plan to the rollover IRA or plan. Thus, if you want to roll over your distribution, you should arrange with the paying plan for a direct transfer. If you receive the money, even if you intend to roll it over, withholding is mandatory. While the withheld amount may be refundable to you on filing your tax return, you could be left in a situation where you need to make up the withheld 20% from other funds in order to make a full rollover within the 60-day period.

Determining the most favorable tax treatment is just the first step. Often – especially when a distribution has been rolled over to an IRA – the investment of the fund is left in the hands of the recipient. However, Alaska USA Trust Company can help you determine the right step for your unique situation – to make your payout pay off in the long run.

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