# Newsletter

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# Tax Filing Reminders

- **August 1 –** Deadline for filing retirement or employee benefit returns (5500 series) for plans on a calendar year.
- **August 15 –** Deadline for filing extended 2004 individual income tax returns. A second extension to October 17 is available only if the IRS approves your request for additional time to file.

## Update your documents when events change your situation

Although life's only certainties may be death and taxes, we rarely enjoy planning for them. But without planning, your assets can go to unintended recipients – including the government.

1***Only the first step.*** Naming your beneficiaries is only the first step. It's just as important to periodically review the beneficiaries designated by your will, insurance policies, investment accounts, retirement plans, and similar documents. Examine each document carefully, because some assets may pass to the beneficiaries named in the governing document, regardless of the terms of your will.

***Example:*** You name your husband as sole beneficiary in your will, on your life insurance policy, and in your 401(k) plan. After a few years, you divorce and remarry. You remove your ex-husband from your will and name your new husband as the insurance beneficiary, but you forget about the 401(k) plan. The result: When you die, your ex-husband probably will inherit the plan assets.

Events that might require changing beneficiaries include marriage, birth, divorce, death (e.g., of a beneficiary), increases or decreases in your wealth, changes in tax law, or simple changes of heart. Even in the absence of a triggering event, it's wise to review your designations regularly. A beneficiary may have fallen out of favor. A once-needy beneficiary may have become wealthy, enabling you to divert your assets elsewhere. Ongoing changes to estate tax law may mandate different approaches to beneficiary selection.

1***Where to start.*** When reviewing your beneficiary designations, start by listing the relevant documents. In addition to your will, personal life insurance, and active retirement plan, include employer-provided life insurance and life insurance associated with services such as credit cards, medical plans, and trade associations. You'll also need to look at stock purchase plans, stock option plans, and similar benefit programs.

If you haven't reviewed your beneficiary designations lately, think about doing it soon. For assistance in your review, please contact us at 610-544-1094 or 610-544-4600.

# Enjoy tax breaks when you hire family

Finding good employees for a growing business can be difficult. One solution is to consider hiring your spouse and/or children to fill job openings. As a business owner, you may realize valuable tax benefits by taking this approach. But there are some potential problems to avoid.

***The basic rules***

1*Pay must be "reasonable."* Look at what you would pay an outsider to do the same work. Also take into account your child's age, skills, and any previous work experience when you set the wage for the job.

2*Work performed must be necessary to the business.* The work performed must relate to your business, and duties should be clearly defined.

3*The family member must be treated as an employee.* Keep the same records, such as time sheets, that you would for any employee. Use your business's standard payroll system to pay family members and generate tax reports.

Besides the deduction for wages, there are other tax benefits when you employ your spouse or children. Consider the following.

***Hiring your spouse***

1*You may already be paying extra for health insurance coverage for your spouse.* By hiring your spouse, you can cover him or her as an employee. The business pays the premiums and gets the deduction for the expense. You may also be able to establish an additional medical reimbursement plan to pay for uninsured family medical expenses with pre-tax dollars.

2*Retirement plan benefits may be earned.* Wages paid are subject to social security taxes, potentially increasing your spouse's future benefits. Your spouse may also be entitled to participate in your business's qualified retirement plan.

***Hiring your children***

1*Income taxes can be reduced.* Shifting business earnings to wages can turn your high-taxed income into tax-free or low-taxed income at your child's rate.

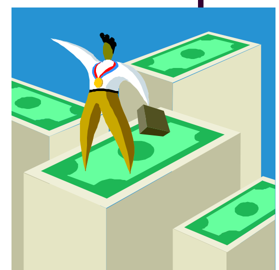
2*Payroll taxes can be saved.* For an unincorporated sole proprietorship, there are no FICA (social security and Medicare) taxes for your children under the age of 18. Also, a similar exemption for federal unemployment tax applies to your children under 21.

3*Another benefit to employing your children* is that they will be eligible to contribute the lesser of their wages or $4,000 to either a traditional IRA or a Roth IRA each year. Contributing to a traditional IRA can increase the child's annual tax-free wages (to $9,000 for 2005). Contributions to a Roth IRA are not deductible when made, but they will provide the child with decades of tax-free earnings growth. When the child takes qualifying distributions from a traditional IRA, the money will be subject to income tax, whereas qualifying distributions from Roth IRAs are tax-free.

Employing family members can be beneficial in many ways. To be sure you're complying with federal and state laws, please contact us at 610-544-1094 or 610-544-6400.

# No, you're probably not saving enough

How much money did you save last year? If you didn't save at least 10% of your earnings, you didn't save enough. If your savings in 2004 fell short, take charge of your financial future right now and start saving more money.



Saving money doesn't have to be hard work. Here are some tips to help you get started and stay on track.

***Set goals.*** To give your savings purpose, set specific financial goals. It's advisable to have an emergency fund of six months' living expenses to cover anything that may catch you by surprise. Other saving goals may include a college savings fund, vacation fund, or a fund for major purchases.

***Treat your savings as your most important monthly bill.*** Write a check to savings first, or have your savings automatically deducted from your checking account or paycheck.

***Tax-deferred retirement accounts offer a smart way for you to save money for retirement***. If your employer offers a 401(k) or SIMPLE retirement plan, contribute the maximum amount allowed. If your employer offers no plan, contribute to an individual retirement account (IRA). The money you contribute to a retirement account can reduce your taxable income and grow tax-free until withdrawn.

***When it comes to saving, think "control."*** For example, control the use of your credit cards. The amount you pay each month in finance charges could go to savings instead. Also, control the use of your ATM card. Get in the habit of giving yourself a regular cash allowance, and try to live with it.

For help in setting financial goals and developing a savings plan, please contact our office at 610-544-1094.

# Wedding bells bring tax concerns

If you're walking down the aisle this summer, don't wait too long after the wedding to spend a little time on tax matters. Here's a checklist of things to consider:

- If you've taken your spouse's last name or hyphenated your last name, you need to notify the Social Security Administration. The agency will link your new name to your social security number and issue a new social security card.
- If you move to a new home, send a change of address to the IRS, the financial institutions where you've had accounts this year, and current-year employers. Then your W-2s, year-end tax forms, and IRS notices will find their way to you.
- Your marital status for tax filing is determined by your status on the last day of the year. Calculate the impact of the marriage penalty to see whether you need to change your income tax withholding. File a new Form W- 4 with your employer's payroll department to notify them of your name change and any withholding change.
- Update your will and other estate planning documents. Don't forget to review the beneficiaries on your IRAs, 401(k) plan, and life insurance policies. You'll want to make sure your documents are updated and taxes are minimized in the event of your disability or death.

Many of these suggestions don't apply just to marriage. Divorce or the birth of a child are similar major life events that will affect your taxes. For assistance with your tax planning relating to any of these events, please contact our office at 610-544-1094 or 610-544-4600.

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**We hope you are enjoying your summer!**

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