

Listed below are some important age-related tax and social security milestones that you should keep in mind. Many of these milestones present tax-saving opportunities.

Age-related Tax & Social Security Milestones

Age 0-23: The so-called Kiddie Tax rules can potentially apply to your child's or grandchild's investment income above a specified amount until the year he or she reaches age 24. For 2011, the investment income threshold is \$1,900.

Age 50: If you're age 50 or older as of the end of the year, you can make an additional catch-up contribution of up to \$5,500 for 2011 to your 401(k), Section 403(b), or Section 457 plan, or up to \$2,500 for 2011 to your SIMPLE plan, assuming the plan permits catch-up contributions. You can also make an additional catch-up contribution of up to \$1,000 for 2011 to your traditional or Roth IRA.

Age 55: If you permanently leave your job for any reason, you can receive distributions from the former employer's qualified retirement plan(s) without being hit with the 10% premature withdrawal penalty tax. This is an exception to the general rule that the taxable portion of qualified retirement plan distributions received before age 59½ are subject to the 10% penalty tax.

Age 59½: You can receive distributions from all types of tax-favored retirement plans and accounts [e.g., IRAs, 401(k) accounts, pensions] and from tax-deferred annuities without incurring the 10% premature withdrawal penalty tax. Before age 59½, the 10% penalty tax will hit the taxable portion of distributions unless an exception to the penalty tax applies.

Age 62: You can choose to start receiving social security retirement benefits; however, your benefits will be lower than if you wait until reaching full retirement age, which is age 66 for those born between 1943 and 1954. If you also work before reaching full retirement age, your 2011 social security retirement benefits will be further reduced if your income from working exceeds \$14,160 for 2011.

Age 66: You can start receiving full social security retirement benefits at age 66 if you were born between 1943 and 1954. You won't lose any benefits if you work in years after the year you reach age 66, regardless of how much money you make in those years. However, if you will reach age 66 this year, your 2011 benefits will be reduced if this year's earnings exceed \$37,680.



Age 70: You can choose to postpone receiving social security retirement benefits until you reach age 70. If you make this choice, your benefits will be higher than if you started earlier.

Age 70½: You generally must begin taking annual required minimum distributions (RMDs) from tax-favored retirement accounts [e.g., traditional IRAs, SEP accounts, 401(k) accounts] and pay the resulting income taxes. (However, you need not take any RMDs from Roth IRAs set up in your name.) The initial RMD is for the year your turn 70½, but you can postpone taking that one until as late as April 1 deadline (the RMD for the previous year), plus another by December 31 (the RMD for the current year). For each subsequent year, you must take another RMD by December 31. There's one more exception: if you're still working after reaching age 70½ and you don't own over 5% of the employer, you can postpone taking any RMDs from the employer's plan(s) until after you've actually retired.

If you are affected by any of these age-related milestones, or if you think your estate plan needs some updating, please contact us if you have questions. This article was based on a newsletter from Anderson, Tackman & Associates CPAs of Marquette, MI.