THE ECONOMIC RECOVERY ACT

Starting in 1982, the economic recovery act has increased the maximum deductable IRA contribution from $1,500.00 to the present $2,000.00 of tax deferred money for retirement. This amount can be increased to $2,250.00 for any non-working spouse so long as the couple file a joint return for the year. Before 1982, this plan was designed for any person without a qualified company or government pension plan. This year any person who earns at least $2,000.00 can put in the maximum amount.

The higher a person's tax bracket becomes, the more attractive the IRA program. For example: A person in the 40% tax bracket can invest $2,000.00 in an IRA account and this will lower taxes $800.00 for that tax year. The net cost to the person will be $1,200.00 of his hard earned money. All of the monies are allowed to accumulate, tax deferred until the person reaches 70½ years old at which time withdrawals must start, however a person may start withdrawing funds at 59½ without penalty. For example: $2,000.00 per year, 12% compounded annually for the next 20 years will gross you a tidy sum of $146,171.64. Along with your 40% tax bracket deductions of which you deducted $800.00 per year from Uncle Sam on your income tax, the total cost of your retirement plan is $24,000.00.

You now have a retirement program of your principle and interest of $146,171.64. The total cost of this program has cost you a mere $24,000.00 and 20 years of work and investing.

Here are some of the problems of the IRA Retirement plan:

1) The age limits are 59½ years old, the earliest one can draw out of the account and 70½ the latest one can begin to draw out of the account.

2) If for some reason would you need some of the money to meet a financial crisis, the penalties are very severe. This penalty is 10% of the amount withdrawn and the monies are taxed as ordinary income for that year.

3) The only other way of drawing some of the money out of your IRA account would be if a person becomes disabled before reaching the earliest age of 59½ years old.

4) The last draw back of an IRA account: the money cannot be used as collateral for loans of any nature. If this is found to be true, the full account is penalized 10% and immediately taxed as ordinary income. The only good part of this arrangement is - no creditors can reach the IRA assets.

401 K DEFERRED-SALARY PLAN

The 401 K Deferred-Salary Plan has come of age during the fall of 1981. This qualified salary reduction plan allows employees to take a phantom pay cut. This phantom pay cut will lend itself to a better W-2 report on his or her gross income. By lowering the taxable income, the employee will be saving on his state, local and federal income taxes. The deferred salary reduction plan allows a worker to take 2% to 15% off the top of his wages and treat it as a company contribution to a profit sharing or savings plan.

Like any plan, this 401 K Deferred-Salary Plan has some draw backs: 1) When a club or business wants to instrument this plan, all of the employees of said club must use the same percentage of deferred salary. For example: if the number is 10%, then the same percentage must be allowed for everyone. The IRS will be meeting in April or May, 1982 to make final ruling covering the highly compensated employees of which the golf course superintendents would be classified.

For example: an individual who earns $25,000.00 a year, married and has 2 children, assuming the individual contributed 5% of the 401 K Plan and using the 1981 federal tax rates, his take home pay would be $20,290.00 using after tax dollars. Using pre-tax dollars, take home pay would be $20,619.00 and still have a contribution of $1,250.00 to the 401 K Plan.

With the 401 K Deferred Salary Plan, one could possibly put away a lot more money for retirement in a shorter period of time. From the research, I understand a person could use the 401 K Plan and IRA retirement account at the same time. This would depend on the person and the amounts one would want to put away, so get your club involved.

With the higher pay the superintendents are receiving today, everyone should be checking out all avenues. The 401 K could be a super program for the whole club operation. The more we hear about social security and the future of the social security program, the more I am convinced that I should set up my old age retirement programs.

The 401 K Deferred Salary Plan has some very good points of interest. 1) The money can be used during a financial crisis (no penalties). Money can be withdrawn for retirement before the age of 59½. The IRS has not stated what it considers a hardship. At most companies, an employer committee will determine what constitutes hardship on a case by case basis. 2) The monies are available when the employee retires, quits or is fired. 3) The money can be taken out in one lump sum and then can use the special 10 year forward averaging. With an IRA account you can use only regular income averaging.

The 401 K Deferred Salary Plan should cause no problems to the company employees or the company, most experts say.

One of the problems that could arise is the anti-discrimination test. The IRS states that the top ⅓ of the employees, the highest paid employees in the company cannot defer more than the lower ⅔ of the employees paid. In this case if a plan doesn't meet the test or qualify, an individual could end up paying the taxes that would otherwise have been due on the deferred amount. Social Security taxes - if an employee's income after deferred salary plan is less than the taxable wage base ($32,400.00) the employee may lose some of the benefits from social security.

Here are some examples of income that is not taxable.

1) Accident & health insurance proceeds, unless they were reimbursement for medical deduction claimed in previous year.

2) Casualty insurance proceeds, as long as they do not exceed the basic cost of the property.

3) The first $5,000.00 in a death benefit paid by employer upon death of an employee.

4) Up to $1,000.00 annually in interest received from an insurance company upon death of a spouse, if survivor has elected to receive the insurance proceeds on installments.

5) Life insurance proceeds.

6) Scholarships and fellowship grants.

7) Gift, inheritances, bequests.

8) Workman's compensation disability income.

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