

## 2002 PRATT & ASSOCIATES NEWSLETTER UPDATE

### I. NEW YORK STATE DEFERRED COMPENSATION PLAN

In the past, the NYS Deferred Compensation plan has been issued as a W-2 and NYS residents (age 59 ½ or older) have been unable to reduce their taxable income on their personal NY State tax returns.

The commissioner of taxation and finance issued a new advisor opinion, on July 24, 2002 regarding the tax treatment of the NYS Deferred Compensation plans. The deferred comp distributions will be treated as pension and annuity income as of 1/1/02 and therefore will qualify for exclusion up to \$20,000 for a taxable year. Taxpayer's must be at least 59 ½ years, the distributions must be made in periodic payments and the distributions must be included in federal adjusted income. To view the entire article click here. [http://www.tax.state.ny.us/pdf/Advisory\\_Opinions/Income/A02\\_2i.pdf](http://www.tax.state.ny.us/pdf/Advisory_Opinions/Income/A02_2i.pdf)

### II. STATE RUN COLLEGE SAVINGS PLANS

The new State run college savings plans, also called Section 529 plans, are available for individuals to invest for their child's college expenses. The funds may be used at any school you choose and for all qualified higher education expenses, including room and board. The investments (interest, dividends & capital gains) earned, while in the account, are federally tax-free, along with the distributions as long as they're used to pay college expenses. You also may qualify for State tax deductions, if you invest in your own state's 529 plans.

There are some contribution limits associated with this type of investment. Generally the investment minimums are low at about a \$25 per month. Each state determines it's own lifetime contribution limit, ranging between \$100,000-\$270,000.

Section 529 plans are treated as the parent's assets until the money is with drawn, and parent's assets are assessed at the lowest possible rate for financial aid purposes; however, the 529 plans gains are treated as the student's income for purposes of financial aid. This means about 50% of the students income is considered available to pay college expenses. A way to avoid the financial aid trap is to wait and withdraw the section 529 funds until the last few years of college. For more on the section 529 savings plans click on the link below.

<http://money.cnn.com/pf/college/features/529plan/>

### III. NYS TAX RELIEF FOR VICTIMS OF THE TERRORIST ATTACKS OF SEPTEMBER 11, 2001

Under the new law those who perished as a result of the terrorist attacks are generally exempt from the NYS, New York City and Yonkers personal income tax for both the 2000 & 2001 tax years. Surviving spouses, personal representatives or executors of September 11<sup>th</sup> victims may file amended personal income tax returns for 2000 and 2001 to claim a refund of tax paid.

#### IV. 2002 IRA CONVERSION

Due to the decrease in most taxpayer's Individual Retirement Accounts in 2002, it may be a good time to convert their deductible Traditional IRA's to non-deductible ROTH IRA's. When you convert a traditional IRA to a ROTH IRA you pay tax on the amount of the conversion and since the stock market has been in a recent decline, your tax liability would be reduced. In order to convert your Traditional IRA to Roth IRA you must have an adjusted gross income of under \$100,000 (not including the conversion). Please keep in mind that you should consult your tax professional before you decide to convert your IRA's to determine if it is advantageous to your tax situation.

REMEMBER, THE TOPICS COVERED IN THIS NEWSLETTER ARE AN ABRIDGED VERSION TO THE ACTUAL TAX LAWS AND CODES COVERED BY THE IRS AND NEW YORK STATE. THEREFORE, SOME INFORMATION MAY BE SUBJECT TO CHANGE ON A CASE-BY-CASE BASIS. IF YOU HAVE ANY QUESTIONS REGARDING THE ABOVE INFORMATION PLEASE EMAIL US AT [KSPNBRG@NYCAP.RR.COM](mailto:KSPNBRG@NYCAP.RR.COM).