

The great 401(k) tax hedge: relief for any size office

AS BUSINESS OWNERS manage through the tough economy, a new challenge is waiting just around the corner: higher taxes in 2011. To soften the impact of this unexpected hit, many businesses are proactively turning to 401(k) plans that can help them hold on to more of their income.

“Thanks to our relationship with ShareBuilder 401(k), Costco members who own a business have access to low-cost 401(k) plans designed to help any size office receive tax and saving benefits,” says Jim Goforth, insurance and investing services manager of Costco Services.

New taxes expected in 2011

A business owner, and anyone for that matter, who falls into the 33 or 35 percent tax brackets is likely to experience increased tax rates next year of 36 or 39.6 percent respectively, explains Jim. Additionally, long-term capital-gains tax rates for high earners are also scheduled to shift from 15 to 20 percent, with dividends to be taxed as ordinary income at

each individual’s highest marginal tax rate (versus the current 15 percent). Even the new healthcare bill has provisions that allow for a new Medicare tax of 3.8 percent on investment income starting in 2013.

How 401(k)s can provide relief

“401(k) plans offer employees and owners two great ways to protect more money from taxes,” says Stuart Robertson, general manager of ShareBuilder 401(k). “The first way is contributing pretax, which helps you save on taxes in the current year, and the second is after-tax savings in a Roth 401(k), which helps hedge against future tax increases.”

401(k)s help participants to lower their current-year taxes through personal contributions of up to \$16,500 pretax and \$22,000 for those older than 50 years of age. This money is not taxed until it is withdrawn in retirement. By adding an optional company match and/or profit sharing, employees have the ability to

put and receive up to \$49,000 a year—or \$54,500 if they are older than 50—into their accounts. Savings in this range can trigger the added benefit of lowering one’s tax bracket!

“For those who expect to increase their income over time or are concerned about future tax increases, the Roth 401(k) option can make a lot of sense,” says Jim. “By paying taxes upfront on Roth 401(k) contributions, these savings are never taxed again—earnings and all—as long as monies are not accessed until [the fund’s owner is at least 59½ years of age.”

For more information, go to Costco.com and type in “401(k)” in the search box, or call 1-800-239-2152.—*T. Foster Jones*

