

Tax breaks will be ended for lump sums

The proposed tax law provides for the repeal of the popular 10-year forward averaging rule. In this column we will discuss this rule and suggest a strategy for taking advantage of it prior to 1987.

How It Works

If you have been a member of a plan for less than five years, you qualify for 10-year averaging. Under this rule, the portion of your payout that is taxed as ordinary income is exempted from tax and is not included in your income.

However, the tax is computed as if the income had been received over 10 years instead of all at once. And if the payout is less than \$70,000, part of the payout may be tax-free due to what is known as minimum distribution allowance.

Here is an example. You take the entire lump sum distribution, minus any minimum distribution allowance, and divide it by 10.

To the result, you add \$2,480 and compute tax on the total using the

tax rates for single individuals even if your filing status is different from that of a single individual.

You multiply the result by 10 to arrive at the tax on your lump-sum distribution. This tax is then added to the tax on your income for the year.

If you participated in this plan before 1974, your payout is divided into two portions.

The first portion is composed of profit-sharing accumulations prior to 1974. The other portion is made up of accumulations attributable to your planned years after 1973.

Each portion is taxed differently. The pre-1974 accumulation is taxed as long-term capital gain. The post-1973 portion is taxed under the 10-year averaging rules discussed above.

The 10-year forward averaging rule will always produce a tax liability lower than if this rule was not applied.

finances and you

Sid Mittra



Alternative to an IRA rollover

You do not have to receive a lump sum distribution of your profit sharing money. If you do not have the need for a large sum of cash at retirement, you may roll over the lump sum into an IRA.

If you complete this rollover within 60 days of the receipt of the lump sum distribution, you owe no current tax on the payout. The tax is payable only as you withdraw cash from the IRA.

It is important to note that all amounts withdrawn from an IRA are taxed as ordinary income, and they are not eligible for 10-year forward averaging. However, by spreading out the IRA withdrawals over, say 15 years, you will in effect be averaging out the tax over 15 years.

Since the typical retirees' tax rate is 15 percent, you will only spread out the tax but not as well.

Here is an example to demonstrate the difference between lump sum distribution and IRA rollover.

Let's assume that John Client received a lump sum distribution of \$200,000 from his profit sharing account. At current tax rates, 10-year averaging results in a tax of \$36,922, leaving a balance of \$163,037 a year.

If, however, Mr. Client rolls over his account balance into an IRA, the entire \$200,000 will be available for investment. If the IRA earns the same 10 percent, John Client's annual income will be \$30,000.

It should be noted, however, that while the \$20,000 a year could be accumulated within the IRA tax deferred, upon distribution of IRA money, John Client would have to pay ordinary income tax on his entire IRA balance.

10-year forward averaging and the proposed tax law

Here are the arguments for adopting the 10-year forward averaging rule this year:

1. The new tax law proposes to repeal this rule (with certain exceptions or modifications).

2. If you wish to use 10-year forward averaging, you must do so at the time of the payout, not later.

3. If you roll over a lump sum into

an IRA and have a significant amount of cash withdrawn in a few years, you will end up paying a lot more tax than you would if you used the 10-year forward averaging rule today.

Once you roll over your money into an IRA, you lose the 10-year averaging break permanently.

However, don't take this topic lightly. Consult your financial planner before you decide what's best for you.

Education seminar: "Impact of Proposed Legislation on Your 1986 Investment, Tax and Retirement Planning." The seminar, sponsored by Oakland University & Economic News papers and Coordinated Financial Planning Inc., will be held 7:30 p.m. Thursday, Sept. 11, at the Bloomfield Township Library, 1099 Lone Pine, Bloomfield Hills.

To register, call 843-8888.

Sid Mittra is director of certificate program in personal finance at Oakland University and president of Coordinated Financial Planning Inc.

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DOMINO SPEAKER
Saturday, Aug. 26 — Harold Solomon, national director of research and development for Domino's Pizza, will address the greater Detroit and Ann Arbor chapters of the American Society for Quality Control at 5 p.m. Saturday, Aug. 26, at the Tiger meeting room, 1401 Michigan, Detroit. He will speak on quality aspects of fast-food service.

WOMEN ACCOUNTANTS

Tuesday, Aug. 26 — The American Society of Women Accountants will meet at 6:30 p.m. in Southfield. Information: Devaria Smith, 595-8919.

QUALITY ENGINEERING

Saturday, Sept. 6 — Quality engineering/engineering-in-training refresher course offered Saturdays at Lawrence Institute of Technology in Southfield. Non-member fee: \$350. Information: Roderick Munro, 246-9248. Sponsor: American Society for Quality Control.

INTERNAL AUDITING

Saturdays, Sept. 6-Nov. 8 — Certified Internal Auditor examination review program offered from 8 a.m. to noon in Rochester. Fee: \$50-\$100. Information: 370-3120. Sponsor: Oakland University.

GRADUATE RECORD

Saturday, Sept. 6-Nov. 8 — Graduate Record Examination preparation workshops offered from 9 a.m. to noon in Rochester. Fee: \$425. 24 hours of continuing education units. Information: 577-1449. Sponsor: Wayne State University management center.

SUPERVISION COURSE

Tuesdays, Sept. 9-Oct. 28 — "Basics of Supervision" offered from 9 a.m. to noon in Detroit. Fee: \$425. 24 hours of continuing education units. Information: 577-1449. Sponsor: Wayne State University management center.

SUPERVISION COURSE

Wednesday, Sept. 10-Oct. 29 — "Basics of Supervision" offered 6:30-9:30 p.m. in Detroit. Fee: \$425. 24 hours of continuing education units. Information: 577-1449. Sponsor: Wayne State University management center.

LEADER EFFECTIVENESS

Thursdays, Sept. 11-Oct. 30 — "Leader Effectiveness Training" offered 6:30-9:30 p.m. in Detroit. Fee: \$495. 24 hours of continuing education units. Information: 577-1449. Sponsor: Wayne State University management center.

DIRECT MARKETING

Thursday, Sept. 18 — One-day seminar on techniques and future of direct marketing offered at the Michigan Inn in Southfield. Information: Sheryl Randolph, 335-6153. Sponsor: Direct Marketing Association of Detroit.

INTRODUCTION TO PCs

Wednesday, Sept. 24 — "Introduction to Personal Computers" will be offered 8:30 a.m. to 4:30 in Detroit. Fee: \$175. Information: Claudia, 577-1449. Sponsor: Wayne State University management school.

HOME & ENERGY SHOW

Thursday-Sunday, Sept. 25-28 — Home and energy show runs for four days in Detroit. Information: 569-8280.

BASIC SUPERVISION

Wednesday, Oct. 1 — "Basic Supervision" offered from 9 a.m. to 4:30 p.m. in Troy. Fee: \$225. Information: Clark E. Dehaven, 1-800-428-4284. Sponsor: Michigan State University.

CUSTOMER SERVICES

Monday-Tuesday, Oct. 6-7 — "How to Manage the Customer Service Department for Results" offered from 9 a.m. to 4:30 p.m. in Troy. Fee: \$595. Information: Clark E. Dehaven, 1-800-428-4284. Sponsor: Michigan State University.

Phoenix Group Inc., a direct marketing advertising agency in Farmington, won the "most unique offer" award for its Lincoln-Mercury Leasing Division floppy disk at a recent Direct Marketing Association of Detroit awards ceremony.

Sanders, the 111-year-old bakery, has relocated its Bloomfield Township store in the same shopping center, Bloomfield Plaza, at Maple and Telegraph.

A MainStreet store is under construction at Oakland Square in Troy and is scheduled for completion by the end of the year.

Book Courses Travel of Southfield has chosen Hermanoff and Associates of Farmington Hills as its public relations agency.

Digital Signal of Southfield will provide fiber optic transmission capacity to Metromedia Long Distance Inc. of Fort Lauderdale, Fla.

Metric Medical Labs of Southfield has become the preferred provider of laboratory services for 50,000 Chrysler Corp. employees.

Simons Michelson Zieve Inc. of Troy has been named the advertising public relations agency for Fretter Inc.

First National Capital of Birmingham recently ranked 42nd on the

1985 500 list by Inc. magazine.

AGUSTA PUBLIC RELATIONS of Birmingham has become the agency of Service Station Dealers Association of Michigan and Auto Alert, parent company of the Safe-N-Secure retail security outlet at Oakland Mall.

Metric Medical Labs of Southfield has become the preferred provider of laboratory services for 50,000 Chrysler Corp. employees.

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Comerica	5.50
Empire of America	5.73
First Federal of Michigan	5.50
First of America	5.50
Manufacturers	5.45
Michigan National of Detroit	5.50
National Bank of Detroit	5.50
Standard Federal	5.65

*Based on 12,500 accounts. Some accounts are higher than others. Some accounts are lower than others. Some accounts are higher than others. Some accounts are lower than others.

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Empire of America's Stock Subscription Offering ends August 22.

If you intend to order Empire of America stock during the Subscription Offering period, we must receive your fully completed Subscription Order Form and payment in full at any Empire of America office before 5 P.M. Eastern Time, Friday, August 22. Subscription Order Forms and Offering Circulars are available at the nearest Empire of America office.

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Before you make any investment decision, carefully review the subscription offering circular and make your decision based on its contents only.

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