ALLIANT ADVISORS
FIND DIRECTION

The Navigator

Important Markers To Guide Your Way

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Welcome! At Alliant Advisors we have the passion to help our clients Find Direction for both business and personal goals. To support this promise we will continue to send you bits of helpful and useful information through e-mail to keep you up to date on any current changes, due date reminders or other information that may be relevant to your specific needs.

We hope you will enjoy and value this information. If you do not wish to receive this information by email please respond to this message and we will remove you from our list. For more information about any aspect of our services, visit www.alliant-advisors.com or call your local office.

The Alliant Team

Should you borrow from a 401 (k) Plan?

When you need money in a pinch, it's not always possible to obtain a reasonable bank loan on short notice.

Strategy:

You can borrow from a 401(k) plan if the plan permits it. Of course, you must repay the borrowed amount with interest, but it's like repaying yourself. Unlike a hardship distribution from a qualified retirement plan, a 401(k) loan is exempt from federal income tax as well as the usual 10 percent penalty tax for withdrawals made prior to age 591/2. But the amount borrowed can't exceed the lesser of $50,000 or the *greater* of $10,000 or 50 percent of vested benefits.
Caution: Loans must be available to all participants on a reasonably equivalent basis.

Considerations include:

• Loans cannot be made available to highly compensated employees, officers or shareholders in amounts greater than those made available to other employees.
• Plans must state how to apply for loans; the basis on which the plan approves or denies loans; the limitations on types and loan amounts; how the plan determines a reasonable interest rate; the collateral that may secure loans; and an explanation of default procedures.
• Loans must bear a reasonable interest rate.
• Loans must be adequately secured. A participant may use up to one-half of his or her vested account balance.

• Loans must use level amortization and must be repayable within five years (except if used to acquire the principal residence of the participant).
• Payments must be made in quarterly installments or at more frequent intervals.

Reminder: Use this tax strategy with discretion. You should exhaust other possibilities first.

Example: Limits on 401(k) loans

Tim Engle has $500,000 vested benefits in his 401(k) account. Tim can borrow up to $50,000 from the account without triggering a taxable distribution. *Reason:* The IRS limits the loan amount to the lesser of $50,000 or 50 percent of his vested benefits. Now suppose that Tim has $80,000 in his 401(k) account. That changes the result: It limits the loan to $40,000, the lesser of $50,000 or 50 percent of his vested benefits. So if vested benefits do not exceed $20,000, a client can't borrow more than $10,000. If vested benefits exceed $100,000, that limits the loan to $50,000.

Home sales: Divide and conquer

The home-sale exclusion is one of the best and biggest tax breaks on the books. With smart tax planning, you can take maximum advantage of existing rules when you sell your home even if you arrange multiple sales of the property.

For starters, an individual can elect to exclude a home-sale gain of up to $250,000. The exclusion doubles to $500,000 for married couples filing a joint return. To qualify, the home must have been used as your principal residence for two of the last five years.

The exclusion doesn't apply if you have excluded gains from another principal residence sale within the last two years. Theoretically, you could qualify for the home-sale exclusion every two years. Similarly, the IRS doesn't impose any age requirements on this tax bonanza. And you don't have to roll over the home-sale proceeds into another home (although you can certainly do so).

Fortunately, the IRS has issued regulations that give home-sellers wide latitude when they sell vacant land surrounding a home. In brief, if you divide the property into separate parcels, you still may qualify for the home-sale exclusion on all parcels. That includes vacant-land parcels.

In other words, the home-sale exclusion may apply to a sale of a property that doesn't include the home!

Be careful to ensure that all property sales meet the strict tax laws.

If you have any questions on either strategy, feel free to call Alliant Advisors at 847-490-1040 anytime.