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A BIG BOOST FOR EDUCATION AND RETIREMENT



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Recently approved by congress and signed into law by President George W. Bush, the Economic Growth and Tax Relief Reconciliation Act of 2001 will remain a source of debate for months to come. For millions of taxpayers and investors, the law promises such advantages as more disposable income, extra savings for retirement, more tax brakes for dependents, and lower spending on childcare and college tuition.

Even though capital gains tax rates remain unchanged, individuals saving for education and investing in retirement plans received a bagful of goodies. Patrick L. Largie, head of taxation at Watson Rice LLP, a New York-based national accounting firm, asserts that African Americans will realize substantial savings from bigger tax breaks for

education and the ability to contribute larger sums to retirement plans.

For instance, he's bullish on provisions that will enable African Americans to increase their investment in educational savings plans. For example, the annual contribution limit for educational IRAs will increase from \$500 to \$2,000 in 2002 - a whopping 300% increase - and the money can be used to cover the cost of elementary school through high school, not just college and university. And more parents and guardians can be involved: the cut-off for married couples filing jointly is \$190,000 to \$220,000.

"This will allow more African American families to send children to private schools," Largie maintains, "and it will make funding education in general less of a burden."

Those who receive college loans also receive a huge break. Until recently, the interest on college loans was - in some cases - partially deductible for the first 16 months after graduation. Now, the interest is tax deductible for the life of the loan. Just think of the savings for individuals studying law, business, or medicine, where earning a degree can take between six to ten years, and cost hundreds of thousands of dollars in tuition fees.

Individuals focused on retirement savings also gain ground. Contribution limits for 401(k)s, as well as 403(b)s and 457 plans, will increase from their current level of

\$10,500 to \$11,000 in 2002, an additional \$1,000 per year for the next four years, enabling investors to max out their contributions at \$15,000 in 2006. And the new law makes the same allowances for SIMPLE plans, which will increase their contribution limit \$1,000 per year through 2005, from \$7,000 to \$10,000.

Watson Rice's Largie is equally excited about taxpayers being allowed to boost their annual contribution to retirement IRAs. Starting next year, investors can dole out \$3,000 for IRA savings. (The amount has been \$2,000 since 1981.) That increase stays in place until 2004, and then jumps to \$4,000 from 2004 to 2007. The maximum limit of \$5,000 is slated from 2008. Moreover, the tax law permits investors who are 50 years of age and older to take advantage of so-called "catch up" provisions for late starters. For example, these taxpayers will be able to make an additional \$500 to \$1,000 annual contribution to such plans.

In viewing the potential, Largie asserts: *"We have a lot of clients particularly affluent and wealthy individuals- who want to make a bigger contribution here but can't do it now. (On the flip side), this will be a big plus for African Americans because, in general, we need to save more for things like retirement."*

The new law should make such matters taxing.