Clients often wonder why we need to know their birthdates and those of their children. The tax code is full of age-related rules and we need to know when these rules kick in for you and your family members. Thanks to our friends at Practitioner's Publishing Company, we have this handy sheet to let you know some of the age-related tax milestones.

Age 0–23: The so-called Kiddie Tax rules can potentially apply to your child's (or grandchild's) investment income until the year he or she reaches age 24. Specifically, a child's investment income in excess of the applicable annual threshold is taxed at the parent's marginal federal income tax rates (typically 15% on long-term capital gains and dividends and up to 35% on ordinary income). For 2011, the investment income threshold is $1,900 (same as for 2010). A child's investment income below the threshold is taxed at very favorable rates (typically 0% on long-term capital gains and dividends and only 10% or 15% on ordinary income). Note that between ages 19 and 23, the Kiddie Tax is only an issue if the child is a student. For the year the child turns age 24 and for all subsequent years, the Kiddie Tax ceases to be a threat.

Age 18 or 21: A custodial account set up for a minor child comes under the child's control when he or she reaches the age of majority under applicable state law (usually age 18 or 21). If there's a significant amount of money in the custodial account, this issue can be a big deal. Depending on the child's maturity level and dependability, you may or may not want to take steps to ensure that the money in the custodial account is used for expenditures you approve of (like college costs).

Age 30: If you set up a Coverdell Education Savings Account (CESA) for a child (or grandchild), it must be liquidated within 30 days after he or she turns 30 years old. To the extent earnings included in a distribution are not used for qualified higher education expenses, they are subject to federal income tax plus a 10% penalty tax. Alternatively, the CESA balance can be rolled over tax-free into another CESA set up for a younger family member.

Age 50: If you're age 50 or older as of the end of the year, you can make an additional catch-up contribution to your 401(k) plan (up to $5,500 for 2011), Section 403(b) plan (up to $5,500 for 2011), Section 457 plan (up to $5,500 for 2011), or SIMPLE plan (up to $2,500 for 2011), assuming the plan permits catch-up contributions. You can also make an additional catch-up contribution (up to $1,000 for 2010 and 2011) to your traditional or Roth IRA (the deadline for making IRA catch-up contributions for the 2010 tax year is 4/15/11).

Age 55: If you permanently leave your job for any reason, you can receive distributions from the former employer's qualified retirement plan(s) without being hit with the 10% premature withdrawal penalty tax. This is an exception to the general rule that the taxable portion of qualified retirement plan distributions received before age 59½ are hit with the 10% penalty tax.

Age 59½: You can receive distributions from all types of tax-favored retirement plans and accounts (IRAs, 401(k) accounts, pensions, and the like) and from tax-deferred annuities without being hit with the 10% premature withdrawal penalty tax. Before age 59½, the 10% penalty tax will hit the taxable portion of distributions unless an exception to the penalty tax applies.

Age 62: You can choose to start receiving Social Security retirement benefits. However, your benefits will be lower than if you wait until reaching full retirement age, which is age 66 for those born between 1943 and 1954. If you also work before reaching full retirement age, your 2011 Social Security retirement benefits will be further reduced if your income from working exceeds $14,160 for 2011.

Age 66: You can start receiving full Social Security retirement benefits at age 66 if you were born in 1943–1954. You won't lose any benefits if you work in years after the year you reach age 66, regardless of how much money you make in those years. However if you will reach age 66 this year, your 2011 benefits will be reduced if this year's earnings exceed $37,680.

Age 70: You can choose to postpone receiving Social Security retirement benefits until you reach age 70. If you make this choice, your benefits will be higher than if you start earlier.

Age 70½: You generally must begin taking annual Required Minimum Distributions (RMDs) from tax-favored retirement accounts (traditional IRAs, SEP accounts, 401(k) accounts, and the like) and pay the resulting income taxes. However, you need not take any RMDs from Roth IRAs set up in your name. The initial RMD is for the year you turn 70½, but you can postpone taking that one until as late as April 1 of the

following year. If you chose that option, however, you must take two RMDs in that year: one by the April 1 deadline (the RMD for the previous year) plus another by December 31 (the RMD for the current year). For each subsequent year, you must take another RMD by December 31. There's one more exception: If you're still working after reaching age 70½ and you don't own over 5% of the employer, you can postpone taking any RMDs from the employer's plan(s) until after you've actually retired.

Conclusion

If you or a loved one are affected, or are about to be affected, by any of these age-related milestones, please contact us if you have questions or want more information. One more thing: Almost all adults should do at least some estate planning. In some cases, nothing more than a simple will may be required. If you have a large estate, taking steps to reduce your exposure to estate taxes is a good idea. Please contact us if you think your estate plan needs some updating (it probably does).