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Ask the Biz Brain

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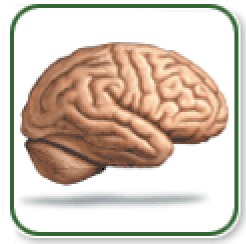

BUSINESS BRAIN
Ask The Brain

Q. I am getting laid off with a severance of 104 weeks of pay. Can I take the entire amount of the severance and be responsible for the taxes owed? Also, am I allowed to take my pension (a six-figure amount) in a lump sum payout? — Taxing issue

A. Employers have to withhold federal income taxes, says Jennifer Murray, a certified financial planner with Stonebridge Financial Advisors in Morristown.

You could change the number of dependents on your W-4 before the severance is paid, so fewer federal taxes are withheld. However, Murray says individuals are required to pay 100 percent of the previous year's tax liability or 90 percent of the current year's tax liability, whichever is lower, by making four quarterly estimated payments or withholdings from payroll.

And, Murray warns two years' pay is a lot to receive up front, and the federal tax bite will be significant, pushing you into a higher tax bracket. She recommends you withhold federal and state taxes from your severance. Then, work with your tax preparer to verify the tax withheld is enough to cover your liability.

Jody D'Agostini, a certified financial planner with AXA Advisors/RICH Planning Group in Morristown, says the government has changed the way companies calculate lump sum payouts to retirees.

First, companies calculate the amount by taking the monthly payment the retiree is entitled to and then figure how much this is worth as a lump sum in today's dollars, she says. Included in this calculation are assumptions about life span and future investment returns.

"Starting in 2008, companies can assume a higher investment return than previously used, thereby producing a smaller lump sum payment," she says.

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