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# IRA News & Tips

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## Content



## Your IRA Calender

Please mark Your IRA Calendar with the following deadlines:

- **October 17:** Deadline to recharacterize a 2010 Roth Conversion or IRA Contribution.
- **October 31:** Deadline to provide trust documentation to the IRA custodian, if the IRA owner died during 2010 and the beneficiary of the IRA is a 'qualified trust'.
- **December 30:** Deadline for certain distributions and Roth Conversions, such as :
  - ***Taking your required minimum distribution,*** *if you reached age 70½ or inherited an IRA or other retirement account before January 1 of this year.*
  - ***Separate Accounting****: If you are one of multiple beneficiaries who inherited an IRA or other retirement account during 2010.*
  - ***SEPP/72(t):*** *If you are taking distributions under a substantially equal periodic payment (SEPP) program, the full amount required to be taken for the calendar year must be withdrawn from the account by December 30.*
  - ***Roth Conversion:*** *If you plan to convert amounts from another retirement account to your Roth IRA this year, the assets must leave that retirement account by December 30.*

  The deadline for these transactions is usually December 31, but when December 31 falls on a weekend, the deadline is the previous business day.

Further explanations about these deadlines are provided in the article below, titled *"IRA Year End Planning Tips".*

Please contact our offices if you have questions about these deadlines■

## Year End IRA Planning Tips

Failing to complete certain transactions accurately, and by the applicable deadline can result in unintended complications for you and your IRA. The following are some tips that can help you with your year-end planning.

**Recharacterize Roth Conversions Timely**

If you completed a Roth IRA Conversion in 2010, by moving assets from a traditional retirement savings account {traditional IRA, SEP IRA, SIMPLE IRA, 401(k), 403(b) or pension} to your Roth IRA, and you want to undo that Roth conversion; you might have until October 17 to do so. This is referred to as a recharacterization.

Generally, the deadline for recharacterizing a Roth conversion is your tax filing due date. However, if you filed your tax return or filed for an extension by your due date, you received an automatic 6-month extension to complete your recharacterization. This 6-month extension ends on October 15 for calendar year tax filers, but is extended to October 17 this year because October 15 falls on a weekend.

***Reasons for Recharacterizing a Roth Conversion***

Roth conversions are usually recharacterized for reasons which include the following:

- *The converted amount lost market value:* For instance, assume that you converted a taxable amount of $100,000 in 2010; you would owe income tax on $100,000. Assume also that the market value has fallen to $50,000, and you don't want to pay income tax on $100,000 that now has a market value of only $50,000. If you recharacterize the conversion, it would void the Roth conversion for tax purposes.
- *You change your mind:* You might decide that the Roth conversion was not such a good idea, for personal reasons.

If you already reported the amount on your tax return, an amended tax return would need to be filed to remove the Roth conversion from your 2010 income. You would then have the option of reconverting the amount 30 days after the recharacterization has been completed. The market value of the reconversion would be included on your tax return for the year the assets leave your traditional retirement account.

**Maintain Trust Qualified Status by providing Required Documentation**

If you are the trustee of a trust that is the beneficiary of an IRA for which the owner died in 2010, you might need to provide a copy of the trust documentation to the IRA custodian. This deadline must be met if the trust meets certain other requirements that makes it eligible to be treated as an '*individual*' for distribution purposes. Under this provision, distributions can be taken over the life expectancy of the oldest beneficiary identified under the trust. Such distribution options will not be available if you miss this deadline.

**Meet Year-End Deadlines**

There are certain transactions that must be completed by the end of the year, in order for you to avoid penalties and/or take advantage of certain tax provisions. The following are some of these transactions:

- **RMD:** If you reached age 70½ or inherited an IRA before January 1 of this year, you might need to take a required minimum distribution (RMD) by December 30 of this year. If you miss the deadline, you will owe the IRS an excess accumulation penalty of 50% of the amount that you did not withdraw from the account by this deadline.
- **Separate-Accounting:** If you are one of multiple individuals who inherited an IRA during 2010, you and the other beneficiaries might be required to use the life expectancy of the oldest beneficiary to calculate beneficiary RMD amounts. This would require younger beneficiaries to take more than they would need to, had they been able to use their own life expectancies. This issue is resolved for these younger beneficiaries, if their share is put into separate accounts by December 30, as that would allow them to use their own life expectancies.
- **SEPP/72(t):** If you are taking distributions under a substantially equal periodic payment (SEPP) program, the full amount required to be taken for the calendar year must be withdrawn from the account by December 30. Failure to meet this deadline might result in a 'modification' of the SEPP, which would mean that you owe the IRS a 10% early distribution penalty on all amounts taken under the program, plus IRS assessed interest for the 10% penalty waived on amounts withdrawn during earlier years.
- **Roth Conversion:** If you plan to convert amounts from another retirement account to your Roth IRA this year, the assets must leave that retirement account by December 30.

The deadline for these transactions is usually December 31, but when December 31 falls on a weekend, the deadline is the previous business day.

Be sure to include these reminders on your list of financial transactions for the end of the year. Many IRA custodians institute their own deadlines, which are usually much earlier than the IRS established deadlines, so as to allow sufficient time to complete high volume requests. Be sure to send in your requests in advance of the above stated deadlines.

**Call Us**
These tips apply to other types of retirement accounts. Please call us if you have questions about these deadlines and/or the governing rules and regulations■

## Considerations for Trust Beneficiaries

Naming a trust as the beneficiary of your IRA can be an effective means of allowing you to continue having some control over your IRA after death. However, a trust beneficiary is not an ideal solution for every IRA owner and could negatively impact your objective if used when it is not a suitable solution. If you are faced with the task of deciding whether a trust is the most suitable beneficiary for your IRA, the following are some points for consideration.

**Practical Reasons for a Trust**
A trust may be a suitable beneficiary if you want to control how the IRA funds are spent by your beneficiaries. The following are some examples:

- **Expenditure control:** A trust can be used to control how much is spent during a given period. This is usually recommended if your beneficiary is a spendthrift, and you fear that he or she might spend all of the IRA funds too quickly. In this case, a spendthrift trust can be used to dictate how much is spent during a given period.
- **Purpose control:** A trust can be used to ensure that the funds are used for specific purposes, such as to cover education costs for children and grandchildren.
- **Protecting children from a previous marriage and providing for your current spouse:** You can set up a qualified terminable interest property (QTIP) trust to ensure that your surviving spouse receives income during his or her lifetime, and your children from your previous marriage receive the remainder after your spouse's death.
- **Financial stability for special needs beneficiary**: If your beneficiary has special needs, you can set up a special needs trust that includes provisions to ensure proper care is provided.

Generally, the proper type of trust would be determined by the purpose for which it is intended.

**Caution: Non Qualified Trusts can Kill Stretch**
One of the benefits available to a *'designated beneficiary'* of an IRA is the ability to stretch distributions over his or her life expectancy. This benefit can be severely limited if your beneficiary is not a 'designated beneficiary', which is a person or a qualified trust. If you name a <u>non</u>qualified trust as the beneficiary of your IRA, the IRA must be distributed within 5 years of your death if you die before you are required to start taking RMDs, or over your remaining life expectancy if you die on or after the date you are required to start RMDs.

To prevent distributions from being subject to such limitations, steps must be taken to ensure that the trust is a *qualified trust*. A qualified trust would be a 'designated beneficiary', which would allow distributions to be stretched over the life expectancy of the oldest beneficiary indentified under the trust. In order to be 'qualified', a trust must meet a specific set of requirements. Please contact us for a list of these requirements.

**Workarounds for Trust Beneficiaries**
There are cases in which trust beneficiaries have received approval from the IRS, allowing the IRA assets to pass-through the trust and be transferred into inherited IRAs under the beneficiaries' names and tax identification numbers (TIN), instead of the names and TINs of the trusts. Some custodians will even accommodate these pass-through transfers without IRS approval. This can be a practical solution for beneficiaries, if the trust was not intended for any purpose which cannot be served after the transfer, and in cases where keeping the assets in the trust would result in higher income tax.

**Let Us help**
If having to workaround the *trust beneficiary designation* is a necessary the solution for a beneficiary, then naming a trust as beneficiary might not be practical, and could cause the beneficiary to incur expenses for attorney services and IRS fees. Please contact us if you have questions about the rules that apply when naming a trust as the beneficiary for an IRA and/or the factors that should be considered■

## Last Year for Tax-Free Charitable Donations from IRAs

If you are considering making a donation to a charity from your IRA, you may be able to do so using the qualified charitable distribution (QCD) provision.

The QCD provision allows you to donate up to $100,000 per year tax-free from your traditional IRA, Roth IRA, or a SEP or SIMPLE IRA that will not receive a contribution for the year in which the donation is made.

**General Requirements**

In order for your distribution to qualify as a QCD, several requirements must be met. These include the following:

- You must be at least age 70½ when the distribution occurs from your IRA. If you have not already taken your required minimum distribution for the year, the QCD can be treated as (or use toward satisfying) your RMD for the year.
- The distribution must be made payable to the charity.
- The charity must satisfy certain specific requirements as defined under the tax code, which includes churches, conventions, association of churches and certain educational organizations; It does not include donor advised funds, private foundations and charitable gift annuities.
- While the QCD amount is not deductible, it qualifies to be a QCD only if the donation would have otherwise been deductible as a charitable contribution.

Unless the provision is extended, 2011 is the last year in which you can make a tax-free donation of otherwise taxable amounts from you IRA to a qualified charity. Please contact us if you are interested in using this provision■

## Questions and Answers

**Q:** I want to convert my traditional IRA to my Roth IRA this year. However, I cannot afford to pay the income tax on the entire amount in April. Can I spread the income from the conversion over two-years, similar to what was allowed for 2010 Roth IRA Conversions?

**A:** No. That provision was limited to Roth Conversions done in 2010. However, you do have the option of converting only a partial amount of your IRA. You could also convert additional amounts in later years, which would allow you to spread the taxable income from the conversions over several years.

**Q:** I started a 72(t) / substantially equal period payment (SEPP) schedule from my traditional IRA three years ago. However, while the waiver of the 10% percent penalty is attractive, the SEPP is depleting my account much faster than I expected, due to market losses on investments. Can I stop the SEPP now, so as to preserve my account balance?

**A:** It depends. You are required to continue the SEPP payments for five years, or until you reach age 59½, whichever is longer. If you discontinue the SEPP before then, you will owe the IRS the 10% early distribution penalty amounts that were waived for all distributions taken under the program, plus IRS assessed interest on the penalty that was waived for distributions taken in earlier years. This should be taken into consideration, should you decide to discontinue the SEPP.

You may have an alternate solution, if you are taking your payments under the amortization or annuitization method. Under this solution, you are allowed to switch to using the required minimum distribution (RMD) method to calculate your SEPP amounts, which would result in much lower annual SEPP amounts. Please contact us to discuss this and other distribution options for your IRA and other retirement accounts■