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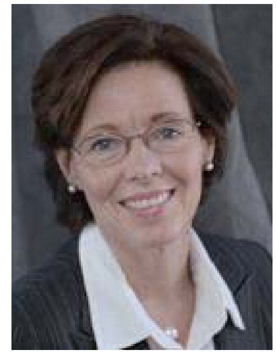
IRA News & Tips



Peg Seabrooke

An Integrated Wealth Advisor Helping Clients Maximize Benefits while Minimizing Taxes

130A Montowese St
Branford, CT 06405
Phone: 203-481-1040
Fax: 203-488-5401
peg@margaretseabrooke.com
www.margaretseabrooke.com

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Your IRA Calender

Please mark your calendar with the following critical deadlines:

September 30, 2012: Deadline for Inherited Accounts with Multiple Beneficiaries.

If you inherited assets from an IRA or other retirement account during 2011, and there are other beneficiaries of the same account, removing any non-designated beneficiary by September 30, 2012 is critical. Any beneficiary that is not a 'person', such as an estate or charity, is a non-designated beneficiary. An exception applies to a trust beneficiary that meets certain specific requirements. Please contact our office if you have questions about these requirements.

A non-designated beneficiary can remove itself by taking a full distribution of its inherited amount by September 30.

If a non-designated beneficiary is one of multiple beneficiaries and the non-designated beneficiary fails to distribute its share by September 30, the maximum period over which all of the other beneficiaries would be allowed to stretch distributions are as follows:

- If the account owner died before the required beginning date (RBD): The assets must be fully distributed by December 31 of the 5th year that follows the year of death.
- If the account owner died on or after the RBD: The assets must be distributed over the remaining life expectancy of the decedent.

For more information about RMDs , including how long designated beneficiaries can stretch distributions, please see the article *"Inherited Retirement Assets: Distribution Options"* on this page.

October 15, 2012: The deadline by which 2011 conversions must be recharacterized.

If you converted amounts from other retirement accounts to a Roth IRA during 2011, and you want to reverse (recharacterize) that conversion, you have until your 2011 tax filing deadline to do so. If you filed your 2011 tax return or filed for an extension by the due date (which is usually April 15), you receive an automatic six-month extension to complete the recharacterization. For calendar year tax filers, the automatic six-month extension ends on October 15.

October 15, 2012: The deadline to remove 2011 IRA excess contributions.

If you contributed more than is allowed to your IRA for 2011, you will owe the IRS an excise tax of 6% of the excess amount, unless you correct the excess contribution by removing it, along with any net income attributable (NIA), by your 2011 tax filing deadline.

Similar to the deadline for completing recharacterizations of Roth conversions, if you filed your 2011 tax return or filed for an extension by the due date, you receive an automatic six-month extension to correct the excess IRA contribution.

Note*: If April 15 or October 15 falls on a weekend or public holiday, the deadline is extended to the next business day*■

Inherited Retirement Assets: Distribution Options

If you inherited an IRA or other retirement savings account, you must meet minimum distribution requirements in order to avoid being assessed an IRS excess accumulation penalty.

This penalty is 50-percent of any required minimum distribution (RMD) amount that you do not withdraw by the applicable deadline. Your RMD options depend on whether the retirement account owner dies before the required beginning date (RBD).

The Required Beginning Date Defined

The RBD is April 1 of the year that follows the year in which the account owner reaches age 70½. If the assets are held in a qualified retirement plan, such as a pension, profit sharing or 401(k) plan, a 403(b) plan, or a governmental 457(b) plan, the employer can allow the RBD to be deferred past age 70½ until April 1 of the year that follows the year in which the account owner retires.

Death before the RBD

If the retirement account owed dies before the RBD, you can stretch distributions over your life expectancy or distribute the amount within five years.

- Under the life expectancy option, you are required to withdraw a minimum amount each year, beginning by December 31 of the year that follows the year in which the account owner dies. If you are the surviving spouse of the retirement account owner, you can defer beginning distributions until the year the account owner would have reached age 70½, if that is a later date.
- Under the five year option, distributions are optional until December 31 of the 5th year that follows the year in which the account owner dies, at which time the entire balance must be withdrawn.

The life expectancy option is the default under the RMD regulations, as well as most retirement plans. However, some IRA custodians and plan trustees have chosen the five year option as their default. As such, if your objective is to stretch distributions over your life expectancy, the IRA agreement or plan document should be reviewed to determine if your options are limited to five years. In such cases, the issue can be resolved by transferring the amount to a retirement account that allows the life expectancy option. Such transfers must be completed by December 31 or the year that follows the year in which the retirement account owner dies.

Death on or after the RBD

If the retirement account owner dies on or after the RBD, you can stretch distributions over the longer of your life expectancy or the remaining life expectancy of the decedent.

Note: Your life expectancy is determined under the IRS Table: 'Single Life Expectancy For Use by Beneficiaries'. Your life expectancy is determined the year after the year in which the retirement account owner dies, and one is subtracted for each subsequent year. If you are the surviving spouse of the decedent, your life expectancy is determined by checking the table each year.

Special Options for Spouse-Beneficiaries

If you are the surviving spouse of the retirement account owner, you are allowed to override the options explained above by moving the amount to your 'own' retirement account. Under this option, you would not be required to take distributions until you reach age 70½, and your distributions would be calculated using the IRS '*Uniform Lifetime' Table*. The Uniform Lifetime Table produces an RMD amount that is lower than that which would be required when using the '*Single Life Expectancy for Use by Beneficiaries' table*.

Why Stretch Distributions?

Generally, you can choose to withdraw the entire inherited account balance at any time. However, choosing to stretch distributions over your life-expectancy allows the amount to accrue tax-deferred income for a longer period.

For example:
Assume that you inherit an IRA balance of $200,000 last year, and you are age 45 this year. You would have 38.8 years over which to stretch distributions. If you withdraw the entire balance now, you would owe income tax on any pre-tax amount. If the pre-tax amount is significant, it could put your income into a higher tax bracket, which might affect the amount of income tax you pay on any other income you receive for the year. Consider also that any interest earned and dividends paid on the amount after withdrawal would no longer be eligible for the tax-deferred treatment.

If you withdraw only the minimum amount each year, the remaining balance would continue to be eligible for tax-deferred growth, and the smaller withdrawals might not put you in a higher tax bracket.

Penalty for Missing Deadlines
Your inherited retirement assets are subject to RMD requirements regardless of the distribution option that applies. If you do not withdraw RMD amounts by the applicable deadlines, you will owe the IRS a 50-percent excise tax on the amount not withdrawn. As such, steps should be taken to ensure that RMD amounts are withdrawn on a timely basis.

We can Help
If you need assistance with planning distributions for your inherited retirement accounts, please contact us■

Mistakes and Limitations to Avoid With Inherited Assets

If you inherit retirement assets, you have the option of limiting your withdrawals to required minimum distribution (RMD) amounts and allowing the balance to continue to benefit from tax-deferred growth. However, if your intent is to continue tax-deferral treatment, you may need to take certain steps to ensure your desired objective is met.

Overriding Limited Plan Document Provision
The regulations that govern beneficiary distributions allow beneficiaries to stretch distributions from inherited retirement accounts over their life-expectancies or distribute the amount within five years, when the retirement account owner dies before the required beginning date (RBD)[1]. The default option under the regulations is stretching distributions over the beneficiary's life expectancy. However, some IRA custodians and plan trustees choose the five-year option as their default, and some even go as far as to make that the only option. Under the five year option, distributions are optional until December 31 of the 5th year that follows the year in which the retirement account owner dies, at which time the entire balance must be withdrawn. *But, see below for special rules for spouse beneficiaries.*

If you inherit a retirement account from someone who died before the RBD and wish to spread distributions over your life expectancy, be sure to check your distributions options under the governing account agreement. If you find that you are subject to the five year rule, you can override that provision by transferring the amount to an IRA that allows you to stretch distributions over your life expectancy. In order for the override to be effective, the transfer must be done by December 31 of the year that follows the year in which the retirement account owner dies. If you miss this deadline, you might not be allowed to stretch distributions beyond five-years.

Avoid Harmful Distributions and Transfers
One of the most harmful and frequent mistakes made with inherited retirement assets occurs when beneficiaries unintentionally distribute the assets to themselves instead of transferring the amount to an inherited IRA. In most cases, the mistake is made when the beneficiary contacts the financial institution that holds the assets and provides them with the instructions. The mistake occurs when the amount is processed as a distribution or withdrawal instead of a transfer, or when the amount is transferred to the beneficiary's 'own' IRA instead of an inherited IRA.

Unless you are the surviving spouse of the decedent, any amount that you withdraw from an inherited retirement account cannot be rolled over to another retirement account. Therefore, if your intent is to continue maintaining the amount in a retirement account, you must ensure that any movement of assets from the decedent's account to your inherited IRA is done as a trustee-to-trustee transfer. In addition, you must ensure that the assets are transferred to an inherited IRA that is properly registered in the name of the decedent as well as your name, clearly showing which of you is the decedent and who is the beneficiary,

[1] The required beginning date is April 1 of the year that follows the year in which the account owner reaches age 70 ½. If the assets are held in a qualified retirement plan, such as a pension, profit sharing or 401(k) plan, a 403(b) plan, or a governmental 457(b) plan, the employer can allow the RBD to be deferred past age 70 ½, until April 1 of the year that follows the year in which the account owner retires.

using your social security number. One way of ensuring that this is done is to have the transaction initiated by a financial advisor who understands the rules that apply to Inherited IRAs, including those that apply when beneficiaries want to move assets between accounts and financial institutions.

Caution: When moving inherited assets from a qualified plan, such as a pension or 401(k) , a 403(b) or a governmental 457(b) plan, ensure that any RMD that is due for the year is withdrawn first, and then rollover the balance. RMD amounts are not rollover eligible and must be withdrawn before the rollover is initiated.

Special Provisions for Spouse Beneficiaries

If you are the surviving spouse of the decedent, you can roll over distributions taken from the inherited account, as long as the amount rolled over does not include any RMDs.

In such cases, the rollover must be made to your 'own' IRA. If you prefer to keep the assets in an Inherited IRA, the assets should be moved via a trustee-to-trustee transfer.

Caution: Spouse Choosing Between Inherited and 'Own' IRA

Distributions from a retirement account are subject to a 10-percent early distribution penalty, unless the account owner qualifies for an exception. One exception is if the distribution is made from an inherited retirement account. If you inherit a retirement account from your spouse while you are under age 59½ and you will be making withdrawals from the amount before reaching age 59½, keeping the assets in an inherited IRA will ensure that the withdrawn amount is not subject to the 10-percent early distribution penalty. The amount can then be rolled over to your own IRA when you reach age 59½, or will no longer be making withdrawals, if earlier.

Let us Help You

The financial benefits of an inherited retirement account can be severely diminished because of mistakes, all of which can be avoided with competent professional assistance. As such, the importance of working with a financial advisor who understands the rules that govern IRAs cannot be overstated. If you have questions, please do not hesitate to contact us■

Questions and Answers

Q: Am I allowed to convert the traditional IRA that I inherited to a Roth IRA?

A: It depends. If you are the surviving spouse of the owner of the traditional IRA, you are eligible to convert it to your Roth IRA, but only if you treat the traditional IRA as your own by transferring or rolling over the amount to your 'own' traditional IRA beforehand. If you are not the surviving spouse of the traditional IRA owner, you are not eligible to convert the amount to a Roth IRA.

Q: I converted my traditional 401(k) to my Roth 401(k) account as an in-plan rollover conversion. However, I want to recharacterize the conversion to my traditional 401(k) and claim a refund for the income tax that I paid on the amount. Is that permissible?

A: No. Conversions from traditional 401(k)s to Roth 401(k) cannot be recharacterized. This is unlike conversions to a Roth IRA from a traditional IRA, SEP IRA or SIMPLE IRA which can be recharacterized by your tax filing due date (plus any extensions) for the year that the conversion was done■