

IRA NEWS & TIPS

Your IRA Calendar

- **May 1, 2010:** The deadline by which your IRA Custodian/Trustee must mail your Form 5498 for 2009. Information included on this report includes the following:
 - Contributions to your Traditional & Roth IRAs , and SIMPLE and SEP IRAs
 - Rollover contributions , which include rollover contributions from an employer plan and distribution amounts from your IRA that you later rollover
 - Roth IRA conversions , and
 - Recharacterized IRA contributions or recharacterized Roth conversions

Form 5498 is not required to be filed with your tax return. However, check to make sure the information included is correct and file it with the rest of your tax records. If any incorrect information is detected, notify your IRA Custodian/Trustee. Depending on the nature of the error, they may be required to issue a corrected copy.

If you have questions about your Form 5498, please contact our office ■



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Caution! Inaction Could Disinherit Your 'Intended' Beneficiaries

If you have not checked your retirement account beneficiary form recently, the person or entity currently slated to inherit the account may no longer be the one you want to do so. This applies to your IRAs and accounts under employer plans such as 401(k)s, 403(b)s as well as profit sharing and pension plans. There are numerous documented cases of individuals or estates inheriting retirement accounts, when the owner wanted the beneficiary to be a different party. We provide the following tips which can help you to ensure that the right party inherits *your* retirement account.

Inaction Could Disinherit: Cont'd on page 2

Avoid Tax-Traps for After-Tax IRA Funds

Generally, distributions and Roth Conversion amounts from your Traditional IRA (IRA) are treated as taxable income to you. However, if you have after-tax amounts in your IRA, distributions and Roth conversion of these after-tax amounts should be tax-free. Nevertheless, you could mistakenly pay income tax on these amounts, if the proper tax filing and reporting is not done for these funds.

Where Do After-Tax Funds Come From?

Your IRA will include after-tax funds if you made IRA contributions and did not claim a deduction for all or a portion of the amount on your tax return. The deduction may not have been claimed because you and/or your tax advisor simply chose not to, or you were ineligible to claim the deduction because you received benefits under an employer plan and your income exceeded a certain amount.

After-Tax Traps: Cont'd on page 3

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Inaction Could Disinherit: Cont'd from page 1

- **Maintain a beneficiary file:** You should be able to easily retrieve a list of all of your retirement accounts and identify the named beneficiaries. If you do not already maintain all this information in one easily accessible area, now may be a good time to start. This will help you to keep track of both your current beneficiary designations and all of your retirement accounts.
 - **Perform annual check-ups:** Check your beneficiary forms at least once per year to determine if you need to make any changes. Events involving your beneficiaries might have necessitated changes to your current named beneficiaries. For instance, you may have gotten married or divorced, and need to update your beneficiary form to add or remove your spouse or former spouse.
 - **Review after each life-event:** If a life-event that could affect your beneficiary designation occurs, review and update your beneficiary forms if necessary. Such events include births, deaths and marriages. Maybe you named your mother as your beneficiary for your IRA when you started working in your early teens. Now you are much older and married and want your spouse to be your beneficiary. Chances are, your mother would inherit your IRA, unless you made the necessary changes to your beneficiary designation form to name your spouse as your beneficiary.
 - **Review document provision:** Each of the documents that govern your retirement accounts may have different provisions for your beneficiaries. For instance, one document could provide that in the event of a divorce, your spouse is automatically removed as your beneficiary. Another may provide that your former spouse remains your beneficiary unless you update the beneficiary form. Reviewing the provisions will help you to determine the steps you need to take in certain cases, such as in the event of a divorce from your spouse.
 - **Obtain required signatures:** If you are married and you name someone other than your spouse as a primary beneficiary of your retirement account, you may be required to obtain your spouse's consent if your account is under an employer plan, or if you live in certain States. Failure to obtain the required consent, which may require the signature of a notary or other designated person, could result in the beneficiary form being invalid.
 - **Complete new beneficiary forms if financial institutions change:** With financial institutions increasingly merging or being taken over by others, it is not uncommon for IRA owners to receive notification that their IRA Custodian/Trustee has changed to a different financial institution. Sometimes, during some of these changes, documents get lost or misplaced. If your beneficiary form cannot be located, the financial institution may dictate who inherits your IRA. Many IRA agreements include provisions which state that, in the event your beneficiary cannot be identified or located, this designation defaults to a specific person or entity, such as your surviving spouse, children or estate.
 - **Tell Your Beneficiaries:** Your beneficiaries could end up not receiving the assets you leave for them, if they do not know that they have been named as such. To prevent this from occurring, inform your beneficiaries that they are named to inherit your retirement accounts. While doing so, it is also recommended that you include identifying features such as the account number and the name of the financial institution or employer with which the account is held. If you prefer not to have them know before they actually inherit the account, you could either leave instructions with your legal representative or a trusted individual to provide the notification in the event of your death, or make any other suitable provision for notification.
- These are just a few of the "pitfalls" which could cause your loved ones to be *'unintentionally'* disinherited. Contact us to discuss these and other protective measures which should be taken to ensure that the right party inherits your retirement account. ■

After-Tax Traps: Cont'd from page 1

Your after-tax funds may also be attributed to a rollover to your IRA of after-tax amounts from an account under an employer plan, such as a 401(k) or 403(b) plan.

How Do You Track and Report After-tax Funds

The IRS provides Form 8606, the purpose of which includes the tracking and reporting of after tax funds in your IRA. To this end, Form 8606 must be filed for any year that you add after-tax amounts to your IRA. Additionally, Form 8606 must be filed for any year that you take a distribution or convert funds to a Roth IRA, if your IRA has after-tax funds the year that the distribution or Roth conversion is done. By accurately completing and filing Form 8606, you keep track of the after-tax balance and share the information with the IRS.

Ensuring After-Tax Funds are Not Taxed

As mentioned above, Form 8606 must be filed for any year that you take a distribution from your IRA or convert funds from your IRA to a Roth IRA, as long as your IRA includes after-tax amounts. The outstanding after-tax balance is tallied on each Form 8606 that is filed. Form 8606 includes a formula which shows how much of a Roth conversion or distribution amount should not be taxed. As such, by filing the form, your tax professional would be able to determine how much is nontaxable and should therefore not be included on your tax return as a taxable distribution or Roth conversion.

Balance Aggregated and Pro-Rated For taxation

Distributions or Roth conversion amounts from your traditional IRA will include a pro-rated amount of after-tax and pre-tax funds, as long as your Traditional IRA includes an after-tax balance. As such, you cannot select only after-tax or pre-tax funds when performing such transactions. Furthermore, all of your Traditional IRAs, SEP IRAs and SIMPLE IRAs are treated as one when determining how much of a distribution or Roth conversion is not taxable.

For instance, assume that you have two Traditional IRAs: **IRA # 1** has a balance of \$10,000 all of which is after-tax funds. **IRA # 2** has a balance of \$90,000 all of which is

pre-tax funds. If you take a distribution (or Roth Conversion) of \$10,000 from IRA # 1, \$1,000 will be tax-free and \$9,000 will be taxable. This rule applies because, for IRS purposes, you took a distribution of \$10,000 from an aggregate Traditional IRA balance of \$100,000.

Caution: Determine Balance Formula

When determining the ratio of the taxable vs nontaxable portion of a distribution or Roth conversion, the balance as of the end of the year in which the transaction is done is used. As such, if the transaction is done in January when you had only IRA # 1 with a balance of \$10,000, and you rollover a pre-tax amount of \$90,000 from your 401(k) to IRA # 2 in December of the same year, your account balance used in the formula would be \$100,000 (plus or minus interest or losses) .

The year-end balance is also adjusted by adding the following amounts:

- Distributions taken from your IRA during the year and rolled over the next year within 60-days of receipt. For instance, if you took the distribution in December and did a rollover of the amount in January
- Roth IRA conversions done during the year and recharacterized the following year. Under Roth conversion rules, you can reverse a Roth conversion by doing a recharacterization of all or a portion of the amount by your tax filing deadline plus extensions.

Other distributions and Roth IRA conversions done during the year may also need to be included in the calculation.

As you can tell, one misstep can cause you to pay income tax on amounts that should be nontaxable. Work with your tax professional to get help with ensuring that the proper tax filing and correct calculation is done.

Please contact us with any questions about distributions and Roth Conversions from your IRA. ■

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Frequently Asked Questions & Answers From The Experts

Q: I converted \$100,000 from my Traditional IRA to my Roth IRA last year. However, the market value has since gone down, resulting in a current balance of only \$80,000 in the Roth IRA. I don't think it is fair for me to pay income tax on \$100,000, when all that is left is \$80,000 due to the market losses. Since I already filed my tax return on April 15, can I recharacterize the Roth Conversion?

A: Yes. The deadline for recharacterizing (reversing or undoing) a Roth Conversion is your tax filing due date, plus extensions. If you file your tax return or file for an extension on time, you receive an automatic 6-month extension to complete the recharacterization. As such, assuming you file on a calendar year basis, you have until October 15 of this year to complete your recharacterization. You may need to file an amended tax return, to report the recharacterization.

Q: I completed a Roth conversion last year and subsequently recharacterized it because the amount had lost market value. Now I want to reconvert the amount in order to pay income tax on the now lower market value. How soon can I complete this reconversion?

A: It depends on when the recharacterization was

completed. Under the Roth rules, you can reconvert (convert again) the same funds the later of the following two dates:

- January 1 of the year which follows the year in which you did the Roth conversion. This means that since the Roth conversion was done last year; this date would be January 1 of this year.
- 30-days after the recharacterization was completed.

If it has already been 30-days since the recharacterization was completed, the amount is now eligible to be reconverted. If not, you are required to wait at least 30-days.

Q: I requested a distribution from my IRA, and had to go out of town before I received the check due to a family emergency. As I knew that I would be staying away from home for a few months, I asked the post office to hold my mail. I am now home and have since received the distribution check, which was included in the mail held by the post office. I know that rollovers of distributions are usually required to be completed within 60-days. However, is there a rule that would allow me an exception, considering my circumstances?

A: Yes. The 60-day period starts on the day that you received the check. Accordingly, even though it has been a few months since the check was issued, your 60-day period started when you collected your mail. You can rollover the amount to your IRA, as long as it is done within 60-days after you collected your mail from the post office. Of course, this is assuming that the funds are otherwise eligible for a rollover. Please contact us if you have questions about the rules which determine if amounts are eligible for rollover. ■

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