

# IRA NEWS & TIPS

## Your IRA Calendar

- **February 1, 2010:** The deadline by which your IRA Custodian/Trustee must mail your 1099-R, your fair market value (FMV) statement, as well as your 2010 required minimum distribution (RMD) statement for your traditional, SEP and/or SIMPLE IRA.
  - **Form 1099-R** is used to report distributions taken from your retirement accounts during 2009, and recharacterizations between your traditional and Roth IRAs. If income tax was withheld from your distribution, the amount should also be reported on your Form 1099-R. Please include copies of your 1099-R along with any tax-related documentation that you provide to your tax-preparer.
  - **Your FMV statement** shows the value of your IRA as of December 31 of 2009. Your December 31, 2009 FMV is included in the formula used to calculate your required minimum distributions for 2010 (see *page 4*).
  - Your **RMD statement** must be provided by the Custodian/Trustee that held your IRA on December 31 of last year, and must either include your RMD amount for the year, or an offer to calculate your RMD upon receiving a request from you. This requirement does not apply to Inherited IRAs.
- **April 15, 2010:** Deadline for making contributions to your Roth and traditional IRAs for 2009. Contributions must be received by your financial institution by this date, if hand delivered, or postmarked by this date if mailed (see *page 2*). ■



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### In This Issue

- Your IRA Calendar
- 7 Tips for a Good IRA Season
- 2010 Roth Opportunities
- Questions & Answers
- Required Minimum Distributions
- Roth vs Traditional IRA Chart

## 7 Tips for a Good IRA Season

You have until April 15, 2010 to make your Traditional and/or Roth IRA contributions for 2009. The following are some tips which you can employ to help ensure that your IRA contributions are processed properly:

1. **Indicate the tax year:** The person who processes your deposit will not be able to determine the tax year to which the amount should be applied, unless you include that information. Even if you send in a *contribution-form* with a check, write the tax year on the check, just in case it gets separated from the form. If that information is not included, your financial institution has the right to apply the amount to 2010, if they receive it on or after January 1, 2010.
2. **Indicate the type of account:** This is especially important if you have more than one account with the same financial institution. You don't want to have your traditional IRA contribution deposited to your checking account, or your Roth IRA contribution deposited to your traditional IRA.

*IRA Tips: Continued on page 2*

## 2010 Brings New Roth Opportunities

Since it became available in 1998, the Roth IRA continues to increase in popularity at a high rate. This is largely attributed to its tax-free feature, which allows owners and beneficiaries to receive tax-free income from the accounts. Unlike traditional IRAs, where contributions are usually made on a pre-tax basis and earnings grow tax-deferred only to be taxed when withdrawn, Roth IRAs are funded with amounts that have already been taxed and withdrawals are tax-free if certain requirements are met. This feature allows for tax-free income during retirement.

*Roth Opportunities: Continued on page 3*

*IRA Tips: Cont'd from page 1*

To prevent any such errors; make sure that the correct account number is written on your check or other deposit instrument, and also note the 'type' of contributions, i.e. 'Roth' or 'Traditional' IRA Contribution.

3. **Follow-up:** Don't assume that your IRA contribution was processed accurately. Check your statement for the month in which the deposit was made. If any mistakes are detected, notify your financial institution immediately. Be sure to follow-up again to ensure that the appropriate adjustments were done accurately.
4. **Don't Exceed limit:** The IRA contribution limit is 100% of eligible taxable income that you receive during the year **or** \$5,000 (\$6,000 if you were at least age 50 by December 31 [2009 or 2010]), **whichever is less**. This means that if you earned only \$3,000 for the year, your IRA contribution cannot exceed \$3,000. Contributions in excess of the limit are subject to a 6% excise tax for each year the amount remains in your IRA, if they are not distributed from the IRA within certain timeframes.
5. **Little or No Income? Use your Spouse's Income:** If you did not earn sufficient income to make your IRA contribution, you may base your contribution on your spouse's income. This may be done if you file a joint tax return, and your spouse's taxable income is sufficient to cover both your IRA contribution as well as any IRA contributions made to his/her IRA for the year.
6. **Meet the deadline:** Your 2009 IRA contribution must be delivered to your IRA Custodian/Trustee by April 15. If you mail your contributions, the envelope must be postmarked by April 15. For purposes of the postmark, you must use an IRS approved mailing service. In addition to the United States post office, the following services are approved for this purpose:
  - o DHL Express (DHL): DHL Same Day Service; DHL Next Day 10:30 am; DHL Next Day 12:00 pm; DHL Next Day 3:00 pm; and DHL 2nd Day Service;
  - o Federal Express (FedEx): FedEx Priority Overnight, FedEx Standard Overnight, FedEx 2 Day, FedEx International Priority, and

FedEx International First; and

- o United Parcel Service (UPS): UPS Next Day Air, UPS Next Day Air Saver, UPS 2nd Day Air, UPS 2nd Day Air A.M., UPS Worldwide Express Plus, and UPS Worldwide Express

7. **File Form 8606 for nondeductible contributions:** If you make a contribution to your traditional IRA, and did not claim a tax deduction for any portion of the contribution, you must File IRS Form 8606 to let the IRS know that the contribution is nondeductible. Form 8606 helps you and the IRS to keep track of these nondeductible amounts, thus ensuring that they are not subject to income tax when withdrawn from the IRA.

Contact us for more tips and information about the rules and procedures which apply to your traditional IRA and Roth IRA contributions. ■

## Frequently Asked Questions & Answers From The Experts

**Q:** I would like to convert my traditional IRA to my Roth IRA. Can it still be done for the 2009 tax year?

**A:** It depends. If you took a distribution from your traditional IRA in 2009 and deposited the amount to your Roth IRA within 60-days of receiving the distribution, the amount will be treated as a conversion for 2009. If the funds have not already been distributed; or if they have been distributed and the 60-day deadline has already passed, the conversion cannot be done for 2009.

**Q:** I completed paperwork to open my IRA and did not name any beneficiaries. Who inherits the IRA if I do not complete a beneficiary designation form?

**A:** If you do not name a beneficiary for your IRA, your beneficiary is determined by the terms of your IRA agreement. For instance, the IRA agreement may provide that if no beneficiary is named, your beneficiary would be your estate, spouse, or children. Contact us to determine the rules that apply to your IRA. We can help you to make sure your designated beneficiary inherits your IRA. ■

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*Roth Opportunities: Continued from page 1*

Unfortunately, many individuals were unable to fund Roth IRAs because of the restrictions on funding-eligibility. If you are one of these individuals, we are happy to bring you the good news, that everyone is now eligible to fund a Roth IRA.

**Roth Funding Options**

There are two options for adding amounts to your Roth IRA:

1. You can make a Roth IRA contribution of up to \$5,000 (\$6,000 if you reach age 50 by December 31). To be eligible to make these contributions, you must have taxable compensation for the year, and your modified adjusted gross income (MAGI) cannot exceed certain amounts. For 2009/2010, you are not eligible to make contributions to a Roth IRA, if your MAGI exceeds the following amounts as determined by your tax filing status:
  - **Year 2009** - Single: \$120,000, Married-Filing-Jointly: \$176,000, Married Filing separately: \$10,000.
  - **Year 2010**: Single: \$120,000, Married-Filing-Jointly: \$177,000, Married Filing separately: \$10,000.
2. You can convert amounts from your traditional, SEP or SIMPLE IRAs; or rollover eligible amounts from your account under an employer plan, such as a 401(k), 403(b), pension, or governmental 457(b) plan. For this option, you do not need to have income. Prior to January 1, 2010, you were not eligible for the conversion/rollover option, if your MAGI was more than \$100,000, and/or your tax filing status was married-filing-separately. However, as of January 1, 2010, these restrictions are no longer in effect, allowing everyone who desires to do so to fund a Roth IRA through a conversion/rollover.

**Is a Roth Right for You?**

While the tax-free feature of a Roth IRA is attractive, it

may not be suitable for everyone. When determining suitability, many factors must be taken into consideration.

These include:

- Your sources of income during retirement,
- Your age,
- If your beneficiaries include charities,
- The amount of years you have until you retire,
- The amount of years you plan to spend in retirement, and
- Whether you have funds outside of your retirement accounts to pay any income tax that would be due on the conversion/rollover.

To determine if a Roth IRA is suitable for you, and whether it makes good tax and financial sense to convert/rollover your other retirement funds into your Roth IRA, contact us to perform a customized Roth IRA analysis, based on your Roth profile. ■

**Required Minimum Distributions Are Back**

If you are at least age 70 ½ this year, you must take required minimum distributions (RMD) from any traditional IRA, SEP IRA, and SIMPLE IRA that you own. You may also need to take RMDs from any IRA that you inherited, and from amounts you hold under an employer plan. The IRS waived these RMD requirements for IRAs and defined contribution plans for 2009. This meant that taking distributions from these accounts was optional for 2009. At the time of writing this newsletter, this waiver has not been extended to 2010 RMDs, which means that you are required to take your 2010 RMD by the applicable deadline, unless a waiver for 2010 is announced. We will let you know if anything changes.

**Your RMD Deadline**

Generally, your first RMD must be taken by your required beginning date (RBD), which is April 1 of the year that follows the year in which you reach age 70 ½. This means that if you reach age 70 ½ in 2010, your first RMD must be taken by April 1, 2011. All other RMDs must be taken by December 31 of the year to which the RMD applies. As such, if 2010 is not your first year for RMDs, or if you need to take an RMD from an inherited IRA, that amount must be distributed by December 31, 2010.

*RMDs: continued on page 4*

## Roth vs Traditional IRA High-Level Comparison Chart

	Roth IRA	Traditional IRA
Contribution limit	\$5,000	\$5,000
Catch-up contribution limit	\$1,000	\$1,000
Age limit	None	Age 70 ½
Income limit	Yes	No
Deductible	No	Generally-yes. Could be nondeductible if covered under an employer plan and income exceeds a certain amount.
Contribution deadline	April 15	April 15
Saver's credit	Yes	Yes
Tax treatment of earnings	Tax-deferred. Tax-free when distributed, if distribution is qualified	Tax-deferred. Taxable when distributed
General tax treatment of distributions	Tax-free if qualified, or if from contribution/conversion.	Taxable, unless from nondeductible/after-tax amounts
Required Minimum Distribution (RMD)	Not for owners. Yes for beneficiaries	Yes, for owners and beneficiaries

### RMDs. Continued from page 3

**Note:** If you have funds in an account under an employer plan, such as a 401(k), 403(b), governmental 457(b), or pension plan, and you are still working for the company which offers the plan, you may be allowed to delay starting your RMD past age 70 ½, until after you retire. Check with the plan administrator to determine the RMD rules that apply to the plan.

#### Calculating Your RMD

Your 2010 RMD amount is determined by dividing your December 31, 2009 FMV by your life-expectancy factor which is obtained from IRS provided Life expectancy tables. The Custodian that held your IRA as of December 31 of last year is required to provide you with an RMD statement (see **Your IRA Calendar** on page 1) which must include your calculated RMD amount or an offer to calculate the RMD upon request. As noted on page 1, this requirement does not apply to Inherited IRAs.

Even if your Custodian calculates your RMD amount, you should have us double check the calculation, as your Custodian is allowed to make certain assumptions that could result in inaccurate results.

#### RMD Penalties

If you miss your RMD deadline, you will owe the IRS a penalty of 50% of the amount that was not taken by the deadline. For instance, if your RMD for the year is \$10,000 and you took only \$2,000 by the deadline, you will owe the IRS a penalty of \$4,000 on the \$8,000 which was not taken by the deadline.

Contact us to discuss your RMD, so that we can help you avoid penalties which could apply. ■

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