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IRA News & Tips

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Content

Annual IRA Calendar

Important deadlines are coming up, for which you might need to be ready. To be sure you do not miss these deadlines, please mark your calendar with the following:

December 31: Deadline for Certain Distributions and Roth Conversions

RMD: If you reached age 70-½ or inherited an IRA or other retirement account before January 1 of the current year, you might need to take an RMD by December 31 of the current 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 by the deadline.

Separate accounting when there are multiple beneficiaries: Generally, if there are multiple designated beneficiaries of a retirement account, all the beneficiaries are required to use the life expectancy of the oldest beneficiary to calculate beneficiary RMD amounts.

This rule can be overridden for designated beneficiaries who perform separate accounting by December 31 of the year that follows the year in which the owner dies. In such cases, the beneficiaries who perform separate accounting are allowed to use their own life expectancies to calculate their RMD amounts.

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substantially equal periodic payment (SEPP) program, the full amount required to be taken for the calendar year must be withdrawn from the account by December 31. Failure to meet this deadline might result in you owing 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penalty on all amounts taken under the program, plus IRS-assessed interest for the 10% penalty waived on amounts withdrawn during earlier years.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 in the current year, the assets must leave that retirement account by December 31.

All required paperwork and instructions must be provided to the financial institution holding the accounts in advance of these deadlines so that they can complete the transactions in a timely manner.

Please contact our office if you have questions about these deadlines.

Tax Saving Tips for Your Retirement Savings Accounts

Making the decision to add money to IRAs and other tax-favored retirement savings accounts is one of the most important steps toward a financially secured retirement.

But, how much of that savings will be left to finance your retirement, depends largely on how much income taxes you will eventually pay on the amounts. As such, an important part of any effective retirement planning is the implementation of tax minimization strategies.

In some cases, minimizing taxes require advance planning. In other cases, it requires seizing opportunities that are immediately available. Whether you are looking to implement tax saving strategies now or later, you will likely find the following tips helpful.

Make Your RMD Tax-free through Charitable Donations

If you are at least age 70-½ this year, you must take an annual required minimum distribution (RMD) from your Traditional IRA, SEP IRA, or SIMPLE IRA for the year.

Your RMD is usually treated as ordinary income, which means any income tax owed would be assessed at your ordinary income tax rate. But- if you are charitably inclined- your RMD could be tax-free if you use it to make a qualified charitable donation (QCD).

Under the QCD rules, an IRA owner can donate up to $100,000 per year to an eligible charity, and the amount would be tax-free as long as it meets requirements that include the following:

- The distribution must be made from your IRA. Other types of retirement accounts, such as 401(k)s, are not eligible.
- The distribution must be paid directly to an eligible charity. We can help you to decide whether any charity you have in mind qualifies. And,
- You must be at least age 70-½ on the date that the distribution is made from your IRA.

If you want your QCD to go towards satisfying your RMD, it must be done before you take any other distribution from your IRA.

If you are considering making a QCD and want to have it also serve as your RMD, please contact our office. We can also help with ensuring that your distribution meets all the QCD requirements, so that it is tax-free.

Look for Tax-free Conversion Opportunities

Funding a Roth IRA creates the opportunity to have tax-free income during your retirement years, allowing you to create more efficient strategies for your distributions.

One of the ways in which money can be added to a Roth IRA is by converting amounts from a traditional IRA or 401(k).

However, if the converted amount is taxable, it means paying taxes for the year of the conversion, and often necessitates doing a Roth conversion analysis to determine suitability of the Roth conversion. For some, a Roth conversion analysis could show that a Roth conversion is unsuitable for one or more reasons.

But if you have after-tax amounts in a 401(k) or similar type of account under an employer sponsored retirement plan, converting that amount to a Roth IRA requires no analysis, as the converted amount would be tax-free.

The best way for this strategy to work, is to make sure that your 401(k) distribution is split, with the after-tax amount being rolled over to your Roth IRA and the pre-tax amount being rolled over to your traditional IRA (or other traditional retirement savings account).

This requires careful coordination with your plan administrator.

If you're considering converting amounts from your 401(k) to your Roth IRA, we can help you by reviewing your statements to identify any after-tax amounts and work with you and your plan administrator to ensure that the transactions are processed correctly.

Pay Less Taxes on Employer Securities

Distributions from your retirement savings account are usually taxed at your ordinary income tax rate.

One exception to that applies to certain distributions of employer securities from your account under an employer plan such as a 401(k) Plan or Employee Stock Ownership Plan (ESOP).

Under this exception, qualifying distributions of employer securities are taxed at the long-term capital gains rate, which can result in significant reduction of income taxes. In order for this to work, several requirements must be met, including the following:

- You must have net unrealized appreciation (NUA) on the employer securities. NUA is the amount by which the market value of your securities increased, since they were added to your account.
- Your distribution must qualify as a 'lump sum'. For this purpose, a lump sum distribution occurs when your entire account balance is distributed during one tax year, and you meet a qualifying event such as reaching age 59-½. And,
- The employer securities must not be rolled over to an IRA or any other type of retirement account.

Under this NUA strategy, the cost of the securities must be included in your income the year in which you take the distribution.

However, you can elect to have the NUA portion included in your income when you sell the securities. This provides an opportunity for even more tax efficient distribution strategies.

While using the NUA strategy can result in less income taxes being owed, than if the amount was rolled over to your IRA and subsequently distributed from the IRA, an analysis must be done to determine whether you are the right candidate for this strategy.

Make an Appointment with Us for Early 2019

If you plan to have a distribution or any other transaction done to your retirement accounts, please contact us before initiating the process. This will allow us to help you avoid mistakes that could result in loss of tax saving opportunities.

We an also help you to identify other tax efficient opportunities for your retirement savings accounts.

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