

# IRA News & Tips

## Your IRA Calender

Please mark your calendar with the following deadlines:

### October 15-Recharacterization:

If you converted funds from your other retirement accounts to your Roth IRA in 2009, you can reverse that conversion. This reversal process is referred to as a recharacterization. Reasons for recharacterizing a Roth conversion include the following:

■ *You cannot afford to pay the income tax due.* A conversion of pre-tax amounts to your Roth IRA creates a taxable transaction. Recharacterizing your conversion allows you to remove that taxable transaction from your tax return.

■ *The market value of the amount that you converted has since fallen,* and you don't want to pay income tax on an amount that is no longer in your account. For instance, if the market value of the conversion was \$100,000, but the current value is only \$50,000. Unless you recharacterize the amount, you will owe income tax on the \$100,000, even though the current value is \$50,000.

■ *You were ineligible for the conversion.* For conversions done before January 1, 2010, you were required to have a modified adjusted gross income of \$100,000 or less, and your tax filing status could not be married-filing separately. If you did not meet those requirements, but you still completed a conversion, you must have it recharacterized.

■ *You simply changed your mind.*

Contact our office if you completed a Roth IRA conversion in 2009 and have

questions about whether that conversion should be recharacterized.

### October 31: Provide trust document to financial institution :

If you are the trustee of a trust that is the beneficiary of an IRA for which the owner died last year, you may need to provide certain trust documentation to the financial institution which holds the IRA by October 31. This documentation is required if the trust meets certain requirements which enable it to benefit from more favorable distribution and tax options for the trust, than those that would apply if the trust did not meet these requirements.

### December 31: Distribute (Take) RMD:

If you are at least age 70½ by December 31 of this year, and/or you inherited an IRA before January 1, you may need to take a required minimum distribution (RMD) by December 31. Contact us to find out when this rule does not apply. Failure to take your RMD may result in you owing the IRS an excise tax of 50%.

## Inheriting A Spouse's IRA

If you inherit your spouse's IRA, figuring out what to do with that inheritance is likely the least of your worries. However, it should be added to your list of priority items in order to prevent complications, which could include IRS assessed penalties. The following are some guidelines that we hope you find helpful:

■ **Contact Our Office:** The first thing you should do is contact our office. We will provide you with information and instructions about what needs to be done to ensure that the IRA is handled properly.

■ **Ask Us If You Need to Take an RMD:** If your spouse was at least age 70½ at the time of death, a required minimum



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distribution (RMD) may need to be taken by December 31 for the year of death. If your spouse did not take the RMD before death, you are required to take that amount. Failure to do so by the deadline will result in a penalty of 50% of the RMD shortfall being owed to the IRS.

■ **Ask Us How You Should Maintain The IRA:** As a spouse beneficiary, you have two options from which to choose for maintaining the IRA that you inherit from your deceased spouse. These are:

**Option 1:** You can transfer the amount to an 'inherited' or 'beneficiary' IRA. Under this

option, you may be required to take beneficiary RMD amounts by December 31 of each year, starting the year after your spouse's death. If your spouse died before April 1 of the year that follows the year in which he/she reached age 70½, there are two exceptions to this rule. These are:

a) You do not need to start taking these RMD amounts until the year he/she would have reached age 70½, had he/she lived; if that year is later than the year after your spouse's death.

b) You have two options for taking distributions. One is over your life expectancy and the other is to distribute the entire account within five years of your spouse's death. If you choose the five year option, you do not need to take any distributions until December 31 of the 5th year that follows the year in which your spouse died, at which time the entire balance must be distributed to you.

**Option 2:** You can transfer the amount to your 'own' IRA. Under this option, you are not required to take any distributions until you reach age 70½, at which time you would take RMDs as if you were the one who originally established the IRA.

If you choose Option 1, you can change your mind at anytime and switch to Option 2. Option 1 is usually recommended if you are under age 59½ and will need to take funds from the account. This is because distributions from an Inherited IRA are not subject to the 10% early distribution penalty that may apply, if the distribution occurs before you reach age 59½.

■ **Ask Us if You Should Move The Account :** You may want to move the funds to another account for personal reasons. For instance, you may want us to manage the account if it is not already with us, you may want more investment options, or you want to combine it with another

of your retirement accounts. Whatever your reason, we will make sure that the movement of your funds is completed with minimum complications. *Please notify our offices before taking any action with IRAs that you inherit, so that we can minimize such errors from occurring.*

If you inherit an IRA that is not already held with us and you want that IRA transferred to our firm, we will contact the other financial institution and inquire about their documentation as well as their operational policies & procedures for moving the account. The requirements may depend on whether you are maintaining the account as an Inherited IRA or as your 'own' IRA.

Regardless of the option you choose, make sure that you do not take possession of the funds, which is what would happen if you requested a distribution. Instead, we will request that the funds be moved as a 'trustee-to-trustee transfer', which means that the amount would be paid directly to your IRA that you maintain with us.

Distributions are required to be reported on your tax return, while transfers are not. Furthermore, distributions sometimes cause complications which are often avoidable with trustee-to-trustee transfers.

Mistakes made with Inherited IRAs can be costly and are often irreversible. We strongly recommend that you talk to us before completing any paperwork for any IRA that you inherit, whether from your spouse or any other party.

## 5-Year-End IRA Tips

If you are like most people, December may be the busiest period of the year for your financial and tax projects. Many individuals wait until then to take advantage of tax and financial

opportunities, as well as to prepare for the upcoming tax season. Waiting until then may work for some financial tasks. However, waiting until the last minute to take care of matters related to your individual retirement accounts (IRAs) can lead to costly mistakes, some of which cannot be rectified.

The following are some tips for ensuring that your IRA transactions are completed in a proper and timely manner, thereby ensuring that you avoid owing any IRS penalties in addition to enabling you to benefit from the various tax-advantaged provisions.

### 1. TAKE YOUR RMD:

If you own a traditional IRA, SEP IRA or a SIMPLE IRA, you are required to withdraw a minimum amount from at least one of those accounts when you reach a certain age. This minimum amount is referred to as required minimum distribution (RMD). This RMD rule does not apply to Roth IRA owners.

If you inherited a traditional IRA, SEP IRA, SIMPLE IRA or Roth IRA, you may be required to take an RMD amount from that account, unless you are the surviving spouse of the decedent and you move the funds to your own (non-inherited) IRA.

You may need to take a RMD this year, if any of the following applies to you:

#### ■ For Your Own Traditional, SEP or SIMPLE IRA

**If you reached age 70 by June 30 of this year:** You will be age 70 ½ by December 31. This would be the initial RMD that you need to take from your IRA. While RMDs are usually required to be taken from your IRA by December 31, there is a special rule that allows you to defer taking this RMD until as late as April 1 of next year. However, if you defer taking this

year's RMD until next year, you will need to take two RMD amounts next year, as the one for next year must be taken by December 31.

***If you reached age 70 ½ before January of this year.*** In this case, you must take your RMD for this year by December 31.

**■ For Traditional, SEP and SIMPLE IRAs that You Inherited**

***If you inherited an IRA from someone who (a)*** died on or after the date that person reached age 70 ½ and ***(b)*** the person died last year or earlier, you are required to take a beneficiary RMD by December 31 of this year. If the person died this year, and did not take his/her RMD for the year, you are required to take that amount by December 31.

***If you inherited an IRA from someone who died before reaching age 70½,*** and you are taking distributions from the inherited IRA over your life-expectancy, you are required to take a beneficiary RMD by December 31 of this year, if she died last year or earlier.

***If you inherited an IRA from someone who died before reaching age 70½,*** and you are taking distributions from the inherited IRA under the five-year rule, you are required to withdraw the entire balance by December 31 of the 5th year since the owner died.

**■ For Roth IRAs that You Inherited**

***If you inherited a Roth IRA from which you are taking distributions over your life-expectancy,*** you are required to take a beneficiary RMD by December 31 of this year, if the decedent died last year or earlier.

***If you inherited a Roth IRA from which you are taking distributions under the five year rule,*** you are required to withdraw the entire

balance by December 31 of the 5th year since decedent died.

RMD and beneficiary distribution rules are complicated. We can help to make them easier to understand. Please contact us if you have questions about RMDs from your own or any IRA that you inherited.

**What if You Miss the RMD Deadline?**

If you miss the deadline for taking your RMD, you will owe the IRS a penalty of 50 percent of the amount that you failed to withdraw. For example: assume that your RMD for the year is \$8,000, and you withdrew only \$2,000. You will owe the IRS a penalty of \$3,000 (50% of the \$6,000 that you did not withdraw by the deadline).

If this is the case, please contact us to discuss the matter. Depending on your reason for not meeting the deadline, we may be able to provide a solution under which the IRS may waive the penalty.

**2. TAKE SEPP DISTRIBUTIONS**

Distributions taken from your IRA before you reach age 59½ are subject to a 10% early distribution penalty, unless you qualify for an exception. One exception is taking distributions under an IRS approved formula for (a) five years or (b) until you reach age 59½, whichever of these is longer. This exception is commonly referred to as substantially equal periodic payments (SEPP) or 72(t) payments.

**How Much Should You Withdraw?**

Under a SEPP, you are required to withdraw a specific amount each year. There are three IRS approved formulas from which you can choose to calculate your annual withdrawal amounts. If you withdraw more or less than the required amount, you are no longer eligible for the penalty waiver, and the penalty is retroactively applied to amounts taken in the current and any previous

years under the program. If you are running a SEPP on your IRA, check your account statements to see how much you have already withdrawn, and ensure that any remaining amount for the year is withdrawn by December 31.

**3. CONVERTING TO A ROTH IRA: NEW RULES**

A Roth IRA is a retirement savings account that allows you to take tax-free distributions once you meet certain requirements. One of the ways in which you can fund your Roth IRA is by converting funds from your other retirement accounts.

Before January 1, 2010, you could convert funds to your Roth IRA only if your modified adjusted gross income (MAGI) was \$100,000 or less, and if your tax filing status was not married-filing-separately. As of January 1, 2010, these restrictions no longer apply, thereby allowing everyone to convert funds from other retirement accounts to Roth IRAs.

**Special Tax Paying Option for 2010 Conversions**

When you convert pre-tax amounts from your other retirement accounts to your Roth IRA, you must include that amount as taxable income on your tax return for the year that the conversion is done. However, there is an exception for conversions done in 2010. Under this exception, you can choose to either include the entire conversion amount on your 2010 tax return, or divide the amount in two, and include half on your 2011 tax return and the remaining half on your 2012 tax return. Choosing the option that is more suitable for you depends on factors which include whether you can afford to pay the taxes owed in one year.

**Deadline for 2010 Conversion**

If you are planning to convert funds from your other retirement accounts to a Roth IRA for the 2010 calendar year, the funds must leave that retirement account by December 31, 2010. If you have questions about converting your other retirement accounts to a Roth IRA, please contact our office.

## 4. GET PAPERWORK IN EARLY Common Questions

While the IRS has set a deadline of December 31 for these transactions, the deadline set by the financial institution may be much earlier, to allow enough time to handle the high volume of requests usually received during December. As such, it is a good idea to submit your requests to us a few weeks before the December 31 deadline.

## 5. CHECK YOUR STATEMENT FOR ACCURACY

While processors may try their best to ensure that your transactions are processed accurately, mistakes can be made. You can help to ensure that any mistakes are corrected in a timely manner by always checking your account statement or activity report and notifying us if you discover any processing errors.

## CONCLUSION

Make your year-end less stressful by letting us handle your IRA transactions. If you are not sure whether you should have a transaction processed, contact our office. Please be sure to call us with all of your IRA questions.

**Q:** I want to rollover my 401(k) account to my Roth IRA. Do I have to rollover the amount to my traditional IRA first?

**A:** No. Under the old rules, you were required to do so. As of 2008, you can rollover the amount from your 401(k) directly to your Roth IRA.

**Q:** My required minimum distribution (RMD) for my traditional IRA for this year is \$10,000. However, I already have enough savings to cover my living expenses. Since I plan to convert my traditional IRA to my Roth IRA this year, can I convert the entire balance, including the \$10,000 to my Roth IRA?

**A:** No. Your RMD amount cannot be converted to your Roth IRA. Also, you must take your RMD from your traditional IRA before converting any amount to your Roth IRA. If you fail to take your RMD from your traditional IRA before doing the conversion, the transaction will result in the RMD amount being treated as an erroneous credit to your Roth IRA, and could create avoidable complications.

**Q:** My RMD for this year is \$5,000. However I took a distribution of \$7,000. Can I rollover the excess \$2,000 distribution amount to the same or another traditional IRA.

**A:** It depends. Distributions in excess of your RMD can usually be rolled over. However,

the rollover is permitted only if it is completed within 60-days of you receiving the distribution. Therefore, if the 60-day deadline has passed, the amount may not be eligible for rollover. If it is within the 60-day deadline, the \$2,000 can be rolled over. Note: The IRS can extend the 60-day deadline under certain circumstances. Please contact us if you have questions concerning when the IRS may extend the deadline.

**Q:** I have one traditional IRA, a SEP IRA and a SIMPLE IRA. Do I have to take RMD amounts from each of these IRAs?

**A:** No. While the RMD for each must be calculated separately, the amounts can be aggregated and taken from one or more of these IRAs.

**Q:** My traditional IRA is invested in stocks that I do not want to liquidate. Can I take my RMD amount in stocks?

**A:** Yes. Your RMD amount can be taken in-kind (noncash assets). Take care to ensure that the market value of the stocks is not less than your RMD amount, as the shortfall would be subject to a penalty of 50%.

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