Monthly IRA Updates

ED SLOTT AND COMPANY, LLC
America's IRA Experts

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Question of the Month: Do I have to take a Required Minimum Distribution if working?

Q: If you have worked any part of the year that you turn 70 1/2, what are the requirements for taking Required Minimum Distributions (RMDs) for that year?

A: If you have a traditional IRA, you must start taking RMDs at age 70 1/2 regardless of whether you continue to work or not. In the year you turn age 70 1/2, you can take your RMD by December 31 or defer it until April 1 of the following year. You must take every subsequent RMD by year-end. The good news for Roth IRA owners is that there are no RMDs.

If you participate in a company-sponsored plan and you are not a 5% or greater owner of that company, the plan may not require you to take RMDs until you retire. If you retire at any point in 2011, you will have to take a distribution for 2011 from the plan assets.

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When the 2-Year Deal is Not Really a 2-Year Deal

The April issue of *Ed Slott's IRA Advisor Newsletter* lets you know when a deal is not really a deal.

Many individuals chose to go through with a Roth conversion in 2010 because income and filing status restrictions were repealed and because of a special tax-break called the 2-year deal.

Instead of including all the income from a 2010 conversion in 2010, clients can choose to split the income equally over 2011 and 2012. However, sometimes events that occurred after the conversion can alter the 2-year deal or elimate it altogether. **What are these events?**

FIND OUT WHEN A 2-YEAR DEAL ISN'T A DEAL IN ED SLOTT'S IRA ADVISOR NEWSLETTER

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Inside Ed Slott's IRA Advisor Newsletter

When the 2-Year Deal is Not Really a 2-Year Deal

- Acceleration of 2010 Roth Conversion Income
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- Reporting the Acceleration of 2010 Roth Conversion Income
- Death Can Deal a Fatal Blow to the 2-Year Deal

Advisors' 2011 Roth IRA Questions Answered

- Paying the Tax Under the 2-Year Provision
- No 2-Year Deal for 2011 Conversions
- No Income Splitting Over 2010, 2011 and 2012 for 2010 Conversions
- Changing your Mind on the Income Inclusion for 2010 Conversions
- Everyone can Convert in 2011
- Income Limits on Roth Contributions
- Beneficiary Options on Converting Inherited Retirement Assets
- Recharacterizing and Reconverting

Guest IRA Expert

Martin James, CPA
Mooresville, Indiana
Dig Deeper for True Marginal Tax Rates

If you are not already an Ed Slott IRA Advisor Newsletter subscriber, you can preview past issues before subscribing.

April Key Focus

Unmarried Couples and the New Federal Estate Tax

The federal estate tax is back in effect as of **January 1, 2011.** Originally, the tax was to apply to all estates over $1 million, at a top rate of 55%. As a result of a last minute compromise in Congress, the federal estate tax will temporarily be reduced for two years. In 2011 and 2012, the estate tax will apply to estates over $5 million at a top rate of 35%.

Unmarried, cohabitating individuals may be facing a significant problem under the new provisions. Under federal law, a person who dies can leave an unlimited amount of assets to a U.S. citizen spouse without any of it being subject to the estate tax at the time of his or her death (assets bequeathed to a non-U.S. citizen spouse do not receive this unlimited exemption and special planning is required in these cases). But if you leave money or property to someone you live with but are not legally married to, the same rules do not apply. If the total value of all your assets when you die is more than the estate tax exemption amount, then there most likely will be estate taxes. For this reason, many unmarried couples face much more difficult tax issues than married couples and should consult with a financial advisor or attorney knowledgeable in estate planning and familiar with the new rules.

Same-sex couples also run into issues. They may live in states that allow them to marry or have civil unions in which they are treated the same as married couples for tax purposes, but that only applies to state taxes. The federal government does not currently recognize same-sex marriages or civil unions for the purposes of federal taxes, so couples need to take extra care now that the federal estate tax is back in full effect.

Ruling to Remember

Private Letter Ruling 201110014

"Matt" maintained an IRA with his bank, but decided to withdraw an amount of money from that IRA and deposit it into an account at a separate bank.

Why did "Matt" make the withdrawal?

It was based on his belief that the initial bank would fail to stay financially solvent, and he was afraid of losing his savings. He spoke to an individual at the second bank who incorrectly told him he had 90 days to rollover the retirement funds into another IRA without penalty and he should take that time to evaluate the financial stability of his current bank.

"Matt" relied on this individual's advice. He did take a small amount of the money he withdrew from the IRA to reduce the interest expense on a bank credit line. When his first bank's financial condition subsequently improved, he deposited the initially-withdrawn funds into a SEP IRA account. However, he made this rollover after the 60-day requirement, finding out about his error in a notice from the Internal Revenue Service.

"Matt" filed a PLR and it was determined that he was given incorrect information that resulted in his failure to accomplish a rollover in the proper time frame. The 60-day rollover requirement was waived in this case, and the rollover to SEP IRA was treated as a valid rollover contribution.

LESSON TO LEARN:
Double check the accuracy of information...and then check it again. In this case, "Matt" didn't discover the problem until he was contacted by the IRS, which you don't want contacting you on IRA matters. Make sure you work with a competent financial advisor to get all questions answered correctly.

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