ED SLOTT'S IRA ADVISOR

© 2011 Ed Slott, CPA

August 2011

TAX & ESTATE PLANNING FOR YOUR RETIREMENT SAVINGS

5 Roth Recharacterization Cautions

Just as 2010 may have been the year of the Roth conversion, 2011 may be the year of the Roth recharacterization. Some clients may have experienced sticker shock after seeing the tax bill for their 2010 Roth conversions and now want to undo those conversions. That may not be the best move. Before clients recharacterize, make sure they are aware of these consequences.

Recharacterization Caution 1:
You could lose existing tax-free gains!

For many investors the stock market has been pretty good for 2010 and, so far, 2011, which means tax free gains on 2010 Roth conversions are likely. Explain to clients that if the Roth conversion is undone, these tax free gains will be transferred back to a traditional IRA – where they will be taxable when withdrawn from the traditional IRA. That benefits Uncle Sam.

Although a recharacterization may ultimately be what the client truly wants, it's important to make sure they see the long-term, big picture and not let an emotional decision on the tax bill overshadow the tax-free income already earned. Remember, up to this point, clients only pay tax on the amount originally converted, even if the Roth IRA account balance is much higher now.

Recharacterization Caution 2:
You'll blow the 2-year deal!

If a 2010 Roth conversion is recharacterized, then the 2-year deal (50% of conversion income included in 2011 and 50% of conversion income included in 2012) is lost for good, even if the same funds are re-converted in 2011. Once those funds are re-converted in 2011, the conversion is now a 2011 conversion and the 2-year deal is not available. All of the 2011 Roth conversion income must be reported in 2011.

Even though there is tax owed on the 2010 Roth conversion, if the income is spread over two years (2011 and 2012),

Multiple IRA Beneficiaries
Pages 4-5

Social Security and IRAs
Pages 6-7

WHAT'S INSIDE?

5 Roth Recharacterization Cautions
- You could lose existing tax-free gains!
- You'll blow the 2-year deal!
- Not so fast…you still have time!
- Your RMDs will increase!
- You may not be able to recharacterize the entire conversion!
- How Much Gets Moved Back to the IRA?

- Pages 1 - 3

Dealing With Multiple IRA Beneficiaries
- Who is the Designated Beneficiary?
- The September 30th Beneficiary Determination Date
- September 30th Alert!
- Missing the December 31st Deadline
- Cashing Out a Charitable Beneficiary
- Possible Pitfalls
- Splitting the IRA
- Advisor Action Plan

- Pages 4 - 5

Guest IRA Expert
Mark R. Lumia, CFP®, ChFC, CASL
True Wealth Group, LLC
The Villages, FL
Coordinating Social Security With IRAs

- Pages 6 - 7

REGISTER TODAY! INSTANT IRA SUCCESS IS FAST APPROACHING
Ed Slott's 2-Day IRA Workshop
Arizona Biltmore Resort & Spa Phoenix
September 23-24, 2011
SEE PAGE 8 FOR DETAILS