



ED SLOTT'S IRA ADVISOR

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TAX & ESTATE PLANNING FOR YOUR RETIREMENT SAVINGS

Tax Reporting for Lump-Sum Distributions

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"Combined, income and death taxes could boost what your kids pay on the remainder of your 401(k) to more than 80%."

– The Wall Street Journal
Editorial Page, February 25, 2002

The above quote describes the confiscatory taxation of 401(k)s and IRAs, but the combined tax can be reduced by the IRD (Income in Respect of a Decedent) deduction. The problem is that the deduction is often missed. If that happens, then the combined estate and income tax can easily exceed 80%. Often the deduction is overlooked because beneficiaries are not aware they are entitled to it. We have resolved that problem for you here. This month's feature article *"Income in Respect of a Decedent"* explains the IRD concept and then in 5 easy steps shows you how to calculate the IRD deduction.

IRAs are not the only items that qualify for an IRD deduction. On page 6 is an IRD checklist that you can use to identify other items of IRD in an estate. If you are the beneficiary, you cannot afford to miss this deduction. It can often be worth thousands of dollars in tax savings not only on this year's taxes but possibly for future years.

If you are a beneficiary and realize that you neglected to claim the deduction on prior years' returns, all is not lost. You can amend the last 3 years tax returns and receive tax refunds plus interest on any amounts owed to you. Also amend your state return if you paid state taxes on IRA or other distributions of IRD items.

If you're struggling once again with tax reporting for Roth conversions and recharacterizations on Form 8606, there's help in this issue. Also if you need to file Form 4972 for a lump-sum distribution, that is explained in our article *"Reporting Lump-Sum Distributions on Your Tax Return."*

If you converted from a traditional IRA to a Roth IRA back in 1998, you were permitted to spread the conversion income over 4 tax years (1998 – 2001).

Your 2001 tax return will reflect the last installment. If you have been paying the conversion tax through quarterly estimated tax payments, you can lower your 2002 estimated tax payments by the amount that was estimated to cover the conversion income.

For more IRA information, visit our website at www.ira-help.com.

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Your IRA Questions Answered

- ▶ Where do Recharacterizations Go?
- Changes in Form 8606 for 2001 Tax Returns

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*IRD Checklist
see page 6.*

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IRD Tax Deductions for IRA and Plan Beneficiaries

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