

DO YOU KNOW ABOUT THESE KEY IRA DATES?

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There are two key dates that can have a major impact on holders of IRA accounts. A failure to engage in some proactive planning can deprive the account holder of significant benefits, as outlined below.

INHERITED IRA ACCOUNTS

SEPTEMBER 30, 2011

Are you perhaps one of two or more beneficiaries on an inherited traditional IRA account, especially an IRA that includes a charitable beneficiary? If so, then September 30 has special significance for you. According to the tax law, the required minimum distributions (also known as “RMDs”) from an inherited IRA with several beneficiaries has to be paid out based on the shortest life expectancy among the beneficiaries. A charitable organization does not typically have a life expectancy, so the funds would have to be distributed to all beneficiaries very rapidly.

Why is this important? With proper planning, the tax law normally allows these payments (and the related income tax liability) to be “stretched” out over the life expectancy of a human beneficiary (hence the term “stretch IRA”). Younger beneficiaries would therefore receive lower payments (and pay less in taxes) over a longer period of time.

To preserve the stretch capacity, the charitable beneficiary’s share of the IRA must be paid out by September 30, 2011 for inherited IRAs where the original owner died in 2010.

December 31, 2011

Assuming that the charity’s share of the IRA account is paid out by September 30, the next step in maximizing the stretch option is for the IRA account to be “split” among the remaining beneficiaries according to the shares originally designated by the original account owner. If each of the remaining beneficiaries has his/her own inherited IRA account, then the payments will be based on that individual’s life expectancy. This splitting of the IRA must be completed by December 31, 2011, or all the remaining beneficiaries on the account must use the life expectancy of the oldest

beneficiary as of September 30. Missing this deadline, like the September 30 deadline, subjects all the beneficiaries to higher payouts and increased taxes.

ROTH IRAs

October 17, 2011

Changes in the tax law in 2010 permitted many taxpayers to convert their traditional IRAs to ROTH IRAs. While this strategy requires taxes to be paid on the converted value of the traditional account, it offers the opportunity of tax-free growth in the future and the possibility of avoiding the required minimum distributions from the account. The law also allows the income from converting the IRA in 2010 to be reported entirely in 2010 or spread evenly over 2011 and 2012. The related income tax from the conversion may be either paid entirely in 2011 (for 2010 returns) or spread equally over 2011 and 2012.

A key element of the law change allows taxpayers to re-characterize (reverse) the conversion action, but this must be completed by October 17 of this year.

Why consider a re-characterization now? Take a look at the value of your converted account. The stock market turbulence of the last several months may have decreased the value of your converted amount significantly, yet the income tax due is based on the higher value at the time of conversion. If this fact pattern is similar to your personal situation, you may wish to contact your tax advisor to determine if the conversion is still a good strategy. If not, you can re-characterize your conversion and not pay the tax. While you are back to your original position, you can wait and determine your next steps. The law does allow another conversion, but special rules apply.

CONCLUSIONS

It's early in September, so it's best to start now if these situations apply to you. You will not only need to meet with your tax advisor, but contact the IRA custodian involved and ensure that any necessary paperwork is completed right away. We specialize in beneficiary reviews and designations, and are able to work with you and your tax advisor as needed.

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