YOUR Money AND Family Today

AMERICA's IRA CENTERS™ NEWSLETTER

AUGUST 2013

SUMMER ENDS, PLANNING BEGINS...

IRA Spousal Beneficiaries

Why is it important to distinguish between a spouse beneficiary and a non-spouse beneficiary of an IRA? It's important because non-spouse beneficiaries do not have the same distribution options as spousal beneficiaries. A few key differences are discussed below.

Rollovers
A spousal rollover permits the surviving spouse to rollover the inherited IRA into his or her own existing IRA. To illustrate, Jane is the beneficiary of her husband Joe's IRA. Joe passes away and Jane elects to rollover Joe's IRA into her own because she is only 62 years old and she wants to delay her required minimum distributions from Joe's IRA until she reaches age 70½. Jane may now name her young grandchildren as the beneficiaries, creating the opportunity for a multi-generational strategy that allows them to enjoy tax-deferred distributions over their individual life expectancies. No other type of IRA beneficiary has this option.

*__Important__: a spousal rollover is a one-time, irreversible election.

<u>Who</u> Can Request An...

IRA Rollover?
• IRA Owner • IRA Spousal Beneficiary
IRA Transfer? (trustee-to-trustee)
• IRA Owner • IRA Spousal Beneficiary • Non-Spouse Beneficiary • Ex-Spouse (pursuant to divorce decree)

60-Day Rule
A spousal IRA beneficiary also has the advantage of the 60-day rollover rule. Using Joe and Jane as an example, assume Jane passed away and Joe withdrew the IRA assets. Joe has 60-days to complete a rollover and deposit the funds into his own IRA.

*__Hint__: in this case, to avoid rollover errors, Joe may simply choose to re-title Jane's IRA as his own rather than engage in a rollover transaction.

A 60-day rollover option is <u>never</u> available to non-spouse IRA beneficiaries. Once a distribution is made to the non-spouse, it is irrevocable and fully taxable.

Take RMDs as a Beneficiary
Spousal IRA beneficiaries are not required to treat IRAs they inherit from a deceased spouse as their own. They may be significantly younger and need to withdraw IRA assets to live on but they also want to avoid an IRS early distribution penalty. Assume Jane passes away at age 58 and her husband Joe is the beneficiary of her IRA. The IRA contains significant assets but Joe is only 35 years old and he needs the IRA money to live on. If he elects to treat the inherited IRA as his own, he will not only owe income taxes on any distributions, he will also owe a 10% early distribution penalty because he is under 59½ and no other exception applies. In this case, Joe is likely better off taking required minimum distributions (RMDs) as a regular beneficiary. Should his situation improve a few years down the road, Joe can later elect to treat the IRA as his own and roll it into his own IRA, basically "turning off" the RMD requirement until he reaches age 70½. However, as stated earlier, a spousal rollover is a one-time irreversible election so Joe needs to consult with his distribution expert and make an informed decision.

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America's #1 Provider of Retirement Distribution Strategies℠

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60-Day Rollover Exceptions

Under the 60-day rule, an IRA rollover must be completed no later than the 60th calendar day after the day the individual receives the distribution.

There are, however, few exceptions to this rule:

- Frozen Deposits
- First Home Purchase
- Disaster Area or Combat Zone
- IRS Discretion – failing to waive the rule would go against equity or good conscience

When does the IRS consider a 60-day waiver request worthy? Waiver requests are always reviewed on a case-by-case basis and specific circumstances vary. Some examples where 60-day rule waivers were granted involved casualties, regional disasters and events wholly beyond the reasonable control of the individual requesting the waiver.

There are specific circumstances where an ***automatic*** waiver may be granted. If the 60-day deadline was missed due solely to an error made by the custodian or financial institution holding the IRA but the IRA holder followed all of the custodian's rollover procedures in a timely manner, a waiver may be granted as long as:

1) The rollover funds are deposited within 1-year of the beginning of the rollover period; and

2) Had the custodian/financial institution deposited the funds as instructed by the IRA owner, it would have been a valid rollover.

72(t) Basics

What are 72(t) payments? They are a series of substantially equal periodic payments (sometimes referred to as SEPPS) from an IRA. Why would an IRA owner ever consider a 72(t) distribution plan? If you have an IRA, are under 59½, but need to withdraw money from your IRA, the IRS imposes a 10% early distribution penalty on the amount prematurely distributed unless an exception applies.

One exception is found in I.R.C. 72(t) which permits a series of substantially equal periodic payments that are not subject to the 10% early withdrawal penalty. 72(t) distributions are required for the longer of 5-years or until you reach age 59½.

Here are some of the basics:

- You can't rollover 72(t) distributions back into the IRA or another IRA
- You can't convert 72(t) payments into a Roth
- A minimum 5-year distribution is required under a 72(t) payment plan regardless of whether or not your initial need for the money no longer exists
- Most modifications are prohibited
- No contributions or additional withdrawals are permitted
- **Helpful Tip**: segregate the funds you intend to use for the plan to avoid an inadvertent, prohibited modification

CAUTION: Be sure that a 72(t) plan is right for you. The rules are very strict and you will be liable for penalties if any rules are not precisely followed. A modification triggers a retroactive 10% penalty to all distributions made before age 59½ plus interest.

There are only 2 limited exceptions to a modification penalty under Rev. Rul. 2002-62 § 2.03(b):

1) An individual is not subject to the additional tax if (i) the payments are not substantially equal because the assets in the individual's account plan or IRA are exhausted, and (ii) the individual followed one of the prescribed methods of determining whether payments are substantially equal periodic payments.

2) An individual who begins receiving distributions in a year using either the fixed amortization or fixed annuitization method may switch to the minimum distribution method for the year of the switch, and all subsequent years, and the change will not be treated as a modification. Any subsequent change, however, will be considered a modification.

What is a Spousal IRA?

In order to be eligible to contribute to an IRA, you must have earned compensation. The maximum contribution you may make is the lesser of your earned income and the IRS contribution limit - $5,500 for 2013, $6,500 if you are 50 or older. However, there is an *exception* to this rule. In the event you have a spouse with little or no income, you can make an IRA contribution on his or her behalf as long as you earned enough income to cover the spousal IRA contribution. All other IRA contribution rules still apply. For example, if you or your spouse actively participates in a company plan, your ability to deduct the contribution may be impacted i.e., reduced or eliminated, depending on your filing status and income.

Social Security Tax Facts

- **Up to 85% of your Social Security benefits may be taxable**
- **If you are married and file a separate federal tax return…**
  Your Social Security benefits will likely be taxable.
- **If you file a federal tax return as an individual…**
  If your combined income is between $25k and $34k, up to 50% of your Social Security benefits may be subject to income tax. If your combined income is more than $34k, up to 85% of your benefits may be taxable.
- **If you file a federal joint return…**
  If you and your spouse have a combined income between $32k and $44k, up to 50% of your Social Security benefits may be subject to income tax. If you and your spouse have a combined total over $44k, up to 85% of your benefits may be taxable.
- **The wage base for 2013 has increased to $113,700**
  This is the maximum amount of earnings subject to the Social Security tax. According to the Social Security Administration, approximately 10 million workers subject to Social Security tax will pay higher taxes as a result of this increase.

IRS News: Special Tax Benefits for Armed Forces Personnel

The IRS recently released a list of 10 benefits that are available to our American men and women on active military duty: "Special tax rules apply to military members on active duty, including those serving in combat zones. These rules can help lower your federal taxes and make it easier to file your tax return."

10 Special Benefits

1. **Deadline Extensions**
2. **Combat Pay Exclusion**
3. **Earned Income Tax Credit**
4. **Moving Expense Deduction**
5. **Uniform Deduction**
6. **Signing Joint Returns**
7. **Reservists' Travel Deduction**
8. **Nontaxable ROTC Allowances**
9. **Civilian Life**
10. **Tax Help**

For details and more information, please visit the IRS website at www.irs.gov or refer to IRS Publication 3, the Armed Forces' Tax Guide.

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Overview: Roth Distribution Tax Chart

SOURCE OF FUNDS	QUALIFIED DISTRIBUTION		NON-QUALIFIED DISTRIBUTION	
	Tax-Free	Penalty-Free	Tax-Free	Penalty-Free
• Regular Roth Contributions	Yes	Yes	Yes	Yes
• Taxable Conversions • Taxable Rollovers	Yes	Yes	Yes	Maybe. A 10% early distribution penalty applies if <u>under</u> 59½ unless an exception applies.
• Non-Taxable Conversions • Non-Taxable Rollovers	Yes	Yes	Yes	Yes
• Earnings on Roth IRA Assets • Rollover of Earnings from a Non-Qualified Roth 401(k) or Roth 403(b) distribution	Yes	Yes	No. Federal Income Tax Applies.	Maybe. A 10% early distribution penalty applies if <u>under</u> 59½ unless an exception applies.

Help is Within Your Reach:

We can help you turn your IRA into a legacy that provides for you and your family. To schedule your FREE IRA consultation, please contact our office today! Some of the key services we offer are:

- Beneficiary Designation Reviews
- Designing Customized Beneficiary Forms to Ensure Your Goals Will Be Met
- Does Naming a Trust as Your IRA Beneficiary Make Sense?
- Discuss the Advantages of a Multi-Generational Distribution Strategy
- Pinpoint When You Must Begin Taking Your RMDs and Help Calculate Your RMDs

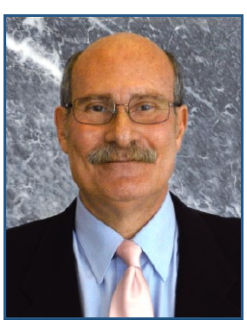
About America's IRA Centers™

America's IRA Centers™

We are the only community-based, one-stop resource specializing in retirement distribution planning and mitigating tax.

Few investors realize that the federal government is the primary beneficiary on their retirement accounts, and that unless they take specific steps to "disinherit" Uncle Sam, they could sacrifice from 35 to 80 percent of their nest egg to taxes.

Let us create a distribution plan for you that protects principal, defers or eliminates tax, and turns your IRA into a supercharged, multi-generational legacy for your family.



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