YOUR Money AND Family Today

AMERICA's TAX SOLUTIONS™ NEWSLETTER

JULY 2015

ALL ABOUT IRAS

What does IRA stand for? Most people immediately say "it's an individual retirement account." WRONG. IRA actually stands for individual retirement *arrangement.*

An IRA is a type of account that permits Americans to save for retirement while enjoying benefits such as deductible contributions to traditional IRAs, tax-deferred growth (tax-free growth for Roth IRAS!) and the ability to leave a multi-generational legacy to loved ones.

Multi-Generational IRAs

Is a multi-generational IRA a new type of IRA? No. A multi-generational IRA (MGIRA) is a *strategy*. This retirement distribution strategy is designed for IRA owners who want to ensure that any money left in their IRAs upon their death will go to their heirs and not the tax man!

After an IRA owner's death, designated beneficiaries of an MGIRA can continue to receive annual distributions from the IRA based on their individual life expectancies – they are permitted to "stretch" IRA distributions. Using an MGIRA strategy, IRA beneficiaries will pay income tax only on the required minimum distributions (RMDs) as they are received annually. The rest of the IRA assets continue to grow on a tax-deferred basis. If it is a Roth IRA, the inherited IRA assets can continue to grow on a *tax-free basis.*

If this strategy is available to every IRA owner, then why do so many people fail to properly set up an MGIRA strategy?

Unfortunately many people are not even aware that an MGIRA strategy exists so they fail to create this incredible distribution opportunity for their loved ones. Other people do not understand how simple setting up an MGIRA really is or they procrastinate until it's too late.

Once an IRA owner passes away, an MGIRA strategy is lost forever. It must have been set up by the IRA owner while he or she was still living.

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Who Can Inherit Your IRA?

Anyone or anything can be named as the beneficiary of an IRA. However, it is important to note that not all IRA beneficiaries have the same distribution options when they inherit an IRA. Some of the most common beneficiaries are:

- Spouse
- Colleges/Universities
- Hospitals
- Churches
- Armed Forces Charities
- Performing Arts Charities
- Special Non-Profits
- Research Organizations (i.e., American Cancer Society)
- Animal Shelters/Rescue Centers

- Children
- Grandchildren
- Brothers/Sisters
- Nieces/Nephews
- Parents
- Trusts
- Colleges/Universities

Relocating IRA Assets

If you have an IRA but do not like how it is being managed or prefer to use another IRA custodian, IRA owners may request a rollover or a trustee-to-trustee transfer (sometimes called a “direct” rollover). As of 2015, IRA rollovers are limited to one per year regardless of how many IRAs you may have. Trustee-to-trustee transfers, however, are *unlimited.* If you have inherited an IRA from anyone other than your spouse (or you chose to inherit from your spouse as a regular IRA beneficiary) you may also relocate your inherited IRA assets if you believe there is a more suitable IRA custodian for your particular planning needs.

IMPORTANT IRA DEADLINES	
April 1	• In the year that follows the year IRA owners turn age 70½, April 1st is the deadline for IRA owners to take their very first RMD. *NOTE:* if you elect to delay your first RMD until the year after you turn 70½, you will still have to take a regular RMD that year. For example, if you turn 70½ in 2015 but choose to wait until February 2016 to take your first RMD, your regular 2016 RMD will also need to be taken next year no later than December 31st.
April 25	• Deadline for making IRA contributions for the prior year.
September 30	• Deadline to determine the designated beneficiaries for an inherited IRA.
October 15	• Deadline to recharacterize your excess or unwanted IRA contributions for the prior year.
October 31	• Deadline to submit a copy of all qualified trust documentation to the IRA trustee, custodian or administrator when a trust is the beneficiary of an inherited IRA.
December 31	• Deadline for taking a regular RMDs - this applies to both IRA owners and IRA beneficiaries. • Deadline for multiple IRA beneficiaries to take advantage of the separate account rule.

Naming a Trust as Your IRA Beneficiary

Before naming your trust as the beneficiary of your IRA, make sure you understand why you are doing it and what the potential consequences are. Unfortunately, many people fail to recognize that IRAs are unique assets and while a trust may be ideal for the majority of your estate, naming a trust as the beneficiary of your IRA is not usually the most tax efficient move.

How are IRA distributions taxed when a trust is the IRA beneficiary? The answer depends on how the trust is set up. For example, if the trust is a properly drafted "see-through" trust, IRA RMDs may pass through the trust directly to the individual trust beneficiary. The RMD recipient will be taxed based on his/her individual income tax rate. However, if RMDs are "trapped" in the trust, anything over $12,300 will be taxed at 39.6% for 2015.

There is another downside if you have more than one trust beneficiary. Even assuming a trust has been properly drafted, a Multi-Generational IRA (MGIRA) strategy is not available if there are multiple beneficiaries to the trust. They are all stuck using the oldest trust beneficiary's life expectancy for purposes of calculating RMDs. Why is this important? The incredible opportunity for the youngest trust beneficiaries to enjoy tax-deferred distributions over their (much longer) individual life expectancies is eliminated.

There are always going to be situations where a trust makes sense and it is the best option for your situation. If you plan to name your trust as the beneficiary of your IRA, be sure that you have all the facts and seek advice from qualified distribution experts and qualified trust attorneys to ensure your trust will operate according to your distribution plan.

IRA Contribution Q & A

Q: Can I contribute to my traditional IRA and Roth IRA in the same tax year?

A: Yes but your total contributions may not exceed the annual maximum – it's an aggregate limit. For 2015, the IRA contribution limit is the *smaller* of your taxable income or $5,500 ($6,500 if 50 or older).

Q: I am 56 years old and would like to rollover my 401(k) to an IRA, does the $5,500 contribution limit apply to rollovers?

A: No. Rollovers from 401(k)s or other retirement plans are not subject to the annual IRA contribution limit.

Q: Is my IRA contribution deductible?

A: Maybe. Roth IRA contributions are never deductible, but traditional IRA contributions may be deductible. There are potential limitations on the deductibility of your traditional IRA contributions when you, for example, exceed certain income thresholds or you are also covered by a workplace retirement plan.

Q: I inherited an IRA from my mother last year, can I make a 2015 contribution to it this year?

A: No. Non-spouse beneficiaries are not permitted to make IRA contributions to inherited IRAs.

Divorce and IRAs

Divorce is a common situation these days and it is critical for IRA owners to ensure that any splitting of their IRA pursuant to a divorce is executed properly. Qualified Domestic Relations Orders (QDROs) are not required to accomplish a tax-free split of an IRA. QDROs are generally required for splitting federally governed retirement plans such as 401(k)s and certain pension plans. IRAs are governed by state law and an official divorce decree or separation instrument is needed before IRAs may be split between a divorcing couple. The divorce judgment or settlement should contain specific language that addresses the splitting of the IRA(s). Of course every situation is different so if you are an IRA owner facing divorce, it is important for you to discuss the division of your IRA with your personal attorney and/or other qualified advisor.

IRA Investments

IRAs are tax-favored vehicles that may contain several types of investments. For example, your IRA may be comprised of fixed indexed annuities, bonds and mutual funds. There are some restrictions, however, to what an IRA owner may or may not invest in.

What is excluded? Your IRA may not own S-Corporation stock. Things like life insurance policies and certain collectible items such as artwork, gemstones, rare books, antiques cars, etc. may not be purchased by your IRA. If you invest your IRA in collectibles, that amount is considered a taxable distribution and if you are under age 59½ you will also be subject to a 10% early distribution penalty. Beyond those restrictions, you have many IRA investment options available. It is important to keep in mind that although your IRA is permitted to hold certain investments under IRS rules, your IRA custodian may impose its own investment restrictions.

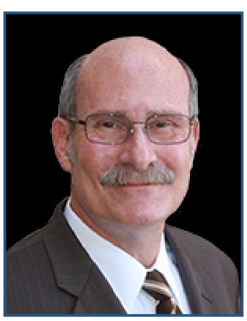
Need IRA Assistance?

Your retirement distribution expert can assist you! Call today to schedule a free consultation, ask questions or discuss important IRA planning issues such as:

- **Conducting a Beneficiary Review**
- **Making Sure You're with the Right IRA Custodian**
- **Personalized Multi-Generational IRA Report**
- **Discuss Tax-Free Retirement Options**
- **To Roth or Not to Roth**
- **Correcting IRA Mistakes**
- **The Nuances of IRA Rollovers**

Don't wait until it's too late – make sure your IRA distribution strategy is set up properly and can accomplish your planning goals.

About America's Tax Solutions™



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