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The IRA Authority !

IRA & Employer Plan Rules, News & Tips in Plain Language

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In This Issue

Annual IRA Calendar

Please mark your calendar with the following deadlines:

Missing deadlines for IRA transactions can result in missed opportunities to take advantage of tax and retirement related benefits. It could also cost clients in the form of IRS assessed penalties. In this issue, we provide reminders of some of the upcoming deadlines, and include background explanations where possible.

October 1: Deadline to establish a new SIMPLE IRA

Small business owners can establish a savings incentive match plan for employees of small employers (SIMPLE) IRA plan for this year, if the plan is established by October 1. In general, establishing the SIMPLE IRA plan means that the employer completes the documentation required to set-up the SIMPLE IRA plan, and provides the required notification to employees. The financial institution with which the plan will be maintained should be consulted about their documentation requirements. In most cases, the financial institution will provide the business owner with a kit that includes all the required paperwork and notices.

An exception to the deadline applies to businesses which start up after October 1. Under this exception, the SIMPLE IRA must be established as a soon as it is administratively feasible.

October 15: Deadline for Completing Recharacterizations

October 15 is the deadline by which

recharacterizations of Roth contributions for last year must be completed. We strongly recommend submitting the paperwork to the custodian earlier, so as to help ensure that the transaction is processed by the deadline.

There have been instances where the paperwork was delivered to the custodian by October 15, but the IRS determined the deadline was not met because the actual transaction was not processed by October 15. Tip: if your client's request was submitted by October 15, but was not processed by then, ask the custodian to process the recharacterization 'as of' October 15 or earlier, to prevent any discrepancies with the IRS. The method by which this 'as of 'transaction can be accomplished varies among custodians. For your client, the key is to be able to provide documented proof to the IRS if needed. Note: Bear in mind that not every custodian is willing to accommodate such a request.

October 31: Deadline for providing trust documentation to IRA custodian for IRAs inherited last year

If a trust meets certain requirements, it is eligible to be treated as a designated beneficiary for distribution purposes. This means that distributions would be permitted to be taken under the life-expectancy method, just as if an individual was the designated beneficiary. In such cases, the life expectancy of the oldest beneficiary under the trust is used. A trust that meets these requirements is considered a qualified trust.

The requirements which must be met, in order for a trust to be considered a 'qualified trust', includes providing the trust documentation to the IRA custodian by October 31 of the year following the year-of the IRA owner's death.

November 1: Deadline for providing summary description (for SIMPLE IRAs) to employees

For every year that an employer intends to continue maintaining a SIMPLE IRA plan, employees must be notified of the opportunity enter into a salary reduction agreement for the calendar year, or to modify a prior agreement for the SIMPLE IRA Plan, (including reducing the amount subject to this agreement to $0).. This must be provided immediately before the employee's 60-day election period, which is November 2 to December 31.

If applicable, this notification must disclose an employee's ability to select the financial institution that will serve as the custodian of the employee's SIMPLE IRA.

The notification must also include the summary description. The IRA custodian may need to provide the employer with the summary description before the 60-day period – no later than November 1, so as to allow the employer to meet its deadline

The summary description must include information such as:

- a) The name and address of the employer and the custodian.
- b) The requirements for eligibility for participation.
- c) The benefits provided with respect to the SIMPLE IRA .
- d) The time and method of making employee elections with respect to the SIMPLE IRA.
- e) The procedures for, and effects of, withdrawals (including rollovers) from the SIMPLE IRA.

Employers should check with the IRA custodian to determine the terms of their agreement, as it relates to these requirements.

The employer should also include information about the employer contribution that will be made to employees SIMPLE IRAs; that is, where the employer will be making a reduced matching contribution or a nonelective contribution in lieu of a matching contributions.

December 31: RMD deadline

Clients who are required to take a required minimum distribution (RMD) by December 31 may owe the IRS an excess accumulation penalty of 50% of any RMD amount not taken by then. The following explains the deadline which applies to IRA owners and beneficiaries. Owners of Traditional IRAs, SEP IRAs and SIMPLE IRAs.

Reaching age 70 ½ this year

A client who reaches age 70 ½ this year, is required to take her first RMD from her IRA for this year. While RMDs are usually required to be taken by December 31, there is a special rule that allows owners to defer taking this first year RMD until as late as April 1 of next year.

However, if she defers taking this year's RMD until next year, she will need to take two RMD amounts next year, as the one for next year must be taken by

December 31(of next year.) Consideration should be given as to whether this could affect her income tax rates and any taxes that may be owed for the year.

Reached age 70½ before this year

A client who reached age 70½ before January of this year, is required to take her RMD for this year by December 31. This RMD must not be deferred past December 31.

Beneficiaries of traditional, SEP and SIMPLE IRAs

The distribution options for an individual who inherited an IRA depend on whether the owner died before her required beginning date (RBD), or on/after her RBD. The RBD is April 1 of the year that follows the year in which the IRA owner (not the beneficiary) reaches age 70½.

If the IRA owner died before her RBD, beneficiary distributions may be taken over the life-expectancy of the beneficiary, or under the five-year rule.

Under the five-year rule, distributions are optional until December 31 of the 5th year that follows the year in which the IRA owner died, by which time the entire account must be fully distributed.

Under the life-expectancy method, distributions are required to begin by December 31 of the year that follows the year in which the IRA owner died, and continue for every year after.

The RMD amount under the life-expectancy method is calculated by dividing the December 31 fair market value (FMV) of the previous year by the applicable life-expectancy. The life-expectancy is usually that of the beneficiary, except in cases where the owner dies on/after the RBD. If the owner died on/after her RBD, distributions may be taken over the longer of the life expectancy of the beneficiary or the remaining life-expectancy of the decedent.

Accordingly, a beneficiary is required to take an RMD from her inherited IRA by December 31 of this year if any of the following apply:

- Distributions are being taken over the beneficiary or the decedent's life-expectancy and the IRA owner died before January 1 of this year.
- Distributions are being taken under the five-year rule, and this is the 5th year that follows the year in which the IRA owner died.

If the IRA owner was required to take an RMD this

year and died before doing so, the beneficiary must take that RMD amount by December 31.

Beneficiaries of Roth IRAs

Unlike beneficiaries of traditional IRAs, the distribution options that apply to the beneficiaries of Roth IRAs are not affected by the age at which the Roth IRA owner died. Instead, the rules that apply to Roth IRA beneficiaries are the same as those that apply to the beneficiary of a traditional IRA when the owner dies before the RBD; that is, beneficiary distributions may be taken over the life-expectancy of the beneficiary, or under the five-year rule.

Under the five-year rule, distributions are optional until December 31 of the 5th year that follows the year in which the IRA owner died, at which time the account must be fully distributed.

As such, the beneficiary of a Roth IRA is required to take an RMD from her inherited Roth IRA by December 31 if any of the following apply:

- Distributions are being taken over the beneficiary's life-expectancy and the Roth IRA owner died before January 1 of this year.
- Distributions are being taken under the five year rule, and this is the 5th year that follows the year in which the Roth IRA owner died.

Spouse beneficiary exception

- A spouse beneficiary is subject to the same rules explained above with the following exceptions:
- Instead of keeping the funds in an inherited IRA, the spouse can transfer or rollover the funds to her 'own' IRA or redesignate the IRA as her own.
- If the spouse beneficiary chooses to transfer the funds to an inherited IRA, she can transfer or rollover the balance to her own IRA at anytime.
- If the spouse inherited a traditional, SEP or SIMPLE IRA, and her spouse died before the RBD, she need not begin RMDs until the year her spouse would have reached age 70 ½, had he lived.

What if the RMD Deadline is missed?

If the RMD amount is not withdrawn by the deadline, the owner (or beneficiary for an inherited IRA) will owe the IRS a penalty of 50-percent of the amount that was not withdrawn by the deadline. For example: assume that a client's RMD for the year is $8,000, and only $2,000 was withdrawn by the deadline, a penalty

of $3,000 (50% of the $6,000 that was not withdrawn by the deadline) would be owed to the IRS.

December 31: Deadline for separate accounting

With a few exceptions, beneficiaries who are taking distributions under the life-expectancy method are allowed to use their own life-expectancies. One exception is when there are multiple designated beneficiaries of the same IRA. In this case, each designated beneficiary is required to use the life expectancy of the oldest designated beneficiary, unless separate accounting occurs by December 31 of the year that follows the year in which the IRA owner dies. As such, if you have a client who is one of multiple designated beneficiaries, and she is not the oldest beneficiary; remind her of the importance of segregating her share into a separate account by December 31.

December 31: Deadline for Roth IRA conversions

One of the ways in which a Roth IRA can be funded is by converting funds from other retirement accounts, such as traditional IRAs, SEP IRAs, SIMPLE IRAs, as well as from employer plans, such as 401(k), 403(b) and governmental 457(b) plans. For clients who want to have a conversion done for this year, the amount must leave the account from which the conversion is being done by December 31.

Be sure to notify clients of these deadlines early

Q&A: RMD Aggregation

Question: My client has a 401(k) and a traditional IRA, and need to take required minimum distributions (RMD) from both accounts. Can she take the total amount from my 401(k)?

Answer: No. The aggregation of RMDs for a 401(k) and an IRA is not permitted. Therefore, each account must satisfy its RMD independently.

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Retirement Consulting, Content & Coaching for Professionals
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Techincal Consultation Services: Options and features

Appleby Retirement Consulting Inc. provides technical consultation on the rules and regulations that govern Traditional IRAs, Roth IRAs, SEP IRAs, SIMPLE IRAs, Defined Contribution plans including 401(k)s, and 403(b)s.
Areas on which consultation is provided include explanations of the rules and regulations that govern the aforementioned accounts. This includes rules that apply to:

- Contributions
- Distributions (including In-service withdrawals, NUA, beneficiary distribution options and required minimum distributions)
- Rollover and transfers,
- Transfers due to divorce and QDROs
- Roth conversions, rollovers & recharacterizations (*not including Roth Conversion analyses*, but we can recommend someone),
- RMD Calculations,
- Correcting mistakes

We can also help you to determine retirement (employer) plan suitability for small business owners, and reviewing plan documents to determine features and provisions.

Please note: Our expertise does not include the funding and design of defined benefit plans and consulting on the rules that govern insurance products held in qualified plans.

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Annual Retainer: **Gold Package**	▪ **Unlimited telephone** and **unlimited email** consultations. ▪ A copy of our IRA Quick Reference booklet. ▪ Access to live and recorded webinars ▪ Periodic updates on topical issues	• $2,400 per year or • $220 per month for minimum of 12 months	• Customized solutions available
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Nothing contained herein is intended to replace or circumvent the procedures for obtaining revenue rulings and/or technical advice. Such procedures are spelled out in the several revenue procedures currently in effect. Because of the complexities and the many recent changes in this area, the practitioner is urged to merely use this newsletter as one source of information.

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