

2010
INDIVIDUAL
RETIREMENT
ARRANGEMENTS

TRADITIONAL IRA
SIMPLE IRA
SEP - IRA
ROTH - IRA
COVERDELL - ESA

BY

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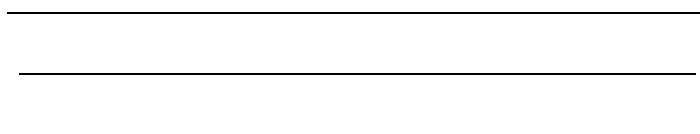
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OVERVIEW

It has been a long, long time since Social Security provided enough retirement funds for most Americans. Most people will live beyond their working years and will need income from savings for this retirement period. The need to accumulate additional retirement funds has become a very real need.

Congress created retirement plans for corporate business entities employees long before any plans were made available for small businesses and individuals without access to the large corporate plans. Keogh plans became available for small unincorporated businesses but the record-keeping and filing requirements were extensive.

Finally in 1974– Congress created the **Individual Retirement Arrangement (IRA)** which allowed any individual who had earned income and was not covered by another retirement plan (Keogh or corporate plan) to put aside funds for retirement that were tax free and earnings on same were tax free until withdrawn.

Evolving from the original IRA came the Spousal IRA, the SEP-IRA, the SIMPLE-IRA and, in 1998 the ROTH-IRA and Coverdell Education Saving Account (formerly Education IRA).

All of these plans are meant to encourage individuals to save for retirement and education. Contributions to traditional IRAs are flexible. Once opened, annual contributions do not have to continue, but may be made as the owner decides. Investment options are flexible as well. Funds may be moved via trustee-to-trustee rules at any time or every twelve months via an IRA rollover and retain tax deferral. Ease of transfer is important as investment needs change. Younger IRA contributors may place funds in an aggressive stock fund early on with the plan to move funds to more conservative instruments as retirement approaches.

Some Individual Retirement Arrangements allow for a tax deduction (tax savings) on the contributions as well as tax *deferred* (not tax exempt) earnings (interest) on the accumulated savings. Others allow no deduction but earnings are tax free.

An IRA may be structured to avoid probate. If a beneficiary is named for the IRA, death distributions will be made directly to that beneficiary without going through the publicity, delay and expense of probate.

NOT SO SIMPLE THESE DAYS!

With the limitations applied to IRAs and the distribution requirements, it is no longer a simple answer when the client asks the simple question:

CAN I HAVE AN IRA?

IMPACT OF TAX DEFERRAL

Assume a 30 year old person contributions \$3,000 a year to a regular IRA until age 65, and the IRA earns 8% annually. Owner is in 27% tax bracket. Comparison of growth in IRA to growth in taxable investment

<u>Year</u>	<u>Taxable Accumulations</u>	<u>Tax-Deferred Accumulations</u>
5	\$16,898	\$17,591
15	\$71,613	\$81,456
25	\$180,352	\$219,318
35	\$405,724	\$516,950

Assumes taxes are paid from taxable account annually

TRADITIONAL IRA



DEFINITION

A traditional IRA is any IRA that is not a Roth IRA, a SIMPLE IRA or an Coverdell ESA

Traditional IRA allows annual contributions to be made by **individuals** to individually held accounts or plans.

WHO CAN HAVE A TRADITIONAL IRA

Taxpayer who received **compensation** during the year
(Or spouse received compensation if file a joint return.)

and

Not age 70 ½ by the end of the year.

Contributions **cannot** be made to a **TRADITIONAL IRA**
for the year in which A taxpayer reaches age 70 ½ or any later year.

Can have a traditional IRA whether or not you are covered by any other retirement plan.
However, **deduction of** the contributions may be limited.

TRADITIONAL IRA

COMPENSATION

Must be **taxable** compensation - *whether contributions are deductible or non deductible*

Includes:

- ▶ Wages, salaries, tips, professional fees, bonuses and other amounts received for providing personal services
- ▶ Scholarship and fellowship payments if shown in box 1 of form W2
- ▶ Commissions
- ▶ Self employment - **net earnings** from trade or business - **provided personal services** are material income-producing factor.
 - Net earnings must be reduced by deduction for contributions made on behalf of taxpayer/spouse to retirement plans and the deduction allowed for one half of self employment taxes (**explained later**)
 - Compensation includes earnings from self employment even if not subject to SE tax because of religious beliefs.
 - Self employment **loss** does **not** reduce salaries and wages when computing total compensation.
- ▶ Alimony and separate maintenance received (taxable)

Not compensation

- ▶ Earnings and profits from property (rental, interest, and dividend income)
- ▶ Pension, annuity income or social security benefits
- ▶ Deferred compensation received
- ▶ Income from partnership for which you do not provide services that are material income - producing factor
- ▶ Any amounts excluded from income, (foreign earned income and housing costs)

TRADITIONAL IRA

KINDS OF TRADITIONAL IRAS

★ INDIVIDUAL RETIREMENT ACCOUNT

- ▶ A trust or custodial account
- ▶ Set up in the United States
- ▶ For exclusive benefit of taxpayer and beneficiaries.
- ▶ Created by written document which must meet following requirements
 - ✓ Trustee or custodian must be a bank, a federally insured credit union, savings and loan, or entity approved by IRS
 - ✓ Trustee or custodial **generally** cannot accept contributions of more than \$5,000 a year, UNLESS individual is age 50 or older, then it is \$6,000 per year.*
(Rollovers and SEP contributions discussed later are exceptions to \$4,000/\$5,000 per year limit)
 - ✓ Contributions, except for rollovers must be in **cash**
 - ✓ Amount in account must be fully vested (must have a non-forfeitable right to the amount) at all times.
 - ✓ Money in the account can not be used to buy life insurance
 - ✓ Assets in account cannot be combined with other property, except in a common trust fund or common investment fund.
 - ✓ Generally distributions prior to 59 ½ are penalized 10%.
 - ✓ Must start receiving distributions by April 1 of the year **following** the year in which you reach age 70 ½.

★ INDIVIDUAL RETIREMENT ANNUITY

- ▶ Purchase of annuity or endowment contract from a life insurance company.
- ▶ Must be issued in taxpayer's name as the owner
- ▶ Either taxpayer or beneficiaries who survive taxpayer are only ones who can receive benefits or payments.
- ▶ Must meet all of following requirements
 - ✓ Entire interest in contract must be non forfeitable
 - ✓ Contract must provide that no portion can be transferred to any person other than the issuer
 - ✓ Must be flexible premiums so that, if compensation changes, the payment can also change.
 - ✓ Contract must provide that contributions cannot be more than \$5,000/\$6,000 in any year, and that any refunded premiums must be used to pay for future premiums or to buy more benefits before the end of the calendar year after the year the refund is received.
 - ✓ Distributions must begin by April 1 of year following the year in which you reach age 70 ½.

*throughout the course "\$5,000/\$6,000" refers to the annual contribution limit as follows: Generally the contribution limit is \$5,000 per year, unless individual is 50 or over then the contribution limit is \$6,000 per year.

TRADITIONAL IRA

KINDS OF TRADITIONAL IRAS

★ INDIVIDUAL RETIREMENT BONDS

- ▶ Sale of individual retirement bonds issued by Federal government was suspended after April 30, 1982.
- ▶ Bond that were issued:
 - ✓ Do not pay interest on them until cashed in
 - ✓ Do not pay any further interest after age 70 ½
 - ✓ Interest stops 5 years after death or age 70 ½ whichever is earlier
 - ✓ Can not transfer the bonds
 - ✓ If cashed (redeemed) before year of age 59 ½, may be subject to a 10% penalty tax.
- ▶ Can roll over redemption proceeds into IRAs

★ EMPLOYER AND EMPLOYEE ASSOCIATION TRUST ACCOUNTS

- ▶ Employer, labor union, or employee association can set up a trust to provide IRAs for its employee or members. Requirements for traditional IRAs apply to these accounts

★ SIMPLIFIED EMPLOYEE PENSION (SEP)

- Written arrangement that allows employer to make deductible contributions to a traditional IRA set up for employee. (Discussed later)

★ SPOUSAL IRA

- Contributions based on other's spouses income
- Fully deductible if other spouse is not a member of employer maintained retirement plan
- Distributions must begin by April 1 of the year following the 70 ½ birthday
- \$10,000/\$12,000* combined total between both spouses per year.

* \$12,000 if both are age 50 or over.

TRADITIONAL IRA

INHERITED TRADITIONAL IRA

Traditional IRA **is included in the estate of the decedent** who owned it.

If **beneficiary is an estate** the beneficiary must withdraw the IRA balance by 12/31 of the 5th year following the year of the owner's death, if required minimum distribution has not started.

Beneficiary is a trust that qualifies as a designated beneficiary per IRS sec. 1.401(a)(9)-1

Trust may use life expectancy of the survivor who qualifies as the designated beneficiary and make distributions based on surviving spouse rules or non spouse rules, whichever applies, beginning no later than 12/31 of the year following the death OR withdraw the IRA balance by 12/31 of the 5th year following the year of owner's death.

If individual NOT surviving spouse, an inherited traditional IRA can **not** be treated as own IRA

- Contributions (including rollovers) can not be made to the IRA
- Can not roll it over
- Retains non taxable status until distributed.
- If plan permits, NON spouse beneficiary may elect to take distributions over survivor's life expectancy - beginning no later than 12/31 of the year following the death OR must withdraw IRA balance by 12/31 of the fifth year following the year of the owner's death.
- **If owner had begun receiving required distributions before death**, see next page

Surviving spouse - inherited IRA

- ▶ Can elect to rollover the funds into his/her own traditional IRA
Considered to have made the election **if:**
 - Contributions (including rollover contributions) are made to the inherited IRA or
 - Required distributions are **not** made from it
- Can take distributions based on his/her life expectancy
- Leave the IRA in the name of the decedent and not take distributions until the decedent would have reached age 70 ½.
- **If owner had begun to receive required distributions before death** see next page.

TRADITIONAL IRA

INHERITED TRADITIONAL IRA

If required distributions (for over 70 ½) had already begun before owner's death
If the owner was not calculating and re-figuring life expectancy each year:

Surviving spouse beneficiary (including designated beneficiary of a qualified trust)

May apply above rollover rules

OR, May continue taking distributions at least as rapidly as the method being used before the IRA owner's death

Individual other than surviving spouse beneficiary or beneficiary is an estate, or qualified trust

Beneficiary must take distributions at least as rapidly as under the method used prior to death.

If required distributions (for over 70 ½) had already begun before owner's death
and if the owner was calculating and re-figuring life expectancy each year.

If using single life expectancy:

Surviving spouse may treat the IRA as his or her own or may roll it over into his/her own IRA

Other than surviving spouse - must distribute the balance by 12/31 of the year following the year of death.

If NOT using single life expectancy (but was re-calculating each year)

Surviving spouse may roll over the IRA into his/her own IRA or must continue receiving distributions based upon his/her recalculated life expectancy (single, not joint)

Individual other than surviving spouse beneficiary must continue distributions from the IRA based upon the payments of the survivor's life expectancy (single, not joint)

Trust that **does not qualify** as a designated beneficiary per IRS Section 1.401(a)(9)-1 ---the balance of the IRA must be distributed by 12/31 of the year following the year of death.

(This applies if decedent was recalculating life expectancy!)

Trust that **does qualify** - trust must use the life expectancy of the survivor who qualifies as the designated beneficiary and apply spouse or non spouse individual rules

TRADITIONAL IRA

CONTRIBUTIONS

When

- ✓ As soon as traditional IRA is set up
- ✓ At any time during the year or by due date for filing return
not including extensions
- ✓ If contributed between January 1 and April 17, must designate (with the sponsor) which year it is for.
- ✓ May file return and claim the deduction before the IRA contribution is actually made but contribution must be made by due date (not including extensions).

How - Must be in the form of money (cash, check, or money order)

Property can not be **contributed.** (However, see rollovers)

RETIREMENT SAVINGS CONTRIBUTIONS CREDIT/SAVER'S CREDIT

Form 8880 - Non Refundable Credit

Low income taxpayers can receive a non refundable credit up to \$1,000 or \$2,000 for MFJ, for contributing to an IRA or employer-sponsored retirement plan such as a 401K.

Credit Percentage	Adjusted Gross Income		
	MFJ	Head of Household	Single, MFS, QW
50%	0 - 33 ,000	0 - 24,750	0 - 16,500
20%	33,001 - 36,000	24,751 - 27,000	16,501 - 18,000
10%	36,001 - 55,500	27,001 - 41,625	18,001 - 27,750
-0-%	Over \$55,500	Over \$41,625	Over \$27,750
Foreign Income must be added back to get to AGI For 2010 Income Limits may be increased for Inflation Adjustment			

TO QUALIFY

- Be 18 or older at the end of the tax year
- Cannot be claimed as a dependent on another's tax return
- Cannot be a full time student

ELIGIBLE CONTRIBUTIONS

- \$2,000 per year, per spouse
- Contributions to either a Traditional or a Roth IRA
- Contributions to tax-exempt employee funded pension plan under section 501(c)(18)
- Elective deferrals to 401(k), 403(b), 457 plans, SIMPLEs, SEPs
- Voluntary after tax employee contributions to a qualified retirement plan, annuity or IRA

Contributions are reduced by distributions in the current & previous 2 tax years from a Traditional or Roth IRA, 401(k), 403(b), 457, 501(c)(18), SEP, SIMPLE, and/or qualified retirement plans.

TRADITIONAL IRA

LIMITS- How much

General Limit

Smaller of taxable **compensation** (see earlier) or **\$5,000/\$6,000**

Spousal IRA limit

If **file a joint return** the **combined** contributions can not exceed \$10,000/\$12,000

If one spouses income is less than the other spouse, the most that can be contributed to the IRA of the spouse with the lesser income is the **smaller of:**

- ✓ \$5,000/\$6,000
- ✓ Total compensation includible in gross income of **both** spouses for the year **reduced by:**
 - Spouse's IRA contribution for the year
 - Any contributions for the year to a Roth IRA on behalf of spouse

Community Property Law

Except as under spousal IRA rules, each spouse figures his or her limit separately. Using his or her own compensation.

Filing Status

Except under Spousal IRA limits, filing status has no effect on amount of allowable contributions to traditional IRA.

(Except- if either spouse was covered by a retirement plan at work, deduction may be reduced or eliminated depending on filing status and income)

Contributions are not required for every tax year, even if eligible to contribute

TRADITIONAL IRA

LIMITS CONTINUED

Less than maximum contributions in a year

Can not make up the difference in another year

More than maximum contributions in a year

May apply the excess in one year to a later year if contributions for the later year are less than the maximum allowed for that year.
(See penalty for excess contributions if not allowable in a later year)

More than one IRA

Limit applies to total contributed to **all** on your behalf

Both spouses with compensation may each set up an IRA

Can not both participate in the **same** IRA

Inherited IRA

Can not contribute to an inherited IRA unless spouse of decedent.

Annuity or endowment contracts

NEW: No more than \$5,000/\$6,000 for tax year, including cost of life insurance coverage. If more than \$5,000/\$6,000, the annuity or endowment contract is disqualified.

Brokers commissions

Subject to the contribution limits
Not deductible as miscellaneous itemized deductions on Sch. A form 1040

Trustee fees

Not subject to contribution limits
If billed separately and paid in connection with traditional IRA are deductible as miscellaneous deduction on Schedule A - form 1040 subject to 2% AGI limits.

TRADITIONAL IRA

LIMITS - IF COVERED BY AN EMPLOYER PLAN-Form W2 should indicate if covered

If either taxpayer or spouse were covered by an employer retirement plan, deduction for traditional IRA contribution may be reduced or eliminated, depending on income and filing status. Deduction begins to decrease (phase out) when income rises above certain amounts and is eliminated altogether when it reaches a higher amount. The amounts vary depending on filing status.

Employer plan (Qualified plan - meets requirements of Internal Revenue Code)

- ✓ **Qualified pension, profit-sharing, stock bonus, money purchase pension etc plan (including Keogh plans)**
- ✓ **401(k) plan** - allows employee to choose cash or pay into the plan
- ✓ **Union plan**
- ✓ **Qualified annuity plan**
- ✓ **Plan established for its employees by the United States, a state or political subdivision thereof**, or by an agency or instrumentality of any of the foregoing (other than an eligible state deferred compensation plan)
- ✓ **Tax sheltered annuity (TSA)** plan for employees of public schools and other tax exempt organizations
- ✓ A simplified employee pension (**SEP**) plan
- ✓ A 501(c)(18) trust (created before 6-25-59) if made deductible contributions during the year.
- ✓ A **SIMPLE** plan.
- ✓ **Defined contribution plan** - Generally considered covered by it if amounts are contributed or allocated to your account for the plan year that ends within your tax year. If an amount is allocated to your account, you are covered by the plan even if you have no vested interest (legal right to)
- ✓ **Defined benefit plan** - If you are eligible (meet minimum age and years of service requirements) to participate in your employers plan year that ends within your tax year, you are considered covered by the plan. If you accrue a benefit for the plan year, you are covered by that plan even if you have no vested interest in the accrual.
- ✓ **Federal Judges** are considered covered by an employer retirement plan

TRADITIONAL IRA

LIMITS - IF COVERED BY AN EMPLOYER PLAN (Continued)

NOT Considered covered by employer plan:

- ✓ Social Security or Railroad Retirement
- ✓ If receiving benefits from a previous employer plan and not covered under another employer plan
- ✓ If only reason participating in a plan is because a member of a reserve unit of the armed forces - **NOT** considered covered by the plan if **BOTH** of following conditions are met:
 - ◆ The plan is established for employees by:
 - The United States
 - A state or political subdivision of a state, or
 - An instrumentality of either of the above
 - ◆ Did not serve more than 90 days on active duty during the year (not counting duty for training)

TRADITIONAL IRA

PHASE OUT OF DEDUCTION

For 2010-If covered by employer retirement plan, IRA deduction is reduced or eliminated entirely depending on filing status and modified AGI:

If filing status is	IRA deduction is reduced if modified AGI is between:	IRA deduction is eliminated if modified AGI is:	Taxpayer Takes Deduction of:
Single or Head O.H.	\$56,000 or less		Full
Married File Separated & did not live w/spouse considered Single	\$56,000 and \$66,000	\$66,000 or more	Partial None
Married-Joint return or Qualifying Widow(er)	\$89,000 or less \$89,000 and under \$109,000	\$109,000 or more	Full Partial None
Married filing Separate	less than \$10,000	\$10,000 or more	Partial None

For 2010, if *not* covered by employer plan, IRA deduction is reduced or eliminated entirely depending on filing status and modified AGI:

If filing status is	IRA deduction is reduced if modified AGI is between	IRA deduction is eliminated if modified AGI is	Taxpayer Takes Deduction of:
Single, Head of Household or Qualifying Widow(er)	Any Amount		Full
Married Filing Jointly	Any Amount		Full
Married Filing Joint	\$167,000 or less		Full
With a spouse who is Covered by a plan at work	\$167,000 and under \$177,000	\$169,000 or more	Partial None
Married - Filing Separately	Less than \$10,000	\$10,000 or more	Partial None

If taxpayer did not live with spouse at any time during the year and files a separate return, not treated as married and filing status is considered single for this purpose.

<p>*Modified AGI (adjusted gross income):</p> <p>For form 1040A - Amount on adjusted gross income line without taking into account any:</p> <ul style="list-style-type: none"> IRA deduction Student loan interest deduction Exclusion of qualified bond interest shown on Form 8815 Exclusion of employer paid adoption expenses shown on form 8839 <p>For form 1040: Adjusted gross income on return figured without taking into account any:</p> <ul style="list-style-type: none"> IRA deduction Foreign earned income exclusion and foreign housing exclusion Student loan interest deduction Qualified bond interest exclusion from form 8815 Employer paid adoption expenses shown on form 8839
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TRADITIONAL IRA

Worksheet for Reduced IRA Deduction (Use only if taxpayer or spouse covered by employer plan and modified AGI is within the phase out range that applies - compute separately)

If you are covered and your filing status is:	And your modified AGI is over:	Enter on line 1, below
Single or Head of Household	\$56,000	\$66,000
Married filing joint or Qualified widow(er)	\$89,000	\$109,000
Married filing separate return	-0-	\$10,000
<u>If your spouse is covered but you are not:</u>		
Married filing joint return	\$167,000	\$177,000
Married filing separate	-0-	\$10,000
If taxpayer did not live with spouse at any time during the year the taxpayer is considered single.		
<p>1. Enter the amount from above that applies _____</p> <p>2. Enter your modified AGI (of both spouses if joint) _____</p> <p>If line 2 is equal to or more than line 1 STOP HERE. Contributions to your traditional IRA are NOT deductible.</p> <p>3. Subtract line 2 from line 1. _____</p> <p style="padding-left: 40px;">If line 3 is \$10,000 or more Stop Here. You can take a full IRA deduction for contributions up to \$5,000/(\$6,000 if 50 or older) or 100% of compensation</p> <p>4. Multiply line 3 by 40%, -.40, (50%, -.50 for age50 or older). Round to next highest multiple of \$10. If less than \$200, enter \$200 _____</p> <p>5. Enter your compensation minus any Form 1040(?) deductions for: ½ of SE tax and/or SE Sep, Simple or Qualified plan. If joint return and your compensation is less than your spouse's, include your spouse's compensation reduced by his or her traditional IRA contribution and contributions to ROTH IRAs for this year. Do not reduce your compensation by any losses from self employment _____</p> <p>6. Enter contributions made, or to be made, to your traditional IRA for current year but do not enter more than \$5,000/\$6,000 _____</p> <p>7. IRA deduction. Compare line 4, 5, 6. Enter the smallest amount here and on form 1040 or 1040A..... _____ If line 6 is more than line 7 and you want to make a non-deductible contribution, go to line 8</p> <p>8. Nondeductible contribution - Subtract line 7 from line 5 or 6 whichever is smaller. Enter the result here and on line 1 of form 8606..... _____</p>		

TRADITIONAL IRA

SOCIAL SECURITY RECIPIENTS

Use worksheets to figure IRA deduction and taxable portion of Social Security (if any) if **all** of the following apply.

- ✓ Received social security benefits
- ✓ Received taxable compensation
- ✓ Contributions were made to traditional IRA
- ✓ Taxpayer or spouse covered by employer plan.

Worksheets are reproduced at end of this course.

EARNINGS ON IRA ACCOUNTS

As long as contributions are within the limits, **none of the earnings,** or gains on those contributions (deductible or non deductible) will be taxed until they are distributed.

CONTRIBUTIONS RETURNED BEFORE DUE DATE

If IRA contributions are made for any year and are non-deductible when return is prepared, can either be designated as non-deductible contributions (next page) or **may be withdrawn tax free by due date of tax return including extensions if BOTH of following apply:**

- ▶ Did **not** take a deduction for the contribution withdrawn
- ▶ **Did also withdraw any interest or other income earned on the contribution.**

Earnings on the contributions withdrawn must be included in income for the year contributions are withdrawn.

TRADITIONAL IRA

NON DEDUCTIBLE CONTRIBUTIONS

The difference between total permitted (\$5,000/\$6,000 or 100% of compensation) and your total deductible contributions, if any, is your non deductible contribution.

Cost basis

Non-deductible contributions result in a cost basis in the IRA.

Basis is sum of nondeductible contributions less any distributions of those amounts.

Withdrawals of the “basis” are tax free.

Withdrawals

Generally - can not withdraw only the amounts representing basis.

If **deductible** contributions have been made to **any of traditional IRAs** withdrawals from any IRA will include both taxable and non-taxable (basis) amounts.

TRADITIONAL IRA

Reporting Non -deductible contributions- Form 8606

Must report

Do not have to designate as non-deductible until tax return is filed.

Must file form 8606 even if otherwise do not have to file a return

Must file form 8606 if **any** of follow applies:

- ▶ Made non deductible contributions for current year
- ▶ Received distributions from a traditional IRA in current year and have **ever** made non-deductible contributions to traditional IRA
- ▶ Converted part of all of the assets in a traditional IRA or SIMPLE IRA to a Roth IRA during current year
- ▶ Recharacterized amounts that were converted to a Roth IRA
- ▶ Received distributions from a Roth IRA in current year
- ▶ Have a recharacterization involving a Roth IRA contribution
- ▶ Are beneficiary of an Coverdell ESA and received distributions from Coverdell ESA in current year.

Not required to file form 8606 to report contributions to Roth or Coverdell ESA

Failure to report nondeductible contributions

All contributions to IRA will be treated as deductible.

Withdrawals will be taxed unless proof can be shown satisfactorily that non-deductible contributions were made

Penalty for overstatement of nondeductible contributions on form 8606

\$100 for each overstatement unless due to reasonable cause

Penalty for failure to file form 8606

\$50 unless can prove failure was due to reasonable cause.

TRADITIONAL IRA

TRANSFERS AND ROLLOVERS

Tax free transfers of assets (money or property) may be made from other retirement programs (including traditional IRAs) to a traditional IRA.

Trustee - to - Trustee Transfer

Not a rollover

No distribution to owner

Not affected by 1 year waiting period that is required between rollovers

Rollover

Tax free distribution **to owner (taxpayer)** of cash or other assets from one retirement plan that is then contributed to another plan.

Contribution to second plan is called a “rollover contribution”.

No deduction allowed, but must report the rollover distribution on tax return.

Must make rollover contribution by 60th day after day distribution is received.

Amounts not rolled over within the 60 day period do not qualify for tax free treatment and must be treated as a taxable distribution.

Taxable in year distributed, not in year the 60 day period expires.

May be subject to premature distributions 10% penalty tax

If considered a “premature distribution” may treat a contribution after the 60 day period as a regular contribution to IRA. Any part that is more than maximum amount allowed as a contribution may be an excess contribution subject to excess contribution penalty tax.

Extension of rollover period

Allowed if amount becomes a *frozen deposit* in a financial institution during the 60 day period. Period during which the amount is frozen is not counted in the 60 day period. Must be *Frozen* for at least one day during the 60 day rollover period.

TRADITIONAL IRA

TRANSFERS AND ROLLOVERS

Rollover from One IRA into Another IRA

Can withdraw, tax free, all or part of assets from one traditional IRA if reinvest them within 60 days in another traditional IRA.

Can not deduct the amount reinvested in new IRA

May be able to recharacterize the contribution if a different type of IRA.

IRS extended time to complete recharacterization to 10-15-2007 for 2006.

Waiting period between rollovers - Useable only once in any 1 year period, for each IRA owned..

One year period begins on date receive first IRA distribution, not on the date rolled over into another IRA. Rules apply separately to each traditional IRA owned.

Exception to 1 year waiting period

For distributions made from a failed financial institution by FDIC as receiver for the institution. Must meet **both** of following requirements

- Must **not** be initiated by either the custodial institution or the depositor
- Must be made because:
 - ▶ Custodial institution is insolvent **and**
 - ▶ The receiver is unable to find a buyer for the institution.

Same property must be rolled over (IRA to IRA)

Partial rollovers allowable - Portion not rolled over is a taxable distribution.

Required distributions are not eligible for rollover treatment.

Inherited IRAs - rollover treatment

- ▶ If inherited from spouse - can roll over into a traditional IRA established for yourself (beneficiary) or can choose to make it your own IRA (see inherited IRAs earlier)
- ▶ If inherited from someone other than spouse - cannot roll it over or allow it to receive a rollover contribution. Must withdraw within a certain period (see inherited IRAs earlier)

Transfers incident to divorce

IRA transferred from spouse or former spouse by divorce or separate maintenance decree or written document related to such decree, the interest in the IRA, starting from date of transfer, is treated as new owner's IRA. Transfer is tax free.

TRADITIONAL IRA

TRANSFERS AND ROLLOVERS

Rollover from One *IRA* into Another *IRA*

Reporting rollovers from IRAs

Enter total amount of rollover on line 15a of form 1040 or line 10a form 1040A

Enter zero on line 15b of form 1040 or line 10b of form 1040A if total amount
was rolled over

Otherwise enter taxable amount on line 15b of form 1040 or 10b form 1040A

TRADITIONAL IRA

TRANSFERS AND ROLLOVERS

Rollover from Employer Plan to IRA (eligible distribution from taxpayer or deceased spouse employer plan)

Generally - eligible rollover distribution is ***taxable part*** of any distribution of all or part of the balance in the plan ***except***:

- ✓ Required minimum distribution
- ✓ Hardship distributions from 401(k) and 403(b) plans
- ✓ Any series of substantially equal periodic distributions paid at least once a year over:
 - Life expectancy or lifetime
 - Lifetimes of life expectancies of you and beneficiary
 - A period of 10 years or more

No waiting period between rollovers of employer plan distributions as there is for IRA to IRA rollovers

IRA account may be used as a conduit for rollovers to other eligible plans.

Must be wholly assets and gains on earnings of the first employer plan.
Does not qualify if you mix regular contributions or funds from other sources
Can then later roll over these assets to a new employer plan

Employer plan property or cash received in distribution and rolled to IRA

Generally, may roll over either the property, or the cash, or any combination of the two.

If same property is not rolled over:

May either roll over the property or sell it and roll over proceeds.

Can not substitute own funds for property received from plan.

No gain or loss recognized if all of proceeds of sale are rolled over. Sale proceeds are treated as part of distribution.

Special rules may apply to distributions of employer's securities.
(Not covered in this course - but refer to IRS Publication 575)

Can not roll over a life insurance contract from a qualified plan to an IRA

TRADITIONAL IRA

TRANSFERS AND ROLLOVERS

Rollover from *Employer Plan to IRA (continued)* (eligible distribution from taxpayer or deceased spouse employer plan)

Distributions received by surviving spouse

Can roll over distributions to an IRA
Can not roll into another employer qualified plan

Distributions under divorce or similar proceedings (alternate payees)

Can roll over all or part into traditional IRA - if distribution is:

- One that would have been an eligible rollover distribution if it had been made to employee
- **and** made under a qualified domestic relations order.

Reporting rollovers of employer plan distributions to IRA

Use lines 16a and 16b form 1040 or lines 11a and 11b form 1040A
Do **NOT** use lines 15a or 15b 1040 or lines 10a or 10b form 1040A

TRADITIONAL IRA

TRANSFERS AND ROLLOVERS

Withholding on distributions

If eligible rollover distributions are paid directly to taxpayer, payer must withhold 20% of it. (Even if plan to roll over the distribution to an IRA or other qualified plan)

Can avoid withholding by choosing direct rollover option.

Exceptions - withholding not required if *either* of the following apply:

- Distribution and all previous eligible rollover distributions received during tax year from the same plan (or, at the payer's option, from all of employer's plans) total less than \$200
- Distribution consists solely of employer securities, plus cash of \$200 or less in lieu of fractional shares.

TRADITIONAL IRA

WITHDRAWAL OF IRA ASSETS

Age 59 ½ Rule (Premature Distributions)

Under 59 ½ subject to 10% additional tax.

In addition to any regular income tax on the amount included in gross income.

(Note: May be 25% rather than 10% if from SIMPLE IRA)

The 10% tax does not apply to any nontaxable (return of nondeductible contributions) part of the distribution.

Exceptions:

✓ **Unreimbursed medical expenses that are more than 7.5% of AGI**

(Do not have to itemize deductions to meet exception)

✓ **Distributions are not more than the cost of medical insurance**

for self, spouse and dependents. If all four of following conditions apply:

- ✓ Lost job
- ✓ Received unemployment for 12 consecutive weeks
- ✓ Make withdrawals during the year unemployment compensation received or following year
- ✓ Make withdrawals no later than 60 days after being re-employed.

✓ **Disabled**

Requires proof that can not do any substantial gainful activity because of physical or mental condition.

Physician must determine that condition can be expected to result in death or to be of long continued and indefinite duration.

✓ **Beneficiary of a deceased IRA owner**

Estate or beneficiary not subject to 10% tax

Caution - If inherit a traditional IRA from deceased spouse and elect to treat it as own, any distribution received before

YOU reach age 59 ½ may be subject to the 10% tax.

✓ **Receiving distributions in form of an annuity**

Payments received in a series of substantially equal payments over life expectancy

Must use IRS approved distribution method

Must take at least one distribution annually

Payments must continue for at least 5 years or until reach age 59 ½ whichever is the longer period.

If approved distribution method is changed before the end of the above period, for any reason other than death or disability of IRA owner, - subject to 10% tax on current distribution and all previous distributions made under the exception rule.

TRADITIONAL IRA

WITHDRAWAL OF IRA ASSETS

Age 59 ½ Rule (Premature Distributions)

Exceptions to penalty: (continued)

✓ Distributions not more than qualified higher education expenses

- ▶ Must be at an eligible educational institution
- ▶ Must be education for taxpayer, spouse, children or **grandchildren** of taxpayer or spouse.
- ▶ Paid from qualified funds

Qualified funds

Individual's earnings
Loan
Gift
Inheritance given to either student or individual making withdrawal
Personal savings (including savings from qualified state tuition program.)

Non qualified funds

Tax free distributions from Coverdell ESA
Tax free scholarships, such as Pell grant
Tax free employer - provided education assistance
Any tax free payment (other than gift, bequest, or devise) due to enrollment at an educational institution.

▶ Eligible educational institution

Any college, university, vocational school, or other post secondary educational institution eligible to participate in student aid programs administered by Dept of Education.

TRADITIONAL IRA

WITHDRAWAL OF IRA ASSETS

Age 59 ½ Rule (Premature Distributions)

Exceptions to penalty: (continued)

✓ Use distribution to buy, build, or rebuild a *first home*

Must meet **all** requirements:

- ▶ Distribution must be used to pay qualified acquisition costs before the close of the 120th day after date received.
- ▶ For the **main** home of a first time home buyer who is any of:
 - Taxpayer
 - Spouse
 - Child of taxpayer or taxpayer's spouse
 - Grandchild of taxpayer or taxpayer's spouse
 - Parent or other ancestor of taxpayer or spouse
- ▶ ***Total of all qualified first time home buyer distributions, if any can not be more than \$10,000*** (\$20,000 if both taxpayer and spouse qualify as first time home buyers (\$10,000 each.).
- ▶ Qualified costs

Costs of buying, building, or rebuilding a home
Any usual or reasonable settlement, financing, or other closing costs.
- ▶ First time home buyer

Generally - if had no present interest in a **main** home ***during the 2 year period*** ending on date of acquisition
Of the home for which distribution is being use for.
If married, spouse must also meet this requirement
- ▶ Date of acquisition

Date entered into binding contract to buy or
Date that building or rebuilding of main home **begins**

TRADITIONAL IRA

WITHDRAWAL OF IRA ASSETS

Age 59 ½ Rule (Premature Distributions)

Exceptions to penalty: (continued)

- ▶ **Distribution is of a contribution returned before due date of return**

- ▶ **Distribution is due to an IRS levy of the plan**

EXCESS CONTRIBUTIONS TAX

If any part of contributions in excess - subject to a 6% excise tax.
See “penalties” later.

TRADITIONAL IRA

REQUIRED WITHDRAWAL OF IRA ASSETS

NO RMD FOR 2009

Failure to withdraw required amounts subject to a 50% excise tax on amount not withdrawn as required.

IRA OWNERS

Must withdraw entire balance or begin receiving periodic distributions by April 1 of the year following the year in which reach age 70 ½.

Over one of following periods

- ▶ Uniform Lifetime Table, Pub 590
- ▶ Single Life Table or Joint and Last Survivor Table & Multiple beneficiaries

If all are individuals, oldest beneficiary is used to determine period over which withdrawals must be made

Changing designated beneficiary

If new beneficiary has shorter life expectancy

Must refigure period over which withdrawals must be made

If new beneficiary has longer life expectancy

Cannot recalculate the period over which to make withdrawals..

If name a trust to replace designated beneficiary after required beginning date

*Must refigure the period for subsequent years using **only your** life expectancy*

TRADITIONAL IRA

REQUIRED WITHDRAWAL OF IRA ASSETS

BENEFICIARIES - Required withdrawals depends on whether distributions had begun at date of death.

Generally considered as having begun on required beginning date
(Even if payments actually began before that date)

Except distributions in form of an annuity irrevocably beginning before the required beginning date and over a permitted period which are considered to have begun before owner's death, even if the owner died before required beginning date.

Distributions begun before owner's death

The longer of:

- ▶ Beneficiary's life expectancy, or
- ▶ Deceased owner's remaining life

Except if beneficiary is owner's surviving spouse who elects to treat the IRA as his/her own.

Owner dies before distributions have begun

Entire interest must be distributed by either:

1. December 31 of the fifth year following year of death
2. Over life of the designated beneficiary or over a period not extending beyond the life expectancy of the designated beneficiary

At least a minimum amount must be distributed each year.

If rule 2 chosen and **spouse is not beneficiary** - distribution must begin by December 31 of year following year of owner's death.

If rule 2 chosen and **spouse is beneficiary** and did not choose to treat IRA as his/her own - must begin distribution by *later of*:

- ▶ December 31 of year the IRA owner would have reached age 70 ½
- ▶ December 31 of year following year of owner's death.

Choice can be specified in terms of the IRA or can permit either owner or beneficiary to choose which rules applies. Generally choice must be made by December 31 of the year following the year of the owner's death.

If no rule specified or chosen

Beneficiary is surviving spouse and did not choose to treat the IRA as his/her own - must use rule #2

Non spouse beneficiary - must use rule #1

TRADITIONAL IRA

REQUIRED WITHDRAWAL OF IRA ASSETS

BENEFICIARIES

Spouse dies before receiving distributions

If surviving spouse dies before distribution to surviving spouse begin

Distributions may be made to spouse's beneficiary as if the spouse's beneficiary were the IRA owner's spouse and the owner died on spouse's date of death.

Spouse remarried

If surviving spouse has remarried since owner's death and the new spouse is designated as the spouse's beneficiary, the special rules above would not apply to the new spouse.

TRADITIONAL IRA

MINIMUM DISTRIBUTIONS

NO RMD FOR 2009

Owner of traditional IRA that is an individual retirement **account** must figure minimum amount required to be distributed **each year**

If traditional IRA is an individual retirement **annuity** - special rules apply to figure minimum distribution required. (Reg. 1.401(a)(9)-1, 1.401(a)(9)-2 and 1.408-8.

Computing minimum distribution

Divide the IRA *account balance* as of close of business on 12-31 of the *preceding year* by the *Uniform Lifetime Table*.

If a beneficiary, other than spouse, is more than 10 years younger than owner - use the Joint and Last Survivor Table to obtain a smaller required minimum distribution amount.

IRA account balance

Amount in the traditional IRA at end of immediately preceding year with following adjustments:

- ▶ Increased by any contributions for preceding year made in year for which the minimum distribution is being figured.
- ▶ For second year distribution only, reduce by any distribution made in that year to satisfy minimum distribution requirements for the first distribution year.

(First distribution year is the year the owner reaches age 70 ½.
The next year is the second distribution year.

Applicable life expectancy

Owners remaining life expectancy (Uniform Lifetime Table)
Remaining joint life expectancy of owner and owner's designated beneficiary or
If owner dies before distributions have begun, the remaining life expectancy of the designated beneficiary.

TRADITIONAL IRA

MINIMUM DISTRIBUTIONS

Life expectancy tables

Use Uniform Lifetime Tables - Publication 590

Single Life Table - Beneficiary life expectancy.

Joint and Last Survivor Table - For owners whose spouses are more than 10 years younger.

(Reminder - If beneficiary is someone other than spouse who is more than 10 years younger than owner and the distributions are not made as annuity payments under an annuity contract, be sure to use Joint & Last Survivor Table)

Ages to use

For distributions beginning by required beginning date

Use owner's age **and** age of designated beneficiaries as of
your birthdays in the year owner becomes age 70 ½

For distributions when owner dies before owners required
distribution date

Use life expectancy of the designated beneficiary
using Single Life Table and the *age of the beneficiary's birthday
in the year distribution must begin.*

TRADITIONAL IRA

MINIMUM DISTRIBUTIONS

Life expectancy tables

Beneficiary not spouse

Use Single Life Table

Based on Beneficiary's age at the end of the year, with distribution period in each successive year reduced by one for each year that has elapsed..

Only the life expectancy of the designated beneficiary is used to determine distributions for the years after the year in which death occurs.

TRADITIONAL IRA

MINIMUM DISTRIBUTIONS INCIDENTAL BENEFIT (MDIB) REQUIREMENT

Minimum distributions from a traditional IRA during the owner's lifetime must satisfy the MDIB requirement to ensure that the IRA is used primarily to provide retirement benefits to the IRA owner.

Spouse beneficiary

MDIB requirements are met if satisfy the general minimum distribution requirements

If two or more beneficiaries, including spouse, the above applies only if spouse's portion of benefit is in a separate account.

Non-spouse beneficiary more than 10 years younger

Three additional steps to figure required minimum distribution that satisfies MDIB requirement.

- Find the ***applicable divisor*** for age under "Joint and Last Survivor Table" Use age as of birthday in year that minimum distribution is being figured.
- Compare *applicable divisor* from that table with the *divisor* on the Uniform Lifetime Table for the year and determine which number is smaller
- Divide the IRA account balance as of the close of business of the December 31 of the preceding year by the smaller of applicable divisor or applicable life expectancy.

Effect of IRA owner's death

MDIB requirement does not apply to distributions in years after the death of the original IRA owner.

TRADITIONAL IRA

MINIMUM DISTRIBUTIONS

Installments

Minimum required distribution can be taken in a series of installments as long as the total for the year are at least as much as minimum required amount.

More than one IRA

Must determine required minimum distribution SEPARATELY for each IRA

May total the minimum amounts from all IRAs and take the total from any one or more of the IRAs.

More than minimum received

No credit for the additional amount when determining required amount for future years.

Must still reduce account balance by the excess distribution.

Any amount distributed in 70 ½ year is credited toward amount that must be distributed by April 1 of the following year.

TAXABILITY OF DISTRIBUTIONS

Generally - included in gross income in year received as ordinary income

Includes distributions made (with or without taxpayer consent) by a state agency as receiver of an insolvent savings institution. (Unless rolled over)

Exceptions to general rule:

- Rollovers
- Tax free withdrawals of contributions
- Return of non deductible contributions

No special averaging or capital gain treatment applies for traditional IRA distributions

May be fully or partially taxable - depending on whether non-deductible contributions are included.

Must complete form 8606 and attach it to return if distributions are received from a traditional IRA and have ever made nondeductible contributions to any of traditional IRAs.

Must file form 8606 even if not otherwise required to file return

TRADITIONAL IRA

LOSSES ON IRA TRADITIONAL IRA

INVESTMENTS

- Recognized ONLY when all the amounts in ALL of traditional IRA accounts have been distributed
- Only if **total** distributions are less than unrecovered **basis** if any
- Deducted as miscellaneous itemized deduction subject to 2% limit on schedule A form 1040.

INHERITED IRA WITH BASIS

- Basis remains with the IRA
- Unless spouse and treat IRA as own, cannot combine this basis with basis in own (beneficiary's) IRA accounts or any IRA accounts inherited from another decedent.
- Complete separate 8606 forms if distributions from beneficiary IRA and own IRA.

DISTRIBUTIONS OF ANNUITY CONTRACT FROM AN IRA ACCOUNT

Trustee or custodial can be instructed to use the amount in the IRA account to buy an annuity contract.

- Not taxed when receive annuity contract
- Taxed when start receiving payments under that contract
- If only deductible contributions made to *all* traditional IRA accounts, the annuity payments are fully taxable.
- If *any* of traditional IRAs include both deductible and non deductible contributions, the annuity payments are taxed the same as “partially taxable IRA distributions” as previously explained.

CASHING IN RETIREMENT BONDS

- Taxed on entire amount received.
- If not cashed in before end of year in which age 70 ½, taxed on the *entire* value of the bonds at that time. (Amount you would have received if you had cashed in the bonds at that time). When bonds are cashed later, you will not be taxed again.

TRADITIONAL IRA

DISTRIBUTION CODES

1. Early (premature) distribution, no known exception
 2. Early (premature) distribution, exception applies
 3. Disability
 4. Death
 5. Prohibited transaction
 6. Section 1035 Exchange
 7. Normal distribution
 8. Excess contributions plus earnings/excess deferrals (and/or earnings) taxable in current year.
 9. PS58 costs -Premiums paid by a trustee or custodial for current life or other insurance protection which is taxable to you currently.
- A May be eligible for 10 year tax option - Form 4972
- D Excess contributions plus earnings/excess deferrals taxable in 2007
- E Excess annual additions under section 415 and certain excess amounts under section 403(b) plans. Report on Form 1040/1040A on the line for taxable pension or annuity income
- F Charitable gift annuity
- G Direct rollover to a qualified plan, a tax-sheltered annuity, a governmental 457(b) plan, or an IRA. May also include a transfer from a conduit IRA to a qualified IRA
- J Early distribution from an IRA, no known exception (in most cases, under age 59½). Report on forms 1040 and 8606 and see Form 5329.
- L Loan treated as deemed distribution
- N Recharacterized IRA contribution made for 2009 and recharacterized in 2009. Report on 1040/1040A and Form 8606, if applicable.
- P Excess contributions plus earnings/excess deferrals taxable in 2008.
- Q Roth IRA qualified distribution. If you are 59½ or over and meet the 5-year holding for a Roth IRA see the 1040/1040A instructions.
- R Re-characterized IRA contribution made for 2008 and recharacterized for 2009
- S Early distributions from SIMPLE IRA in first two years, no known exception.
- T Roth IRA distribution, exception applies. If the IRA/SEP/SIMPLE box is checked, you have received a traditional IRA, SEP, or SIMPLE distribution.
- Box 8 - Current actuarial value of annuity contract that is part of lump sum distribution
Do not include this amount in boxes 1 and 2a
- Box 9a - If total distribution and made to more than one person, enter percentage received by the person whose name appears on form 1099-R.
- Box 9b - Not required but may report total employee contributions in box 9b. See Pub.575.
- Boxes 10-15: State and Local Income Tax Withholdings.

TRADITIONAL IRA

WITHHOLDING ON DISTRIBUTIONS

Generally

- Withheld unless choose not to have withholding
- Amount based on marital status and number of withholding allowances claimed on form W-4P.
- If no W4P filed, tax withheld as if married claiming **three** withholding allowances
- 10% on nonperiodic distributions.

IRA distributions delivered outside the US

If U.S. citizen or nonresident alien and home address is outside U.S.

- Cannot choose exemption from withholding on distributions from traditional IRA

TRADITIONAL IRA

ACTS RESULTING IN PENALTY

Additional taxes (in addition to regular tax) **for following activities:**

- ⊗ **Investing in collectible is not allowed**
(Art works, rugs, antiques, metals, gems, stamps, coins, alcoholic beverages, and certain other tangible personal property.)

Exception - CAN invest in one, one-half, one quarter, or one tenth ounce of U.S. gold coins or one-ounce silver coins minted by the Treasury department and certain platinum coins and certain gold, silver, palladium and platinum bullion.

Amount of non-qualified collectible investments is considered distributed in year invested.
May be subject to 10% premature distributions tax.

- ⊗ **Making excess contributions not allowed**

Generally, the amount contributed that is more than the smaller of:

- ▶ Taxable compensation (whether deductible or not)
- ▶ \$5,000/\$6,000

Contributions for year reaching age 70 ½ are excess contributions also
Tax on excess contributions - if not withdrawn by due date of return

- ▶ 6% for each year the funds remain in the IRA
- ▶ Computed on form 5329

Excess contributions can be deducted in a *later* year up to allowable amount to avoid the penalty in the *later* year.

- ⊗ **Making early withdrawals** - see premature distributions earlier

- ⊗ **Allowing excess amounts to accumulate** (failing to make required withdrawals)
Subject to 50% excise tax for that year on the amount not distributed as required.

Request to excuse the tax may be filed if excess accumulation is due to reasonable error, and steps have been or are being take to remedy the situation.
If IRS approves the request, refund of excess tax will be made.

Penalties for overstating amount of non deductible contributions

Penalties for failure to file form 8606 if required.

TRADITIONAL IRA

PROHIBITED TRANSACTIONS

Generally, if owner or beneficiary engage in a prohibited transaction in connection with traditional IRA account, *at any time during the year*, the account **stops being an IRA** as of the **first day of the year**. A prohibited transaction is any improper use of the traditional IRA account or annuity by owner, beneficiary or any disqualified person

Disqualified persons include fiduciary and members of family (spouse, ancestor, lineal descendant, and any spouse of a lineal descendant)

PROHIBITED

- ⊗ Borrowing money from it
- ⊗ Selling property to it
- ⊗ Receiving unreasonable compensation for managing it.
- ⊗ Using it as security for a loan
- ⊗ Buying property for personal use (present or future) with IRA funds.

For this purpose, a FIDUCIARY includes anyone who does *any* of the following:

- ▶ Exercises any discretionary authority or discretionary control in managing IRA or exercises any authority or control in managing or disposing of its assets.
- ▶ Charges to provide investment advice with respect to the IRA, or has any authority or responsibility to do so.
- ▶ Has any discretionary authority or discretionary responsibility in administering IRA

Tax effect of prohibited transactions

Must include all or part, in certain cases, of the IRA assets in gross income for that year.

Must use fair market value of the assets as of the first day of the year a prohibited transaction was engaged in.

May also be subject to 10% premature distributions tax.

Trust account set up by an employer or employee association that engages in a prohibited transaction does NOT cause loss of IRA treatment unless the owner participates in the prohibited transaction.

TRADITIONAL IRA

EXEMPTIONS FROM PROHIBITED TRANSACTION PENALTIES

- ★ Payments of cash, property, or other consideration by the sponsor of the traditional IRA to owner (or members of family) if all of the following requirements are satisfied:
 - ◆ Payments must be for establishing a traditional IRA or making additional contributions to it.
 - ◆ The IRA must be established solely to benefit the owner, spouse and beneficiaries (owner's and spouse's beneficiaries)
 - ◆ During the year, the total fair market value of the payments received cannot be more than:
 - ▶ \$10 for IRA deposits of less than \$5,000 or
 - ▶ \$20 for IRA deposits of \$5,000 or more
 - ◆ If the consideration is group term life insurance, then \$10 and \$20 above does not apply if no more than \$5,000 of the face value of the insurance is based on a dollar-for-dollar basis on the assets in the IRA.

- ★ Services received at reduced or no cost if all of following conditions are satisfied:
 - ◆ The traditional IRA qualifying you to receive the services must be established and maintained for the benefit of owner, spouse or beneficiaries.
 - ◆ Services must be services the bank itself can legally offer
 - ◆ Services must be provided in ordinary course of business by the bank (or a bank affiliate) to customers who qualify but do not maintain an IRA (or Keogh) plan.
 - ◆ For a traditional IRA, the determination of who qualifies for these services must be based on an IRA deposit balance equal to the lowest qualifying balance for any other type of account.
 - ◆ The rate of return on a traditional IRA investment that qualifies cannot be less than the return on an identical investment that could have been made at the same time at the same branch of the bank by a customer who is not eligible for (or does not receive) these services.

SIMPLE IRA



Savings Incentive Match Plans for Employees (SIMPLE)

Under a SIMPLE plan, retirement accounts for participating employees can be set up either as

- part of a 401(k) plan
- plan using IRAs (SIMPLE IRA)

This study course will cover only the plan rules related to **SIMPLE IRAs**.

Employer Notification

If employer maintains a SIMPLE plan, employees must be notified, in writing, that they can choose the financial institution that will serve as trustee for their SIMPLE IRA and that they can roll over or transfer their SIMPLE IRA to another financial institution.

DEFINITION OF A SIMPLE PLAN

Tax favored retirement plan that certain small employers (including self employed individuals) can set up for the benefit of their employees.

A written agreement providing employer and employee with simplified way to make contributions to provide retirement income.

Employee can choose to make salary reduction contributions to the plan rather than receiving these amounts as part of their regular pay.

Employer can contribute, in addition to employee contributions, matching or non-elective contributions.

SIMPLE IRA

ELIGIBLE EMPLOYER

To set up a SIMPLE IRA plan, **employer** must meet **both** of following requirements

- ✓ **Employee limit**
 - ▶ 100 or fewer employees who earned \$5,000 or more in compensation during the preceding year.
Must take into account all employees employed, at any time, regardless of whether they are eligible to participate.
 - ▶ Employees include self employed individuals
 - ▶ Employees include leased employees.

 - ▶ Once plan is set up, must continue to meet the 100 employee limit each year that plan is maintained.

Grace period- If plan is maintained for at least one year and cease to meet the 100 employee limit because of an acquisition, disposition, or similar transaction - plan will be treated as having met the 100 employee limit for the year of the transaction and the **2 following** years if **both** the following conditions are satisfied.

- ◆ Coverage under the plan has not significantly changed during grace period
- ◆ SIMPLE IRA plan would have continued to qualify after the transaction if employer had remained a separate employer.

- ✓ **Employer does not maintain another qualified plan unless the other plan is for collective bargaining employees.**

SIMPLE plan generally must be the only retirement plan to which employer makes contributions, *or benefits accrue* for service in any year beginning with the year the SIMPLE IRA plan becomes effective.

SIMPLE IRA

ELIGIBLE EMPLOYEE

Can use **less** restrictive eligibility requirements (but not **more** restrictive ones) by eliminating or reducing the prior year compensation requirements, the current year compensation requirements or both.

Must be allowed to participate in SIMPLE plan if:

- ✓ Received at least \$5,000 in compensation from employer during *any two years* prior to the current year.
- ✓ Are reasonably expected to receive at least \$5,000 in compensation during the calendar year for which contributions are made.

Compensation includes:

- ▶ Wages, tips, and other pay subject to withholding
- ▶ Deferred amounts elected under any 401(k) plans 403(b) plans, government plans, SEP plans and SIMPLE plans.

Self employed individual

- ✓ Considered “employee” if received earned income.

Compensation is **net earnings from self employment BEFORE subtracting any contributions made to a SIMPLE IRA on behalf of the employer.**

Excluded employees (do not need to be covered)

- ▶ Employees covered by a collective bargaining agreement (union contract)
- ▶ Employees who are nonresident aliens and received no earned income from sources within the United States
- ▶ Employees who would not have been eligible employees if an acquisition, disposition, or similar transaction had not occurred during the year.

SIMPLE IRA

SETTING UP SIMPLE IRA PLAN

FORM 5404-SIMPLE

If employer allows each plan participant to select the financial institution for receiving his/her SIMPLE IRA plan contributions

FORM 5305 SIMPLE

If employer requires that all contributions under the SIMPLE IRA plan be deposited initially at a designated financial institution.

The SIMPLE IRA plan is adopted when employer has completed all appropriate blanks on the form and signed it.

Employer keeps the original form.

Do not file the form with the IRS

Forms 5304 and 5305 contain *Model Notification to Eligible Employee* to provide required information to the employees.

Forms also provide record keeping information

DEADLINE FOR SETTING UP PLAN

Any date between January 1 and October 1 of a year, provided employer did not previously maintain a SIMPLE IRA plan

If previously maintained a SIMPLE IRA plan, can set up a SIMPLE IRA plan effective only on January 1 of a year.

Requirement does not apply if new employer that comes into existence after October 1 of the year the SIMPLE IRA plan is set up and the plan is set up as soon as administratively feasible after coming into existence.

Can not have effective date that is before date actually adopted.

SIMPLE IRA

RELATIONSHIP TO ROTH IRA

A SIMPLE IRA **cannot** be designated as a Roth IRA

Contributions to a SIMPLE IRA will not affect amount that an individual can contribute to a Roth IRA.

NOTIFICATION REQUIREMENTS

Must give each employee the following information before the beginning of election period.

- Employees opportunity to make or change a salary reduction choice under a SIMPLE IRA plan
- Employer's choice to make either reduced matching contribution or nonelective contributions.
- Summary description and location of the plan. (Financial institution should provide this information)
- Written notice that his or her balance can be transferred without cost or penalty if employer uses a designated financial institution.

Election period - Generally the 60 day period immediately preceding January 1 of the calendar year (November 2 to December 31)

Dates are modified if plan is set up in mid year or if 60 day period falls before the first day an employee becomes eligible to participate.

SIMPLE IRA plan **can** provide longer periods and can provide quarterly election periods during the 30 days before each calendar quarter other than the first quarter of each year.

SIMPLE IRA

CONTRIBUTIONS

- ✓ Can choose salary reduction contributions expressed either as
 - percentage of compensation or
 - specific dollar amount (if employer offers this choice)
- ✓ Can choose to cancel election at any time during the year.
- ✓ Employer cannot place restrictions on the contribution amount (such as by limiting the contributions percentage) except to comply with the salary reduction contributions limits.

MATCHING CONTRIBUTIONS

Unless employer chooses to make nonelective contributions, employer **must make contributions equal to salary reduction contributions** chosen by the employee - up to certain limits.

Matching contributions on behalf of self employed individuals are not treated as salary reduction contributions.

NON-ELECTIVE CONTRIBUTIONS

Instead of making matching contributions, employer may be able to choose to make non elective contributions on behalf of all eligible employees.

Non elective contributions must be made on behalf of each eligible employee who has at least \$5,000 of compensation from employer, whether or not the employee chose salary reductions.

Employer must notify employees that the election was made.

SIMPLE IRA

CONTRIBUTIONS LIMITS -

Overall Annual Limit on Exclusions of Salary Reductions and other Elective Deferrals is \$11,500 for 2010 and 2011. (\$11,500 if age 50 or over.)

If other plan is a deferred compensation plan of a state or local government or a tax exempt organization, the limit on elective deferrals is \$10,000.

Salary reduction contributions-

For 2010 and 2011 - Employee maximum contribution is \$11,500/\$11,500*

If plan participant is in any other plans during the year and have salary reductions or deferred compensation under those plans, the salary reduction contributions under the SIMPLE plan also are included in \$16,500 annual limit.

Employee, not employer, is responsible for monitoring these limits.

Matching employer contributions

Generally, employer must make matching contributions to the SIMPLE IRA in an amount equal to salary reduction contributions.

Matching contributions can not be MORE than 3% of employee compensation for the year.

Matching contributions of LESS than 3%

- ▶ Must be at least 1%
- ▶ Must notify employees of the lower match within a reasonable time before the 60 day election period for the calendar year.
- ▶ Can not choose a percentage less than 3% for more than 2 years during the 5 year period that ends with (and includes) the year for which the election is effective.

Nonelective Employer Contributions

- ▶ Must be 2% of compensation for the entire year.
 - ▶ For 2010, only \$245,000 of compensation can be taken into account
 - ▶ Employer can substitute the 2% nonelective contribution for the matching contribution for a year only if:
 - Eligible employees are notified that 2% nonelective contribution will be made instead of matching contribution
- And
- This notice is provided within a reasonable period during which employees can enter into salary reduction agreements.

*Throughout the course "\$11,500/\$14,000" refers to the annual contribution limit as follows: Generally the contribution limit is \$11,500 per year, unless individual is age 50 or over then the contribution limit is \$14,000 per year.

SIMPLE IRA

EMPLOYER DEDUCTION FOR CONTRIBUTIONS

In tax year with or within which the calendar year for which contributions were made ends, including contributions made for that year if made by due date of the employer's return (including extensions) for that year.

EMPLOYEES EXCLUDE CONTRIBUTIONS FROM GROSS INCOME

- ✓ Not subject to withholding
- ✓ ARE subject to social security, medicare, and federal unemployment taxes
- ✓ Not included in Wages, tips and other compensation box on form W2
- ✓ Include in boxes for social security and medicare wages
- ✓ Include in box 12 of W2 with proper code.

Matching contributions and nonelective contributions by the employer are NOT subject to the above taxes!

SIMPLE IRA

WITHDRAWALS FROM SIMPLE IRA

Generally are subject to IRA rules

Fully taxable as ordinary income.

If premature distribution may be subject to additional tax

Generally rollovers and trustee - to trustee transfers are not taxable distributions.

TWO YEAR RULE

To qualify as tax free rollover - during the 2 year period beginning on the date which first participated in employer's SIMPLE plan - must be contributed (or transferred to) another SIMPLE IRA.

If rollover distribution (or transfer) does not satisfy the 2 year rule, and is otherwise a premature distribution, the additional tax imposed because of the premature distribution is increased from 10% to 25% of the amount distributed.

2 year period begins on first day on which contributions made by employer are deposited in employee's SIMPLE IRA

After the 2 year period, amounts can be rolled over or transferred tax free to an IRA other than a SIMPLE IRA.

PREMATURE DISTRIBUTIONS (EARLY WITHDRAWALS)

The 10% additional tax on premature distributions applies to SIMPLE IRAs as it does to traditional IRA premature withdrawals.

However, for a SIMPLE IRA - if the distribution is a premature distribution that occurs within the 2 year period following the date on which employee first participated in employer SIMPLE plan, the additional tax on premature distributions is increased from 10% to 25%.

S E P - I R A
S I M P L I F I E D E M P L O Y E E



P E N S I O N

SEP-IRA

SIMPLIFIED EMPLOYEE PENSION (SEP)

Can be set up by self employed individuals as well as other employer.

Allows an employer to make deductible contributions toward employee's retirement

Allows employer, if self employed, to make contributions to his or her own retirement

Without becoming involved in more complex retirement plans.

Some advantages available to qualified plans, such as the special tax treatment that may apply to qualified plan lump sum distributions do **not** apply to SEPs.

A self employed individual is an "employee" for SEP purposes. He or she is also the "employer".

Even if self employed individual is the only qualifying employee - can have an IRA under a SEP plan.

SETTING UP THE SEP PLAN

- ✓ **Must execute a formal written agreement to provide benefits to all eligible employees**
 - IRS model SEP form 5305-SEP
 - If use this form no prior IRS approval or determination letter is required.
 - Employer keeps original form - NOT filed with IRS
 - Usually relieves requirement to file annual information returns.

- ✓ **Must give each eligible employee certain information about the SEP**
 - A copy of form 5305-SEP, its instructions and other information listed in the 5305-SEP instructions.
 - IRS model SEP is not considered adopted until each employee has received this information.

- ✓ **A SEP-IRA account must be set up by or for each eligible employee.**
 - SEP contributions are sent directly to the financial institution where the SEP-IRA is maintained.

(Most financial institutions will assist in the set up of a SEP-IRA)

- ✓ **Deadline - Can set up a SEP for a year as late as due date (including extensions) of employer income tax return for that year.**

SEP-IRA

QUALIFYING EMPLOYEE

- ✓ At least 21 years old
- ✓ Worked for employer during at least 3 of the 5 years immediately preceding the tax year
- ✓ Received from employer at least \$500 in compensation in the tax year.

Employer can establish LESS restrictive participation requirements for its employee than above, but NOT MORE restrictive.

LEASED EMPLOYEE

May have to include in a SEP if “leased employee” that is treated as an employee.

Leased employee - any person who is not an employee and who is hired by a leasing organization, but who performs services for employer. Leased employee if ***all*** of following apply:

- ▶ Provide services under an agreement between employer and the leasing organization
- ▶ Perform services for employer on a substantially full time basis for a period of at least 1 year
- ▶ Perform services under the primary direction and control of the employer.

EXCLUDABLE EMPLOYEES

- ✓ Employees covered by union agreement if retirement benefits were bargained for in good faith by their union and their employer
- and
- ✓ Non resident alien employees who have no U. S. source earned income from their employer.

SEP-IRA

CONTRIBUTION REQUIREMENTS

- ★ **Limit -25% of employee compensation or \$49,000 for 2009, whichever is less.**
- ★ Funded by employer
- ★ Employee does not have to make any contribution
- ★ Contributions must be on written allocation formula and must not discriminate in favor of highly compensated employees.
- ★ Do not have to make contributions every year.
- ★ Contributions must be in the form of money (NOT property)
- ★ SEP -IRA cannot be designated as a Roth IRA but contributions to a SEP IRA by an employer will not affect amount that an individual may contribute to a Roth IRA

COMPUTING THE 25% LIMIT

Compensation is generally limited to \$245,000, not including employer's contribution to SEP - IRA.

Example

Non-union employer has a SEP plan for employees. Employee #1 compensation for current year, before his employer's contribution to his SEP-IRA was \$245,000. Employer can contribute up to \$49,000 to employee's SEP IRA.

Compensation for self employed

NET earnings from self employment

For this computation- net earnings must take into account deduction for contributions to self employed person's own SEP-IRA.

(This is one of the IRS "vicious circles")

To solve the problem - make adjustment to net earnings by figuring maximum deduction, reducing the contribution rate called for by the plan. - ***This reduction is for the self employed person computation only - not employee amounts.***

SEP-IRA

Self Employed Person's Rate Worksheet

- 1) Plan contribution rate as a decimal (for example 10 ½ would be .105)_____
- 2) Rate in line 1 plus one (for example 0.105 plus one would be 1.105)..._____
- 3) Self employed rate as a decimal (Divide line 1 by line 2)_____

Self Employed Person's Deduction Worksheet

Step 1

Enter net profits from line 3 Schedule C or Schedule C-EZ or K1 (form 1065)

plus any elective contributions or deferrals described below)....._____

Step 2

Enter your deduction for self employment tax from Form 1040_____

Step 3

Subtract step 2 from step 1 and enter the result_____

Step 4

Enter your rate from Self Employed Person's Rate Worksheet (above)_____

Step 5

Multiply Step 3 by Step 4 and enter result_____

Step 6

Multiply \$245,000 by your plan contribution rate. Enter the result but not more than \$49,000_____

Step 7

Smaller of Step 5 or Step 6. This is your maximum deductible contribution....._____

Net earnings from self employment for SEP purposes = gross income from business minus allowable deductions for that business. Allowable deductions include contributions to employees' SEP =IRAs. You also take into account the deduction allowed for one-half of your self-employment tax and the deduction for contributions to your own SEP IRA.

Include in net earnings

Foreign earned income and housing cost amounts

If a partner, - distributive share of partnership income or loss

(Other than separately stated items such as capital gains/losses)

If limited partner, guaranteed payments for services

Elective contributions or deferrals under any of the following plans:

401(k) plans - 403(b) plans (tax sheltered annuities)

SEP plans (salary reduction arrangements) - SIMPLE plans

Cafeteria plans, 457 plans (state and local government and

certain tax exempt organizations)

Do not include in net earnings

Tax free items (or deductions related to them).

If limited partner, distributions of income or loss.

SEP-IRA

EXCESS CONTRIBUTIONS

Contributions for a year that are more than the lesser of:

- 25% of employees compensation or
- 20% of net earnings from self employed
- \$49,000

Are included in employee's income for the year and treated as contributions by the employee to his/her SEP-IRA.

Excess employer contributions withdrawn before return is due (Including extensions)

- Not subject to 6% excess contributions tax
- May be subject to early withdrawal (10%) tax on the income earned on the excess.

Excess employer contributions withdrawn AFTER return due date - If contributions for year are \$49,000 or less:

- Can withdraw excess after due date free of the 10% tax on premature distributions.
- Excess contribution is subject to the annual 6% excise tax.
- Earnings on the excess may be subject to early withdrawal 10% tax.

TAXABILITY OF CONTRIBUTIONS

Excluded (rather than deducted) from employee's income.
Not included - no deduction for employee.

EMPLOYEE CONTRIBUTIONS TO SEP-IRA

Employee can make contributions independent of employer contributions
Deducted as contributions to a regular IRA
Deduction may be reduced or limited since, as a participant of the SEP, considered covered by employer retirement plan.

WITHDRAWALS

Employer can not prohibit withdrawals from a SEP-IRA and can not condition contributions to SEP-IRA on keeping of any part of them in the account.

Distributions are subject to traditional IRA withdrawal rules.

SEP-IRA

SALARY REDUCTION ARRANGEMENT

Only SEPs that allowed employees to choose elective deferrals as of December 31, 1996 can include salary reduction arrangements

SALARY REDUCTION SIMPLIFIED EMPLOYEE PENSION (SARSEP)

Must have been set up before 1997

Includes a salary reduction arrangement.

Not allowed to set up SARSEP after 1996 but may continue to contribute to a plan set up before 1997.

ROTH IRA



ROTH IRAs

WHAT IS A ROTH IRA

An individual retirement plan

Subject to rules that apply to a traditional IRA

Can be either an account or an annuity.

Must be designated as a Roth IRA when set up

Neither a SEP-IRA or a SIMPLE -IRA can be designated as a Roth IRA

CONTRIBUTIONS

If taxable compensation

Includes wages, salaries, tips, professional fees, bonuses, and other amounts received for personal services.

Also includes commissions, self employment income, and taxable alimony and separate maintenance payments.

and

Modified AGI is less than amount shown for filing status.

<u>Taxable Compensation</u> <u>Filing Status is</u>	<u>And Modified AGI is less than</u>
Married filing joint	\$177,000
Married filing separately and lived with spouse during year	\$-0-
Single, Head of Household, or Married filing separate and did not live with spouse at any time during year	\$120,000.

NO AGE LIMIT FOR CONTRIBUTIONS

SPOUSE ROTH IRA

Can contribute to Roth IRA for spouse subject to spousal IRA limits and if modified AGI is less than amount shown for filing status.

CAN MAKE CONTRIBUTIONS UP TO DUE DATE (NOT INCLUDING EXTENSIONS)

ROTH IRAs

MODIFIED AGI LIMIT

Adjusted gross income as shown on tax return modified as follows:

Subtract:

Any income resulting from the conversion of an IRA (Other than a Roth IRA) to a Roth IRA (conversion income).

Add:

- ▶ Traditional IRA deduction
- ▶ Student loan interest deduction
- ▶ Foreign earned income exclusion
- ▶ Foreign housing exclusion or deduction
- ▶ Exclusion of qualified bond interest shown on form 8815
- ▶ Exclusion of employer paid adoption expenses form 8839

If result is more than Roth IRA limit and there is other income or loss items such as social security income or passive activity losses, that are subject to AGI based phase-outs, you may refigure AGI solely for purpose of figuring modified AGI for Roth IRA purposes.

If receiving social security benefits, use Worksheet to refigure AGI. Then go to beginning (above) and refigure modified AGI

Refigure AGI without taking any income from conversions into account.

ROTH IRAs

CONTRIBUTION AND LIMITS

Limit for Roth IRA contributions depends on whether a contribution is made only to Roth IRAs or to both traditional IRAs and Roth IRAs.

Roth IRAs only

Maximum contribution is lesser of

\$5,000/\$6,000

or Taxable compensation

Roth IRAs and traditional IRAs

Contribution limit for Roth IRA is lesser of:

★ Maximum contribution limit reduced by all contributions (Other than employer contributions under a SEP or SIMPLE IRA plan) for the year to all IRAs other than Roth IRAs

Or

★ Maximum contribution limit reduced because of modified AGI above a certain amount

CONTRIBUTION LIMIT REDUCED

If modified AGI is above certain amounts, maximum contribution limit is gradually reduced.

<u>Reduced Contribution Limit</u>	
<u>If filing status is</u>	<u>AND modified AGI is between</u>
Married filing joint return	\$167,000 and \$177,000
Married filing separate and lived with spouse during the year	\$0 and \$10,000
Single, head of household or married filing separately and did not live with spouse at any time during the year	\$ 105,000 and \$120,000

ROTH IRAs

CONTRIBUTION LIMITS

Figuring the reduction

1. Start with modified AGI
2. Subtract from the amount in (1):
 - a) \$166,000 if married filing a joint return
 - b) \$0 if married filing a separate return and lived with spouse
 - c) \$105,000 for all other individuals
3. Divide the result in (2) by \$15,000 (\$10,000 if filing a joint return or married filing a separate return)
4. Multiply the maximum contribution limit (before reduction by this adjustment and before reduction for any contribution to a traditional IRA) by the result in (3)
5. Subtract the result in (4) from the maximum contribution limit before this reduction. The result is your reduced contribution limit.

Round reduced contribution limit up to nearest \$10

If reduced contribution limit is more than \$0 but less than \$200, increase the limit to \$200

ROTH IRAs

EXCESS CONTRIBUTIONS

6% excise tax applies

Any amount that is withdrawn on or before due date (including extensions) for filing tax return for the year is treated as an amount not contributed.

Applicable only if any earnings on the excess contributions are also withdrawn and are reported as income earned in the year the contribution was made.

Can apply excess contribution in one year to a later year if the contribution for the later year are less than maximum allowed for that year.

CONVERSIONS

Can convert a traditional IRA to a Roth IRA

In 2010, if you are age 70 1/2, your traditional IRA required minimum distribution is not computed in whether your MAGI exceeds the 2010 - \$100,000 limit.

Treated as a rollover, regardless of conversion method used.

Limits: Can convert amounts from a traditional IRA into a Roth IRA, if, for the tax year you make the withdrawal from the traditional IRA, **both** of the following requirements are met:

- ▶ Modified AGI is not more than your \$100,000 limit.
- ▶ Not married individual filing a separate return, if you lived together any part of the year

Most of rollover rules for one IRA to another apply **except one year waiting period does not apply**

Conversion can be made in any one of three ways:

- ▶ Rollover - within 60 days after distribution
- ▶ Trustee-to-trustee transfer - direct transfer of traditional IRA to transfer an amount from the traditional IRA to trustee of Roth IRA
- ▶ Same trustee transfer - from traditional IRA to Roth IRA
Can re-designate the traditional IRA as a Roth IRA rather than opening a new account or issuing a new contract.

ROTH IRAs

ALLOWABLE CONVERSIONS

All or part of assets from traditional IRA may be rolled over

Must roll over into the Roth IRA the same property received from traditional IRA

Can roll over part of a withdrawal into a Roth IRA and keep the rest of it.

(Amount kept will generally be taxable and may be subject to 10% premature withdrawal penalty tax.)

PERIODIC DISTRIBUTIONS

If substantially equal periodic payments from a traditional IRA have already begun - may convert the account to a Roth IRA and then continue periodic payments.

10% early withdrawal tax will not apply even if the distributions are not qualified distributions (as long as they are part of a series of substantially equal periodic payments.

REQUIRED DISTRIBUTIONS

Amounts that must be distributed from traditional IRA for a particular year (including the calendar year in which age 70 ½ is reached) under required distribution rules ***cannot be converted.***

INHERITED IRAS

Any traditional IRA inherited from someone *other than spouse cannot be converted into a Roth IRA*

CONVERTING FROM A SIMPLE IRA

Can convert an amount from SIMPLE to Roth under same rules as from a traditional IRA - **except** cannot convert any amount distributed from the SIMPLE IRA during the 2 year period beginning on date first participated in any SIMPLE IRA plan maintained by employer.

ROTH IRAs

THIS PAGE SUBJECT IS FOR REFERENCE USE ONLY
(Not for current application)

CONVERSIONS - 4 YEAR RULE FOR TAX YEAR 1998 CONVERSIONS

While this is not applicable to current year Roth IRAs it may have effect on Amendments & NOLs

If amounts from a traditional IRA were converted, in 1998, to a Roth IRA, any amount required to be included in income as a result of the withdrawal is may be included ratably over a 4 year period commencing with the withdrawal year of 1998.

Taxpayer may have elected to include entire amount in income in withdrawal year. If so; then, the 4 year rule for 1998 returns is not applicable.

Change in filing status or a divorce does not affect application of the 4 year income spread rule for conversions. Balance is included in the **owner's** income over remaining years of the 4 years.

WITHDRAWALS FROM ROTH IRA DURING THE 4 YEAR PERIOD

If including taxable part of a 1998 conversion ratably over the 4 year period and, in 1998, 1999, 2000 or 2001, you withdrew from the Roth IRA any amount allocable to the taxable part of the conversion, you generally have to include in income both the ratable (one quarter) portion for the year and the part of the withdrawal made during the year that is allocable to the taxable part of the conversion.

Any amount allocable to the conversion that is included in income in 1998, 1999, 2000, 2001 because of a withdrawal from the Roth IRA, first reduces the taxable amount that is reportable. Each year's amount is reduced yearly in reverse order of the four years.

The most that must be included in income for any one year in the 4 year period is the total amount required to be included over all 4 years of the period minus the amounts included in all preceding years in the period.

The date to complete this 1998 conversion was extended to 12-31-1999.

ROTH IRAs

FAILED CONVERSIONS

If converted amounts were expected to have modified AGI of less than \$100,000 and a filing status other than married filing separate, but events change the facts, – result is a failed conversion. If not re-characterized, the contribution will be treated as a regular contribution to the Roth IRA and subject to:

- 6% excise tax per year applicable to excess contribution not withdrawn
- Distributions from the traditional IRA must be include in gross income
- The 10% additional tax on early withdrawals may apply

To avoid - must move amount converted (including earnings from date of conversion) into a traditional IRA by due date (including extensions) for the tax return for the year during which the conversion to the Roth IRA was made.
Do not have to include this withdrawal in income.

ROTH IRAs

RE-CHARACTERIZATIONS

Generally must have contribution transferred from first IRA to second IRA in a trustee-to-trustee transfer.

If completed by due date (including extensions) for tax return for the year in which contributions were made, can elect to treat the contribution as having been originally made to the second IRA instead of the first IRA. (To second IRA on same date that it was actually made to the first IRA)

Must report the re-characterization

Must treat contribution as having been made to the second IRA on tax return.

Extension of time to re-characterize 2010 IRA contributions

Considered to have made a timely re-characterization of 2010 IRA contributions, including a Roth IRA conversion for which you were not eligible, if **all** of following apply:

- ▶ Re-characterization occurred on or before October 15, 2010.
- ▶ 2009 return filed timely
- ▶ File amended 2009 return if the re-characterization is not properly reflected on the previously filed return.

Conversion by rollover from Traditional to Roth IRA

For re-characterization purposes, a distribution from a traditional IRA that is received in one tax year and rolled over into a Roth IRA in the next year, but still within 60 days of the distribution is treated as a contribution to the Roth IRA in year of the distribution from the traditional IRA

Conversion not treated as re-characterization unless the transfer includes the net earnings allocable to the contribution.

No deduction for first IRA contribution.

Earnings treated as earned in the second IRA

Cannot re-characterize employer contributions (including elective deferrals) under a SEP or SIMPLE plan as contributions to another IRA.

After the transfer has taken place, cannot change election to re-characterize.

ROTH IRAs

DISTRIBUTIONS FROM ROTH IRA - TAXABILITY

Qualified distributions from a Roth IRA are NOT included in gross income

QUALIFIED DISTRIBUTION:

Generally any payment from Roth IRA made *after the 5 taxable year period* beginning with the first taxable year for which a contribution was made to a Roth IRA - if the payment or distribution is

- ▶ Made on or after the date owner reaches age 59 ½
- ▶ Made because disabled
- ▶ Made to beneficiary or estate after death of owner
- ▶ One that meets the requirements listed in “first home” exception to penalty for traditional IRA withdrawals (Up to \$10,000 lifetime limit.)

NON QUALIFIED DISTRIBUTIONS

- ▶ Made within 5 year period beginning with first year for which either a regular or a conversion contribution was made to a Roth IRA.
- ▶ Made after the 5 year period but:
 - Not reached age 59 ½
 - Not disabled
 - Not made to beneficiary or estate after death
 - Not used for qualified first time home buyer amounts.
- ▶ Withdrawal of contributions and earnings on or before the due date of return (including extensions) for the year in which contributions were made. (Same year)

ADDITIONAL TAX ON WITHDRAWALS OF CONVERSION CONTRIBUTIONS WITHIN 5 YEAR PERIOD

If withdrawn within 5 year period - generally must pay 10% additional tax.

10% additional tax applies as though the distribution must be included in gross income in year of withdrawal, even if already included in income in an earlier year (such as year of conversion)

ROTH IRAs

ADDITIONAL TAX ON WITHDRAWALS AFTER 5 YEAR PERIOD

10% additional tax on premature distributions on taxable part of any distributions that are NOT qualified distributions. (See above)

Exceptions:

- ▶ Distributions part of a series of substantially equal payments
- ▶ Significant un-reimbursed medical expenses
- ▶ Paying medical insurance premiums after losing job
- ▶ Distributions are not more than qualified higher education expenses
- ▶ Distribution is due to an IRS levy of the qualified plan

ORDERING RULES FOR WITHDRAWALS

For purposes of determining the correct tax treatment of withdrawals (other than withdrawal of excess contributions and earnings on them), there is a set order in which contributions (including conversion contributions) and earnings are considered to be withdrawn from a Roth IRA:

- ✓ Regular contributions
- ✓ Conversion contributions (First in first out basis)
 - ▶ Taxable portion
 - ▶ Nontaxable portion
- ✓ Earnings on contributions
 - ▶ Rollover contributions from other Roth IRAs are disregarded for this purpose.

Aggregation (grouping and adding) rules:

- ✓ All withdrawals from ALL Roth IRAs during year added together
- ✓ All regular contributions made during and for the year added to total un-distributed regular contributions made in prior years.
- ✓ All conversion contributions made during the year added together.

ROTH IRAs

Worksheet to Figure the Taxable Part of a Distribution (That is Not a Qualified Distribution) From a Roth IRA

1. Enter the total of all distributions made from Roth IRAs during the year..... _____
2. Enter the amount of qualified distributions made during the year _____
3. Subtract line 2 from line 1 .. _____
4. Enter amount of distributions made during the year to correct excess contributions made during the year _____
5. Subtract line 4 from line 3 _____
6. Enter amount of distributions made during the year that were contributed to another Roth IRA in a qualified rollover contribution _____
7. Subtract line 6 from line 5..... _____
8. Enter the amount of ALL prior distributions from Roth IRA(s) (Whether or not they were qualified distributions) _____
9. Add lines 7 and 8 _____
10. Enter the amount of the distributions included in line 8 that were previously included in income _____
11. Subtract line 10 from line 9 _____
12. Enter total of all contributions to all of Roth IRAs _____
13. Enter the total of all distributions made (this year and in prior years) to correct excess contributions _____
14. Subtract line 13 from line 12 (Do not enter less than 0) _____
15. Enter the smaller of the amount on line 7 or the amount on line 14. This is the TAXABLE part of the distribution _____
16. Enter the smaller of the amount on line 7 or the amount on line 15. This is the TAXABLE part of the distribution _____

Editor's Comment

These computations require EXCELLENT record keeping. Taxpayer's who change tax preparers must be sure to maintain the proper track records. This "headache" will not be completely worked out by the computer!!!

ROTH IRAs

Because tax treatment of Roth distributions is a rather complicated computation, we have reproduced examples from IRS Publications which may be helpful.

Example #1

On October 15, 2005, Justin converted all \$80,000 in his traditional IRA to his Roth IRA. His forms 8606 from prior years show that \$20,000 of the amount converted is his basis. Because of the conversion, Justin must include \$60,000 (\$80,000 minus \$20,000) in his gross income. He did not elect to report all income in 2005, so the income is spread equally over 4 years. For 2006, Justin must include \$15,000. (\$60,000 divided by 4) in his gross income for 2006. On February 23, 2006, Justin makes a regular contribution of \$2,000 to his Roth IRA. On November 7, 2006, Justin withdraws \$5,000 from his Roth IRA. The first \$2,000 of the withdrawal is includible in income because of the special early inclusion rule for conversions contributions that are withdrawn during the 4 year spread period. The \$3,000 is added to the \$15,000 of conversion income that is includible in his income for 2006 under the 4 - year rule. Justin must report \$18,000 as taxable IRA distributions on his return for 2006. Because \$3,000 is distributed before the end of the 5 year period it is subject to the 10% additional tax on early withdrawals that applies to distributions of conversion contributions. Justin must file form 5329 with his return to report the early withdrawal and figure the additional tax or claim an exception if one applies.

Example #2

The facts are the same as in Example 1, except that Justin makes a \$2,000 regular contribution to his Roth IRA in each year 2002 through 2005 and does not make any withdrawals in 2002 through 2005. On February 14, 2006, Justin withdraws \$85,000 from his IRA. The first \$10,000 of the distribution is a return of his regular contributions (The total of his regular contributions in each year 2002 through 2006). This amount is returned tax free. The next \$60,000 is a return of the conversion contribution made in 2001 that was includible in income in 2001, 2002, 2003, and 2004. This amount is not includible in income in 2006. The remaining \$15,000 is a return of the conversion contribution made in 2002 that was not includible in income because it was part of his basis. This amount is returned tax free. Although none of the distribution is includible in income, the \$60,000 of conversion contributions withdrawn is subject to 10% early withdrawal tax, unless an exception to that tax applies. The tax is applied as though the \$60,000 is includible in income in the year of distribution. This is because the conversion contribution that was includible in income is distributed within the 5 year period beginning with the year of the conversion contribution (2001). In this case, the additional tax is \$6,000. Although Justin has no income to report from the distribution he must file form 5329 to report the additional tax.

Example #3

Assume the same facts as in Example 2, except that there is no distribution in 2005. Instead, Justin withdraws the entire \$170,000 balance in his Roth IRA in 2006. The balance includes all contributions made to the IRA and the earnings on those contributions (\$90,000 of contributions and \$80,000 of earnings). Because Justin is not age 59 ½ or disabled and the distribution will not be used to buy a first home, the distribution is not a qualified distribution. As in example #2, the first \$10,000 of the distribution is treated as a return of his regular contributions. This amount is returned tax free. The next \$60,000 is a return of the conversion contribution made in 1998 that was includible in income in 2001, 2002, 2003, 2004. This amount is not includible in income. The next \$20,000 is a return of the conversion contribution made in 2001 that was not includible in income in 2006. This amount is returned tax free. The last \$80,000 distributed is the earnings on the contributions. This amount must be included in gross income for 2006 and is subject to the 10% additional tax on early withdrawals unless an exception applies.

Is this tax “simplification”??

ROTH IRAs

REQUIRED DISTRIBUTIONS

Distributions from Roth IRA are ***not required at any age***

Minimum distribution rules of the traditional IRA do **not** apply to Roth IRAs **while the owner is still alive.**

After death of owner certain minimum distribution rules, that apply to traditional IRAs, also apply to Roth IRAs.

Can **not** use Roth IRA to satisfy minimum distributions requirements from a traditional IRA. (And can not use distributions from traditional IRA for required distributions from Roth IRAs)

Beneficiaries of Roth IRAs - aggregation with other Roth IRAs

Beneficiary can aggregate an inherited Roth IRA with another Roth IRA maintained by the beneficiary only if the beneficiary **either**

- Inherited the other Roth IRA from the same decedent
- or
- Was the spouse of the decedent, the sole beneficiary of the Roth IRA **and** elects to treat it as his/her own IRA

Distributions to beneficiaries that are NOT qualified distributions

Generally included in beneficiary's gross income in same manner as it would have been included in the owner's income had it been distributed to the IRA owner when he or she was alive.

All remaining amounts included in **IRA owner's** gross income for the year of death.

Consequence - beneficiaries generally receive distributions of **conversion contributions** tax free - **provided the distributions are made after the end of the 5 year period.** (Count the time held by the owner and the beneficiary)

Decedent owner who dies prior to end of 5 year period required for qualified distributions or the 5 year period starting with the year of a conversion contribution

Each type of contribution is divided among multiple beneficiaries according to the pro-rata share of each.

ROTH IRAs

DISTRIBUTIONS AFTER DEATH OF OWNER

To beneficiaries (other than spouse)

Generally, entire interest in Roth IRA must be distributed by end of the **fifth** calendar year after the year of the owner's death **unless** the interest is payable to a designated beneficiary over the life or life expectancy of the designated beneficiary.

If paid as an annuity

- Must be payable over a period not greater than the designated beneficiary's life expectancy
- **and** distributions must begin before the end of the calendar year following the year of death.

Distributions from another Roth IRA cannot be substituted for required distributions unless the other Roth IRA was inherited from the SAME decedent.

To spouse, if sole beneficiary

Can either:

- Delay distributions until decedent would have reached age 70 ½ - or
- Can treat the Roth IRA as his/her (beneficiary's) own

COVERDELL EDUCATION SAVINGS ACCOUNT



(COVERDELL ESA)

COVERDELL ESA

COVERDELL ESA IS NOT A RETIREMENT ARRANGEMENT

It is a trust or custodial account created only to pay qualified higher education expenses of a designated beneficiary of the account.

ESTABLISHING A COVERDELL ESA

★ WHERE

- ✓ Opened in the United States
- ✓ At any bank or other IRS approved entity that offers Coverdell ESAs

★ WHO FOR (BENEFICIARY)

- ✓ Any child who is under age 18, unless special needs child - no age limit

★ WHO CAN CONTRIBUTE TO

- ✓ Any individual, *including the beneficiary*
- ✓ Whose modified AGI is not more than \$110,000 (\$220,000 married filing joint)

★ LAST DAY CONTRIBUTION CAN BE MADE

- ✓ December 31

★ HOW MANY

- ✓ No limit to number of Coverdell ESAs than can be established designating same child as beneficiary.
- ✓ Total contributions for the child during any tax year can not be more than \$2,000

★ TAXABILITY

- ✓ Deposits grow tax free until distributed (withdrawn)
- ✓ If, for each year, withdrawals from an account are not more than the child's qualified education expenses at an eligible educational institution, the withdrawals are not taxable.

COVERDELL ESAs

ACCOUNT REQUIREMENTS

- ✓ Document must be in writing
- ✓ Must satisfy following:
 - ▶ Trustee or custodian must be bank or entity approved by IRS
 - ▶ Document must provide that trustee or custodian can only accept a contribution that is:
 - In cash
 - Made before beneficiary reaches age 18
No contributions can be made to a child's Coverdell ESA after he or she reaches age 18, unless special needs child - no age limit
 - Would not result in total contributions for the year (not including rollover contributions) being more than \$2,000.
 - ▶ Money in the account cannot be invested in life insurance contracts
 - ▶ Money in the account cannot be combined with other property except in a common trust fund or common investment fund.
 - ▶ Generally, the balance in the account must be distributed within 30 days after the earlier of:
 - Beneficiary reaches age 30, unless special needs child - no age limit
 - Beneficiary death

Exception - distribution is not required if, as a result of death of the designated beneficiary, the Coverdell ESA is transferred to a surviving spouse or other family member under age 30 .

QUALIFIED EDUCATION EXPENSES (At eligible educational institution)

- ☺ Tuition
- ☺ Fees
- ☺ Books
- ☺ Supplies
- ☺ Equipment
- ☺ Amounts contributed to a qualified tuition program (see definition later)
- ☺ Room and board if designated beneficiary is at least a half time student at an eligible educational institution.
 - ▶ Half time - at least half the full time academic workload for the course of study the student is pursuing as determined under the standards of the institution where the student is enrolled
 - ▶ Room and board limited to
 - School's posted room and board charge for student's living on campus
 - Or
 - \$2,500 each year for students living off campus and not at home

COVERDELL ESAs

ELIGIBLE EDUCATIONAL INSTITUTION

Any college, university, vocational school, elementary and secondary education as well as other post-secondary educational institution eligible to participate in student aid programs administered by the Dept. of Education.

Includes virtually any accredited public, non profit, or proprietary (privately owned profit-making) institution.

QUALIFIED TUITION PROGRAM

Maintained by certain states and agencies. Program that allows people to

- purchase credits or certificates for a designated beneficiary who would then be entitled to a waiver of payment of qualified education expenses
- or make contributions to an account to pay for future education.

Purchases or contributions must be in cash

Plan must prohibit contributor and the beneficiary from directing the amount invested

Plan that allows a rollover or a change of beneficiary to be made only between members of the same family.

Plan imposes a penalty on any *refund of earnings* that does not meet at least one of following conditions.

- used for qualified higher education expenses of beneficiary
- Refund is made because of death or disability of beneficiary
- Refund is made because beneficiary received (and refund is not more than) a scholarship, a veterans educational assistance allowance, or other non taxable payment (other than a gift, bequest, or inheritance) received for educational expense.

Non deductible contributions

Withdrawals taxable only to extent they are more than amount contributed to program

COVERDELL ESAs

CONTRIBUTION LIMITS

Two YEARLY limits:

- ✓ Total amount that can be contributed for each designated beneficiary (child)
Not more than \$2,000 for a tax year
- ✓ The amount that any individual can contribute for any one child for a year.
Not more than \$2,000 for a tax year

REDUCED LIMIT

Modified AGI income limits

If Modified AGI is between \$95,000 and \$110,000 (\$190,000 and \$220,000 if married filing a joint return):

- ✓ \$2,000 limit for each child is gradually reduced

If modified AGI is \$110,000 or more (\$220,000 if joint return)

- ✓ **No contribution can be made to anyone's Coverdell ESA**

Computing the AGI limit:

Multiply the \$2,000 maximum by fraction:

Numerator is modified AGI - minus \$95,000
(Minus \$220,000 if joint return.)

Denominator is \$15,000 (\$10,000 if joint return)

Subtract the result from \$2,000.

Remaining amount is amount that can be contributed for each child.

Modified AGI for limit:

AGI on return *increased by exclusions on return:*

- ▶ Foreign earned income of U. S. citizens or residents living abroad
- ▶ Housing costs of U.S. citizens or residents living abroad
- ▶ Income from sources within Puerto Rico, Guam American Samoa, or the Northern Mariana Islands

COVERDELL ESAs

EXCESS CONTRIBUTIONS - 6% excise tax each year

On excess contributions that are in the Coverdell ESA at end of the year.

Total of:

- ▶ Contributions to any child's Coverdell ESA for the year that are more than \$2,000 (or, if less, the total of each contributors limit for the year)
- ▶ All contributions to child's Coverdell ESA for the year if any amount is also contributed during the year to a qualified state tuition program on behalf of the same child.

(Amounts withdrawn from Coverdell ESA to be contributed to qualified tuition program are not excess contributions)

- ▶ Excess contributions for preceding year, reduced by:
 - Withdrawals (other than rollovers) made during the year
 - Contribution limit for current year minus the amount contributed for current year.

Excise tax does not apply if excess contributions (and earnings on them) are withdrawn before due date of *beneficiaries* tax return for the year (including extensions.)

If beneficiary does not have to file a return - if by April 15 of following year. *Withdrawn earnings must be included in **BENEFICIARY'S** income for the year in which excess contributions are made.*

Caution - If contributions can not be made without creating excess contributions, – consider straight GIFT - to prevent taxability to the beneficiary.

COVERDELL ESAs

ROLLOVERS

Withdrawn and rolled over to another Coverdell ESA for the benefit of the **same beneficiary** OR **a member of designated beneficiary's family** is not taxable.

Only if beneficiary of the new ESA is under age 30 on date of the rollover contribution, unless special needs beneficiary - no age limit

Must be paid to another Coverdell ESA within 60 days after date of withdrawal.

Members of beneficiary's family (including spouses of the following)

- ♡ Beneficiary's spouse
- ♡ Beneficiary's child, grandchild, or stepchild
- ♡ Beneficiary's brother, sister, stepbrother, or stepsister, & first cousins
- ♡ Son or daughter of beneficiary's brother or sister)
- ♡ Beneficiary's father, mother, grandfather, grandmother, stepfather, or stepmother
- ♡ Brother or sister of beneficiary's father or mother (and their spouses)
- ♡ Beneficiary's son-in-law, daughter-in-law, father-in-law, mother-in-law or sister-in-law

Only one rollover per Coverdell ESA is allowed during the 12 month period ending on date of the payment or distribution.

CHANGING BENEFICIARY

Can be changed to certain members of beneficiary's family (see above).

No tax consequences if new beneficiary is under age 30

TRANSFERS OF DESIGNATED BENEFICIARY'S INTEREST TO SPOUSE BECAUSE OF DIVORCE

Not a taxable transfer

Interest treated as Coverdell ESA in which the spouse (or former spouse) is the designated beneficiary.

COVERDELL ESAs

DISTRIBUTIONS MORE THAN EXPENSES - TAXABLE DISTRIBUTIONS.

- ✓ Portion of amount withdrawn is taxable and beneficiary must include it in income.
- ✓ Taxable portion is the amount of withdrawn earnings that have accumulated tax free in the account.
 - ▶ (Step 1) Multiply the amount withdrawn by fraction
 - Numerator is total contributions in the account
 - Denominator is total balance in account before withdrawals
 - ▶ (Step 2) Subtract the amount above from the total amount withdrawn during the year. This is the amount of earnings included in the withdrawal
 - ▶ (Step 3) Multiply the amount of earnings in step 2 by a fraction
 - Numerator is qualified higher education expenses paid during the year.
 - Denominator is the total amount withdrawn during the year.
 - ▶ (Step 4) Subtract the amount figured in step 3 from amount figured in step 2. This is the amount the beneficiary must include in income

COVERDELL ESAs

ADDITIONAL 10% TAX ON TAXABLE DISTRIBUTIONS

Exceptions to 10% additional tax

- ✓ Distribution made to beneficiary (or to estate of designated beneficiary) on or after the death of the designated beneficiary.
- ✓ Distribution made because the designated beneficiary is disabled
 - ▶ Disabled if show proof that cannot do any substantial gainful activity because of physical or mental condition.
 - ▶ Physician must determine that condition can be expected to result in death or to be of long-continued and indefinite duration.
- ▶ Distribution made because the designated beneficiary received
 - ▶ A qualified scholarship excludable from gross income
 - ▶ An educational assistance allowance
 - ▶ Any payment for designated beneficiary's educational expenses that is excludable from gross income under any law of the United States.

Only to extent distribution is not more than the scholarship, allowance or payment

- ▶ Distribution included in income only because the student waived tax free treatment of the withdrawal
- ▶ Distribution is a return of excess contributions that meets requirements:
 - Must be made before the due date of the beneficiary's return (including extensions)
 - Must include any net income attributable to that contribution
 - Net income must be included in beneficiary's gross income for the tax year *contribution made*

COVERDELL ESAs

REQUIRED DISTRIBUTIONS

Generally, remaining assets in Coverdell ESA *must* be withdrawn or distributed when either one of the following two events occurs:

- ✓ Designated beneficiary reaches age 30 (within 30 days after reaching age 30), unless special needs child
May be subject to additional 10% tax on the portion of the amount withdrawn that represents earnings if no qualified higher education expenses in the same tax year.
- ✓ Beneficiary dies before reaching age 30 (within 30 days after the date of death.)
Distributed to the estate of designated beneficiary if no beneficiary is named or to the beneficiary named by the designated beneficiary

Any remaining amount after the 30 day period is considered distributed at that time and the earnings portion of the distribution is includable in the beneficiary's gross income.

AVOIDING TAX CONSEQUENCES OF REQUIRED DISTRIBUTIONS

No tax consequences if amounts that are required to be distributed are transferred or rolled over:

- ✓ Before designated beneficiary reaches age 30 - to another Coverdell ESA for member of the beneficiary's family (under 30)
- ✓ Spouse or family member acquires designated beneficiary's interest as a result of death of designated beneficiary. Spouse or family member must be able to treat the Coverdell ESA as his or her own.

COVERDELL ESAs

RELATIONSHIP TO HOPE CREDIT AND LIFETIME LEARNING CREDIT

A student claiming the Coverdell ESA distribution exclusion may also claim either the Hope or the Lifetime Learning Credit as long as the distribution is not used for the same education expenses claimed for those credits.

QUALIFIED HURRICANE DISTRIBUTIONS TAXABLE OVER THREE YEARS

Up to \$100,000 of qualified hurricane distributions may be reported as income over a three-year period and are exempt from the penalty for distributions before age 59 ½. These rules apply to:

1. Traditional IRA

2. Roth IRA

3. SEP IRA

4. Simple IRA

5. OR eligible employer plans 401(k) OR 403(b).

Eligible Hurricanes are:

1. Wilma

2. Rita

3. Katrina

**FOR MORE ON HURRICANE DISTRIBUTIONS SEE FORM 8915 AND IT'S INSTRUCTIONS
ON NEXT PAGE**

“AMERICAN OPPORTUNITY CREDIT” EDUCATION TAX BENEFIT PROGRAM

40% of Credit may be refundable (\$1,000. Limit)(Annual limit \$2,500.)

Qualified Expenses: Course related books, supplies and equipment.

Qualified Education: 1st 4 years of undergraduate (postsecondary).

Other conditions: 4 tax years(during which the ‘Hope Credit’ is claimed. ½ in degree program,

No Felony Drug Conviction(s), Cannot claim Hope Credit on same return.

Benefits phase-out: (\$80,000. - \$90,000.) (\$160,000. - \$180,000. For Joint Returns.)

SEE ‘IRS Publication # 970 for further information on ‘TAX BENEFITS FOR EDUCATION’

CHARITABLE CONTRIBUTIONS UP TO \$100,000 TO A QUALIFIED CHARITY

IRA account owner may exclude from the account. 2006/2007/2008/2009/2010.

2010

Qualified Hurricane Retirement Plan Distributions and Repayments

▶ **Attach to Form 1040, Form 1040A, or Form 1040NR.**

Name. If married, file a separate form for each spouse required to file Form 8915. See instructions.

Your social security number

**Fill in Your Address Only
If You are Filing This
Form by Itself and Not
With Your Tax Return**

Home address (number and street, or P.O. box if mail is not delivered to your home)

Apt. no.

City, town or post office, state, and ZIP code

Part I Qualified Hurricane Distributions From Retirement Plans (other than IRAs)

1 Enter the amount, if any, from your 2008 Form 8915, line 6	1		
2 Enter the amount, if any, from your 2008 Form 8915, line 1	2		
3 Subtract line 2 from line 1. If zero or less, enter -0-	3		
4 Enter the total amount of any repayments you made in 2009. But do not include repayments made on or before the due date (including extensions) for filing your 2008 tax return. See instructions	4		
5 Add lines 3 and 4. This amount can be carried back to reduce the amount subject to tax in a prior year. See instructions	5		

Part II Qualified Hurricane Distributions From Traditional, SEP, SIMPLE, and Roth IRAs

6 Enter the amount, if any, from your 2008 Form 8915, line 13	6		
7 Enter the amount, if any, from your 2008 Form 8915, line 8	7		
8 Subtract line 7 from line 6. If zero or less, enter -0-	8		
9 Enter the total amount of any repayments you made in 2009. But do not include repayments made on or before the due date (including extensions) for filing your 2008 tax return. See instructions	9		
10 Add lines 8 and 9. This amount can be carried back to reduce the amount subject to tax in a prior year. See instructions	10		

**Sign Here Only If You
Are Filing This Form
by Itself and Not With
Your Tax Return**

Under penalties of perjury, I declare that I have examined this form, including accompanying attachments, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.

Your signature

Date

**Paid
Preparer's
Use Only**

Preparer's signature	Date	Check if self-employed <input type="checkbox"/>	Preparer's SSN or PTIN
Firm's name (or yours if self-employed), address, and ZIP code	EIN	Phone no.	