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7 Crucial IRA Tax Planning Strategies
By Greg Iacurci

Know Form 5329

Form 5329 is the tax form filed for any excess contributions that have been made to an IRA. It's "one of the biggest issues that can cause you grief 10 years later," Mr. Slott said, because there's no statute of limitations if a form isn't filed so penalties can be assessed years later. So be sure to correct any mistakes made in past years, as well.

The annual IRA contribution limit in 2016 is $5,500, with a $1,000 catch-up contribution

The Once-per-Year Indirect Rollover Rule

Starting Jan. 1, 2015, only one indirect rollover (known as a 60-day rollover) per year is permitted for all of a client's IRAs. Doing more than one indirect rollover counts as an excess contribution and is subject to a 6% penalty.(401(k) plan-to-IRA rollovers and Roth conversions don't count.) There is no IRS relief on this error.

Instead, advisers should use direct rollovers — or, trustee-to-trustee transfers — because they are unlimited, Mr. Slott said.

Inherited IRAs — Spousal Beneficiaries

The No. 1 mistake made by spousal beneficiaries is improperly choosing between remaining a beneficiary or doing a spousal rollover into the surviving spouse's IRA. Setting up an inherited IRA is the right move for spouses under 59 ½ years old — if a withdrawal is needed, a 10% early withdrawal penalty wouldn't apply, as it would with a rollover.

However, a spousal rollover (as a direct transfer) makes sense if the surviving spouse is older than 59 ½. A spousal rollover can be done anytime, so money can eventually be rolled over after the spouse hits 59 ½ anyway.

Inherited IRAs — Non-Spousal Beneficiaries

Non-spousal beneficiaries, such as children and grandchildren, can't do a 60-day rollover from an inherited IRA into their own IRA. Advisers should make sure the money stays in the inherited account, because it's a taxable event that can't be reversed if rolled over. The beneficiary takes the required minimum distributions each year, and any excess withdrawn is taxable (unless in a Roth account).

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IRA and Roth IRA Income Limitations

There are no income limits to contribute to a traditional IRA, but if a client (or his/her spouse) is active in a company retirement plan, there are income limits for IRA deductibility. For those covered by a company plan, the phase-out range for IRA deductibility is $98,000-$118,000 for married/joint filers, and $61,000-$71,000 for single filers.

If not covered by a company plan, but a spouse is, the phase-out range is $184,000-$194,000.

Inherited Roth IRA Required Minimum Distributions (RDMs)

Even though investors are typically exempt from taking RMDs from Roth IRAs, they need to take RMDs if the Roth account is inherited. Otherwise, they're subject to the same 50% penalty for not taking the RMD.

Note: There are income limits for Roth IRAs, but ineligible contributions could go unnoticed because Roth contributions aren't listed on the tax return.

RMD Aggregation

RMDs from IRAs can be aggregated with all other IRAs, meaning a client's RMDs can be taken from a combination of accounts (with the exception of inherited or Roth IRAs). However, a client can't satisfy an IRA RMD from a 401(k) plan.

RMDs for inherited IRAs can only be aggregated if inherited from the same decedent, and husband and wife RMDs can't be aggregated.

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Thu 1/21/2016 7:02 AM

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