# Monthly IRA Updates



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## Question of the Month: How Do You Handle Qualified Charitable Distributions?

Q: I received information that charitable deductions from required minimum distributions will not be taxable income in 2010 and 2011. Is this true?

A: You are correct that qualified charitable distributions (QCDs) are back. It is now too late to do anything for 2010. For 2011 you can have up to \$100,000 per person transferred directly from your IRA to a qualifying charity. You must be at least 70 ½ at the time of the transfer. All or part of the amount transferred can count as your 2011 required distribution. The amount transferred will not be included in income on your 2011 tax return. You also will not get a charitable deduction for the amount transferred. You cannot receive anything from the charity in return for the contribution and the charitable substantiation requirements will apply.



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## Inside Ed Slott's IRA **Advisor Newsletter**

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### 2011 Retirement Plan **Contribution Limits**

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## IRA Planning with the **NEW Tax Law**

The February issue of Ed Slott's IRA Advisor Newsletter goes into detail about all of the IRA planning opportunities with the 2010 Tax Act.

The main topics covered in February's issue are: income tax changes for 2011 and 2012, estate tax law changes and their benefits for Roth IRAs, the new \$5 million gift tax and generation skipping transfer (GST) tax exemptions, qualified charitable distributions (QCDs) in 2011, the payroll tax "holiday" and a complete advisor action plan to take advantage of the 2010 Tax Act.



## February Key Focus

## IRAs CAN HELP EASE YOUR 2010 TAX BILL

This is the time of year when Individual Retirement Accounts really come into focus. While it is too late to take advantage of most other ways to shave your 2010 income tax bill, a deductible IRA contribution will work wonders for your wallet. And savers have more time this year to put money into an IRA and count it for last year. The federal government's recognition of Emancipation Day, a holiday observed in the District of Columbia that falls on April 15, means you have until April 18 to contribute to your IRA for 2010.

Unfortunately, millions of Americans don't contribute to IRAs. Confusion over the eligibility rules likely plays a large role in why they miss out. The rules are somewhat tricky.

If you don't have retirement coverage at work, you likely can invest in a traditional IRA and deduct your contributions, regardless of your income. If you participate in a 401(k) or other workplace retirement programs, your deduction begins to phase out in 2010 at adjusted gross income (AGI) above \$56,000 (singles) or \$89,000 (joint filers). It ends completely at \$66,000 (singles) or \$109,000 (joint filers). If you don't participate in a company sponsored plan but your spouse does, your contributions phase out between \$167,000 and \$177,000 of AGI. But fear not, you can always contribute to a traditional IRA without any phase-outs provided you or

The contribution eligibility rules for Roth IRAs are somewhat different. The ability to contribute phases out at AGI between \$105,000 and \$120,000 for singles and between \$167,000 and \$177,000 for joint filers in 2010, regardless of whether you or your spouse participates in a workplace retirement plan. Keep in mind you or your spouse must have earned income in order to contribute to either a traditional or Roth IRA, which may eliminate some people, including retirees. Also, you can't contribute to a traditional IRA beginning with the year you attain age 70 1/2; no such age limit exists with respect to Roth IRA contributions. The 2010 aggregate contribution limit for all IRAs, including Roths, is \$5,000 plus an additional \$1,000 if you are age 50 or older on December 31, 2010.

## Ruling to Remember

## PRIVATE LETTER RULING 201102070

"John" and his wife "Shelley" have separate IRAs. He converted an amount of money from his IRA to a Roth IRA, and she converted a separate amount from her IRA to her own Roth. All acounts are maintained by the same financial institution.

The couple prepared their joint federal income tax return, unaware of their inability to convert their IRAs, due in large part to income not being reported until after they filed their returns. After an IRS review of relevant tax material, it was determined that the couple had underreported their modified adjusted gross income and that it exceeded \$100,000, after the period for recharacterization had expired.

In this case, "John" and "Shelley" were not eligible to do Roth IRA conversions because their modified adjusted gross income exceeded the \$100,000 limit and they failed to recharacterize within the time permitted by

IRS determined that the couple had acted "reasonably and in good faith" so it allowed a 60-day extension to recharacterize the amounts back to traditional IRAs.

## **LESSON TO LEARN:**

If you want to recharacterize you must do so by the October 15th deadline. It will be much more difficult to get IRS approvals in the future, especially if the only reason for the recharacterization is that the value of the assets has declined.

