Monthly IRA Updates

ED SLOTT AND COMPANY, LLC
America's IRA Experts

July 2012 | [Click here to view previous issues](#) | Volume 5, Number 7

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?? Question of the Month: Do I Have an IRA Rollover Issue?

Q: I transferred a stock from my IRA to my regular (non-IRA account) and then transferred the exact same number of shares of the same stock back into my IRA within 60 days. However, the value of those shares was $10,000 higher. Do I have a problem because I put more money into the IRA even though I transferred the same number of shares?

A: No. Your distribution of property (stock) from your IRA qualifies to be rolled over tax free within 60 days only if the identical stock is rolled over to a receiving IRA. It is common for the value of stock to change during the 60-day window. That's OK and still qualifies as a tax-free rollover. When your tax return is filed for the year, your tax preparer may want to attach a note to explain the different values.

CLICK HERE to view other questions and answers from ***The Slott Report Mailbag.***

Gold in IRAs: Everything You Need to Know!

The July issue of *Ed Slott's IRA Advisor Newsletter* looks at a common theme popping up all over TV commercials and Internet advertisements:

"Put Gold in Your IRA!"

In this issue, Ed Slott and his contributing writers detail the complicated rules of holding gold in an IRA, the similarities and differences between IRAs with and without gold and several tax traps to keep in mind during this process.

Hint: You may want to discourage holding actual gold in IRAs, although some gold-linked investments can be a good fit.

READ ALL ABOUT GOLD IN IRAS IN JULY'S ISSUE OF ED SLOTT'S IRA ADVISOR NEWSLETTER

Inside Ed Slott's IRA Advisor Newsletter

Gold in IRAs

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IMPORTANT NEWS:
What Does the Supreme Court's Health Care Ruling Mean For Taxes and Retirement Planning?

CLICK HERE TO WATCH THIS VIDEO FROM ED SLOTT

July Key Focus

Company Retirement Plan Distribution Options

So, let's say you are leaving or have left your employer. What happens to your retirement plan funds? There are options other than taking a taxable distribution of your retirement account balance.

Taking a check payable to yourself
The employer is required to take 20% mandatory income tax withholding on any taxable (pre-tax) funds included in this type of payment. Once you receive the check, you have 60 days from that date to roll the funds over to another employer plan or to an IRA. You can also make up the 20% withheld with other funds you have and put those in the IRA also within the same 60 days. If you do not make up the withheld amount, it will be included in your taxable income for the year and will be subject to the 10% early distribution penalty if you are under the age of 59 1/2. If you do make up the withheld amount, you will get back any overpayment of income tax when you file your tax return for the year.

Taking a check payable to the new retirement plan
This is called a direct rollover and is not a taxable event. You can have the check made payable to the IRA custodian or to the new employer plan. When you receive the check, you have it deposited in your new account. This is a much better way to move your employer plan funds. There is no 20% withholding, no 60-day limit, no waiting for a tax refund, and no 10% penalty.

Do a Roth conversion
You can move your employer plan funds to a Roth IRA as a 60-day rollover or as a direct rollover. **This is a taxable event.** The amount converted will be included in your income for the year. There is no 10% early distribution penalty on a Roth conversion. A Roth conversion can be recharacterized to an IRA up to October 15th of the year after the conversion if you change your mind.

Do an in-plan Roth conversion
If the employer plan has a Roth feature and allows for conversions, you can move your plan funds to the Roth account in your plan. This is a taxable event as noted above. Unlike a conversion to a Roth IRA, there is NO recharacterization feature in an employer Roth account.

Ruling to Remember

Private Letter Ruling 201225022

A taxpayer we will call "David" maintained an IRA with his financial institution A. He took an IRA distribution from his IRA, which he intended to roll over to another IRA within the required 60-day rollover window. No harm, no foul, right?

The distribution was electronically transferred from his IRA to his financial institution A and then to another account with financial institution B. On a later date, David contacted the new financial institution B and requested that the exact amount initially transferred over be transferred again from his business account to his personal account and then transferred to his IRA with financial institution A.

However, financial institution B only transferred the money from the business account to the personal account and failed to complete the final step of the transaction because of a lack of an electronic link between the relevant accounts. To make matters worse, financial institution B failed to inform David of the problem.

David first learned at a year-end review that the IRA transfer was now taxable since he didn't roll over the funds within 60 days. He immediately requested a private letter ruling, and IRS decided to waive the 60-day rollover requirement and granted another 60 days from the issuance of the ruling to complete the rollover back into his IRA with financial institution A.

LESSON TO LEARN:
Do not accept the first answer you get from a financial institution. Financial institution A told David nothing could be done and apparently offered no assistance to try and correct the mistake. Luckily for David, he found someone who knew about the private letter ruling process. Unluckily for David, the process is costly and time consuming. To prevent these problems, you must follow up on all IRA transfers and rollovers to be sure the money ends up in the account it is supposed to by certain deadlines.