Monthly IRA Updates

ED SLOTT AND COMPANY, LLC
America's IRA Experts

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?? Question of the Month: I forgot to take my Required Minimum Distribution. Now what?

Q: I forgot to take my Required Minimum Distribution for 2010, and I am in a panic. Did I make an unfortunate and, in the long run, costly mistake? Is there anything I can do today to avoid the 50% penalty?

A: The very first thing you should do is immediately take what your 2010 Required Minimum Distribution would have been. You should then file Form 5329 with your 2010 income tax return and attach a letter asking for a waiver of the 50% penalty. Indicate in the letter that when you realized you did not take your RMD in 2010, you distributed the missed RMD. Don't be surprised if you don't hear from the IRS because you corrected your error.

TIME IS RUNNING OUT!

REGISTER BEFORE THE LARGEST IRAS PASS YOU BY

GROUP DISCOUNTS AVAILABLE! CONTACT US AT 215-557-7022 FOR MORE INFORMATION

More Clients Will be Filing Form 8606

The March issue of *Ed Slott's IRA Advisor Newsletter* talks about the avalanche of questions coming in regarding Form 8606, which is tied into 2010 Roth conversions.

Form 8606, "Nondeductible IRAs," is where you or your clients will report Roth conversions. This form has been around for years, but it will be more popular this year because of the two tax law changes that benefited those wanting to convert.

1) Income restrictions were repealed for 2010 and all later years.
2) Anyone who converted in 2010 (and only 2010) can split the conversion income evenly over 2011 and 2012.

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Guest IRA Expert
Jere Doyle, IV, Esq.
BNY Mellon, Boston
What Advisors Need to Know About IRAs Payable to Trusts

If you are not already an Ed Slott IRA Advisor Newsletter subscriber, you can preview past issues before subscribing.

March Key Focus

INCOME DAY TAX IS APPROACHING

The deadline this year for individuals filing 2010 income tax returns is April 18. Procrastinators, as well as those who refuse to give money to the government until the very last minute, get a bit more time than usual to file because Emancipation Day, a holiday celebrated in the District of Columbia, falls on April 15 this year.

By law, D. C. holidays impact tax deadlines the same way federal holidays do. So, taxpayers requesting extensions for their 2010 returns have until October 17 to file, even though any tax they owe must be paid by the April 18 deadline in order to avoid penalties and interest.

Your IRA contribution for 2010 remains the same as 2009, $5,000 plus an additional $1,000 if you attained age 50 or older on or before 12/31/2010. You must, however, have earned income that equals or exceeds your contribution.

Earned income includes compensation you received such as wages, commissions and tips (including self-employed income) as well as alimony payments. It does not include pension payments or investment income, among other things. Because of Emancipation Day, you will have until April 18 to fund your 2010 IRA contributions; extensions you receive to file your return beyond this date do not extend the IRA contribution deadline.

As you prepare your annual income tax filing, keep **IRS Publication** 17 handy. It is a free, comprehensive guide that highlights key rules for individual taxpayers. Also, **IRS Publication** 590 provides a wealth of "easy-to-read" information on both traditional and Roth IRAs. It is updated every year and should be kept within easy reach by both IRA owners and inheriting beneficiaries alike.

All IRS Publications can be accessed at **www.irs.gov.**

Ruling to Remember

ERISA OP LETTER NO 2011-04A, 1911

In 1993, Donald and his wife Betty bought interest in an eight-unit apartment building for $200,000. The couple financed the purchase with a bank loan (evidenced by a promissory note), secured by a mortgage on the property. The title was held by a family trust with Donald as the trustee, and he and Betty as the sole beneficiaries.

Donald maintained an IRA for years with his wife as the sole beneficiary. He had sole discretion over the assets. Donald proposed to the Department of Labor (DOL) that the IRA would purchase the note and deed of trust held by the bank. The bank would assign the note and deed of trust to the IRA with a third-party commercial bank serving as the custodian for the IRA. That third-party bank would have received the monthly payments on the note from the couple and enforced all provisions of the note and deed.

There were several problems with this scenario. Donald was a fiduciary (a person who exercises discretionary authority or control over the plan's management) and therefore was seen as a "disqualified person" in the transaction between the IRA and his trust. Betty also was a "disqualified" person because she and her husband were both sole trust beneficiaries. Donald wanted his IRA to acquire the note and deed of trust from the bank, hold the note and receive payments from the couple. DOL ruled that this would be a prohibited transaction because you cannot have self-dealing between yourself, entities you have interest in, and your IRA.

LESSON TO LEARN:
Prohibited transactions mean disqualification of the IRA, which is a taxable event and can cost you greatly. Make sure to check with a knowledgeable financial advisor before becoming part of such a complicated situation or do what Donald and Betty did and ask the DOL for their opinion before engaging in the transaction.