■Monthly IRA Updates



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• Simeon E. and Cynthia L. Issacs v.

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Exception to the 10% Penalty

for 2010 Estates and Their Beneficiaries and Extends

Several Key Deadlines

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If you are not already an Ed Slott

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you can preview past issues before

Liable for \$100K+ in Combined

• Facts of the Case

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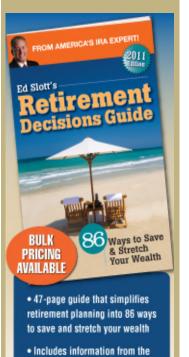
ON SECOND THOUGHT...



Use this 20-minute webcast CD, this white paper and these pamphlets with your clients before going through with a Roth recharacterization.

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request.

after you reached age 59 1/2.

events out of your control.

2010 Tax Act and 2011 IRA contribution limits and tax tables

PERFECT FOR YEAR-END PLANNING!

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Question of the Month: Can I convert part of an active SEP to a Roth IRA?

O: I have an active SEP (Simplified Employee Pension) IRA. I've been hearing about the positives involved with Roth IRAs and would like to take advantage of the tax-free savings as soon as possible. Can I convert part of it to a Roth IRA right now?

A: As long as the SEP agreement allows you access to the funds (and most SEPs will allow you access), you can do a conversion from the SEP account to a Roth IRA. If you will be receiving future SEP contributions in the account, make sure that you leave enough money in the account to keep it active. Enjoy the benefits of a Roth IRA and make sure you have enough outside money to pay the tax on the conversion.

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Disclaimer Plans, Disability Exceptions, Recharacterization Extenstions

The October issue of Ed Slott's IRA Advisor Newsletter highlights the IRS rules on the retirement account disclaimer plan.

This issue also talks about the disability exception to the 10% penalty, IRS' extension for 2010 estates and a Roth recharacterization extension for victims of Hurricane Irene.

October Key Focus

Year-End IRA Deadline Falls on a Saturday

following the year of conversion. This year, however, the

Tax-related deadlines falling on a weekend or holiday are

to the previous business day for year-end related issues.

pay month-end distributions on the first business day of the

equal periodic payments) during the 2011 calendar year.

paid on December 31, 2011 does not get distributed until

is \$2,500. Avoiding such a penalty in this case is a two-step

deadline is October 17th because the 15th falls on a Saturday.

We recently informed you that the recharacterization deadline for

2010 Roth IRA conversions is generally October 15th of the year

extended to the next business day. However, when December 31st

falls on a weekend, like it does this year, the deadline is pushed up

The payment systems of many IRA custodians are programmed to

following month when the month-end falls on a non-business day.

For these custodians, it means that distributions scheduled to be

paid on December 31, 2011 would instead be paid on January

2, 2012. This would lead to tax penalties for those who must take required minimum distributions (RMDs) or 72(t) (substantially

The problem for RMDs is the 50% penalty that is assessed on any

missed payments. For example, if a \$5,000 RMD scheduled to be

January 2, 2012, the resulting penalty owed by the account owner

process. First, a written request for a waiver of the penalty must

be made to the IRS, providing a legitimate reason as to why the

payment was late. Then cross your fingers and hope you catch

the IRS case officer on a good day so that he or she agrees to your

A similar problem applies to 72(t) distributions that are supposed

to be paid by the last business day of the year. If pushed to the

beginning of the next year, the 72(t) would be considered

modified, resulting in the IRA owner owing a 10% early

distribution penalty on all distributions taken under the 72(t)

program since its inception. The penalty would not apply to any

A word of advice is in order if you are scheduled to receive one

of these payments at year end. Check with your IRA custodian to

ensure that it has taken appropriate steps to prevent the carry-over

of payments to the next year. For regularly scheduled payments,

a sure-fire way to avoid this problem altogether is to switch your

payment date to the first day of the payment period. It is better to

receive payments early than risk the imposition of tax penalties for

distributions taken in accordance with the 72(t) program and made



READ MORE IN OCTOBER'S ISSUE OF ED SLOTT'S IRA ADVISOR NEWSLETTER

Ruling to Remember

subscribing.

Some

Private Letter Ruling 201139011

A 13-year-old girl we will call "Michelle" lost her father in early September 2008. She was named the sole beneficiary of her dad's entire interest in a qualified retirement plan. She was entitled to have a direct trustee-to-trustee transfer made from her father's retirement plan to an IRA set up in her name.

However, Michelle's mother, as the surviving parent and legal guardian, made no attempt to follow that procedure and instead took a lump sum distribution and converted most of the funds to her own use.

The court stepped in and said, "Not so fast."

A conservator was named for the estate and Michelle to handle all financial matters. In addition, the court instructed the conservator to "seek assistance" in determining whether or not the taxes paid by Michelle on the lump sum distribution could be returned to the estate.

Since this case dealt with a minor beneficiary and an apparently irresponsible parent, IRS allowed for the remaining funds, including tax refunds, to be placed in a properly titled inherited IRA for the child. Normally, taxpayers are given 60 days to accomplish rollovers. IRS didn't place a time limit in this instance since the amended tax returns needed to be filed and total reimbursement had not yet been received from the parent.

LESSON TO LEARN:

This PLR provides both hope and a warning. If you are the guardian of an IRA beneficiary, you have obligations under the law, and you can be required to repay any funds that are misspent. Also, if you are representing a minor beneficiary who has been taken advantage of, perhaps a PLR can

