



ED SLOTT'S IRA ADVISOR

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TAX & ESTATE PLANNING FOR YOUR RETIREMENT SAVINGS

Tax Court Decision Highlights Differences in the Way Retirement Plan Distributions and Social Security are Taxed

**Dennis J. McCarthy, et. ux. v.
Commissioner
TC Memo 2015-50
March 18, 2015**

An elderly married couple learned that employer retirement plan distributions and Social Security benefits are taxed differently. As a result, the wife's employer plan distribution was taxable and wasn't eligible for the special tax breaks that apply to Social Security benefits.

Facts of the Case

Holly and Dennis McCarthy, a married couple, were both receiving Social Security benefits and Holly was taking distributions from her former employer's retirement plan. Holly was a retired school nurse who participated in Ohio's State Teachers Retirement System's (STRS) qualified retirement plan.

**Retirement plan
distributions
and Social
Security benefits
are not taxed
the same.**

In 2011 she received a \$27,701 plan distribution. She received a copy of IRS Form 1099-R reporting a \$27,701 gross distribution and a taxable amount of \$27,413 (the small difference between the gross and taxable amount was \$288 of tax-free basis (after-tax) funds). No federal income taxes were withheld, in all likelihood because she chose to have zero withheld for taxes.

The McCarthy's filed a joint federal income tax return for 2011 reporting only one-third (\$9,233) of the retirement plan distribution with the taxable amount as \$8,945 (\$9,233 - \$288 basis = \$8,945).

She and her husband Dennis also reported receiving Social Security benefits totaling \$37,600 with a zero taxable amount on their tax return. The \$37,600 total included some of Holly's plan distribution.

In 2013, the IRS sent them a Notice of Deficiency for errors in their 2011 federal income tax return. The

WHAT'S INSIDE?

Tax Court Decision Highlights Differences in the Way Retirement Plan Distributions and Social Security are Taxed

- Facts of the Case
- The Court's Ruling
- Taxation of Social Security
- Combined Income
- Retirement Plan RMDs Can Increase Social Security Taxation

- Pages 1-3

IRS Allows Late Recharacterization of Annual Roth IRA Contributions

- Facts of the PLR
- IRS Ruling
- Recharacterization Basics
- Reversing a Roth IRA Conversion
- Changing a Traditional IRA Contribution to a Roth IRA Contribution
- Changing a Roth IRA Contribution to a Traditional IRA Contribution
- October 15 Deadline
- Other Recharacterization Rules

- Pages 4-6

Treasury Report on Excess IRA Contributions Finds IRA Custodians Need More Education

- Form 5498 Reporting Problems
- Roth IRA Excesses are Harder to Catch
- IRA Custodians Need More Education
- Other Excess Contributions
- Correcting a Mistake on Form 5498

- Pages 6-7

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