



ED SLOTT'S IRA ADVISOR

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TAX & ESTATE PLANNING FOR YOUR RETIREMENT SAVINGS



Tax Reform Targets Recharacterization

The tax reform battle has begun, and IRAs may take an unexpected hit if Republicans in Congress get their way. The Tax Cuts and Jobs Act, which was passed by the House of Representatives, includes a surprise **proposal: the elimination of the IRA recharacterization rules.**

Recharacterization Repeal?

Currently, when a client does a Roth conversion, they have until October 15 of the following year to undo part or all of that conversion (and tax bill) for any reason. Recharacterization is one of the rare “do-overs” allowed under the present tax code. For many clients, this makes conversions more attractive because it gives a limited window to know the actual tax cost of the conversion. While recharacterization is most commonly used to undo Roth IRA conversions, it also applies to Roth

and IRA contributions too. The *proposal* would eliminate recharacterization and make conversions irrevocable. This would apply to taxable years after December 31, 2017. The ability to recharacterize IRA or Roth IRA contributions would also be repealed.

The proposed bill would eliminate Roth recharacterization and make conversions irrevocable.

Senate Also Includes Repeal

The Senate has also weighed in on overhauling the tax code and while their *proposal* looks very different from the House version, it also includes the provision that would eliminate recharacterization. This was not in the original Senate *proposal* but was later added.

The Senate *proposal* also would apply a single aggregate limit to contributions for an employee in a governmental section 457(b) plan and elective deferrals for the same employee under a section 401(k) plan or a 403(b) plan of the

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