



ED SLOTT'S IRA ADVISOR

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TAX & ESTATE PLANNING FOR YOUR RETIREMENT SAVINGS

IRA Planning with the New Tax Law

On December 17, 2010, the President signed the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 (2010 Tax Act) into law. The new law does address a number of non-tax issues, such as the extension of unemployment benefits, but it also makes a number of key tax changes. Among the areas of the tax code most impacted are federal income tax, federal estate tax, the generation skipping transfer tax (GST) and the Social Security tax on earned income.

Generally, whenever there are changes to the tax law, advisors benefit since they create new opportunities to meet with clients in order to explain the changes and implement new strategies. But while most changes are good for advisors, the 2010 Tax Act might be great. Most of its changes strongly benefit clients and many of those changes have fast approaching deadlines that create an urgency to act now.

Income Tax Changes

The new legislation keeps the Bush era tax cuts in force through the end of 2012. The tax rates of the past few years will remain the same, but the actual brackets have risen slightly for 2011 after being adjusted for inflation. While this

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might be characterized as “no news,” tax rate stability can be meaningful.

One key group of people who benefit substantially from the extension of the tax cuts are those individuals who converted traditional IRAs to Roth IRAs in 2010, the first year when high-income clients could make Roth conversions. For those 2010 conversions, a special option was available (only for 2010 Roth conversions) allowing all the income from the conversion to be split equally over 2011 and 2012 - or all the income could be included in 2010.

Now, in 2011 clients must finally decide which option to choose. The election must be made by the due date for the 2010 tax return (including extensions), and once made, the election will be irrevocable.

Before the tax cuts were extended, this was going to be a difficult decision for many clients, particularly those at higher incomes. Pay now (for 2010) at lower rates, or defer the liability to 2012 and 2013 (for 2011 and 2012), but pay at potentially higher rates. Under the new tax law, the debate is now substantially simplified and deferring the income from a 2010 conversion equally over 2011 and 2012 becomes the best option for most of your clients, all other factors being

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