



ED SLOTT'S IRA ADVISOR

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TAX & ESTATE PLANNING FOR YOUR RETIREMENT SAVINGS

Volatile Markets Spur Roth Recharacterization Decisions

Recharacterization Deadline Approaching

October 17, 2011, the day of reckoning for undoing 2010 Roth conversions, is quickly approaching. Once this date passes, most clients who made 2010 Roth conversions will be irrevocably locked into those Roth conversions and the tax bill that comes along with them. The recent extraordinary market volatility however, has made this deadline loom even larger for some who fear that a post-October 17, 2011 crash could sting twice as bad since they might lose both investment value and the right to reclaim the taxes they've paid on that lost value through a recharacterization.

For clients that made Roth conversions in 2010 that have already lost substantial value, the decision to recharacterize is often a no-brainer. Why pay tax on value that no longer exists? But what happens when the account value is just slightly lower, virtually the same, or even slightly higher than the value at the time of conversion? What should you do then? That question is not quite as easy to answer, and is further complicated thanks to the 2-year deal for

Roth Conversion / Recharacterization Options

Recharacterize 2010 Conversions?

Benefits:

- No tax owed on lost value
- Ability to reconvert (after 30 days) and have more time to monitor markets

Drawbacks:

- Loss of locked in tax-free gains
- Loss of 2-year tax deferral deal

2010 Roth conversions that many clients took advantage of.

Conversion / Recharacterization Options

If you decide to keep the conversion as is, the benefits include less complication and paperwork to deal with (for you and your client); no need to file an amended return if the 2010 return has already been filed; keeping the 2-year deal in which only half of the conversion income is reported in 2011, with the remaining half included in

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Reminder: Extended Disclaimer Deadline is Approaching

- Special Disclaimer Rules for Beneficiaries of 2010 Decedents

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Deadline for Opting Out of Estate Tax for 2010 Estates

- Form 8939 is due by November 15, 2011
- GST Considerations

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Guest IRA Expert

Denise Appleby, APA, CISP, CRC, CRPS, CRSP
Appleby Retirement Consulting Inc.
Grayson, Georgia
The Wrong Move Can Destroy an IRA

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Reference Chart

2011 Limitations When Individuals Own or Participate in Multiple Retirement Plans

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September 23-24, 2011

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