

THE MASTERS

WEALTH MANAGEMENT GROUP

IRA CHANGES FOR 2011

Little details you need to know about.

Provided by Gary C. Mastrodonato, CEA

What's new? Every year brings changes in tax law, and some of these revisions always seem to affect IRAs. Here is a look at some of the new wrinkles for 2011.

You can't defer income resulting from a Roth IRA conversion in 2011. If you converted a traditional IRA to a Roth IRA in 2010, you could opt to divide the income resulting from the conversion between your 2011 and 2012 federal tax returns. (If you did go Roth in 2010, you have until October 17, 2011 to choose this income deferral option.) You don't have this choice in 2011 - the income can't be deferred to a future tax year.¹

The IRA charitable rollover is back. In 2011, IRA owners aged 70½ or older can again donate IRA proceeds to charity tax-free. The Tax Relief Act of 2010 brought back the opportunity, at least for this year.²

A charitable IRA rollover lets an IRA owner gift up to a total of \$100,000 in IRA assets to one or more qualified charities or non-profit organizations. The distribution has to go directly from the IRA custodian to the charity. You don't get a tax deduction for the move, but you could use this qualified charitable distribution to fulfill some or all of your 2010 RMD.²

The Tax Relief Act also gives IRA owners until January 31, 2011 to make 2010 charitable IRA donations. So you could transfer up to \$100,000 from your IRA to a charity in January and have it retroactively count as a 2010 distribution, then transfer another donation of up to \$100,000 to the charity later this year.³

Here's the irritating asterisk on all this: if you took your 2010 RMD assuming that you couldn't make a charitable IRA donation in 2010, there is no do-over available. You can't put back your 2010 RMD into your IRA and redirect those assets toward charity. The IRS issued a statement on January 5 citing existing language in IRS Publication 590, explaining that "required minimum distributions (RMD) from an IRA received by a taxpayer cannot be rolled over to an IRA."⁴

You have three extra days to make your 2010 IRA contribution. The District of Columbia observes Emancipation Day on April 15, so the deadline for your 2010 IRA contribution is April 18, 2011.^{5,6} (Remember to tell your IRA custodian that you are making a contribution for the 2010 tax year.)

You may have a chance to go Roth with your 401(k) or 403(b) in 2011. As a result of the Small Business Jobs Act of 2010, some employer-sponsored retirement plans are now allowing in-plan Roth conversions, i.e., the chance to “convert” a percentage of the pre-tax dollars you have saved to after-tax dollars without the necessity of a rollover to a Roth IRA. However, there are criteria to meet.

- Your employer’s retirement plan document has to permit after-tax Roth contributions.
- You must be older than 59½, or you have to have assets in a 401(k) or 403(b) account at a past employer that could potentially be rolled over to your current employer’s plan.^{7,8}

Roth IRA phase-outs have been set higher for 2011. While anyone can convert a traditional IRA to a Roth IRA, not everyone can contribute to a Roth IRA because of MAGI limits. For 2011, those phase-out limits have increased by \$2,000 for joint and single filers. The phase-out range for joint filers and qualifying widows this year is \$169,000-179,000. For single filers, it is \$107,000-122,000.⁶

Traditional IRA deduction phase-outs are also higher for 2011. If you own an IRA and participate in an employer-sponsored retirement plan, your IRA contributions may or may not be deductible, depending on your MAGI. In 2011, the MAGI phase-out ranges are bumped up slightly to \$90,000-110,000 for joint filers and qualifying widows and \$56,000-66,000 for single filers and heads of households.⁶

One thing that hasn’t changed... With minimal inflation for 2010, there was no COLA to send the annual IRA contribution limit higher. You may contribute up to \$5,000 to your IRA in 2011, \$6,000 if you are 50 or older. If you have more than one IRA, your total 2011 IRA contributions to your IRAs cannot exceed the above limits.⁹



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Citations

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