DOWNLOAD PDF ROTH IRAS AFTER 1998 TAX LAW CHANGES

Chapter 1 : Roth IRA - Wikipedia

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President Bill Clinton is set to receive on Tuesday legislation that will correct some of the foibles of the original legislation which created the Roth Individual Retirement Account IRA. The technical corrections legislation, which Clinton promised to sign after it was approved by the U. One of the most important parts of the legislation are stipulations which allow for honest mistakes by someone who has converted from a traditional IRA to a Roth IRA. This uncertainty, said Coscia, kept many people who would have otherwise been eligible from taking advantage of the Roth IRAs. Additionally, the new legislation will save you some time and money. Previously, many investors were often advised to keep separate accounts for their converted Roth IRAs and the ones they would be making contributions toward. Corrections to the legislation will make it easier to combine Roth IRA assets into one, eliminating many of the fees you would pay on multiple accounts as well as cutting down on the paperwork you have to maintain. Coscia advises almost every Roth IRA investor to combine their assets into one Roth after the legislation takes effect. Roth loopholes exposed quickly The Taxpayer Relief Act of , signed into law by Clinton last August, was one of the most dramatic changes to tax law in recent years. As the new Roth IRA became available in January, loopholes and other questions came up about the legislation. Basically, a person could take money from a conventional IRA and put it into a Roth. The transferred money would be taxed but, as the law stood, the taxes would be spread out over four years in an effort to lessen the tax blow on individuals. However, due to a loophole, the 10 percent tax penalty on early withdrawals did not apply to these conversions. Therefore, an individual could convert, take the money out right away and not have to pay a penalty. To crack down on the chance investors will take advantage of this, the 10 percent withdrawal penalty for these conversions will apply. While the legislation takes away that loophole, it seeks to open up the Roth IRA to new possibilities. Previously, there was a five-year waiting period after you opened up each Roth before you could start withdrawing your money. This broke up your available money into small pieces. Older Americans can use converting to a Roth IRA as a way to provide an income tax-free inheritance for their beneficiaries. The new technical corrections afford older investors more flexibility to transfer their IRA assets while still taking advantage of the taxes being spread out over four years. As you might expect with most tax law, the technical corrections legislation is complex.

Chapter 2 : Tax Reform Bill Includes IRA Changes | Wolters Kluwer

Roth IRAs with Federal Income Tax treatment. a traditional IRA into a Roth IRA after December 31, , the taxable portion and describe changes to the law, regulations, or Division policies. It.

Submitted by jbtaylor1 gmail. Specifically, the clients have concerns that future changes would remove any tax benefits of the Roth. I explained that in my way of thinking, the final regs on the issue are in. Even if they changed the rules down the road it would be extremely difficult and a political hot potato having already paid taxes to convert that the government would after changing the rules go back and require taxation on growth Another concern would be if they were doing a Roth Conversion over a 5 or 10 year period and the rules changed could these impact future conversions. Do you have any articles or any discussion points that address these issues? Permalink Submitted by alan-oniras yah That has always been the pattern. With the bailouts and budget situation deteriorating by the day, the Treasury will need current tax revenue more than ever. Therefore, Roth contributions and conversions will be much preferred over pre tax contributions to retirement plans. They expect considerable tax revenue from the rules changes, because through today was by far the largest year for Roths because that year offered the 4 year tax deferral. With a two year deferral PLUS no income limits, conversions will probably surpass the amount done in I an not inclined to speculate on the nature of any tax changes with respect to Roth IRAs. I do not expect restrictions at all in the foreseeable future, but if there were I agree that existing Roth accounts would be totally grandfathered. If new Roth accounts carried restrictions from that point forward, that argues for taking more advantage of the Roth now while it still exists in the current form. If someone is converting incremental amounts over a period of years, and if the law were changed, it would likely just mean that future conversions would go into an account with different tax provisions. Prior conversions would not be affected. I have not seen any recent articles dedicated to the prospects for future Roth tax law changes. I imagine the largest threat to Roths would not be changes to the Roth rules, but the introduction of some sort of national sales tax on top of the income tax. That would keep income tax rates from rising and thereby reduce the relative value of a Roth. That is, you would take your Roth distribution tax free, but then pay a national sales tax on purchases with that money.

Chapter 3 : Roth on the Roth IRA - Jan. 2,

One of the most costly loopholes centered on conversions made during from a traditional IRA to a Roth IRA. Basically, a person could take money from a conventional IRA and put it into a Roth.

Despite the recent trend toward the use of the k and similar plans, the IRA is still a valuable tool for retirement planning and other goals. Individuals, small businesses, and the self-employed can all potentially use IRAs. The investment choice should be determined by investment horizon, risk tolerance, and possibly investment savvy Hanna and Chen. The traditional IRA has been available for some time. The Roth IRA was born out of the Taxpayer Relief Act and provides a different tax advantage than other types of retirement savings vehicles, which will be discussed later. These changes will be highlighted where applicable. This means that the contribution is not counted as taxable income the year it is contributed and will not be taxed until it is withdrawn. This also applies to any earnings on the contributions. The TRA has provided for increases in this amount. A special catch-up provision is instituted for taxpayers age fifty and over. A qualified contribution reduces the amount of income that will be used in computing the total income tax owed because the contribution is not taxable income. The investment gains and the principal will be taxed as the distributions are taken. The actual reduction in tax liability is equal to the amount of the contribution multiplied by the marginal tax rate, the tax rate on the last dollar earned. Households can contribute some amount to a traditional IRA as long as the taxpayer will not be seventy and one-half by the end of the year and has earned income for the year. This spousal IRA allows for a contribution to be made by one spouse on behalf of the other, who has little or no monetary compensation. The MAGI is the adjusted gross income plus exempt qualified interest, such as interest from a municipal bond. The rules for the phaseout are determined by whether or not the individual is participating in an employer-provided retirement plan. In addition to annual contributions, three types of transfers can fund traditional IRAs. The first is a transfer from one IRA provider to another. This does not involve any direct payment or distribution to the investor, and hence there are no tax implications. A transfer from a traditional IRA or defined contribution plan to another IRA, also known as a rollover, must be declared, but if it is contributed within sixty days of the distribution, the rollover is tax-free; otherwise there will be a penalty on any distribution that was not frozen during that time. Frozen assets are those that cannot be withdrawn from the financial institution because the institution is insolvent or the state where the institution is located restricts withdrawals because of insolvency. Further, if the distribution is not a direct rollover, or is paid to the owner, 20 percent must be withheld and is taxable. Only the amount in the account that could be taxed can be rolled over. Distributions from the traditional IRA can begin without penalty after the account holder reaches age fifty-nine and one-half. Withdrawals prior to that age incur a 10 percent federal tax penalty unless they meet one of the criteria determined by the IRS. One is payment of medical costs. These medical expenses must not be reimbursed and must exceed 7. Second, withdrawals are allowed before fifty-nine and one-half when funds are needed because of recent disability. A third situation that avoids the 10 percent penalty is if a person is the beneficiary of an inherited IRA. Fourth, withdrawal of a sum not in excess of qualified higher education expenses, such as tuition and books, is permitted. Distributions from an IRA must begin by April 1 in the year after the account holder reaches seventy and one-half. Under this provision, annuity payments taken prior to fifty-nine and one-half are not penalized. IRAs can be passed to heirs more than one and are included in the estate of the deceased. However, only the spouse of the decedent can take over the IRA; others cannot contribute to, roll over, or roll over assets into the IRA. If this person is not the spouse, the serial withdrawals begin after the first year following the death of the IRA owner; a spouse can wait until the time at which the deceased would have been seventy and one-half. The principal difference between the Roth and the traditional IRAs is related to the taxation of contributions and distributions. Instead, the earnings grow tax-exempt. This means that when money is withdrawn, there will be no taxes to pay. Therefore the key difference between Roth and traditional IRAs is that with the Roth, taxes are paid on contributions but not in retirement, and the opposite is true for the traditional IRA. The question one must answer to determine which one is best is at what rate the individual would like to pay taxes. If one expects his or her tax rate to increase in retirement, then a Roth IRA is preferable. This might be the situation for many young individuals, especially those just finishing college. If one expects it to decrease in retirement, then a traditional IRA is preferable. This may be the case for one who is making this choice later in life and is more established in his or her career. The phaseout for allowable contributions for a Roth IRA is the same as that for those not participating in employer-sponsored retirement plans for the traditional IRA. Contributions to a Roth IRA can be made at any age, even beyond seventy and one-half. In order to be eligible for a traditional-to-Roth rollover, certain conditions must be met. Failure to meet these guidelines subjects the rollover to a 6 percent federal tax for excess contributions as well as the 10 percent federal tax penalty; it also is included in ordinary income, and thus is subject to income taxes. Prior to the traditional-to-Roth rollover distribution could be taken over a four-year period, but this is not the case for new or current rollovers. Distributions from a Roth IRA will be tax-free as long as they have been held in the IRA for five years or more and are withdrawn for appropriate reasons the same as those for a traditional IRA. Otherwise, the early withdrawal penalty applies to the total amount withdrawn in that year. Like the Roth, the education IRA does not provide a current tax deduction but does allow for tax-free growth of the investment principal, and has the same phaseout rules for allowable contributions. The purpose of the education IRA is to save for qualified higher education expenses for the named beneficiary. These expenses include tuition, fees, books, and room and board for students enrolled at least half-time, and as of will also include expenses for elementary and secondary schools. The contributions to this IRA must be made before the beneficiary reaches eighteen years of age and must be made in cash. The cash stipulation differs from other IRAs, for which the contributions can also be in the form of securities. Excess contributions must be withdrawn by year-end or face a 10 percent penalty. The distributions from an education IRA in any year cannot exceed the amount of qualified higher education expenses. Otherwise, the same rules apply for withdrawal and bequests that exist for traditional and Roth IRAs. If the person is a minor or does not have a will then state laws of intestacy will dictate the beneficiary. Although employees can also contribute to this account, the same rules for contributions apply as in a traditional IRA. Further, the SEP-IRA is considered an employer-sponsored plan, and thus any contributions by the employee are subject to the same phaseout rules that govern the traditional IRA. Rules regarding distributions are the same as those for a traditional IRA. Further, employees whose benefits are covered by a union, who are nonresident aliens, or who would not have been eligible if not for an acquisition, disposition, or similar activity do not need to be included in the SIMPLE plan. Who is using IRAs? Additional statistics were computed using data from the SCF to determine the percentage of individuals between nineteen and ninety-five years of age using IRAs during The proportion of those owning IRAs increases with age, then decreases for those approaching retirement. The amount invested also increases with age, then begins to decrease, which is consistent with the fact that when a person retires, he or she is receiving distributions. The overall strategy when deciding on an IRA is determining the best time to pay taxes, which is when the marginal tax rate is lowest. Further information can be obtained from Publication of the U. Department of the Treasury. Implications for Optimal Portfolios. South-Western College Publishing, Codebook for Survey of Consumer Finances. Federal Reserve System , Results from the Survey of Consumer Finances.

Chapter 4 : Changes for your Roth IRA - Jul. 20,

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By Roger Wohlner Updated October 25, â€” 2: As an example, the repeal of the Social Security file and suspend, with restricted application couples claiming strategy was first floated in the fiscal budget. This change in the rules was subsequently passed seemingly out of the blue in late with a six-month window for eligible couples to take advantage of this strategy. Here are a few items that were mentioned in the budget that could have an impact on clients and financial advisors. There are potential advantages to clients down the road including the ability to reduce their taxable required minimum distributions RMDs from their traditional IRA accounts and the ability to pass the money in the Roth to their heirs tax free. Many wealthy tax payers get around some or all of the tax normally associated with a Roth conversion by using the backdoor Roth conversion technique. Under this strategy, they would contribute to a nondeductible IRA and then immediately convert those dollars to a Roth. There would be minimal or no tax in the conversion. This strategy works best if the client has little or no pre-tax money in other traditional IRA accounts. Christine Benz of Morningstar thinks eliminating this loophole will prompt increased use of taxable accounts over nondeductible IRAs for retirement savings. One of the major advantages of a Roth IRA is that there are no RMDs for the original account holder or their spouse as their beneficiary. How to Calculate Required Minimum Distributions. Retirement expert Ed Slott says: Avoiding Mistakes in Required Minimum Distributions. If your client has appreciated shares of company stock inside their k using NUA on those shares when rolling over their account can save them significant amounts in taxes. What happens is that taxes on the cost basis on these shares are paid at the time of distribution, which is done as an in-kind distribution to a taxable account. Gains would be taxed at preferential capital gains rates. The rest of the k account could be rolled to an IRA account as normal. The proposed changes regarding Roth accounts are the most drastic. As with any change in the rules financial advisors need to keep up to date and be prepared to advise their clients accordingly. Best Strategies for Managing Taxes on Distributions. Trading Center Want to learn how to invest? Get a free 10 week email series that will teach you how to start investing. Delivered twice a week, straight to your inbox.

Chapter 5 : Possible Roth Grandfathering? | Ed Slott and Company, LLC

The new tax law signed in December may affect the way you and your clients evaluate the pros and cons of Roth conversions. Among the biggest changes: Beginning in , Roth conversions cannot be.

Among those changes are some that affect individual retirement accounts IRAs. A change to the recharacterization provision will likely have a significant impact for some IRA owners, while the impact of other changes will likely not be as broad-reaching. Beginning with taxable year , recharacterization of conversion and qualified rollover assets will no longer be allowed. However, regular contributions that are made to traditional and Roth IRAs will continue to be eligible to be recharacterized if the recharacterization is done before the taxpayers tax filing due date. It is unclear at the time of this writing if conversions and qualified rollovers completed in can be recharacterized by the appropriate deadline in , or whether the deadline was December 31, Members of the U. Armed Forces serving in certain combat zones or hazardous duty areas are allowed an additional period to make IRA contributions for a prior year. That period is the time the participant was in the designated zone or area plus at least days. There is special reporting for these contributions. The new law adds an additional hazardous duty area to the list for armed forces members serving in the Sinai Peninsula of Egypt. We expect the Internal Revenue Service IRS to provide the information necessary to report these prior year contributions in the Instructions for Forms R and Current law provides special tax treatment for retirement plan distributions taken by taxpayers affected by Hurricanes Harvey, Irma, and Maria. The special tax treatment includes the ability to spread the income tax on the distribution over a three-year period, avoid the 10 percent early withdrawal penalty, and roll the distribution back into a retirement plan within three years after having taken it. Essentially, the new law includes presidentially declared disaster areas to the list of affected areas eligible for the special tax treatment. The new law removes the deduction for miscellaneous expenses. Some IRA fees may have been deductible as a miscellaneous expense, but beginning in taxable year no deduction would be allowed. Taxable Alimony as Compensation: The new law removes the deduction for alimony payments. As a result, alimony received through a divorce or separation instrument executed, or certain instruments modified, after December 31, will not be taxable to the recipient, and therefore will not be considered compensation for purposes of making an IRA regular contribution. The new law provides for an extended rollover period for certain loans considered distributed from an employer-sponsored retirement plan. Under prior law, the individual was subject to the day rollover rule. Conclusion Elimination of the recharacterization provision for conversions and qualified rollovers could have a significant impact on certain IRA owners. The other provisions explained above will likely affect only a small percentage of IRA owners, and with the exception of disaster distributions, involve smaller dollar amounts. Next Steps From application documents and disclosures to training and account owner educational materials, we have your IRA needs covered. Visit our Tax Reform resources. Please take a moment and tell us what you think of our content.

Chapter 6 : Individual Retirement Account | calendrierdelascience.com

The latest series of legislative changes to Roth IRA rules are part of the sweeping new IRS Restructuring and Reform Act of , which addresses many non-IRS-related tax issues. These changes make some Roth IRA rules more difficult to avoid and, in turn, require a more complex set of computations.

I hope you find it helpful. In order to participate in such a plan, the employer could not have maintained a qualified plan on their own within the past three years. Only regulated financial institutions would be allowed to be a provider of such plans, and they would have to be ERISA fiduciaries and serve as the plan administrator. Plans would establish certain requirements that would need to be adhered to by the provider, and companies would be allowed to cease participation in such a plan altogether, as well as move assets to another plan. This would include the application of the provision to plans in which the only participant is the business owner and possibly their spouse , which are not technically covered under ERISA. The reason â€” Three words for you The whole purpose of this provision is to eliminate much of the complexities and drive down the costs associated with maintaining a retirement plan, particularly for small businesses. Comments â€" This proposal is actually a brilliant idea. This is actually one of those things that you wonder why no one thought of or at least thought enough of to include in a budget proposal before. The proposal â€" NUA net unrealized appreciation , one of the biggest tax breaks in the entire tax code for retirement accounts, would be eliminated if this proposal were to become law. A complete description of NUA is beyond the scope of this article, but suffice it to say NUA is a strategy that allows you to potentially trade the ordinary income tax rates you normally pay on retirement account distributions for long-term capital gains rates. To be eligible to use the provision, you must have appreciated stock of your employer or former employer inside your employer or former -sponsored retirement plan. By eliminating the special tax break for NUA, distributions of appreciated employer stock would be subject to ordinary income tax rates, just like the rest of your retirement account savings. Many employees, however, would be grandfathered into the old rules. Any plan participant 50 or older by the end of this year would still be eligible for the special NUA tax break, provided they meet the rules. The reason â€" The Greenbook points out that the special tax break for NUA encourages individuals to invest in stock of the company they work for through retirement plans. The proposal â€" After-tax money held in your traditional IRA or employer-sponsored retirement plan would no longer be eligible for conversion to a Roth account. For years, many taxpayers that have been restricted from making contributions directly to Roth IRAs because their income exceeded their applicable threshold have instead, made contributions â€" often non-deductible after-tax â€" to traditional IRAs. Then, shortly thereafter, they have been converting those contributions to Roth IRAs. This two-step process, widely known as the back-door Roth IRA , would be all but eliminated by this provision. Perhaps the only bit of good news to come out of this provision is that for years some have questioned whether or not such conversions amounted to step transactions. There is no reason to create a rule to stop something that is already forbidden. Is this provision likely to become law? Late last year, Congress passed a law eliminating two Social Security strategies the administration had been trying to get rid of for years. It all happened very fast and without little debate. The consensus of many was that including the change in the law gave the Obama administration something it could tout as a victory without upsetting a relatively large portion of the conservative population. This is another carryover from the past several years. This year, like last year, the proposal is once again tucked away inside the same section of the Greenbook that discusses eliminating RMDs required minimum distributions for those with small retirement account balances. The reason â€" The administration points out that Roth IRAs owners, like traditional IRAs owners, benefit from the tax-deferred nature of the accounts until funds are withdrawn. Therefore, as the budget suggests, it is reasonable to apply the same RMD rules. Furthermore, the administration suggests that because Roth IRAs do not have required minimum distributions, but plan Roth accounts i. Countless individuals have made Roth IRA contributions and conversions over the last 18 years, and many of them have done so, in part, due to the fact that Roth IRAs have no required minimum distributions. For years, Roth IRA converters have counted on having no required minimum distributions after the conversion. This provision is basically a carbon copy of proposals that have been included in several previous budget proposals. Defined benefit pensions paid in some form of a life annuity would be excluded from this calculation. Those amounts would be indexed for inflation. The reason â€” The required minimum distribution rules were created to help make sure that retirement savings were actually used for retirement and not, as the budget proposal points out, as a way of transferring tax-favored wealth to future generations. That concern generally targets wealthy individuals who have accumulated enough in their retirement accounts and elsewhere that they can afford to take something less than their required minimum distribution â€” and would likely choose to do so if allowed. In contrast, most taxpayers with smaller balances actually need their retirement account savings to live on during retirement. Therefore, the policy objective of preventing large amounts of tax-favored wealth from passing to future generations is of minimal concern, diminishing the need for cumbersome RMDs. It simply creates complexity without any real benefit. In the end, the line has to be drawn somewhere and there will always be those on the other side. The required minimum distribution rules are hard enough without factoring in a phase out on top of it. Perhaps this would be one area where a phase out should be eliminated and replaced with a cliff. This proposal is old news already. If this proposal were to become law, that would no longer be the case. This restriction would apply to other specified above-the-line deductions and income exclusions, as well as all itemized deductions. The reason â€” The spinsters were hard at work for this one. This is a politically divisive aspect of the overall budget proposa,l and with Republicans in control of both the House and the Senate, you can be pretty sure this item is DOA. If this provision were to one day become law, it would create a terrible compliance burden for those in the highest tax brackets with respect to their retirement accounts. How would this work for employer plans? Even without this complication in the law, many IRA owners, who are already responsible for keeping track of their own basis fail to adequately do so on Form The cap, however, would be a soft cap, as your total tax-favored retirement savings could exceed that amount, but only by way of earnings. Adjustments to account for cost-of-living increases would also apply. It is clearly a proposal targeting the very wealthy and the administration pulls no punches in saying so. I believe we should be inspiring people to save as much as possible for retirement, because as showed us, you never know when the next rainy day is going to come. What happens if someone is over their applicable limit, but would otherwise be eligible to receive employer contributions, such as profit-sharing contributions, to their retirement account? It would appear that, under the proposal, these amounts would be forfeited altogether. That would be a completely unjust outcome and would be something either Congress or the regulations would have to address. The exception would apply to IRAs, as well as employer-sponsored retirement plans. In order to qualify, an individual would have to be unemployed for more than 26 weeks and receive unemployment compensation during that period or less if due to State law. Furthermore, the distribution would have to occur in either the year the unemployment compensation was paid or the following year. Finally, the exception would be limited to certain amounts. The problem though, is that such an exception, to date, does not exist. While the Court has often sympathized with those taxpayers, their hands have been bound by the law, and they have been unable to provide relief. This provision, which seems pretty straightforward, would change that. Who would really vote against this? In contrast, today such beneficiaries are generally able to extend distributions from their inherited retirement accounts over their life expectancy. The tax deferral provided by an inherited retirement account would be reduced, and distributions would generally be larger, potentially pushing beneficiaries into higher tax brackets and phasing them out of key deductions, credits and other benefits tied to their income. The provision would, however, exempt certain beneficiaries from this substantial reduction in the benefits provided by their inherited retirement account. Disabled beneficiaries, beneficiaries who are chronically ill and beneficiaries who are not more than 10 years younger than the deceased retirement account owner would still be able to stretch distributions over their life expectancy. Minor children would also be given a break, but would still be required to distribute their inherited retirement account no later than five years after they reach the age of majority. The proposal would not impact those who are already beneficiaries, but rather, only those who inherit in and beyond. Our government is broke and the stretch IRA, by providing tax benefits to individuals the accounts were never really intended to benefit, costs the government a lot of money. Personally, I have three significant reservations with the proposal, as written. Those beneficiaries who are stretching distributions are not using any sort of gimmick or trickery to do so. They are following the law and regulations precisely as they were created and were intended to be followed. To claim otherwise casts those smart enough to maximize the value of their inherited accounts by stretching distributions in an unfairly negative light. Second, the proposal states that if an individual is not more than 10 years younger than the retirement account owner, they are exempt and can take distributions over their life expectancy. This could create a situation where, if a 32 year old retirement account owner died leaving their money to a 22 year old sibling, that beneficiary would be able to extend distributions for more than 60 years just take my word on this one. In contrast, if the beneficiary were just one year younger at the time, 21 years old, he or she would be forced to distribute all of the inherited funds within five years. This makes no sense and seems both arbitrary and unfair. Finally, I question whether the provision would have the revenue-raising effect that the administration believes. Sure, some retirement account owners would continue to leave their assets in their retirement accounts, subjecting their beneficiaries to the five-year rule. Those that are using IRA assets as part of their legacy planning, however, would likely turn to other avenues. For instance, such a provision would likely lead to an uptick in the use of life insurance, which can generally be inherited by beneficiaries tax free. Other options would include naming a charitable trust as an IRA beneficiary, which could produce results similar to the stretch IRA, except instead of Uncle Sam getting a big chunk, it would be the charity. In either case, the revenue-raising impact would likely be dampened. The same exact proposal has been included in the last several budget proposals, save a change in the effective date. The proposal â€" This one is very simple. Non-spouse beneficiaries would be allowed to move money from one inherited retirement account to another via a day rollover, in a similar fashion to the way retirement account owners can move their own savings. The reason â€" Under current law, non-spouse beneficiaries are only able to move money from one inherited retirement account to another directly, either via direct rollover or trustee-to-trustee transfer. Even worse, if a beneficiary errantly takes a distribution from an inherited retirement account and tries to roll it over indirectly via a day rollover as they would be able to with their own account , the entire distribution is taxable and there is no way to fix it. Even in an election year, where legislative progress is likely to slow to an absolute crawl, this should be something we can get done. The Proposal â€" Retirement plans would be required to allow participation from workers who have worked at least hours per year for three consecutive years with the sponsoring employer. Employees eligible to participate in a plan because of this provision would not be required to receive employer contributions, however, including employer matching contributions. In its budget proposal, the administration postures that retirement savings could increase if more part-time employees were eligible to defer portions of their salary into an employer-sponsored retirement plan. If they wanted to cover these employees now, they could. A lot of it comes down to expenses.

Chapter 7 : Will the Backdoor Roth IRA be Eliminated? | Investopedia

Both involve changes to Roth IRA distribution rules. The first change would compel all people with Roth IRAs to take required minimum distributions, or RMDs, beginning at age 70 1/2.

Although one of the primary goals of the new bill was to make taxes simpler, the tax code is still very complicated and littered with loopholes that we can take advantage of. Contribute to pre-tax retirement accounts like k s, b s, Traditional IRAs, etc. So is the Roth Conversion Ladder still valid under the new legislation? Here is a graphic to illustrate this strategy: The SEPP rules appear to be unchanged in the new legislation. The way it works is this: In addition to your normal pre-tax k contributions, make additional after-tax contributions Perform an in-service withdrawal and move your pre-tax contributions to a Traditional IRA and the after-tax contributions to a Roth IRA Is the Mega Backdoor Roth IRA still possible with the new tax legislation? This loophole has also survived! You can check out the link above to get all the details but you may not want to waste your time because now this strategy isâ€¦ Verdict: Selling shares that have decreased in value Buying simliar but not identical shares e. You can still harvest your losses and use those losses to decrease your taxable income. Tax-Gain Harvesting Tax-Gain Harvesting is a strategy that allows you to increase your cost basis so that when you eventually sell shares, you have less gains to pay taxes on. Specific Identification of Shares To make tax-gain harvesting and tax-loss harvesting easier and more effective, you should set your taxable investment accounts to use Specific Identification of Shares so you can pick individiual shares to sell. Here is the strategy: If you want to read more about the new tax legislation, check out this comprehensive summary by past podcast guest , Michael Kitces. What do you think? Will the new tax law help you achieve financial independence sooner? Are there any new strategies you plan to take advantage of? Anything you plan to do differently? Let me know in the comments below!

Chapter 8 : The New Tax Law and How It Impacts Your Early Retirement | Mad Fientist

Tax reform is here and the changes are being felt with Roth IRAs. Lower tax rates could mean increased benefits of Roth tax savings but a popular strategy, recharacterization, that encouraged Roth.

Under congressional budget rules, which work within a year window, the revenue cost of giving that tax break to everyone was too high. So his staff limited deductible IRAs to people with very low income, and made Roth IRAs initially with income limitations available to others. That slid the revenue cost outside the year window and got the legislation out from under the budget rules. With these accounts, the government is "bringing in more now, but giving up much more in the future," said economist and Forbes contributor Leonard Burman. The losses stem from both Roth conversions and the ability to make nondeductible IRA contributions and then immediately convert them to Roths. Transactions inside a Roth IRA including capital gains , dividends, and interest do not incur a current tax liability. Advantages[edit] Direct contributions to a Roth IRA principal may be withdrawn tax and penalty-free at any time. Even capital gains on stocks or other securities held in a regular taxable accountâ€”so long as they are held for at least a yearâ€”are generally treated more advantageously than traditional IRA withdrawals, being taxed not as Ordinary Income, but at the lower Long-Term Capital Gain rate. This potentially higher tax rate for withdrawals of capital gains from a traditional IRA is a quid pro quo for the deduction taken against ordinary income when putting money into the IRA. This principal residence must be acquired by the Roth IRA owner, their spouse, or their lineal ancestors and descendants. The owner or qualified relative who receives such a distribution must not have owned a home in the previous 24 months. Contributions may be made to a Roth IRA even if the owner participates in a qualified retirement plan such as a k. Contributions may be made to a traditional IRA in this circumstance, but they may not be tax deductible. If the Roth IRA owner expects that the tax rate applicable to withdrawals from a traditional IRA in retirement will be higher than the tax rate applicable to the funds earned to make the Roth IRA contributions before retirement, then there may be a tax advantage to making contributions to a Roth IRA over a traditional IRA or similar vehicle while working. There is always risk, however, that retirement savings will be less than anticipated, which would produce a lower tax rate for distributions in retirement. Assuming substantially equivalent tax rates, this is largely a question of age. For example, at the age of 20, one is likely to be in a low tax bracket, and if one is already saving for retirement at that age, the income in retirement is quite likely to qualify for a higher rate, but at the age of 55, one may be in peak earning years and likely to be taxed at a higher tax rate, so retirement income would tend to be lower than income at this age and therefore taxed at a lower rate. Assets in the Roth IRA can be passed on to heirs. The Roth IRA does not require distributions based on age. If the account holder does not need the money and wants to leave it to their heirs, a Roth can be an effective way to accumulate tax-free income. Beneficiaries who inherit Roth IRAs are subject to the minimum distribution rules. Roth IRAs have a higher "effective" contribution limit than traditional IRAs, since the nominal contribution limit is the same for both traditional and Roth IRAs, but the post-tax contribution in a Roth IRA is equivalent to a larger pre-tax contribution in a traditional IRA that will be taxed upon withdrawal. On estates large enough to be subject to estate taxes, a Roth IRA can reduce estate taxes since tax dollars have already been subtracted. A traditional IRA is valued at the pre-tax level for estate tax purposes. Most employer sponsored retirement plans tend to be pre-tax dollars and are similar, in that respect, to a traditional IRA, so if additional retirement savings are made beyond an employer-sponsored plan, a Roth IRA can diversify tax risk. Unlike distributions from a regular IRA, qualified Roth distributions do not affect the calculation of taxable social security benefits. This section does not cite any sources. Please help improve this section by adding citations to reliable sources. Unsourced material may be challenged and removed. February Learn how and when to remove this template message Funds that reside in a Roth IRA cannot be used as collateral for a loan per current IRS rules and therefore cannot be used for financial leveraging or as a cash management tool for investment purposes. Contributions to a Roth IRA are not tax deductible. By contrast, contributions to a traditional IRA are tax deductible within income limits. Therefore, someone who contributes to a traditional IRA instead of a Roth IRA gets an immediate tax savings equal to the amount of the contribution multiplied by their marginal tax rate while someone who contributes to a Roth IRA does not realize this immediate tax reduction. Eligibility to contribute to a Roth IRA phases out at certain income limits. By contrast, contributions to most tax deductible employer sponsored retirement plans have no income limit. The amount of credits and deductions may increase as the taxpayer slides down the phaseout scale. Examples include the child tax credit, the earned income credit , the student loan interest deduction. This is because most people have a lower income, that falls in a lower tax bracket, during retirement than during their working years. A lower tax rate can also occur if Congress lowers income tax rates before retirement. A taxpayer who pays state income taxes and who contributes to a Roth IRA instead of a traditional IRA or a tax deductible employer sponsored retirement plan will have to pay state income taxes on the amount contributed to the Roth IRA in the year the money is earned. However, if the taxpayer retires to a state with a lower income tax rate, or no income taxes, then the taxpayer will have given up the opportunity to avoid paying state income taxes altogether on the amount of the Roth IRA contribution by instead contributing to a traditional IRA or a tax deductible employer sponsored retirement plan, because when the contributions are withdrawn from the traditional IRA or tax deductible plan in retirement, the taxpayer will then be a resident of the low or no income tax state, and will have avoided paying the state income tax altogether as a result of moving to a different state before the income tax became due. The perceived tax benefit may never be realized. That is, one might not live to retirement or much beyond, in which case the tax structure of a Roth only serves to reduce an estate that may not have been subject to tax. By contrast, with a traditional IRA, tax might never be collected at all, such as if one dies before retirement with an estate below the tax threshold, or retires with income below the tax threshold. To benefit from this exemption, the beneficiary must be named in the appropriate IRA beneficiary form. A beneficiary inheriting the IRA solely through a will is not eligible for the estate tax exemption. Additionally, the beneficiary will be subject to income tax unless the inheritance is a Roth IRA. Heirs will have to pay taxes on withdrawals from traditional IRA assets they inherit, and must continue to take mandatory distributions although they will be based on their life expectancy. It is also possible that tax laws may change by the time one reaches retirement age. Congress may change the rules that allow for tax-free withdrawal of Roth IRA contributions. Therefore, someone who contributes to a traditional IRA is guaranteed to realize an immediate tax benefit, whereas someone who contributes to a Roth IRA must wait for a number of years before realizing the tax benefit, and that person assumes the risk that the rules might be changed during the interim. On the other hand, taxing earnings on an account which were promised to be untaxed may be seen as a violation of contract and completely defeat the purpose of Roth IRAs as encouraging saving for retirement â€” individuals contributing to a Roth IRA now may in fact be saving themselves from new, possibly higher income tax obligations in the future. However, the federal government is not restricted by the Contract Clause of the U. Constitution that prohibits "Law[s] impairing the Obligation of Contracts". By its terms, this prohibition applies only to state governments. Double taxation[edit] Double taxation may still occur within these tax sheltered investment plans. For example, foreign dividends may be taxed at their point of origin, and the IRS does not recognize this tax as a creditable deduction. Internal Revenue Code and similar plans are considered to be pensions. Accordingly, distributions from a Roth IRA as well as other similar plans to a resident of Canada will generally be exempt from Canadian tax to the extent that they would have been exempt from U. Additionally, a resident of Canada may elect to defer any taxation in Canada with respect to income accrued in a Roth IRA but not distributed by the Roth IRA, until and to the extent that a distribution is made from the Roth IRA or any plan substituted therefor. The effect of these rules is that, in most cases, no portion of the Roth IRA will be subject to taxation in Canada. However, where an individual makes a contribution to a Roth IRA while they are a resident of Canada other than rollover contributions from another Roth IRA , the Roth IRA will lose its status as a "pension" for purposes of the Treaty with respect to the accretions from the time such contribution is made. Income accretions from such time will be subject to tax in Canada in the year of accrual. In effect, the Roth IRA will be bifurcated into a "frozen" pension that will continue to enjoy the benefit of the exemption for pensions and a non-pension essentially a savings account that will not. A taxpayer can contribute the maximum amount listed at the top of the page only if their Modified Adjusted Gross Income MAGI is below a certain level the bottom of the range shown below.

Otherwise, a phase-out of allowed contributions runs proportionally throughout the MAGI ranges shown below. The lower number represents the point at which the taxpayer is no longer allowed to contribute the maximum yearly contribution. The upper number is the point as of which the taxpayer is no longer allowed to contribute at all. People who are married and living together, but who file separately, are only allowed to contribute a relatively small amount. The thresholds are just for annual eligibility to contribute, not for eligibility to maintain a Roth IRA. To be eligible, one must meet the earned income minimum requirement. In order to make a contribution, one must have taxable compensation not taxable income from investments. The one exception is for a "spousal IRA" where a contribution can be made for a spouse with little or no earned income provided the other spouse has sufficient earned income and the spouses file a joint tax return. These limitations were removed as part of the Tax Increase Prevention and Reconciliation Act of One major caveat to the entire "backdoor" Roth IRA contribution process, however, is that it only works for people who do not have any pre-tax contributed money in IRA accounts at the time of the "backdoor" conversion to Roth; conversions made when other IRA money exists are subject to pro-rata calculations and may lead to tax liabilities on the part of the converter. Distributions[edit] Returns of your regular contributions from your Roth IRA s are always withdrawn tax and penalty-free. First, the seasoning period of five years since the opening of the Roth IRA account must have elapsed, and secondly a justification must exist such as retirement or disability. The simplest justification is reaching Becoming disabled or being a "first time" home buyer can provide justification for limited qualified withdrawals. The second option is to receive portions of the IRA as distributions over the life of the beneficiary, terminating upon the death of the beneficiary and passing on to a secondary beneficiary. Subtract one 1 from the "Single Life Expectancy" for each successive year.

Chapter 9 : Proposed Regulation: Roth IRAs

The Tax Cuts and Jobs Act of , signed into law on December 22, and generally effective for tax years beginning after , makes many changes to various tax laws. Among those changes are some that affect individual retirement accounts (IRAs).

Notice of proposed rulemaking and notice of public hearing. This document contains proposed regulations relating to Roth IRAs. This document also provides notice of a public hearing on these proposed regulations. Written comments must be received by December 2, Outlines of topics to be discussed at the public hearing scheduled for Thursday, December 10, , at 10 a. Send submissions to CC: Submissions may be hand delivered between the hours of 8 a. Concerning the proposed regulations, Cathy A. Vohs, ; concerning the public hearing, Michael Slaughter not toll-free numbers. Comments on the collection of information should be sent to the Office of Management and Budget, Attn: FP, Washington, DC Comments on the collections of information should be received by November 2, Comments are specifically requested concerning: Whether the proposed collections of information are necessary for the proper performance of the functions of the IRS, including whether the information will have practical utility; The accuracy of the estimated burden associated with the proposed collections of information; How the quality, utility, and clarity of the information to be collected may be enhanced; How the burden of complying with the proposed collections of information may be minimized, including through the application of automated collection techniques or other forms of information technology; and Estimates of capital or start-up costs and costs of operation, maintenance, and purchase of service to provide information. The collections of information in these proposed regulations are in sections 1. This information is required by the IRS to comply with the provisions of the Taxpayer Relief Act of , and in particular, with section A b , c , and d. This information will be used by individuals and businesses or other for-profit institutions, and not-for-profit institutions, such as trustees, custodians or issuers of Roth IRAs, in establishing Roth IRAs and recharacterizing IRA contributions. This information will also be used by: The collections of information are required to obtain the benefit of having a Roth IRA. The burden for 1 calculating the amount includible in gross income on account of conversions and Roth IRA distributions, and 2 accounting for recharacterizations is reflected in the burden for Form The burden for electing to continue the 4-year spread of income inclusion only applicable to certain spousal beneficiaries is reflected in the burden for either Form or Form , whichever is applicable. The burden for reporting contributions is reflected in the burden for Form The burden for reporting distributions is reflected in the burden for Form R. Estimated annual frequency of responses: An agency may not conduct or sponsor, and a person is not required to respond to, a collection of information unless it displays a valid control number assigned by the Office of Management and Budget. Books or records relating to a collection of information must be retained as long as their contents may become material in the administration of any internal revenue law. Generally, tax returns and tax return information are confidential, as required by 26 U. These proposed regulations set forth specific rules for Roth IRAs in accordance with the provisions of section A. As described in proposed section 1. Thus, all the rules of section and the regulations under section apply to Roth IRAs to the extent they are not inconsistent with section A or these proposed regulations. That section also grants the Secretary of the Treasury authority to prescribe the manner for designating an individual retirement plan as a Roth IRA. Any contribution in excess of the contribution limit is subject to the 6-percent excise tax under section unless it is distributed to the taxpayer with allocable net income under section d 4 by the Federal income tax return due date with extensions for the year of the contribution. The proposed regulations define the terms compensation and modified adjusted gross income. The definition of compensation is the same as that applicable under section f 1 for determining the amount, if any, that a taxpayer may contribute to a traditional IRA. This definition does not include amounts transferred from one individual to another by gift for example, a gift from a parent to a child. The definition of modified adjusted gross income is based on the definition of adjusted gross income applicable under section g 3 A for determining the amount, if any, that a taxpayer may deduct for a contribution to a traditional IRA where the taxpayer is an active participant in an employee plan. However, the definition of modified adjusted gross income applicable to Roth IRAs provides that any amount includible in gross income because of a Roth IRA conversion is disregarded in determining modified adjusted gross income. Additionally, for taxable years beginning after December 31, , modified adjusted gross income does not include the amount of any required minimum distribution from an IRA for purposes of determining conversion eligibility. Thus, Roth IRA contributions may be made by most taxpayers for taxable year at any time until April 15, Conversions Proposed section 1. The conversion may be made in one of three ways: In the third case, no physical transfer of assets is necessary, but the instrument governing the non-Roth IRA must, of course, be replaced by a Roth IRA instrument. The conversion amount must be a qualified rollover contribution under section A e and, therefore, must satisfy section d 3 other than the one-rollover-per-year rule of that section. Amounts held in retirement plans other than IRAs --such as section a qualified plans and section b annuity contracts --cannot be directly converted to a Roth IRA. The conversion amount is generally includible in gross income for the year of the conversion under sections d 1 and d 2. For this purpose, in the case of a conversion effected by an actual distribution and rollover contribution rather than a trustee-to-trustee transfer or a transfer between IRAs of the same financial institution , the year of the distribution from the non-Roth IRA is the year that the conversion amount is includible in gross income. The conversion amount generally is not subject to the percent additional tax under section 72 t. However, section A d 3 F provides that the percent tax applies to a distribution of a conversion amount made within the 5-taxable-year period beginning with the taxable year in which the conversion to which it is attributable was made. Taxpayers making conversions during are eligible for a 4-year spread under which a conversion amount can be included in income ratably over taxable years through rather than solely in Special rules apply to this 4-year spread if a taxpayer dies before inclusion of the full conversion amount. Finally, the distribution of any amount attributable to a conversion to which the 4-year spread applies will accelerate the inclusion of any amount otherwise deferred to a later taxable year. A required minimum distribution may not be converted to a Roth IRA because section d 3 E prohibits the rollover of any such distribution. Section A d 6 provides that, except as otherwise provided by the Secretary of the Treasury, an IRA contribution that is transferred to another IRA in a trustee-to-trustee transfer on or before the Federal income tax return due date with extensions for the taxable year of the contribution is treated as made to the transferee IRA and not the transferor IRA. Section A d 6 requires that the transfer include allocable net income on the contribution and that no deduction be allowed for the contribution to the transferor IRA. The proposed regulations interpret section A d 6 liberally to provide broad relief to taxpayers who wish to change the nature of an IRA contribution and not only to allow taxpayers to correct Roth IRA conversions for which they were ineligible. Moreover, the proposed regulations make application of section A d 6 elective by the taxpayer and permit the taxpayer to recharacterize all or any portion of an IRA contribution. Under the proposed regulations, a taxpayer may elect whether to recharacterize a contribution made to one type of IRA by having it transferred in a trustee-to-trustee transfer to a different type of IRA. As with a conversion, a recharacterization can be effected simply by transferring IRA assets between two IRAs of a single financial institution. Regardless of how effected, a recharacterization transfer is not considered a rollover for purposes of the one-rollover-per-year rule of section d 3. The taxpayer makes the election to recharacterize by notifying both the transferor IRA trustee and the transferee IRA trustee and by providing certain information to these trustees including a direction to make the transfer. A recharacterized contribution will be treated for Federal income tax purposes as having been contributed to the transferee IRA rather than the transferor IRA on the same date and for the same taxable year that the contribution was initially made to the transferor IRA. The recharacterization transfer must include allocable earnings on the original contribution, and the proposed regulations provide that the rules of Treasury Regulations section 1. If the original contribution has experienced net losses as of the time of the recharacterization, the transfer of the entire original contribution less such losses will generally constitute a transfer of the entire contribution. The taxpayer must treat the contribution as made to the transferee IRA on his or her Federal income tax return for the year to which the original contribution to the transferor IRA relates. The proposed regulations also provide that, once an amount has been contributed to an IRA, any tax-free rollover or transfer of that amount to another IRA may be disregarded in applying the recharacterization rules. The proposed regulations provide that the 5-taxable-year period for determining whether a distribution is a qualified distribution is not recalculated when a Roth IRA owner dies. Thus, if a Roth IRA owner contributes an amount to a Roth IRA in and dies in , a distribution made to a beneficiary in will be a qualified distribution. To the extent includible in gross income, such a distribution will also be subject to the percent additional tax of section 72 t unless there is an applicable exception under that section. Such a distribution, however, will not be includible in gross income if it is rolled over to another Roth IRA in accordance with section d 3. Also, a distribution of an excess contribution under section d 4 is not includible in gross income although the allocable net income that must be distributed with the excess contribution is includible in gross income for the taxable year of the excess contribution. The proposed regulations provide aggregation and ordering rules for Roth IRAs in accordance with section A d 4. Distributions that are treated as made from contributions are treated as made first from regular contributions and then from conversion contributions on a first-in, first-out basis. A distribution allocable to a particular conversion contribution is treated as consisting first of the portion if any of the conversion contribution that was includible in gross income by reason of the conversion. The proposed regulations provide that, in applying these aggregation and ordering rules: The proposed regulations also provide special rules for applying the aggregation and ordering rules in the case of recharacterizations under section A d 6. Distributions of excess contributions and allocable net income pursuant to section d 4 are treated differently under the ordering rules. Specifically, an excess contribution that is distributed under section d 4 is treated as though it was never contributed, and any allocable net income thereon is includible in gross income for the taxable year of the contribution without regard to whether the taxpayer still has undistributed basis in his or her Roth IRAs. Unlike traditional IRAs, the pre-death minimum distribution rules of sections a 6 and b 3 which incorporate the rules of section a 9 do not apply to Roth IRAs. Under the proposed regulations, section a 9 applies separately to Roth IRAs and other retirement plans; it also applies separately to Roth IRAs inherited by a beneficiary from one decedent and any other Roth IRAs of which the beneficiary is either the beneficiary of another decedent or the owner. The proposed regulations provide that section withholding applies to distributions from Roth IRAs and to Roth IRA conversions although transition relief is provided for conversions effected by means of direct transfers of funds between IRAs. The proposed regulations provide that the basis of property distributed from a Roth IRA is its fair market value as of the date of the distribution and that any amount distributed from a Roth IRA and contributed to a retirement plan other than a Roth IRA is not a rollover contribution under section d 3 or a qualified rollover contribution under section A e. In general, Roth IRA trustees including custodians and issuers are subject to the same reporting requirements that apply to trustees of traditional IRAs. However, the instructions to applicable Federal tax forms modify the information generally required from Roth IRA trustees as well as Roth IRA owners in certain circumstances. For example, conversions require the filing of a Form R and a Form The proposed regulations include special rules for reporting of recharacterization transactions. Trustees are permitted to rely on reasonable representations of a Roth IRA owner or distributee in discharging their reporting obligations. This guidance will be in the form of a notice published in the Internal Revenue Bulletin. If, and to the extent, future guidance is more restrictive than the guidance in these proposed regulations, the future guidance will be applied without retroactive effect. Therefore, a regulatory assessment is not required. It also has been determined that section b of the Administrative Procedure Act 5 U. Further, it is hereby certified, pursuant to sections a and b of the Regulatory Flexibility Act, that the collection of information in these regulations will not have a significant economic impact on a substantial number of small entities. The cost of the collection information is insignificant because the primary reporting burden is on the individual and not the small entity. Therefore the collection of information will not have a substantial economic impact. Therefore, a regulatory flexibility analysis under the Regulatory Flexibility Act 5 U. Pursuant to section f of the Internal Revenue Code, this notice of proposed rulemaking will be submitted to the Chief Counsel for Advocacy of the Small Business Administration for comment on its impact on small business.