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21 RULES ON TRADITIONAL IRAS

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What used to be a very simple matter of contributing and deducting IRA has become complex with the introduction of restrictions and phase-out rules.

Let us review 21 rules about traditional (deductible) IRAs:

1. Your IRA contribution must be made by **April 17**. (No extensions allowed)
2. You may **amend** your return to deduct a contribution made by April 15. The amended return does not have to be filed by April 15 but the contribution must have been made by then.
3. If you are not an active participant of a retirement plan, you may contribute up to **\$5,000 for 2011 and after**. Taxpayers who are 50 years or older may add catch up contributions of **\$1,000 for 2011**. If your earned income is less than **\$5,000**, you may contribute 100% of your earned income.
4. If you are an active participant, your deduction will be **phased out** if your AGI reaches thresholds.
5. You are considered an "**active participant**" if you are a member of any of the following: qualified pension plan, profit sharing plan, stock bonus plan, Keogh plan, 401(k) plan, SEP, Simple IRA, union plan, qualified annuity plan, civil service plan, tax sheltered annuity plan, 501(c) plan.
6. You are considered "**covered**" if you belong to a defined benefit plan and you are eligible to participate. Actual vesting is immaterial. Participation at any time during the year makes you a participant for the entire year.
7. If you are married, you are no longer treated as active just because your **spouse is an active participant** in any of the plans mentioned above. You are, therefore, eligible for an IRA
8. **Marital status** is determined at the end of the year. It does not matter what your status was from January 1 through December 30. Your status at December 31 determines your marital status for the whole year.
9. You cannot contribute to an IRA in the year that you reach **70½ years of age**. TIP: You may, however, participate in a simplified employee pension (SEP) even after you reach 70½.
10. There is no requirement to keep contributing to your IRA every year.
11. You may elect to make a **non-deductible IRA** contribution up to **\$5,000** or earned income whichever is less, by filing Form 8606 and attaching it to your return.
12. You may begin **receiving distributions** at age 59½.
13. You **must begin withdrawing distributions** by April 1 of the year following the year you reach age 70½.
14. Distributions to **beneficiaries of deceased taxpayers** must withdraw the entire interest within five years. Of course, this five-year rule does not apply if the amount is distributed over the life of the surviving spouse.

15. The Taxpayer Relief Act repealed both the 15% excise tax on excess distributions from qualified retirement plans, tax-sheltered annuities, and IRAs and the 15% excise tax on excess retirement accumulations. Excess distribution is one that exceeds \$160,000 or five times that amount in the case of a lump-sum distribution.
 16. Premature distribution penalties do not apply to spouse of taxpayers who are divorced under a qualified domestic relations order (QDRO).
 17. Investments of an IRA in collectibles such as artwork, antiques, stamps and coins are prohibited and are considered distribution.
 18. The Small Business Act allows a non-working spouse to contribute a full \$5,000 toward an IRA account.
 19. The Small Business Act also introduced a Savings Incentive Match Plan for Employees (SIMPLE) for employers with no more than 100 employees and who do not maintain any employer-sponsored retirement plan.
 20. You are allowed to withdraw excess contributions due to erroneous rollover information from a pension plan administrator. You don't have to amend any return.
 21. You can begin withdrawing funds before reaching age 59 ½ without penalty by taking substantially equal payments annually over your life (or joint lives of owner and beneficiary).
- Tip: If you think a conversion from traditional IRA to Roth was not a good idea, you may also back out of the new Roth IRA by recharacterizing the new Roth into a traditional IRA. Move back the funds via a direct trustee-to-trustee transfer. This works before you file by the due date (plus extensions to October 15). If you already filed, amend your return to reflect the recharacterization.