Six 2015 Retirement Tax Rules You Must Know

[#1] **Once-per-year IRA rollover rules.** The tax court ruled in the Bobrow case (January 28, 2014) that the once-per-year IRA rollover limit applies to ALL of a person's IRAs and not to each IRA separately, as was the case in the past. IRS Announcement 2014-32 (effective January 1, 2015) stated that Traditional and Roth IRAs are combined for purposes of the once-per-year rule. Checks made directly to receiving IRAs qualify as trustee-to-trustee transfers.

- **The fallout:** Clients could lose their IRAs. IRS has no authority to give relief.
- **The action plan:** IRA-to-IRA direct transfers are not affected and are strongly recommended. Be careful with every new client rollover.

[#2] **After-tax plan funds can be converted to Roth IRAs TAX FREE.** IRS Notice 2014-54 (September 18, 2014) confirmed that clients with both pre-tax and after-tax employer plan money can allocate pre-tax funds to an IRA and after-tax funds to a Roth IRA. Allocating basis (after-tax funds) to a Roth IRA creates a tax-free conversion. However, plan funds are still distributed pro-rata.

- **The fallout:** Clients cannot simply take out only after-tax funds and pay no tax, while leaving pre-tax funds in their plan.
- **The action plan:** These special rules will allow your clients to separate pre-tax and after-tax amounts of pro-rata distributions after they leave the plan. Reminder, these rules do NOT apply to IRA distributions, which still follow the pro-rata rule.

[#3] **The 5-year clock is up for those who completed a 2010 Roth conversion.** Conversion funds distributed within five years and before age 59½ are subject to the 10% early distribution penalty, but five years has now passed!

- **The fallout:** The converted funds are now available tax and penalty free.
- **The action plan:** Tell all clients who went through with a 2010 Roth conversion that those converted funds are now available penalty free regardless of age. Note: The earnings cannot be withdrawn penalty free unless your client is age 59½ or older.

[#4] **Reporting for hard-to-value assets is mandatory in 2015.** IRS has created more reporting for hard-to-value IRA assets on Forms 1099-R and 5498. These assets include non-publicly traded stock, private business interests, partnerships, real estate, LLCs and other assets not readily tradable on established markets.

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- **The fallout:** Valuations will be required for taxation of IRA distributions and conversions to a Roth IRA.
- **The action plan:** Make sure your clients are reporting these assets on Forms 1099-R and 5498 in 2015.

[#5] **Qualified Longevity Annuity Contracts (QLACs) are effective in 2015.** These fixed annuities offer insurance against living too long and outliving your money. The QLAC distributions must start at age 85. The annuity value is not included in the retirement account balance when calculating IRA and plan required minimum distributions (RMDs).

- **The fallout:** QLACs must be fixed annuities. Variable annuities, equity indexed annuities and similar products will not qualify.
- **The action plan:** You should see if these are a fit for any of your clients. Note: QLACs may not offer any commutation benefit, cash surrender value or similar feature.

[#6] **Inherited IRAs are not protected in bankruptcy.** The U.S. Supreme Court ruled unanimously that inherited (beneficiary) IRAs are not protected in bankruptcy under federal law. However, note that some states do have bankruptcy protection for inherited IRAs.

- **The fallout:** Inherited IRAs are not protected in bankruptcy under federal law.
- **The action plan:** Revisit naming a trust as the IRA beneficiary to enhance creditor protection. Remember, the top trust tax rates ($12,300) kick in much lower than if you file married jointly ($464,850). The solutions to this problem are conduit trusts, Roth conversions and life insurance.

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