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Recent Developments in Retirement Plans

As tax practitioners were in the midst of their busiest time of year, Congress was busy passing laws that might impact your retirement plan strategies in the coming year(s). Below are a couple of highlights from that legislation. A review of these laws now can help you get an early jump on any strategies that you may have been considering implementing before the end of the year.

New Rules For IRA Rollovers

It is very common for tax preparers to receive Forms 1099-R, Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc, from our clients showing a code indicating that the funds were rolled over from one account to another. When we meet with our clients to go over their tax documents prior to preparing their returns, we strive to identify and discuss any new or unusual 1099-Rs to determine what needs to be reported as a taxable distribution and what is a tax-free rollover.

In January 2014, the Tax Court held that a taxpayer could make only one nontaxable rollover contribution within each one-year period regardless of how many IRAs the taxpayer maintains. The one-year limitation is not specific to any single IRA maintained by an individual but instead applies on an aggregate basis. The IRS announced that it will follow the Tax Court's decision effective January 1, 2015.

IRA rollovers made directly from one trustee to another are not affected. Thus, a taxpayer can make an unlimited number of these transactions. The new guidance only applies to rollovers where the taxpayer actually receives the funds from one account and then transfers them to another within the 60-day timeframe allotted to qualify as a tax-free transfer.

Traditional IRA to Roth IRA conversions are also not impacted by the new legislation.

myRAs

Due to the fact that many Americans do not have a retirement savings option at work, President Obama announced a new retirement plan, the myRA account. The myRA works like a Roth IRA in that it is funded with after-tax dollars and has a maximum 2014 annual contribution amount of $5,500 ($6,500 if you are 50 or older).

The myRA earns interest from the federal government at the same rate federal employees earn through the Thrift Savings Plan and there is a guarantee that the principal will never go down. Initial investments can be as low as $25 with ongoing contributions as low as $5. Savers cannot contribute to both a myRA and a Roth IRA, so a taxpayer needs to choose which vehicle works best for them. One potential advantage of a myRA is the ability to withdraw funds when needed. (This may not be an advantage if your ultimate goal is to save for retirement and you are too tempted to withdraw the funds for other uses).

If you are funding your myRA through an employer's account and you leave your job, you can take your myRA account with you. The funds can be rolled over to a private-sector account at any time. Once the balance reaches $15,000 or the account turns 30 years old, whichever comes first, the balance must be rolled over to a private sector Roth IRA.

The U.S. Treasury Department will begin offering myRAs in late 2014. Married couples earning less than $191,000 ($129,000 for singles) a year are eligible to contribute.

There are a myriad of retirement plan choices for both individuals and businesses. You need to make sure that you are taking advantage of any benefits and deductions that you are entitled to, and the vehicle that you are using makes the most sense for your tax situation. If your business does not currently offer any retirement plan, it might be a good time to start one. If you currently offer one, now might be a good time to obtain a richer plan that will maximize benefits for both you and your valued employees. These are discussions that you should be having regularly with your tax professional. If you have not considered this for a while, now would be a good time. Please call our office to schedule a consultation.

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