IRA UPDATE: FEBRUARY 2013

American Taxpayer Relief Act of 2012

Summary of key (IRA) points:

1. Three new income thresholds that high income taxpayers need to plan for and four different ways income is calculated to compare against the new thresholds.
    a. New (return of old) 39.6% tax bracket for joint filers with taxable income over $450,000 ($400,000 for single filers) and a top long-term capital gains and dividend tax rate of 20% which actually becomes 23.8% because such a taxpayer would be subject to the 3.8% surtax on net investment income.
    b. Phase-out of itemized deductions up to 80% and personal exemptions for taxpayers whose AGI (Adjusted Gross Income) exceeds $300,000 ($250,000 for single filers)
    c. 3.8% surtax on net investment income for those whose MAGI (Modified Adjusted Gross Income) exceeds $250,000 ($200,000 for single filers). At the same levels, earned income in excess of these thresholds will incur an additional 0.9% surtax.
2. Qualified Charitable Distributions return for 2012 and 2013
    a. See January 2013 IRA update for details (http://portnofffinancial.com/blogc57.php?postID=71&article=IRA-Tax-Planning%3A-Qualified-Charitable-Distribution-%28QCD%29)
3. New in-plan Roth 401k conversion rules
    a. Since 2010 a 401k participant who had a Roth 401k available could do an in-plan Roth 401k conversion IF they were eligible to take a distribution which typically means reaching the age of 59 ½. The ARTA modified this rule to allow participants that are not eligible to take a distribution to do an in-plan Roth conversion.
    b. Ability to do an in-plan Roth conversion requires that the plan offers a Roth 401k and while plans are beginning to adopt the Roth 401k in greater numbers, they are not commonplace just yet.
    c. If the plan offers a Roth 401k, in order to convert, the plan must also allow for in-plan conversion and there is no requirement that a plan offer this feature.
    d. If the option is available, a plan participant must still analyze their tax status to determine if it makes sense to do the conversion, determine whether a Roth IRA conversion is better, wait, or not do it at all.
    e. It is critical to keep in mind one of the MAJOR differences between a Roth IRA conversion and a Roth 401k conversion is the ability to recharacterize. When you convert an IRA to Roth, you have until October 15th of the following year to change your mind and reverse the transaction however in a Roth 401k conversion, there is no mechanism for recharacterization so once you execute the transaction, there is no turning back.

As always if any of this applies to you, give me a call to discuss your situation.

Sincerely,

Jeremy E. Portnoff

Jeremy E. Portnoff, MSFS, CFP®, CRPS®, CES™, CFS®, CTS™, CAS®, CIS™
CERTIFIED FINANCIAL PLANNER™

Schedule a meeting with me at http://booknow.so/PortnoffFinancial

NEW JERSEY OFFICE
655 AMBOY AVENUE, SUITE 107
WOODBRIDGE, NJ 07095
732-226-3113
jeremy@portnofffinancial.com
www.portnofffinancial.com

CALIFORNIA OFFICE
17772 IRVINE BLVD., SUITE 102A
TUSTIN, CA 92780
949-226-8342