

Welcome to our December edition of Directions.

December 2011

What's New at our Practice

Happy Holidays from our Staff

Jason, Sonia, Susan, Carlyn, Darlene, Jerry, Jeff, & Chris would like to wish all of our clients a very Happy Holiday Season!

We look forward to seeing you all in the New Year.

Tax Organizers & Newsletter will be Mailed in the First Week of the New Year

All tax clients, please watch for your organizer package in the mail very soon. Packages will be going in the mail during the first week of 2012. Included will be our annual newsletter with important dates for the upcoming tax season. Please be sure to make your appointment early.

If you signed up for our e-Organizer, you will be receiving an email with these details around the same time.

If you wish to sign up for the 2012 e-Organizer rather than the organizer package in the mail, please email Darlene at darlene@jvituccifinancial.com.

Also...

Twitter Updates:



Follow us on Twitter for important updates about our Practice and the World of Personal Finance

Read the Mid-Quarter Market Commentary

Sonia Vitucci Earns Certification in Federal Employee Benefits

Sonia recently completed certification through USA Federal Benefits Advisors to help federal employees & retirees better understand their employee & retirement benefits.

She is now able to provide comprehensive benefit consulting & workshops to active & retired federal employees. She is also able to provide benefits training for early & mid-career employees, as well as pre-retirement counseling for understanding federal pension plans.

Please feel free to contact us if you are a federal employee and have any questions about your federal benefits and retirement plan.

Food For Thought

Consider Integrating your Financial Planning

As another year comes to a close (and we begin to enter another tax season), if you are not using both tax preparation & financial planning services, consider why. Today, with proper planning, most individuals have substantial control over the amount of taxes they pay. While our preparation service looks back at the last year, our financial planning service looks proactively to try to position you to take advantage of the tax code next year.

Each service enhances the other, and those clients who are taking advantage of both are likely beginning to experience the synergy. As we move toward the tax preparation season, think about integrating your planning.

Featured Blog: Asset Location is



August Mid-Quarter [Market Commentary](#)

as Important as Asset Allocation

After a year in which the Euro vacillated between survival & collapse, democracy reached the shores of North Africa, and Wall St. got occupied, one thing remained sure & true: VOLATILITY. As I meet with people every day, it is the ubiquitous item that is keeping people up at night as they prepare to transition to & through retirement.

[READ MORE](#)

Funding COLAs for Retirement Plans in 2012

Next year will see a few adjustments for retirement plan contribution limits. 401k, 403b, 457, & TSP plans will accept a maximum \$17,000 contribution (\$500 adjustment). SEP IRAs are increasing their limits by \$1000 to \$50,000.

There are also some adjustments to the phaseout levels for the ability to contribute to traditional & Roth IRAs. Be sure to watch out for these details in our annual written newsletter.

Featured Wealth Management Thought:

Year End IRA Checklist

As the year comes to a close...it is often a good idea to check in on your retirement plans to make sure no element of neglect has set in. The following is a checklist of items to help you review your retirement accounts.

1. Are all beneficiary designations in order?

- People often have several different retirement accounts. It's unlikely they were all established at the same time. It also would not be a stretch to imagine that the individual got

married, divorced, entered a civil union, had a child, or experienced numerous other life events since opening one or several IRAs. Is the correct person positioned to receive the benefit? IRAs do not pass through probate, so the beneficiary designation on file with the IRA provider governs.

2. Is your IRA (including Roth IRAs) fully funded up to the \$5,000 limit—\$6,000 if you turned or were age 50 or older during 2011?

- Sure, you can wait until April 15, 2012, but if you have the money, why not fund it now? Unless you know market values will be lower come April, why not have the money working for you on a tax-favored basis?

3. Can you make an IRA contribution even if you received or made a contribution to a qualified retirement plan?

- Many people believe that an IRA contribution can only be made if the contribution is deductible. If you are covered by a qualified plan, the IRA contribution may or may not be deductible, but having earned income and being under 70½ is all that is required to make an IRA contribution. If it's a Roth IRA funding decision, then eligibility is determined solely based on having earned income and that income being below statutory thresholds. (Lord Abbett's Website, as well as IRS Publication 590 [<http://www.irs.gov/pub/irs-pdf/p590.pdf>], can be referenced to determine whether the contribution is

deductible.

4. Did you turn 70½ in 2011?

- When you turn 70½, IRS rules stipulate that a required minimum distribution (RMD) be made each year from any non-Roth IRA. You are, however, permitted to postpone your first minimum IRA distribution until April 1, 2012. If you do, you must take a second distribution before the end of 2012. Will taking two distributions in 2012 affect your tax rate? If “yes,” consider taking your first distribution before the new year.

5. If you are older than age 70½, did you take your required distribution from your IRAs in 2011?

- Based on IRS rules, this figure becomes available each January 1. You can establish a withdrawal procedure with your investment company to avoid year-end stress. This is very important, because there is a 50% excise on amounts not taken. For example, if someone had to take \$10,000 by December 31, 2011, but only took \$2,000, he or she would own an excise tax of \$4,000 on the \$8,000 shortfall, plus would need to pay taxes on the \$8,000 when distributed. If you need the funds, you can always take more than the minimum.

6. If you are 70½ or older and have several IRAs, do you have to take money from each IRA to satisfy the minimum rules?

- The sum of all your IRAs, excluding

any Roth IRAs, and your age determine the minimum distribution. Once determined, the minimum can be taken from just one or several. This is especially helpful if there is an investment you would like to avoid touching.

7. Did you inherit an IRA or retirement plan account from a nonspouse in 2010?

- If you did, you also must begin taking distributions, even if it's a Roth account, before the end of 2011. Depending on your age and the size of the account, this distribution can be small or large. Someone age 50 needs to take out 1/34, 1/33, 1/32, etc. (based on life expectancy), until the account is exhausted, for example. Other ages must take distributions more or less rapidly. If you miss the deadline, IRS rules require the account to be paid out in full before the end of 2015 rather than over your lifetime. If you need the money, you can always take more than the minimum.

8. How can you optimize the tax implications of converting a traditional IRA to a Roth IRA in 2011?

- Each taxpayer's situation is somewhat unique, so we cannot offer specific tax advice (nor should we; that is not in our purview). However, in general, each of these strategies could potentially help lower one's taxes:
 - Consider spreading the taxable income over two or more tax years. By converting part of an IRA in 2011 and another part

- in 2012, the taxable income generated does not fall in one tax year and has the potential not to raise your tax bracket.
- When there are aftertax dollars in the traditional IRA and you are not going to convert the whole IRA, know that partial conversion taxation is based on the ratio of your aftertax dollars to your total IRA dollars at the end of the year, so either (1) transfer, if you can, the taxable dollars in your IRA to a qualified plan before December 31, 2011, or (2) do not roll over money from another qualified plan to your IRA until after December 31, 2011, as this will dilute the concentration of aftertax dollars in your IRA accounts for purposes of determining what is taxable.
 - Consider opening a separate Roth IRA for each investment you select. You have until October 15, 2012, to reverse your conversion on an IRA-by-IRA basis, and you'd only want to reverse accounts that did not perform. If all investments are under one Roth umbrella, reversal, called "recharacterization," does not allow you to allocate the loss to a specific investment; the recharacterization would be pro rata.

9. What happens if you convert to a Roth IRA, but do not have the money to pay the taxes?

- Taxpayers should be very careful about this “strategy.” There are no penalties on IRA dollars converted to a Roth IRA. However, if you convert and do not have the assets to pay the taxes outside the IRA, the under age 59½ penalties will be added to your tax bill on the dollars used to pay the taxes, and the size of your Roth IRA account will be less. There are no penalties on the dollars used to pay the taxes if you are over 59½. In addition, if you decide to reverse your Roth IRA conversion (see question 8), you cannot recover the taxes paid as part of the conversion. They become a distribution to you.

10. What should you consider when making a distribution from an IRA?

- If the distribution is taxable, make sure you have sufficient tax withholding taken at the federal and the state levels, and if applicable, also the local level. There may be penalties for under-withholding. When establishing systematic withdrawals from a particular fund, make sure you know what happens if that fund runs out of money. For example, let’s say someone needs to take out \$5,000 to satisfy their age 70½ minimum withdrawal by December 31, 2011. The individual established a procedure with his or her investment company to have the payment drawn from a money market account. However, there is only \$1,500 in the money market account. From which other investments will the remaining \$3,500

be drawn? Many IRA custodians do not default to any particular fund, but simply wait to receive further instructions.

11. What are the rules governing IRAs, RMDs, and charitable giving?

- If you are age 70½ or older, own an IRA, and are thinking of making a charitable gift, consider arranging for the gift to be made directly by the IRA trustee. Such a transfer, if made before year-end, can achieve important tax savings. Transfers up to \$100,000 are considered part of your RMD (as discussed above). Unless Congress acts to extend this benefit, it will not be available in 2012.

Reviewing the different parts of your financial life is an integral part of wealth management. Our lives are always changing, and so is the world we live in. The challenge remains in keeping current.

Wishing you Happy Holidays & a prosperous New Year.

Minimum distributions must be taken from traditional IRAs by April 1 following the year that a person turns 70½. A minimum distribution must be taken from the IRA in each subsequent year. Failure to take the required minimum distribution will result in a 50% penalty on the amount that was not distributed. Mandatory distributions that represent deductible contributions and all earnings are taxed as ordinary income. Mandatory distributions based on nondeductible contributions are tax-free.

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