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## IRS toughens one year wait between IRA rollovers

IRA rollovers are a popular way of obtaining a short-term tax-free loan from an IRA. To receive tax-free treatment, the amount withdrawn from the IRA must be redeposited into the same or another IRA no later than 60 days after the taxpayer received the distribution (the 60-day requirement). In addition, the tax-free rollover privilege is limited to one rollover within any one-year period. The one-year period starts on the date the amount rolled over was received — not the date it was rolled over.

For years, the IRS has held that the one-year waiting period between IRAs applies separately to each IRA. This taxpayer-friendly interpretation allowed taxpayers with multiple IRA accounts to roll over two or more distributions during a 12-month period, provided each was from a different account.

However, the IRS has adopted the Tax Court's recent unfavorable interpretation of the one-IRA-rollover-per-year rule, which considers all the taxpayer's IRAs together for the limitation. To ease the pain, they have provided some transitional relief and will not apply the new, stricter interpretation to any rollover involving a distribution that occurs before January 1, 2015. So there is still a little time to take advantage of the current, more liberal, rules.

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**IRA ROLLOVER**

Example: Transitional relief for the one-IRA-rollover-per-year rule.

Stella desperately needs cash, but only for a relatively short time. She wants to temporarily use the funds held in her three traditional IRAs (IRA-1, IRA-2, and IRA-3). In 2014, Stella takes $75,000 out of IRA-1. Fifty-nine days later (still in 2014), she withdraws $75,000 from IRA-2 and deposits that amount back into IRA-1. Fifty-nine days after that (still in 2014), she withdraws $75,000 from IRA-3 and deposits the amount back into IRA-2. Fifty-nine days after that, her cash crunch is over, and Stella deposits $75,000 back into IRA-3.

Under the transitional rule, Stella is effectively able to borrow $75,000 from her IRAs for almost half a year without any tax consequences via three tax-free rollover transactions because all the IRA distributions rolled over were withdrawn before January 1, 2015.

Variation: If Stella withdraws the $75,000 from IRA-3 in January of 2015, she will fall outside the transitional relief (because it only applies to distributions occurring before January 1, 2015). Therefore, the distribution from IRA-3 cannot be rolled over because she already used up her one-IRA-rollover-per-year privilege with the earlier rollovers in 2014.

Please contact us to discuss this IRA law change and the beneficial aspects of IRAs that have not changed.

## Expenses qualifying for child care credit

Working parents can find summer child care solutions challenging. However, a nonrefundable credit is available if the qualifying child care expense is incurred so that you (and your spouse, if married) can work. The maximum credit is 20%–35% (depending on your adjusted gross income) of the lesser of (1) your qualifying child care expenses up to $3,000 for one and $6,000 for two qualifying individuals or (2) your earned income (or your spouse's, if less).

Qualified child care expenses provide for the well-being and protection of a dependent child under age 13 and must be reduced by the amount of any employer-provided dependent care benefits. Amounts paid for food and education generally are not considered work-related expenses; however, services that are incidental to and cannot be separated from the costs of caring for a child are not excluded from the credit. Therefore, expenses paid to a day care center are usually eligible for the credit, whereas summer school or tutoring expenses are not. The cost of day camp should qualify for the credit; however, overnight camps are not considered work-related and don't qualify.

If you pay someone to come to your home and care for your dependent child, you may be a household employer required to withhold and pay Social Security and Medicare tax and pay federal unemployment taxes. Keep these rules in mind as you plan summer child care.

## Midyear tax planning ideas

Tax planning is a year-round process, so now is a good time to think about the following:

• Are you considering making a cash gift to a relative? If so, consider making the gift in conjunction with the overall revamping of your stocks and mutual funds held in taxable brokerage accounts to achieve better tax results.
Don't gift loser shares (currently worth less than you paid for them). Instead, sell these shares, recognize the capital loss on your tax return, and then gift the cash proceeds to a relative. However, do gift winner shares to lower tax bracket relatives (unless they are under age 24 and subject to the Kiddie Tax). The 2014 annual gift tax exclusion is $14,000.

• Are you considering making a contribution to a favorite charity? The previous strategies will also work well for contributions to qualified charities. Sell loser shares, recognize the loss on your tax return, and then give the cash proceeds to the charity and claim the resulting charitable contribution (if you itemize). Donate winner shares to the charity and deduct the full current fair market value at the time of the gift (without being taxed on the capital gain). The tax-exempt organization can sell your donated shares without owing tax.

• Are you self-employed? Consider employing your child in the business (but pay a reasonable wage for their age and work skills). This practice can shift income (which is not subject to the Kiddie Tax) to the child who is normally in a lower tax bracket, decrease payroll taxes, and enable the child to contribute to an IRA.

• Is your estate plan current? If you already have an estate plan, it may need updating to reflect the current estate and gift tax rules. For 2014, the unified federal gift and estate tax exemption is a generous $5.34 million, and the rate is 40%. Furthermore, the impact of the Supreme Court's Windsor decision and resulting IRS changes in the federal definition of marriage mean that legally married same-sex couples need to revise their estate plan. Plus, there may be nontax reasons to update your estate plan.

Please contact us to discuss any tax planning strategies you are interested in implementing.

## Tips for businesses that outsource payroll duties

IRA owners can withdraw money from their account at any time and for any reason because the owner is in total control of this account. Most withdrawals from traditional IRAs will be at least partially taxable. To add insult to injury, the taxable portion of a withdrawal made before age 59½, referred to as an "early withdrawal," will be subject to a 10% penalty tax. (This penalty can be as high as 25% on early withdrawals from a SIMPLE IRA.) Finally, there can even be a 10% penalty tax assessed on a nontaxable portion of some early withdrawals from Roth IRAs.

The 10% penalty tax was implemented to encourage long-term saving for retirement, which is clearly a sound financial objective. But, sometimes financial circumstances make it necessary to withdraw retirement-oriented savings before age 59½. If you must make an early withdrawal, there are some ways to avoid the penalty tax. Early withdrawals from IRAs, including traditional IRAs, SEP accounts, SIMPLE IRAs, and Roth IRAs, can be exempt from the premature withdrawal penalty tax in the following cases:

- Withdrawals that count as substantially equal periodic payments (SEPPs) using an IRS-approved method.
- Withdrawals for medical expenses in excess of specific AGI levels.
- Withdrawals by military reservists called to active duty.
- Withdrawals for IRS levies.
- Withdrawals paid to a deceased plan participant's estate or beneficiary after death.
- Withdrawals after becoming physically or mentally disabled.
- Withdrawals for first-time home purchases ($10,000 lifetime limit).
- Withdrawals for qualified higher education expenses.
- Withdrawals to pay health insurance premiums during unemployment.

Unlike early withdrawals from a qualified plan (e.g., 401(k)), the penalty exception allowing early withdrawals paid to the plan participant's spouse or ex-spouse or dependent under a Qualified Domestic Relations Order (QDRO) pursuant to divorce proceedings is not available for early IRA distributions. Caution: If a taxpayer chooses to take SEPPs, these payments must be calculated correctly using an IRS-approved method and taken for the requisite number of years. Otherwise, all pre-age-59½ withdrawals will be hit with the 10% penalty tax!

In a time of economic need, an IRA can be a source of liquidity even before age 59½. If the need is short-term, an IRA withdrawal and redeposit of the same amount within 60 days can be tax-free. If the need is long-term and before age 59½, the withdrawal June be fully or partially taxable, but one of the previously listed exceptions June be used to avoid the 10% early withdrawal penalty.

Please contact us to discuss IRA withdrawals before age 59½ or any other tax compliance or planning issue.

## IRS warns taxpayers to beware of phishing scams

Phishing is a scam typically carried out by unsolicited e-mail and/or bogus websites posing as legitimate sites luring unsuspecting victims to provide personal and financial information. The IRS has recently warned consumers to watch for e-mails appearing to be from the Taxpayer Advocate Service (TAS) that include a bogus case number. The e-mail may include the following message: "Your reported 2013 income is flagged for review due to a document processing error. Your case has been forwarded to the Taxpayer Advocate Service for resolution assistance. To avoid delays processing your 2013 filing contact the Taxpayer Advocate Service for resolution assistance." The e-mail may contain links appearing to provide information about the "advocate" assigned to the recipient's case but actually lead to Web pages soliciting personal information.

If you receive an e-mail claiming to be from the IRS that contains a request for personal information, do not reply to the e-mail, open any attachments, or click on any links. Instead, forward the e-mail to the IRS at phishing@irs.gov. After forwarding the e-mail to the IRS, delete the original e-mail you received.

Remember — the IRS, including the TAS, does not initiate contact with taxpayers by e-mail, text, or any social media.

If you receive a phone call from an individual claiming to be from the IRS but you suspect they are not an IRS employee: (1) Ask for a call-back number and employee badge number, and (2) contact the IRS to determine if the caller is an IRS employee with a legitimate need to contact you. If you determine it is a legitimate call, then call the IRS employee back or call us to handle it for you. If you receive a notice or letter via paper mail, contact us to help you determine if it is a legitimate IRS letter. If it is a legitimate IRS letter, we can help you reply if needed.

For information on how to contact the IRS, see www.irs.gov/uac/How-to-Contact-the-IRS-1. If either the caller or letter is not legitimate, report the incident to the Treasury Inspector General for Tax Administration at www.treasury.gov/tigta/contact_report.shtml.

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Don’t hesitate to reach out to discuss your wealth management needs. Call us today for an appointment.

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