

# October Retirement Deadlines



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In a post last week, we talked about the Roth recharacterization deadline which is fast approaching. October 16, 2017 is the last date to recharacterize a 2016 Roth conversion.

Another important deadline that is coming up is for trusts that became the beneficiaries of retirement assets in 2016. A qualifying trust can use the life expectancy of the oldest beneficiary of the trust to calculate required minimum distributions that are payable to the trust as the beneficiary of the IRA. A qualifying trust is often referred to as a look-through or see-through trust. There are four requirements that a trust has to meet in order to be a qualifying trust. From § 1.401(a)(9)-4, A-5:

1. The trust is valid under state law or would be but for the fact that there is no corpus.
2. The trust is irrevocable or the trust contains language to the effect it becomes irrevocable upon the death of the employee or IRA owner.
3. The beneficiaries of the trust who are beneficiaries with respect to the trust's interest in the employee's or IRA owner's benefit are identifiable.
4. The required trust documentation has been provided by the trustee of the trust to the plan administrator no later than October 31<sup>st</sup> of the year following the year of the IRA owner's death.

It is that last item which is often missed, especially when the trustee of the trust is a family member. A copy of the trust or a list of all trust beneficiaries and their entitlements must be provided to the plan administrator, if an employer plan, or to the IRA custodian by October 31<sup>st</sup> of the year after the retirement account owner's death in order for the trust to be able to use a beneficiary's life expectancy for calculating required minimum distributions.

Advisors should be contacting all clients where a trust inherited an IRA last year and reminding the trustee of the trust about the documentation requirement to be sure the deadline is not missed. If you are the trustee of a trust that inherited an IRA last year, you need to make sure that a copy of the trust has been provided to either the plan administrator or the IRA custodian by the October 31<sup>st</sup> deadline.

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The consequences of missing the deadline will depend on the age of the retirement account owner at death. If the owner died in or after the year they turn 70 ½, then required minimum distributions can be made to the trust over the age of the deceased owner, not over the ages of any of the trust's beneficiaries. If the owner died before the year they turn 70 ½, then a non-qualifying trust would have to empty the retirement account by the end of the fifth year after the death of the account owner, not over the ages of any of the trust's beneficiaries.

In addition, any distributions that are held in the trust and not passed out to the trust's beneficiaries in the year of the distribution will be taxed at trust tax rates. In the case of a five-year payout, this could mean that 40% or more of the retirement account could be lost to taxes – federal, state, local and the 3.8% net investment surtax. That is not a pretty outcome

***By Beverly DeVeny***

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