Quest Financial Services, Inc.

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THE COMPASS

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THIS ISSUE:

- Annual Check Up
- Moving Your Retirement Account?
- H.I.R.E. Act
- New 1099 Reporting Requirements

Important Financial Dates

April 15

- File Personal, Partnership, Trust/Estate returns or extensions
- Federal 1st qtr. estimated taxes due

April 30

- 1st qtr. Payroll tax returns due

May 15

- 941 deposits due
- All Non-Profit Entity tax returns due

June 15

- 941 deposits due
- Federal 2nd qtr. Estimated taxes due

July 31

- 2nd qtr. payroll tax returns due
- File Retirement Plan Information returns (5500) or extensions

August 15

- 941 deposits due

FREE Rollover Helpline
888-323-3456

Annual Check Up for Your IRA

Your IRA should be given a check-up at least once per year. A complete IRA check-up requires the assistance of a financial advisor who is also an expert in the IRA field. Our IRA check-up process covers areas such as: estate-planning review, RMD determination, contribution error detection, conversion suitability, and filing tax forms. We'll discuss these areas more in-depth below.

Estate-Planning Review
Here we check to make sure your IRA agreement and documentation are consistent with your estate-planning needs. This is critical for your different type of beneficiaries (spousal, family, special needs, trusts, and/or charities). Each person should review and update both of their primary and contingent beneficiaries every five years. Some of the original beneficiaries may have died, divorced, be incarcerated or in a nursing home. Make sure your financial advisor has a current copy of all your beneficiary designations to help with the proper distribution of your estate.

RMD Determination
If you are at least age 70 1/2 this year, you must take a required minimum distribution (RMD) from your IRA. You may also need to take RMD amounts from any retirement account that you inherited. Failure to take your RMD amount could result in you owing the Internal Revenue Service (IRS) an excess accumulation penalty of 50% of the RMD shortfall. We will check to make sure that your correct RMD amount is taken, so as to prevent you from owing this penalty.

Contribution Error Detection
If you make ineligible contributions, including ineligible rollovers, these amounts will be subject to IRS penalties and possibly double taxation unless corrected in a timely manner. We will check your IRA activity to determine if any such errors occurred and work with you to make any necessary corrections.

Conversion Suitability
If you converted amounts from another retirement account to your Roth IRA last year, we will review the Roth conversion to determine if it should be reversed. We will look at the reasons why a Roth-conversion reversal may make sense, and help you to determine if any of those reasons apply to you. The IRS allows Roth conversions for last year to be reversed as late as October 15 of this year, if you meet certain requirements. If it is determined that the conversion should be reversed, we will work with you to have it accomplished properly and in a timely manner.

Filing Tax Forms
There are certain tax forms that may need to be filed in order for you to receive certain tax benefits, or to correct reporting done by your IRA custodian. We will review your transactions to determine if these forms should be filed on your behalf.

Conclusion
There are instances in which more frequent check-ups may be required. For instance,

Annual Check Up for Your IRA cont.

if you experience a life-changing event, such as a death of one of your beneficiaries, or a marriage or birth that affects your beneficiary designation, we may need to conduct a review to determine if and what changes should be made. Please contact our office if you would like to schedule a check-up for your IRA.

Moving Your Retirement Account? Caution!

Moving assets between your retirement accounts should be a simple and easy process. Unfortunately, that is not always the case; there are many mistakes that can be made, some of which are irreversible and can result in IRS-assessed penalties and unintended income tax owed. The following are some tips that can help you to avoid some of these mistakes.

For IRA-to-IRA Movements, Choose Transfers

When moving assets between the same types of IRAs, there are two ways in which this movement can occur. One is by a rollover, and the other is by a transfer (or a trustee-to-trustee transfer). For this purpose, the phrase 'same type of IRA' means a movement occurs:

- Between two traditional and/or SEP IRAs,
- From a SIMPLE IRA that has been funded for at least two years to a traditional and/or SEP IRA, or
- Between two Roth IRAs.

Our recommended method for such asset movement is a transfer.

Rollovers

With a rollover, you would have your IRA custodian distribute the amount to you and you would then be required to redeposit the amount to the receiving IRA within 60 days after receipt. Unless you need to use those funds on a temporary basis, during the 60-day period, we advise against the rollover method for several reasons, which include the following.

- Unforeseen circumstances can occur, resulting in you missing the 60-day deadline. If you miss the 60-day dead line, the amount may no longer be eligible to be rolled over. If the amount is ineligible for rollover, then it is no longer eligible for the tax-preferred treatment allowed for IRA assets and you would be required to include the amount in your income for the year. This means that you would owe income tax on any tax-deferred amounts;
- Your IRA is limited to one rollover for the year. Once you rollover a distribution from your IRA, another distribution from that IRA cannot be rolled over for another 365 days. If you mistakenly rollover another distribution during this 365-day period, that second rollover is considered an ineligible rollover; and
- Mistakes are more likely to occur with rollovers than transfers. For example, the amount could be deposited to the wrong type of account, such as to your checking account instead of to your IRA, or to your Roth IRA instead of to your traditional IRA for instance.

Transfers

With a transfer, the assets are delivered directly between IRA custodians or trustees, which significantly reduces the chance of certain mistakes being made. In addition, there is no limit on the number of transfers that can be made between your IRA's.

For Qualified-Employer Plan to IRA, Choose Direct Rollovers

When moving assets from a qualified-employer plan, such as a 401(k), pension, 403(b) or governmental 457 (b) plan to a traditional IRA or Roth IRA, you have two options. One option is a direct rollover and the other is an indirect rollover. Our recommended method for such asset movement is a direct rollover.

Indirect Rollovers

With an indirect rollover, the assets are paid to you and you have 60 days within which to rollover the amount to your traditional IRA or Roth IRA. We caution against using this method for the following reasons:

Indirect Rollovers cont.

- Similar to rollovers between IRAs, unforeseen circumstances can occur resulting in you missing the 60-day dead line, which could result in the amount being ineligible for rollover; and
- Your plan administrator would be required to withhold 20% from any taxable amount paid to you. This amount is withheld for federal income tax purpose and remitted to the IRS as an advance income tax payment on your behalf for the year. If your intent was to rollover 100% of the requested distribution amount, you would need to make up the 20% out-of-pocket. For instance, if you request a distribution of $100,000 to be paid to you, your plan administrator may be required to withhold $20,000 for federal income tax. Your rollover amount would then be $80,000, unless you can afford to make up the $20,000, or at least a portion of it, out-of-pocket.

Unlike IRA-to-IRA rollovers, there is no limit on the number of times you can do a rollover from a qualified-employer plan to an IRA.

Direct Rollovers

With a direct rollover, which is usually delivered via a trustee-to-trustee transfer, the assets are paid directly to your IRA custodian for credit to your IRA. These leave little room for error and there is no income tax withholding requirement.

Conclusion

If mistakes are made that result in amounts being ineligible for rollover, those amounts are treated as ordinary income and may therefore be taxable. Further, if you are under age 59 1/2 when the distribution occurs, the amount may be subject to a 10% early distribution penalty. Please be sure to contact us before completing any paperwork for moving your retirement assets.

H.I.R.E Act

by Christine Kelly Kim, EA

For those with a small business, 2010 saw the creation of the HIRE Act (The Hiring Incentives to Restore Employment Act). Under the Hiring Incentives to Restore Employment (HIRE) Act, enacted March 18, 2010, two new tax benefits are available to employers who hire certain previously unemployed workers ("qualified employees"). The first, referred to as the payroll tax exemption, provides employers with an exemption from the employer's 6.2 percent share of social security tax on wages paid to qualifying employees, effective for wages paid from March 19, 2010 through December 31, 2010.

In addition, for each qualified employee retained for at least 52 consecutive weeks, businesses will also be eligible for a general business tax credit, referred to as the new hire retention credit, of 6.2 percent of wages paid to the qualified employee over the 52 week period, up to a maximum credit of $1,000. This credit will be taken on the 2011 tax returns for calendar year tax payers. Call us if you have questions or concerns about either of these credits.

New 1099 Reporting Requirements

Christine Kelly Kim, EA

What Will Change in 2012 and Beyond?

The new healthcare legislation made a big change to the existing Form 1099 reporting rules. The change will be a burden (in terms of time and money) on small businesses nationwide. Payments to corporations must be reported. Starting in 2012, if your business pays a corporation $600 or more in a calendar year, you must report the total amount on an information return. Presumably, Form 1099-MISC will be used for this purpose, or the IRS will develop a new form. Currently only independent contractors were issued 1099s. In addition to the issuance of additional 1099s small businesses will be required to obtain a TIN (Tax Identification Number) from each affected payee to avoid the requirement for backup withholding of federal income tax. Also, your business will be required to supply your own TIN to avoid backup withholding on your own payments. The penalty for not issuing a required 1099 is $50 per 1099 not issued. If it is found that the non-issuance is willful, the penalty is doubled to $100 per unissued 1099.

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