RETIREMENT PERSPECTIVES

Retirement Planning: October Deadlines

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If you miss or ignore any of these important, applicable dates, you could hurt your retirement finances.

As summer comes to an end, don't forget that October ushers in some critical deadlines—some of which carry penalties. To learn more about these deadlines and the dates to put on your calendar, read on. Also note that while this is not IRA-specific, October 15 is generally the last day to file an individual income tax return that's on extension.

October 1—Simple IRA Establishment

This is the last date in which an employer can establish a SIMPLE IRA plan, effective for 2018. Those plans established after October 1 would not be effective until January 1, 2019, at the earliest. Notably, an exception applies for a newly established business. If you're a new employer that started your business after October 1, you can establish a SIMPLE IRA plan for the plan year by the end of the same calendar year as soon as administratively feasible after your business came into existence.

(For more information on SIMPLE IRAs, see this article.)

October 15—Making 2017 Employer Contributions to a SIMPLE IRA

Many SIMPLE IRA plan sponsors make their employer contributions together with employee payroll deducted salary deferrals. However, for those sponsors who have yet to fund 2017 employer contributions (e.g., match or non-elective), they have until a business's tax-filing deadline plus extension. For example, if the business has an extension until October 15, 2018, that would be the deadline to make an employer contribution to all eligible employees.

October 15—Set-up and Contribute to a SEP IRA for 2017

The deadline for setting up and funding a SEP IRA is the business's tax-filing deadline plus extensions. For those businesses on extension, the deadline for making 2017 SEP IRA contributions is October 15.

(For more information on SEPs, see this **article**.)

Tip: Other prior-year (2017) IRA contributions (e.g., Roth, traditional) are not permitted, even if an individual is on extension.

October 15—Recharacterize 2017 Roth IRA Conversion

For those investors who converted to a Roth in calendar year 2017, the deadline to reacharacterize is October 15, 2018. In addition, an investor can recharacterize a Roth IRA contribution to a traditional or IRA or an IRA contribution to Roth IRA. The former is common when investors determine that they don't income-qualify to contribute to a Roth IRA.

In 2018, as part of the Tax Cut and Jobs Act, recharacterization of Roth IRA *conversions* from traditional IRAs and qualified plans (e.g., 401(k)) was repealed. As a result, *all* Roth conversions taking place on or after January 1, 2018, are permanent. But recharacterizing Roth *contributions* is still permitted. For instance, a traditional IRA contribution can be recharacterized to a Roth IRA contribution and vice-versa.

(For information on the elimination of recharacterization, see **my column**.)

Tip: Don't wait until October 15. Why? Recharacterization must be completed by October 15. In many cases, an IRA custodian needs more than one day to process a recharacterization.

October 15—Withdraw Excess IRA Contributions without Penalty

This is the deadline for removing an excess contribution in order to avoid a 6% penalty on the excess.

It's a common error to overfund IRA accounts. "Excess contributions," as the IRS refers to them, typically occur when individuals unwittingly deposit funds that are not permitted to be made to IRA accounts.

Account owners, however, are often unaware that they have run afoul of the rules and, upon being informed of that misstep, are unsure of how to correct it. Paradoxically, in order to fix the mistake, time is of the essence—but the account owner first must be alerted to the ineligible deposit.

There are several situations that could result in excess contributions being made inadvertently to IRA accounts. Among the most common are: making a traditional or Roth IRA contribution, even though the investor failed to satisfy eligibility; contributing more than the annual limit; or funding an IRA with an ineligible rollover, such as a required minimum distribution (RMD), or a hardship withdrawal, neither of which is permitted.

The good news is that tax law permits excess IRA contributions to be withdrawn without penalty—if corrected within a certain period of time—that is, the tax-filing deadline (including extension) generally is October 15. If not corrected by the deadline, the excess contribution plus earnings are subject to a 6% penalty for every year the excess remains in the IRA on **Form 5329**.

October 31—Provide Trust Documentation to the IRA Custodian

This is the deadline for IRAs that were inherited by a trust beneficiary in 2017. Required documentation must be provided to the IRA custodian by the trustee (it's the trustee's responsibility to forward the required documentation) no later than October 31. Providing documentation to the IRA custodian is one of the requirements for a trust to qualify as a "look-through" trust. In addition to this requirement, there are other requirements that must be met to qualify as a look-through trust, thus allowing the oldest beneficiary the ability to "stretch" payouts.

(For more on naming a trust as beneficiary, please see my recent **two-part series**.)

November 1—SIMPLE IRA Employee Notice

Plan sponsors must notify each eligible employee by distributing an annual notification before the beginning of the new plan year. The election period generally is the 60-day period immediately preceding January 1 of a calendar year for employers who continue offering a SIMPLE IRA plan for 2018. The notice will provide plan specifics, including eligibility (to make or changes salary deferrals) as well as the employer contribution formula (e.g., 3% match, or 2% non-elective) for 2019 plan year.

Tip: Once the employer contribution formula is determined, it cannot be modified until the following plan year.

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GLOSSARY OF TERMS

Traditional IRA contributions plus earnings, interest, dividends, and capital gains may compound tax-deferred until you withdraw them as retirement income. Amounts withdrawn from traditional IRA plans are generally included as taxable income in the year received and may be subject to 10% federal tax penalties if withdrawn prior to age 59½, unless an exception applies.

A **Roth IRA** is a tax-deferred and potentially tax-free savings plan available to all working individuals and their spouses who meet the IRS income requirements. Distributions, including accumulated earnings, may be made tax-free if the account has been held at least five years and the individual is at least 59½, or if any of the IRS exceptions apply. Contributions to a Roth IRA are not tax deductible, but withdrawals during retirement are generally tax-free.

A **SIMPLE IRA** plan is an IRA-based plan that gives small-business employers a simplified method to make contributions toward their employees' retirement and their own retirement. Under a SIMPLE IRA plan, employees may choose to make salary reduction contributions and the employer makes matching or nonelective contributions. All contributions are made directly to an individual retirement account (IRA) set up for each employee (a SIMPLE IRA). SIMPLE IRA plans are maintained on a calendar-year basis.

A **simplified employee pension plan (SEP IRA)** is a retirement plan specifically designed for self-employed people and small-business owners. When establishing a SEP-IRA plan for your business, you and any eligible employees establish your own separate SEP-IRA; employer contributions are then made into each eligible employee's SEP IRA.

Qualified Retirement Plan—This is a savings plan that is allowed certain tax advantages because it meets criteria spelled out in the IRS Code and in the Employee Retirement Income Security Act [ERISA] of 1974. Employers can take tax deductions for any contributions they make to an employee's account. Employee contributions and investment returns are tax-deferred until withdrawn. Contribution limits apply, as do penalties for early withdrawal.

A **401(k)** is a qualified plan established by employers to which eligible employees may make salary deferral (salary reduction) contributions on an aftertax and/or pretax basis. Employers offering a 401(k) plan may make matching or nonelective contributions to the plan on behalf of eligible employees and may also add a profit-sharing feature to the plan. Earnings accrue on a tax-deferred basis.

Required minimum distribution (RMD) is the minimum amount you must withdraw from your account each year. You generally have to start taking withdrawals from your IRA, SEP IRA, SIMPLE IRA, or retirement plan account when you reach age 70½. Roth IRAs do not require withdrawals until after the death of the owner.

An **IRA rollover** may involve the application of fees and charges to the investor. A rollover is the process of moving your retirement savings from your retirement plan at work (401(k), profit-sharing plan, etc.) into an Individual Retirement Account (IRA).

The **Summary Plan Description (SPD)** issued by plan administrators explains participants' and beneficiaries' rights, benefits, and responsibilities under the plan in understandable language. The SPD includes such information as: the plan's requirements regarding eligibility; a description of benefits and when participants have a right to those benefits; procedures regarding claims for benefits and remedies for disputing denied claims; and the rights available to plan participants under the Employee Retirement Income Security Act (ERISA).
