Don't Make these Common IRA Mistakes!

About 40% of U.S. households—nearly 50 million—own individual retirement accounts, which provide tax-advantaged options for saving for your retirement years. The Massachusetts Society of CPAs offers the following tips on how to avoid some common mistakes people make when managing IRAs.

Mistake #1: Fail to Focus on Beneficiaries
Naming a beneficiary makes it easier for your loved ones to access your account in case of your death. It can also help preserve tax benefits for your heirs and guarantee that your money goes to the right people. Be sure to review and update your beneficiaries as necessary, especially after a marriage, birth of a child, divorce or the death of a beneficiary. It's also a good idea to talk to your CPA about the tax implications for those who might inherit your IRA.

Mistake #2: Wreck Your Rollover
If you want to move your IRA investment from one account to another, remember that you have only 60 days to make that rollover once you withdraw money from the original account. If you don't make the switch in time, or if you deposit the money into a regular savings or other non-qualified retirement account, the penalties can be steep. Not only will the amount of your withdrawal be included in your taxable income for the year, you will also face a 10% penalty if you're under age 59½.

Mistake #3: Overlook the Roth IRA
A Roth IRA may or may not suit your needs, but it's worth finding out what they have to offer. The income you receive from a Roth IRA is not taxable to you in retirement (or to your beneficiaries if they receive it as part of your estate) and you are not required to take a minimum distribution after age 70½, as you would with a traditional IRA. Note, however, that, unlike a traditional IRA, your contributions to a Roth IRA are not tax deductible. You can contribute as much as $5,500 to a Roth IRA ($6,500 if you're 50 or over by the end of the year) as long as your income falls below certain levels. However, you can convert a traditional IRA to a Roth IRA no matter what your income. There may be tax consequences from that conversion, though, so be sure to consult your CPA about the right steps for you.

Mistake #4: Don't Take the Right Distribution
While it's a generally bad idea to tap into your IRA too early, you can't leave the money in a traditional IRA forever. By the time you're no older than 70½, you must begin to take required minimum distributions each year. If you don't, you could face a 50% tax on the amount not taken as required. The required minimum distribution varies based on your total account balance and other factors, so consult your CPA if you have questions. Of course, you can also withdraw more than the minimum required distribution, but be sure to portion out your withdrawals appropriately if you need them to last a lifetime. Distributions from a traditional IRA are included in your taxable income and your CPA can help you determine how that income will affect your annual tax bill.

Mistake #5: Do Nothing
When you fail to set up or contribute to a retirement account—whether it's a plan offered by your employer or an IRA—you lose out in two ways. First, the amount you could have saved won't be there

when you're ready for retirement. Second, you also miss out on all the interest or dividends that might have grown tax free in your account over the years.

Your Local CPA Can Help

Retirement planning is important, and you don't have to do it alone. Your local CPA can offer advice that can help you build and maintain the nest egg you'll need when you're ready to retire. Be sure to turn to him or her with all your financial questions. To find a CPA in your area, visit mscpaonline.org/findcpa.

About the Massachusetts Society of CPAs

The Massachusetts Society of Certified Public Accountants, Inc. is the state professional association of certified public accountants, representing over 11,000 members in public accounting practice, industry and business, government and education. The Society works to develop and maintain high professional standards and offers a wide array of legislative, technical and referral services to its members.