- A deferred compensation plan (section 457 plan) maintained by a state, a political subdivision of a state, or an agency or instrumentality of a state or political subdivision of a state.

SIMPLE IRAs

A savings incentive match plan for employees (SIMPLE) plan is a tax-favored written agreement (salary reduction) between you and your employer that allows you to choose to reduce your compensation (salary) by a certain percentage each pay period, and have your employer contribute the salary reductions to a SIMPLE IRA on your behalf.

All contributions under a SIMPLE IRA plan must be made to a SIMPLE IRA, not to any other type of IRA. The SIMPLE IRA can be an individual retirement account or an individual retirement annuity, described above.

If your employer maintains a SIMPLE IRA plan, you must be notified, in writing, that you can choose the financial institution that will serve as trustee for your SIMPLE IRA and that you can roll over or transfer your SIMPLE IRA to another financial institution.

Roth IRAs

A Roth IRA can be either an individual retirement account or individual retirement annuity, described above. To be a Roth IRA, the account or annuity must be designated as a Roth IRA when it is opened. A SEP IRA or SIMPLE IRA cannot be designated as a Roth IRA.

Designated Roth accounts. Designated Roth accounts are separate accounts under 401(k), 403(b), or 457(b) plans that accept elective deferrals that are referred to as Roth contributions. These elective deferrals are included in your income, but qualified distributions from these accounts are not included in your income. Designated Roth accounts are not IRAs and should not be confused with Roth IRAs. Contributions, up to their respective limits, can be made to Roth IRAs and designated Roth accounts according to your eligibility to participate. A contribution to one does not impact your eligibility to contribute to the other.

Prohibited Transactions

Generally, a prohibited transaction is any improper use of your IRA account or annuity by you, your beneficiary, or any disqualified person.

Disqualified persons include your fiduciary and members of your family (spouse, ancestor, lineal descendant, and any spouse of a lineal descendant). The following are some examples of prohibited transactions with an IRA.
- Borrowing money from it.
- Selling property to it.
- Using it as security for a loan.
- Buying property for personal use (present or future) with IRA funds.

Fiduciary. For these purposes, a fiduciary includes anyone who does any of the following.
- Exercises any discretionary authority or discretionary control in managing your IRA or exercises any authority or control in managing or disposing of its assets.
- Provides investment advice to your IRA for a fee, or has any authority or responsibility to do so.
- Has any discretionary authority or discretionary responsibility in administering your IRA.

Effect on an IRA account. Generally, if you or your beneficiary engages in a prohibited transaction in connection with your traditional IRA account at any time during the year, the account stops being an IRA as of the first day of that year and the account is treated as distributing all its assets to you at their fair market values on the first day of the year. If the total of those values is more than your basis in the IRA, you will have a taxable gain that is includible in your income. The distribution may be subject to additional taxes or penalties.

Prohibited investments. If your traditional IRA invests in collectibles, the amount invested is considered distributed in the year the investment is made. An early distribution penalty may also apply. Collectibles are things like artworks, antiques, gems, stamps, and coins. However certain coins and bullion are allowed.

Contact Us

There are many events that occur during the year that can affect your tax situation. Preparation of your tax return involves summarizing transactions and events that occurred during the prior year. In most situations, treatment is firmly established at the time the transaction occurs. However, negative tax effects can be avoided by proper planning. Please contact us in advance if you have questions about the tax effects of a transaction or event, including the following:
- Pension or IRA distributions.
- Significant change in income or deductions.
- Job change.
- Marriage.
- Attainment of age 59½ or 72.
- Sale or purchase of a business.
- Sale or purchase of a residence or other real estate.
- Retirement.
- Notice from IRS or other revenue department.
- Divorce or separation.
- Self-employment.
- Charitable contributions of property in excess of $5,000.