8 Common IRA Mistakes

IRA's, or Individual Retirement Accounts, are a common and widely used tool in retirement savings plans. There are various types, from Roth's to traditional IRA's. With so many choices, and all of the accompanying rules and regulations, there is plenty of room for mistakes. Here are 8 common ones you'll want to avoid:

1. Not naming IRA beneficiaries.
   Not naming your IRA beneficiaries, or not keeping those beneficiaries up to date can result in tax consequences. This can occur because of the distribution of the IRA assets to the estate of the IRA owner. Not keeping beneficiaries current and in line with your other estate planning tools and documents can cause you big problems.

2. Not taking advantage of increased contribution limits
   The contribution limits for 2012 are $5,000, and $6,000 for those who are age 50 and older. If IRA's are your preferred retirement savings vehicle, you need to fully fund them to have a chance at a comfortable retirement.

3. Missing important dates
   You have 9 months to pay the taxes on an IRA you've inherited. By September 30 of the year after the owner's death to identify who's life expectancy will determine the RMD's for that IRA. Also, Generally speaking, those distributions must begin by the end of that same year. You don't want to make the IRS mad, right?

4. Placing an IRA in a trust
   If you put your IRA in trust, or in other words, make a trust the owner of your IRA, you get to pay taxes, NOW! Yep, immediate taxation, including a 10% penalty if the IRA owner is under age 59 ½.

5. Not "stretching" your IRA
   If the plan is to maximize a beneficiary's payouts, you need to make sure they are aware of the opportunity to "stretch" that IRA. Stretching and IRA allows properly designated beneficiaries to take payouts based on their life expectancy, allowing for additional growth and potentially lower taxes than withdrawing those funds in a lump sum.

6. Not contributing for a nonworking spouse
   It is common that we make poor assumptions. One of these is that IRA's for those with little or no income can't be done. That's not true. IRA contribution limits for nonworking spouses are the same as for those who are working. Again, if IRA's are your preferred vehicle, you'll probably want to contribute to both spouses' IRA's. There are a few rules to follow, of course, so talk to your tax advisor before you start.

7. Taking the wrong RMD (required minimum distribution)
   Once you're in your seventies, you have to withdraw at least a minimum percentage of your IRA. If you don't, excepting Roth IRA's, you'll get the added bonus of an income tax penalty of 50% of that amount that should have been withdrawn. That's pretty stiff, so don't mess that up!

8. Paying penalties on early IRA withdrawals
   If you take a distribution from your IRA prior to age 59 ½ you can be charged a penalty for that distribution. The exception to this rule is found in IRS Code Section 72(t). This section allows "substantially equal periodic payments" to be withdrawn from the IRA without the penalty. If you need to access some of your funds, talk to your tax advisor first. They may be able to save you from that penalty with just the use of their pen, paper, and a calculator. Almost superhuman, isn't it?

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