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ALSO IN THIS ISSUE –

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IRA Limits for 2010 & 2011

The maximum IRA contribution limits for 2010 and 2011 remain at $5,000 (under age 50) and $6,000 (age 50 or older). For the third straight year, the formula to the base contribution amount of $5,000 has not resulted in an increase. An adjustment to the base amount is made only if it results in an increase of $500, $1,000, $1,500, etc. The standard contribution amount is still $5,000 for those individuals who do not attain age 50 by December 31, 2011. A catch-up contribution of $1,000 is authorized for those individuals who attain at least age 50 by December 31, 2011. We will have to wait until next year to see if the maximum permissible contributions for 2012 will be $5,500 and $6,500.

Contribution limits for a person who is not age 50 or older.

Tax Year	Amount
2009	$5,000
2010	$5,000
2011	$5,000

Contribution Limits for a person who is age 50 or older.

Tax Year	Amount
2009	$6,000
2010	$6,000
2011	$6,000

IRS Issues 2011 COLAs

IRS Announces Cost-of-Living Adjustments for 2011
The IRS in News Release No. IR-2010-108 Released its 2011 Adjustments as Follows:

	2009	2010	2011
Taxable Wage Base — OASDI Only	$106,800	$106,800	$106,800
SEP and Qualified Plan Maximum Compensation Cap – 401(a)(17) & 404(e)	$245,000	$245,000	$245,000
Elective (Salary) Deferral Limit – 401(k) & SAR-SEP	$16,500	$16,500	$16,500
Elective Deferral Catch-up Limit	$5,500	$5,500	$5,500
SIMPLE Deferral Limit – 408(p)(2)(A)	$11,500	$11,500	$11,500
SIMPLE Catch-up Limit	$2,500	$2,500	$2,500
Highly-Compensated Employees (Compensation as Indexed)	$110,000	$110,000	$110,000
Defined Benefit Limit – Section 415(b)(1)(A)	$195,000	$195,000	$195,000
Defined Contribution Limit – Section 415(c)(1)(A)	$49,000	$49,000	$49,000
SEP Minimum Compensation Threshold – 408(k)(2)(c)	$550	$550	$550
Key Employee Top Heavy — 41(i)(ii)(a)(i)	$160,000	$160,000	$160,000
Compensation for SIMPLE Eligibility	$5,500	$5,500	$5,500

Review of IRA Contributions — Eligibility Rules

We at CWF sent the following response to an IRA custodian who had asked about a certain customer's eligibility to make IRA contributions for 2010. Most people are eligible to make traditional IRA contributions. More people should be making traditional IRA contributions even though they participate in a 401(k) plan.

You have a customer who is considering making an IRA contribution for 2010. His annual income is approximately $66,000. He is unmarried. He is age 56.

This individual is eligible to make his standard IRA contribution $5,000 and his catch-up contribution (if age 50 or older during 2010) of $1,000 regardless of whether he participates in a 401(k) plan.

A person who has compensation for the current year (i.e. 2010) and who will not attain age 70½ or older as of 12-31-10 is eligible to make a traditional IRA contribution. High income or being wealthy does not make a person ineligible to make a traditional IRA contribution. Being in a 401(k) plan does not affect how much he is eligible to contribute to his traditional IRA or Roth IRA. Being an active participant in a 401(k) plan may impact whether or not an individual may claim a tax deduction for his or her traditional IRA contribution.

Contributions to a traditional IRA will either be deductible or nondeductible. Both of these types of contributions can be made to the same traditional IRA. It is his or her accountant's job to track any nondeductible contributions (i.e. basis).

Being in a 401(k) impacts whether or not he is eligible to claim a tax deduction for his traditional IRA contribution. If his 2010 MAGI is too high, he loses the ability to claim a tax deduction for some or all of his contribution. However, if his MAGI (more than just wages) is below a certain level ($56,000 if filing "single" and $169,000 if filing married/joint) then he is able to deduct 100% of his traditional IRA contribution. It appears he will be able to deduct his full traditional IRA contribution.

The above discussion is based on the assumption he is making a traditional IRA contribution.

If he wanted to make a Roth IRA contribution, he could do so since he meets the two eligibility rules. He has Roth "IRA" compensation and his MAGI does not exceed the limits set forth in the following chart:

MAGI EFFECT ON ROTH IRA CONTRIBUTIONS

		2009	2010	2011	%
Single, Head of Household	Less than	$105,000	$105,000	$107,000	100%
	Between				Prorated
	More than	$120,000	$120,000	$122,000	0%
Married Filing Jointly or Qualifying Widow(er)	Less than	$166,000	$167,000	$169,000	100%
	Between				Prorated
	More than	$176,000	$177,000	$179,000	0%
Married Filing Separately	Less than	$0	$0	$0	100%
	Between				Prorated
	More than	$10,000	$10,000	$10,000	0%

Note that being in a 401(k) plan does not affect his ability to make a contribution to his Roth IRA. Even if he had been age 75, he would have also been eligible to make a Roth IRA contribution as there is no age 70½ rule for Roth IRA contributions. ◆

Is an RMD Due for 2011?

Alice was born on July 1, 1940. Does she have a required minimum distribution (RMD) for 2010?

No. An IRA accountholder must take an RMD for the year she attains age 70½. Alice attains age 70½ on January 1, 2011. She does not attain age 70½ in 2010. She will be required to take an RMD for 2011. Her deadline will be April 1, 2012, since that is her required beginning date (i.e. the April 1 for the year after one attains age 70½).

If Alice had been born on June 30, 1940, she would have attained age 70½ on December 30, 2010, and there would be an RMD due for 2010. ◆

IRA Contribution Deductibility Chart for 2010

(for participants and/or spouses in employer-sponsored retirement plans.)

Amount of Modified AGI - (Combined modified AGI if married)

Single

Below $56,001	Entitled to full deduction
$56,001-$65,999.99	Entitled to prorated deduction amount - use special formula**
$66,000 or over	No deduction permissible

**Explanation of special formula. Multiply the permissible contribution by the following ratio: amount of adjusted gross income in excess of $56,000/$10,000. This will give you a ratio that determines the amount you cannot deduct.*

Married - joint return, both are covered

Below $89,001	Entitled to full deduction
$89,001 - $108,999.99	Entitled to prorated deduction amount - use special formula**
$109,000 or Over	No deduction permissible

**Explanation of special formula. Multiply the permissible contribution by the following ratio: amount of adjusted gross income in excess of $89,000/$20,000. This will give you a ratio that determines the amount you cannot deduct.*

Married - joint return, but only you are covered

Below $89,001	Fully Deductible
$89,001-$108,999.99	Entitled to prorated deduction amount - use special formula**
$109,000 or over	No deduction permissible

**Explanation of special formula. Multiply the permissible contribution by the following ratio: amount of adjusted gross income in excess of $89,000/$20,000. This will give you a ratio that determines the amount you cannot deduct.*

Married - joint return, but only your spouse is covered

Below $167,001	Fully Deductible
$167,001-$176,999.99	Entitled to prorated deduction amount - use special formula**
$177,000 or over	No deduction permissible

**Explanation of special formula. Multiply the permissible contribution by the following ratio: amount of adjusted gross income in excess of $167,000/$10,000. This will give you a ratio that determines the amount you cannot deduct.*

Married Filing Separately

Below $10,000	Entitled to prorated deduction amount - use special formula**
$10,000 or Over	No deduction permissible

**Explanation of special formula. Multiply the permissible contribution by the following ratio: amount of adjusted gross income in excess of $0/$10,000. This will give you a ratio that determines the amount you cannot deduct.*

*Any amount determined under this formula which is not a multiple of $10 shall be rounded to the next lowest $10.

However, an IRA accountholder will be able to deduct a minimum of $200 as long as his or her AGI is not above the phase-out range (base amount plus $10,000).

IRA Contribution Deductibility Chart for 2011

(for participants and/or spouses in employer-sponsored retirement plans.)

Amount of Modified AGI - (Combined modified AGI if married)

Single

Below $56,001	Entitled to full deduction
$56,001-$65,999.99	Entitled to prorated deduction amount - use special formula**
$66,000 or over	No deduction permissible

**Explanation of special formula. Multiply the permissible contribution by the following ratio: amount of adjusted gross income in excess of $56,000/$10,000. This will give you a ratio that determines the amount you cannot deduct.*

Married - joint return, both are covered

Below $90,001	Entitled to full deduction
$90,001 - $109,999.99	Entitled to prorated deduction amount - use special formula**
$110,000 or Over	No deduction permissible

**Explanation of special formula. Multiply the permissible contribution by the following ratio: amount of adjusted gross income in excess of $90,000/$20,000. This will give you a ratio that determines the amount you cannot deduct.*

Married - joint return, but only you are covered

Below $90,001	Fully Deductible
$90,001-$109,999.99	Entitled to prorated deduction amount - use special formula**
$110,000 or over	No deduction permissible

**Explanation of special formula. Multiply the permissible contribution by the following ratio: amount of adjusted gross income in excess of $90,000/$20,000. This will give you a ratio that determines the amount you cannot deduct.*

Married - joint return, but only your spouse is covered

Below $169,001	Fully Deductible
$169,001-$178,999.99	Entitled to prorated deduction amount - use special formula**
$179,000 or over	No deduction permissible

**Explanation of special formula. Multiply the permissible contribution by the following ratio: amount of adjusted gross income in excess of $169,000/$10,000. This will give you a ratio that determines the amount you cannot deduct.*

Married Filing Separately

Below $10,000	Entitled to prorated deduction amount - use special formula**
$10,000 or Over	No deduction permissible

**Explanation of special formula. Multiply the permissible contribution by the following ratio: amount of adjusted gross income in excess of $0/$10,000. This will give you a ratio that determines the amount you cannot deduct.*

*Any amount determined under this formula which is not a multiple of $10 shall be rounded to the next lowest $10.

However, an IRA accountholder will be able to deduct a minimum of $200 as long as his or her AGI is not above the phase-out range (base amount plus $10,000).

Roth IRA Contribution Chart for 2010

Amount of AGI and Filing Status

Single, Head of Household or Qualifying Widow(er)

Below $105,000	Entitled to full contribution amount
$105,000-$119,999	Entitled to prorated contribution amount–use special formula*
$120,000 or over	No contribution permissible

*Explanation of special formula. Multiply the permissible contribution by the following ratio: amount of adjusted gross income in excess of $105,000/$15,000. This will give you a ratio that determines the amount you cannot contribute. Round to the lowest $10.00.

Married Filing Jointly

Below $167,000	Entitled to full contribution amount.
$167,000-176,999	Entitled to prorated contribution amount–use special formula.*
$177,000 or over	No contribution permissible.

*Explanation of special formula. Multiply the permissible contribution by the following ratio: amount of adjusted gross income in excess of $167,000/$10,000. This will give you a ratio that determines the amount you cannot contribute. Round to the lowest $10.00.

Married Filing Separate Returns

$0-$9,999	Entitled to prorated contribution amount–use special formula*
$10,000 or Over	No contribution permissible

*Explanation of special formula. Multiply the permissible contribution by the following ratio: amount of adjusted gross income in excess of $0/$10,000. This will give you a ratio that determines the amount you cannot contribute. Round to the lowest $10.00.

Roth IRA Contribution Chart for 2011

Amount of AGI and Filing Status

Single, Head of Household or Qualifying Widow(er)

Below $107,000	Entitled to full contribution amount
$107,000-$121,999	Entitled to prorated contribution amount–use special formula*
$122,000 or over	No contribution permissible

*Explanation of special formula. Multiply the permissible contribution by the following ratio: amount of adjusted gross income in excess of $107,000/$15,000. This will give you a ratio that determines the amount you cannot contribute. Round to the lowest $10.00.

Married Filing Jointly

Below $169,000	Entitled to full contribution amount.
$169,000-178,999	Entitled to prorated contribution amount–use special formula.*
$179,000 or over	No contribution permissible.

*Explanation of special formula. Multiply the permissible contribution by the following ratio: amount of adjusted gross income in excess of $169,000/$10,000. This will give you a ratio that determines the amount you cannot contribute. Round to the lowest $10.00.

Married Filing Separate Returns

$0-$9,999	Entitled to prorated contribution amount–use special formula*
$10,000 or Over	No contribution permissible

*Explanation of special formula. Multiply the permissible contribution by the following ratio: amount of adjusted gross income in excess of $0/$10,000. This will give you a ratio that determines the amount you cannot contribute. Round to the lowest $10.00.

Saver's Credit Limits for 2010

The applicable percentage for 2010 is based on modified adjusted gross income (AGI) and your tax-filing status, and is determined by the following table:

Joint Return

AGI Over	AGI Not Over	Percentage
$0	$33,500	50%
$33,500	$36,000	20%
$36,000	$55,500	10%
$55,500	N/A	0%

Head of Household

AGI Over	AGI Not Over	Percentage
$0	$25,125	50%
$25,125	$27,000	20%
$27,000	$41,625	10%
$41,625	N/A	0%

Other Filers Including Married, Filing Separately

AGI Over	AGI Not Over	Percentage
$0	$16,750	50%
$16,750	$18,000	20%
$18,000	$27,750	10%
$27,750	N/A	0%

Saver's Credit Limits for 2011

The applicable percentage for 2011 is based on modified adjusted gross income (AGI) and your tax-filing status, and is determined by the following table:

Joint Return

AGI Over	AGI Not Over	Percentage
$0	$34,000	50%
$34,000	$36,500	20%
$36,500	$56,500	10%
$56,500	N/A	0%

Head of Household

AGI Over	AGI Not Over	Percentage
$0	$25,500	50%
$25,500	$27,375	20%
$27,375	$42,375	10%
$42,375	N/A	0%

Other Filers Including Married, Filing Separately

AGI Over	AGI Not Over	Percentage
$0	$17,000	50%
$17,000	$18,250	20%
$18,250	$28,250	10%
$28,250	N/A	0%

SEP and SIMPLE Limits

	2009	2010	2011
Maximum SEP Contribution	$49,000	$49,000	$49,000
Maximum SIMPLE Deferral (Under age 50)	$11,500	$11,500	$11,500
Maximum SIMPLE Deferral (Under Age 50 & older)	$14,000	$14,000	$14,000

HSAs Shouldn't be Used to Temporarily Pay a Medical or Prescription Expense When the HDHP Ultimately Pays the Expense

It may seem logical for an HSA owner to pay for a prescription by using her HSA debit card even though she knows that her HDHP will ultimately pay this expense. Isn't an HSA to be used to pay for qualified medical expenses?

Some HSA owners apparently use the approach of using their HSA debit card to pay a prescription expense immediately and then when they receive the reimbursement check from the HDHP they make a repayment contribution to the HSA.

An individual will incur unwanted tax problems if he or she adopts this approach. This situation will also create unwanted HSA administrative problems for the HSA custodian/trustee. Excess HSA contributions may rise. For the reasons discussed below, this approach should not be used. A person should adopt the conservative approach of using personal non-HSA funds to pay for the prescription and then wait to be sent the reimbursement check from the HDHP. A person will be able to reimburse himself or herself to the extent that the HDHP does not pay 100% of the prescription cost (i.e. co-pay requirement, deductible applied, etc.)

We live in an age of immediate payment. This approach applies to paying for prescriptions. Pharmacies rarely, if ever, extend any credit to their customers. This is true even if the health plan will be reimbursing the individual.

A person does not want to adopt the approach of paying for prescriptions with an HSA debit card and then recontributing the reimbursements checks to the HSA since tax problems will be created.

The tax rules limit the amount which may be contributed to a person's HSA. The 2010 and 2011 contribution limit is $3,050 if a person who is under age 55 has self-only coverage under a HDHP and $4,050 if he or she is age 55 or older. The 2010 and 2011 contribution limit is $6,150 if a person who is under age 55 has family coverage under a HDHP and $7,150 if he or she is age 55 or older.

Each contribution made to a person's HSA counts against the applicable limit unless the contribution is a qualifying rollover, transfer or mistaken distribution. A check sent by one's HDHP to reimburse for a prescription cost does not qualify as either a rollover or as a transfer contribution. Technically, one such payment distribution per year would be eligible to be rolled over.

Do the mistaken distribution/contribution rules apply to this situation so that the reimbursement of these funds could be recontributed as a nonreportable contribution?

We don't think so. The IRS has given only limited guidance with respect to mistaken distributions. See Q & A 37 and Q & A 76 of IRS Notice 2004-50. In order to qualify as a mistaken distribution, the HSA accountholder must have thought at the time of the HSA withdrawal that it was being used to pay a qualified medical expense. There must be a reasonable cause for the person's mistake of fact. For example, if person reasonably believed his HDHP would not reimburse the particular medical expense and therefore took funds from his or her HSA to pay the expense, but the HDHP in fact did pay for the medical expense, then this would qualify as a mistaken distribution.

A mistaken distribution does not occur, however, when a person knows or has the reasonable expectation that the HDHP will reimburse him or her for the involved expense.

Qualified medical expenses with respect to an HSA distribution are those expenses that would generally qualify for the medical and dental expenses deduction. However, if a health plan has paid or will pay these expenses then such expenses are not qualified medical expenses.

Qualified medical expenses are those incurred by the following persons: the HSA owner and spouse, dependents of the HSA owner that he or she claims on the tax return and any person the HSA owner could have claimed as a dependent on his or her return except that person filed a joint return, the person had gross income of $3,650 or more or the HSA owner or his or her spouse, if filing jointly, could be claimed as a dependent on someone else's return.

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HSAs Shouldn't be Unsed,
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Again, all contributions to an HSA apply against the annual limit of $3,050/$6,150 or $4,050/$7,150, as applicable, unless the contribution is a qualifying rollover, transfer or contribution of a mistaken distribution. A person who uses his or her debit card to pay for numerous prescriptions with the understanding the HDHP will reimburse him or her for most or all of such expense and then recontributes such amount to his or her HSA will have such contributions reported as normal HSA contributions. In some situations such contributions could cause excess HSA contribution issues.

On the individual's tax return he or she would need to report the distributions from the HSA as being used to not pay for qualified medical expenses. Such withdrawals would be included in the taxable income of the individual and would be subject to the 10% additional tax (20% in 2011).

An HSA Owner Shouldn't Use an HSA to Buy a Medical Product that Might be Returned For a Refund

There will be times when an individual buys a medical product and later decides to return it. If he or she used HSA funds to buy this product unwelcome tax issues may arise. It normally would be best if an individual buys a medical product with his or her own personal non-HSA funds. Once the individual is certain he or she will keep the medical product (and determines it qualifies as a qualified medical expenses), then he or she may reimburse himself or herself from the HSA.

What is the HSA custodian to do if an HSA owner uses his or her debit card to buy a product and then returns such product and the refund amount is credited to his or her debit card?

The rules are unsettled. The IRS has not written any of the HSA rules to cover a refund situation. The most conservative approach is that a refund will need to be treated as a reportable HSA contribution and the original distribution used to purchase the product will be a reportable distribution.

It is easy to foresee that excess contribution situations could arise.

Such tax difficulties will not arise if the person buys the product with personal non-HSA funds and then reimburses himself or herself when it is known the product will be kept.

We are unaware of the IRS addressing in writing whether or not the mistaken distribution rules would somehow apply to a refund situation.

An HSA's Payment of Long-Term Care Premiums May Qualify for Tax-Free Treatment

The premiums for long-term care coverage that a person can treat as qualified medical expenses are subject to limits based on age and are adjusted annually.

See the 2009 chart below as found in instructions for schedule A (Form 1040). The 2010 schedule A is not yet available. ◆

IF the person was, at the end of 2009, age…	THEN the most you can deduct is…
40 or under	$320
41-50	$600
51-60	$1,190
61-70	$3,180
71 or older	$3,980

Full Retirement Age—SSA

Year of Birth	Full Retirement Age
1937 or earlier	**65**
1938	**65 and 2 months**
1939	**65 and 4 months**
1940	**65 and 6 months**
1941	**65 and 8 months**
1942	**65 and 10 months**
1943-1954	**66**
1955	**66 and 2 months**
1956	**66 and 4 months**
1957	**66 and 6 months**
1958	**66 and 8 months**
1959	**66 and 10 months**
1960 and later	**67**

Other Important 2011 Social Security Information

Maximum Social Security Benefit: Worker Retirement at Full Retirement Age in Note: For retirees born in 1944, full retirement age is 66 and 0 months.	**2010**	**2011**
	$2,323/mo.	$2,323/mo.

Estimated Average Monthly Social Security Benefits Payable in January 2010:	**After 0.0% COLA**	**After 0.0% COLA**
All Retired Workers	$1,153	$1,153
Aged Couple, Both Receiving Benefits	$1,876	$1,876
Widowed Mother and Two Children	$2,399	$2,399
Aged Widow(er) Alone	$1,112	$1,112
Disabled Worker, Spouse and One or More Children	$1,793	$1,793
All Disabled Workers	$1,064	$1,064

Retirement Earnings Test Exempt Amounts:	**2010**	**2011**
Under full retirement age NOTE: One dollar in benefits will be withheld for every $2 in earnings above the limit	$14,160/yr ($1,180/mo)	$14,160/yr ($1,180/mo)
The year an individual reaches full retirement age NOTE: Applies only to earnings for months prior to attaining full retirement age. One dollar in benefits will be withheld for every $3 in earnings above the limit.	$37,680/yr ($3,140/mo)	$37,680/yr ($3,140/mo)

There is no limit on earnings beginning the month an individual attains full retirement age (66 and 0 months for retirees born in 1943 or later.

PLAN LIMITS FOR 2011

Code Section	2011	2010	2009	2008	2007	2006	2005	2004
401(a)(17)/404(I) Annual Compensation	$245,000	$245,000	$ 245,000	$ 230,000	$ 225,000	$ 220,000	$ 210,000	$ 205,000
415(c)(1)(A) Maximum Contribution Limits	$49,000	$49,000	$ 49,000	$ 46,000	$ 45,000	$ 44,000	$ 42,000	$ 41,000
408(k)(3)(C) SEP Maximum Compensation	$245,000	$245,000	$ 245,000	$ 230,000	$ 225,000	$ 220,000	$ 210,000	$ 205,000
408(k)(2)(C) SEP Minimum Compensation	$550	$550	$ 550	$ 500	$ 500	$ 450	$ 450	$ 450
402(g)(1) Elective Deferrals - 401(k)	$16,500	$16,500	$ 16,500	$ 15,500	$ 15,500	$ 15,000	$ 14,000	$ 13,000
457(e)(15) Deferrals Limits - 457 plans	$16,500	$16,500	$ 16,500	$ 15,500	$ 15,500	$ 15,000	$ 14,000	$ 13,000
408(p)(2)(E) Deferrals Limits - SIMPLE	$11,500	$11,500	$ 11,500	$ 10,500	$ 10,500	$ 10,000	$ 10,000	$ 9,000
414(v)(2)(B)(i) Catchup Contributions - 401(k)	$5,500	$5,500	$ 5,500	$ 5,000	$ 5,000	$ 5,000	$ 4,000	$ 3,000
414(v)(2)(B)(ii) Catchup Contributions - SIMPLE	$2,500	$2,500	$ 2,500	$ 2,500	$ 2,500	$ 2,500	$ 2,000	$ 1,500
416(i)(1)(A)(i) Key EE	$160,000	$160,000	$ 160,000	$ 150,000	$ 145,000	$ 140,000	$ 135,000	$ 130,000
1.61-21(f)(5)(i) Control EE	$95,000	$95,000	$ 95,000	$ 90,000	$ 90,000	$ 85,000	$ 85,000	$ 80,000
1.61-21(f)(5)(iii) Control EE	$195,000	$195,000	$ 195,000	$ 185,000	$ 180,000	$ 175,000	$ 170,000	$ 165,000
409(o)(1)(C)(ii) ESOP Limits	$985,000 $195,000	$985,000 $195,000	$ 985,000 $ 195,000	$ 935,000 $ 185,000	$ 915,000 $ 180,000	$ 885,000 $ 175,000	$ 850,000 $ 170,000	$ 830,000 $ 165,000
414(q)(1)(B) HCE Threshold	$110,000	$110,000	$ 110,000	$ 105,000	$ 100,000	$ 100,000	$ 95,000	$ 90,000
415(b)(1)(A) DB Limits	$195,000	$195,000	$ 195,000	$ 185,000	$ 180,000	$ 175,000	$ 170,000	$ 165,000
Taxable Wage Base (TWB)	$106,800	$106,800	$ 106,800	$ 102,000	$ 97,500	$ 94,200	$ 90,000	$ 87,900