The Pension Digest

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ALSO IN THIS ISSUE –

Collin W. Fritz and Associates, Inc.,
"The Pension Specialists "

President Obama Proposes Radical IRA/Pension Law Changes

President Barack Obama released his proposed 2014 fiscal year budget on April 10, 2013, He was over 64 days late as federal law requires him to furnish his proposed budget by February 4th. He is suggesting some radical changes with respect to IRAs and pension plans. In July of 2007 President George W. Bush had suggested some radical changes. None of his proposals were adopted. President Obama has adopted one of these changes – requiring certain small employers to automatically enroll employees to make IRA contributions. Time will tell if any of President Obama's proposals will be adopted. Within this article, the term IRA accountholder also means a pension participant.

As you will observe, many of these proposed changes are complicated. Different rules for different classifications.

Proposed change #1. Certain Nonspouse Beneficiaries Must Use 5-Year Rule.

For IRA accountholders dying after December 31, 2013, a nonspouse beneficiary no longer would be able to use the life distribution rules to withdraw funds from the inherited IRA or from the pension plans. Rather, the president's proposal would generally require the use of the 5-year rule. This applies to all IRA types.

There would be two exceptions. First, any beneficiary who is disabled, chronically ill, or within 10 years or the age of the IRA accountholder would be able to use the life distribution rule beginning in the year following the year of the IRA accountholder's death. Second, an inheriting IRA beneficiary who is a minor will have to take required distributions as under existing law using the life distribution rule with a major change. All distributions must be completed no later than the end of the fifth year after the individual reaches the age of majority.

The Obama administration has estimated this change would raise tax revenues by an additional 4.9 billion over the next 10 years.

Proposed change #2. No RMD for Individuals with IRA and Pension Balances if Balance Less Than $75,000.

The RMD Requirement would be eliminated for some IRA accountholders. It would only apply to an IRA accountholder who attains age 70½ or older during 2014 or a subsequent year. The general rule would be: an individual would not be required to take an RMD if as of January 1 of the year he or she attains age 70½ his or her combined account balances in IRAs and pension plans was $75,000 or less. Once calculated the individual would not be required to take an RMD for subsequent years unless additional contributions were made to the IRA and/or other pension accounts and these contributions resulted in the $75,000 limit being exceeded. That is, increases in the account balance on account of investment gains would not require a person to start taking required distributions. This would be a complicat-

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Caution – Tax Software Giving People the Wrong Idea About Making a Non-deductible IRA Contribution and Then Converting it

Based on a number of consulting calls we have received, a tax preparation program is giving certain individuals (high income) the idea they can and should make a non-deductible traditional IRA contribution to a segregated IRA and then convert such amount into a Roth IRA. The program sets forth no discussion putting a person with other "taxable" traditional IRAs on notice that the pro rata distribution/taxation rule requiring all traditional IRAs to be aggregated will mean that a substantial portion of the conversion distribution will be taxable when this individual may believe the conversion amount will be non-taxable.

Example. Jane Doe has 2 "taxable" IRAs with two IRA custodians. One has a balance of $8,000 and the other has a balance of $12,000. Following the suggestion of the tax software, she makes a $5,000 non-deductible contribution to IRA #3 with IRA custodian #3 before April 15, 2013. Jane then converts the $5,000 in IRA #3. The pro rata distribution rule will require Jane to include $4,000 as her income ($5,000 x $20,000/$25,000). If she thinks she converts just the $5,000 of non-deductible contributions and that no portion of the $5,000 distribution will be taxable, she is going to learn a tax lesson the hard way. The pro rata distribution rule requires all traditional, SEP and SIMPLE IRAs be aggregated. A portion of the distribution is taxable and a portion is not. It depends upon the amount of taxable funds in other IRAs. If Jane Doe would have no other traditional, SEP, or SIMPLE IRAs, then her non-deductible IRA contribution could be converted with little or no income tax owing.

An IRA custodian may furnish a copy of this article to a client so that he or she may check with their tax advisor to see if their conversion will be non-taxable or whether it will be mostly taxable. The client must understand he or she must rely on their tax advisor in deciding what to do. Presumably, many individuals would decide not to make a non-deductible contribution.

The deadline to make a 2012 contribution is Monday, April 15, 2013. A person who makes a non-deductible contribution by April 15, 2012, and who has timely filed his or her 2012 tax return has until October 15, 2013, to withdraw such contribution by using the rules allowing a person to withdraw a current year contribution. A person may wish to do this if he or she does not or will not learn the conversion is mostly taxable until after April 15, 2013. ◆

Understanding the Impact of Emancipation Day and/or Patriot's Day on the 2012 Tax Filing Deadline of April 15, 2013

Patriot's Day is a legal holiday in the states of Maine,Maryland, Massachusetts, New Hampshire, New York, Vermont, and the District of Columbia. It is observed on the third Monday in April. April 15, 2013 is the third Monday in April. Because there is an IRS Service Center located in Massachusetts which processes tax returns for those states and the District of Columbia, the IRS has in previous years ruled that such taxpayers are given an additional day to file their tax return. See IRS Notice 2006-23 and Notice 2011-17.

Emancipation Day is a legal holiday recognized in the District of Columbia. The IRS has ruled that the observance of this legal holiday has implications nationwide. Emancipation Day is April 16th of each year. However, if the 16th falls on Saturday, the holiday is observed on the preceding Friday (i.e. the 15th) and if the 16th falls on Sunday, it is observed on the following Monday (i.e. the 17th). In both cases the tax filing deadline of April 15th will be revised since the tax filing deadline cannot be a Saturday, Sunday or legal holiday. It will be the next day following a Saturday, Sunday, or legal holiday which itself is not a Saturday, Sunday or legal holiday.

The tax filing deadline for 2012 is April 15, 2013, and there is no revision on account of Emancipation Day, but the filing deadline (and the deadline to make

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a traditional IRA and/or Roth IRA contributions is revised to be April 16, 2013, for those residents of Maine, Maryland, Massachusetts, New Hampshire, New York, Vermont and the District of Columbia.

Normally, the IRS issues one or more news releases informing the residents of Maine, Maryland, Massachusetts, New Hampshire, New York, Vermont, and the District of Columbia an additional day to file their tax returns and make tax payments (and IRA contributions). Even though CWF has not yet seen the IRS issue written guidance in 2013 discussing the impact of Patriot's Day on the April 15th deadline, we still believe the IRS policy of granting an additional day is in effect for Maine, Maryland, New Hampshire, New York, Vermont, and the District of Columbia.

Additional Discussion of Emancipation Day.

Emancipation Day is April 16th of each year. If April 16th of a given year falls on a Tuesday, Wednesday, Thursday or Friday, there will be no change in the filing deadline. However, the tax deadline is revised if April 16th falls on Saturday, Sunday or Monday.

If April 16th falls on a Saturday, Emancipation Day is recognized on Friday, April 15th. Since the tax filing deadline must be the next day after April 15th which is not a holiday, this will mean the deadline for most of the U.S. is revised to be Monday, April 18th. But see the discussion below for the impact of Patriot's Day.

If April 16th is Sunday, Emancipation Day is recognized on Monday, April 17th. Since the tax filing deadline must be the next day after a legal holiday, this will mean the deadline for most of the U.S. is revised to be Tuesday, April 18th, But see the discussion below for the impact of Patriot's Day. If April 16th is Monday, Emancipation Day is recognized on the 16th. April 15th will be on Sunday. Since the tax filing deadline must be the next day after April 15th which is not a holiday, this means the deadline for all of the U.S. would be Tuesday, April 17th unless Patriot's Day would revise it.

Additional Discussion of Patriot's Day.

For 2012, Patriot's Day was Monday April 16, 2012.

For 2013, Patriot's Day is Monday April 15, 2013.

For 2014, Patriot's Day will be Monday April 21, 2014.

For 2015, Patriot's Day will be Monday April 20, 2015.

For 2016, Patriot's Day will be Monday April 18, 2016.

For 2017, Patriot's Day will be Monday April 17, 2017.

For 2018, Patriot's Day will be Monday April 16, 2018.

For 2019, Patriot's Day will be Monday April 15, 2019.

April 15, 2014 is a Tuesday so the tax filing deadline for 2013 will not be changed on account of Patriot's Day in 2014.

April 15, 2015 is a Wednesday so the tax filing deadline for 2014 will not be changed on account of Patriot's Day in 2015.

April 15, 2016 is a Friday. Emancipation Day will be Saturday, April 16, but it will be observed on Friday. So, the 2015 tax filing deadline will be Monday April 18, 2016. However, since Patriot's Day is also Monday April 18, 2016, the residents of Maine, Maryland, New Hampshire, New York, Vermont and the District of Columbia will be given an additional day to April 19, 2016.

April 15, 2017 is a Saturday. Emancipation Day is also Saturday, April 16, but it will be observed on Friday. So, the 2016 tax filing deadline will be Monday April 17, 2017. However, since Patriot's Day is also Monday April 17, 2016, the residents of Maine, Maryland, New Hampshire, New York, Vermont and the District of Columbia will be given an additional day to April 18, 2017.

April 15, 2018 is a Sunday, Emancipation Day is Monday April 16, Patriot's Day is also April 16th. The tax filing deadline for the entire U,S. will be Tuesday April 17, 2018, April 15, 2019, is a Monday and the discussion applying to 2013 will apply to 2019,

In summary, the tax filing deadline of April 15th is a tax subject and the IRS has a way of making a subject more complicated. That has been done by applying the Emancipation Day holiday to the entire country. And then the IRS has given special treatment to the residents of Maine, Maryland, New Hampshire, New York, Vermont, and the District of Columbia because the IRS office(s) located in those states are closed so IRS personnel may also observe Patriot's Day. By being closed, there would be no one in the office to accept a hand-delivered return or payment. ◆

IRA and Pension Distributions and the New Net Investment Income Tax – Additional Complexity

Effective as of January 1, 2013, a new 3.8% tax went into effect. The IRS has chosen to call this tax, the Investment Income Tax. In Code section 1411 this tax is called the Unearned Income Medicare Contribution.

This new 3.8% tax applies to certain individuals having net investment income and certain estates and trusts having net investment income. To determine the tax owing, a person will multiply 3.8% time the lesser of: (1) his or her net investment income (NII) or a person's modified adjusted gross income as reduced by a threshold amount as set forth in the following table:

Filing Status	Threshold Amount
Married filing jointly	$250,000
Married filing separately	$125,000
Single	$200,000
Head of household (with qualifying person)	$200,000
Qualifying widow(er) with dependent child	$250,000

This tax will be owed only if an individual has net investment income and his or her modified adjusted gross income exceeds the applicable threshold amount. Note the discrimination in favor of a single person versus a married person.

<u>The new tax means an individual before taking an IRA distribution will want to determine if he or she will have to pay the 3.8% tax on account of such distribution.</u> For most people and situations, a person will not owe the 3.8% tax on his or her IRA or pension distribution, but in some situations the tax would be owed.

There will be times when a person's IRA distribution will mean the individual will have to pay the 3.8% tax on the IRA distribution. Example. David has wage income of $160,000, he withdraws $10,000 from his traditional IRA and he has dividend income of $40,000. David's tax filing status is single. David's tax is equal to 3.8% times the lesser of his dividend income of $40,000 or the amount of his MAGI income in excess of $200,000 or $10,000. His tax is $380. He would not have owed any NIIT if he had not withdrawn the $10,000 as this distribution put his MAGI above his $200,000 threshold level.

There will also be times when a person's IRA distribution will NOT mean the individual will have to pay the 3.8% tax on the IRA distribution. Example. David has wage income of $120,000, he withdraws $25,000 from his traditional IRA and he has dividend income of $40,000, David's tax filing status is single. Since his MAGI, including the IRA distribution of $25,000, is $185,000 and is less than his threshold of $200,000, the 3.8% net investment income tax is not owed.

There will also be times when a person will take an IRA distribution and he or she will be required to pay the 3.8% tax, but the amount owed does not increase because of such IRA distribution. Example. Paula has wage income of $200,000, she withdraws $40,000 from her traditional IRA and she has dividend income of $60,000. Paula's tax filing status is single. Her MAGI of $300,000 exceeds her threshold level of $200,000. Thus, she owes the 3.8% tax on the $60,000 of net investment income or $2,280 and not on the amount in excess of $200,00. She would have owed this $2,280 even if she not withdrawn $40,000 from her traditional IRA.

What types of income are defined to be non-investment income?

Distributions from IRAs, pension plans, 401(k) plans, tax sheltered annuities, etc. are not investment income. Social security benefits are not investment income.

Wages and income or profits from a nonpassive business including self-employment income are not investment income. Unemployment compensation and workers compensation are not net investment income.

What types of income are net investment income and so they might be subject to the 3.8% tax?

Investment income includes interest, dividends, gains from the sale of stocks, bonds, mutual funds, capital gain distributions from mutual funds, certain sales related to real estate, rental and royalty income, non-qualified annuities, income from businesses involved in trading of financial instruments or commodities, business income arising from certain passive activities, and the sale of an interest in a partnership and S corporations by an individual who had a passive interest. Such investment income is reduced by certain expenses properly

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allocable to the income. And any income or gain excluded from gross income for regular income tax purposes is also excluded from a person net investment income (e.g. $250,000 exclusion for sale of primary residence).

A person will need to take into account taxes owed on account of the net investment income tax in complying with the estimated tax payment rules.

This net investment income tax also applies to certain trusts and estates. It does not apply to corporations and other "active" businesses. It does not apply to trusts associated with IRAs or pension plans.

This new 3.8% Medicare tax (the net investment tax) is different from the new 9/10ths of 1 percent Additional Medicare tax which also went into effect on January 1, 2013. An individual is liable for the additional Medicare Tax if the individual's wages, compensation, or self-employment income (together with that of his or her spouse if filing a joint return) exceed the threshold amount for the individual's filing status:

Filing Status	Threshold Amount
Married filing jointly	$250,000
Married filing separately	$125,000
Single	$200,000
Head of household (with qualifying person)	$200,000
Qualifying widow(er) with dependent child	$200,000

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Designated Roth Accounts Within a 401(k) Plan – Too Good of an Opportunity to Miss

It is a wise employer who has upgraded its profit sharing plan to be a 401(k) plan and has had the 401(k) plan written to authorize Designated Roth accounts and to authorize an in-service rollover of non-Designated Roth funds into a Designated Roth account, This is a type of Roth conversion. The individual will be required to include in his or her income the taxable portion of any conversion amount.

And it is a wise employee who either makes deferrals to a Designated Roth account, converts some or all of his or her nonRoth accounts to a Designated Roth account or who does both.

Federal income tax law now authorizes a person who has non-Designated Roth funds within such a 401(k) plan to make an in-service rollover of such funds into a Designated Roth account, This new feature was expressly authorized by the American Taxpayer Relief Act of 2012 effective for in-service rollovers occurring on or after January 1, 2013.

Non-Designated Roth funds may be regular elective deferrals, matching contributions, general employer profit sharing contributions, qualified nonelective contributions and/or earnings. Many of these non-Designated Roth contribution types are subject to distribution restrictions imposed by other tax rules. For example, an individual is not permitted to withdraw his or her elective deferrals unless he or she has separated from service or is age 59½ or older. Another example, in a standard profit sharing plan a participant could be authorized to take a distribution once he or she has satisfied the two year rule. These distribution restrictions continue to apply even though the funds have been moved into the Designated Roth account from other accounts. ◆

Impermissible Rollovers and Direct Rollovers

The IRS has issued a chart covering the rollover contributions authorized by and between IRAs and pension plans. CWF has modified this chart by also covering inherited IRAs. The approach of the law – the making of a rollover contribution must be authorized by federal tax laws. If there is no such authorization, the contribution would have to qualify as a current year annual contribution and most would not. An ineligible rollover contribution is an excess contribution and must be corrected or the 6% excise tax will apply.

This article takes the approach of listing movements of IRA, 401(k), other pensions, Coverdell ESAs and HSA which have <u>NOT</u> been authorized. A financial institution must not process such transactions as a rollover as they do not qualify.

A rollover is defined to be – there is an actual distribution from Plan #1 to a person who then makes a rollover contribution to Plan #1 or Plan #2.

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A direct rollover is - there is no actual distribution to a person, but the funds from Plan #1 are sent to Plan #2 on behalf of the individual.

Four different categories will be discussed and impermissible rollovers are listed.

Category #1. The only plan authorized to accept a Roth IRA contribution is the same or another Roth IRA.

Roth IRA ≠ 401(k)/403(b)/457 With or Without Design Roth Account Funds.
Roth IRA ≠ Traditional IRA
Roth IRA ≠ SEP-IRA
Roth IRA ≠ SIMPLE-IRA
Roth IRA ≠ Coverdell ESA

Category #2. The law does not permit any funds to be rolled into a SIMPLE-IRA which are not already SIMPLE-IRA funds.

Traditional IRA ≠ SIMPLE-IRA
SEP-IRA ≠ SIMPLE-IRA
401(a)/401(k)/403(b)/457 ≠ SIMPLE-IRA
Coverdell ESA ≠ SIMPLE-IRA

Category #3. The law does not permit any funds to be rolled into a Coverdell ESA unless such funds are already Coverdell ESA funds or unless the funds are coming from an Archer MSA. There is also an exception for SGLI and death gratuity payments. The only place funds in a Coverdell ESA may be rolled over to would be another Coverdell ESA or a state tuition program under section 529.

Traditional IRA ≠ Coverdell ESA
SEP-IRA ≠ Coverdell ESA
SIMPLE-IRA ≠ Coverdell ESA
401(a) /401(k)/1403(b)/1457 ≠ Coverdell ESA
Coverdell ESA ≠ Traditional IRA
Coverdell ESA ≠ SEP-IRA
Coverdell ESA ≠ SIMPLE-IRA
Coverdell ESA ≠ Roth IRA
Coverdell ESA ≠ 401(a)/401(k)/1403(b)/1457
Coverdell ESA ≠ Archer MSA
Coverdell ESA ≠ HSA

Category #4. The law does not permit any funds to be rolled into an HSA unless such funds are already HSA funds or unless the funds are coming from a traditional IRA, Roth IRA or nonactive SEP-IRAs and SIMPLE-IRAs. HSA funds cannot be rolled over into any IRA or pension plan.

401(a)/401(k)/403(b)/457 ≠ HSA
Coverdell ESA ≠ HSA
SEP-IRA ≠ HSA*
SIMPLE-IRA ≠ HSA**
HSA ≠ Traditional IRA
HSA ≠ SEP-IRA
HSA ≠ SIMPLE-IRA
HSA ≠ Roth IRA
HSA ≠ 401(a)/401(k)/403(b)/457
HSA ≠ Coverdell ESA

*If the SEP-IRA is on-going, that is, there have been current-year contributions.

**If the SIMPLE-IRA is on-going, that is, there have been current-year contributions. ◆

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ed rule and additional guidance would need to be furnished.

For purposes of the determining a person's aggregate balance as of January 1, the person's would aggregate the account balances of all IRAs, including Roth IRAs and the balances of all qualified pension plans with one exception. A person would be able to exclude from the RMD calculation any amount in a qualified defined benefit plan if such benefit amount was already in pay status.

Proposed change #3. Certain Small Employers Would be Required to Sponsor an IRA Program for Employees.

President Obama is again seeking a law requiring certain small employers to sponsor an IRA program requiring the employees to have a certain percentage withheld from their wages (i.e. automatic enrollment) and such amounts would then be contributed via direct deposit into their respective IRAs. An employee would have the right to elect to not be automatically enrolled

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or to opt out. An employer would have the right and duty to establish an IRA on behalf of each eligible employee. The employer would be protected from claims of liability regarding investment and compliance issues as long as the employer followed set rule and procedures. An employer would be required to sponsor an automatic IRA plan if it had more than 10 employees an no other retirement plan. A primary purpose of the new law may well be to induce an employer with no other plan to establish one – a SEP, SIMPLE, profit sharing or 401(k) plan.

Proposed change #4. Maximum Balance Limit to Apply to IRAs and Pension Plans

Commencing January 1, 2014, in general, a new maximum account balance limit of $3.4 million would apply to a person. A person would be required to aggregate their balances in any defined benefit plan, defined contribution plan, 403(b), 457, and IRAs. No additional contributions could be made once the $3.4 million limit is reached.

There would substantial unspecified administrative duties on account of this new law. It appears an individual would be required to share IRA balances with his or her employer's plan. There would be excess contribution rules applied if the 3.4 million limit was exceeded.

The $3.4 million limit is not really $3.4 million as this limit is the actuarial equivalent of a joint and 100% survivor annuity paying an annual amount of $205,000 commencing at age 62. Since interest rates are currently low, the $3.4 million limit would become smaller if the interest rate increased.

The Obama administration has estimated this change would raise tax revenues by an additional 9.0 billion over the next 10 years.

Proposed Change #5. A Limit to be Placed on Various Itemized Deductions and Above the Line Adjustments For High Income Individuals.

In order to have individuals with higher incomes pay more income taxes, a new limit would be imposed on the benefit that such a person can realize by taking a tax deduction or an above the line adjustment. The benefit can never exceed 28%. This proposed change is called the Buffet Rule. For example, if a person is in the 36.3% marginal tax rate, he or she will need to pay income tax on the amount in excess of the 28% as he or she is not allowed to claim a tax deduction or claim the tax benefit for the above the line adjustment. An above the line adjustment is a deduction claimed which reduces one's gross income in determining modified adjusted gross income. It would apply to HSA contributions, IRA contributions, elective deferral contributions to a 401(k) plan, and to employer contributions for medical insurance coverage. If a person would have to pay income tax on an IRA or pension plan contribution because of this new tax, then the person will have basis. The proper records would need to be maintained. This 28% limit would apply to married couples with taxable incomes in excess of $223,050 and individuals with taxable income exceeding $183,250.

The Obama administration has estimated this change would raise tax revenues by an additional 529 billion over the next 10 years. Obviously, this is the main tax revenue raising change.

Change #6. Revise Formula so COLAs Would be Smaller

Under current tax law and social security law, various benefits and tax income limits are revised according to certain cost-of-living formulas. Social security benefits are generally revised on an annual basis. Various income limits for pensions and IRAs are revised each year. HSA limits are revised each year. Revising the COLA limit formula will have the effect that social security benefits paid to retirees will not increase as much as they otherwise would have. Revising the COLA limit as proposed is estimated to reduce the federal deficit by $230 billion over the next 10 years.

Change #7. Cut-back on Deductions for ESOP Dividends

Under current law, C corporations are permitted to claim a tax deduction for employer stock held in an ESOP (Employee Stock Ownership Plan) if certain conditions are met. However, there have been quite a few cases where such corporations have gone bankrupt or lost substantial value. ESOPs can be very complicated. Both the IRS and the DOL have problems administering these plan. There are quite a few administrators within the Obama administration who would like to see fewer ESOP plans. One way to achieve this goal is to eliminate one of the principal tax benefits associated with

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Preliminary HSA Tax Data for 2011

With respect to tax year 2011 the IRS has estimated that there were 981,452 (up from 968,282 for 2010) tax returns which showed the filer(s) had made contributions to HSAs and who claimed tax deductions totalling 2.9 billion dollars. The average claimed deduction per tax return was $2,990.

The number of 2011 tax returns claiming a deduction for contributions to an HSA increased by only 1.36% versus 2010.

The amount contributed to an HSA (and deducted) increased to 2.93 billion from 2.77 billion. This was an increase of 5.7%.

Since this data comes from the 1040 tax returns it does not indicate any data for the HSA contributions made by corporate employers and other employers into the HSAs of their employees.

For 2011, the maximum HSA contribution was $3,050 for self-only coverage and $6,150 for family coverage. Individuals age 55 or older were eligible to make an additional catch-up contribution of $1,000.

What was the AGI (Adjusted Gross Income) of those who made HSA contributions?

	Under $15,000	$15,001 to $29,999	$30,000 to $49,999	$50,000 to $99,999	$100,000 to $199,999	$200,000 Or more	Total
Number of Returns	32,920	78,744	120,400	298,814	254,049	196,525	981,452
% of Total Returns	3.35%	8.02%	12.27%	30.45%	25.89%	20.02%	100%
Contribution Amt. **(in thousands)**	$85,449	$137,047	$220,089	$734,005	$878,170	$879,702	$2,934,462
% of Total Contr.	2.91%	4.67%	7.50%	25.01%	29.93%	29.98%	100%
Avg. Contr. Amt.	$2,596	$1,740	$1,828	$2,456	$3,457	$4,476	$2,990

CWF Observations

1. The average 2011 contribution per return was $2,990 versus $2,863 for 2010.
2. The largest average contribution was from the $200,000 and over group and it was $4,476 per return. The next largest average contribution was $3,457 and it came from the $100,000 to $199,999 group.
3. 84.9% of the contributions came from individuals with $50,000 or more of AGI.
4. Almost 60.0% of the HSA contributions came from individuals with $100,000 or more of AGI. ◆

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ESOP, the tax deduction for certain dividend payments. The Obama administration has proposed retaining the dividend deduction if the C corporation has annual receipts of $5 million or less, but eliminating the deduction if annual receipts are more than $5 million.

The proposals by President Obama to change certain laws governing IRAs and pension plans most likely will not be adopted in 2013 or 2014. A political compromise by the Democratic Senate and the Republican House is very unlikely. Things will change if the Democrats regain control of the House of Representatives while retaining control of the Senate or the Republicans gain control of the Senate while retaining control of the House of Representatives in November of 2014. As the amounts within IRAs and pension plans grow, one can expect the politicians will look to these funds as a source of tax revenues and there will be suggested changes. Time will tell what changes are adopted.