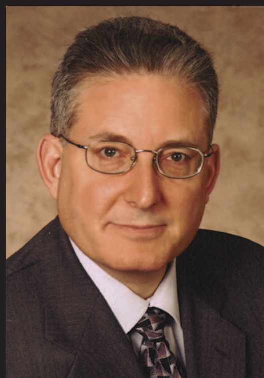

ED SLOTT'S IRA ADVISOR

December 2011

TAX & ESTATE PLANNING FOR YOUR RETIREMENT SAVINGS

IRS Allows a Child's Inherited IRA to be Created After Mother's Misappropriation

PLR 201139011

Released by IRS on September 30, 2011

In an unusual private letter ruling (PLR), IRS allowed a 13-year-old beneficiary of her father's company plan assets to largely undo a previously taxed lump-sum distribution and transfer the distributed plan funds to an inherited IRA for the child's benefit. The income tax owed on distributed amounts transferred to the inherited IRA will be eliminated.

The beneficiary's mother, who was her legal guardian when she inherited the plan assets, had elected to take a fully taxable, lump-sum distribution from the plan and then misappropriated some of the funds for her own benefit. A state Court ordered those funds to be repaid and IRS, in somewhat of a surprising ruling, granted a request to allow the repaid funds to be directly transferred to an inherited IRA for the child's benefit.

Facts of the Case

"Mary," a 13-year-old minor taxpayer, was the sole beneficiary of her father's employer sponsored retirement plan. Her father was unmarried when he died on September 3, 2008 and Mary's mother served as her legal guardian. Although Mary was entitled to make a direct transfer of her inherited plan assets to a properly titled inherited IRA, her mother instead chose to take a lump-sum distribution of the plan assets on November 19, 2008. The distribution was properly reported on Mary's 2008 federal and state income tax returns and the corresponding tax liabilities were paid.

Unfortunately for Mary, her mother failed to act with Mary's best interests in mind and instead used a portion of Mary's inheritance for her own personal benefit. Although the PLR does not indicate exactly how much of Mary's

WHAT'S INSIDE?

IRS Allows a Child's Inherited IRA to be Created After Mother's Misappropriation

- PLR 201139011
- Facts of the Case
- IRS' Ruling
- An Unanswered Question
- Advisors' Takeaway

- Pages 1-2

Guest IRA Expert

Leo K. Casper, CPA/PFS
Owner, Leo K. Casper, CPA
Moorestown, New Jersey

Practical Guidelines for Establishing a Non-Spouse Inherited Stretch IRA

- Pages 3-4

2011 Index of Articles

- Pages 5-6

2011 IRA Experts

- Page 7

Acknowledgments

- Page 7

Year-End IRA Alert: Qualified Charitable Distributions from IRAs

- QCD Basics

- Page 8