FROM THE MAILBOX

Your Questions **Answered**

How Protected Am I?

I have four IRA retirement brokerage accounts, including a Roth, at a large investment management company. The company states that the Securities Investor Protection Corp. protects our investments held in accounts at SIPC member broker-dealers for up to $500,000. Is this $500,000 per account or a total of $500,000 for all of our accounts? How can I protect all of my assets?

The protection amount depends on the types of accounts you have. Individual investment accounts held by the same person are grouped together with an aggregate protection of $500,000. But if you also have a traditional IRA, a Roth IRA, a trust, or a joint account, those are protected separately, up to $500,000 in each instance. For joint accounts, the protection is $500,000 total, not $500,000 for each holder of the joint account.

In your case, the Roth IRA has the full $500,000 of protection, but the three traditional IRAs may fall under one category, with a total of $500,000 in protection for them, for a total of $1 million in protection for all four accounts. "It depends on how the accounts are set up at the brokerage," says Josephine Wang, CEO and president of SIPC.

The protection only applies at SIPC member broker-dealers that are in liquidation. It covers losses in case of wrongful activity by the brokerage, such as theft or conversion of customer assets—not losses from a losing investment. If the amount held at a broker-dealer exceeds the protection amount, you could move a portion of the assets to another brokerage that is also an SIPC member. Most registered broker-dealers are SIPC members. To find out if yours is one of them, check SIPC's website (sipc.org/list-of-members).

Electronic Forms for High Earners

What are the options to use the IRS's free e-filing software if one's adjusted gross income is more than $72,000? Has the IRS built in a way to make the filing software that lower earners can use free on its website available to everyone else at a cost? If not, are there any plans to do this?

Currently, higher-earning taxpayers don't have the option to use the software, even at a cost, and the IRS says there are no plans to change that. If your AGI is higher than $72,000, you only have access to free electronic forms that you fill out and file yourself. Earners who meet or exceed the AGI threshold can find the relevant links on the IRS Free File page (irs.gov/filing/free-file-do-your-federal-taxes-for-free).

Calculating a Safe Harbor for 2021

I have been taking required minimum distributions from my retirement plan for a number of years, and I generally have an annual taxable income of more than $150,000. As a safe harbor, I pay estimated taxes equal to 110% of the previous year's taxes. Will that rule still apply when I pay estimated taxes for 2021? I will be basing those taxes on my 2020 income, which was considerably lower than usual because I did not have to take an RMD.

The safe harbor rule will work for 2021, but "it can be both an opportunity and a trap for the unwary," says David Levi, a certified public accountant and senior managing director at CBIZ MHM in Minneapolis. The rule calls for paying 100% of the previous year's tax liability and bumping up that percentage to 110% if your adjusted gross income is more than $150,000.

Although that is sufficient to avoid penalties and interest, even in 2021 when your income will rise (at a minimum by the amount of your RMD), you are likely to owe money to the IRS next April, Levi says. "You can take advantage of the float, but don't get lulled into forgetting you will owe more tax." He suggests putting aside what you're likely to owe so that you're prepared when the tax bill comes due.

If you know your income will rise primarily because of the RMD, you could also estimate how much more you should pay each quarter this year. Multiply the RMD amount by the percentage for your tax bracket and then divide by four to determine how much to add to each estimated payment. Another option is to have the taxes withheld from your RMD, which you can do anytime during the year, even Dec. 31, and still not incur a penalty. You could also use the RMD to make a qualified charitable distribution from your IRA. Up to $100,000 can be donated this way each year tax-free. As of 2021, RMDs are not required before age 72. **K**

DO YOU HAVE A RETIREMENT-PLANNING QUESTION? EMAIL IT TO RETIRE@KIPLINGER.COM.