THE Pension Digest

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ALSO IN THIS ISSUE –

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

The 2005 Form 5498, Instructions to the Participant and the Custodian

2828 ☐ VOID ☐ CORRECTED

TRUSTEE'S or ISSUER'S name, street address, city, state, and ZIP code		1 IRA contributions (other than amounts in boxes 2–4 and 8–10) $ 2 Rollover contributions $	OMB No. 1545-0747 2005 Form 5498	IRA Contribution Information
TRUSTEE'S or ISSUER'S Federal identification no.	PARTICIPANT'S social security number	3 Roth IRA conversion amount $	4 Recharacterized contributions $	Copy A For Internal Revenue Service Center
PARTICIPANT'S name		5 Fair market value of account $	6 Life insurance cost included in box 1 $	File with Form 1096.
Street address (including apt. no.)		7 IRA ☐ SEP ☐	SIMPLE ☐ Roth IRA ☐	For Privacy Act and Paperwork Reduction Act Notice, see the 2005 General Instructions for Forms 1099, 1098, 5498, and W-2G.
City, state, and ZIP code		8 SEP contributions $	9 SIMPLE contributions $	
Account number (see instructions)		10 Roth IRA contributions $	11 Check if RMD for 2006 ☐	

Form 5498 Cat. No. 50010C Department of the Treasury - Internal Revenue Service

Do Not Cut or Separate Forms on This Page — Do Not Cut or Separate Forms on This Page

What's new on the 2005 Form 5498?

The format is exactly the same as the 2004 Form. Obviously, the dates are changed. Also, on the 2004 Form 5498, the box under the City, state and ZIP Code is where an account number is to be entered. On the 2004 form, this was optional. On the 2005 form, the word "optional" has been removed, thereby making it mandatory to complete this box according to the directions.

From the IRS Instructions for Form 5498—

Account Number

"The account number is required if you have multiple accounts for a recipient for whom you are filing more than one Form 5498. Additionally, the IRS encourages you to designate an account number for all Forms 5498 that you file."

Under **"Instructions to Participant,"** the language is as follows.

Account Number

"May show an account or other unique number the payer assigned to distinguish your account."

Contribution Amounts

The allowed contribution amounts for 2005 are: $4,000 for those accountholders younger than age 50, and $4,500 for those accountholders who are age 50 or older.

The Instructions for the 2005 Form 5498 remain the same, other than the date and contribution amount updating, and the language concerning the "Account Number."

NOTE: Because April 15, 2006, is a Saturday, IRA contributions will be allowed to be made through April 17, 2006.

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CWF's Suggestions and Observations—Completing the 2005 Form 5498

1. The IRS makes clear in the instructions that a separate Form 5498 must be filed for each separate IRA plan agreement. If there are three CDs held under one plan agreement, then only one Form 5498 needs to be prepared. If a person has a regular IRA and a conduit IRA, then the IRA custodian will need to prepare two separate Form 5498s. You will want to point this out to your software vendor or to your internal programmers, since many IRA software programs aggregate all information related to the same Social Security Number onto one Form 5498. This is not permissible.

2. With respect to inherited IRAs, the IRS makes the statement that "an IRA holder must be able to identify the source of each IRA he or she holds for purposes of figuring the taxation of a distribution from an IRA."

Observation: This is a very important statement. The IRS is saying that an IRA custodian must prepare a separate Form 5498 for each IRA plan agreement a persons owns, either in his own right or as a beneficiary. For example, if a person has a regular IRA, has inherited an IRA from her father, another from her mother, and one from her grandmother, then the IRA custodian will need to prepare four separate Form 5498s. Your institution will have compliance problems if your computer system would locate all accounts associated with the same Social Security Number and then aggregate the information onto one form.

3. The IRA custodian must report the receipt of a direct rollover in Box 2 – "Rollover IRA Contributions." Note that the IRS does not distinguish between rollovers and direct rollovers on the Form 5498.

4. The IRA custodian need not furnish the IRA owner (or a beneficiary of an inherited IRA) a 2005 Form 5498 if it furnishes a statement of the fair market value to this person by January 31, 2006, and if no contributions were made to the IRA for 2005. The IRS makes it very clear that this January statement must contain a legend designating which information is being furnished to the IRS. For example, the 12-31-05 Fair Market information is being sent to the IRS.

In addition, if this statement is with respect to an inherited IRA, and the IRA custodian has chosen to use the alternative method (i.e. not report in Box 5 the fair market value as of the date of death), there must be a legend or notice informing the executor or administrator of the decedent's estate of his or her right to request a date-of-death valuation. If you use either the language for Box 5 on the back of the official copy B, or you use the official copy B, you will have met this notice requirement.

5. Until a spouse beneficiary elects to treat a deceased spouse's IRA as his or her own, the IRA custodian is to treat the IRA in the same way it treats an inherited IRA of a nonspouse beneficiary (i.e. Brian Young as IRA beneficiary of Joan Smith).

6. All traditional IRA contributions must be reported in Box 1. If the IRA owner made an excess contribution and withdrew it, the excess amount is still reported. You are never to "net" an excess contribution.

7. If an IRA owner intentionally or unintentionally elects to leave an excess contribution within an IRA and use it as a contribution for a subsequent year, the IRA custodian is not to report this "carryover" on the Form 5498 for the subsequent year. The IRS has adopted the position that the contribution has already been reported and should not be reported a second time.

8. With respect to reporting rollovers of property in Box 2, the instructions very clearly state that the IRA custodian is to enter the fair market value of the property as of the date it is received, even though this value may be different from the value of the property on the date it was distributed (i.e. as it was reported on the Form 1099-R).

9. SEP and SIMPLE IRA contributions are reported on a calendar-year basis.

Instructions to Participant

(taken from the reverse side of Form 5498)

The IRA participant will use these instructions in the preparation of his or her 2005 Federal Income Tax Return.

The information on Form 5498 is submitted to the Internal Revenue Service by the trustee or issuer of your individual retirement arrangement (IRA) to report contributions, including any catch-up contributions, and the fair market value of the account.

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For information about IRAs, see **Pub. 590,** Individual Retirement Arrangements (IRAs), and **Pub. 560,** Retirement Plans for Small Business (SEP, SIMPLE, and Qualified Plans).

Box 1. Shows traditional IRA contributions for 2005 you made in 2005 and through April 17, 2006. These contributions may be deductible on your Form 1040 or 1040A. However, if you or your spouse was an active participant in an employer's pension plan, these contributions may not be deductible. This box does not include amounts in boxes 2–4 and 8–10.

Box 2. Shows any rollover, including a direct rollover to a traditional IRA, you made in 2005. It does not show any amounts you converted from your traditional IRA, SEP IRA, or SIMPLE IRA to a Roth IRA. They are shown in box 3. See the Form 1040 or 1040A instructions for information on how to report rollovers. If you have ever made any nondeductible contributions to your traditional IRA or SEP IRA and you did not roll over the total distribution, use **Form 8606,** Nondeductible IRAs, to figure the taxable amount. If property was rolled over, see Pub. 590.

Box 3. Shows the amount converted from a traditional IRA, SEP IRA, or SIMPLE IRA to a Roth IRA in 2005. Use Form 8606 to figure the taxable amount.

Box 4. Shows amounts recharacterized from transferring any part of the contribution (plus earnings) from one type of IRA to another. See Pub. 590.

Box 5. Shows the fair market value of your account at year end. However, if a decedent's name is shown, the amount reported may be the FMV on the date of death. If the FMV shown is zero for a decedent, the executor or administrator of the estate may request a date-of-death value from the financial institution.

Box 6. For endowment contracts only, shows the amount allocable to the cost of life insurance. Subtract this amount from your allowable IRA contribution included in box 1 to compute your IRA deduction.

Box 7. May show the kind of IRA reported on this Form 5498.

Box 8. Shows SEP contributions made in 2005, including contributions made in 2005 for 2004, but not including contributions made in 2006 for 2005. If made by your employer, do not deduct on your income tax return. If you made the contributions as a self-employed person (or partner), they may be deductible. See Pub. 560.

Box 9. Shows SIMPLE contributions made in 2005. If made by your employer, do not deduct on your income tax return. If you made the contributions as a self-employed person (or partner), they may be deductible. See Pub. 560.

Box 10. Shows Roth IRA contributions you made in 2005 and through April 17, 2006. Do not deduct on your income tax return.

Box 11. If the box is checked, you must take a required minimum distribution (RMD) for 2006. An RMD may be required even if the box is not checked. The amount, or offer to compute the amount, and date of the RMD will be furnished to you by January 31 either on Form 5498 (in the blank box to the left of box 10) or in a separate statement. If you don't take the RMD for 2006, you are subject to a 50% excise tax on the amount not distributed. See Pub. 590 for details.

Instructions for Trustees and Issuers

(taken from the reverse side of Form 5498)

We now provide general and specific form instructions as separate products. The products you should use for 2005 are the **General Instructions for Forms 1099, 1098, 5498, and W-2G** and the **2005 Instructions for Forms 1099-R and 5498.** To order these instructions and additional forms, call 1-800-TAX-FORM (1-800-829-3676).

Caution: *Because paper forms are scanned during processing, you cannot file with the IRS Forms 1096, 1098, 1099, or 5498 that you print from the IRS website.*

Due dates. Furnish Copy B of this form to the participant by May 31, 2006, but furnish fair market value information and RMD if applicable by January 31, 2006.

File Copy A of this form with the IRS by May 31, 2006.

HSAs and FDIC Insurance — Not as Simple as It Should Be

HSAs are becoming increasingly popular. Many individuals are opening HSAs. A question that will need to be answered is, "How will HSA deposits be insured by the FDIC?" Those currently in power with the United States Treasury and the Federal Reserve, do not generally wish to expand FDIC coverage beyond the $100,000 limit, yet, as discussed later, the FDIC is expanding coverage with respect to HSAs.

We queried the FDIC, and the answer they provided CWF is somewhat surprising. If the HSA account satisfies the revocable trust rules, then the $100,000 limit which applies to such accounts will apply. If the account fails to satisfy the revocable trust rules, then the $100,000 limit which applies to single accounts will apply.

The basic FDIC deposit insurance rules are as follows (taken from an FDIC brochure).

The FDIC — short for the Federal Deposit Insurance Corporation — is an independent agency of the United States government. The FDIC protects you against the loss of your insured deposits if an FDIC-insured bank or savings association fails. FDIC insurance is backed by the full faith and credit of the United States Government.

What does FDIC deposit insurance cover?

FDIC insurance covers all types of deposits received at an insured bank, including deposits in checking, NOW, and savings accounts, money market deposit accounts, and time deposits such as certificates of deposit (CDs).

FDIC deposit insurance covers the balance of each depositor's account, dollar-for-dollar, up to the insurance limit, including principal and any accrued interest through the date of the insured bank's closing.

The FDIC does not insure the money you invest in stocks, bonds, mutual funds, life insurance policies, annuities, or municipal securities, even if you bought these products from an insured bank.

The FDIC does not insure U.S. Treasury bills, bonds, or notes. These are backed by the full faith and credit of the U.S. government — the strongest guarantee you can get.

What is the FDIC insurance limit?

The basic insurance limit is $100,000 per depositor, per insured bank. Deposits in separate branches of an insured bank are not separately insured. Deposits in one insured bank are insured separately from deposits in another insured bank.

Deposits maintained in different categories of legal ownership at the same bank can be separately insured. Therefore, it is possible to have deposits of more than $100,000 at one insured bank and still be fully insured.

The following section describes the ownership categories recognized by FDIC regulations and the requirements that you must meet to have coverage beyond the basic $100,000 limit.

How does the FDIC determine ownership of funds?

The FDIC presumes that funds are owned as shown on the deposit account records of the insured bank. The deposit account records of an insured bank include account ledgers, signature cards, certificates of deposit, passbooks, and certain computer records. Account statements, deposit slips and cancelled checks are not considered deposit account records for purposes of determining deposit insurance coverage.

CWF Observations. One would hope the FDIC considers the HSA application form to be a "deposit account record" for purposes of the category of ownership issues. Presumably, the institution's records will clearly show that the HSA custodian owns the HSA account on behalf of "Jane Doe."

When an insured bank fails, what evidence will the FDIC require to determine the amount of insurance coverage for a living trust account?

If an insured bank fails, the FDIC would look to the account title to determine whether an account is held by a living trust. The FDIC would then ask the owner to provide a copy of the trust document, which the FDIC would review to identify the beneficiaries and determine their interest in the account. The owner also may be required to complete an affidavit attesting to the relationship of the beneficiaries to the trust owner.

Note that to qualify for coverage in the revocable trust category, the account title must indicate that the

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funds are held by a revocable trust. This requirement may be met by including the terms "living trust' or "family trust" in the account title, or by including other words or acronyms indicating that the account is held by a trust.

CWF Observations. Again, if the records of the institution (including the HSA application which references a specific account number) show the deposit to be an HSA deposit, then the FDIC should conclude that revocable trust rules apply to the extent a beneficiary is a qualifying beneficiary.

What are the different ownership categories?

There are basically eight different categories:

1. *Single Accounts*
2. *Self-Directed Retirement Accounts*
3. *Joint Accounts*
4. *Revocable Trust Accounts*
5. *Irrevocable Trust Accounts*
6. *Employee Benefit Plan Accounts*
7. *Corporation/Partnership/Unincorporated Association Accounts*
8. *Public Unit Accounts*

Apparently, the FDIC does not consider an HSA to be a type of retirement account.

What is a revocable trust account and what rules must be met?

The FDIC brochure provides the following discussion.

A revocable trust account is a deposit account that evidences an intention that the funds will belong to one or more named beneficiaries upon the death of the owner (grantor/settlor).

There are both informal and formal revocable trusts. Informal revocable trust, often called "payable-on-death" (POD), "Totten trust," or "in trust for" (ITF) accounts are created when the account owner signs an agreement — usually part of the bank's signature card — stating that the funds are payable to one or more beneficiaries upon the owner's death.

Formal revocable trusts — known as "living" or "family" trusts — are written trusts created for estate planning purposes. The owner controls the funds in the trust during his or her lifetime. Upon the owner's death, the trust generally becomes irrevocable.

All deposits that an owner has in both informal and formal revocable trusts are added together for insurance purposes, and the insurance limit is applied to the combined total.

What is a Payable-on-Death (POD) account?

POD accounts are insured up to $100,000 per owner for each beneficiary if all of the following requirements are met:

1. The account title must include commonly accepted terms such as "payable-on-death," "in trust for," or "as trustee for" to indicate the existence of a trust relationship. These terms may be abbreviated (e.g. "POD," "ITF" or ATF").

2. The beneficiaries must be identified by name in the deposit account records of the insured bank.

3. The beneficiaries must be "qualifying," meaning that the beneficiaries must be the owner's spouse, child, grandchild, parent, or sibling. Adopted and step children, grandchildren, parents, and siblings also qualify. Others, including in-laws, cousins, nieces and nephews, friends and organizations (including charities) do not qualify.

What is a Living Trust Account?

Living trust accounts are insured up to $100,000 per owner for each beneficiary if all of the following requirements are met.

1. The account title at the bank must indicate that the account is held by a living trust. This rule can be met by using the terms "living trust," "family trust," or similar language in the account title.

2. The beneficiaries must be "qualifying" as defined above.

Note that the living trust coverage is based on the interests of qualifying beneficiaries who would become entitled to receive trust assets when the trust owner dies (or if the trust is jointly owned, when the last owner dies). This means that, when determining coverage, the FDIC will ignore any trust beneficiary who would have an interest in the trust assets only after another living beneficiary dies.

If a living trust has multiple beneficiaries, the FDIC will assume the beneficiaries' interests are equal unless otherwise stated in the trust. For example, if a father

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has a living trust leaving all trust deposits equally to his three children, the trust's account would be insured up to $300,000, since there are three qualifying beneficiaries who would inherit the trust deposits equally when the owner dies.

What is the result if the "titling" requirements or the "qualifying beneficiary" requirement is not met?

The account would not be insured under the revocable trust category. The account, or the portion of the account that does not qualify, would be added to the owner's other single accounts, if any, at the same insured bank and insured up to $100,000.

CWF Observations. One would hope the FDIC will acknowledge that an HSA is a "living trust account" by definition. There should be no need to identify the beneficiaries by name in the deposit account records. The standard procedure in establishing an HSA is for the HSA owner and the financial institution to complete an HSA application form. The HSA owner designates his or her beneficiaries on this form, and NOT on the form creating the checking, savings, or time deposit account.

What if some of the beneficiaries do not meet the relationship requirements?

If some beneficiaries meet the relationship requirements and all other requirements are met, the interests of the qualifying beneficiaries would be insured under the revocable trust category. The interests of the non-qualifying beneficiaries would be added to the owners' other single accounts, if any, at the same bank and the total insured up to $100,000.

What coverage applies if there are multiple beneficiaries?

The $100,000 per beneficiary limit applies to all formal and informal revocable trust accounts that an owner has at the same bank. For example, if a father has a POD account naming his son and daughter as beneficiaries and he also has a living trust account naming the same beneficiaries, the funds in both the POD and living trust accounts would be added together and the total insured up to $200,000 ($100,000 per qualifying beneficiary).

For the deposits in this trust account to be fully insured, the funds attributable to the beneficiary with the largest interest cannot exceed $100,000.

Example: A father can place up to $150,000 of deposits in a trust account and be fully insured, if one son has a 2/3's interest of $100,000, and another son has a 1/3 interest of $50,000.

CWF Observations. The fact that the coverage is "per beneficiary" is very favorable to the HSA account owner and his or her beneficiaries. The coverage applying to IRAs is on a "per IRA owner" basis and not on a "per beneficiary" basis. We are not sure why the FDIC rules have this inconsistency. If an HSA owner with $400,000 in an HSA has 5 beneficiaries, there will be insurance coverage to the extent of $400,000 for each beneficiary to receive 20%. In contrast, an IRA owner with $400,000 in an IRA with 5 beneficiaries would be uninsured to the the extent of $300,000.

What is a single account for FDIC insurance purposes?

A single account is a deposit owned by one person. This ownership category includes any deposit account that:

- *Is held in one person's name alone*
- *Is established for one person by an agent, nominee, guardian, custodian, or conservator, including Uniform Gift to Minors Act accounts, escrow accounts, and brokered deposit accounts*
- *Is held in the name of a business that is a sole proprietorship (for example, a "DBA account")*
- *Is established for a decedent's estate*
- *Fails to qualify for coverage under another ownership category*

All single accounts owned by the same person at the same insured bank are added together and the total is insured up to $100,000.

CWF Observations. A deposit which does not qualify to be a revocable trust will be considered to be a single account.

What happens, for FDIC insurance purposes, once the HSA account owner dies?

The general rule is that the FDIC insures a deceased person's account as if they were still alive for another six months. During this grace period, the insurance coverage of the owner's accounts will not change unless the accounts are restructured by those author-

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ized to do so. Also, the FDIC will not apply this grace period if it would result in less coverage.

CWF Observations. But for this rule, it appears that this account is a "single account" of the beneficiary and would be aggregated with other single accounts.

What happens if a beneficiary dies before the HSA account owner?

There is no grace period if a beneficiary (or all beneficiaries) of a POD account passes away. The funds in the account would immediately be insured as the single ownership funds of the account owner, since there is now no designated beneficiary. If one or more, but not all, beneficiaries pass away, the insurance coverage of the POD account would be reduced because there are fewer beneficiaries.

How does FDIC insurance cover funds deposited for a deceased person's estate?

Funds deposited by an executor or administrator for a deceased person's estate are added to any funds maintained in the name of the deceased person at the same bank, if any, and the total is insured up to $100,000. Funds belonging to the estate of the deceased person, whether held in the name of the deceased or deposited by the executor or administrator, are insured separately from the funds owned by the executor, administrator, or beneficiaries of the estate. Decedent accounts are not insured on a per-beneficiary basis; they are insured up to $100,000 as the funds of the estate.

Do the special rules for "fiduciary accounts" apply to HSAs?

These special rules do not apply to HSA funds.

CWF Summary. It appears the general rule is that a person's HSA account will be aggregated with his or her other single accounts for purposes of the $100,000 FDIC coverage limit. However, if the HSA account satisfies the rules applying to revocable trust accounts, then there will be insurance coverage under that special category.

The insurance coverage will depend upon whether the designated beneficiary is a "qualifying" beneficiary or is a nonqualifying beneficiary for FDIC purposes. CWF believes FDIC insurance coverage for HSAs could have been made much less complicated.

Form 1099-R For Roth IRA Conversions — The Withholding Complexity

Most traditional IRA accountholders elect to not have withholding when they withdraw funds from their traditional IRA. This is also true for those distributions which are converted to a Roth IRA. However, there will be some traditional IRA account owners who do elect to have withholding with respect to a Roth conversion.

An IRA custodian likes those IRA account owners who convert the entire distribution amount. The custodian's administrative tasks for this situation are very simple. An example is illustrative. June Davis, who is 48, has a traditional IRA in the amount of $15,000 at ABC Bank. In July of 2005, June decides to convert $9,000 from her traditional IRA and contribute to a brand new Roth IRA which she also established with ABC Bank.

ABC Bank will prepare a 2005 Form 1099-R to report the withdrawal of the $9,000. The bank will also prepare a 2005 Form 5498 to report the $9,000 conversion contribution to the Roth IRA.

The 2005 Form 1099-R will need to be completed as follows: $9,000 will need to be inserted in Box 1 (gross amount) and Box 2a (taxable amount). The reason code "2" will need to be inserted in Box 7. The IRA check-box will need to be checked. June Davis will have to include the $9,000 in her income for 2005 tax purposes. It is assumed her marginal tax rate is 12%. The inclusion of $9,000 of income means she will owe the amount of $1,080 ($9,000 x 12%). She decides to pay this tax amount from her checking account. Using reason code "2" tells June and the IRS that the 10% additional tax is not owed with respect to the withdrawal of the $9,000. The law provides that the 10% additional tax is not owed when one converts funds from a traditional IRA to a Roth IRA.

An IRA custodian likes a little less well those IRA account owners who do not covert the entire distribution amount because they elect to have federal (and possibly state) income tax withheld. The IRA custodian has more tasks to do when an IRA accountholder has

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withholdings with respect to a conversion distribution. It is also not clear if the IRS expects the traditional IRA custodian to prepare two 2005 Form 1099-R's or just one 2005 Form 1099-R for this situation.

The example discussed above needs to be changed to illustrate the additional tasks. Assume that June Davis had elected to have $900 withheld for federal income tax purposes and $450 for state income tax purposes. June converted the amount of $7,650 ($9,000 - $900 - $450) by contributing $7,650 into her new Roth IRA. June will still include the amount of the $9,000 in her 2005 income. Since her marginal rate is 12%, she will need to pay $1,080 with respect to this distribution of $9,000. Remember that June is considered to have received the withheld amounts of $900 and $450, even though these amounts were paid to the applicable tax authority on her behalf. However, in this situation, because June has not converted $1,350, (the $900 and the $450) she therefore owes the 10% tax with respect to $1,350. She owes tax of $135 in addition to the $1,080. The total is $1,215.

A traditional IRA custodian will want to prepare two 2005 Form 1099-R's for this situation since this is the most conservative approach. It is possible the IRS would assess a fine for preparing only one 2005 Form 1099-R.

The first 2005 Form 1099-R will report the distribution of $7,650. $7,650 will need to be inserted in Box 1 (gross amount) and Box 2a (taxable amount). The reason code "2" will need to be inserted in Box 7. The IRA check-box will need to be checked.

The second 2005 Form 1099-R will report the distribution of $1,350. $1,350 will need to be inserted in Box 1 (gross amount) and Box 2a (taxable amount). $900 will need to be inserted in Box 4 (federal income tax withholding) and $450 will need to be inserted in box 1 (state income tax withholding). The reason code "1" will need to be inserted in Box 10. The IRA check-box will need to be checked. Using Code "1" informs June and the IRS that the 10% additional tax is owed with respect to the withdrawal of the $1,350.

June may or may not be surprised to learn she owes the $135 in addition to the$1,080 — the application of the 10% tax to the withheld amount of $900 and $450. By preparing two 2005 Form 1099-R's as discussed above, the IRA custodian is making this clear to her and the IRS.

Congress should consider revising the tax laws. Current law does not allow a pre-age 59$^1/_2$ IRA account holder to withdraw funds from his or her IRA to pay the taxes associated with a conversion distribution without having to pay the 10% additional tax. Most taxpayers/IRA account owners are not like June. They cannot afford to pay the taxes associated with a conversion out of their checking or savings account. The imposition of the 10% additional tax in this situation is certainly a disincentive to converting funds for those individuals under age 59$^1/_2$. We definitely believe the current law should be changed. Any funds withdrawn from a traditional IRA to pay the taxes associated with a conversion distribution should also be exempt from the 10% traditional additional tax. Various political groups have given the impression that they would like to see conversions, because the U.S. treasury collects taxes now, rather than years from now when the funds otherwise would have been distributed from the traditional IRA. Congress should be aware that most pre-age 59$^1/_2$ account holders are apparently unwilling to do conversions as long as the 10% tax applies to amounts withdrawn to pay the income taxes associated with the conversion.