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Summary of Reporting Requirements for Education IRAs

The reporting deadlines for Education IRAs are not the same as they are for traditional IRAs and Roth IRAs. Normally, the reporting requirements are thought of in terms of the Fair Market Value Statement and the Form 5498. Actually, the IRS looks at it in terms of furnishing two types of information—the fair market value as of December 31, and contribution information (annual, rollover, or conversion).

As you know, an IRA custodian/trustee must furnish certain statements/reports to the participant and also to the IRS by prescribed deadlines. There is normally one deadline with respect to the participant (or designated beneficiary of an Ed IRA) and one deadline with respect to the IRS.

Who must be furnished the Education IRA Reporting Forms?

One would think there would be a simple answer to whom the Education IRA custodian/trustee must furnish the Form 5498 and the Form 1099-R. But, as you know, nothing is simple about Education IRAs.

The most conservative approach for an Education IRA custodian/trustee would be to furnish one copy to the child (i.e. the designated beneficiary of the Education IRA) and one to the responsible individual.

We at CWF, however, feel it is permissible to furnish only one copy of the respective reporting form(s) as long as the child and responsible individual are living at the same address. That is, the Education IRA account has been titled as follows:

Nadia Salem's Education IRA
c/o Ilene Salem, Responsible Individual
2410 West Peterson Avenue
Chicago, IL 60646

The IRS has written a model custodial Education IRA form. It is Form 5305-EA. In Article VIII there is a provision which requires the custodian to submit reports to

Deadline for Furnishing the FMV Statement to the Participant:

Task	Deadline for Traditional IRA	Deadline for Education IRA
Furnish the fair market value as of 12-31-98	2-1-99, since 1-31-99 is a Sunday	2-1-99, since 1-31-99 is a Sunday
Furnish the contribution information	6-1-99, since 5-31-99 is a Holiday	2-1-99, since 1-31-99 is a Sunday

Deadline for Furnishing the Information to the IRS:

Task	Deadline for Traditional IRA	Deadline for Education IRA
Furnish the fair market value as of 12-31-98	6-1-99, since 5-31-99 is a Holiday	6-1-99, since 5-31-99 is a Holiday
Furnish the contribution information	6-1-99, since 5-31-99 is a Holiday	6-1-99, since 5-31-99 is a Holiday

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Recap – Completing the 1998 Form 1099-R

The March and April newsletters discussed this subject in detail. You may wish to review these. There have been a number of changes since March — the July tax legislation, the issuance of proposed Roth IRA regulations; and the IRS has issued various clarifying announcements.

This article summarizes completing the 1998 Form 1099-R for each IRA type.

Reporting a Distribution (or a Deemed Distribution) from a Roth IRA

For distributions from Roth IRAs, the following boxes of the Form 1099-R will need to be completed as follows:

Box 1. The total amount of the distribution before income tax or other personal deductions were withheld. This will be the gross amount of the distribution—the amount actually received by the Roth IRA accountholder. If the accountholder receives \$1,480 from a withdrawal of \$1,500 because a \$20 interest penalty is assessed, the amount inserted should be \$1,480, the amount received. Box 1 is the net amount after fees and early withdrawal interest penalties.

Box 2a and Box 2(b). The amount includable as taxable income. There are two parts to item 2(b). Box 2(a) should be left blank, and you should mark the “taxable amount not determined” box in 2(b). The IRS instructions make clear that the financial institution is generally not required to compute the taxable amount of a distribution from a Roth IRA. The individual will be responsible to determine what portion is not taxable.

The second box of 2(b) is to be checked if the distribution is a total distribution. The IRS instructions state that this box is to be checked only if the payment shown in Box 1 is a total distribution. A total distribution is one or more distributions within one tax year in which the entire balance of the account is distributed. Any distribution which does not meet this definition is not a total distribution.

The IRS’ instructions are unclear as to whether they apply to Roth IRAs. A total distribution has no special tax effect for IRA purposes, but may for distributions from qualified plans.

Thus, it would seem that this box should not have to be checked for Roth IRA distributions, even total Roth IRA distributions. Since the IRS instructions

The 1998 Form 1099-R

9898		<input type="checkbox"/> VOID <input type="checkbox"/> CORRECTED		OMB No. 1545-0119	
PAYER'S name, street address, city, state, and ZIP code		1 Gross distribution		1998	
		\$		Form 1099-R	
2a Taxable amount		\$		Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.	
2b Taxable amount not determined <input type="checkbox"/>		Total distribution <input type="checkbox"/>		Copy A For Internal Revenue Service Center	
PAYER'S Federal Identification number	RECIPIENT'S Identification number	3 Capital gain (included in box 2a)	4 Federal income tax withheld	File with Form 1096.	
		\$	\$	For Paperwork Reduction Act Notice and instructions for completing this form, see the 1998 Instructions for Forms 1099, 1098, 5498, and W-2G.	
RECIPIENT'S name		5 Employee contributions or insurance premiums	6 Net unrealized appreciation in employer's securities		
		\$	\$		
Street address (including apt. no.)		7 Distribution code	8 Other		
			\$		
City, state, and ZIP code		9a Your percentage of total distribution %	9b Total employee contributions \$		
Account number (optional)		10 State tax withheld	11 State/Payer's state no.	12 State distribution	
		\$	\$	\$	
		13 Local tax withheld	14 Name of locality	15 Local distribution	
		\$	\$	\$	

Form 1099-R Cat. No. 144360 Department of the Treasury - Internal Revenue Service

Do NOT Cut or Separate Forms on This Page

do not state this, we suggest that the IRA custodian or trustee check this box for any total distribution from a Roth IRA until the IRS says otherwise.

Box 3. This box will never be completed for any Roth IRA distribution.

Box 4. This box is used to report the amount of federal income tax withheld. It is important.

Box 5. This box will never be completed for a Roth IRA distribution.

Box 6. This box will never be completed for a Roth IRA distribution.

Box 7. This box is used to indicate the type of distribution being made. This section also includes a box that is to be checked if the distribution is from an IRA or SEP, and the appropriate reason code must be inserted. Because this is a Roth IRA, you are not to check the IRA/SEP/SIMPLE box. The various reason codes are:

1 – Early (premature) distribution, no known exception. This is used to report all distributions paid to anyone under age 59 1/2 when an exception is not known.

2 – Early (premature) distribution, exception applies as defined in code section 72 (q), (t) or (v). For IRA purposes, the only type of distribution to be coded a “2” would be: those which are part of a series of substantially equal periodic payments

(not less frequently than annually) made for the life or life expectancy of the accountholder or the joint life expectancy of the accountholder and his designated beneficiary.

3 – Disability. Please be aware, the definition of “disabled” for IRA purposes may be different than that for workman’s compensation or other disability payments. Per IRC section 72(m)(7) and IRS Regulation 1.72-17(f), disability for this distribution code means the IRA accountholder is “unable to engage in ANY substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or to be of long-continued or indefinite duration.”

4 – Death. Code 4 is used regardless of the age of the accountholder to indicate payment to a beneficiary.

5 – Prohibited Transaction. Code 5 is used if the Roth IRA trustee or custodian or accountholder incurs a prohibited transaction.

6 – Not used for Roth IRA and pension purposes.

7 – Normal. This code is used to report distributions paid to the accountholder who has attained age 59 1/2 or older.

Continued on page 3

8 – Excess contributions/deferrals refunded plus earnings taxable in the same calendar year.

P – Excess contributions/deferrals refunded plus earnings taxable in the previous calendar year.

A – Not used for Roth IRAs.

B – Not used for IRAs.

C – Not used for Roth IRAs.

D – Not used for Roth IRAs.

E – Not used for Roth IRAs.

F – Not used for Roth IRAs.

G – Used to report a recharacterization.

H – Not used for Roth IRA distributions.

J – Distribution from a Roth IRA in first 5 years.

K – Distribution from a 1998 Roth Conversion IRA in first 5 years.

Comment #1 – The IRS in Announcement 98-112 as issued on December 21, 1998, has stated that the Roth custodian/trustee need not use Code K. Rather, it may use Code J in box 7 for all distributions from a Roth IRA or a Roth Conversion IRA. We recommend this.

L – Not used for Roth IRAs.

M – Not used for Roth IRAs.

P – Not used for Roth IRAs.

S – Not used for Roth IRAs.

Box 8. Other. This box is used to give the accountholder information on distributions not covered by the above.

Box 9. This box is used if a total distribution is split among a number of recipients (i.e. more than one beneficiary). This box is used to enter the percentage this recipient was paid.

Boxes 10 to 15. These boxes do not need to be completed for IRS purposes, but may need to be completed for state and local tax reasons.

Comment #2 – The IRS says that Codes 1 and 2 may be used in combination with the J or K, but that a Code 7 must not be used. Also note that nothing is said about Codes 3, 4 and 5. Our guess is that you could use Codes 3, 4, or 5 in combination with J or K.

Reporting a Distribution (or a Deemed Distribution) from an Education IRA

For distributions from Education IRAs, the following boxes of the Form will need to be completed as follows:

Box 1. The total amount of the distribution before income tax or other personal deductions were withheld. This will be the gross amount of the distribution—the

amount actually received by the Education IRA designated beneficiary. If the accountholder receives \$1,480 from a withdrawal of \$1,500 because a \$20 interest penalty is assessed, the amount inserted should be \$1,480, the amount received. Box 1 is the net amount after fees and early withdrawal interest penalties.

Box 2a and Box 2(b). The amount includable as taxable income. There are two parts to item 2(b). Box 2(a) should be left blank, and you should mark the "taxable amount not determined" box in 2(b). The IRS instructions make clear that the financial institution is generally not required to compute the taxable amount of a distribution from an Education IRA. The individual will be responsible to determine what portion is not taxable.

The second box of 2(b) is to be checked if the distribution is a total distribution. The IRS instructions state that this box is to be checked only if the payment shown in Box 1 is a total distribution. A total distribution is one or more distributions within one tax year in which the entire balance of the account is distributed. Any distribution which does not meet this definition is not a total distribution.

The IRS' instructions are unclear as to whether they apply to Ed IRAs. A total distribution has no special tax effect for IRA purposes, but may for distributions from qualified plans.

Thus, it would seem that this box should not have to be checked for Ed IRA distributions, even total Ed IRA distributions. Since the IRS instructions do not state this, we suggest that the IRA custodian or trustee check this box for any total distribution from an Ed IRA until the IRS says otherwise.

Box 3. This box will never be completed for any Ed IRA distribution.

Box 4. This box is used to report the amount of federal income tax withheld. It is important.

Box 5. This box will never be completed for an Ed IRA distribution.

Box 6. This box will never be completed for an Ed IRA distribution.

Box 7. This box is used to indicate the type of distribution being made. This section also includes a box that is to be checked if the distribution is from an IRA or SEP, and the appropriate reason code must be inserted. Because this is an Ed IRA, you are not to check the IRA/SEP/SIMPLE box. The various reason codes are:

The only Code to be used for a distribution from an Ed IRA is the "M" Code.

None of the other codes are used. That is, 1, 2, 3, 4, 5, 7, 8, P.

A, B, C, D, E, F, G, H, I, J, K, L, O, P, or S are not used for distributions from Ed IRAs.

Reporting a Distribution (or a Deemed Distribution) from a Traditional IRA

For distributions from traditional IRAs, the following boxes of the Form will need to be completed as follows:

Box 1. The total amount of the distribution before income tax or other personal deductions were withheld. This will be the gross amount of the distribution—the amount actually received by the IRA accountholder. If the accountholder receives \$1,480 from a withdrawal of \$1,500 because a \$20 interest penalty is assessed, the amount inserted should be \$1,480, the amount received. Box 1 is the net amount after fees and early withdrawal interest penalties.

Box 2a. The amount includable as taxable income. This will always be the same as the amount reported in Box 1 unless the reason code in Box 7 is an 8, P, or 2; then the IRS only wants the related income, if any, inserted in Box 2. The related income is zero if there has been a deemed distribution because a Roth Conversion has occurred.

Box 2b. There are two parts to item 2(b). First, an IRA custodian may now check the first box if it does not know the taxable amount of a distribution. The IRS wants this box checked only as a last resort, if the IRA custodian or trustee has attempted to determine the tax consequences but cannot. The Form W-2P used to have this paragraph, but until 1991 the Form 1099-R did not.

The second box of 2(b) is to be checked if the distribution is a total distribution. The IRS instructions state that this box is to be checked only if the payment shown in Box 1 is a total distribution. A total distribution is one or more distributions within one tax year in which the entire balance of the account is distributed. Any distribution which does not meet this definition is not a total distribution.

The IRS' instructions are unclear as to whether they apply to IRAs. A total distribution has no special tax effect for IRA purposes, but may for distributions from qualified plans.

Thus, it would seem that this box should not have to be checked for IRA distributions, even total IRA distributions. Since the IRS instructions do not state this,

Continued on page 4

we suggest that the IRA custodian or trustee check this box for any total distribution from an IRA until the IRS says otherwise.

Box 3. This box will never be completed for any IRA distribution.

Box 4. This box is used to report the amount of federal income tax withheld. It is important.

Box 5. This box will never be completed for an IRA distribution.

Box 6. This box will never be completed for an IRA distribution.

Box 7. This box is used to indicate the type of distribution being made. This section includes a box that is to be checked if the distribution is from an IRA or SEP, and the appropriate reason code must be inserted. All IRA distributions MUST "x" this IRA/SEP box. The reason codes are as follows:

1 – Early (premature) distribution, no known exception. This is used to report all distributions paid to anyone under age 59 1/2.

2 – Early (premature) distribution, exception applies as defined in code section 72 (q), (t) or (v). For IRA purposes, there are two reasons a Code "2" should be used: there has been a Roth Conversion or the distribution is part of a series of substantially equal periodic payments (not less frequently than annually) made for the life or life expectancy of the accountholder or the joint life expectancy of the accountholder and his designated beneficiary.

3 – Disability. Please be aware, the definition of "disabled" for IRA purposes may be different than that for workman's compensation or other disability payments. Per IRC section 72(m)(7) and IRS Regulation 1.72-17(f), disability for this distribution code means the IRA accountholder is "unable to engage in ANY substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or to be of long-continued or indefinite duration."

4 – Death. Code 4 is used regardless of the age of the accountholder to indicate payment to a beneficiary.

5 – Prohibited Transaction. Code 5 is used if the IRA trustee or custodian or accountholder incurs a prohibited transaction.

6 – Not used for IRA and pension purposes.

7 – Normal. This code is used to report distributions paid to the accountholder who has attained age 59 1/2 or older.

8 – Excess contributions/deferrals refunded plus earnings taxable in the same calendar year.

P – Excess contributions/deferrals refunded plus earnings taxable in the previous calendar year.

A – Not used for traditional IRAs.

B – Not used for traditional IRAs.

C – Not used for traditional IRAs.

D – Not used for traditional IRAs.

E – Not used for traditional IRAs.

F – Not used for traditional IRAs.

G – Used to report a recharacterization

H – Used to report a transfer from a conduit IRA to a Qualified plan.

I – Not used for traditional IRA.

K – Not used for traditional IRA.

M – Not used for traditional IRA.

S – Used to report an early distribution from a Single IRA in first 2 years, no known exception (under age 59 1/2).

Box 8. Other. This box is used to give the accountholder information on distributions not covered by the above.

Box 9. This box is used if a total distribution is split among a number of recipients (i.e. more than one beneficiary). This box is used to enter the percentage this recipient was paid.

Boxes 10 to 15. These boxes do not need to be completed for IRS purposes, but may need to be completed for state and local tax reasons.

Additional Observations

1. IRS Instructions Regarding Use of Code 1 for a Specific Situation. The IRS instructions now make clear that if an IRA accountholder establishes a periodic payment schedule and modifies it before the law permits, then you are to use a Code 1 for the distributions occurring in the year of modification. The IRS' instruction reads:

Note: Even if the employee/taxpayer is 59 1/2 or over, use Code 1 if a series of substantially equal periodic payments was modified within 5 years of the date of the first payment (within the meaning of section 72(q)(3) or (t)(4)). For example, Mr. B began receiving payments that qualified for the exception for part of a series of substantially equal periodic payments under section 72(t)(2)(A)(iv) when he was 57. When he was 61, Mr. B substantially modified the payments. Because the payments were modified within 5 years, use Code 1 in the year the payments were modified, even though Mr. B is over 59 1/2.

1A. Our Comments. This instruction is understandable. If the schedule is imper-

missibly changed, then the Code 2 is not the proper code even if the person is now age 59 1/2 or older. The IRS makes it clear that a Code 1 might be required to be used even if the IRA accountholder is older than age 59 1/2. And this is correct. Note that the IRS does not require any correcting of prior-year forms. Apparently, the IRS will determine that when a "2" is being used and then is changed to a "1" in a subsequent year, that additional taxes will be owing.

2. IRS Instructions for Use of Proper Distribution Codes for Box 7. You are to file only one Form 1099-R from an IRA plan which may be comprised of multiple investments unless you must enter different distribution codes in Box 7. Further, you do not have to file a separate Form 1099-R for each distribution under the plan. File only one Form 1099-R for multiple distributions from an IRA that are paid in one year to one recipient and that all require the same distribution code in Box 7.

You must enter the proper numeric code except when it is required to use the alpha code: H, J, K, M, P or S. When applicable, you may insert both an alpha and a numeric code. And in three situations, you may insert two numeric codes (8/1, 8/2 and 8/4).

2A. Our Comments. The IRS instructions are murky as to whether or not an IRA custodian could prepare a separate Form 1099-R for each distribution. We don't think the IRS wants a separate form for each distribution, but the first sentence above says one thing and the second sentence implies the opposite. We recommend that you prepare just one Form 1099-R per recipient as long as the distribution codes are the same. We also believe the IRS would prefer you to insert two codes when applicable. For example, when using a Code P or 8 for the withdrawal of a current-year excess, you also enter Code 1.

3. IRS Instructions for "Correcting" Erroneous Rollovers. This is new for 1998. This is an important change. The IRS instructions contain the following statement with respect to the Form 1099-R. Be aware that the IRS also has some new instructions with respect to correcting the Form 5498 as to an erroneous rollover. You should review the Form 5498 portion of this article for that discussion.

Corrected Form 1099-R. If you filed a Form 1099-R with the IRS and later discover that there is an error on it, you must correct it as soon as possible. For example, if you transmit a direct rollover and file a

Continued on page 5

Form 1099-R with the IRS reporting that none of the direct rollover is taxable by entering "0" (zero) in Box 2a, and you then discover that part of the direct rollover consists of required minimum distributions under section 401(a)(9), you must file a corrected Form 1099-R. See part I under General Instructions on page 9.

3A. Our Comments. The IRS has finally addressed in their instructions a paying entity's duty to correct a previously issued Form 1099-R when an error has occurred as to the dollar amount eligible to be rolled over. The IRS is saying that the paying entity must correct a previously issued Form 1099-R if it has information to know that part of the funds did not qualify to be rolled over.

The IRS has chosen to discuss only one specific situation—an error occurred with respect to a direct rollover from a qualified plan to an IRA because there was an impermissible rollover of a required minimum distribution. The Form 1099-R which was originally prepared showed a taxable amount as "0" because the distribu-

tion code was a "G." Note that the IRS says it must be corrected, but there is no discussion as to what specific corrections must be made.

Let's assume that the amount of \$26,425 is directly rolled over, but this includes the required minimum distribution amount of \$3,000.

To make the necessary corrections, we believe the following should happen: (1) correct the original Form 1099-R by showing the proper amount in Box 1 (i.e. the amount as reduced by the RMD amount) or \$23,425 and (2) prepare a new Form 1099-R for the RMD amount of \$3,000, and insert the \$3,000 in Boxes 1 and 2a with a distribution Code 7.

Question: In some situations, might an IRA custodian be required to correct a previously issued Form 1099-R because of an error which has occurred with respect to a rollover? Based upon the 1998 IRA instructions, we believe the answer is a definite "yes."

4. IRS Instructions for Withholding. Do not withhold on a distribution from an Education IRA. You must withhold from a distribution from a traditional IRA or Roth IRA unless the recipient instructs

you that he or she does not want withholding. You are allowed to assume that the entire amount of an IRA distribution is taxable, but you may not assume this for the withdrawal of excess contributions. The IRS makes clear that the mandatory withholding rate of 20% does not apply to IRA distributions.

4A. Our Comments. We agree with the IRS. Be aware that the IRS is following the logical approach that withholding applies only if the distribution is taxable. Thus, if you know the distribution is not taxable, then withholding does not apply to that extent. Most likely the IRS simply forgot to include the movement of funds from a conduit IRA to a qualified plan as not being subject to withholding.

5. IRS Instructions for Use of Code S. Use Code S only if the distribution is from a SIMPLE-IRA in the first two years, the person has not yet reached age 59 1/2, and none of the exceptions under section 72(t) are known to apply. The two-year period begins on the day contributions are first deposited in the person's SIMPLE-IRA. Do not use Code S if Code 3 or 4 applies. **B**

IRS Issues 1999 COLAs

IRS Announces Cost-of-Living Adjustments for 1999 The IRS in News Release 98-63 Released its 1999 Adjustments as Follows:

	1997	1998	1999
Taxable Wage Base — OASDA Only	65,400	68,400	72,600
SEP and Qualified Plan			
Maximum Compensation Cap	160,000	160,000	160,000
Elective (Salary) Deferral Limit — 401(k) & SAR-SEP	9,500	10,000	10,000
Highly-Compensated Employees (Compensation as Indexed)			
Compensation in excess of \$75,000	N/A	N/A	N/A
Compensation in excess of \$50,000/Top Paid Group	N/A	N/A	N/A
New Definition as of January 1, 1997	80,000	80,000	80,000
Defined Benefit Limit — Section 415(b)	125,000	130,000	130,000
Defined Contribution Limit — Section 415(c) (The annual defined contribution plan limit is \$30,000 as indexed and will not change until the defined benefit amount exceeds \$120,000.)	30,000	30,000	30,000
SEP Minimum Compensation Threshold	400	400	400
Officer Amount — Top Heavy	62,500	65,000	65,000
Top 10 Owner Group — Top Heavy (Has more than one-half percent and the largest ownership interest and income in excess of \$30,000.)	30,000	30,000	30,000
1% Owner — Top Heavy (Having annual compensation in excess of \$150,000.)	150,000	150,000	150,000
SIMPLE Contribution Limit	6,000	6,000	6,000

IRS Issues the 1998 Form 5329

This form is generally to be completed when a taxpayer must report any additional income tax or excise tax which the taxpayer owes in connection with traditional IRAs, Roth IRAs, Education IRAs, qualified retirement plans, medical savings accounts (MSA), annuities and endowment contracts.

A copy of this form is shown on pages 7 and 8.

The main changes to the form have occurred because it is now used for Roth IRAs and Education IRAs.

1. The 10% additional tax of Code section (72)(t) will apply in some situations to a distribution from a Roth IRA. Part I has been modified to cover this situation.

2. There is a 10% tax if distributions from an Education IRA were not used for qualifying educational expenses. See Part II which is new.

3. A person may make an excess contribution to a Roth IRA and an Education

IRA as well as a traditional IRA. See Parts IV and V.

A taxpayer must file the Form 5329 if any of the following apply. This is true even if the taxpayer would not otherwise have to file a Form 1040. However, if the taxpayer does not owe any special taxes because he or she rolls over the taxable portion of all of his or her distributions received during the year, then the Form 5329 need not be filed. Who must file—

1. The taxpayer owes a tax because he or she received distributions from an Education IRA in excess of amounts spent for educational purposes.

2. The taxpayer owes a tax because of excess contributions to any type of IRA or MSA.

3. The taxpayer owes a tax because he or she failed to receive a required minimum distribution.

4. The taxpayer knows that he or she has met one of the exceptions to the 10%

additional tax even though his or her Form 1099-R does not show a reason code 2, 3 or 4 in Box 7, or he or she knows the code which has been inserted in box 7 is incorrect.

5. The taxpayer knows he or she owes the 10% additional tax even though the Form 1099-R which has been furnished does not show a Code 1 in Box 7. Note, if a taxpayer receives a Form 1099-R with a reason Code 1 in Box 7, he or she is not required to file the Form 5329 with his or her Form 1040 if he or she owes only the 10% additional tax for early distributions. The taxpayer is to fill in the amount owed on line 53 and write "no" on the dotted line next to line 53. **B**

Reporting Ed IRAs—Continued from page 1

address, that is, the address to which you mail the forms or statements, there is no problem. Hopefully, the IRS will clarify their instructions next year.

Set forth on page one is a summary of the requirements and the various deadlines.

The IRS must be sent the required information via the Form 5498 or its magnetic/electronic equivalent. With respect to the IRA account holder (and now designated beneficiary for the Ed IRA), the custodian/trustee may use a combination of a fair market value statement, the Form 5498 and a Substitute Form 5498 Statement.

Since an Education IRA custodian/trustee needs to furnish both fair market value information and contribution information to the designated beneficiary by February 1, 1999, the custodian/trustee may very well wish to furnish in January 1999, the Form 5498 for its Ed IRAs to the designated beneficiary, or furnish a statement which qualifies as a substitute Form 5498 statement. Again, the Form 5498 or a substitute Form 5498 statement must be furnished in January and not in May as is normally done with the traditional IRA or the Roth IRA.

Reminder—Substitute Statements to Ed IRA Recipients

If an IRA custodian/trustee does not use the official IRS reporting form (generally copy B) to furnish statements to participants, then you must be sure your substitute statements comply with rules in Publication 1197, Rules and Specifications for Private Printing of Substitute Forms 1096, 1098, 1099, 5498 and W-2G. Remember that all substitute statements to recipients must contain the tax year, form number and form name prominently displayed together in one area of the statement. For example, they could be shown in the upper right of the statement.

The information which appears on the Copy B which applies to the Ed IRA and which should be on any substitute statement for the form 5498 is:

1. This information is being furnished to the Internal Revenue Service.
2. Box 2. Shows any rollover, including a direct rollover to a traditional IRA.
3. Box 4. Shows the fair market value of your account at year-end.
4. Box 6. May show the kind of IRA reported on this Form 5498. That is, check the box indicating it is an Ed IRA.

5. Box 10. Shows education IRA (Ed IRA) contributions made in 1998 on your behalf. Do not deduct on your income tax return. If the total of all contributions made to all of your Ed IRAs this year exceeded \$500, you should withdraw the excess plus the earnings, generally by April 15, or you may owe a penalty. You must keep track of your IRA basis (contributions and distributions). See Pub. 590.

Noncompliance Penalties. An IRA custodian/trustee should be aware that the penalties under Code sections 6721 and 6722 do not apply to the preparation of Form 5498 and Form 1099-R for Ed IRA transactions. Code section 6693 provides the governing rules. The penalty for failure to timely file is \$50 per account with no maximum unless the failure is due to reasonable cause. **B**

Form

5329Department of the Treasury
Internal Revenue Service**Additional Taxes Attributable to IRAs, Other
Qualified Retirement Plans, Annuities, Modified
Endowment Contracts, and MSAs**

(Under Sections 72, 530, 4973, and 4974 of the Internal Revenue Code)

▶ Attach to Form 1040. See separate instructions.

OMB No. 1545-0203

1998Attachment
Sequence No. **29**

Name of individual subject to additional tax. (If married filing jointly, see page 2 of the instructions.)

Your social security number

**Fill in Your Address Only
If You Are Filing This
Form by Itself and Not
With Your Tax Return**

Home address (number and street), or P.O. box if mail is not delivered to your home

Apt. no.

City, town or post office, state, and ZIP code

If this is an amended
return, check here ▶ ☐

If you are subject to the 10% tax on early distributions **only**, see **Who Must File** in the instructions before continuing. You may be able to report this tax directly on Form 1040 without filing Form 5329.

Part I Tax on Early Distributions

Complete this part if a taxable distribution was made from your qualified retirement plan (including an IRA other than an education (Ed) IRA), annuity contract, or modified endowment contract before you reached age 59½ (or was incorrectly indicated as such on your Form 1099-R—see instructions). **Note:** You must include the amount of the distribution on line 15b or 16b of Form 1040.

1	Early distributions included in gross income (see page 3 of the instructions)	1		
2	Distributions excepted from additional tax (see page 3 of the instructions). Enter appropriate exception number from instructions ▶	2		
3	Amount subject to additional tax. Subtract line 2 from line 1	3		
4	Tax due. Multiply line 3 by 10% (.10). Enter here and on Form 1040, line 53.	4		

Caution: If any amount on line 3 was a distribution from a SIMPLE retirement plan, you must multiply that distribution by 25% (.25) instead of 10%. See instructions for more information.

Part II Tax on Distributions From Ed IRAs Not Used for Educational Expenses

Complete this part if a distribution was made from your Ed IRA and was not used for educational expenses.

Note: You must include the amount of the distribution on line 15b of Form 1040.

5	Taxable amount from line 29 of Form 8606	5		
6	Distributions excepted from additional tax (see page 4 of the instructions)	6		
7	Amount subject to additional tax. Subtract line 6 from line 5	7		
8	Tax due. Multiply line 7 by 10% (.10). Enter here and on Form 1040, line 53.	8		

Part III Tax on Excess Contributions to Traditional IRAs

Complete this part if, either in this year or in earlier years, you contributed more to your traditional IRAs than is or was allowable and you have an excess contribution subject to tax.

9	Excess contributions for 1998 (see page 4 of the instructions). Do not include this amount on Form 1040, line 23	9		
10	Earlier year excess contributions not previously eliminated (see page 4 of the instructions)	10		
11	Contribution credit. If your actual contribution for 1998 is less than your maximum allowable contribution, see page 4 of the instructions; otherwise, enter -0-	11		
12	1998 distributions from your traditional IRA accounts that are includible in taxable income	12		
13	1997 tax year excess contributions (if any) withdrawn after the due date (including extensions) of your 1997 income tax return, and 1996 and earlier tax year excess contributions withdrawn in 1998	13		
14	Add lines 11, 12, and 13	14		
15	Adjusted earlier year excess contributions. Subtract line 14 from line 10. Enter the result, but not less than zero	15		
16	Total excess contributions. Add lines 9 and 15	16		
17	Tax due. Enter the smaller of 6% (.06) of line 16 or 6% (.06) of the value of your traditional IRAs on the last day of 1998. Also enter this amount on Form 1040, line 53.	17		

Part IV Tax on Excess Contributions to Roth IRAs

18	Excess contributions for 1998 (see page 5 of the instructions)	18		
19	Tax due. Enter the smaller of 6% (.06) of line 18 or 6% (.06) of the value of your Roth IRAs on the last day of 1998. Also enter this amount on Form 1040, line 53.	19		

For Paperwork Reduction Act Notice, see page 6 of separate instructions.

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Part V Tax on Excess Contributions to Ed IRAs

- 20** Excess contributions for 1998 (see page 5 of the instructions). **20**
- 21 Tax due.** Enter the **smaller** of 6% (.06) of line 20 or 6% (.06) of the value of your Ed IRAs on the last day of 1998. Also enter this amount on Form 1040, line 53. **21**

Part VI Tax on Excess Contributions to Medical Savings Accounts (MSAs)

Complete this part if, either in 1998 or 1997, you or your employer contributed more to your MSAs than is or was allowable and you have an excess contribution subject to tax.

- 22** Excess contributions for 1998 (see page 5 of the instructions). Do not include this amount on Form 1040, line 25 **22**
- 23** 1997 excess contributions not previously eliminated (see page 5 of the instructions) **23**
- 24** Contribution credit. If your actual contribution for 1998 is less than your maximum allowable contribution, see page 6 of the instructions; otherwise, enter -0- **24**
- 25** 1998 distributions from your MSA account(s) that are includible in taxable income **25**
- 26** 1997 tax year excess contributions (if any) withdrawn in 1998 after the due date (including extensions) of your 1997 income tax return **26**
- 27** Add lines 24, 25, and 26 **27**
- 28** Adjusted 1997 excess contributions. Subtract line 27 from line 23. Enter the result, but not less than zero **28**
- 29** Total excess contributions. Add lines 22 and 28 **29**
- 30 Tax due.** Enter the **smaller** of 6% (.06) of line 29 or 6% (.06) of the value of your MSAs on the last day of 1998. Also enter this amount on Form 1040, line 53 **30**

Part VII Tax on Excess Accumulation in Qualified Retirement Plans

Complete this part if you did not receive the minimum required distribution from your qualified retirement plan (including an IRA other than an Ed IRA or Roth IRA).

- 31** Minimum required distribution (see page 6 of the instructions) **31**
- 32** Amount actually distributed to you **32**
- 33** Subtract line 32 from line 31. If line 32 is more than line 31, enter -0- **33**
- 34 Tax due.** Multiply line 33 by 50% (.50). Enter here and on Form 1040, line 53 **34**

Signature. Complete **ONLY** if you are filing this form by itself and not with your tax return.

Please Sign Here Under penalties of perjury, I declare that I have examined this form, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.

Paid Preparer's Use Only	Preparer's signature	Date	Check if self-employed <input type="checkbox"/>	Preparer's social security no.
	Firm's name (for yours, if self-employed) and address	EIN	ZIP code	

