THE Pension Digest

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ALSO IN THIS ISSUE –

REPORTING FOR 1999 AND 2000 BY AN IRA CUSTODIAN/TRUSTEE FOR RECHARACTERIZATIONS – Standard Procedures and Alternative Methods

IRS Notice 98-49 sets forth the general rule for reporting the recharacterization of a contribution amount from one type of IRA to another type of IRA. This Notice 98-49 was discussed in the September 1998 newsletter. The general rule which an IRA custodian must follow is to report recharacterizations occurring in 1999 and subsequent years in accordance with the then current IRS' instructions for the 1099-R and 5498 forms.

What do the 1999 instructions say?

Remember that there are two parts to a recharacterization—there is a deemed distribution from the first IRA which received the original contribution which needs to be reported on a Form 1099-R and there is a deemed contribution to the second IRA which needs to be reported on a Form 5498.

The Deemed Distribution—Standard Procedure

A recharacterization which occurs in 1999 will be reported as a distribution on the 1999 Form 1099-R showing a Code R in box 7, the reason code box. The amount to be entered in box 1, the gross amount, is to be the original contribution amount plus the related earnings. The amount to be entered in box 2a, taxable amount, is to be $0.00.

The Deemed Contribution—Standard Procedure

A recharacterization which occurs in 1999 will be reported on the 1999 Form 5498 as follows: (1) the IRA custodian or trustee is to check the recharacterization box located in box 6 and also check the box which identifies the type of IRA involved (traditional or Roth); and (2) the IRA custodian/trustee will prepare one Form 5498 to report the recharacterization and a second or different Form 5498 to report the other reportable contributions (i.e. any regular contributions, other "true" rollovers and the fair market value of the IRA which received the recharacterized contribution. If there are no other reportable contributions or rollovers, then there only needs to be one Form 5498 prepared.

Alternative Procedure(s)

The IRS has authorized a custodian/trustee to use, in limited situations, an alternative reporting method for recharacterizations and reconversions. This was authorized in Announcement 99-5 and it applied for tax years 1998 and 1999. The IRS has recently extended this treatment to tax year 2000 via Announcement 99-106. The rules can be summarized as follows:

Note: If there are one or more recharacterizations and reconversions in 1999 with the same trustee, the trustee may report the results of the recharacterizations and reconversions on Forms 1099-R and 5498 using a reasonable alternative method. If you use an alternative method to report, in addition to Forms 1099-R and 5498, you must provide the IRA owner with instructions about how to use the information shown on the forms to properly report the recharacterizations and reconversions on Form 1040. The instructions must include how to use the information to properly complete Forms 8606 and 5329. If trustees use different employer identification numbers to file Forms 1099-R and 5498, they are not the same trustee. See Announcement 99-5, 1999-3 I.R.B. 16, for more information.

If there are no other contributions or rollovers to the second IRA, you may report the fair market value of the account and a recharacterization of an IRA contribution on the same Form 5498.

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Reporting,
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Otherwise, you must report the recharacterization on a separate Form 5498. See Notice 98-49, 1998-38 I.R.B. 5.

Example of Reporting Duties. To illustrate the above rules, we will assume Mary Janachowski, age 43, had a traditional IRA with a balance of $20,000 on 1-1-98, with First IRA custodian. She converted $14,000 of this IRA to a Roth IRA on 12-10-98, with First IRA custodian. The fair market value of the traditional IRA as of 12-31-98, was $6,400. The fair market value of the Roth IRA as of 12-31-98, was $14,300. She chose to establish a traditional IRA with Second IRA custodian on 1-5-99, by rolling over the $6,400 of traditional IRA funds which she withdrew from the First IRA Custodian. She also chose to establish a Roth IRA with the Second IRA custodian on 1-5-99, by rolling over the $14,300 of Roth IRA funds (which she had withdrawn from First IRA Custodian).

She also made a $2,000 contribution to the traditional IRA with the Second IRA Custodian on 3-10-99. On 4-10-99, she recharacterized this contribution (plus earnings of $10, or $2,010) to be a Roth IRA contribution with the Second IRA custodian. The funds were added to the same Roth IRA which had received the rollover contribution.

The fair market value of the Roth IRA as of 12-31-99, with the Second IRA custodian, is $17,263. The fair market value of the traditional IRA as of 12-31-99, with Second IRA Custodian, is $6,996.

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What reporting forms must the First IRA Custodian prepare for 1999?

Note: there is no discussion of the reporting forms for 1998. There needs to be a 1999 Form 1099-R for each of the distributions which Mary J. received, even though she rolled them over. The forms should be completed as follows:

Rollover from the Traditional IRA

9898 ☐ VOID ☐ CORRECTED

PAYER'S name, street address, city, state, and ZIP code First IRA Custodian	1 Gross distribution $ 6400.00 2a Taxable amount $ 6400.00	OMB No. 1545-0119 1999 Form 1099-R	Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.
	2b Taxable amount not determined ☐	Total distribution ☐	Copy A For Internal Revenue Service Center
PAYER'S Federal identification number 32-2222233 / RECIPIENT'S identification number 44-22-5555	3 Capital gain (included in box 2a) $	4 Federal income tax withheld $	File with Form 1096.
RECIPIENT'S name Mary Janachowski	5 Employee contributions or insurance premiums $	6 Net unrealized appreciation in employer's securities $	For Privacy Act and Paperwork Reduction Act Notice and instructions for completing this form, see the 1999 Instructions for Forms 1099, 1098, 5498, and W-2G.
Street address (including apt. no.)	7 Distribution code 1 / IRA/SEP/SIMPLE ☒	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. 14436Q Department of the Treasury - Internal Revenue Service

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Rollover from the Roth IRA

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PAYER'S name, street address, city, state, and ZIP code First IRA Custodian	1 Gross distribution $ 14300.00 2a Taxable amount $	OMB No. 1545-0119 1999 Form 1099-R	Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.
	2b Taxable amount not determined ☐	Total distribution ☐	Copy A For Internal Revenue Service Center
PAYER'S Federal identification number 32-2222233 / RECIPIENT'S identification number 44-22-5555	3 Capital gain (included in box 2a) $	4 Federal income tax withheld $	File with Form 1096.
RECIPIENT'S name Mary Janachowski	5 Employee contributions or insurance premiums $	6 Net unrealized appreciation in employer's securities $	For Privacy Act and Paperwork Reduction Act Notice and instructions for completing this form, see the 1999 Instructions for Forms 1099, 1098, 5498, and W-2G.
Street address (including apt. no.)	7 Distribution code J1 / IRA/SEP/SIMPLE ☐	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. 14436Q Department of the Treasury - Internal Revenue Service

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The First IRA Custodian does not need to generate a 1999 Form 5498 because there have not been any reportable contributions; also, the IRA has been closed, so there will not be any fair market value as of 12-31-99.

What reporting forms must the Second IRA Custodian prepare for 1999?

1. In order to report the recharacterization of the $2,000 contribution initially made to the traditional IRA, a 1999 Form 1099-R will need to be completed as follows. Note, it is not necessary to mark the IRA/SEP/SIMPLE checkbox. The reason code to be used will be an "R" for recharacterization.

9898 ☐ VOID ☐ CORRECTED

PAYER'S name, street address, city, state, and ZIP code **Second IRA Custodian**	1 Gross distribution $ 2010.00 2a Taxable amount $ 0.00	OMB No. 1545-0119 **1999** Form **1099-R**	**Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.**
	2b Taxable amount not determined ☐	Total distribution ☐	**Copy A For Internal Revenue Service Center**
PAYER'S Federal identification number **42-1234567** / RECIPIENT'S identification number **444-22-5555**	3 Capital gain (included in box 2a) $	4 Federal income tax withheld $ 0.00	**File with Form 1096.**
RECIPIENT'S name **Mary Janachowski**	5 Employee contributions or insurance premiums $	6 Net unrealized appreciation in employer's securities $	For Privacy Act and Paperwork Reduction Act Notice, see the **2000 General Instructions for Forms 1099, 1098, 5498, and W-2G.**
Street address (including apt. no.)	7 Distribution code **R** / IRA/ SEP/ SIMPLE ☐	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. 14436Q Department of the Treasury - Internal Revenue Service

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2. There will need to be one 1999 Form 5498 to report the recharacterization to the Roth IRA of the $2,000 contribution plus the earnings of $10. This 1999 Form 5498 will be completed as follows:

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TRUSTEE'S or ISSUER'S name, street address, city, state, and ZIP code **Second IRA Custodian**	1 IRA contributions (other than amounts in boxes 2, 3, and 7–10) $ 2 Rollover contributions $ 2010.00	OMB No. 1545-0747 **1999** Form **5498**	**IRA Contribution Information**
TRUSTEE'S or ISSUER'S Federal identification no. **42-1234567** / PARTICIPANT'S social security number **444-22-5555**	3 Roth conversion amount $		**Copy A For Internal Revenue Service Center File with Form 1096.**
PARTICIPANT'S name **Mary Janachowski**	4 Fair market value of account $	5 Life insurance cost included in box 1 $	For Privacy Act and Paperwork Reduction Act Notice and instructions for completing this form, see the **1999 Instructions for Forms 1099, 1098, 5498, and W-2G.**
Street address (including apt. no.)	6 IRA ☐ SEP ☐ SIMPLE ☐ Roth IRA ☒	Rechar. ☒ Ed IRA ☐	
City, state, and ZIP code	7 SEP contributions $	8 SIMPLE contributions $	
Account number (optional)	9 Roth IRA contributions $	10 Ed IRA contributions $	

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

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3. There will also need to be one 1999 Form 5498 to report the "regular" rollover of $14,300 and the fair market value of $17,263 as of 12-31-99. This 1999 Form 5498 will be completed as follows:

2828 ☐ VOID ☐ CORRECTED

TRUSTEE'S or ISSUER'S name, street address, city, state, and ZIP code **Second IRA Custodian**	1 IRA contributions (other than amounts in boxes 2, 3, and 7–10) $ 2 Rollover contributions $ 14300.00	OMB No. 1545-0747 **1999** Form **5498**	**IRA Contribution Information**
TRUSTEE'S or ISSUER'S Federal identification no. **42-1234567** / PARTICIPANT'S social security number **444-22-5555**	3 Roth conversion amount $		**Copy A For Internal Revenue Service Center File with Form 1096.**
PARTICIPANT'S name **Mary Janachowski**	4 Fair market value of account $ 17263.00	5 Life insurance cost included in box 1 $	For Privacy Act and Paperwork Reduction Act Notice and instructions for completing this form, see the **1999 Instructions for Forms 1099, 1098, 5498, and W-2G.**
Street address (including apt. no.)	6 IRA ☐ SEP ☐ SIMPLE ☐ Roth IRA ☒	Rechar. ☐ Ed IRA ☐	
City, state, and ZIP code	7 SEP contributions $	8 SIMPLE contributions $	
Account number (optional)	9 Roth IRA contributions $	10 Ed IRA contributions $	

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

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Will different reporting rules for recharacterizations apply for 2000 than for 1999?

No, the rules as written in December of 1999 for 2000 are the same.

The IRS said in Announcement 99-106 that sometime in the future they will be releasing the rules for reporting recharacterizations and reconversions for years 2001 and subsequent years.

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DEAR TAXPAYER

In late November, the IRS mailed out Notice Number 1240 to certain taxpayers who the IRS identified as having converted a traditional IRA to a Roth IRA and who the IRS believes did not qualify. A taxpayer was and is ineligible if he or she has too much income (more than $100,000) or if he or she files a separate income tax return, if married.

A copy of Notice 1240 is set forth at on page 5 of this Newsletter. Note the letter is dated 11-29-99, and the recharacterization deadline is December 31, 1999.

Immediately following is a letter we wrote to an IRA custodian who had had an IRA accountholder/taxpayer receive the Notice 1240 and who did not think she should have because she filed the necessary recharacterization documentation at the time she filed her original 1998 income tax return.

This article has been written to illustrate two points. First, the IRS makes mistakes from time to time like everyone else. Second, in most tax situations, including IRAs, it is the taxpayer who has the primary responsibility to explain to the IRS the tax consequences of an IRA transaction. ◆

CWF's Letter to the IRA Custodian

You called to discuss the following situation of an IRA accountholder. She had converted her traditional IRA to a Roth IRA in 1998 and then had recharacterized this contribution in March of 1999. She filed her 1998 tax return after she accomplished the recharacterization. She believed she had informed the IRS of this recharacterization by completing and filing the 1998 Form 8606 and an explanation along with her 1998 federal income tax return. Recently, the IRS sent her Notice Number 1240 informing her that she may not have been eligible for the conversion and instructing her what she needed to do to "correct" things (i.e. she must recharacterize the conversion contribution). She is concerned because she does not understand why the IRS sent her Notice Number 1240 since she recharacterized this conversion contribution in early 1999. She is wondering if the bank has not done everything it should have done. I asked you to fax me a copy of the IRS letter. You also faxed me a copy of the letter which she had sent the bank.

Your accountholder is Jane Doe. You may certainly furnish her a copy of this letter.

I called the IRS general information number (1-800-829-1040). The IRS representative I talked with was not as knowledgeable about the subject matter as I hoped. He did admit that the IRS had made some errors in generating the Notice #1240. He gave no further explanation.

I tried to find out what parameters the IRS used to generate the Notice #1240. Did they use conversion and adjusted gross income data without determining if a Form 8606 had been filed to recharacterize the conversion? That is, the IRS did not look to see if the conversion had already been corrected. Or, did the IRS look to see if a Form 8606 had been filed by a person who appeared to be ineligible for the conversion and if one was not filed, then the Notice was sent? This would mean the IRS might have lost or misplaced the Form 8606 which Jane Doe filed.

Hopefully the IRS has not adopted the procedural approach that a recharacterization must be reported on the Form 1040X (for amendments) and not on the original Form 1040.

Again, the IRS agent did not give a clear explanation of what parameters were used to generate the Notice, or of those taxpayers who were sent this notice in error.

Ms. Doe is doing exactly what I would recommend she do. She has already written a letter to the IRS explaining she has already completed the recharacterization and that the IRS was furnished evidence of this when she filed her original 1998 return. She is furnishing an exact copy of what she filed for 1998, and this includes the required recharacterization documentation. She has asked the IRS to provide her written confirmation of her response. I do suggest that Ms. Doe mail her response to the IRS so that they must acknowledge in writing that they received her mailed response (certified, return receipt).

Ms. Doe has asked your institution, as the IRA custodian, to "follow through" on reporting to the IRS her recharacterization and to forward her copies. I believe you have done everything you can do under the existing IRS procedures. I also admit the IRS needs to improve these procedures as they fail to take into account the "prior year" aspect of recharacterizations.

The IRS has a call site to answer questions about how various IRS reporting forms are to be completed. The telephone number is 304-263-8700. I called this number and asked the IRS representative the following question, "Is it correct that an IRA custodian will prepare a 1999 1099-R Form and a 1999 Form 5498 to report a recharacterization which occurs in 1999 with respect to a 1998 contribution?"

The answer the IRS representative gave me was "yes." As you know, the deadline for the bank to furnish the Form 1099-R to the IRS is still 2 1/2 months away (February 29, 2000) and the deadline for the bank to furnish the Form 5498 information to the IRS is still more than 5 1/2 months away (May 31, 2000). The IRS has not given any guidance that they want an IRA custodian to furnish the forms which report recharacterizations before they furnish the forms which report the other transactions.

In summary, I believe Ms. Doe and your institution as the IRA custodian have taken the steps necessary so that Ms. Doe will not have any adverse tax consequences from her 1998 conversion/1999 recharacterization for 1998 transactions.

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IRS Letter to Taxpayer

Department of the Treasury
Internal Revenue Service
Philadelphia, PA 19255

Notice Date:	November 29, 1999
Notice Number:	1240
Form Number:	1040
Tax Period	199812
Taxpayer Identifying Number:	123-45-6789

JANE DOE
1234 SOUTH STREET
KANSAS CITY, MO 65656

Dear Taxpayer:

The information submitted on your 1998 tax return indicated that you made a conversion contribution to a Roth IRA when you may not have been eligible to do so. A person is eligible to make a conversion contribution only if his or her modified adjusted gross income for the year is not more than $100,000 (on a combined basis, if married) and if the person files a joint return, if married. A person who files a separate return and has lived apart from his or her spouse for the entire year is considered not married, for purposes of this rule.

If you were ineligible to make a conversion contribution to a Roth IRA for 1998 because your filing status was "married filing separately," you can avoid adverse tax consequences by filing a Form 1040X for 1998 to change your filing status to "married filing jointly." However, your joint modified adjusted gross income must not exceed $100,000.

If you do not choose to change your filing status or your modified adjusted gross income exceeded $100,000, you must "recharacterize" the conversion contribution to a traditional IRA in order to avoid adverse tax consequence.

To "recharacterize" your conversion contribution, you must (1) notify the trustee of your Roth IRA that you want to recharacterize the conversion contribution and (2) provide the trustee with sufficient information. The trustee must (3) transfer the conversion contribution plus attributable earnings to a traditional IRA. <u>The recharacterization must occur on or before December 31, 1999.</u>

<u>When you have recharacterized the conversion contribution, you will need to file a Form 1040X and a Form 8606 for 1998.</u> On your Form 1040X, you will need to remove the income resulting from the conversion that originally was included in your gross income and recalculate your tax. The Form 8606 must be completed following the instructions for recharacterizing a conversion.

If you do not recharacterize a conversion contribution for which you were not eligible, you will be subject to the following tax consequences:

- A 10-percent additional tax may apply to the conversion amount.
- The entire taxable conversion amount must be included in 1998 income.
- A 6-percent excise tax per year will apply to any excess contribution not withdrawn from the Roth IRA.

We have enclosed a Form 1040X and Form 8606 and instructions for your use.

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Summary. The reporting rules for recharacterizations are only complicated when the IRA custodian/trustee is required to prepare two Form 5498s for the same IRA. Two Form 5498s must be prepared when there have been reportable annual or rollover contributions to the Second IRA receiving the recharacterized contribution in addition to the recharacterized contribution. That is, it is permissible to prepare just one Form 5498 to report the recharacterization and the fair market value of the IRA as long as there have been no other reportable contributions. ◆

IRS GRANTS ANOTHER SPECIAL EXTENSION FOR RECHARACTERIZING 1998 IRA CONTRIBUTIONS—DECEMBER 31, 1999

The deadline for recharacterizing 1998 IRA contributions is now December 31, 1999. The IRS had first granted a special extension to October 15, 1999, in Announcement 99-57 as issued in June of 1999.

Now, in Announcement 99-104, the IRS has chosen to grant one more extension until December 31, 1999. The reason given, "It has come to the attention of the Internal Revenue Service and Treasury that taxpayers have experienced particular difficulty in properly applying the rules governing Roth IRA conversion contributions and recharacterizations. In view of the tax consequences of excess IRA contributions, the Service and the Treasury believe the additional time should be provided for taxpayers who made 1998 Roth IRA conversion contributions or other 1998 IRA contributions and who would like to recharacterize these contributions."

Therefore the IRS has adopted this extension—a taxpayer will be deemed to have made an otherwise valid recharacterization of a 1998 IRA contribution, including a Roth IRA conversion for which the taxpayer was not eligible, if (1) the recharacterization occurs on or before December 31, 1999, (2) the taxpayer timely filed his or her 1998 federal income tax return, and (3) the taxpayer files an amended 1998 return if the recharacterization was not properly reflected on the previously filed return. ◆

REMINDER—1999 IS LAST YEAR FOR FIVE-YEAR AVERAGING

The Small Business Jobs Protection Act of 1996 repealed five-year averaging effective for ALL distributions occurring after December 31, 1999. 1999 is the last year ANY taxpayer/QP participant will be eligible to elect to use the five-year averaging rule. This includes those taxpayers/QP participants who were grandfathered with respect to ten-year averaging. Since 1986, a qualifying QP participant/taxpayer (one who was age 50 as of 1-1-86) has had the flexibility to elect to use either ten-year averaging or five-year averaging. The concept was—the taxpayer would elect to use whichever method would result in the lowest amount of federal income taxes to be paid. Note that being age 50 as of 1-1-86, means the person was born on or before 1-1-36.

You may want to notify your qualified plan customers or clients of the fact that five-year averaging will no longer be available after 12-31-99. You may furnish a copy of this article to them.

The right to elect to use five-year averaging was created by the Tax Reform Act of 1986. Five-year averaging was created by Congress and the tax attorney's advising Congress, because five-year averaging was viewed as being better than ten-year averaging for the reasons discussed below.

In order to be eligible for five-year averaging, a number of requirements must be met. In general, a participant of a qualified plan must be at least age 59 1/2 or older at the time of the distribution and must receive a lump-sum distribution. A person is limited to using a special averaging treatment only one time after 12-31-86. Five-year averaging has been available to those taxpayers born before 1936 and those born in 1936 or thereafter.

Congress, in 1986, was not ready to totally repeal ten-year averaging. They didn't want to bear the brunt of a taxpayer revolt as had been experienced in 1984 and 1985 with respect to certain changes in the social security program and withholding rules. Congress chose to do a partial repeal and to create two classes of taxpayers. The Tax Reform Act of 1986 repealed ten-year averaging (and a special capital gains treatment) for all taxpayers/QP participants who were not age 50 as of January 1, 1986. This class of taxpayers no longer could use 10-year averaging. In contrast, the class of taxpayers who were age 50 or older as of 1-1-86 were grandfathered and they continued to be eligible to elect ten-year averaging.

For some time, the tax experts who advise the tax committees of Congress have disliked any type of averaging concept with respect to lump-sum distributions from qualified pension plans. They have stated at least two reasons for their dislike.

The first reason was they thought the taxpayer was getting too good a deal (i.e. not paying as much in taxes as they should). Here is a simplified illustration of the tax effect of being able to elect ten-year averaging. A taxpayer receives a distribution of $150,000 from his or her pension plan. Without ten-year averaging, the taxpayer would add the $150,000 to his or her other income and have it taxed at the assumed marginal rate of 36%. Thus, $55,000 ($150,000 times 36%) would be paid with respect to the $150,000 distribution. With ten-year averaging, the taxpayer determines the tax amount owing with respect to the

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Five-Year Averaging, Continued from page 6

$150,000 as follows. He or she divides the $150,000 by 10, and then the tax rate and tax amount for the amount of $15,000 is determined. The tax rate to be used is the tax rate that existed in 1986. The tax rate on $15,000 in 1986 was 12%. $15,000 times 12% means the tax amount is $1,800. This $1,800 is then multiplied by 10, so the total amount owing is $18,000. By being able to use ten-year averaging, the person pays $37,000 ($55,000 -$18,000) less in federal income taxes. The concept for five-year averaging is the same except the tax rate to be used is the tax rate for the year of distribution and the "spread" is only five years and not ten. The fact that only five years is used and not ten has the practical consequence that the person may be in a higher marginal income tax bracket and thus more tax would be paid. Regardless of the fact that these funds had been accumulated for the important public policy of providing for retirement, the tax advisors did not like the relatively low rate of taxes being paid by these taxpayers.

The second reason was that the tax advisors viewed lump-sum distributions as contradicting the basic purpose of pension plans. They believed there was a good likelihood that people who received a lump-sum distribution would not retain the funds for retirement. They preferred to require the taxpayer to take periodic distributions from an IRA. These tax advisors understand well that if the averaging treatment is not available, then most individuals will be strongly induced (i.e. forced) by the higher marginal tax rates into rolling over his or her account balance to an IRA and then taking periodic/partial distributions from the IRA.

In summary, in 1996, Congress took one more step in restricting the use of any special averaging rules for lump-sum pension distributions. They repealed the right to use five-year averaging for all distributions occurring after 12-31-99. This means those people who were not age 50 as of 1-1-86 (not age 64 as of 1-1-2000) no longer will have any averaging rights. Those people who were age 50 as of 1-1-86 (age 64 or older as of 1-1-2000) will continue to be able to elect to use ten-year averaging if they meet the other requirements. Congress has chosen to continue to give special treatment to those people who were age 50 on 1-1-86.

All QP participants who are eligible to elect to use five-year averaging in 1999 will want to seriously consider, between now and December 31, 1999, whether or not they will elect to use five-year averaging in 1999. It will be too late to elect five-year averaging after December 31, 1999. One should not expect the IRS to grant any special relief if this deadline is missed. ◆

IRS Issues 2000 COLAs

IRS Announces Cost-of-Living Adjustments for 2000
The IRS in News Release No. IR-1999-80 Released its 2000 Adjustments as Follows:

	1998	1999	2000
Taxable Wage Base — OASDA Only	68,400	72,600	76,200
SEP and Qualified Plan			
Maximum Compensation Cap	160,000	160,000	170,000
Elective (Salary) Deferral Limit – 401(k) & SAR-SEP	10,000	10,000	10,500
SIMPLE Contribution Limit	6,000	6,000	6,000
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	85,000
Defined Benefit Limit — Section 415(b)	130,000	130,000	135,000
Defined Contribution Limit — Section 415(c)	30,000	30,000	30,000
SEP Minimum Compensation Threshold	400	400	450
Officer Amount — Top Heavy	65,000	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

2000 FORM 5498

The IRS has issued the 2000 version of Form 5498. The form and the IRS' instructions to the IRA participant, and the IRS' instructions to the IRA custodian/trustee are set forth below.

Changes in the Form

Other than changing 1999 to 2000, there were no other changes.

Completion of Form

The completion of the form is the same as the 1999 form. The type of IRA is indicated in box 6, and the information regarding the IRA is furnished in the other boxes.

For a traditional IRA, the boxes that need to be completed, if applicable, are 1, 2, 4, and 6.

For a SEP-IRA, the boxes that need to be completed, if applicable, are 1, 2, 4, 6, and 7. Keep in mind that a SEP participant may make his or her traditional IRA contribution to the same SEP-IRA that receives "employer" contributions.

For a SIMPLE-IRA, the boxes that need to be completed, if applicable, are 2, 4, 6, and 8.

For a Roth IRA, the boxes that need to be completed, if applicable, are 3, 4, 6, and 9.

For an Education IRA, the boxes that need to be completed, if applicable, are 2, 4, 6, and 10.

Deadlines

- January 31, 2001 – Furnish the fair market value to participants in all types of IRAs.
- January 31, 2001 – Furnish 5498 to beneficiaries and responsible parties of Education IRAs.
- April 16, 2001 – Contribution deadline for regular traditional and Roth IRA contributions, since April 15, 2001 is a Sunday.
- May 31, 2001 – Furnish 5498 to accountholders of all IRAs except the Education IRA.
- May 31, 2001 – IRS deadline for 5498s for all types of IRAs. ◆

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, 3, and 7-10) $ 2 Rollover contributions $	OMB No. 1545-0747 **2000** Form **5498**
TRUSTEE'S or ISSUER'S Federal identification no.	PARTICIPANT'S social security number	3 Roth conversion amount $	
PARTICIPANT'S name		4 Fair market value of account $	5 Life insurance cost included in box 1 $
Street address (including apt. no.)		6 IRA ☐ SEP ☐ SIMPLE ☐ Roth IRA ☐ Rechar. ☐ Ed IRA ☐	
City, state, and ZIP code		7 SEP contributions $	8 SIMPLE contributions $
Account number (optional)		9 Roth IRA contributions $	10 Ed IRA contributions $

IRA Contribution Information

Copy A For Internal Revenue Service Center
File with Form 1096.
For Privacy Act and Paperwork Reduction Act Notice, see the **2000 General Instructions for Forms 1099, 1098, 5498, and W-2G.**

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

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Instructions to Participant

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 and the fair market value of the account. For information about IRAs, see **Pub. 590,** Individual Retirement Arrangements (IRAs), and **Pub. 560,** Retirement Plans for Small Business.

Reminder: *If you converted from a traditional IRA, SEP, or SIMPLE to a Roth IRA in 1998 and you elected to spread the taxable income over 4 years, you must include one-fourth of the taxable amount converted in your income in 2000. See your Form 1040 instructions.*

Box 1. Shows traditional IRA contributions for 2000 you made in 2000 and through April 16, 2001. 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, 3, and 7-10.

Box 2. Shows any rollover, including a direct rollover to a traditional IRA, you made in 2000. It also shows amounts recharacterized from one type of IRA to another. However, it does not show any amounts you converted from your traditional IRA, simplified employee pension (SEP), or savings incentive match plan for employees (SIMPLE) 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 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, or SIMPLE to a Roth IRA in 2000. Use Form 8606 to figure the taxable amount.

Box 4. Shows the fair market value of your account at year end.

Box 5. 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 6. May show the kind of IRA reported on this Form 5498. If "Rechar." is checked, the contribution is a recharacterization of a prior contribution from one type of IRA to another.

Box 7. Shows simplified employee pension (SEP) contributions made in 2000, including contributions made in 2000 for 1999, but not including contributions made in 2001 for 2000. 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 8. Shows savings incentive match plan for employees (SIMPLE) contributions made in 2000. 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 Roth IRA contributions you made in 2000 and through April 16, 2001. **Do not** deduct on your income tax return.

Box 10. Shows education IRA (Ed IRA) contributions made in 2000 on your behalf. **Do not** deduct on your income tax return. If the total of all contributions made to all your Ed IRAs this year exceeded $500, you should withdraw the excess, plus earnings, generally by April 16, or you may owe a penalty. You must keep track of your Ed IRA basis (contributions and distributions). See Pub. 590.