



THE Pension Digest

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ALSO IN THIS ISSUE –

Planning Options for
IRAs
Page 2

6-Step RMD Method
Page 6

Completing Form 945
Page 8

Legislative Update

The tax bill containing IRA and other pension law changes is no longer close to being enacted into law. The current political war is too heated.

Presumably, the 2001 Congress and the new president will give serious consideration to some type of tax bill in the first quarter of 2001. ♦

Prior-Year SEP and SIMPLE Contributions

Contrary to information we have been hearing during consulting calls, employer SEP and SIMPLE contributions **CAN BE MADE FOR A PRIOR TAX YEAR**. Employers are allowed to contribute and deduct valid contributions up until the due date of the business tax return, including all valid extensions received for the business tax return.

The apparent confusion lies in how the employer contributions are reported by the IRA custodian/trustee. Since 1997, the SEP and SIMPLE contributions have been reported by the custodian/trustee based on the calendar year of receipt, regardless of the employer's tax year.

Example 1: January 2, 2001, Employer A sends you a check in the amount of \$10,000 made payable to your financial institution. They indicate that it represents the 2000 SEP contribution for Employees 1, 2, 3 and 4. The Employer's written instructions indicate that Employee #1 receives \$1,000, Employee #2 receives \$2,000, Employee #3 receives \$3,000 and Employee #4 receives \$4,000. You deposit the appropriate amounts into each of the employee's Traditional/SEP IRA. Because these SEP contributions for the year 2000 were received by you in the year 2001, they must be reported to the employees on the employee's 2001 Form 5498. **THEY ARE NOT**

REPORTED ON THE 5498 FOR TAX YEAR 2000!

Even though these SEP contributions will not be reported until 2001, they can be deducted by the employer as a 2000 SEP Contribution, provided the employer is making these contributions by the due date of the employer's tax return for 2000, including any valid extension.

Example 2: Employer B has established a SIMPLE for the year 2000. Their five employees have established SIMPLE IRAs with your financial organization. Each month in 2000, starting with February, you receive a check from the employer, made payable to your financial institution, for the employees' deferral amounts in the amount of \$300 per employee, or \$1,500 each month. December 2000 deferrals were received by you in January 2001. On March 15, 2001, you receive the employer's portion of the SIMPLE contribution for the year 2000, in the amount of \$1,000 for each employee. The contributions must be reported in the following manner:

2000 SIMPLE (Monthly) Deferral received in 2000 – Reported on the employee's 5498 for 2000, in box 8, totalling \$3,300 per employee.

2000 SIMPLE (Monthly Deferrals received in 2001 – Reported on the employee's 5498 for 2001, in box 8, totalling \$300 per employee.

2000 Employer Matching Contribution received in 2001 – Reported on the employee's 5498 for 2001, in box 8, totalling \$1,000 per employee.

In both examples, the employer is allowed a deduction in their tax year 2000, even though all or some of the contributions were deposited in the year 2001.

Part of the confusion seems to be that many computer reporting systems have not changed their transaction codes and statement descriptions to fit the 1997 reporting change. Most systems we have seen and heard of have

Continued on page 2

Contributions
Continued from page 1

just one transaction code/description for "Prior-Year SEP Contribution – Employer," or some other variation. Invariably, the "Prior-Year" transaction gets reported on the prior year 5498. Custodians/Trustees are then forced to use a transaction code/description that does not say "Prior-Year" on the statement. Many times, in order to get the proper reporting accomplished, the description on the IRA statement indicates "Current-Year Contribution" which only adds to an already confusing situation.

Whatever internal transaction code you must use to report the SEP (and SIMPLE) contributions correctly must be used. Even if the IRA statement description is incorrect or confusing, the reporting is done based on calendar year of receipt, not on tax year. Be sure to use the correct transaction code so that the SEP contributions are reported in box 7 and the SIMPLE contributions are reported in box 8 of the 5498 for the calendar year of receipt. ♦

Planning Options for the IRAs of Certain Spouse Beneficiaries

Based on the number of consulting calls we have been receiving, there seems to be an increase in the number of IRA accountholders who have died after the required beginning date for receiving their required minimum distributions. In many of these cases, each spouse had his or her own IRA and each was taking the RMD (required minimum distribution) from his/her own IRA. As of their required beginning date, each spouse was the other's primary beneficiary. Each had elected to use the joint recalculation method for determining the RMD amount.

In order to illustrate the various planning alternatives, we will assume the following: Rolf and Virginia are married, and each has established an IRA. Both are age 73 in the year 2000, meaning they turned age 70 in 1997. They had chosen the Joint Recalculation Method, and each is the other's beneficiary. As of 12/31/96, Rolf's IRA had a balance of \$80,000. As of 12/31/96, Virginia's IRA had a balance of \$130,000. The earnings rate on each IRA is 6%. Rolf dies on 12/11/00. Their RMD's for 2000 have been paid.

Their respective RMD schedules would have been:

Rolf's IRA

Calendar Year	Ending Balance of Prior Year	L.E. Factor	Required Distribution
1997	80,000.00	20.6	3,883.50
1998	80,683.50	19.8	4,074.92
1999	81,205.09	18.9	4,296.57
2000	81,523.03	18.1	4,504.03

Virginia's IRA

Calendar Year	Ending Balance of Prior Year	L.E. Factor	Required Distribution
1997	130,000.00	20.6	6,310.68
1998	131,110.68	19.8	6,621.75
1999	131,958.26	18.9	6,981.92
2000	132,474.93	18.1	7,319.06

Combined RMD (for analytical purposes only)

1997	\$10,194.18
1998	\$10,696.67
1999	\$11,278.49
2000	\$11,823.09

What will Virginia, the surviving spouse, wish and/or need to do?

She must continue taking her required distribution from her own IRA. We will call this IRA #1. Plus, she must decide what to do with Rolf's IRA (i.e. the deceased spouse's IRA). She will want to coordinate the required distributions arising from Rolf's IRA (i.e. the decedent's IRA) with her own IRA so that she minimizes the negative tax effects for her and also for her children — a son and a daughter.

For the reasons discussed below, she should take the following actions:

1. She should treat Rolf's IRA as her own. She does not want to add this IRA to her own IRA (IRA #1). She also does not want to maintain Rolf's IRA as an inherited IRA. To treat the inherited IRA as her own, she must set up a new IRA (IRA #2) by signing an IRA Plan Agreement. She would probably want to list her children as her beneficiaries for this new IRA. Virginia will also need to make her RMD elections with respect to this new IRA. The MDIB schedule will apply while Virginia is alive.

Continued on page 3

Planning Options
Continued from page 2

2. Virginia now has two IRAs — her original IRA (IRA #1) and her new IRA which was established by treating Rolf's IRA as her own (IRA #2). Annually, she will need to calculate the RMD amount for each IRA. After the amount is determined, she will wish to use the alternative method and remove the entire RMD amount from IRA #1 until all funds are depleted. That is, she will not take any distributions from IRA #2 until IRA #1 has a zero (0) balance.

Set forth below is a chart showing the combined RMD amount for IRA #1 and IRA #2, and how these charts are modified because all distribution amounts are withdrawn from IRA #1.

Year	IRA #1			IRA#2			Total — Both RMD Amounts
	Ending Bal. Prior Year	L. E. Factor	RMD Amount	Ending Bal. Prior year	L. E. Factor	RMD Amount	
2001	132,655.22	13.2	10,050.40	81,640.14	22.7	3,596.48	13,646.88
2002	126,159.44	12.5	10,092.76	86,538.55	21.8	3,969.66	14,062.41
2003	118,822.85	11.9	9,985.11	91,730.86	20.9	4,389.04	14,374.15
2004	110,715.62	11.2	9,885.32	97,234.71	20.1	4,837.55	14,722.87
2005	101,752.32	10.6	9,599.28	103,068.80	19.2	5,368.17	14,967.44
2006	91,991.97	10.0	9,199.20	109,252.92	18.7	5,842.40	15,041.60
2007	81,567.39	9.5	8,586.04	115,808.10	17.6	6,580.01	15,166.05
2008	70,385.42	8.9	7,908.47	122,756.58	16.8	7,306.94	15,215.41
2009	58,480.21	8.4	6,961.93	130,121.98	16.0	8,132.62	15,094.55
2010	45,988.80	7.9	5,821.37	137,929.30	15.3	9,014.99	14,836.35
2011	33,021.59	7.4	4,462.38	146,205.06	14.5	10,083.11	14,545.48
2012	19,584.67	6.9	2,838.36	154,977.36	13.8	11,230.24	14,068.60
2013	5,847.03	6.5	899.54	164,276.00	13.1	12,540.15	13,439.70
2014	0.00			156,683.33	12.4	12,635.75	12,635.75

Additional Discussion

With respect to IRA #1, the RMD calculation is affected by Rolf's death, since Virginia had elected the joint recalculation method. For the year 2001, Virginia's RMD schedule changes to the single recalculation method (i.e. the year after the year of Rolf's death). Set forth below is a summary of the required distributions for IRA #1 and the anticipated required distribution amounts for the next 15 years. Remember that upon Virginia's death, the funds in IRA #1 will need to be closed out by December 31 of the year after her death. Note that this schedule does not reflect the fact that because of the alternative certification method, the distribution amount for IRA #2 is actually being taken from IRA #1.

Calendar Year	Ending Bal. of Prior Year	L.E. Factor	Required Distribution
2001	132,655.22	13.2	10,050.40
2002	129,971.72	12.5	10,397.74
2003	126,748.42	11.9	10,651.13
2004	123,063.13	11.2	10,987.78
2005	118,799.87	10.6	11,207.53
2006	114,047.87	10.0	11,404.79
2007	108,801.67	9.5	11,452.81
2008	103,189.80	8.9	11,594.36
2009	97,091.16	8.4	11,558.47
2010	90,664.65	7.9	11,476.54
2011	83,939.40	7.4	11,343.16
2012	76,952.01	6.9	11,152.47
2013	69,747.52	6.5	10,730.39
2014	62,558.16	6.1	10,255.44
2015	55,440.89	5.7	9,726.47

Please note the following:

1. Virginia's IRA exceeds the \$ 130,000 with which RMD calculations began. The fund balance is now in excess of \$ 132,000. Should Virginia die, this amount must be distributed no later than 12/31 of the year following her year of death.

Planning Options
Continued from page 3

2. Virginia's RMD will be in the \$ 10,000 - \$ 11,600 range for the next 14 years. Her balance will drop annually by an amount in the range of \$ 3,000 - \$ 6,000.

With respect to Rolf's IRA, Virginia has three alternatives:

1. She can elect to treat his IRA as her own and establish a new IRA, with new beneficiaries and with a new RMD Schedule. This RMD schedule could either be joint nonrecalculation or the joint hybrid method — with her life expectancy recalculated but not the life of the nonspouse beneficiaries. The MDIB rules would apply. This is the option which should be elected. The RMD schedule under this election would be as follows:

Calendar Year	Ending Bal. of Prior Year	L.E. Factor	Required Distribution
2001	81,640.14	22.7	3,596.53
2002	82,727.33	21.8	3,794.83
2003	83,668.45	20.9	4,003.27
2004	84,445.08	20.1	4,201.25
2005	85,058.46	19.2	4,430.13
2006	85,466.03	18.4	4,644.89
2007	85,670.41	17.6	4,867.64
2008	85,650.94	16.8	5,098.27
2009	85,385.83	16.0	5,336.61
2010	84,852.17	15.3	5,545.89
2011	84,064.65	14.5	5,797.56
2012	82,963.11	13.8	6,011.82
2013	81,568.37	13.1	6,226.59
2014	79,862.29	12.4	6,440.51
2015	77,827.09	11.8	6,595.52
2016	75,505.46	11.1	6,802.29
2017	72,825.36	10.5	6,935.75
2018	69,842.99	9.9	7,054.85
2019	66,555.43	9.4	7,080.36
2020	63,043.57	8.8	7,164.04
2021	59,232.30	7.9	7,497.76
2022	54,838.61	7.1	7,723.75
2023	49,941.75	6.4	7,803.40
2024	44,666.66	5.3	8,427.67
2025	38,413.33	4.5	8,536.29
2026	31,669.65	3.7	8,559.37
2027	24,496.90	3.0	8,165.63
2028	17,311.15	2.5	6,924.46
2029	11,009.89	2.3	4,786.91
2030	6,596.36	2.1	3,141.12
2031	3,662.55	1.9	1,927.66

2. She can continue the distribution schedule of the inherited IRA as modified by Rolf's death (i.e. now single recalculation). This schedule would be as follows:

Calendar Year	Ending Bal. of Prior Year	L.E. Factor	Required Distribution
1997	80,000.00	20.6	3,883.50
1998	80,683.50	19.8	4,074.92
1999	81,205.09	18.9	4,296.57
2000	81,523.03	18.1	4,504.03
2001	81,640.14	13.2	6,184.86

Planning Options
Continued from page 4

2002	79,982.59	12.5	6,398.61
2003	77,999.03	11.9	6,554.54
2004	75,731.15	11.2	6,761.71
2005	73,107.61	10.6	6,896.94
2006	70,183.31	10.0	7,018.33
2007	66,954.87	9.5	7,047.88
2008	63,501.41	8.9	7,134.99
2009	59,748.41	8.4	7,112.91
2010	55,793.63	7.9	7,062.49
2011	51,655.02	7.4	6,980.41
2012	47,355.08	6.9	6,863.06
2013	42,921.55	6.5	6,603.32

As with Virginia's own IRA (IRA #1), upon her death, the inherited IRA will need to be closed out by December 31 of the year after her death and paid to her estate. When considered with IRA #1, presumably the last thing Virginia wants to do is to force her two children to withdraw over \$210,000 in just two years. This would result in a very large tax bill, and would be the result if she were to die within just a few years of Rolf's death.

3. Virginia can also elect to treat Rolf's IRA as her own, and add it to her existing IRA. This election should rarely, if ever, be made. The tax consequences can be horrendous. If she had combined the two IRAs, her 12/31/00 balance would be \$214,305.36, and her RMD schedule would be as follows.

Calendar Year	Ending Bal. of Prior Year	L.E. Factor	Required Distribution
2001	214,305.36	13.2	16,235.25
2002	209,954.31	12.5	16,796.34
2003	204,747.44	11.9	17,205.67
2004	198,794.28	11.2	17,749.49
2005	191,907.48	10.6	18,104.48
2006	184,231.18	10.0	18,423.12
2007	175,756.55	9.5	18,500.69
2008	166,691.21	8.9	18,729.35
2009	156,839.57	8.4	18,671.38
2010	146,458.28	7.9	18,539.02
2011	135,594.42	7.4	18,323.57
2012	124,307.10	6.9	18,015.52
2013	112,669.07	6.5	17,333.70
2014	101,055.49	6.1	16,566.47
2015	89,558.36	5.7	15,711.99
2016	78,277.15	5.3	14,769.27
2017	67,318.35	5.0	13,463.67
2018	57,085.96	4.7	12,145.95
2019	47,636.41	4.4	10,826.46
2020	39,018.55	4.1	9,516.72

Presumably the last thing Virginia wants to do is to force her two children to withdraw over \$214,000 in just two years. This would result in a very large tax bill, and would be the result if she were to die within just a few years of Rolf's death.◆

The 6-Step Hybrid RMD Method – Should be Elected More than it is!

The special 6-step method is not a favorite of most IRA custodians/trustees. That is understandable. Any calculation which requires 6 steps is not as simple as most people want it to be. However, The purpose of this article is to hopefully illustrate why it still may be in the accountholder's best interest to elect the hybrid method. The hybrid method can come into existence in three situations: (1) accountholder elects recalculation for himself or herself and nonrecalculation for his or her spouse beneficiary; (2) accountholder elects nonrecalculation for himself or herself and recalculation for his or her spouse beneficiary; and (3) accountholder elects recalculation for himself or herself and by law must use nonrecalculation for his or her nonspouse beneficiary.

For purposes of this article we will assume IRA accountholder, Richard Clinton, age 71, has designated his 69-year-old spouse, Diana, as his primary beneficiary. His RMD calculation will be performed using a joint life-expectancy factor. His account balance as of the preceding December 31 is \$400,000. An earnings rate of 6% is assumed. Richard has two contingent beneficiaries, his daughters, Amy who is age 55 and Ann who is age 49.

Richard wants to set up a distribution schedule for a long period of time so that not only may the distributions to Diana and he be minimized, but the distributions would be continued to their two daughters.

Set forth below are four schedules to be compared: (1) joint recalculation; (2) joint nonrecalculation; (3) the joint hybrid method when Richard has recalculation for himself and nonrecalculation for Diana; and (4) the joint hybrid method when Richard has nonrecalculation for himself and recalculation for Diana. Richard (and Diana) will want to understand the amount to be distributed under each method and what happens after one or both of them die.

The Schedules:

	#1		#2		#3		#4	
Year	Joint Recalculation		Joint Nonrecalculation		Joint Recalculation/ Nonrecalculation		Joint Nonrecalculation/ Recalculation	
2000	21.5	18,604.65	21.5	18,604.65	21.5	18,604.65	21.5	18,604.65
2001	20.7	19,530.39	20.5	19,720.93	20.2	20,013.82	20.3	19,915.23
2002	19.8	20,597.66	19.5	20,904.19	19.4	20,995.94	19.4	21,001.32
2003	19.0	21,603.69	18.5	22,158.44	18.5	22,135.39	18.3	22,383.05
2004	18.2	22,648.26	17.5	23,487.94	17.3	23,734.77	17.5	23,454.88
2005	17.3	23,868.39	16.5	24,897.22	16.5	24,853.90	16.4	25,013.77
2006	16.5	24,993.82	15.5	26,391.05	15.4	26,516.21	15.6	26,174.66
2007	15.8	25,990.41	14.5	27,974.52	14.6	27,722.15	14.6	27,745.14
2008	15.0	27,182.50	13.5	29,652.99	13.5	29,603.15	13.7	29,195.18
2009	14.3	28,208.97	12.5	31,432.17	12.5	31,379.34	12.8	30,705.12
2010	13.5	29,458.53	11.5	33,318.10	11.6	32,975.35	11.8	32,547.43
2011	12.8	30,494.18	10.5	35,317.18	10.8	34,306.58	11.0	33,873.00
2012	12.2	31,264.03	9.5	37,436.21	9.8	36,364.98	10.1	35,549.88
2013	11.5	32,275.36	8.5	39,682.39	8.9	38,113.76	9.4	36,480.23
2014	10.9	32,956.40	7.5	42,063.33	8.1	39,403.05	8.6	37,769.76
2015	10.2	33,906.32	6.5	44,587.13	7.3	40,622.92	7.9	38,515.59
2016	9.7	34,088.08	5.5	47,262.36	6.7	40,489.53	6.5	43,338.93
2017	9.1	34,545.09	4.5	50,098.10	6.1	40,104.55	6.1	41,420.65
2018	8.6	34,488.85	3.5	53,103.98	5.7	38,036.00	5.7	39,284.22
2019	8.1	34,301.50	2.5	56,290.22	5.3	35,753.84	5.3	36,927.16
2020	7.6	33,967.51	1.5	59,667.64	5.0	32,593.20	5.0	33,662.80
2021	7.1	33,469.96	1.0	31,623.85	4.7	29,403.23	4.7	30,368.14
2022	6.7	32,301.01	0.0	0.00	4.4	26,208.97	4.4	27,069.06
2023	6.3	30,978.21	0.0	0.00	4.1	23,038.32	4.1	23,794.36
2024	5.9	29,497.55	0.0	0.00	3.9	19,411.26	3.9	20,048.28
2025	5.6	27,358.98	0.0	0.00	3.7	16,127.09	3.7	16,656.32
2026	5.3	25,170.26	0.0	0.00	3.4	13,575.21	3.4	14,020.71
2027	5.0	22,945.21	0.0	0.00	3.2	10,792.29	3.2	11,146.46

Continued on page 7

RMD Method
Continued from page 6

	#1		#2		#3		#4	
Year	Joint Recalculation		Joint Nonrecalculation		Joint Recalculation/ Nonrecalculation		Joint Nonrecalculation/ Recalculation	
2028	4.7	20,699.51	0.0	0.00	3.0	8,389.21	3.0	8,664.52
2029	4.4	18,450.79	0.0	0.00	2.8	6,351.83	2.8	6,560.28
2030	4.1	16,218.70	0.0	0.00	2.7	4,488.63	2.7	4,635.93
2031	3.8	14,024.90	0.0	0.00	2.5	3,235.40	2.5	3,341.58
2032	3.6	11,562.75	0.0	0.00	2.3	2,236.65	2.3	2,310.05
2033	3.3	9,656.65	0.0	0.00	2.1	1,467.67	2.1	1,515.83
2034	3.1	7,594.49	0.0	0.00	1.9	900.68	1.9	930.24
2035	2.8	6,037.62	0.0	0.00	1.6	253.00	1.8	493.03
2036	2.5	4,607.91	0.0	0.00	1.4	114.94	1.6	261.30
2037	2.3	3,185.47	0.0	0.00	1.3	37.49	1.4	118.71
2038	2.1	2,090.27	0.0	0.00	1.1	10.84	1.3	38.72
2039	1.8	1,354.03	0.0	0.00	1.0	1.15	1.1	11.19
2040	1.6	717.64	0.0	0.00	0.0	0.00	1.0	1.19
2041	1.4	326.01	0.0	0.00	0.0	0.00	0.0	0.00
2042	1.2	115.19	0.0	0.00	0.0	0.00	0.0	0.00
2043	1.0	24.20	0.0	0.00	0.0	0.00	0.0	0.00

Joint Recalculation

There is no doubt that the joint recalculation method looks very attractive if both of them live for a long time. The amount of each annual distribution is lower than the other two schedules. Note that distributions could continue until 2043 if both would still be living. That is, the schedule could be for 46 years.

However, it is well understood that the joint recalculation method can be quite risky for two reasons. First, upon the death of Richard or Diana, the distribution amount will increase substantially because the factor will change to a single life-expectancy factor. Second, if Diana dies first, and then Richard dies, the children will not be able to continue any schedule, because after the "second" measuring life dies, the account must be closed by December 31 of the year after the second spouse dies. With a balance as large as \$400,000, there could be a very substantial tax liability.

Joint Nonrecalculation

The main attractive feature of the joint nonrecalculation schedule is that the death of either the accountholder or the spouse beneficiary does not require any change in the schedule. That is, the daughters will be able to continue a schedule assuming that Richard and Diana die before they are 93 and 91 respectively.

The main negative feature of this schedule is that the maximum length of this schedule cannot exceed 23 years. Why 23 years? the initial life expectancy is 21.5 years. The first 21 years reduces the factor to 1.5. The next year reduces the factor

to 1. And the final year is needed to "zero out" the IRA because there will be earnings after the preceding December 31.

It is certainly possible that Richard's two daughters may not have a schedule to continue. More and more people are living until their 90's.

The Hybrid Method #1

Richard has elected recalculation for himself and nonrecalculation for Diana.

This schedule appears to this author to be better than the first two schedules.

It does not have the risk that the joint recalculation schedule has. An immediate close out of the IRA cannot result as it can with joint recalculation. If Diana dies first, the schedule is not affected by her death. When Richard subsequently dies, then the schedule is modified to be a single nonrecalculation schedule as based on Diana's age even though she predeceased him. For example, Diana's single life expectancy factor in 2000 was 16.8 years. It is this distribution schedule which would be able to be continued to the daughters.

This schedule potentially could allow for a substantially longer distribution schedule than the joint nonrecalculation method as it could be 42 years. This means the amounts of the distributions are less for years 11-42, and the IRS will have to wait to collect their taxes. This means that the funds stay in the IRA for a longer period of time and continue to reap the benefit of tax deferral. Thus, more will be distributed in the aggregate to Richard, Diana, and their daughters.

RMD Method

Continued from page 7

The Hybrid Method #2

This method is similar to #1 except the difference is Richard has elected nonrecalculation for himself and recalculation for Diana. Because statistics support the fact that most women live longer than most men by 5-6 years, it will generally be preferable to recalculate the factor for the women rather than the man.

Again, this schedule appears to this author to be better than the first two schedules.

It does not have the risk that the joint recalculation schedule has. An immediate close out to the IRA cannot result as it can with joint recalculation. If Richard dies first, the schedule is not affected by his death. When Diana subsequently dies, then the schedule is modified to be a single nonrecalculation schedule as based on Richard's age even though she predeceased him. For example, Richard's single life expectancy factor in 2000 was 15.3 years. It is this distribution schedule which would be able to be continued to the daughters.

This schedule potentially could allow for a substantially longer distribution schedule than the joint nonrecalculation method as it could be 42 years. This means the amounts of the distributions are less for years 11-42, and the IRS will have to wait to collect their taxes. This means that the funds stay in the IRA for a longer period of time and continue to reap the benefit of tax deferral. Thus, more will be distributed in the aggregate to Richard, Diana, and their daughters.

Summary

In many situations, an IRA accountholder will be better off by electing the hybrid method rather than the joint recalculation method or the joint nonrecalculation method. ♦

Completing the 2000 Form 945,

Annual Return of Withheld Federal Income Tax
on Forms 1099 and W-2G

Form 945 is the reporting form which a financial institution (or other filers) must file to summarize the amount it has withheld from nonpayroll payments: backup withholding, IRA/pension withholding, gambling winnings, military retirement, Indian gaming profits, and voluntary withholding on certain government payments.

Most financial institutions need to file Form 945 because they have had backup withholding and IRA/pension withholding. If your institution did not withhold during 2000 (i.e. it did not have a nonpayroll tax liability), then there is no duty to file the Form 945 for 2000. If your institution did withhold, then it is required to file the Form 945. The deadline is January 31, 2001. However, if you made deposits on time in full payment of the taxes for the year, you may file the return by February 12. The EIN which is inserted on the Form 945 must match the EIN number used on the applicable 1099 form or the

deposit form (Electronic Federal Tax payment System 8109). The mandatory deposit schedule for nonpayroll taxes is different than it is for payroll taxes. There are only two deposit schedules—monthly or semiweekly. Whether or not you are required to deposit via EFTPS depends upon all deposit tax liabilities and not just nonpayroll tax liabilities.

Specific Instructions

State Code (up in address label area). There are two small boxes. Do not make an entry if you made all of your deposits with a federal reserve bank or an authorized financial institution located in the same state as your address. Enter "MU" if you made deposits in more than one state. If you made your deposits in a state other than the one listed on your address, then enter the two-letter postal service abbreviation for that state.

Line 1—Federal Income Tax Withheld. You enter the income tax you withheld from IRAs, pensions, annuities, military retirement, Indian gaming profits, voluntary withholding on certain government payments, and gambling winnings. If your institution has only withholding from IRAs and pensions, then line 1 should equal the aggregate total of all amounts in box 4 of the 1099-R forms.

Line 2—Backup Withholding. You enter the aggregate total of all backup withholding.

Line 3—Adjustment to Correct Administrative Errors. As with most provisions in the tax law, the term administrative error has a specific meaning. An administrative error occurs if the amount you entered on Line 1 or line 2 does not match the amount you actually withheld. Once you discover such an error, you must report it on the Form 945 for the year in which you discover the error. You must report the adjustment on line 3 and also complete Form 941c, Supporting Statement to Correct Information. You must file the Form 941c with the Form 945.

Line 4—Total Taxes. Sum of lines 1 and 2 as modified by line 3.

Line 5—Total Deposits. Self-explanatory.

Line 6—Balance Due. You should have a balance due only if your taxes on line 4 are less than \$1000. If you send payment along with the Form 945, enter your EIN, "Form 945, 2000" on your check made payable to U.S. Treasury.

Line 7—Overpayments.

Line 8—Monthly Summary of Federal Tax Liability. This is a summary of your monthly tax liability and not of your deposits. However, you must use Form 945-A rather than line 8 if you are a semiweekly depositor. ♦