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ALSO IN THIS ISSUE –

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FINALLY – A TAX BILL TO BE SIGNED

On May 26, 2001, the Congress of the United States passed H.R. 1836. This Act may be cited as the "Restoring Earnings to Lift Individuals and Empower Families (RELIEF) Act of 2001." President Bush is expected to sign this legislation on June 5, 2001. This legislation contains many IRA and pension changes. Many of these changes are the same or similar to changes previously passed by Congress, but vetoed by President Clinton. As with many of the non-IRA and pension law changes, many of the IRA changes go into effect in later years. However, unless stated otherwise, these IRA law changes are effective as of 2002.

The purpose of this article is to give an overview of the law changes which were sent to the Conference Committee by the U.S. Senate and those changes which were included in the final version of H.R. 1836. The tax bill originally passed in the House did not contain any IRA or pension law changes. The House and the Senate had each established a limit on the tax cuts – 16.0 trillion versus 13.5 trillion. In the Conference Committee, the conferees of the House and the Senate settled on a compromise amount. In so doing, certain tax proposals were eliminated. As you will see, some good proposals were eliminated.

Detailed below are the IRA changes which survived the Conference Committee process and will become law. Later in this article, we summarize the proposals which did not survive the Conference Committee process and thus will not become law. Hopefully, some of these proposals will make it into the next tax bill.

IRA Law Change #1. Education IRA Only

The changes to the Eduction IRA have been the most comprehensive changes of this Relief Act. Instead of the current contribution limit of $500 per child per year, the limit will be increased to $2,000 beginning with the 2002 tax year.

In the past, education IRAs have been administered on a calendar-year basis. The new rules would allow contributions to be made through 4/15 of the following year (with no extensions).

The phaseout range of adjusted gross income for being able to make an Education IRA contribution has increased from $150,000-$160,000 to $190,000-$220,000.

Since its inception, the Education IRA has been restricted to post-secondary education expenses. Under the new rules, elementary and secondary education costs are now able to be included, as well as expenses for computer equipment,

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NEW RMD RULES

Why should banks inform their customers of the new rules for 2001 distributions? As you know, it is not mandatory for a financial institution to use the new RMD rules to calculate the 2001 required minimum distribution for its "70 1/2" and older accountholders. Is it mandatory that financial institutions inform their customers that these rules are available? The answer is, "No." Why, then, should a bank go to the work of notifying and explaining these new rules to their customers? The answer is, "Customer Service." Since customer service is of primary importance to institutions such as yours, it is good public relations to make certain your customers are aware of any changes which affect their accounts held at your institution. To inform your customers that they may be required to take considerably less money from their IRA this year could have significant tax savings for them. As you can imagine, the customer who realizes tax savings because of your timely notification and clear explanation of these new rules will look favorably upon your institution.

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New IRA Laws and Opportunities, Continued from page 1

internet access and related services, plus software, if it is educational in nature (software used as games, hobbies, etc. are not qualified expenses).

As you are aware, the age of the designated beneficiary is important in the administration of an Education IRA. The new rules will waive the age limit for children with special needs.

The new deadline for the withdrawal of an excess contribution will be June 1, rather than 4/15 plus extensions.

The definition of a "family member" has been expanded to include first cousins.

The new rules allow an Education IRA to accept an additional $500 from an employer.

These are very substantial changes, and should lead to increased demand for such accounts.

IRA Law Change #2. Traditional and Roth

The contribution limit of $2,000 (and deduction limit for many taxpayers) will be increased over a ten-year span to $5,000.

Tax Year	Current Law	Relief Act of 2001	Change
2001	$2,000	NA	NA
2002-2005	$2,000	$2,500	+$500
2006-2007	$2,000	$3,000	+$1,000
2008-2009	$2,000	$3,500	+$1,500
2010	$2,000	$4,000	+$2,000
2011 & thereafter	$2,000	$5,000	+$3,000

IRA Law Change #3. Traditional and Roth

The IRA laws will be changed so that individuals who are age 50 or older will be eligible to make catch-up contributions. These catch-up rules will apply to contributions as of January 1, 2002 (i.e. those contributions made in taxable years beginning after December 31, 2001).

Thus, in the case of an individual who has attained age 50 before the close of the tax year, the contribution limit is increased by 50% as follows:

Tax Year	Contribution Limit for 50 & Older
2002-2005	$3,000
2006-2007	$4,000
2008-2009	$4,500
2010	$5,500
2011 & thereafter	$7,000

IRA Law Change #4. Traditional IRA

This new law will repeal the existing rules which apply to a beneficiary(ies) when the accountholder dies AFTER his or her required beginning date. This change applies to 2002 and subsequent years except the old rules will be grandfathered for certain surviving spouses.

As is well known, the "after death" required distribution rules under existing law depend upon whether the accountholder died before or after his or her required beginning date. Maybe taking a clue from the recent IRS actions to simplify these rules by regulation, Congress has concluded there should be only one set of rules for determining the required minimum distribution amount after the accountholder dies. The rules to be applied in all death situations will now be the 5-year rule or the life-distribution rule. The life-distribution rule for a spouse beneficiary has been changed slightly. The spouse beneficiary will have a deadline for commencing his or her life-distribution schedule by April 1 of the calendar year following the year in which the spouse attains age 70, and not as of December 31 of the year the deceased spouse would have attained age 70 1/2.

IRA Law Change #5. Traditional and Roth IRAs

This change could well portend additional changes in the future. Certain employer plans may be amended to allow participants to make their IRA contributions to the employer plan. It is not totally clear, but it appears, at this time, that the only employer plan authorized to receive such IRA contributions (traditional and Roth) will be a section 457 plan. A 457 plan will need to be rewritten to include provisions allowing for the administration of the IRA accounts. One would expect that other employer plans (or those who service such plans) may also wish to have IRA contributions made to such plans.

IRA Law Change #6. Traditional IRA and Roth IRA

The law will authorize a non-refundable credit to certain individuals if they make contributions to a traditional IRA, Roth IRA, Simple IRA, 401(k), or other plan allowing for elective deferrals. See the chart on page 3.

This law will create a new tax incentive for such individuals to make retirement contributions.

An eligible individual will be allowed a credit equal to the amount he or she contributes to an IRA (traditional and/or Roth) or contributes as an elective deferral to a 401(k) plan, SIMPLE-IRA plan, etc. to the extent of $2,000 as multiplied by the applicable percentage from the table on page 3:

In order to prevent individuals from making contributions and then taking distributions, a fairly elaborate calculation involving a three-plus-year testing period must be made. Such calculation will be discussed in detail in the June newsletter, as it is beyond the scope of the purpose of this issue.

An eligible individual is defined to be any individual except the following who are defined to be ineligible: (1) those who have not attained age 18 as of the close of the taxable year; and (2) any individual who is a dependent or is a full-time student.

This law change will apply only to the 2002-2006 tax years.

IRA Law Change #7. Traditional IRA Only

Current law does not allow an individual, while he or she is still alive, to gift any portion of his or her traditional IRA (not a Roth IRA or an Education IRA) without having to pay income taxes. Current law, in general, provides that a distribution from

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New IRA Laws and Opportunities, Continued from page 2

a traditional IRA must be included in income. Therefore, under current law, a person must take a distribution, pay the applicable tax, and then he or she may gift the remaining balance to a person or entity of his or her choice.

In limited situations, the new law will authorize tax-free distributions from a traditional IRA to certain charitable organizations. In order to qualify for such tax-free treatment, the distribution will have to qualify as a "qualified charitable contribution," which is defined to be any distribution from a traditional IRA which is made after an individual attains age 70 1/2 and which is a charitable contribution as defined in Code section 170(c). To offset this tax-free treatment, the amount of the deduction otherwise allowed by the tax code is reduced by the sum of the amounts of the qualified distributions during such year.

Note that there is no limit as to what amount may be excluded from income. This change applies to year 2010 and subsequent years.

IRA Law Change #8. SIMPLE-IRA

There will be an increase in the deferral limit with respect to elective deferral amounts under a SIMPLE-IRA plan.

Tax Year	Current Law	Relief Act of 2001	Adjusted Contribution Limit Age 50 or Over
2001	$6,500	N/A	N/A
2002	$6,500	$7,000	$7,000
2003	$6,500	$7,000	$7,000
2004	$6,500	$8,000	$8,000
2005	$6,500	$8,000	$9,000
2006	$6,500	$9,000	$10,000
2007	$6,500	$9,000	$11,000
2008	$6,500	$10,000	$13,000
2009	$6,500	$10,000	$14,000
2010	$6,500	$10,000	$17,500

Catch-up contributions to a SIMPLE-IRA plan (i.e. increased elective deferrals) will be permitted for individuals who attain age 50 before the close of the year. There will be a limit as to the amount of these catch-up contributions. They cannot exceed the lesser of: (1) the applicable percentage, or (2) the excess of an individual's compensation over any other elective deferrals he or she would make. This limit appears reasonable - an individual should not be able to defer more than his or her compensation.

IRA Law Change #9. Traditional IRAs

The rules for rolling over funds to or from a traditional IRA will be changed substantially for 2002 and subsequent years. The June newsletter will cover this topic in detail. Also, the new rules will permit pension plans to handle IRA funds.

Proposals which did not receive legislative approval IRA

Law Change #1. Traditional

Under this proposal there would have been an increase and various decreases in the adjusted gross income limits for most active participants. Note the lowering of the limits for years 2004–2007.

Set forth below is a comparison of the proposed applicable dollar amounts for a taxpayer who files a joint return:

Tax Year	Current Law	Relief Act of 2001	Change
2001	$53,000	NA	NA
2002	$54,000	$56,000	+$2,000
2003	$60,000	$60,000	NONE
2004	$65,000	$64,000	-$1,000
2005	$70,000	$68,000	-$2,000
2006	$75,000	$72,000	-$3,000
2007	$80,000	$76,000	-$4,000
2008 or thereafter	$80,000	$80,000	NONE

Set forth below is a comparison of the proposed applicable dollar amounts for all taxpayers who file a return other than a joint return, including a married individual filing a separate return:

Tax Year	Current Law	Relief Act of 2001	Change
2001	$33,000	NA	NA
2002	$34,000	$36,000	+$2,000
2003	$40,000	$40,000	NONE

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Adjusted Gross Income

Joint Return		Head of a Household		All Other Cases		
Over	Not Over	Over	Not Over	Over	Not Over	Applicable percentages
$ 0	$30,000	$ 0	$22,500	$ 0	$15,000	50
$30,000	$32,000	$22,500	$24,375	$15,000	$16,250	20
$32,500	$50,000	$24,375	$37,500	$16,500	$25,000	10
$50,000	$..........	$37,500	$..........	$25,000	$..........	0

BENEFICIARY OPTIONS UNDER THE REVISED 2001 RMD RULES — IRA ACCOUNTHOLDER DIES BEFORE HIS/HER REQUIRED BEGINNING DATE

Comparison of the beneficiary options under the 1987 RMD rules when an IRA accountholder dies before his/her required beginning date.

The rules are the same, although, as we will explain, some of the rules are less "spouse friendly."

1. Under the 1987 rules, any spouse beneficiary could elect to treat his or her deceased spouse's IRA as his or her own. That is, a spouse beneficiary did not lose the right to treat his or her share of the deceased pouse's IRA as his or her own just because he or she was not the sole beneficiary.

2. Under the 1987 life-distribution rule, the spouse could have used either the nonrecalculation or the recalculation method to determine the annual divisor.

Summary. Under both the 1987 and 2001 rules, a beneficiary (spouse or nonspouse) has choices or options as to how he or she will comply with the required distribution rules when the accountholder dies before his or her required beginning date. Spouse beneficiaries have three choices; nonspouse beneficiaries have only two choices.

A beneficiary may always withdraw more than the required amount. ◆

Spouse is the sole beneficiary	Nonspouse beneficiary or spouse is not sole beneficiary	No beneficiary or the beneficiary is not a person
1. Treat as own IRA	1. Not eligible to treat as own IRA.	1. Not eligible to treat as own IRA.
2. Life-distribution rule. Annual payments are based on the single life expectancy of the surviving spouse as recalculated each year by using Table V, commencing no later than 12/31 of the year the deceased spouse would have attained age 70 1/2, or 12/31 of the following year if the deceased spouse died during the year he or she attained or would have attained age 70 1/2. The annual payment is determined by using the formula: preceding year's 12/31 fair market value divided by the life-expectancy factor.	2. Life-distribution rule. Annual payments are based on the single life expectancy of the beneficiary. Payments must commence no later than 12/31 of the year after the accountholder died. The initial factor is based on age of the beneficiary as determined from Table V. Subtract one for each subsequent year's factor. The annual payment is determined by using the formula: preceding year's 12/31 fair market value divided by the life-expectancy factor.	2. Not eligible to use the Life-distribution rule.
3. Five-year rule. All funds must be distributed by 12/31 of the fifth year after the year the accountholder died.	3. Five-year rule. All funds must be distributed by 12/31 of the fifth year after the year the accountholder died.	3. Five-year rule. All funds must be distributed by 12/31 of the fifth year after the year the accountholder died.

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MANDATORY PAYOUT RULES UNDER THE REVISED RMD RULES WHEN IRA ACCOUNTHOLDER DIES ON OR AFTER HIS/HER REQUIRED BEGINNING DATE

Comparison of the beneficiary rules under the 1987 RMD rules to the revised 2001 RMD rules when IRA accountholder dies on or after his/her required beginning date

In the "before" situation discussed previously, the concept was that a beneficiary had options. In the "after" situation, nonspouse beneficiaries (and spouse beneficiaries who are not the sole beneficiary) do not have any options. They must comply with a specific rule. A spouse beneficiary who is the sole beneficiary has two options.

Unlike the "before" RMD situation, there are more differences between the 1987 rules and the revised 2001 RMD rules. These differences are:

1. Any spouse beneficiary could elect to treat his or her deceased spouse's IRA as his or her own. That is, a spouse beneficiary did not lose the right to treat his or her deceased spouse's IRA as his or her own just because he or she was not the sole beneficiary.

2. Before being able to elect to treat a deceased spouse's IRA as his or her own, the surviving spouse must first have the decedent's RMD amount paid to him or her. And if he or she is also required to take an RMD amount for that year, then he or she will apparently need to take a distribution also.

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Spouse is the sole beneficiary

1. Treat as own IRA

2. Life-distribution rule. Annual payments are based on the single life expectancy of the surviving spouse as recalculated each year by using Table V, as long as the spouse is alive. After the spouse beneficiary dies, for subsequent years determine the factor by subtracting one from the factor for each year which has elapsed since the year of death.

The annual payment is determined by using the formula: preceding year's 12/31 fair market value divided by the life-expectancy factor.

Nonspouse beneficiary or spouse is not sole beneficiary

1. Not eligible to treat as own IRA.

2. Life-distribution rule. Annual payments are based on the single life expectancy of the beneficiary. For the year after the accountholder's death, the initial factor is based on the age of the beneficiary as determined from Table V. Subtract one for each subsequent year's factor.

The annual payment is determined by using the formula: preceding year's 12/31 fair market value divided by the life-expectancy factor.

No beneficiary or the beneficiary is not a person

1. Not eligible to treat as own IRA.

2. Life distribution rule. Annual payments are based on a distribution period determined by the accountholder's age and life expectancy as of the year in which the accountholder dies; reduce this factor by one for each elapsed year.

The annual payment is determined by using the formula: preceding year's 12/31 fair market value divided by the life-expectancy factor.

andatory payout rules,
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3. The general 1987 rule was — the distribution schedule which had been set up by the accountholder was required to be continued by the beneficiary(ies). However, this could be complicated because the schedule changed upon the death of the accountholder and/or beneficiary. In some cases, the revised schedule called for a 100% distribution no later than December 31 of the year after the year of death. For example, if the accountholder had originally elected the joint recalculation method, and the accountholder was the second to die, then the remaining funds within the IRA would need to be distributed to the beneficiary by 12/31 of the year after the year of death.

4. The calculation was also complicated when the accountholder had designated a nonspouse beneficiary who was more than 10 years younger. The accountholder's RMD schedule then would have either been a joint nonrecalculation method or a joint hybrid method (recalculation for the accountholder and nonrecalculation for the nonspouse beneficiary). This RMD schedule was always overridden by the requirement to use the MDIB table for all years up to and including the year of death. But the MDIB table no longer was to be used for years after the accountholder's death.

If the accountholder's RMD method had been joint recalculation, then the distribution schedule which would apply for the beneficiary would be this joint nonrecalculation method. In this situation, the beneficiary will be slightly worse off if he or she must use the new rules versus the old rules. An example: David attained age 70 and 70 1/2 in 1997. His daughter, Ann, was his sole beneficiary. She was age 43 in 1997. David died in 2000. The factors under the 1987 rules and the 2001 rules would be as follows;

	1987 Rules			2001Rules
	MDIB	Joint Nonrecal.	Factor to be used	
1997	26.2	40.1	26.2	N/A
1998	25.3	39.1	25.3	N/A
1999	24.4	38.1	24.4	N/A
2000 (dies)	23.5	37.1	23.5	N/A
2001	N/A	36.1	36.1	35.9 (at age 47)

It can be argued that this difference (36.1 to 35.9) is not very material. Therefore, the IRS may well decide to apply the revised RMD rules for beneficiaries to all beneficiaries regardless of whether the accountholder died before 2001 or after.

If the accountholder's method had been the hybrid method, then the IRS had given conflicting answers as to what schedule would govern future payments to the beneficiary. The approach the 1987 proposed regulation was to determine a schedule based on the age of the beneficiary in the year the accountholder attained age 70 1/2 and then reduce this by one for each subsequent year. The revised rules will always result in a smaller RMD than the 1987 rules because the single life-expectancy factor is determined at a later point in time.

	1987 Rules			2001Rules
	MDIB	Joint Hybrid (becomes single)	Factor to be used	
1997	26.2	39.6	26.2	N/A
1998	25.3	38.6	25.3	N/A
1999	24.4	37.6	24.4	N/A
2000 (dies)	23.5	36.6	23.5	N/A
2001	N/A	35.6	35.6	35.9 (at age 47)

Summary. The 2001 RMD rules for the "after" situation are easier to understand and apply than the 1987 RMD rules. In most situations there will be a longer payout or distribution period under the 2001 rules than under the 1987 rules. There is at least one exception— the accountholder and beneficiary were using a joint nonrecalculation method – but the difference will not be very material.

Again, a beneficiary may always withdraw more than the required amount. ◆

ADMINISTRATIVE PROCEDURES FOR "CERTAIN" IRA DEPOSITS RESULTING FROM SELF-DIRECTED IRAS

As amounts in IRA plans increase, and more and more plan agreements allow self-direction of the assets, a financial institution may find itself the recipient of IRA funds for which they are not the custodian. The main reason for this situation is that an accountholder's IRA account at one financial institution exceeds the $100,000 FDIC insurance limit, and the accountholder wishes to protect his assets by placing the remainder of the funds at another insured financial institution.

For example, let's assume Jason Doy has $150,000 in a self-directed IRA, of which ABC Bank is the custodian. Because the balance in the IRA exceeds the $100,000 FDIC insurance limit, Mr. Doy would like to purchase a $50,000 CD at XYZ Bank. XYZ Bank should be happy to accept such IRA deposits. There are, however, some issues of which XYZ Bank must be aware.

1. Know who your customer is — Your customer is the custodian of the IRA (ABC Bank). One of the most important issues in a situation such as this is understanding that XYZ Bank will never be dealing directly with Mr. Doy. The IRA at ABC

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QUALIFIED PLAN RISK FOR PARTICIPANT IF PLAN WAS NOT AMENDED

As you may or may not be aware, all qualified plans (QPs) were required to be amended/restated on or before 12/31/00. This article discusses the various factors which a qualified plan participant should consider before deciding to receive a distribution (including a distribution which will be rolled over or directly rolled over) from a qualified plan which has not yet been amended and restated. This article is for informational purposes only. Each qualified plan participant must rely on his or her own advisor's advice.

A cardinal rule of pension plan law is that a plan will be "qualified" only if the pension plan document contains current provisions which comply with existing law. Early in 2000, the IRS finally established the rules and procedures for qualified plans to be rewritten to include the many law changes which have occurred since 1991. It may be possible for some plans to be amended and restated in the fourth quarter of 2001, but more likely this updating will be accomplished in 2002. This means almost any existing qualified plan is not presently qualified, but will be made so retroactively when amended and restated.

A participant is not entitled to favorable 10-year averaging treatment (if eligible) or entitled to roll over a distribution into an IRA unless the plan is qualified at the time of distribution. If one rolls over funds which do not qualify, then he or she will be required to include the distribution amount in income. In addition, this amount will be an excess contribution within the IRA.

It is not really known how strictly the IRS enforces these rules, but most taxpayers will not wish to place themselves in the position of the IRS being able to impose adverse tax consequences on them because of an invalid (i.e. nonqualifying) rollover. The law certainly gives the IRS the necessary authority to impose very adverse tax results.

A qualified plan participant will want to consider the following five (5) alternatives with respect to whether or not he or she will currently take a distribution from a qualified plan.

Technically, the law does not provide different rules for one-person plans than for multiple-person plans. This article is primarily written to cover the one-participant plan (i.e. a Keogh). It is generally understood that the sponsor of a multiple-participant plan will be amending and restating its plan on a timely basis so that all distributions which technically have not qualified to be rolled over will be made qualified by the retroactive nature of the amendment and restatement.

The 5 alternatives;

#1. Take the distribution and use 10-year averaging (assuming the individual is eligible) or take the distribution and do a rollover without the plan being amended and restated. Taking a distribution from a terminating plan fits into this category. We believe this approach is very risky and should never be adopted.

#2. Wait with any distributions and rollover transactions until after the plan has been amended and restated. This is the most conservative approach.

#3. Move the funds currently in a qualified plan to an IRA, because it should be possible to amend and restate the QP on a retroactive basis. For example, an individual could furnish a written instruction that he or she was terminating his or her qualified plan and would be moving the funds, but such transaction would not be considered final until the amendment and restatement had been finalized on a retroactive basis.

We have never seen the IRS discuss this in writing. We believe it should work, but again, an individual must act on the advice of his or her own advisor.

#4. Withdraw and roll over a large majority of the qualified plan funds, but keep a minimum amount within the qualified plan. Then, amend and restate the qualified plan on a retroactive basis as soon as it is possible to do so, and then terminate the qualified plan.

#5. File the IRS Form 5310 (Application for Determination for Terminating Plan). An employer who sponsors a qualified plan is never required to file the Form 5310. However, most trustees of a qualified plan will normally require such a filing for a multiple-participant plan. There are no special rules for one-person plans. The recommendation of CWF has also been, if the dollar amount being distributed or rolled over is sufficiently large (as determined by the individual), then a filing should be made. For example, if an individual had a qualified plan with $100,000 of assets, it may be in their best interest to elect to file the Form 5310 with the IRS even though the cost would be $600 or more. In CWF's opinion, receiving an express ruling from the IRS that the termination of the plan will not have any adverse tax consequences is worth the $600 it costs to obtain this express ruling. If the QP balance was only $15,000, the individual would probably not make such a filing, because the $600 fee is relatively large compared to $15,000.

The IRS will not issue a favorable letter unless the plan has been amended and restated. However, the IRS has a standard amendment which can be used for this purpose. The cost to file the Form 5310 with the IRS is $225.

Conclusion: QP Participants should be advised of the tax rules which apply to their distributions if the qualified plan in which they participate has not yet been amended and restated. CWF believes the order of preference for the taxpayer/QP participant would be: (1) alternative #2; (2) alternative #4, (3) alternative #5; (4) alternative #3; and (5) alternative #1. As always, CWF recommends that an individual discuss the situation with their tax/legal advisor before taking any action. ◆

New IRA Laws and Opportunities, Continued from page 3

2004	$45,000	$44,000	-$1,000
2005	$50,000	$48,000	-$2,000
2006 or thereafter	$50,000	$50,000	NONE

Note that this law would have repealed the special phaseout range of $0 - $10,000, which applied those married individuals who filed a separate tax return.

IRA Law Change #2. Traditional and Roth

Under current law, a person may make too much money so that he or she is ineligible to roll over or convert his or her traditional IRA to a Roth IRA. The current limit is $100,000. As is well known, this limit was the harshest marriage tax penalty. The limit of $100,000 applied whether a person was married or not. The new law would have created a new limit of $200,000 for a married couple filing a joint return.

IRA Law Change #3. Roth

Under current law, a person may make too much money so that he or she is ineligible or only partially eligible to make a contribution to a Roth IRA. Under current law, the phaseout limits for a single taxpayer are $95,000 - $110,000 or more, and for a married person filing a joint return, it is $150,000 to $160,000 or more. The limit for a married person filing a separate return is $0 - $10,000.

The new law would have provided for two phaseout ranges. In the case of a taxpayer filing a joint return, the phaseout range would have been $190,000 - $220,000. In the case of a taxpayer who files single, head of household, or married filing separately, the phaseout range would have been $95,000 - $110,000.

IRA Law Change #4. Traditional IRA

The 50% tax rate which applies to excess accumulations in a traditional IRA or a Roth IRA would have been reduced to 10%. The lower rate would have applied to 2002 and subsequent years.

IRA Law Change #5. All IRAs and Roth IRAs

For a long time, the IRS has stated the belief that the law does not grant it the authority to waive or create an exception to the 60-day requirement in order to have a rollover (i.e. a distribution which is not presently taxed). It simply did not matter if the accountholder was totally faultless for missing the 60-day requirement. For example, a person asks an IRA custodian if he or she has 60 or 90 days to complete a rollover, and the IRA personnel mistakenly says 90 days.

The new law would have granted the Secretary of the Treasury the discretion to waive the 60-day requirement in case of hardship - "where the failure to waive such requirement would be against equity or good conscience, including casualty, disaster, or other events beyond the reasonable control of the individual subject to such requirement." ◆

Administrative Procedures for "Certain" IRA Deposits, Continued from page 6

Bank is the owner of this CD at XYZ Bank, and all transactions within the IRA will be done with ABC Bank as custodian for the IRA of Jason Doy. Only the custodian is authorized to sign on this account.

2. Who will be responsible for 1099-R and 5498 reporting? It must be understood that this a "unique" account and is not a "normal" IRA as far as XYZ Bank is concerned. One of the questions XYZ Bank will have is whether or not they are to prepare the 1099-R or 5498 forms. The answer is, "No." They are NOT to prepare these forms, as they are NOT the custodian of this IRA. ABC Bank, as custodian of the IRA, will be responsible for preparing these forms. Therefore, XYZ Bank will have to take whatever steps are necessary to make certain these forms are not generated when the bank prepares them for XYZ's "normal" IRA accounts.

3. Should a 1099-INT be prepared? No, although XYZ Bank may be under the assumption that a 1099-INT should be prepared for this CD. Again, it must be remembered that this is not a "normal" CD — these are IRA funds, and interest is not to be reported to the IRS. As you know, interest on IRA funds is not taxed until distribution. XYZ Bank will again have to take whatever steps are necessary to be certain a 1099-INT is not generated for this account when the bank prepares this form for the bank's "normal" CD accountholders.

Summary. Jason Doy's IRA account at ABC Bank contains $100,000 invested at ABC Bank and $50,000 invested in a CD at XYZ Bank. These two accounts constitute ONE IRA account of which ABC Bank is the custodian. ABC Bank is responsible for all governmental reporting. XYZ Bank is to treat these funds as a type of IRA funds, even though, on their system, it looks like a normal CD. XYZ Bank is not to do any governmental reporting nor prepare a 1099-INT — a procedure must be set up to somehow "flag" this account so that this reporting is not generated. Any transactions concerning this CD are to only be handled by ABC Bank as custodian of the IRA; XYZ Bank is never to deal directly with Mr. Doy— even when contributions and/or distributions are involved. ◆

New RMD Rules, Continued from page 1

"Word-of-mouth" advertising by satisfied customers is one of your bank's best and most cost-effective means of advertising. Increased deposits may be the benefit reaped by the timely and up-to-date information furnished to your existing customers. ◆