September, 2001
Published Since 1984

The Pension Digest

ALSO IN THIS ISSUE –

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

What is a Coverdell Education Savings Account?

It is an Education IRA which has had its name changed. Congress and President Bush decided to rename Education IRAs to be Coverdell Education Savings Accounts as a tribute to former Senator Paul Coverdell (D, GA). Senator Coverdell died of cancer. He have been a strong proponent of Education IRAs. The law change was signed July 26, 2001.

Education IRAs are no longer a type of IRA. They probably never were, except in name only.

The IRS will need to issue guidance as to how and when the new name will be used and what amendments, if any, will need to be furnished to existing designated beneficiaries.

Update on Qualified Plan Amending

The IRS, in IRS NOTICE 2001-30, makes clear that the GUST process will NOT be delayed for EGTRRA. This means individually designed plans must be amended/ restated on or before December 31, 2001, for calendar year plan years, unless an exception applies. The IRS will NOT issue an additional extension of the deadline.

An exception exists for prior adopters of pre-approved plans. The deadline for such an adopter is not December 31, 2001, but it is later of: (1) the last day of the twelfth following the month the IRS issues the sponsor a favorable opinion letter, or (2) December 31, 2002.

A different exception exists for any employer. If such an employer signs a form on or before December 31, 2001, indicating its intent to adopt a GUST qualifying prototype plan, then they will be able to adopt the prototype as approved within the period described above.

What is the status of CWF's QP prototypes as filed with the IRS in December of 2000 for the GUST changes?

The IRS wrote us on October 1, 2001, and requested various changes. We are in the process of making these changes. We expect the IRS will issue us our opinion letters (and you yours, if you use CWF prototypes) within the next 60-90 days.

Continued on page 2

Extension on Account of Filing Deadlines – Terrorists Attacks

The IRS has issued two notices defining the special relief which it is granting on account of the terrorist attacks. These are Notice 2001-61 and Notice 2001-63.

This extension does impact individuals and businesses with respect to making IRA contributions and pension contributions, filing various returns, as well as all standard income tax forms. For example, it does apply to the filing of Form 5500 returns. It would also apply to the making of SEP-IRA and SIMPLE-IRA contributions.

Relief is not granted to all taxpayers. Relief will be granted to affected taxpayers who reside in the five counties of New York: Bronx, Kings, New York (boroughs of Brooklyn and Manhattan), Queens and Richmond, and Arlington county of Virginia. In addition, the following taxpayers who have been directly affected by the

Continued on page 8

Qualified Plan Amending,
Continued from page 1

Will additional amendments be required because of EGTRRA?

Yes. THERE WILL BE A SPECIAL AMENDMENT PROCESS FOR EGTRRA, which was enacted on June 7, 2001, and includes numerous changes to the QP rules. Almost all of these changes are effective in years beginning after December 31, 2001. While many of the changes are not mandatory, a plan sponsor that chooses to implement an optional provision of EGTRRA will have to amend its plan to conform plan provisions to plan operation.

Congress and the IRS had rejected the approach that a plan can be operated to comply with a law change without having to amend the plan. A qualified plan will now be required to adopt a good faith EGTRRA amendment in effect for a year if: (1) the plan is required to implement an optional provision of EGTRRA for the year, or the plan chooses to implement an optional provision of EGTRRA for the year, and plan language, prior to amendment, is not consistent either with the provision of EGTRRA or with operation of the plan in a manner consistent with EGTRRA, as applicable.

The deadline for adopting this good faith amendment is: (1) the end of the GUST remedial amendment period, or (2) the end of the plan year in which the amendments are required to be, or are optionally, put into effect.

The remedial amendment period for EGTRRA, in general, is December 31, 2005. If the plan has been amended with a good faith EGTRRA plan amendment or which automatically reflected a statutory EGTRRA change by a permitted incorporation by reference, then the plan's remedial amendment period ends on the last day of the 2005 plan year.

CWF and Associates will be providing a good faith EGTRRA amendment on or before December 15, 2001. ◆

Marketing/Selling IRAs In 2002

Because of the increase in contribution limits allowed under EGTRRA, we at CWF believe financial institutions have the potential to see a great demand for all types of IRA accounts, as well as for the Education Savings Account, if an institution keeps its customers and prospective customers well informed. Most individuals have no idea what the new tax law changes can mean to their financial future. The institution must consider what marketing techniques will work best to accomplish this informational goal: brochures, posters, radio and/or newspaper ads, web site development, customer newsletters, etc.

Of course, the institution's staff must also be informed and up to date on all changes, to enable them to answer customer questions accurately and intelligently. A well-informed staff trained to pick up on a customer's need or supply a timely suggestion, can be one of your greatest assets in obtaining these increased IRA deposits.

CWF has products to aid your institution in marketing IRAs to your customers. We personally recommend brochures and customer newsletters as a way of promoting these IRAs and informing customers of the changes.

Most of our brochures discuss both the rules for 2001 and for 2002, but in some cases only the 2002 rules are discussed. We have the following brochures available:

	#100	Traditional IRA for 2001 and 2002
NEW	#101	Coverdell Education Savings Accounts Opportunities
	#102	Roth IRA
	#102	Coverdell Education Savings Accounts
	#105	Roth IRA, Calculating the Annual Contribution
NEW	#106	The Special 50+ Contribution Rules
	#107	Understanding the "Simplified" RMD Rules
NEW	#108	Understanding the New IRA Contributions Credit
	#109	IRA-to-IRA Rollovers and Transfers
NEW	#110	A booklet describing three accounts, traditional and Roth IRAs and Coverdell Education Savings Accounts
NEW	#111	New IRA Opportunities for 2002
	#115	FDIC Insurance Coverage for IRAs and Coverdell Savings Accounts
	#118	SIMPLE-IRAs for 2002
	#150	Calculating Your IRA Deduction for 2001/2002
	#151	The Spousal Contribution Rules for 2002
	#154	Inherited IRA Rules
	#170	SEP IRAs for 2002
	#189	401(k) to IRA Rollover Rules ◆

Upcoming IRA Forms Changes

IRA forms will be revised to incorporate the law changes brought about by the Economic Growth and Revenue Reconciliation Act of 2001 (EGTRRA) and the revisions in the required minimum distribution rules.

The purpose of this article is to inform you of the changes we will be making in certain IRA forms.

We expect the IRS will change (i.e. rewrite) its model IRA forms during the period of October - December 2001 so that the new forms will be able to be available as of January 1, 2002. The IRS has informed us that their deadline is to have these forms available as of:

Continued on page 3

The Pension Digest

IRA Forms Changes,
Continued from page 2

IRA AMENDMENTS

1. Comprehensive traditional IRA on or before 12-17-01
2. Comprehensive Roth IRA on or before 12-17-01
3. Comprehensive SIMPLE-IRA on or before 12-17-01
4. Comprehensive Coverdell Education Savings Account on or before 12-17-01

Note – there will be separate IRA amendments for the traditional IRA, the Roth IRA, the SIMPLE IRA and the Coverdell Education Savings Accounts (formerly the Education IRA).

REVISED IRA BOOKLETS

1. Traditional IRA plan agreements and Disclosure Statements – all versions, on or before 12-17-01
2. Roth IRA plan agreements and Disclosure Statements – all versions, on or before 12-01-01
3. SEP-IRA. there is no special SEP-IRA plan agreement for the participant. The employer's form will presumably be updated by the IRS in the near future. There is no real rush, as the new contribution limits apply for the 2002 tax year.
4. SIMPLE-IRA. There is a special "employer" form and also an employee SIMPLE-IRA plan agreement. There are a number of administrative forms. We have updated the summary description for 2001 and 2002. We have updated the employee's elective deferral instruction form for 2001 and 2002.
5. Coverdell Education Savings Accounts Plan Agreement and Disclosure Statement – all versions, on or before 12-15-01

OTHER IRA ADMINISTRATIVE FORMS

1. All contributions forms for each type of IRA, on or before 10-15-01 (existing forms are okay for 2001 contributions, but will not work for 2002 contributions.)
2. IRA Rollover Forms – all types of IRAs, on or before 10-15-01

FORMS CHANGES ON ACCOUNT OF RMD RULES

Many IRA forms have been revised on account of the modified RMD rules. New forms have been created, and some existing forms should no longer be used (i.e. they should be discarded). See the summary below:

Old Form #	New/ Revised #	Explanation
64, 203 203-N	64	Under new rules, there is no need to make 70½ explanation elections. There is a need to instruct on form and method of distributions or use of alternative method. Must discard old version.
204, 204-N	204	Election Form for Beneficiaries Was Changed Because Rules Changed. Must discard old version.
204-R	204-R	Election Form for Roth IRA Beneficiaries Was Also Changed. Must discard old version.

NEW FORMS ON ACCOUNT OF RMD RULES

56	56	Changed to reflect fact that an RMD may be transferred. Old version should no longer be used for "70 1/2" persons.
56-I	56-I	Changed to reflect fact that new rules apply to Beneficiaries. These impact the transfer of inherited IRAs. Must discard old version.
306	306	Worksheet to calculate the RMD amount using the 2001 rules. Old form referenced tables which no longer are correct.
312	312	Certification form for use of alternative method was changed because of change in like-kind rules. Must discard old version.

Booklets explain the 2001 RMD rules for accountholders.

N/A	24, 25	Notice forms to explain RMDs under old and 2001 rules.
N/A	26, 27, 28	An IRA beneficiary may now designate his or her own beneficiary(ies).
N/A	61-I	Until the comprehensive amendment is furnished, an IRA would need to be amended to allow a beneficiary to designate a beneficiary. This amendment will no longer be necessary once the IRA plan agreement and disclosure statement are rewritten.

FORMS CHANGES ON ACCOUNT OF OTHER LAW CHANGES

57-R	57-R	Versions prior to 1/01 must be discarded as the withholding rules no longer apply to Roth distributions.

IRA Forms Changes, Continued from page 3

OTHER NEW FORMS

N/A	56-S	Transferring an IRA subject to a substantially equal periodic payment schedule is a special task.
N/A	56TREX	Explanation for Recharacterization – As with excess contributions, the IRS wants the IRA custodian to give a special notice to those who recharacterize.
N/A	67-W method 2	Worksheet to calculate earnings related to an earnings excess or a recharacterization.
N/A	77-R	Current form says bank must withhold unless instructed otherwise. Most IRA custodians have not furnished this amendment. The furnishing of a comprehensive amendment should resolve any compliance problems.

SUMMARY. Law and regulatory changes lead to IRA forms having to be revised and updated. Because there are now so many types of accounts (traditional IRA, Roth IRA. SEP IRA, SIMPLE IRA and Coverdell Education Savings Accounts) there can be many forms which must be revised. If your financial institution has not given serious consideration to having an "electronic" IRA forms system, it should. Some benefits of such a system are – cost savings; forms are easier to update; and you have access to specialty forms which normally are not bought because they are seldomly used. ◆

The SIMPLE-IRA Elective Deferral Limits

Year	Under Age 50	Age 50 and Over
2001	$6,500	$6,500
2002	$7,000	$7,500
2003	$8,000	$9,000
2004	$9,000	$10,500
2005	$10,000	$12,000
2006-2010	$10,000	$12,500 ◆

The Interrelation of the 1987 or the 2001 RMD Rules and the Election to Treat a Deceased Spouse's IRA as Own

Many of you have called and asked how RMD's are to be handled in situations where the surviving spouse elects to treat the decedent's IRA as his or her own. Are there any requirements for a surviving spouse to take one or more distributions with respect to the deceased spouse's IRA?

Furnishing answers to these situations can be very confusing because: (1) there are two sets of proposed regulations which may be applied for 2001 and (2) these two proposed regulations do not provide a clear answer for some situations. Hopefully the IRS will do a better job in furnishing answers for the following situations when it issues the final regulation. Remember that the 2001 regulation is proposed, and should be finalized by the end of 2001, for 2002 and subsequent years, but it is considered final for 2001 purposes. This article is being written before the IRS has issued its final regulation.

Set forth below is Q/A-5 of the proposed IRA regulation.

"Q-5. May an individual's surviving spouse elect to treat such spouse's entire interest as a beneficiary in an individual's IRA upon the death of the individual (or the remaining part of such interest if distribution to the spouse has commenced) as the spouse's own account?

A-5. (a) The surviving spouse of an individual may elect in the manner described in paragraph (b) of this A-5 to treat the spouse's entire interest as a beneficiary in an individual's IRA (or the remaining part of such interest if distribution thereof has commenced to the spouse) as the spouse's own IRA. This election is permitted to be made at any time after the distribution of the required minimum amount for the account for the calendar year containing the individual's date of death. In order to make this election, the spouse must be the sole beneficiary of the IRA and have an unlimited right to withdrawal amounts from the IRA. This requirement is not satisfied if a trust is named as beneficiary of the IRA even if the spouse is the sole beneficiary of the trust. If the surviving spouse makes such an election, the surviving spouse's interest in the IRA would then be subject to the distribution requirements of section 401(a)(9)(A) applicable to the spouse as the IRA owner rather than those of section 401(a)(9)(B) applicable to the surviving spouse as the decedent IRA owner's beneficiary. Thus, the required minimum distribution for the year of the election and each subsequent year would be determined under section

Continued on page 5

The Pension Digest

Proposed Regulation,
Continued from page 4

401(a)(9)(A) with the spouse as IRA owner and not section 401(a)(9)(B)."

The IRS does define some new conditions to be met before a surviving spouse may elect to treat his or her deceased spouse's IRA as his or her own.

1. In order to elect to treat the deceased spouse's IRA as his or her own, the surviving spouse must be the sole beneficiary and must have an unlimited right to withdraw amounts from the IRA. Under the 1987 rules, the spouse could be one of many beneficiaries and did not have to have an unlimited right to withdraw amounts from the IRA.

2. In order to elect to treat the deceased spouse's IRA as his or her own, the RMD for the deceased spouse's IRA for the year of death must have been distributed to the surviving spouse.

   We at CWF believe this new rule is fundamentally at odds with the way the statute is written. The approach of the statute is – there is an RMD which must be distributed to the IRA accountholder while he or she is alive, and an RMD which must be distributed to the IRA beneficiary after the accountholder dies. However, we will not be surprised if the IRS adopts such a rule.

3. Once the surviving spouse elects to treat the deceased spouse's IRA as his or her own, that IRA is then the surviving spouse's IRA. And it is stated that the RMD, for the year of election and each subsequent year, will be determined under section 401(a)(9)(A) and not 401(a)(9)(B). However, the proposed regulation does not make it clear whether or not the surviving spouse, if he or she is over age 70½, must take an RMD with respect to these funds for the year of death. At this point, we at CWF believe such a distribution is not required, since the balance as of the previous 12-31 was zero. There would be an RMD for the year after the year of death. Hopefully, the IRS will provide an answer in the final regulation.

We discuss below a number of situations to illustrate the old and new proposed RMD rules.

Situation #1.

Alex and Jean Rafferty have been married for 46 years and each has had his or her own IRA since 1982. Each has named the other as his or her sole primary beneficiary. Alex is age 77 and Jean is age 72. Alex's IRA had a balance of $40,000 as of 12-31-00. Jean' s IRA had a balance of $50,000 as of 12-31-00. Alex died on April 4, 2001. Each had elected to use the joint one-year reduction method for their RMD calculations under the 1987 rules.

Alex's RMD under the 1987 rules is $2,721 ($40,000/14.7).
Jean's RMD under the 1987 rules is $2,825. ($50,000/17.7).
Alex's RMD under the 2001 rules is $1,990 ($40,000/20.1).
Jean's RMD under the 1987 rules is $2,049. ($50,000/24.4).

Our observations are:

1. Alex died after his required beginning date.

2. Neither Alex nor Jean attain age 70½ in 2001. They attained age 70½ in an earlier year.

3. Jean, as the surviving spouse, has the right to elect to treat Alex's IRA as her own under the 1987 rules. Although she is Alex' s sole beneficiary, she would not need to be under the 1987 rules. Under the 1987 rules, she would have had at least two options – she could have set up a new IRA and designated a new beneficiary or she could have simply added Alex's IRA to her existing IRA.

4. Under the 1987 rules, CWF understood the IRS' position to be that Alex's RMD for 2001 would not need to be paid to Jean. Any requirement to take a RMD for 2001 ceased since he was no longer alive. And since it was not in her balance as of 12-31 of the preceding year, she also did not have to take any distribution from "her IRA" on account of transferring his IRA to her IRA.

   She would, however, be required to have paid to her the RMD for her IRA for 2001.

   Presumably, she would choose to use the 2001 rules. Thus, she would need to have paid to her the amount of $2,049.

5. Under the 2001 rules, Jean is not eligible to treat Alex's IRA as her own until his IRA's RMD amount for 2001 of $1,990 (using the 2001 rules) has been distributed to her. Note, the distribution must still be made to her and not to Alex or Alex's estate.

   As discussed above, it is not clear if Jean would have to calculate an RMD with respect to his IRS which she treated as her own. We think not, but if she wants to be conservative, this calculation could be made.

   She would, however, be required to have paid to her the RMD for her IRA for 2001. Presumably, she would choose to use the 2001 rules. thus, she would need to have paid to her the amount of $2,049.

Situation #2.

Same facts as situation #1 except Jean is age 67 and not age 72. Alex had elected to use the joint one-year reduction method for his RMD calculation for 2001 under the 1987 rules. Alex's RMD under the 1987 rules is $2083.33

Continued on page 6

Proposed Regulation,
Continued from page 5

($40,000/19.2). Alex's RMD under the 2001 rules is $1990.05 ($40,000/20.1).

Our analysis of this situation is

1. Alex died after his required beginning date.

2. Jean, as the surviving spouse, has the right to elect to treat Alex's IRA as her own under the 1987 rules. The above discussion applies.

3. Under the 1987 rules, CWF understood the IRS' position to be that Alex's RMD for 2001 would not need to be paid to Jean. Any requirement to take an RMD for 2001 ceased since he was no longer alive. And since it was not in her balance as of 12-31 of the preceding year, she also did not have to take any distribution with respect to his IRA for the year of death.

4. Under the 2001 rules, Jean is not eligible to treat Alex's IRA as her own until his IRA's RMD amount for 2001 of $1990.05 (using the 2001 rules) has been distributed to her. Note, the distribution must still be made to her and not to Alex or Alex's estate.

   In this situation, Jean is not subject to the RMD rules, so she would not have to calculate an RMD with respect to his IRA which she treated as her own.

Situation #3.

Alex and Jean Rafferty have been married for 46 years and each has had his or her own IRA since 1982. Each has named the other as his or her sole primary beneficiary. Alex is age 70 and Jean is age 70. Both will attain age 70½ in 2001. Alex's IRA had a balance of $40,000 as of 12-31-00. Jean's IRA had a balance of $50,000 as of 12-31-00. Alex died on April 4, 2001.

Our observations are:

1. The main difference from situations #1 and #2 is that both Alex and Jean attain age 70½ this year. What difference does this make?
2. He still died before his required beginning date. Jean has three options since he died before his required beginning date: (1)life distribution rule; (2) five-year rule or (3) elect as own.

3. Is there a requirement to distribute the RMD amount which was calculated for Alex's IRA for 2001, or did that requirement cease once he died? Does the answer depend upon which option will be elected? We don't think so. The requirement to make the distribution ceases once the accountholder dies. Jean, as the surviving spouse, has the right to elect to treat Alex's IRA as her own under the 1987 rules.

Situation #4.

Alex and Jean Rafferty have been married for 46 years and each has had his or her own IRA since 1982. Each has named the other as his or her sole primary beneficiary. Both are age 66. Alex died on April 4, 2001.

Our observations are:

1. Situation #4 is very similar to situation #3, but in this situation it is very clear that the RMD rules for a living accountholder do not apply to either of them, since they both are only 66.

2. He still died before his required beginning date. Jean has three options since he died before his required beginning date: (1) life distribution rule; (2) five-year rule or (3) elect as own.

3. Because Jean is the same age as Alex and since she is over age 59½, most likely she will want to treat his IRA as her own.

Situation #5.

Alex and Jean Rafferty have been married for 30 years and each has had his or her own IRA since 1982. Each has named the other as his or her sole primary beneficiary. Both are age 50. Alex died on April 4, 2001.

Our observations are:

1. Although Jean, in this situation, has the right to elect to treat Alex's IRAs as her own, she mostly likely does not want to. She most likely wants to elect the life-distribution rule and maintain the IRA as an inherited IRA. She then is entitled to take "early" distributions and not owe the 10% additional tax.

2. If she wishes, she can elect to treat the inherited IRA as her own when she attains age 59½ or older.

Situation #6.

Same facts in situation #1 except his daughter, Anne Marie, age 51, has been his sole beneficiary since his required beginning date rather than Jean. Alex died on April 4, 2001.

Our observations are:

1. He died after his required beginning date.
2. The RMD rule is that the remaining portion of his IRA must be distributed at least as rapidly as under the distribution method being used as of the date of his death. The five-year rule and the life-distribution rules are

Continued on page 7

The Pension Digest

Proposed Regulation,
Continued from page 6

rules which apply only if the accountholder dies before his required beginning date.

3. Under the 1987 rules, the distribution will need to be modified if one of the two factors was being recalculated. If neither factor was being recalculated, then the distribution method would not be changed.

4. Under the 2001 rules, unless a single life-expectancy factor will be used as based on Anne Marie's age in the year following the year of Alex's death. This factor will be reduced by one for subsequent years. This method is permissible because it, by definition, will result in distributions being made at least as rapidly, since it is based on a single life-expectancy factor.

Situation #7.
Same facts in situation #5 except Alex is 69.

Our observations are:
1. He died before his required beginning date.

2. Since Anne Marie is a nonspouse beneficiary, she will have the right to elect between the life-distribution rule and the five-year rule. The default is now the life distribution rule, so she must expressly elect the five-year rule if she wants to use that rule. ◆

IRS Creates Form 5306-A

The IRS has decided to replace Form 5306, Application for Approval of Prototype Simplified Employee Pension – SEP with Form 5306-A, Application for Approval of Prototype Simplified Employee Pension or Savings Incentive Match Plan for Employees of Small Employers (SIMPLE-IRA PLAN).

The reason for the change is self-evident. The Form 5306 was written only for SEP filings, whereas the Form 5306-A is written so that a filing may be made for either a SEP or a SIMPLE-IRA.

The IRS announced this change in Announcement 2001-96. The IRS will continue to accept applications submitted on the Form 5306-SEP until December 31, 2002.

Although the IRS has revised the filing form, the IRS has stated that the IRS approval letters for the time being for such plans will not cover the changes brought about by EGTRRA. The IRS will give notice when EGTRRA changes will be covered.

CWF will Update its SEP Prototype

CWF will begin a project to update its SEP prototype, because it has not updated its prototype since 1991. The IRS has not informed CWF that it must update its prototypes, but CWF believes that the 1991 documents (as modified by amendments) no longer are satisfactory to service a business customer. CWF will soon be informing all of its SEP prototype adopters that CWF will be submitting a revised SEP prototype to the IRS as soon as the IRS issues guidance on EGTRRA. CWF will not file its applications with the IRS unless and until the EGTRRA topics are covered. CWF will start the process of collecting the power of attorney forms and the filing fees. The filing fee for a SEP prototype is $125.

There are two principal reasons for a financial institution to sponsor a SEP prototype over using the IRS model Form 5305-SEP. First, a prototype will allow a business with a fiscal year tax year to establish the SEP and use that year for its plan year rather than being forced to use the calendar year as the plan year, as is required by the IRS model Form 5305-SEP. Secondly, a SEP prototype may contain an integrated allocation formula, whereas this is not allowed under the Model Form 5305-SEP. An integrated formula will allow a larger contribution to be made for a highly – compensated individual than would otherwise be the case. In most cases, the larger contribution will be greater than the additional fees which are associated with adopting an integrated SEP plan. ◆

IRA Planning Concepts

#1. THE MARKET IS DOWN. You are a traditional IRA accountholder. The value of your account is down 20-50%.

Now is a good time for you, as a traditional IRA accountholder, to seriously consider converting some or all of your traditional IRA to a Roth IRA. This is especially true if you believe the market (or at least your specific investment(s) will regain their value.

For example, you have an IRA which had a value as of 12-31-00 of $80,000. The value today is $40,000. You expect these investments will rebound to $80,000 or more by March of 2003. If you would convert your entire account now, you would pay tax on $40,000 and not $80,000. That is, you do not pay tax on the $40,000 loss.

#2. ROTH IRAs are not designed just as a retirement account. They are intended to be used to encourage people to use them to accumulate funds to purchase their first home. The rules provide that funds withdrawn once the five-year requirement is met and on account of paying for first-time home expenses will be a qualified distribution. This means the distribution is tax-free, subject to the $10,000 limit.

#3. The general rule is that funds paid to an IRA accountholder before he or she attains age 59½ are subject to an additional tax equal to 10% of the taxable portion of the withdrawal. There are a number of exceptions – death, disability, first time home buyer, education expenses, certain medical expenses, Roth conversion, etc.

Funds which are converted from a traditional IRA to a Roth IRA escape the 10% additional tax, but remain subject to a special 10% tax if withdrawn within five years of the conversion. This special 10% tax applies on a per conversion basis.

Once the five-year requirement has been satisfied, then the 10% additional tax will not be owed even though the Roth IRA accountholder is younger than age 59½ when he or she withdraws funds from the Roth IRA. For example, Gretchen Davis has an IRA with a balance of $65,000. She is age 48. She thinks she will want to buy a second home in 5-7 years. She will need $20,000 as the down payment. Buying a second home does not qualify as an exception to the 10% additional tax. If she converts $20,000 from her traditional IRA into a Roth IRA on 10-13-01, she will include the $20,000 in her income in 2001. On or after 10-13-06 when she will be age 53 she will be able to withdraw funds from her Roth IRA and not owe the 10% additional tax. She may or may not be in a lower tax bracket in 2001 than she would be in 2006. However, she would not have escaped the 10% additional tax if she had withdrawn the funds from the traditional IRA. Note that this planning technique is available only to Roth IRA accountholders who have converted, but who have not made any regular contributions, since the law mandates the order of distributions – annual contributions, conversion contributions, and then earnings.

#4. An IRA custodian may wish to share these planning points with customers or prospective customers. They may choose to act or not act. ◆

Extension
Continued from page 1

terrorists attacks are considered affected taxpayers." Some examples – relief workers, the victims of the airplanes, taxpayers whose place of employment is in a disaster area, and taxpayers with records maintained in a disaster area.

Affected taxpayers who are not individuals and who have an original filing deadline between September 11, 2001, and November 30, 2001, will have an additional six months plus 120 days to file that return and make any payment due with that return. Such taxpayers who are currently on an extension that expires between September 11, 2001, and November 30, 2001, will have an additional 120 days to file that return. These extensions do apply to the filing of Form 5500 and Form 5500-EZ. No further extension under form 5558 is permitted.

Affected taxpayers who are individuals and who have an original filing deadline between September 11, 2001, and November 30, 2001, will have until January 9, 2002 (i.e. 120 days) to file that return and make any payment due with that return. Taxpayers who are currently on an extension that expires between September 11, 2001, and November 30, 2001, will have an additional 120 days to file that return.

Exception. November 15, 2001, is the deadline to file returns and make payments required to be made from September 11, 2001, through October 31, 2001, rather than the 10 months described above if you are a taxpayer who has difficulty in meeting tax obligations because of disruption in the transportation or delivery of documents by mail or private service because of the terrorist attacks, and who do not otherwise qualify.

In general, estimated tax payments otherwise due after September 10, 2001, may be paid on or before January 15, 2002.

Taxpayers who believe they are entitled to this relief are to write "September 11, 2001, Terrorist Attack" in RED INK on the top of their return and other documents submitted to the IRS.

In Notice 2001-63, the IRS has extended the filing deadline (i.e. due date) for all federal tax obligations due between September 10, 2001, and September 24, 2001, until September 24, 2001 for all taxpayers (not just affected taxpayers) regardless of location. This postponement applies to the payment of taxes owing also, except it does not apply to deposits of federal taxes. ◆