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ALSO IN THIS ISSUE –

Collin W. Fritz and Associates, Inc.,
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Clarification—A Surviving Spouse's Right to Treat the Deceased Spouse's IRA as Their Own

A spouse who is the sole primary beneficiary, and who has an unlimited right to withdraw amounts from the deceased spouse's IRA, has the right to treat this IRA as his or her own IRA at any time after the spouse's date of death. The effect of treating the deceased spouse's IRA as his or her own IRA is that the surviving spouse is now treated as if he or she had originally made the IRA contributions. The surviving spouse is now considered to be the IRA owner, for whose benefit the IRA is maintained, for all purposes under the tax laws (e.g. the application of the 10% excise tax for pre-age 59½ distributions, the right to designate a beneficiary(ies), the right to convert the funds to a Roth IRA, the RMD Rules, etc).

The RMD rules will apply to this "elected" IRA only if the surviving spouse attains age 70½ or older during the year his or her spouse died. The RMD rules will NOT apply to this "elected" IRA if the surviving spouse is sufficiently young so that he or she is not subject to the RMD rules for the current year. When a surviving spouse elects to treat the deceased spouse's IRA as his or her own, the IRA is no longer an "inherited" IRA.

The purpose of this article is to illustrate various situations and discuss what RMD, if any, must be distributed for a given year. We, at Collin W. Fritz and Associates, Ltd. have had the understanding that the spouse beneficiary should generally be paid the RMD amount as determined for the deceased IRA owner for the year of his or her death, to the extent it was not paid to the IRA owner prior to his or her death. We have re-read the Q/A-5 of the IRC regulation 1.408-8, and have concluded that there are situations where the surviving spouse is not required to take such amount. He or she may take a smaller RMD amount, or, in some situations, not be required to take any distributions. As discussed below, we originally thought the special rule was the general rule, but it is only the exception.

When is the surviving spouse's election effective? Is it effective for the year of death or for the following year? How does the election affect the RMD distribution for a given year?

The IRS has written the rule to be—the RMD for the calendar year of the election and each subsequent year is made by using the age of the surviving spouse.

The surviving spouse, however, may choose to use a special rule (i.e. the exception). If the surviving spouse's election to "treat as own" occurs during the same year in which the deceased spouse died, then the surviving spouse has the right to be paid the RMD amount, if any, as determined for the deceased IRA owner. The surviving spouse only needs to be paid the RMD amount which had not yet been distrib-

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uted to the deceased IRA owner prior to his or her death.

IRA Owner and Spouse Beneficiary Both Over Age 70½, but the Spouse Beneficiary Is Younger than the IRA Owner

Illustration #1. John Jones was the IRA owner. His date of birth was 2-10-31. He died on January 30, 2005. He would have attained age 74. His IRA account balance as of 12-31-04 was $38,000.00. In January of 2005, the IRA custodian had calculated his RMD for 2005 to be $1,603.38 ($38,000/23.7). No portion of his 2005 RMD had been distributed to him prior to his death. His wife, Ann, was his sole beneficiary. Ann's date of birth was 5-5-33. She will attain age 72 in 2005. Ann (72) is younger than John (74). Consequently, she will most likely want to treat his IRA as her own in 2005. This means the 2005 RMD will be based on her age and not John's age. The RMD amount will be $1,484.38 ($38,000/25.6). This is $119.00 less than the RMD based on John's age.

Illustration #2. Same facts as Illustration #1, but assume that John had already been paid $750 of his RMD for 2005 prior to his death. The remaining RMD amount is $853.38 ($1,603.38 - $750). The IRS has not written the rule to provide that the RMD amount as calculated and paid to the IRA owner prior to his death (ie. $750) may be off-set against the RMD amount as calculated for the surviving spouse ($1,484.38). Even though Ann elects to treat John's IRA as her own, presumably she will use the special rule and she will withdraw $853.38 (i.e. the remaining amount of John's RMD amount) rather than the RMD amount of $1,484.38, as based on her age.

IRA Owner and Spouse Beneficiary Both Over Age 70½, but the Spouse Beneficiary Is Older than the IRA Owner

Illustration #3. Same situation as Illustration #1 except Ann's date of birth was 5-5-28. She will attain age 77 in 2005. Ann (77) is older than John (74). The 2005 RMD amount using John's age is $1,603.38. The 2005 RMD amount using Ann's age is $1,792.45 (38,000/21.2). Even though Ann elects to treat John's IRA as her own, she may use the special rule and she is only required to withdraw $1,603.38 (i.e. John's RMD amount). Be aware, the special rule applies only for the year of the accountholder's death. Ann will calculate her RMD for 2006 by using her age in 2006 and by using the Uniform Lifetime Table.

Illustration #4. Same facts as Illustration #3, but assume that John had already been paid $600.00 of his RMD for 2005 prior to his death. Again, Ann would wish to take advantage of the special rule. And she will required to withdraw just the remaining amount of $1,003.38.

IRA Owner Over Age 70½ but Spouse Beneficiary Is Younger than Age 70½

Illustration #5. His wife, Ann, was his sole beneficiary. Ann's date of birth was 5-5-43. She will not attain age 70½ until 11-5-2013. If Ann elects to treat John's IRA as her own in 2005, the RMD amount as calculated for John is not required to be distributed to Ann, because she is younger than 70½ and the RMD rules do not apply to her for 2005. She attains age 70½ in 2013. She will be required to take an RMD for 2013, but not before then.

IRA Owner Dies During the Year of Attaining Age 70½ but Spouse Beneficiary Is Younger than Age 70½

Illustration #6. There is no RMD for the year the IRA owner attains or would have attained age 70½ if he or she dies before his or her required beginning date.

IRA Owner Younger than Age 70½ but Spouse Beneficiary Is Older than Age 70½

Illustration #7. Same situation as Illustration #1 except John Jones' date of birth was 2-10-36. His wife, Ann, was his sole beneficiary. Ann's date of birth was 5-5-28. She will have to decide if she wants to treat John's IRA as her own. If she elects to treat John's IRA as her own, and if she also elects to use the special rule which allows her to take John's RMD amount for the year of death, if any, then she will not be required to take a distribution for 2005, but she will need to take one for 2006 and subsequent years. She will be 78 in 2006, and the divisor from the Uniform Lifetime table is 20.3.

A surviving Spouse has three ways to elect to treat his or her deceased spouse's IRA as his or her own IRA. First, the surviving spouse may re-designate the deceased owner's IRA so that the IRA bears his or her name as an owner and not as a beneficiary. This re-

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designation may be made by transferring the funds from the deceased owner's IRA to the IRA of the surviving spouse. Second, an automatic election takes place if the surviving spouse fails to take an RMD by a deadline. Third, an automatic election occurs if the surviving spouse makes a regular contribution.

Understanding When Reason Code G Is to Be Used

There appears to be much confusion among some accountants as to when to properly use Distribution Code G. The purpose of this article is to clarify this issue with the expectation that, if necessary, an institution will be able to provide this article to their customer who would then provide it to their accountant/tax advisor.

Some tax accountants believe that transferring funds from one IRA to another IRA or rolling over of funds from one IRA to the same IRA, or to another IRA, is to be reported as a direct rollover. An IRA rollover is NOT to be reported in the same way a direct rollover is reported. An IRA transfer is also not reported in the same way a direct rollover is reported.

From the IRS instructions—*Reporting a direct rollover.* *Report a direct rollover in box 1 and a 0 (zero) in box 2a. You do not have to report capital gain in box 3 or NUA in box 6. Enter Code G in box 7. Prepare the form using the name and social security number (SSN) of the person for whose benefit the funds were rolled over (generally the participant), not those of the trustee of the traditional IRA or other plan to which the funds were rolled.*

Tip. Also, use Code G with Code 4 for a surviving spouse who elects a direct rollover to an IRA or a qualified plan. Prepare the form using the name and SSN of the surviving spouse.

If you receive a direct rollover to an IRA, you must prepare Form 5498. If you receive a direct rollover to a qualified plan (including a governmental section 457(b) plan) or tax-sheltered annuity, no report is required.

In the IRS' "Guide to Distribution Codes," the explanation for the use of Code G is as follows: *"G — Direct rollover and rollover contribution. Use Code G for a direct rollover from a qualified plan (including a governmental section 457(b) plan) or tax-sheltered annuity to an eligible retirement plan (another qualified plan, a tax-sheltered annuity, or an IRA) See **Direct Rollovers** on page R-2. Also use Code G for certain distributions from conduit IRAs to an employer plan and IRA rollover contributions to an accepting employer plan. See **Conduit IRAs** on page R-2."* (Emphasis added.)

An IRA is an eligible retirement plan so that it qualifies to receive a direct rollover contribution coming from a qualified plan, 457(b) plan or tax-sheltered annuity. Note that the funds are NOT coming from an IRA. Funds may be distributed from an IRA and directly rolled over to a qualified plan, 457 plan or tax-sheltered annuity. Again, IRA funds do not qualify to be directly rolled over into another IRA.

The IRS, for a long time, has authorized that funds may be transferred from one IRA to another IRA. In a transfer, the disbursement check lists the IRA custodian as the payee. Transfers are non-reportable. In order to be considered a transfer, the movement of funds must be between the same type of plan (e.g. a QP-to-QP transfer, an IRA-to-IRA transfer, a 403(b)-to-403(b) transfer, a Roth IRA-to-Roth IRA transfer, etc.)

In a direct rollover, the disbursement check also lists the recipient (e.g. the IRA custodian) as the payee. The difference is that the issuer of the check is not an IRA; the issuer will be a 401(k), 457(b), 403(b) or some other employer-sponsored plan.

Concerning IRA-to-IRA transfers, the IRS' instructions state: ***Transfers.*** *Generally, do not report transfers between trustees or issuers (unless they are direct rollovers from qualified plans) that involve no payment or distribution of funds to the participant, including a trustee-to-trustee transfer from one IRA to another (unless they are recharacterized IRA contributions or Roth IRA Conversions) or from one tax-sheltered (section 403(b)) arrangement to another.*

The general rule is that the type of plan distributing the funds is not the same as the type of plan receiving the funds (e.g. 401(k)-to-IRA, IRA-to-401(k), etc.).

An IRA custodian who sends a check to another IRA custodian in the format, "First Bank IRA custodian fbo

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Jane Doe," should do so only if a transfer form has been completed by the three parties involved.

An IRA custodian who sends a check to an employer-sponsored plan in the format, "ABC Corporation 401(k) plan fbo Jane Doe," should do so only if a direct rollover instruction form has been completed by the three parties involved.

Tax Reporting for IRA Rollovers

The IRS used to use the reason code "2" for the situation where an IRA accountholder indicated he or she would be rolling these funds over. The IRS, however, no longer uses code "2" for this purpose. The IRS came to realize what the IRA accountholder "intended" to do did not give the IRS any useful information. Either the person made the rollover contribution or they didn't. The Form 5498 would show the rollover contributions, if any. The IRS concluded a distribution which the customer intends to roll over should be coded a "1" or a "7."

Correcting Errors with Respect to Rollovers

A financial institution called CWF with the following situation. The institution thought that it had made some errors and wanted to find out what needed to be done to put the situation in as good a standing as possible.

An IRA was opened at the financial institution with rollover funds on 9/17/04, in the amount of $77,925. On 9/23/04, the IRA accountholder withdrew the amount of $62,000. This distribution was coded as an "S." On 11/18/04, the accountholder re-deposited the $62,000 as a rollover contribution. What corrections, if any, should be made?

It is very important to determine from what type of plan the check for $77,925 was issued. The check was issued by a brokerage firm. It was issued with respect to some type of 401(k) or 403(b) plan. The payee of the check was, "ABC Bank FBO Jane Doe." This was a direct rollover check.

The original contribution form was dated 9/16/04, and was completed to show the contribution as a rollover to a SIMPLE-IRA. This form was prepared in error, since the only funds which are eligible to be rolled over to a SIMPLE-IRA are funds distributed from another SIMPLE-IRA, which was not the case. The contribution was a rollover to a regular IRA.

The IRA application form showed a rollover to a regular IRA. This form had been signed by Jane Doe. It was dated 10/1/04. This form has not been signed by a bank representative. It is VERY important that a bank representative sign this application. The IRS could argue that this person does not have an IRA when the bank fails to sign the form. A bank representative will want to sign this application and any and all other applications where a bank representative has failed to sign.

On 9/23/04, the IRA accountholder withdrew the amount of $62,000. An IRA distribution form was signed. The reason code for the distribution was listed as an "S" because, going on the basis of the first contribution form, the person thought this was a SIMPLE-IRA. The reason code used should have been "1." The "S" tells the IRS that the 25% additional tax most likely applies. The "1" tells the IRS that the 10% additional tax most likely applies.

On 11/18/04, another contribution form was prepared because the accountholder recontributed the amount of $62,000. The form was completed to show the type of contribution as a "recharacterization." It should have been completed to show the contribution type as a "rollover." A recharacterization is a special type of transfer which is used to correct or change a previously made contribution. It is not used to correct a distribution.

In order to do the proper governmental reporting, the funds coming into the bank on 9/17/04 need to be shown as a rollover. The distribution on 9/23/04 needs to be shown as a premature distribution, since Ms. Doe is younger than age 59½. The contribution of $62,000 on 11/18/04, should be shown as a rollover contribution. Ms. Doe will not owe any taxes with respect to the direct rollover of her IRA rollover. She will need to show these transactions on her 1040 tax return.

There was a question as to whether or not the rollover of the $62,000 on 11/18/04 is a valid rollover.

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It is — the once-per-year rule does not apply to distributions from a 401(k) plan or other qualified plan. A once-per-year rule applies to IRA rollovers. If the distribution of the $77,925 had been from an IRA, and then been rolled over to an IRA with ABC Bank, then Ms. Doe would not have been able to withdraw the $62,000 and roll it back in. She would have had to wait a year from the date the $77,925 was distributed.

Whenever there is a rollover, the general rule is: the bank wants to have the customer sign a rollover certification form. This should be done even when the customer withdrew the IRA funds from your bank and then makes the rollover contribution with your bank. If the funds were directly rolled over from a 401(k) plan, then the IRA custodian can have the person (e.g. Ms. Doe) furnish you with a copy of the section 402(f) notice and distribution form. Then you can rely on this form rather than the rollover certification form.

Mistaken HSA Distribution

What is the procedure an IRA custodian is to follow if an HSA account owner has requested an HSA distribution, and then the account owner notifies the custodian that he/she has determined that it was a "mistaken distribution"?

Notice 2004-50 discusses HSA situations in question and answer format. Q&A 37 discusses a mistaken distribution as follows:

"Q-37. An account beneficiary receives an HSA distribution as the result of a mistake of fact due to reasonable cause (e.g., the account beneficiary reasonably, but mistakenly, believed that an expense was a qualified medical expense and was reimbursed for that expense from the HSA). The account beneficiary then repays the mistaken distribution to the HSA. Is the mistaken distribution included in gross income under section 223(f)(2) and subject to the 10 percent additional tax under section 223(f)(4) or subject to the excise tax on excess contributions under section 4973(a)(5)?

A-37. If there is clear and convincing evidence that amounts were distributed from an HSA because of a mistake of fact due to reasonable cause, the account beneficiary may repay the mistaken distribution no later than April 15 following the first year the account beneficiary knew or should have known the distribution was a mistake. Under these circumstances, the distribution is not included in gross income under section 223(f)(2), or subject to the 10 percent additional tax under section 223(f)(4), and the repayment is not subject to the excise tax on excess contributions under section 4973(a)(5). But see Q&A 76 on the trustee's or custodian's obligation to accept a return of mistaken distributions."

Q&A 76 reads as follows: "Q-76. Must the trustee or custodian allow account beneficiaries to return mistaken distributions to the HSA?

A-76. No, this is optional. If the HSA trust or custodial agreement allows the return of mistaken distributions as described in Q&A 37, the trustee or custodian may rely on the account beneficiary's representation that the distribution was, in fact, a mistake."

CWF comments: In order for an accountholder to be allowed to repay a mistaken distribution, the HSA plan agreement must be written to allow such re-contribution. There is no IRS guidance as to how an HSA custodian is to handle this re-contribution. It will not, however, count toward the accountholder's allowed contribution amount for the year. CWF recommends that a bank treat this transaction as a non-reportable transfer until the IRS issues further guidance. We do not believe a custodian should treat the transaction as a rollover.

An HSA custodian is also permitted to rely on the accountholder's "say so" that the distribution was a mistake. However, it is in the institution's best interest to document this transaction. CWF has created a form which should be completed by the HSA accountholder so that the bank may have written documentation that a mistaken distribution has occurred. On this form, the HSA accountholder is to provide an explanation for the mistaken distribution and certify that he/she assumes total responsibility should the IRS conclude that the distribution did not meet the criteria for a mistaken distribution (a mistake of fact due to reasonable cause), and the accountholder incurs adverse tax consequences.

The HSA accountholder who has received a legitimate mistaken HSA distribution will not be subject to the penalty and excise taxes, nor will such distribution be included in the accountholder's gross income.

HSAs and Copayments

There seems to be some confusion as to how copayments for health care plans relate to HSAs. If a health care plan has an immediate copay amount (example: the plan pays 80%, and the individual pays 20%, beginning with the first dollar spent for health care), the plan is not considered a high-deductible plan for HSA purposes.

The rule for an individual to have a high-deductible health care plan is that the plan does not begin to pay benefits until the individual has paid a total of $1,000. After the $1,000 deductible has been met, it is allowable to have a copay amount until the individual has reached the yearly total out-of-pocket expense maximum amount of $5,000. After the individual has paid $5,000 of health expenses during a year, the plan must totally pay any additional amount (with no copay required). If the plan does not meet these requirements, it fails to be a high-deductible health care plan for HSA purposes. The same discussion would apply for the family coverage amounts.

Health care plans will need to be rewritten to incorporate the HSA requirements. The ideal situation would be that health care plans send written notice to their clients stating whether their plan does or does not qualify as a high-deductible health care plan for HSA purposes. It is important for individuals to have this written notification on which they can rely.

Prescription Drug Coverage Reminder: The general rule concerning prescription drug coverage is that the health plan and prescription drug plan of a health care plan be aggregated to meet the HSA deductible and out-of-pocket dollar requirements. However, for years 2004 and 2005, health and drug coverage are allowed to remain separate. Beginning in 2006, it will be required that health and drug coverage be aggregated to determine if a health plan meets HSA requirements for a high-deductible plan. Again, health care plans may need to be rewritten to include this provision in order for the plan to qualify as a high-deductible plan for HSA purposes.

HSA Distributions — How Long Can a Person Wait To Reimburse Himself or Herself?

There is no time limit. A person could incur a medical expense in 2004, pay the expense from funds in her personal checking account and then wait until 2025 to reimburse herself. By waiting to reimburse the HSA Account balance will grow more than it otherwise would have. Set forth below is Q/A 39 from IRS Notice 2004-50.

"Q-39. When must a distribution from an HSA be taken to pay or reimburse, on a tax-free basis, qualified medical expenses incurred in the current year?

A-39. An Account beneficiary may defer to later taxable years distribution from HSAs to pay or reimburse qualified medical expenses incurred in the current year as long as the expenses were incurred after the HSA was established. Similarly, a distribution from an HSA in the current year can be used to pay or reimburse expenses incurred in any prior year as long as the expenses were incurred after the HSA was established. Thus there is no time limit on when the distribution must occur. However, to be excludable from the account beneficiary's gross income, he or she must keep records sufficient to later show that the distributions were exclusively to pay or reimburse qualified medical expenses, that the qualified medical expenses have not been previously paid or reimbursed from another source and that the medical expenses have not been taken as an itemized deduction in any prior taxable year. See Notice 2004-2, Q&A31 and also Notice 2004-2, for transition relief in calendar year 2004 for reimbursement of medical expenses incurred before opening an HSA."

Example. An eligible individual contributes $1,000 to an HSA in 2004, the individual incurs a $1,500 qualified medical expense and has a balance in his HSA of $1,025. On January 3, 2005, the individual contributes another $1,000 to the HSA, bringing the balance in the HSA to $2,025. In June, 2005, the individual receives a distribution of $1,500 to reimburse him for the $1,500 medical expense incurred in 2004. The individual can show that the $1,500 HSA distribu-

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tion in 2005 is a reimbursement for a qualified medical expense that has not been previously paid or otherwise reimbursed and has not been taken as an itemized deduction. The distribution is excludable from the account beneficiary's gross income.

Nine VITA IRA Questions

The IRS has a number of tests for individuals who wish to serve as tax preparers for VITA. Set forth are nine IRA questions. The answers, with CWF's discussion, are provided following the test.

1. Which of the following statements is the best answer regarding contributions to traditional IRAs for 2004?

- ☐ a. The maximum amount taxpayers under age 50 may contribute to an IRA is $3,000.
- ☐ b. For married filing joint returns, the maximum IRA contribution cannot exceed $7,000 when both taxpayers are age 50 or older.
- ☐ c. The deadline for contributing to an IRA for the year 2004 is April 15, 2005.
- ☐ d. All of the above.
- ☐ e. None of the above.

2. Which of the following statements correctly describes the minimum distribution rules?

- ☐ a. Taxpayers are required to receive minimum distributions from qualified employee retirement plans, qualified annuity plans, deferred compensation plans, tax-sheltered annuity plans and traditional IRAs.
- ☐ b. A taxpayer is subject to an excise tax of 100% on required minimum distributions that are not taken.
- ☐ c. A taxpayer may avoid the excise tax on minimum distributions not taken by taking at least 90% of the required minimum distribution.
- ☐ d. All of the above.
- ☐ e. None of the above.

3. Alisha received a Form 1099-R for 2004. There is a "7" in box 7 or her form. What does the 7 stand for?

- ☐ a. Prohibited transaction
- ☐ b. Excess contributions
- ☐ c. Normal distribution
- ☐ d. Charitable gift annuity

4. Sam and Betty Lincoln retired in 2004. Sam has contributed to a traditional IRA for the last ten years, but he also participated in his employer's pension plan. He never deducted his IRA contributions. Sam received a distribution from his IRA in the amount of $1,000 in 2004. Which of the following statements is true?

- ☐ a. The $1,000 distribution is taxable.
- ☐ b. The entire $1,000 distribution is not taxable.
- ☐ c. Sam must complete Form 8606 and attach it to his tax return.
- ☐ d. Form 1099-R will report the taxable portion of the IRA distribution.

5. Damien King contributed a total of $4,000 in nondeductible contributions into a traditional IRA. By the end of 2004, his IRA had earned $800 in interest income. In that year, Damien received a distribution of $600. Which of the following statements is true?

- ☐ a. A portion of the distribution representing the interest income is taxable.
- ☐ b. Damien does not have to complete Form 8606.
- ☐ c. The entire distribution is taxable.
- ☐ d. The distribution is not taxable.

6. Distributions from all IRAs are fully taxable with the exception of the Roth IRA.

- ☐ a. True
- ☐ b. False

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7. Sally contributed to a Roth IRA for the last three years. In 2004, she took the full amount of her Roth IRA as a distribution to help her purchase her first home. The entire distribution is excluded from her taxable income.

- ☐ a. True
- ☐ b. False

8. Amy, age 60, contributed to a Roth IRA for 5 years. On year six, she became legally blind and made a distribution from her IRA. The entire distribution is excluded form her taxable income.

- ☐ a. True
- ☐ b. False

9. Which transactions involving traditional IRAs are permitted without penalties or additional taxes?

- ☐ a. Taking distributions at age 57.
- ☐ b. Investing the IRA in art works and rare wines.
- ☐ c. Rolling over assets within 90 days.
- ☐ d. Rolling over assets within one year.
- ☐ e. Taking two required minimum distributions during the year in which the taxpayer reaches age 70½.

Answers to VITA IRA Questions

1. d — All three statements are correct.

2. a — The required distribution rules do apply to the indicated plans. The excise tax for excess RMD accumulations is 50%, not 100%. If a person withdraws 90% of the RMD, he or she will not owe the 50% tax on the 90% which was distributed, but he or she will owe the 50% tax on the 10% (i.e. the shortage which was not distributed).

3. c — A 7 in box 7 of Form 1099-R indicates that the taxpayer received a normal distribution.

4. c — A taxpayer must complete and file the Form 8606 when he withdraws funds from an IRA when he has made nondeductible contributions for either the current or a prior year. Form 8606 is used by a taxpayer to substantiate to the IRS what portion of a distribution is “basis,” and therefore not taxable.

5. a — The IRS does not make it clear that the taxpayer has never made any deductible IRA contributions in prior years to this IRA or another IRA. If there were not deductible IRA contributions, then only the interest income will be taxable. If there had been deductible contributions, then a portion of these contributions along with the interest income would have been taxable.

6. b — False. As illustrated by questions 4 and 5, a distribution of basis (nondeductible contributions) from a traditional IRA is not taxable.

7. b — False. Her distribution was not made *after* the 5-year period beginning with the first taxable year she made a contribution to her IRA. Therefore, although her basis in the account is not taxable, any interest earned would be taxable income.

8. a — True. Amy’s distribution can be excluded from her taxable income because she made it six years after she made her first Roth IRA contribution, which satisfies the 5-year period requirement

9. e — A penalty will not be assessed if an IRA accountholder takes two RMD distributions rather than just one.