The Pension Digest

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ALSO IN THIS ISSUE –

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

Katrina Tax Law Changes

On September 22, 2005, Congress sent the Katrina Emergency Tax Relief Act of 2005 to President Bush for signature. This bill passed the House on a vote of 422-0, and the vote in the Senate was also unanimous. This bill contains a number of IRA and other pension law changes. President Bush signed this bill into law on September 23, 2005. It is also expected that there will be additional tax law changes impacting IRAs before December 31.

The general rule is that a distribution from an IRA or a pension plan is subject to a 10% additional tax if the recipient has not yet attained age 59½.

The first favorable tax law change is that the 10% tax will not apply to any "qualified Hurricane Katrina distribution." In general, individuals directly involved with Hurricane Katrina will now be able to withdraw funds from their IRA (and possibly from some pension plans) on or before December 31, 2006, and they will not owe the 10% additional tax. Such distribution will generally be included in income and will be taxable. Technically, a qualified Hurricane Katrina distribution is defined to be "<u>any distribution from a traditional IRA or IRA annuity, a qualified trust, 403(a) plan, 403(b) plan or an eligible 457 plan</u> *on or after August 25, 2005, and before January 1, 2007,* **to an individual whose principal place of abode on August 28, 2005, is located in the Hurricane Katrina disaster area and who has sustained economic loss by reason of Hurricane Katrina.**" However, such distributions, when aggregated, must be $100,000 or less. Any distribution in excess of $100,000 (in the aggregate) will not be a qualified Hurricane Katrina distribution and will be subject to the 10% additional tax, if applicable, and will not receive the other favorable treatments discussed below.

The second favorable tax law change is that the 20% mandatory tax withholding rule, with respect to an eligible rollover distribution from an employer plan, will not apply if such distribution is a qualified Hurricane Katrina distribution. Individuals will be able to instruct that they do not want withholding.

The third favorable tax law change is that an individual is allowed to roll over such distribution to a traditional IRA or IRA annuity, a qualified trust, 403(a) plan, 403(b) plan or an eligible 457 plan, but the time given to complete the rollover is much longer than the standard 60 days. The time period for this special rollover is, "at any time during the three-year period beginning on the day after the date on which such distribution is received." For example, if a person took a distribution of $30,000 from her IRA on September 1, 2005, then as long as she contributes the amount of $30,000 (in one or more contributions) on or before September 1, 2008, the distribution of the $30,000 will not be taxable.

The fourth favorable law change is that a person who receives a qualified

Continued on page 2

Katrina Tax Law Changes,
Continued from page 1

Hurricane Katrina distribution will include 1/3 of the distribution in income for the year of the distribution, plus 1/3 of the distribution in each of the following two years. For example, if Sara Jones withdraws $27,000 on October 10, 2005, then she will be required to include $9,000 in income for 2005, 2006, and 2007.

However, if Sara rolls over $24,000 on July 1, 2008, then she presumably will be entitled to refunds with respect to her 2005 and 2006 tax returns. She would owe income tax with respect to the $3,000 which she did not roll over. It appears she would owe income tax on $1,000 for 2005, 2006, and 2007. It may be possible that the IRS will issue guidance explaining that no income is owing as long as there is a reasonable expectation that a person will complete the rollover within the three-year period.

The fifth favorable law change is that a qualified Hurricane Katrina distribution is treated as meeting the "hardship" distribution requirements set forth in sections 403(b)(7)(A)(ii), 403(b)(11) and 457(d)(1)(A).

The sixth favorable law change creates another special rollover rule. There were some individuals who withdrew money from their 401(k) or 403(b) plans to purchase or construct a principal residence in the Hurricane disaster area (but such residence was not so purchased or constructed on account of Hurricane Katrina), or withdrew funds from an IRA because they qualified as a first-time home buyer, to purchase or construct a principal residence in the Hurricane disaster area (but such residence was not so purchased or constructed on account of Hurricane Katrina). If such a person received a qualified distribution after February 28, 2005, and before August 29, 2005, then he or she will be granted rollover treatment as long as the re-contribution occurs during the period beginning on August 25, 2005, and ending on February 28, 2006.

The seventh, eighth, and ninth law changes relate to three changes in the standard loan rules. The new rules will only apply to an individual whose principal place of abode on August 28, 2005, is located in the Hurricane Katrina disaster area, and who has sustained an economic loss by reason of Hurricane Katrina. Such a person is called a "qualified individual." One standard loan rule is that the maximum amount which can be borrowed is $50,000. This law increases the maximum loan amount to $100,000. A second standard loan rule is that a loan must be sufficiently collateralized and only 50% of a person's vested account balance may be used as collateral. Although the law allowed a person to pledge additional collateral, most plans were written to limit the loan to 50% of a person's vested account balance because the plan administrator did not want to have to administer the collateral. A qualified individual will **not** need to pledge any collateral, because under the new law he or she is now allowed to use 100% of his or her vested account balance as collateral. A third standard loan rule is that the loan must be repaid over a five-year period. The new law delays, for one year, all subsequent loan payments due with respect to an outstanding loan, as of August 28, 2005. It appears that any loan payment due to be paid during the period of August 25, 2005, and ending December 31, 2006, is postponed for one year and then all subsequent payments are also correspondingly changed.

The IRS will certainly be issuing further guidance of these new laws and their impact on IRAs and pension plans. The law contains a provision that provides that pension plans will remain "qualified" until on or before the last day of the first plan year beginning on or after January 1, 2007, or such later date as the Secretary of the Treasury may prescribe. The IRS will be giving guidance as to how and when amendments (including model amendments) may be adopted by a sponsoring employer.

The Pension Digest

IRA Disclaimers—New IRS Guidance

A person who has been designated as an IRA beneficiary is not required to accept the IRA assets. He or she may refuse such gift or bequest by executing a disclaimer. There may be many reasons why a person would decline the gift or bequest. Sometimes it is done for estate-planning reasons.

The rules for disclaimers for federal income tax purposes are set forth in Internal Revenue Code section 2518. There will also be state laws to be complied with. These state laws are beyond the scope of this article. If a person (i.e. an IRA beneficiary) makes a qualified disclaimer with respect to a property interest, then such interest is treated as if it had never been transferred to the IRA beneficiary, because he or she is treated as having predeceased the property owner (i.e. the IRA accountholder). "A 'qualified disclaimer' is an irrevocable and unqualified refusal by a person to accept an interest in property, but only if: (1) such refusal is in writing, (2) such writing is received by the transferor of the interest, his legal representative, or the holder of the legal title to the property to which the interest relates not later than the date which is 9 months after the later of (A) The day on which the transfer is made, or (B) the day on which such person attains age 21, (3) such person has not accepted the interest or any of its benefits, and (4) as a result of such refusal, the interest passes without any direction on the part of the person making the disclaimer and passes either—(A) to the spouse of the decedent, or (B) to a person other than the person making the disclaimer."

For example, assume John Doe died on December 1, 2004. He was age 77. He had not yet been paid his required distribution of $2,300 for 2004. His primary beneficiary was his daughter, Ann, age 45. In order to avoid the 50% excess accumulation tax, Ann was paid the RMD amount of $2,300 on December 20, 2004. John's contingent beneficiary was his granddaughter, Mary. Mary is age 18 and is the daughter of Ann. The balance in John's IRA on December 1, 2004 was $49,000.

In order to avoid the assessment of the 50% excess accumulations tax for 2004, Ann needed to be paid the RMD amount for 2004, even though she may not have yet decided if she wanted to disclaim some or all of John's IRA.

Ann decides she wants to disclaim her interest in John's IRA. Ann has not taken any other distributions with respect to this IRA as of July 31, 2005. Her goal is to have Mary receive the distributions and pay income tax rather than herself. Mary's marginal income tax bracket is substantially lower than Ann's. Mary is entering college and will be in a relatively low marginal tax bracket for the next couple of years.

It would certainly appear that Ann has already accepted benefits from the gifted IRA by receiving the $2,300 RMD amount, and therefore she would not satisfy the disclaimer requirements.

Although a literal reading of the statute would indicate that any prior receipt of the funds would make a person ineligible to disclaim the inherited interest, the governing regulation was written to alleviate this harsh result. Section 25.2518-3(c) provides that the gift amount that is distributed to the disclaimant prior to the disclaimer is treated as a distribution of corpus from the bequest and does not preclude a disclaimer with respect to the balance of the bequest. This regulation also requires the income attributable to the gift amount already distributed be distributed. This income amount cannot be disclaimed.

The formula used to calculate the income attributable to the disclaimed amount is:

$$\frac{\text{The gift amount received}}{\text{IRA's FMV as of date of death}} \times \text{total amount of income earned by the bequest between date of transfer and date of disclaimer}$$

Even though prior to making the disclaimer, the IRA beneficiary was distributed the RMD amount for the year of the IRA owner's death, a beneficiary's disclaimer of a beneficial interest in a decedent's IRA will be a "qualified disclaimer" if all of the other requirements of that section are met. The IRA beneficiary may make a qualified disclaimer with respect to all or a portion of the remaining IRA balance except that any income attributable to the RMD amount cannot be disclaimed. The disclaimed amount and the income attributable to the disclaimed amount must be paid to

Continued on page 7

Modified Adjusted Gross Income (MAGI) for Roth IRA Contribution Purposes

An individual is eligible to contribute to a Roth IRA only if his or her modified adjusted gross income is less than the following amounts:

1. $160,000, if married, filing jointly, or filing as a qualifying widower;
2. $10,000, if married, filing separately, and you lived with your spouse at any time during the year.
3. $110,000, for all other filing categories.

If an individual's MAGI is equal to the above amounts (or is greater), the individual will be ineligible to make a regular Roth IRA contribution.

MAGI for Roth IRA purposes is defined to be an individual's adjusted gross income (the amount on line 37 of IRS Form 1040, or line 22 of IRS Form 104A) as modified.

The first modification is to subtract from this starting amount the taxable portion of a Roth IRA conversion. That is, the conversion amount is ignored when determining whether or not a person may convert his or her traditional IRA to a Roth IRA.

The second series of modifications is to add

Continued on page 5

Worksheet 2-1. **Modified Adjusted Gross Income for Roth IRA Purposes**
Use this worksheet to figure your modified adjusted gross income for Roth IRA purposes.

1.	Enter your adjusted gross income (Form 1040, line 37 or Form 1040A, line 22)	**1.** ______
2.	Enter any income resulting from the conversion of an IRA (other than a Roth IRA) to a Roth IRA	**2.** ______
3.	Subtract line 2 from line 1	**3.** ______
4.	Enter any traditional IRA deduction (Form 1040, line 25 or Form 1040A, line 17)	**4.** ______
5.	Enter any student loan interest deduction (Form 1040, line 26 or Form 1040A, line 18)	**5.** ______
6.	Enter any tuition and fees deduction (Form 1040, line 27 or Form 1040A, line 19)	**6.** ______
7.	Enter any foreign earned income and/or housing exclusion (Form 2555, line 43 or Form 2555-EZ, line 18)	**7.** ______
8.	Enter any foreign housing deduction (Form 2555, line 48)	**8.** ______
9.	Enter any exclusion of bond interest (Form 8815, line 14)	**9.** ______
10.	Enter any exclusion of employer-provided adoption benefits (Form 8839, line 30)	**10.** ______
11.	Add the amounts on lines 3 through 10.	**11.** ______
12.	Enter: • $160,000 if married filing jointly or qualifying widow(er) • $10,000 if married filing separately and you lived with your spouse at any time during the year • $110,000 for all others	**12.** ______

Next. Is the amount on line 11 more than the amount on line 12?
Yes. See the ***Note*** below.
No. The amount on line 11 is your ***modified adjusted gross income*** for Roth IRA purposes.

Note. If the amount on line 11 is more than the amount on line 12 and you have other income or loss items, such as social security income or passive activity losses, that are subject to AGI-based phaseouts, you can refigure your AGI solely for the purpose of figuring your modified AGI for Roth IRA purposes. Refigure your AGI without taking into account any income from conversions. (If you receive social security benefits, use *Worksheet 1* in *Appendix B* to refigure your AGI.) Then go to list item 2) above under *Modified AGI* or line 4 above in *Worksheet 2-1* to refigure your modified AGI. If you do not have other income or loss items subject to AGI-based phaseouts, your modified adjusted gross income for Roth IRA purposes is the amount on line 11 above.

	22	Add the amounts in the far right column for lines 7 through 21. This is your **total income** ▶		22	
Adjusted Gross Income	23	Educator expenses (see page 26)	23		
	24	Certain business expenses of reservists, performing artists, and fee-basis government officials. Attach Form 2106 or 2106-EZ	24		
	25	Health savings account deduction. Attach Form 8889	25		
	26	Moving expenses. Attach Form 3903	26		
	27	One-half of self-employment tax. Attach Schedule SE	27		
	28	Self-employed SEP, SIMPLE, and qualified plans	28		
	29	Self-employed health insurance deduction (see page XX)	29		
	30	Penalty on early withdrawal of savings	30		
	31a	Alimony paid b Recipient's SSN ▶	31a		
	32	IRA deduction (see page XX)	32		
	33	Student loan interest deduction (see page XX)	33		
	34	Tuition and fees deduction (see page XX)	34		
	35	Domestic production activities deduction. Attach Form 8903	35		
	36	Add lines 23 through 31a and 32 through 35		36	
	37	Subtract line 36 from line 22. This is your **adjusted gross income** ▶		37	

For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see page 75. Cat. No. 11320B Form **1040** (2005)

The Pension Digest

MAGI for Roth IRA Contribution Purposes, Continued from page 4

the following amounts due to various deductions and exclusions:

1. The amount claimed as a traditional IRA deduction;
2. Any student loan interest deduction;
3. Any tuition and fees deduction;
4. Any foreign housing exclusion or deduction;
5. Any foreign earned income exclusion;
6. Any exclusion of qualified bond interest on Form 8815; and
7. Any exclusion of employer-provided adoption benefits.

A person must make additional calculations in figuring his or her adjusted gross income (AGI) if he or she has any social security income or passive activity losses that are subject to special AGI-based phaseouts. See worksheet 1 in appendix B of IRA Publication 590.

It is also important to understand that other deductions to arrive at AGI are NOT required to be added back to AGI. The following expenses/deductions are not added back to arrive at MAGI for Roth IRA purposes:

1. Deduction for educator expense;
2. Deduction for moving expenses;
3. HSA deductions;
4. Deduction for ½ of self-employment tax
5. SEP, SIMPLE and QP deductions;
6. Deduction for alimony; and
7. Deduction for penalty on early withdrawal.

Tax Treatment of HSA Upon the Death of the Account Owner

Spouse beneficiary. If the spouse of the deceased account owner is the sole beneficiary of an HSA, the HSA becomes the HSA of the spouse as of the date of death of the account owner. There are no immediate tax consequences, as the spouse is now the HSA owner. Standard HSA tax rules will apply to any distribution. The surviving spouse will complete Form 8889 as the account owner.

Nonspouse beneficiary (other than the individual's estate), or NO designated beneficiary. In this situation, the HSA ceases to be an HSA as of the date of death of the account owner. This type of beneficiary will complete Form 8889 as follows.

✓ Enter "Death of HSA account owner" across the top of Form 8889.

✓ Enter the name(s) shown on your tax return and your SSN in the spaces provided at the top of the form, and skip Part I.

✓ On line 13, for a beneficiary other than the estate, enter qualified medical expenses incurred by the account beneficiary before the date of death, that you paid within 1 year after the date of death.

✓ Complete the rest of Part II.

Note. A beneficiary is allowed to pay the account owner's final qualifying medical expenses from the HSA tax free, if such expenses are paid within one year of the date of the account owner's death. No taxes will be owing on qualifying medical payments.

Because some non-profit entities do not pay taxes, an HSA account owner may wish to name such an entity (for example, a church) as the beneficiary of their HSA account. If the account owner names a child or children, taxes will be owing on any amount not used to pay the account owner's medical expenses.

If the nonspouse beneficiary is not immediately paid the funds in the HSA account, any earnings accumulated after the date of death of the account owner will be considered ordinary income to the beneficiary, and normal income tax will be owing on this amount.

Continued on page 6

Tax Treatment of HSA,
Continued from page 5

Estate of account owner as beneficiary. If the estate of the account owner is the beneficiary of the HSA, the value of the HSA as of the account owner's date of death is included on the decedent's final income tax return. Form 8889, would be completed as detailed above for a nonspouse beneficiary, but Part I should be be completed, if applicable. This distribution will not be subject to the additional 10% tax. Earnings accumulated after the date of death must be included on the estate's income tax return as normal income.

Form **8889**

Department of the Treasury
Internal Revenue Service

Health Savings Accounts (HSAs)

▶ **Attach to Form 1040.** ▶ **See separate instructions.**

OMB No. 1545-1911

2005

Attachment
Sequence No. **138**

Name(s) shown on Form 1040

Social security number of HSA beneficiary. If both spouses have HSAs, see page 2 of the instructions ▶

Before you begin: Complete Form 8853, Archer MSAs and Long-Term Care Insurance Contracts, if required.

Part I **HSA Contributions and Deduction.** See page 2 of the instructions before completing this part. If you are filing jointly and both you and your spouse each have separate HSAs, complete a separate Part I for each spouse (see page 2 of the instructions).

1	Check the box to indicate your coverage under a high-deductible health (HDHP) plan during 2005 (see page 2 of the instructions) ▶ ☐ Self-only ☐ Family		
2	HSA contributions you made for 2005 (or those made on your behalf), including those made from January 1, 2006, through April 17, 2006, that were for 2005. **Do not** include employer contributions or rollovers (see page 2 of the instructions)	2	
3	If you were under age 55 at the end of 2005, and on the first day of **every** month during 2005, you were an eligible individual with the **same** annual deductible and coverage, enter the **smaller** of: • Your annual deductible (see page 3 of the instructions), or • $2,650 ($5,250 for family coverage). All others, enter the limit from the worksheet on page 3 of the instructions	3	
4	Enter the amount you and your employer contributed to your Archer MSAs for 2005 from Form 8853, lines 3 and 4. If you or your spouse had family coverage under an HDHP at any time during 2005, also include any amount contributed to your spouse's Archer MSAs	4	
5	Subtract line 4 from line 3. If zero or less, enter -0-	5	
6	Enter the amount from line 5. But if you and your spouse each have separate HSAs and had family coverage under an HDHP at any time during 2005, see the instructions on page 4 for the amount to enter.	6	
7	If you were age 55 or older at the end of 2005, married, and you or your spouse had family coverage under an HDHP at any time during 2005, enter your additional contribution amount (see page 4 of the instructions)	7	
8	Add lines 6 and 7	8	
9	Employer contributions made to your HSAs for 2005	9	
10	Subtract line 9 from line 8. If zero or less, enter -0-	10	
11	**HSA deduction.** Enter the **smaller** of line 2 or line 10 here and on Form 1040, line 25. **Caution:** *If line 2 is more than line 11, you may have to pay an additional tax (see page 4 of the instructions).*	11	

Part II **HSA Distributions.** If you are filing jointly and both you and your spouse each have separate HSAs, complete a separate Part II for each spouse.

12a	Total distributions you received in 2005 from all HSAs (see page 5 of the instructions)	12a	
b	Distributions included on line 12a that you rolled over to another HSA. Also include any excess contributions (and the earnings on those excess contributions) included on line 12a that were withdrawn by the due date of your return (see page 5 of the instructions)	12b	
c	Subtract line 12b from line 12a	12c	
13	Unreimbursed qualified medical expenses (see page 5 of the instructions)	13	
14	**Taxable HSA distributions.** Subtract line 13 from line 12c. If zero or less, enter -0-. Also, include this amount in the total on Form 1040, line 21. On the dotted line next to line 21, enter "HSA" and the amount	14	
15a	If any of the distributions included on line 14 meet any of the **Exceptions to the Additional 10% Tax** (see page 5 of the instructions), check here ▶ ☐		
b	**Additional 10% tax** (see page 5 of the instructions). Enter 10% (.10) of the distributions included on line 14 that are subject to the additional 10% tax. Also include this amount in the total on Form 1040, line 63. On the dotted line next to line 63, enter "HSA" and the amount	15b	

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The Pension Digest

IRA Disclaimer, Continued from page 3

the beneficiary entitled to receive the disclaimed amount, or must be segregated in a separate account.

Note that this formula to calculate the attributable income does not take into account the fact that there was little actual income with respect to the gifted amount (i.e. the RMD of $2,300) since it was withdrawn on December 20, 2004, and John had only died on December 1, 2004. The IRS formula requires one to calculate earnings until the time of the disclaimer, which is occurring on July 31, 2005.

In addition, a person who disclaims his or her entire remaining interest on or before September 30 of the calendar year following the year of the IRA accountholder's death will not be considered a designated beneficiary for RMD purposes, if, before such date, the disclaimant is paid the income attributable to the RMD so that the disclaimant is not entitled to any further benefit.

Other situations or examples where a beneficiary may wish to disclaim the bequest of an IRA—

#1. The IRA accountholder dies with a relatively small balance of $11,000. The accountholder had designated his three (3) children as the beneficiaries. The children know that they will withdraw all of the funds. Rather than the children paying income tax on this amount at their marginal income tax rates, it may be preferable to have the funds paid to the estate, because the estate may have some off-setting deductions available to it.

#2. The IRA accountholder has two children. His IRA balance is $90,000. For whatever reason, the IRA accountholder had only designated one child as the beneficiary. This child wants 50% to go to his sibling. The accountholder's will provides that any property not specifically mentioned in the will is to be split 50%/50% between the two children. By disclaiming his share, the one child may achieve the result that 50% will go to his sibling.

In summary, there are numerous situations where a person who has been designated as an IRA beneficiary may wish to disclaim his or her share. In some disclaimer situations, the IRA balance will be quite large and in other cases it may be quite modest. Disclaimers are often used to accomplish after-death tax-planning goals. These can be income tax as well as estate tax planning goals. Disclaimers may also be used for non-tax purposes.

Critical Task—Determining the Fair Market Value (FMV) of IRA Assets

IRAs funds can be invested in various assets, from stocks, bonds, and mutual funds, to real estate and anything else allowable under IRA rules. As difficult as it may be to value these assets, it is the IRA custodian's duty to make sure the value of an IRA asset is determined as accurately as possible. This may mean an appraisal, which may be done by an independent party.

Determining the fair market value of an IRA or one of the assets of the IRA is extremely important when there is to be a distribution of an asset "in kind." The general rule is that the recipient of a distribution from a traditional IRA will need to include the FMV of the distribution in his or her taxable income. If an IRA asset is undervalued, then the U.S. Treasury will collect less in income taxes than it should, and it will look to see who should pay the additional taxes owing. A financial institution does not want the IRS to think the financial institution should pay these additional taxes. A financial institution certainly wishes to have well-established procedures for determining the fair market value of any IRA asset which is not actively traded.

Many times, a traditional IRA accountholder will wish to convert his traditional IRA to a Roth IRA, meaning there will be a "deemed" distribution. The individual wishes to retain the current investments. Or, a person who attains age 70½ may wish to have a real estate parcel distributed from his or her IRA. Or, on the other end of the spectrum, an IRA investment has become worthless. Two examples follow.

Example #1. An individual purchased real estate with his traditional IRA 10 years ago. He now wants to convert this traditional IRA to a Roth IRA. You could run into the situation where an asset such as real estate was worth $200,000 when purchased 10 years ago, and now has appreciated to $400,000 or more. Remember, the dollar amount converted from the traditional IRA to the Roth IRA is taxable to the accountholder in the year received. This accountholder may well desire that you base the taxable amount of this

Continued on page 8

Determining the FMV of IRA Assets, Continued from page 7

IRA on the purchase price (i.e. $200,000), rather than the current FMV ($400,000) as the taxes would be considerably less. Ultimately the $200,000 would be tax free if a later distribution was a "qualified" distribution for Roth IRA purposes.

Example #2. An IRA accountholder invested in Hobby Hut stock with her IRA assets. As of 12/31/04, the business had been closed, and the stock's value was deemed to be zero (0). What must the IRA custodian do when an IRA has no value? There is no right or wrong answer in this case, except to be certain that the value of the stock is indeed zero. Again, an independent appraisal may be the best course of action.

Can the institution require that the IRA be closed and the stock distributed? The institution may close the IRA (but it is not required), if the only asset in the IRA was the Hobby Hut stock. The institution also has a perfect right to distribute the stock certificates — there would be no compliance problems, because a distribution can be made from an IRA at any time.

In fact, CWF recommends that the stock be removed from the IRA. The accountholder may still wish to keep the IRA and contribute additional funds, which would be permissible. The reason to remove the stock from the IRA is because if, at some time in the future, the business would reopen, and the stock would regain value, although the individual would be taxed capital gains tax, it would most likely be less than the marginal income tax rate the individual would pay on a normal IRA distribution.

Because the value of the account is zero, no 1099-R would be required. However, CWF recommends that it may be desirable to value the stock at $1. Then a 1099-R would be required (because a 1099-R is required for a distribution of any amount). The reason for doing this would be so that both the accountholder and the IRS would have documentation of this distribution.

Summary. It is the duty of the IRA custodian to determine the 12/31 value of an IRA. No matter how difficult this task may be, the value must be determined by the IRA custodian. The IRA custodian may certainly rely on an independent appraiser. The correct taxable amount must be properly reflected on the Form 1099-R, no matter what the reason for the distribution.

Furnishing the 1099-R Upon Request

An institution may encounter a situation where the funds in an IRA are totally distributed because of the death of the accountholder, and the beneficiary requests that the 1099-R be prepared right away. It is perfectly permissible for the beneficiary to make this request. The individual will need to be aware, though, that he/she will be receiving this same information by January 31 of the following year. The financial institution will not send this early-prepared 1099R to the IRS, it will be for the individual's information, only.

If the request for the 1099-R arises early in the year, the IRS 1099-R for that year may not yet be available. CWF has two solutions.

1. Use the prior year's form and cross out the old year and write in the correct year.
2. Create a substitute form using the directions for the old year, or get a substitute form from a firm like CWF. Send a note to the individual along with the form, stating that you created the substitute form using the prior year's IRS directions, and telling them they will receive the same information by 1/31 of the following year.

For your information, the 2005 Form 1099-R is available on the IRS web site.