



THE Pension Digest

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"The Pension Specialists"



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CESA Reminder— April 30, 2008 5498-ESA Filing Deadline

A Coverdell Education Savings Account (CESA) custodian has until June 2, 2008, to file the 2007 Form 5498-ESA, Coverdell ESA Contribution Information, with the IRS for each person for whom a reportable contribution was made.

The CESA custodian is required to furnish a copy of the Form 5498-ESA (or a substitute statement) to the designated beneficiary by April 30, 2008, if the CESA custodian is required to file the 5498-ESA form for such person. This deadline is not May 31, 2008, as it is for IRAs. The reason for the difference is that there is a different time period for correcting excess contributions for CESAs versus IRAs.

As with many IRS instructions, the instructions for Form 5498-ESA are not as clear as they should be. Here is our understanding:

1. There is no requirement to file a 2007 Form 5498-ESA for a specific person if there were no 2007 contributions made that would be reported in boxes 1 and 2. Annual contributions are reported in box 1, and rollover and transfer contributions are reported in box 2.

2. However, if there were either rollover contributions or transfer contributions from one Coverdell ESA to another Coverdell ESA, then it will be necessary to file a Form 5498-ESA for that person. We at CWF don't believe it

is necessary to prepare and file a Form 5498-ESA for internal transfers within the same CESA.

Note, the IRS reporting rules only require a CESA custodian to furnish a Form 5498-ESA to the designated beneficiary if there has been a reportable contribution. Obviously, a CESA custodian may choose to furnish a CESA statement for customer service reasons to those accounts for which reportable contributions were not made. ♦

Reminder – IRS Extends Deadline to Amend/Restate Nonqualified Deferred Compensation Plans

In September of 2007 the IRS issued news release IR-2007-157 as follows:

WASHINGTON – The Treasury Department and the Internal Revenue Service (IRS) announced today that taxpayers will have until Dec. 31, 2008 to bring documents into compliance with the final nonqualified deferred compensation regulations under section 409A of the Internal Revenue Code.

In April, Treasury and IRS issued final 409A regulations, which provided guidance regarding the requirements for deferral elections and payment timing under section 409A. Affected plans and arrangements were required to comply with the final regulations by Dec. 31, 2007. IRS Notice 2007-78 extended the document compliance deadline for one year to December 31, 2008 and provides

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Use the Proper Forms for Recharacterizations

With tax season upon us, many individuals will be told by their accountants that, because of income limits, they are not eligible to deduct their traditional IRA contributions made for 2007. That is, they made too much money, and are not allowed to make a deductible contribution to their IRA as they are active participants. The easiest solution to this problem is to recharacterize the contribution to be a Roth IRA contribution instead.

A recharacterization can only be made for 2007, if it is accomplished by the tax-filing deadline of the individual plus six months. The normal tax-filing deadline for most individuals is April 15. Generally, then, an individual has until October 15, 2008, to recharacterize an IRA contribution made for 2007.

It is important to document this recharacterization, so that the custodians of both IRAs are aware of the transaction. CWF has created special forms for this situation.

One form is CWF's Form #54-TR "Notice of Recharacterization of IRA Contribution" is recommended. It collects the following information:

1. Type and amount of the contribution to the first IRA that is to be recharacterized.
2. The date on which the initial contribution was made.
3. A direction to the custodian/trustee of the first IRA to transfer the amount of the contribution, plus the allocable net income, in a trustee-to-trustee transfer to the custodian/trustee of the second IRA.
4. The name of the first and second custodian/trustee.
5. Acknowledgement by the accountholder, current and successor custodian that they understand the situation and the recharacterization will be handled and reported correctly.

An institution will also want the accountholder to understand the tax issues associated with a recharacterization, and how the individual must handle it on their tax return. CWF Form #56-TREX for 2007 provides this information.

Understanding the Recharacterizing of a 2007 Contribution in 2008

This time of year is the season for recharacterizations. People are visiting their tax accountants. The accountants will be telling some of your accountholders they were ineligible to convert their traditional IRA to a Roth IRA in 2007, or, if eligible to perform the conversion transaction, that it was not in their best interest to have done so. Or, they may tell the accountholder that they were ineligible to make a \$4,000/\$5,000 contribution to their Roth IRA or that they do not wish to make their contribution to the traditional IRA, as it is non-deductible. The point is—you, as an IRA custodian or trustee, can expect to see some of your IRA accountholders instruct you that they want to recharacterize a contribution made in 2007, for 2007, before he or she files a 2007 federal income tax return in 2008. Most such accountholders will normally complete the recharacterization on or before the tax-filing deadline for 2007. This is April 15, 2008. However, a person will have until October 15, 2008, to recharacterize a contribution. A person who timely files his or her 2007 income tax return without having made a recharacterization, may file an amended return and still make the recharacterization within six months of the due date of his or her return, excluding extensions.

This explanation focuses on how you can assist your customer(s) to understand how he or she will need to handle the recharacterization on his or her 2007 income tax return. Recharacterizations are confusing to everyone involved. This is especially true for 2007 contributions which are recharacterized in 2008, because, as with excess contributions, these recharacterization transactions will be reported on the 2008 Form 1099-R and the 2008 Form 5498, which are not furnished until January of 2008 and May 2008. These forms obviously arrive well after the time the accountholder needs the information to file his or her 2007 federal income tax return. This is why the IRS requires an IRA custodian to furnish a written explanation to the accountholder and why the accountholder should attach a note of explanation to their federal income tax return.

Three situations are illustrated: (1) recharacterizing a Roth IRA contribution to be a contribution to a traditional IRA; (2) recharacterizing a contribution to a traditional IRA to be a contribution to a Roth IRA, and (3) recharacterizing a conversion contribution.

Situation #1. Annual Roth IRA Contribution Recharacterized to a Traditional IRA Contribution

Lisa Water made a \$4,000 contribution to a Roth IRA on 1-10-07, for 2007. The fair market value of this IRA as of 12-31-07 was \$3,100. Lisa is not married, and she is not an active participant in an employer-sponsored plan. Her MAGI for 2008 was \$123,000. Therefore, she has determined that she is not eligible to make a contribution to a Roth IRA. There were earnings of \$180 related to the contribution of \$3,000 as of 3-3-08. One of the methods to correct an excess contribution is to recharacterize it. She chose to recharacterize this contribution, plus earnings, on 3-3-08. Assume the fair market value of this IRA as of 12-31-08 will be \$3,400.

Step #1. Accountholder Must Instruct to Recharacterize

The individual must instruct you (the IRA custodian) to recharacterize. The individual is required to furnish you with very specific information. You can make his/her task easier by making available to your accountholder a form such as CWF's "Notice of Recharacterization of IRA Contribution" as set forth on page 5.

Step #2. You (the IRA Custodian) Must Furnish an Explanation to the Accountholder

You should furnish an explanation to your accountholder similar to the one on page 5.

Step #3. You Will Prepare the Various Reporting Forms

1.1 You will prepare a 2007 Form 5498 to report the original contribution to the Roth IRA of \$3,000 as shown and the FMV as of 12-31-07.

1.2 You will prepare a 2008 Form 1099-R to report the "deemed" distribution from the Roth IRA to the traditional IRA. It should be reported as follows. Box 1 is to be completed with the gross distribution amount (\$3,180) and box 2a is to be completed with a 0.00. The reason code in box 7 is to be an "R" for recharacterization.

1.3 You will prepare a 2008 Form 5498 to report the recharacterized contribution (plus earnings) to the tra-

CORRECTED (if checked)		OMB No. 1545-0747	
1.1	1 IRA contributions (other than amounts in boxes 2-4 and 8-10) \$ 3,000	2 Rollover contributions \$	3 Roth IRA conversion amount \$
TRUSTEE'S or ISSUER'S name, street address, city, state, and ZIP code		4 Recharacterized contributions \$ 3,100	
PARTICIPANT'S name		5 Fair market value of account \$ 3,100	
Street address (including apt. no.)		6 Life insurance cost included in box 1 \$	
City, state, and ZIP code		7 IRA <input checked="" type="checkbox"/> SEP <input type="checkbox"/> SIMPLE <input type="checkbox"/> Roth IRA <input checked="" type="checkbox"/>	
Account number (see instructions)		8 SEP contributions \$	
		9 SIMPLE contributions \$	
		10 Roth IRA contributions \$ 3,000	
		11 If checked, required minimum distribution for 2008 <input type="checkbox"/>	
Form 5498		(keep for your records) Department of the Treasury - Internal Revenue Service	

VOID CORRECTED		OMB No. 1545-0747	
1.2	1 Gross distribution \$ 3,180	2a Taxable amount \$ 0.00	2b Taxable amount not determined <input type="checkbox"/>
PAYER'S name, street address, city, state, and ZIP code		3 Capital gain (included in box 2a) \$	
PAYER'S federal identification number		4 Federal income tax withheld \$	
RECIPIENT'S name		5 Employee contributions (Designated Roth contributions or insurance premiums) \$	
Street address (including apt. no.)		6 Net unrealized appreciation in employer's securities \$	
City, state, and ZIP code		7 Distribution code(s) R	
1st year of design. Roth contrib.		8a Your percentage of total distribution %	
Account number (see instructions)		8b Total employee contributions \$	
		9 State tax withheld \$	
		10 State tax withheld \$	
		11 State/Player's state no. \$	
		12 State distribution \$	
		13 Local tax withheld \$	
		14 Name of locality \$	
		15 Local distribution \$	
Form 1099-R		Cat. No. 14-360 Department of the Treasury - Internal Revenue Service	

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CORRECTED (if checked)		OMB No. 1545-0747	
1.3	1 IRA contributions (other than amounts in boxes 2-4 and 8-10) \$ 3,400	2 Rollover contributions \$	3 Roth IRA conversion amount \$
TRUSTEE'S or ISSUER'S name, street address, city, state, and ZIP code		4 Recharacterized contributions \$ 3,180	
PARTICIPANT'S name		5 Fair market value of account \$ 3,400	
Street address (including apt. no.)		6 Life insurance cost included in box 1 \$	
City, state, and ZIP code		7 IRA <input checked="" type="checkbox"/> SEP <input type="checkbox"/> SIMPLE <input type="checkbox"/> Roth IRA <input type="checkbox"/>	
Account number (see instructions)		8 SEP contributions \$	
		9 SIMPLE contributions \$	
		10 Roth IRA contributions \$	
		11 If checked, required minimum distribution for 2008 <input type="checkbox"/>	
Form 5498		(keep for your records) Department of the Treasury - Internal Revenue Service	

ditional IRA of \$3,180 and the balance of \$3,400 as of December 31, 2008.

Situation #2. Annual Traditional IRA Contribution Recharacterized to be a Roth IRA Contribution

Sara Roe made a \$4,000 contribution to a traditional IRA on 2-10-07, for 2007, rather than a Roth IRA. The fair market value of this traditional IRA was \$4,125 as of 12-31-07. Sara is not married. She is an active participant in an employer-sponsored plan. Her MAGI was \$92,000. There were earnings of \$190 related to the contribution of \$4,000 as of 2-20-08. Sara has determined, on 2-20-08, she will recharacterize her traditional IRA contribution to be a Roth IRA contribution,

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**Understanding Recharacterizing,
Continued from page 3**

because she is not able to claim a deduction for her \$4,000 contribution to the traditional IRA. Assume the fair market value of this IRA as of 12-31-08, will be \$4,300.

Step #1. Accountholder Must Instruct to Recharacterize

The individual must instruct you (the IRA custodian) to recharacterize. The individual is required to furnish you with very specific information. You can make his or her task easier by making available to your accountholder a form such as CWF's "Notice of Recharacterization of IRA Contribution" as set forth on page 5, or a similar form.

Step #2. You (IRA Custodian) Must Furnish an Explanation to the Accountholder

You should furnish your accountholder an explanation similar to the one shown in Step #2 of Situation #1.

Step #3. You Will Prepare the Various Reporting Forms

2.1 You will prepare a 2007 Form 5498 to report the original contribution to the traditional IRA of \$4,000. It should be reported as shown.

<input type="checkbox"/> CORRECTED (if checked)		OMB No. 1545-0747		IRA Contribution Information
2.1		2007		
TRUSTEE'S or ISSUER'S name, street address, city, state, and ZIP code		1 IRA contributions (other than amounts in boxes 2-4 and 8-10) \$ 4,000	2 Rollover contributions \$	Form 5498
TRUSTEE'S or ISSUER'S federal identification no.		3 Roth IRA conversion amount \$	4 Recharacterized contributions \$	Copy B For Participant
PARTICIPANT'S name		5 Fair market value of account \$ 4,125	6 Life insurance cost included in box 1 \$	
Street address (including apt. no.)		7 <input checked="" type="checkbox"/> IRA <input type="checkbox"/> SEP <input type="checkbox"/> SIMPLE <input type="checkbox"/> Roth IRA	8 SEP contributions \$	This information is being furnished to the Internal Revenue Service.
City, state, and ZIP code		9 SIMPLE contributions \$	10 Roth IRA contributions \$	
Account number (see instructions)		11 If checked, required minimum distribution for 2008 <input type="checkbox"/>		Form 5498 (keep for your records) Department of the Treasury - Internal Revenue Service

<input type="checkbox"/> VOID <input type="checkbox"/> CORRECTED		OMB No. 1545-0119		Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.
2.2		2008		
PAYER'S name, street address, city, state, and ZIP code		1 Gross distribution \$ 4,190	2a Taxable amount \$ 0.00	Copy A For Internal Revenue Service Center
PAYER'S federal identification number		2b Taxable amount not determined <input type="checkbox"/>	Total distribution <input type="checkbox"/>	
RECIPIENT'S name		3 Capital gain (included in box 2a) \$	4 Federal income tax withheld \$	File with Form 1099.
Street address (including apt. no.)		5 Employee contributions (Designated Roth contributions or insurance premiums) \$	6 Net unrealized appreciation in employer's securities \$	
City, state, and ZIP code		7 Distribution code(s) R X	8 Other <input type="checkbox"/>	For Privacy Act and Paperwork Reduction Act Notice, see IR-6 2006 General Instructions for Forms 1099, 1098, 5498, and W-2G.
1st year of design. Roth contrib.		9a Your percentage of total distribution %	9b Total employee contributions \$	
Account number (see instructions)		10 State tax withheld \$	11 State/Payer's state no. \$	12 State distribution \$
		13 Local tax withheld \$	14 Name of locality \$	15 Local distribution \$

Form 1099-R Cat. No. 1-4362C Department of the Treasury - Internal Revenue Service

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2.2 You will prepare a 2008 Form 1099-R to report the "deemed" distribution from the traditional IRA to the Roth IRA. It should be reported as follows. Box 1 is to

be completed with the gross distribution amount (\$2,190) and box 2a is to be completed 0.00. The reason code in box 7 is to be an "R" for recharacterization.

2.3 You will prepare a 2008 Form 5498 to report the recharacterized contribution (plus earnings) to the Roth IRA of \$2,000. It should be reported as shown.

<input type="checkbox"/> CORRECTED (if checked)		OMB No. 1545-0747		IRA Contribution Information
2.3		2008		
TRUSTEE'S or ISSUER'S name, street address, city, state, and ZIP code		1 IRA contributions (other than amounts in boxes 2-4 and 8-10) \$	2 Rollover contributions \$	Form 5498
TRUSTEE'S or ISSUER'S federal identification no.		3 Roth IRA conversion amount \$	4 Recharacterized contributions \$ 4,190	Copy B For Participant
PARTICIPANT'S name		5 Fair market value of account \$ 4,300	6 Life insurance cost included in box 1 \$	
Street address (including apt. no.)		7 <input type="checkbox"/> IRA <input type="checkbox"/> SEP <input type="checkbox"/> SIMPLE <input checked="" type="checkbox"/> Roth IRA	8 SEP contributions \$	This information is being furnished to the Internal Revenue Service.
City, state, and ZIP code		9 SIMPLE contributions \$	10 Roth IRA contributions \$	
Account number (see instructions)		11 If checked, required minimum distribution for 2008 <input type="checkbox"/>		Form 5498 (keep for your records) Department of the Treasury - Internal Revenue Service

Situation #3. Recharacterizing a Conversion Contribution from a Traditional IRA to a Roth IRA

Francoise Bell converted \$30,000 from her traditional IRA to a Roth IRA on 1-15-07. The fair market value of this Roth IRA was \$33,000 as of 12-31-07. She is not married. On 3-1-08, her accountant told her she was not eligible to make the Roth IRA conversion contribution for 2007, as her MAGI was \$103,000. The related income is \$3,900. The recharacterized amount is \$33,900. In order to eliminate this excess contribution on 3-1-08. Assume the fair market value of the traditional IRA as of 12-31-08 will be \$37,000.

Step #1. Accountholder Must Instruct to Recharacterize

The individual must instruct you (the IRA custodian) to recharacterize. The individual is required to furnish you with very specific information. You can make his or her task easier by making available to your accountholder a form such as CWF's "Notice of Recharacterization of IRA Contribution" set forth on page 5 or a similar form.

Step #2. You (IRA Custodian) Must Furnish an Explanation to the Accountholder

You should furnish your accountholder an explanation similar to the one shown in Step #2 of Situation #1.

Step #3. You Will Prepare the Various Reporting Forms

3.1 You will prepare a 2007 Form 5498 to report the original conversion contribution to the Roth IRA of \$30,000 as shown.

3.2 You will prepare a 2008 Form 1099-R to report the "deemed" distribution from the Roth IRA to the traditional IRA. It should be reported as follows. Box 1 is to be completed with the gross distribution amount (\$33,900) and box 2a is to be completed 0.00. The reason code in box 7 is to be an "R" for recharacterization.

3.3 Prepare a 2008 Form 5498 to report the recharacterized contribution (plus earnings) of \$33,900 to the traditional IRA. It should be reported as shown below.

CORRECTED (if checked)		IRA Contribution Information	
TRUSTEE'S or ISSUER'S name, street address, city, state, and ZIP code		1 IRA contributions (other than amounts in boxes 2-4 and 8-10) \$	OMB No. 1545-0747
3.1		2 Rollover contributions \$	2007
TRUSTEE'S or ISSUER'S federal identification no.		3 Roth IRA conversion amount \$	Form 5498
PARTICIPANT'S social security number		4 Recharacterized contributions \$	Copy B For Participant
PARTICIPANT'S name		5 Fair market value of account \$ 33,000	
Street address (including apt. no.)		6 Life insurance cost included in box 1 \$	
City, state, and ZIP code		7 IRA SEP SIMPLE Roth IRA 7 <input checked="" type="checkbox"/> R	
Account number (see instructions)		8 SEP contributions \$ 9 SIMPLE contributions \$	
		10 Roth IRA contributions \$ 30,000	11 If checked, required minimum distribution for 2008 <input type="checkbox"/>

Form 5498 (keep for your records) Department of the Treasury - Internal Revenue Service

VOID CORRECTED		Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.	
PAYER'S name, street address, city, state, and ZIP code		1 Gross distribution \$ 33,900	OMB No. 1545-0119
3.2		2a Taxable amount \$ 0.00	2008
PAYER'S federal identification number		2b Taxable amount not determined <input type="checkbox"/>	Form 1099-R
RECIPIENT'S identification number		3 Capital gain included in box 2a \$	Copy A For Internal Revenue Service Center
RECIPIENT'S name		4 Federal income tax withheld \$	
Street address (including apt. no.)		5 Net unrealized appreciation in employer's securities \$	
City, state, and ZIP code		6 Employee contributions (Designated Roth contributions or insurance premiums) \$	
1st year of design. Roth contrib.		7 Distribution code R	
Account number (see instructions)		8a Your percentage of total distrib. 2007 %	8b Total employee contributions \$
		9 State tax withheld \$	10 Total employee contributions \$
		11 State/Payer's state no.	12 State distribution \$
		13 Local tax withheld \$	14 Name of locality \$
		15 Local distribution \$	

Form 1099-R (keep for your records) Department of the Treasury - Internal Revenue Service

CORRECTED (if checked)		IRA Contribution Information	
TRUSTEE'S or ISSUER'S name, street address, city, state, and ZIP code		1 IRA contributions (other than amounts in boxes 2-4 and 8-10) \$	OMB No. 1545-0747
3.3		2 Rollover contributions \$	2008
TRUSTEE'S or ISSUER'S federal identification no.		3 Roth IRA conversion amount \$	Form 5498
PARTICIPANT'S social security number		4 Recharacterized contributions \$ 33,900	Copy B For Participant
PARTICIPANT'S name		5 Fair market value of account \$ 37,000	
Street address (including apt. no.)		6 Life insurance cost included in box 1 \$	
City, state, and ZIP code		7 IRA SEP SIMPLE Roth IRA 7 <input checked="" type="checkbox"/> R	
Account number (see instructions)		8 SEP contributions \$ 9 SIMPLE contributions \$	
		10 Roth IRA contributions \$	11 If checked, required minimum distribution for 2008 <input type="checkbox"/>

Form 5498 (keep for your records) Department of the Treasury - Internal Revenue Service

Conclusion. You will certainly be receiving requests to recharacterize, in calendar year 2008, a contribution which was made in calendar year 2007. Taxpayers and their accountants are beginning to

understand the concept of recharacterizing a contribution as a correction tool. The taxpayer (or accountant) will need to complete the Form 8606 to report the recharacterization. The instructions for the Form 8606 state the taxpayer is to attach a statement explaining the recharacterization. This explanation should indicate the total amount recharacterized, the original contribution, the earnings or loss, and the amount that is now deductible, if applicable. The instructions also indicate that an IRA custodian has the duty to furnish this same information to the accountholder. ♦

Special Explanation to Accountholder for an IRA Recharacterization for the 2007 Tax Year	
(Name of Accountholder)	
<p>The purpose of this special explanation is to provide you with information about your recharacterization. You recharacterized a contribution which you made for the 2007 tax year. You will need to properly report and explain your recharacterization when you file your 2007 federal income tax return. We have furnished to you a copy of the IRA Recharacterization Form which you executed. You will also want to review the 2007 instructions for Form 8606. The IRS' instructions require you, as the IRA accountholder, to attach an explanation to your income tax return indicating the original contribution amount, to attach an explanation to your recharacterized, and the amount of earnings which was recharacterized. You may attach a copy of the IRA Recharacterization Form for this purpose.</p>	
<p>Notice of External Recharacterization of IRA Contribution</p> <p>To: Custodian/Trustee Name _____ Date _____ Address _____ Phone _____ City _____ State _____ Zip _____</p> <p>From: Depositor or Grantor Name _____ SSN _____ Address _____ Date of Birth _____ City _____ State _____ Zip _____ Phone: Home _____ Work _____</p> <p>Depositor or Grantor Instructions I hereby instruct that I wish to irrevocably recharacterize my previous contribution. The Current Custodian/Trustee is to prepare a check for the amount indicated below and issue it to the referenced Successor Custodian or Trustee.</p> <p>The Original Contribution Account Number: _____ Date of Contribution: _____ Amount: _____</p> <p>The Recharacterized Contribution Account Number: _____ Date of Contribution: _____ Amount: _____</p> <p>Type of Original Contribution (Check only one) <input type="radio"/> 1. Conversion/Rollover to Roth IRA from a traditional IRA <input type="radio"/> 2. Conversion to Roth IRA from a SEP-IRA or SIMPLE-IRA <input type="radio"/> 3. Annual contribution to a Roth IRA for _____ tax yr. <input type="radio"/> 4. Annual contribution to a traditional IRA for _____ tax yr. <input type="radio"/> 5. Transfer or rollover to a SIMPLE IRA from a traditional IRA</p> <p>Type of Recharacterized Contribution <input type="radio"/> 1. Return to the traditional IRA <input type="radio"/> 2. Return to the SEP-IRA or SIMPLE-IRA <input type="radio"/> 3. Annual contribution to a traditional IRA for the same tax year <input type="radio"/> 4. Annual contribution to a Roth IRA for the same tax year <input type="radio"/> 5. Return to the traditional IRA</p> <p>Instruction & Amount to Recharacterize I elect to recharacterize \$ _____ Which is <input type="radio"/> all or <input type="radio"/> a portion of my original contribution.</p> <p>Acknowledgments & Signatures Depositor or Grantor I acknowledge that you have instructed me to consult with my legal or tax advisor because of the complexity and importance of this matter. I have read the information on the reverse side of this sheet. This recharacterization is being made on or before the due date (including extensions) for filing my individual federal income tax return for the taxable year for which the contribution was made or other applicable deadline. I expressly assume all responsibility for this recharacterization of IRA funds. I realize that my election to recharacterize my contribution is irrevocable. Depositor or Grantor: _____ Date: _____</p> <p>Successor Custodian/Trustee Name _____ Address _____ City _____ State _____ Zip _____ Phone _____</p> <p>Special Notice. A person who recharacterizes an IRA contribution needs to follow the pertinent IRS instructions for recharacterizations set forth for Form 8606. In general, you will need to attach an</p>	

Preliminary Tax Data — IRA/Pension Statistics for 2006

IRA and SEP/SIMPLE/Keogh Deductible Contributions

33 billion dollars were contributed to traditional IRAs, SEP-IRAs, SIMPLE-IRAs and Keogh plans for 2006.

Taxpayers made contributions of \$20.2 billion to SEP-IRA plans, SIMPLE-IRA plans, and Keogh plans for the 2006 tax year, compared to \$19.4 billion for the 2005 tax year. The percentage of increase was 4.1%. In comparison, taxpayers made contributions of \$12.8 billion to traditional IRAs for the 2006 tax year, compared to \$12.2 billion for the 2005 tax year. The percentage of increase was 5%.

The number of contributors to the SEP/SIMPLE/Keogh plans for 2006 was 1.177 million, compared to 1.197 million for 2005. The number of contributors to traditional IRAs for both 2005 and 2006 was 3.29 million.

The average 2006 SEP/SIMPLE/Keogh contribution, per return, was \$17,200.

The average 2006 IRA contribution, per return, was \$3,885.

Chart A shows that there has been a substantial change (a 53% increase) in the total contribution amount to SEPs/SIMPLEs/Keoghs over the last six years, and in the average contribution.

Chart B also shows there has been a substantial increase in the total amount of IRA contributions and the average contribution.

CHART A — SEP/SIMPLE/Keogh Chart

<u>Year</u>	<u>Contribution Amount</u>	<u>Number of Contributors</u>	<u>Average Contribution</u>
2001	\$13.1 billion	1.29 million	\$11,048
2002	\$16.3 billion	1.19 million	\$13,774
2003	\$16.9 billion	1.19 million	\$14,202
2004	\$18.0 billion	1.17 million	\$15,385
2005	\$19.4 billion	1.20 million	\$16,202
2006	\$20.2 billion	1.18 million	\$17,200

CHART B — Traditional IRA Chart

<u>Year</u>	<u>Contribution Amount</u>	<u>Number of Contributors</u>	<u>Average Contribution</u>
2001	\$7.41 billion	3.45 million	\$2,148
2002	\$7.41 billion	3.45 million	\$2,148
2003	\$10.16 billion	3.46 million	\$2,936
2004	\$10.20 billion	3.38 million	\$3,018
2005	\$12.21 billion	3.29 million	\$3,707
2006	\$12.77 billion	3.29 million	\$3,885

What was the adjusted gross income (AGI) of those who made SEP/SIMPLE/Keogh contributions?

	<u>Under \$15,000</u>	<u>\$15,001 to \$29,999</u>	<u>\$30,000 to \$49,999</u>	<u>\$50,000 to \$99,999</u>	<u>\$100,000 to \$199,999</u>	<u>\$200,000 Or more</u>	<u>Total</u>
Number of Returns	21,891	35,507	82,013	253,636	385,950	397,911	1,176,905
% of Total Returns	1.86%	3.02%	6.99%	21.55%	32.79%	33.81%	100%
Contribution Amt. (in thousands)	\$114,498	\$132,705	\$546,245	\$2,208,683	\$8,812,185	\$11,428,728	\$20.2 billion
% of Total Contr.	.57%	.66%	2.7%	10.93%	28.77%	56.58%	100%
Avg. Contr. Amt.	\$5,230	\$3,737	\$6,660	\$8,708	\$22,832	\$28,722	\$17,200

CWF Observations

1. \$20.2 billion is a lot of money. It is 80% more than the amount of IRA contributions of 12.77 billion.
2. The average contribution is \$17,200.
3. 56% of contributions (\$11.4 billion) come from individuals with AGI of \$200,000 or more.
4. 96.3% of contributions (19.4 billion) come from individuals with AGI of more than \$50,000.
5. The average contributions vary greatly depending on AGI.

What was the AGI of those who made traditional IRA contributions for 2006?

	<u>Under \$15,000</u>	<u>\$15,001 to \$29,999</u>	<u>\$30,000 to \$49,999</u>	<u>\$50,000 to \$99,999</u>	<u>\$100,000 to \$199,999</u>	<u>\$200,000 Or more</u>	<u>Total</u>
Number of Returns	178,443	491,755	778,811	1,129,318	558,973	149,661	3,286,760
% of Total Returns	5.43%	14.9%	23.70%	34.36%	17.00%	4.55%	100%
Contribution Amt. (in thousands)	\$472,522	\$1,385,278	\$2,629,202	\$4,476,408	\$2,714,408	\$1,090,352	\$12,768,170
% of Total Contr.	3.7%	10.85%	20.59%	35.06%	21.26%	8.54%	100%
Avg. Contr. Amt.	\$2,648	\$2,817	\$3,376	\$3,964	\$4,856	\$7,285	\$3,885

CWF Observations

1. The average IRA contribution, per return, was \$3,855 for 2006.
2. 35% of all IRA contributions came from individuals with AGI between \$50,000-\$99,999.

The Retirement Savings Tax Credit

This credit has now been in existence for 5 years (2002 - 2006). This credit exists to induce individuals with low to moderate incomes to make IRA or 401(k) contributions.

What was the AGI of those who claimed this credit?

	<u>Under \$15,000</u>	<u>\$15,001 to \$29,999</u>	<u>\$30,000 to \$49,999</u>	<u>\$50,000 to \$99,999</u>	<u>\$100,000 to \$199,999</u>	<u>\$200,000 Or more</u>	<u>Total</u>
Number of Returns	302,371	2,455,945	2,502,518	651	0	0	5,261,485
% of Total Returns	5.75%	46.68%	47.57%	.03%	0%	0%	100%
Credit Amt. (in thousands)	\$65,266	\$450,252	\$392,997	\$46	\$0	\$0	\$908,521
% of Total Credits	7.18%	49.56%	43.26%	0%	0%	0%	100%
Avg. Credit Amt.	\$216	\$183	\$157	N/A	N/A	N/A	\$173

CWF Observations

1. Low- to moderate-income taxpayers were able to claim a credit of less than \$1 billion.
2. The average credit per tax return was \$173.
3. Note that 5.26 million returns claimed this saver's credit. This is more than the number of returns which showed a traditional IRA contribution (3.34 million). Contributions to a traditional IRA, Roth IRA, 401(k) plan or other elective deferral plan qualify a person for this credit.

Summary. Congress made the 2001 tax-law changes permanent with respect to IRAs and pensions in 2006. The increase in IRA contributions (from 7 billion per year to 12.77 billion per year) and the increase in SEP/SIMPLE/Keogh contributions (from 10 billion to 20.2 billion) are directly due to the 2001 law changes.

The information set forth above comes from the tax returns of individual, including self-employed individuals. No information has been provided regarding Roth IRA contributions, since they are nondeductible, and are not reported on the tax Form 1040. We would expect that the IRS will be releasing information from the 2006 5498s relatively soon. ♦

Preliminary HSA Tax Data for 2006

The IRS has estimated that there were 351,000 taxpayers who made contributions to HSAs and who claimed tax deductions totalling 845 million dollars for 2006. This means the average contribution per tax return was \$2,407.

With respect to tax year 2005 the IRS had estimated that there were 211,766 taxpayers who made contributions to HSAs and who claimed tax deduction totalling 489 million dollars. The average contribution per tax return was \$2,309.

Since this data comes from the 1040 tax returns it does not indicate any data for contributions made by corporate employers or deductions by corporations for having made HSA contributions.

For 2006, the maximum HSA contribution was \$2,700 for self-only coverage and \$5,450 for family coverage. Individuals age 55 or older were eligible to make an additional catch-up contribution of \$700.

What was the AGI of those who made HSA contributions?

	<u>Under \$15,000</u>	<u>\$15,001 to \$29,999</u>	<u>\$30,000 to \$49,999</u>	<u>\$50,000 to \$99,999</u>	<u>\$100,000 to \$199,999</u>	<u>\$200,000 Or more</u>	<u>Total</u>
Number of Returns	12,193	24,594	52,053	118,650	79,831	63,846	351,170
% of Total Returns	3.49%	7.00%	14.82%	33.79%	22.74%	18.18%	100%
Contribution Amt. (in thousands)	\$25,402	\$37,404	\$91,876	\$255,657	\$209,772	\$225,323	\$845,431
% of Total Contr.	3.00%	4.43%	10.87%	30.24%	24.81%	26.65%	100%
Avg. Contr. Amt.	\$2083	\$1521	\$1765	\$2155	\$2628	\$3529	\$2407

CWF Observations

1. The average return showed a contribution of \$2,407.
2. 82% of the contributions came from individuals with \$50,000 or more of AGI.
3. The largest average contribution was from the \$200,000 and over group and it was \$3,529 per return. The next largest average contribution was \$2,628 and it came from the \$100,000 to \$199,99 group.
4. The group of \$50,000 to \$100,000 made the largest contributions of \$255.6 million. The \$100,000 to \$199,999 group and the \$200,000 and over group also contributed more than \$200,000 million as a group

IRS Extends Deadline, Continued from page 1

additional limited transition relief, but does not extend the Jan. 1, 2008, effective date of the final regulations.

Notice 2007-78 also announced that Treasury and the IRS anticipate issuing guidance containing a limited voluntary compliance program that will permit corrections of certain unintentional operation violations of section 409A.

The final regulations were in response to legislation enacted by Congress in 2004 to address concerns involving reported abuses of nonqualified deferred compensation plans. ♦

Proper Forms, Continued from page 2

The income earned on the amount recharacterized may also be transferred with no tax penalty. This is a valuable tax advantage. CWF has created a form to use to calculate the applicable interest on the contribution—Form #67-W.

Of course, the applicable plan agreement must also be completed, if the individual does not already have the correct type of IRA established.

Summary. Recharacterizations are becoming more popular. A financial institution will want to be certain to document these transactions correctly. The forms used must collect the needed information concerning the funds in question, the accountholder, the current IRA custodian/trustee and the successor custodian/trustee. CWF has these special forms available. ♦