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ALSO IN THIS ISSUE –

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

New Source of Bank Deposits – 401(k) Deposits

The equity markets are super volatile. 401(k) plans and individuals who have money in 401(k) plans may be considering taking some of their money out of the stock market or mutual funds and investing the money in FDIC insured deposits. With all the bad economic news, some individuals will want more FDIC insured deposits.

Is your financial institution ready to service such deposits? Our experience is that most are not. In fact, many financial institutions turn away these deposits because their personnel do not understand and are scared of these deposits.

We are choosing to reprint an article we last printed in September of 2002. We are again running it as our lead article.

Be aware that if the 401(k) funds coming in are self-directed by a participant (e.g. Jane Doe, trustee for ABC 401(k) Plan fbo Sally Johnson), the deposit would be FDIC insured to the extent of $250,000. It would need to be aggregated with other IRAs and other self-directed plans for that same person (e.g. Sally Johnson), if any. If the funds were not self-directed funds, then the insurance limit would be $100,000. Pass through insurance may or may not apply. A plan trustee will want to make sure that pass-through coverage applies if it is depositing more than $100,000.

Also remember that many one person businesses now wish to establish a one person 401(k) plan because the 401(k) plan has some attractive features not available to a profit sharing plan, SEP plan or SIMPLE-IRA plan. Some of the better features: being able to make a larger deductible contribution in some cases, being able to borrow from the plan, being able to make Designated Roth contributions, and being better protected as to creditors. Call CWF if we can assist in any way.

Reprinted from The Pension Digest, September 2002.

Accepting & Seeking 401(k) Deposits

Because many individuals who have their 401(k) and other pension funds invested in mutual funds in the stock market have, in recent years, seen unprecedented losses (even substantial losses of principal), they are now seeking a secure investment and are contemplating moving their money into bank time deposits. Even though financial institutions are paying extremely low interest, these individuals realize that though they will be earning low interest, at least they will no longer be losing a portion of their retirement assets. By moving funds to a bank time deposit, the principal will be secure, and the individual will be gaining some earnings, even if the rate of interest paid is low. The security of a bank time deposit is worth more in our present-day uncertain economy than the potential of higher earnings rates in the stock market. Sort of "a bird in the hand" philosophy.

What many individuals don't realize is that if they have not attained age 59 1/2 or have not separated from the service of their employer, they cannot roll over 401(k) funds into an IRA. However, if the pension plan

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allows a plan participant to self direct their account, an individual can request a "change of investment" and have the funds put in a bank CD rather than their current mutual funds.

Bank time deposits are permissible investments for 401(k) funds, and banks could gain these deposits by aggressively marketing the fact that they are willing to be a depository for these funds. In most instances, a bank will choose to be a depository only, thus eliminating various plan administrative duties and limiting the bank's liability.

Your financial institution will have people who are currently customers with checking and savings/time deposit accounts who are also participants in a qualified plan at work. Many of these people will want a portion of their qualified plan account balance invested in a fixed-interest-rate instrument or a variable-interest-rate instrument which is entitled to insurance from the FDIC or similar insurance. Your financial institution should at least be aware that this is a deposit category for which there may be more demand than there has been in the past. If your financial institution has not already done so, you should establish the necessary procedures to seek out such deposits and to service them well.

Here is a typical situation. Mary Martinez comes to your financial institution. She is employed by ABC National Corporation as a senior computer programmer. She is an excellent customer of your institution. She currently has $80,000 of non-IRA/pension time deposits with your financial institution. She now comes to your financial institution and states that her employer maintains a 401(k) plan which allows her to direct the plan trustee how to invest her plan account balance. She tells you that she would like to have some of her 401(k) elective deferrals ($400 per month) invested in one or more time deposits as offered by your institution. She asks you if your institution will be able to accommodate her and the plan trustee. If you are willing, then she wants you to tell her what she and the plan trustee need to do to commence such deposits. She asks what "terms" will apply to her deposits.

Many institutions would probably tell Mary Martinez one of two things. First, she would be told, "We don't handle QP plans or deposits; we quit doing that years ago." Many institutions terminated their sponsorship of Keoghs (one-person qualified plans) during the period of 1986-1995. They apparently did so because they concluded that there were not sufficient business reasons (low profits, perceived higher liability exposure, or not necessary for customer retention) to seek and service such deposits. Many thought that the rules were too complex.

Secondly, the institution's personnel might tell Mary that pension deposits may only be made in the trust department.

We would suggest that if a financial institution establishes and follows the proper administrative procedures, then most financial institutions (including the non-trust/retail side) should be willing and able to accept a pension deposit.

We would also suggest that financial institutions consider the following options in establishing its procedures with respect to pension deposits. The options are:

1. The institution decides to never accept any qualified plan deposits;
2. The institution decides to accept qualified plan deposits, but it makes very clear its policy that it will render no other services.
3. In order to encourage the making of qualified plan deposits, the institution decides to sponsor one or more qualified plan prototypes, but it also decides to require the business customer to consult with his or her own attorney, accountant, or pension consultant for all of the administrative requirements.
4. In order to encourage the making of qualified plan deposits, the institution decides to sponsor one or more qualified plan prototypes and decides that it will assist the business customer with some of the administrative tasks, but the employer will retain primary responsibility. For example, the institution will prepare Form 1099-Rs as based upon information furnished by the employer, plus the institution will assist with the preparation of the Form 5500 or 5500-EZ. The financial institution could either do the administrative service itself, or contract with a pension consulting firm to have such services performed.

Obviously, the administrative procedures which a financial institution adopts will vary depending upon which option it elects.

Purpose of This Article

The purpose of this article is to discuss option #2 — the institution will accept qualified plan deposits, but will render no other services. A financial institution may certainly accept deposits from the trustee of a qualified plan without rendering any plan document or administrative services. What should be the procedures for handling deposits and contributions when this option has been selected?

The Policy Considerations and Procedures With Respect to Accepting Deposits

Topic # 1. Understand Who Your Depositor or Customer Is

Your customer is the trustee of the qualified plan. The only person authorized to sign on this account will be the trustee. This is true even if the deposit is made on behalf of a specific person. The financial institution should never deal with the named plan participant, but should only deal with the trustee. When the trustee withdraws the funds, he or she will be doing so in their status as a trustee. Thus, the financial institution has no responsibility to prepare a Form 1099-R, and the withholding rules do not apply.

For example, Jane Doe, trustee of the ABC Corporation

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401(k) profit sharing plan, purchases a time deposit in the amount of $25,000 for the benefit of John Smith, a plan participant. The owner of the time deposit is Jane Doe as trustee of the ABC Corporation Profit Sharing Plan and Trust. The tax identification number used with respect to the time deposit should be the TIN of the trust related to the plan. Your financial institution should never deal directly with the participant, John Smith. This is true even if the trustee would want you to make a distribution directly to John Smith. Based upon your service agreement (see discussion immediately below), you would inform Jane Doe, trustee, that such an action is administrative and is not your task, and that you will not pay the funds directly to John Smith, but that you will issue the check to her as trustee.

This same situation can occur with a one-person Keogh plan. Many financial institution personnel are confused in this situation. For example, Tom Mills has signed a profit sharing prototype document with First Investment Corporation which allows him, as the employer/plan sponsor, to invest his QP funds in numerous financial institutions. He now comes to your financial institution, First State Bank. Your institution does not sponsor a QP prototype. He wishes to purchase an $80,000 time deposit from you because you have excellent terms on a five-year CD. Note that he buys the time deposit in his status as the plan trustee. Again, when he comes in to withdraw the funds, you will deal with him in his status as being a trustee and not a participant. If you issue the check to him as trustee, then you will have no responsibility to prepare any Form 1099-R or to comply with the withholding rules.

Topic #2. Formalize and Establish Your Relationship With the Depositor/Trustee

We recommend that your financial institution and your customer (the trustee) sign a contract or service agreement wherein the depositor, as the trustee, formally acknowledges that he or she is making this deposit in their capacity as a trustee and not as a participant, and that the financial institution has no plan document or administrative duties. This will not generally be a problem when the trustee is acting on behalf of a plan with multiple participants. If a problem arises, it normally arises with respect to the one-person plans. Many times the doctors, dentists, etc. who establish these plans don't understand that there is a very important and critical difference in their respective roles of trustee or participant. The purpose of the service agreement is to emphasize that your financial institution is dealing with them because they are the trustee. Thus, when the person withdraws his or her deposit, you make the payee on the check, "Tom Mills as trustee of the Tom Mills profit sharing plan."

Topic #3. Decide What Type of Time Deposit, Savings Accounts and Checking Accounts You Are Going to Offer Your Pension Depositors

What type of time deposit will you offer Mary Martinez and the plan's trustee since the plan will be depositing $400 every month on her behalf? Do you want to sell the trustee 12 different CDs? Will you only offer a variable interest rate time deposit? Or, would your financial institution be willing to give a fixed rate?

Financial institutions may need to be more creative than they have been with this special type of deposit. As long as the plan trustee, on behalf of Mary Martinez, contractually promises that the subsequent monthly contributions over the term of the deposit account will be made, and that there would be defined penalties if they were not made, then it seems reasonable that a fixed rate could be offered.

Topic #4. Furnish the Required Pass-Through Insurance Notices As Required by FDIC Rules

A financial institution which is subject to FDIC regulation is required, in various situations, to furnish one of the various pass-through notices. A financial institution will need to furnish a notice in the following three situations:
(1) when an account is first opened;
(2) when a depositor requests one; and
(3) when the capital status of the financial institution deteriorates so that current deposits would not be entitled to pass-through coverage.
CWF Note: These rules were changed in 2005.

Topic #5. Data Processing and Governmental Reporting Considerations

This is where many financial institutions experience problems, because most data processing systems are written to handle only two types of deposits: (1) a non-IRA deposit which requires, in most cases, the generation of a Form 1099-INT or (2) an IRA deposit which requires the generation of Form 5498. The problem is that a qualified plan deposit is a unique third type of deposit. The income or interest earned by a qualified plan deposit is not subject to current income taxation under the Internal Revenue Code. In that sense, a qualified plan is very similar to an IRA. The difference is that a financial institution must report IRA contributions to the IRS on the Form 5498, but there is no similar form used to report the qualified plan contributions made by the sponsor of a qualified plan. Thus, the financial institution must be able to "shutoff" or not generate a Form 5498 for any QP/Keogh deposits.

On the other hand, a financial institution should not generate a Form 1099-INT to report any interest earned, since the pension trust does not currently pay taxes on its income. If the trustee can substantiate for your financial institution that he or she is acting on behalf of a qualified plan by furnishing you with a copy of the favorable IRS opinion or determination letter, then you should not generate a Form 1099-INT.

The employer who sponsors a plan covering many participants will report the aggregate total of its contributions on the IRS Form 5500. This employer, in most situations, will claim as

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a tax deduction, the amount of its contribution on its tax form.

The sponsor of a one-person plan will claim the amount of his or her contribution on Form 1040 and will also report it on Form 5500-EZ, if required to file such a form because the $100,000 threshold amount is exceeded.

Topic #6. Be aware that the Truth-In-Savings Rules Do Not Apply to QP Deposits

The Truth-In-Savings rules apply only to consumers, and deposits made by businesses (even one-person businesses) are not covered by TISA.

Policy Considerations and Procedures When the Deposit Is Withdrawn

This subject has already been briefly discussed. Again, your institution must only deal with the plan trustee. If your financial institution is dealing with a one-person plan, you must make sure you deal with this one person in his or her capacity as a trustee and not as a participant.

A standard qualified plan distribution form must not be used, as this payment of funds is not a distribution. The trustee has simply decided that he or she wishes to change how the funds are invested. A special withdrawal form should be used — a request for a withdrawal by a plan trustee. Your financial institution must issue the check to the trustee, and not to any participant. By issuing the check to the trustee, this means that there has been no distribution of assets (at least not yet) from the plan, and therefore, the withholding rules do not apply, and there is no need to prepare a Form 1099-R. If there is to be a distribution to a participant, then the trustee will have the duty to comply with all of the distribution rules — furnish the section 402(f) notice, furnish the withholding notice, and comply with the withholding rules and prepare the Form 1099-R to report the amounts distributed and withheld, if any.

Summary

With proper procedures, a financial institution should feel very comfortable accepting qualified plan deposits even though it does not sponsor any qualified plan prototypes or perform any administrative services.

**Answers,
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30. **(C)**
$164,000-$159,000 x $6,000 = $3,000.

31. **(C)** He is withdrawing $44,000, but 10% ($4,400 of it is his basis or nontaxable portion. The taxable portion is $39,600.

32. **(D)** A 6% excise tax is assessed on an uncorrected excess.

33. **(C)**

34. **(C)**

35. **(C)**

36. **(D)**

37. **(B)**

38. **(C)**

39. **(A)**

40. **(C)**

IRA IQ Test

School is back in session. We thought it appropriate to prepare a pre-IRA season test. Set forth below are 40 IRA questions. The source of these questions was originally the IRS from various tests given to individuals taking the enrolled agent tests. We have "updated" the questions and answers. The test is supposed to be fun. There are some "trick" questions. Answers are found on page 8.

1. Contributions on your behalf to a traditional IRA do not reduce your limit for contributions to a Roth IRA.
☐ True ☐ False

2. Betty, who is single, has income in 2008 totaling $16,500. She is 35 years of age, and the income she received consists of $1,500 earned from clerical work and $15,000 from interest income. What is the maximum amount of money that she can contribute to a traditional IRA for 2008?
☐ A. $15,000
☐ B. $1,500
☐ C. $5,000
☐ D. -0-

3. Margaret (age 39) is fully vested in her 401(k) account and will receive social security benefits at retirement, but has no other retirement plan coverage. Her present and past employers have not had retirement plans available. In 2008, she files as single, and her earnings are $57,000. Also, in 2008, she contributes $5,000 to a traditional IRA. How much of the $5,000 contribution may she deduct?
☐ A. -0-
☐ B. $3,000
☐ C. $5,000
☐ D. $2,000

4. Tony and Janet are married, filing jointly. In 2008, Tony's taxable compensation is only $1,500; and Janet's compensation is $58,500. Tony contributed all $1,500 of his earnings to a Roth IRA. Neither Tony nor Janet is covered by a retirement plan. What is the maximum amount they may deduct for traditional IRA contributions?
☐ A. $8,500
☐ B. $10,000
☐ C. $5,000
☐ D. -0-

5. For traditional individual retirement arrangements (IRAs) for tax year 2008, which of the following is correct?
☐ A. The modified AGI limitation range for filers has not changed.
☐ B. The Roth IRA contribution is deductible for a spousal IRA.
☐ C. Contributions may be made up to the due date of the return including extensions.
☐ D. If your spouse is covered by a retirement plan, and you are not, your traditional IRA deduction is not limited if your modified AGI on a joint return is less than $159,000.

6. All of the following types of accounts are permitted for Individual Retirement Arrangements except:
☐ A. A trust or custodial account at an IRS approve entity.
☐ B. An individual retirement annuity.

☐ C. An employer and employee association trust account.
☐ D. Individual savings bonds clearly designated as an IRA.

7. Generally, an excess contribution to an IRA is subject to a 6% excise tax. Which of the following is correct?
☐ A. You will not have to pay the six percent if you withdraw the excess contribution and any income earned on the excess contribution before the date your tax return for the year is due, including a 6 month extension.
☐ B. The 6% tax is due on both the excess contributions and any income earned on the excess contribution.
☐ C. You will not have to pay the six percent tax. The earnings on the excess contribution are less than 6%.

8. Generally, you must begin receiving distributions from your traditional IRA no later than which of the following dates?
☐ A. Six months after your 70th birthday.
☐ B. December 31st of the year in which you reach age 70½
☐ C. April 1st of the year in which you reach age 70½.
☐ D. April 1st of the year following the year in which you reach age 70½.

9. Generally, a non-working spouse under age 50 may make contributions to a traditional individual retirement account (IRA) up to $5,000, even if the working spouse's earnings are less than $10,000 and the working spouse also makes a $5,000 contribution for himself or herself.
☐ True ☐ False

10. The rules regarding excess accumulations in a traditional individual retirement account (IRA) state that a 50% excise tax must be paid if an individual has failed to be distributed his or her required distribution amount for a given year.
☐ True ☐ False

11. Contributions to a Roth IRA (individual retirement account) may be deducted if they fall below certain income limits.
☐ True ☐ False

12. A contribution to an individual retirement plan (IRA) is deductible for tax year 2008 in which of the following situations:
☐ A. An individual has compensation and the individual's employer does not have a retirement plan at any time during 2008.
☐ B. The contribution is made on August 15, 2009, under a properly filed and accepted extension.
☐ C. The individual is covered by a retirement plan, but does not have any compensation in 2008.

13. Lenny and Norma both age 55 file a joint return for tax year 2008. Lenny is covered by a retirement plan, but Norma is not. Norma wishes to make a contribution to a traditional IRA, and her earnings alone are $3,500. The combined earnings on the joint return are $130,000 (the same as the modified AGI). Which of the following is correct:
☐ A. Norma may make a nondeductible contribution of $3,500.
☐ B. Norma may make a deductible contribution of $6,000.
☐ C. Norma may not make any contribution.
☐ D. Norma may make a deductible contribution of $3,500 and a nondeductible contribution of $2,500.

14. Which of the following is compensation for the purpose of contributions to an individual retirement account?
☐ A. Deferred compensation received.
☐ B. Foreign earned income excluded from income.
☐ C. Pension or annuity income.
☐ D. Taxable alimony and separate maintenance.

15. Owners of traditional individual retirement accounts (IRAs) are required to begin receiving distributions no later than the following:
☐ A. By April 1 of the year following the year in which the owner reaches age 70½.
☐ B. By April 1 of the year in which the owner reaches age 70½.
☐ C. By January 1 of the year in which the owner reaches age 71.
☐ D. By April 1 of the year following the year in which the owner reaches age 70.

16. Which of the following is correct regarding contributions to a Roth IRA?
☐ A. Contributions may be made regardless of age provided other requirements are met.
☐ B. Contributions may be deducted if you are within certain income limits.
☐ C. Contributions may be deducted if you are not covered under a retirement plan.
☐ D. Contributions may not be deducted, but earnings are taxable when distributed.

17. Scott McTavish (age 66) made a rollover/conversion contribution from his traditional IRA to a newly created Roth IRA on December 1, 2004. Also, on February 1, 2006, he made another rollover/conversion contribution from an employer IRA to the same account. Which of the following is correct?
☐ A. He may not withdraw the funds tax free earlier than December 1, 2008.
☐ B. He may not withdraw the funds tax free earlier than February 1, 2011.
☐ C. He must make the February 1, 2006, rollover/ conversion contribution into a separate Roth IRA account to properly identify another five-year holding period.
☐ D. He may not withdraw the funds tax free earlier than January 1, 2009.

18. Generally, which of the following rules apply to **both** traditional IRAs and Roth IRAs?
☐ A. Non-rollover contributions are generally

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limited to $6,000 each year or 100% of compensation, whichever is less.
- ☐ B. Contributions are always non-deductible.
- ☐ C. Contributions may not be made for the tax year in which you reach age 70½ or for years thereafter.
- ☐ D. Contribution phaseout limits are the same for both traditional IRAs and Roth IRAs.

19. After many years as a bachelor, Buddy (age 50) married Penny (age 63). Penny's only income was $10,800 of social security. They filed a joint return for year 2008, with a modified adjusted gross income of $105,000. Buddy is covered by a retirement plan at work where he receives compensation of $85,000. He wishes to contribute to a traditional IRA for himself and for Penny. Which of the following will provide them the greatest allowable tax benefit.
- ☐ A. He may contribute $6,000 to each IRA, but only take a deduction for the $6,000 to his IRA.
- ☐ B. He may contribute $6,000 to each IRA, but take no deduction for either IRA.
- ☐ C. He may contribute $6,000 to each IRA, and take a deduction of $6,000 for each IRA.
- ☐ D. He may contribute $6,000 to each IRA, but only take a deduction for the $6,000 to Penny's IRA.

20. Which of the following amounts may be converted directly to a Roth IRA, provided all requirements are met?
- ☐ A. Amounts in a SIMPLE-IRA, and the two-year participation period have been met.
- ☐ B. Amounts in an inherited traditional IRA.
- ☐ C. Hardship distribution from a 401(k) plan.
- ☐ D. Required minimum distributions from a traditional IRA.

21. Joe Smith never married, and had no children. When he died, he left all of his assets, including his traditional IRA, to his nephew, David. What is David allowed to do with the inherited IRA?
- ☐ A. He could make additional direct contributions to the IRA, treating it as his own.
- ☐ B. He could roll over amounts out of the inherited IRA to another IRA tax free.
- ☐ C. He could make additional contributions, which were rollovers from Roth IRAs.
- ☐ D. None of the above.

22. Edwin (73) and Donna (73) were married. He had established a traditional IRA to which he made contributions, and had taken no distributions. The total value of the IRA was $50,000, of which $20,000 was nondeductible contributions. As the spousal beneficiary, which of the following applies to Donna?
- ☐ A. Edwin's $20,000 basis in the IRA may be treated as basis to Donna.
- ☐ B. When Donna receives the distribution, she may **not** roll it over to her own traditional IRA.
- ☐ C. Donna must begin receiving periodic distributions by December 31 of the fifth year following Edwin's death.
- ☐ D. Donna must pay a 10% penalty on the funds in the IRA if she receives an immediate distribution after Edwin's death.

23. Celeste, (age 52) who is single, worked recently for a telephone company in France, and earned $1,500 for which she claimed the foreign earned income exclusion. In addition to that, she earned $1,200 as an employee of an answering service while she was in the U.S. She also received alimony of $4,000 for the year. What is her maximum amount of allowable contribution to a traditional IRA for year 2008?
- ☐ A. $5,200
- ☐ B. $6,000
- ☐ C. $1,200
- ☐ D. $5,500

24. Which of the following is **more** than the allowable contribution amount to a self-employed retirement plan?
- ☐ A. Contribution of $10,000 to a self-employed individual's own defined contribution Keogh plan. The individual's net earnings from self-employment (on Schedule C) are $40,000.
- ☐ B. $15,000 to the SEP-IRA of an employee who earned $100,000 in 2008.
- ☐ C. $10,000 contribution into a SIMPLE-IRA by an employee who earns $30,000.
- ☐ D. A contribution of $10,000 to an employee's account in a defined contribution plan. The employee earned $40,000.

25. Joaquin is a small business owner who maintains a SEP for his employees:
- Jan, a 42-year-old part-timer who has worked for Joaquin in this business since 2000. She works 15 hours per week. She earned $13,500 in 2008.
- Malik, a 72-year-old seasonal worker who works from September through December. He has worked for Joaquin in this business since 2003 and earned $6,000 in 2008.
- Monica is 21 years old and works 10 hours per week, all year. She has worked for Joaquin since June 2007 and earned $4,800 in 2008.

Joaquin's business had net taxable income in 2008 of $62,300. All employees and Joaquin are U.S. citizens and none of them are union members. Which of the individuals listed below can be excluded from being covered under the SEP in 2008?
- ☐ A. Jan
- ☐ B. Malik
- ☐ C. Monica
- ☐ D. Joaquin

26. Carmine is a self-employed consultant who has one employee, Devin,

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who earned $48,000 in 2008. Devin contributed the maximum amount of his compensation to the SIMPLE 401(k) plan under which an employee can choose to make salary contributions of up to 15% of pay. Carmine made a 3% matching contribution. Which of the following correctly represents the amount that Carmine will deduct for compensation and benefits paid to Devin in 2008?

- ☐ A. $48,000 wages and $10,000 retirement plan contribution.
- ☐ B. $48,000 wages.
- ☐ C. $48,000 wages and $1,440 retirement plan contribution.
- ☐ D. $48,000 wages and $11,440 retirement plan contribution.

27. Lenore (age 43) opened a SIMPLE-IRA on January 19, 2007. On September 22, 2008, she withdrew the entire $10,000 value of the account. The distribution does not meet any early withdrawal exceptions to the additional tax on early distributions. How much additional tax (penalty) is this distribution subject to?

- ☐ A. $600
- ☐ B. $1,000
- ☐ C. $1,500
- ☐ D. $2,500

28. Which of the following is a prohibited transaction, but the law provides an exemption for it **not** a disqualified person for purposes of determining whether a prohibited transaction has been entered into under the qualified retirement plan rules?

- ☐ A. A plan fiduciary who deposits contributions into his or her own account and uses the funds to pay personal business expenses.
- ☐ B. A 70-year-old individual who receives a distribution of the full value of his retirement account from a plan established by a business that he owns.
- ☐ C. A fiduciary that invests the plan's assets in FGH partnership. FGH deposits 10% of the plan's assets into the fiduciaries' own account.

29. Rena is a 72-year-old single chemical engineer. She works part-time for a pharmaceutical company, and earned $22,000 in 2008. Her modified adjusted gross income is $45,000. She participates in her employer's pension plan and profit sharing plan. In 2008, she contributed $5,000 to a traditional IRA. How much of her contribution can Rena deduct in 2008?

- ☐ A. $0
- ☐ B. $1,200
- ☐ C. $1,400
- ☐ D. $2,000

30. Peter and Jill (both age 53) are married and file a joint return. In 2008, Jill was a media relations manager for a large firm and earned $98,000; Peter owns a graphic design business that shows a net profit of $500. In 2008, Jill was covered by an employer's plan, Peter was not. Their Modified Annual Gross Income was $164,000. What is the maximum deductible that Peter can contribute to a traditional IRA.

- ☐ A. $0
- ☐ B. $500
- ☐ C. $3,000
- ☐ D. $6,000

31. Joe has a traditional IRA with a basis of $8,800. In 2008, this was his only IRA. On December 31, 2008, he converted $44,000 of the $88,000 total value of the IRA to a Roth IRA. He files as head of household, and his AGI, without the conversion, is $62,000. What amount of income will be included on Joe's 2008 return as the result of his conversion?

- ☐ A. $8,800
- ☐ B. $35,200
- ☐ C. $39,600
- ☐ D. $44,000

31. Joseph (age 57) is a single taxpayer. His modified adjusted gross income in 2008 was $140,000, of which $116,000 was earned income. In 2008, he made a $6,000 contribution to his previously-established Roth IRA. What is the penalty for excess contributions if he doesn't withdraw the contribution (and all attributable earnings) by the due date of the return (including extensions), or recharacterize the contribution by the due day of the return (including extensions)?

- ☐ A. $0
- ☐ B. $300
- ☐ C. $600
- ☐ D. $360

33. Maria has a traditional IRA, from which she has taken a taxable distribution of $8,000. Under which of the following circumstances will the distribution be subject to the 10 percent penalty for premature distributions?

- ☐ A. Maria's AGI is $30,000 and she had $13,000 in unreimbursed deductible medical expenses which exceed 7.5% of her adjusted gross income.
- ☐ B. Maria's granddaughter is a sophomore in college and Maria paid her tuition expenses of $10,000.
- ☐ C. Maria is age 57. The distribution is not part of a series of equal periodic payments. She has no qualifying expenses or conditions.
- ☐ D. The distribution was made pursuant to an IRS levy on Maria's IRA.

34. Which of the following correctly states the maximum allowable **catch-up** contribution only for a participant age 50 or over for the year 2008?

- ☐ A. $3,000 for a 401(k) plan
- ☐ B. $1,000 for a SIMPLE plan
- ☐ C. $1,000 for a traditional IRA
- ☐ D. $3,500 for a Roth IRA

35. Minnie's tax return for 2008 shows the following income:

- $800 wages
- $6,490 unemployment compensation
- $1,000 alimony
- $8,000 rental income from apartment buildings she owns

What is Minnie's earned income for the purpose of

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determining how much she can contribute to an IRA?

- ☐ A. $800
- ☐ B. $7,290
- ☐ C. $1,800
- ☐ D. $16,290

36. Which of the following are prohibited transactions with a traditional IRA?

- ☐ A. Selling property to it.
- ☐ B. Using it as security for a loan.
- ☐ C. Buying property for personal use with your IRA funds.
- ☐ D. All of the above.

37. Joyce was recently divorced. Per a court order, she must transfer her IRA to her ex-spouse. To avoid paying taxes on the withdrawal, Joyce must do which of the following?

- ☐ A. Direct rollover.
- ☐ B. Transfer her IRA to her spouse's IRA
- ☐ C. Withdraw funds and deposit them into his IRA.
- ☐ D. All of the above.

38. George, (age 31) a single taxpayer, has W-2 income of $31,000. During the 2008 tax year he contributed $5,500 to his traditional IRA. George has excess contributions of how much?

- ☐ A. $5,500
- ☐ B. $5,000
- ☐ C. $500
- ☐ D. None of the above.

39 Which of the following is **not** considered earned compensation for IRA contribution purposes.

- ☐ A. Deferred compensation.
- ☐ B. Wages and salaries.
- ☐ C. Self-employed income.
- ☐ D. Commissions.

40. If distributions from your traditional IRA are less than the minimum required distribution for the year, you may have to pay an excise tax for that year on the amount not distributed as required. The excise tax is how much?

- ☐ A. 10%
- ☐ B. 20%
- ☐ C. 50%
- ☐ D. None of the above.

Answers and Explanation

1. **(F)** A person has a contribution limit of either $5,000 or $6,000 for 2008. Both traditional IRA contributions and Roth IRA contributions count against this limit.

2. **(B)** The income needed to make an IRA contribution is wages or business income since an IRA is supposed to be a mini-retirement plan.

3. **(B)** Contribution is $5,000 since age 38. The 2008 phase-out range for a person filing single is $53,000-$63,000. $63,000-$57,000/$10,000 = 60% deductible.

4. **(A)** Since $8,500 was contributed to their two traditional IRAs and $1,500 was contributed to Tony's Roth IRA, only the $8,500 is eligible to be deducted.

5. **(D)** For 2008, a spouse who is not covered by a plan is able to claim a deduction for the full contribution as long as their MAGI is $159,000 or less.

6. **(D)** This is an "except" question. Individuals are no longer eligible to add funds to an individual savings bond program.

7. **(A)** To avoid the 6% excise tax, one must withdraw the exc ess amount and any income. Taking out only one of the two means the 6% excise tax is owed.

8. **(D)** is, of course, the correct answer. The April 1 of the year following the year a person attains age 701/2 is called the required beginning date (RBD).

9. **(F)** A couple's combined IRA contribution cannot exceed their combined income. For example, if the working spouse earned $9,500, this is their maximum contribution amount.

10. **(T)**

11. **(F)** Roth IRA contributions are never deductible.

12. **(A)**

13. **(B)** Norma may use the spousal rules to make a $6,000 contribution since their MAGI is equal to or less than $159,000.

14. **(D)** A special rule allows alimony to be used as compensation for IRA purposes.

15. **(A)** This date is so important there are two questions.

16. **(A)** Age neither makes you eligible or ineligible for a Roth IRA contribution.

17. **(D)** The five-year period for tax-free income treatment purposes starts to run from Jan. 1 of the year for which you made the contributions and not the date you made it or the year in which you made it.

18. **(A)**

19. **(D)** Penny's $6,000 contribution can be deducted as she is not an active participant. Buddy's $6,000 contribution is not deductible as their MAGI is $105,000 or more.

20. **(A)** The other amounts cannot be converted to a Roth IRA.

21. **(D)** An inherited IRA is one to which additional contributions cannot be made by a nonspouse beneficiary. Inherited IRAs cannot be rolled over by a nonspouse.

22. **(A)**

23. **(A)** Contribution limited to the lesser of: compensation or the contribution limit of $6,000.

24. **(A)** 25% is the maximum contribution amount. However, a self-employed person must reduce their SE income by 1/2 of their SE tax. Therefore, a contribution of $10,000 is larger than is permissible if the SE earnings are $40,000.

25. **(C)** She has not been credited with at least 3 years of service.

26. **(C)** The amount deferred from salary is considered to be compensation as is the remaining amount. Thus, his compensation is $48,000. The employer must make a 3% matching contribution or $1,440.

27. **(D)** A 25% tax leads to a hefty amount owning.

28. **(B)** A participant's receipt of their normal benefit is not a PT subject to the excise tax.

29. **(A)** She is over age 70½ and no contribution to a traditional IRA is permissible. She could make a contribution to a Roth IRA.

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