

# THE Pension Digest

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



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## Seek More IRA Contributions

An IRA custodian wants to see its IRA deposits grow. Here are some suggestions.

1. Seek SEP-IRA contributions. A person can establish and fund a SEP-IRA up through his or her tax filing deadline of April 18, 2011, plus tax extensions. The maximum contribution amount is \$49,000 per year.

2. Seek more periodic contributions. In this day and age of web banking an IRA custodian should make it easy for a person to establish an automatic transfer from his or her checking account into either a traditional IRA or a Roth IRA. It should also be easy to stop this transfer, either temporarily or permanently. Inform the person that any contribution is made for the tax year in which the IRA custodian receives it.

3. Seek more Roth IRA contributions. As long as a person still has compensation (and not too much), a person can make a Roth IRA contribution. There is no age 70½ limit. There is no negative consequence to participating in a 401(k) plan. A person can contribute to both a 401(k) plan or a SEP-IRA and a Roth IRA.

4. Seek more traditional IRA contributions from high income clients. Now that any person with money in a traditional IRA is eligible to make a conversion contribution to a Roth IRA, more individuals will make nondeductible IRA contribution, if it is explained to them why they should make such contributions. Making a nondeductible contribution and then

converting it (assumes no other funds within a traditional IRA) has the same effect as making a Roth IRA contribution. Income limits still make many individuals ineligible to make a direct Roth IRA contribution. ♦

## 2010 IRA Contribution Deadline is Monday, April 18, 2011 Due to Emancipation Day

The federal rule is that when April 15th falls on Saturday, Sunday or a legal holiday, then a tax return is considered timely if filed on the next succeeding day which is NOT a Saturday, Sunday or holiday.

Emancipation Day is April 16th and it is a legal holiday in Washington, D.C. In some years this holiday will impact the deadline for filing federal income tax returns.

In 2011, April 15th falls on Friday. However, Washington D.C. observes Emancipation Day on Friday since it falls on a Saturday. This means in 2011, April 15th is a holiday for federal income tax purposes. Consequently, the filing deadline for all tax forms and payments required to be filed or completed on or before April 15th (as described in Section 6072(a), including the Form 1040 returns) will be Monday April 18th, 2011.

This April 18, 2011 deadline applies to traditional and Roth IRA contributions, HSA contributions and CESA contributions. ♦

## Reminder – Upcoming Reporting Deadline

**March 31, 2011** – This is the last day to file 2010 1099-R's to the IRS if you do so electronically via modem or the internet.

**May 2, 2011** – Fair Market Value statements for Coverdell ESAs must be furnished by this date if the 12-31-10 FMV has not already been reported to the designated beneficiary and the individual has been informed this FMV information will be furnished to the IRS on Form 5498-ESA.

**May 31, 2011** – This is the due date for Form 5498, 5498-ESA, 5498-SA to be provided to the accountholders and the IRS. ♦

## 'Tis the Season for Withdrawing Current-Year Contributions and Recharacterizing a Contribution

IRA Accountholders are now visiting their tax preparers. In some cases, these accountholders will be told they contributed too much to their traditional IRA, Roth IRA or both types of IRAs. They will visit you (i.e. their IRA custodian) so corrective action may be taken.

The tax rules provide two ways for an individual to correct or un-do a current year contribution. A current year contribution may be an excess contribution (i.e. an impermissible contribution), but need not be. An individual may choose to un-do or correct any current year contribution without having to have a qualifying reason to do so.

**Method #1** allows the individual to withdraw the excess amount plus the related earnings.

**Method #2** allows the individual to recharacterize the excess amount plus the related earnings.

The following discussion is intended to explain to you and your IRA accountholders the special rules applying to withdrawing a current-year contribution and the recharacterizing of a current-year contribution.

Illustration. Jane Doe makes a traditional IRA contribution of \$6,000 in September of 2010. She believes the

entire amount would be deductible. It is now March of 2011 and she has just visited her tax prepare. She was informed she needed to withdraw \$2,300. She was told to visit her IRA custodian as soon as possible. She has instructed the IRA custodian that she wishes to withdraw the \$2,300 plus the related income. The IRA custodian calculates the income to be \$80.

CWF has prepared a special form, *Special Explanation Regarding the Withdrawal of 2010 "Current Year" Contribution*. This form explains how the accountholder should handle this transaction on his or her tax return. This is not tax advice. The IRS, in the instructions for the Form 1099-R, asks the IRA custodian to furnish such a notice, since in the situation of when the contribution was made in 2010 and withdrawn in 2011, the 2011 Form 1099-R with a reason code "P" will not be furnished to the accountholder until January of 2012. This distribution must be included on the 2010 tax return, since the law requires that the income be taxed in the year in which the contribution was made, and not the year for which the contribution was made. In this case, the income is actually earned in both 2010 and 2011, but it is taxed in 2010. If you don't use such a form or similar form, you should.

Use the proper forms for withdrawing current contributions.

- IRA Distribution Form (CWF #57)
- Special Explanation Regarding the Withdrawal of 2010 "Current Year" Contribution (CWF #67A)
- Worksheet to Calculate the Income Related to the Withdrawal of a Current-Year Contribution(s) (CWF #67-W) ♦

**Special Explanation Regarding the  
Withdrawal of a 2010 "Current-Year" Contribution**

Custodian/Trustee: \_\_\_\_\_

Accountholder's Name: \_\_\_\_\_

Social Security Number: \_\_\_\_\_ IRA Account Number: \_\_\_\_\_

This form explains to you, the Accountholder, the complex rules for the withdrawal of a "current-year" contribution. A current-year contribution is one for which the tax deadline (plus extensions) has not yet passed. Thus, a contribution made at any time in 2010, for 2010, or between January 1, 2011, and April 15, 2011, for 2010 (during the carryback period) is considered a current-year contribution for 2010.

If you satisfy the following three (3) requirements, you will not be taxed on the withdrawal of a 2010 current-year contribution from your IRA.

- 1) You must withdraw the contribution by April 15, 2011, or such other date as is explained on the reverse side.
- 2) No deduction must have been allowed for the contribution for the tax year in question; and
- 3) Any interest or other income earned by the contribution must also be withdrawn. The interest or other income earned on this contribution must be included in your gross income, and the 10% additional tax on a distribution prior to age 59½ must be paid, if applicable.

**Accountholder's Instructions to Withdraw and Signature**

✓ On \_\_\_\_\_ (specify date) I contributed \$ \_\_\_\_\_ to my IRA account for the 2010 tax year. On this date \_\_\_\_\_, I hereby instruct you (the custodian/trustee) to withdraw \$ \_\_\_\_\_ plus the related income of \$ \_\_\_\_\_.

Signature of Accountholder \_\_\_\_\_ Date \_\_\_\_\_

**Special Explanation by Custodian/Trustee—  
Because Action is Required by the Accountholder**

✓ On \_\_\_\_\_ (specify date) we, as custodian/trustee of your IRA account, distributed to you, the accountholder, \$ \_\_\_\_\_ of which \$ \_\_\_\_\_ is the return of your contribution and \$ \_\_\_\_\_ is the related income (i.e. earnings/interest).

You must reflect on your Federal income tax return all amounts distributed to you. However, you will reflect two amounts on your Federal income tax return: the gross amount and the taxable amount. We expressly recommend that you consult with your tax advisor or preparer, or that you review IRS Publication 590. The following paragraphs discuss the Federal income tax consequences.

You have withdrawn a 2010 current-year contribution. You must reflect this distribution on the tax return for the year in which you made the contribution and not the year in which it was withdrawn, or for the tax year for which the contribution was made.



White—Custodian/Trustee Yellow—Administrator

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**Worksheet to Calculate the Income Related to the  
Withdrawal of a Current-Year Contribution(s)**

**Custodian/Trustee Information**

Name \_\_\_\_\_  
Address \_\_\_\_\_  
City \_\_\_\_\_ State \_\_\_\_\_ Zip \_\_\_\_\_  
Attn: \_\_\_\_\_ Phone \_\_\_\_\_

**Accountholder**

Name \_\_\_\_\_  
Home Address \_\_\_\_\_  
City \_\_\_\_\_ State \_\_\_\_\_ Zip \_\_\_\_\_  
County \_\_\_\_\_ Date of Birth \_\_\_\_\_  
SSN \_\_\_\_\_ Plan No. \_\_\_\_\_

**IRA Account Information**

Account Number \_\_\_\_\_

Type: ☐ Traditional ☐ Roth

**Purpose:** This form is used to calculate the interest or other income earned with respect to a current-year contribution which is being withdrawn under Internal Revenue Code section 408(d)(4). The formula set forth in IRC Regulation 1.408-4(c)(1) is being used.

Date of Contribution(s) \_\_\_\_\_

Amount of Contribution(s) \_\_\_\_\_

Date of Distribution \_\_\_\_\_

1. Amount of Current-Year Contribution(s) to be Withdrawn. 1. \_\_\_\_\_

2. Adjusted Closing Balance:  
a. FMV (immediately prior to withdrawal) 2(a). \_\_\_\_\_  
(FMV = Principal + Interest + Accrued Interest)  
b. Distributions during computation period 2(b). \_\_\_\_\_  
c. Total Adjusted Closing Balance (line 2a + 2b) 2(c). \_\_\_\_\_

3. Adjusted Opening Balance:  
a. FMV (immediately prior to contribution) 3(a). \_\_\_\_\_  
(FMV = Principal + Interest + Accrued Interest)  
b. Contributions during computation period 3(b). \_\_\_\_\_  
c. Total Adjusted Opening Balance (line 3a + 3b) 3(c). \_\_\_\_\_

4. Subtract line 3c from line 2c (this may be a negative number) 4. \_\_\_\_\_

5. Divide line 4 by line 3c (a quotient to 5 decimal places) 5. \_\_\_\_\_

6. Income (loss) Related to the Current-Year Contribution Being Withdrawn (multiply line 5 by line 1) 6. \_\_\_\_\_

7. Total amount to be withdrawn (line 1 + 6) 7. \_\_\_\_\_

Signature of Custodian/Trustee \_\_\_\_\_ Date \_\_\_\_\_ Signature of Accountholder \_\_\_\_\_ Date \_\_\_\_\_

**Additional Discussion – See Reverse Side**



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## Understanding the Recharacterizing of a 2010 Contribution in 2011

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 should recharacterize some or all of a Roth IRA conversion made in 2010. Or, they may tell the accountholder that they were ineligible to make a \$5,000/\$6,000 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 2010, for 2010, before he or she files a 2010 federal income tax return in 2011. Most such accountholders will normally complete the recharacterization on or before the tax-filing deadline for 2010. This is April 18, 2011. However, a person will have until October 17, 2011, to recharacterize a contribution. A person who timely files his or her 2010 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 2010 income tax return. Recharacterizations are confusing to everyone involved. This is especially true for 2010 contributions which are recharacterized in 2011, because, as with excess contributions, these recharacterization transactions will be reported on the 2011 Form 1099-R and the 2011 Form 5498, which are not furnished until January of 2012 and May 2012. These forms obviously arrive well after the time the accountholder needs the information to file his or her 2010 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 tradi-

tional 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 \$5,000 contribution to a Roth IRA on 1-10-10, for 2010. The fair market value of this IRA as of 12-31-10 was \$5,100. Lisa is not married, and she is not an active participant in an employer-sponsored plan. Her MAGI for 2010 was \$123,000. Therefore, she has determined that she is not eligible to make a contribution to a Roth IRA. There were earnings of \$130 related to the contribution of \$5,000 as of 3-3-11. One of the methods to correct an excess contribution is to recharacterize it. She chose to recharacterize this contribution, plus earnings, on 3-3-11. Assume the fair market value of this IRA as of 12-31-11 will be \$5,400.

#### **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 8.

#### **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 8.

#### **Step #3. You Will Prepare the Various Reporting Forms**

1.1 You will prepare a 2010 Form 5498 to report the original contribution to the Roth IRA of \$5,000 as shown and the FMV as of 12-31-10.

1.2 You will prepare a 2011 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 (\$5,130) 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 2011 Form 5498 to report the recharacterized contribution (plus earnings) to the traditional IRA of \$5,130 and the balance of \$5,400 as of December 31, 2011.

TRUSTEE'S or ISSUER'S name, street address, city, state, and ZIP code		1 IRA contributions (other than amounts in boxes 2-4, 8-10, 13a, and 14a) \$ 2 Rollover contributions \$ 3 Roth IRA conversion amount \$		OMB No. 1545-0747 <b>2010</b> Form 5498 IRA Contribution Information	
TRUSTEE'S or ISSUER'S federal identification no.	PARTICIPANT'S social security number	5 Fair market value of account \$ <b>5100.00</b>		4 Recharacterized contributions \$ 6 Life insurance cost included in box 1 \$	
PARTICIPANT'S name		7 IRA <input checked="" type="checkbox"/> SEP <input type="checkbox"/> SIMPLE <input type="checkbox"/> Roth IRA <input checked="" type="checkbox"/>		Copy A For Internal Revenue Service Center File with Form 1096.	
Street address (including apt. no.)		10 Roth IRA contributions \$ <b>5000.00</b>		11 Check if RMD for 2011 <input type="checkbox"/>	
City, state, and ZIP code		12a RMD date \$		12b RMD amount \$	
Account number (see instructions)		13a Postponed contribution \$		13b Year 13c Code	
		14a Repayments \$		14b Code	

because she is not able to claim a deduction for her \$5,000 contribution to the traditional IRA. Assume the fair market value of this IRA as of 12-31-11, will be \$5,300.

### 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 8, 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 2010 Form 5498 to report the original contribution to the traditional IRA of \$5,000. It should be reported as shown.

VOID <input type="checkbox"/> CORRECTED <input type="checkbox"/>		PAYER'S name, street address, city, state, and ZIP code		1 Gross distribution \$ <b>5130.00</b>		OMB No. 1545-0119 <b>2011</b> Form 1099-R Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.	
PAYER'S federal identification number	RECIPIENT'S identification number	2a Taxable amount \$ <b>0.00</b>		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 \$		Copy 1 For State, City, or Local Tax Department	
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) <b>R</b>		8 Other \$			
10 Amount allocable to IRR within 5 years \$		11 1st year of desig. Roth contrib.		12 State tax withheld \$		13 State/Payer's state no.	
Account number (see instructions)		15 Local tax withheld \$		16 Name of locality \$		17 Local distribution \$	

TRUSTEE'S or ISSUER'S name, street address, city, state, and ZIP code		1 IRA contributions (other than amounts in boxes 2-4, 8-10, 13a, and 14a) \$ 2 Rollover contributions \$ 3 Roth IRA conversion amount \$		OMB No. 1545-0747 <b>2011</b> Form 5498 IRA Contribution Information	
TRUSTEE'S or ISSUER'S federal identification no.	PARTICIPANT'S social security number	5 Fair market value of account \$ <b>5400.00</b>		4 Recharacterized contributions \$ <b>5130.00</b>	
PARTICIPANT'S name		7 IRA <input checked="" type="checkbox"/> SEP <input type="checkbox"/> SIMPLE <input type="checkbox"/> Roth IRA <input type="checkbox"/>		Copy B For Participant This information is being furnished to the Internal Revenue Service.	
Street address (including apt. no.)		10 Roth IRA contributions \$		11 If checked, required minimum distribution for 2012 <input type="checkbox"/>	
City, state, and ZIP code		12a RMD date \$		12b RMD amount \$	
Account number (see instructions)		13a Postponed contribution \$		13b Year 13c Code	
		14a Repayments \$		14b Code	

TRUSTEE'S or ISSUER'S name, street address, city, state, and ZIP code		1 IRA contributions (other than amounts in boxes 2-4, 8-10, 13a, and 14a) \$ <b>5000.00</b>		OMB No. 1545-0747 <b>2010</b> Form 5498 IRA Contribution Information	
TRUSTEE'S or ISSUER'S federal identification no.	PARTICIPANT'S social security number	5 Fair market value of account \$ <b>5125.00</b>		4 Recharacterized contributions \$	
PARTICIPANT'S name		7 IRA <input checked="" type="checkbox"/> SEP <input type="checkbox"/> SIMPLE <input type="checkbox"/> Roth IRA <input type="checkbox"/>		Copy A For Internal Revenue Service Center File with Form 1096.	
Street address (including apt. no.)		10 Roth IRA contributions \$		11 Check if RMD for 2011 <input type="checkbox"/>	
City, state, and ZIP code		12a RMD date \$		12b RMD amount \$	
Account number (see instructions)		13a Postponed contribution \$		13b Year 13c Code	
		14a Repayments \$		14b Code	

PAYER'S name, street address, city, state, and ZIP code		1 Gross distribution \$ <b>5140.00</b>		OMB No. 1545-0119 <b>2011</b> Form 1099-R Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.	
PAYER'S federal identification number	RECIPIENT'S identification number	2a Taxable amount \$ <b>0.00</b>		2b Taxable amount not determined <input type="checkbox"/>	
RECIPIENT'S name		3 Capital gain (included in box 2a) \$		4 Federal income tax withheld \$	
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) <b>R</b>		8 Other \$	
10 Amount allocable to IRR within 5 years \$		11 1st year of desig. Roth contrib.		12 State tax withheld \$	
Account number (see instructions)		15 Local tax withheld \$		16 Name of locality \$	
		17 Local distribution \$			

2.2 You will prepare a 2011 Form 1099-R to report the "deemed" distribution from the traditional IRA to the Roth

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

Sara Roe made a \$5,000 contribution to a traditional IRA on 2-10-10, for 2010, rather than a Roth IRA. The fair market value of this traditional IRA was \$5,125 as of 12-31-10. Sara is not married. She is an active participant in an employer-sponsored plan. Her MAGI was \$92,000. There were earnings of \$140 related to the contribution of \$5,000 as of 2-20-11. Sara has determined, on 2-20-11, she will recharacterize her traditional IRA contribution to be a Roth IRA contribution,



**Recharacterizing,  
Continued from page 5**

IRA. It should be reported as follows. Box 1 is to be completed with the gross distribution amount (\$5,140) 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 2011 Form 5498 to report the recharacterized contribution (plus earnings) to the Roth IRA of \$5,140. It should be reported as shown.

TRUSTEE'S or ISSUER'S name, street address, city, state, and ZIP code		1 IRA contributions (other than amounts in boxes 2-4, 8-10, 13a, and 14a)		OMB No. 1545-0747		IRA Contribution Information
<div style="border: 2px solid black; border-radius: 50%; width: 40px; height: 40px; display: flex; align-items: center; justify-content: center; margin: 0 auto;">2.3</div>		2 Rollover contributions		2011 Form 5498		
		3 Roth IRA conversion amount		4 Recharacterized contributions		Copy B For Participant
TRUSTEE'S or ISSUER'S federal identification no.		5 Fair market value of account		6 Life insurance cost included in box 1		
PARTICIPANT'S social security number		7 IRA SEP SIMPLE Roth IRA <input checked="" type="checkbox"/>		8 Recharacterized contributions		
PARTICIPANT'S name		9 SEP contributions		10 SIMPLE contributions		
Street address (including apt. no.)		11 If checked, required minimum distribution for 2012 <input type="checkbox"/>		12a RMD date		
City, state, and ZIP code		12b RMD amount		13a Postponed contribution		
		13b Year		13c Code		
		14a Repayments		14b Code		

**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 1-15-10. The fair market value of this Roth IRA was \$15,000 as of 12-31-10 and as of 3-1-11. She is not married. On 3-1-11, her accountant told her she should recharacterize this amount because of the decrease in FMV. The related income is a negative \$15,000. The recharacterized amount is \$15,000. She elects to recharacterize this conversion contribution on 3-1-11. Assume the fair market value of the traditional IRA as of 12-31-11 will be \$15,800.

**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 8 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 2010 Form 1099-R to report the original conversion contribution to the Roth IRA of \$30,000 as shown.

3.2 You will prepare a 2011 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 2011 Form 5498 to report the recharacterized contribution (plus earnings) of \$33,900 to the traditional IRA. It should be reported as shown below.

Continued on page 7

TRUSTEE'S or ISSUER'S name, street address, city, state, and ZIP code		1 IRA contributions (other than amounts in boxes 2-4, 8-10, 13a, and 14a)		OMB No. 1545-0747		IRA Contribution Information
<div style="border: 2px solid black; border-radius: 50%; width: 40px; height: 40px; display: flex; align-items: center; justify-content: center; margin: 0 auto;">3.1</div>		2 Rollover contributions		2010 Form 5498		
		3 Roth IRA conversion amount		4 Recharacterized contributions		Copy A For Internal Revenue Service Center File with Form 1096. For Privacy Act and Paperwork Reduction Act Notice, see the 2010 General Instructions for Certain Information Returns.
TRUSTEE'S or ISSUER'S federal identification no.		5 Fair market value of account		6 Life insurance cost included in box 1		
PARTICIPANT'S social security number		7 IRA SEP SIMPLE Roth IRA <input checked="" type="checkbox"/>		8 Recharacterized contributions		
PARTICIPANT'S name		9 SEP contributions		10 SIMPLE contributions		
Street address (including apt. no.)		11 If checked, required minimum distribution for 2012 <input type="checkbox"/>		12a RMD date		
City, state, and ZIP code		12b RMD amount		13a Postponed contribution		
		13b Year		13c Code		
		14a Repayments		14b Code		

PAYER'S name, street address, city, state, and ZIP code		1 Gross distribution		OMB No. 1545-0119		Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.
<div style="border: 2px solid black; border-radius: 50%; width: 40px; height: 40px; display: flex; align-items: center; justify-content: center; margin: 0 auto;">3.2</div>		2a Taxable amount		2011 Form 1099-R		
		2b Taxable amount not determined <input type="checkbox"/> Total distribution <input type="checkbox"/>		3 Capital gain (included in box 2a)		Copy 1 For State, City, or Local Tax Department
PAYER'S federal identification number		4 Federal income tax withheld		5 Employee contributions / Designated Roth contributions or insurance premiums		
RECIPIENT'S identification number		6 Net unrealized appreciation in employer's securities		7 Distribution code(s)		
RECIPIENT'S name		8 Other		9a Your percentage of total distribution		
Street address (including apt. no.)		9b Total employee contributions		10 Amount allocable to IRR within 5 years		
City, state, and ZIP code		11 1st year of desig. Roth contrib.		12 State tax withheld		
		13 State/Payer's state no.		14 State distribution		
Account number (see instructions)		15 Local tax withheld		16 Name of locality		
		17 Local distribution				

TRUSTEE'S or ISSUER'S name, street address, city, state, and ZIP code		1 IRA contributions (other than amounts in boxes 2-4, 8-10, 13a, and 14a)		OMB No. 1545-0747		IRA Contribution Information
<div style="border: 2px solid black; border-radius: 50%; width: 40px; height: 40px; display: flex; align-items: center; justify-content: center; margin: 0 auto;">3.3</div>		2 Rollover contributions		2011 Form 5498		
		3 Roth IRA conversion amount		4 Recharacterized contributions		Copy B For Participant This information is being furnished to the Internal Revenue Service.
TRUSTEE'S or ISSUER'S federal identification no.		5 Fair market value of account		6 Life insurance cost included in box 1		
PARTICIPANT'S social security number		7 IRA SEP SIMPLE Roth IRA <input checked="" type="checkbox"/>		8 Recharacterized contributions		
PARTICIPANT'S name		9 SEP contributions		10 SIMPLE contributions		
Street address (including apt. no.)		11 If checked, required minimum distribution for 2012 <input type="checkbox"/>		12a RMD date		
City, state, and ZIP code		12b RMD amount		13a Postponed contribution		
		13b Year		13c Code		
		14a Repayments		14b Code		

## Recharacterizing, Continued from page 6

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**Conclusion.** You will certainly be receiving requests to recharacterize, in calendar year 2011, a contribution which was made in calendar year 2010. Taxpayers and their accountants are beginning to understand the concept of recharacterizing a contribution as a correction tool. 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. ♦

## Use the Proper Forms for Recharacterizations

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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 2010. That is, they made too much money, and are not allowed to make a deductible contribution to their IRA. 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 2010, 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, 2011, to recharacterize an IRA contribution made for 2010.

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 2010 provides this information.

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. ♦

### Notice of Internal Recharacterization of IRA Contribution

To: Custodian/Trustee

Name \_\_\_\_\_ Date \_\_\_\_\_  
Address \_\_\_\_\_ Phone \_\_\_\_\_  
City \_\_\_\_\_ State \_\_\_\_\_ Zip \_\_\_\_\_

## From: Depositor or Grantor

Name \_\_\_\_\_ SSN \_\_\_\_\_  
Address \_\_\_\_\_ Date of Birth \_\_\_\_\_  
City \_\_\_\_\_ State \_\_\_\_\_ Zip \_\_\_\_\_ Phone: Home \_\_\_\_\_  
Work \_\_\_\_\_

### The Original Contribution

Account Number: \_\_\_\_\_  
Date of Contribution: \_\_\_\_\_  
Amount: \_\_\_\_\_

### The Recharacterized Contribution

Account Number: \_\_\_\_\_  
Date of Contribution: \_\_\_\_\_  
Amount: \_\_\_\_\_

## Type of Original Contribution (Check only one)

- ☐ 1. Conversion/Rollover to Roth IRA from a traditional IRA → 1. Return to the traditional IRA  
☐ 2. Conversion to Roth IRA from a SEP-IRA or SIMPLE-IRA → 2. Return to the SEP-IRA or SIMPLE-IRA  
☐ 3. Annual contribution to a Roth IRA for \_\_\_\_\_ tax yr → 3. Annual contribution to a traditional IRA for the same tax year  
☐ 4. Annual contribution to a traditional IRA for \_\_\_\_\_ tax yr → 4. Annual contribution to a Roth IRA for the same tax year  
☐ 5. Transfer or rollover to a SIMPLE-IRA from a traditional IRA → 5. Return to the traditional IRA  
☐ 6. Conversion/Rollover to Roth IRA from an employer \_\_\_\_\_ sponsored plan (other than a rollover of Designated Roth funds) → 6. Return to a traditional IRA

### Type of Recharacterized Contribution

- 1. Return to the traditional IRA
- 2. Return to the SEP-IRA or SIMPLE-IRA
- 3. Annual contribution to a traditional IRA
- 4. Annual contribution to a Roth IRA for IT
- 5. Return to the traditional IRA
- 6. Return to a traditional IRA

### Instruction & Amount to Recharacterize

Which is ☐ all or ☐ a portion of my original contribution.

It is adjusted by:

- [illegible]

## 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.

### Description of Assets Being Recharacterized

[illegible]

Depositor or Grantor: \_\_\_\_\_  
Date: \_\_\_\_\_

## IRA Custodian/Trustee:

We acknowledge receiving your recharacterization instruction. We will report the original contribution on Form 5498. We will report the distribution for recharacterization on Form 1099-R per the current IRS instructions, and we will also report the recharacterization contribution on a Form 5498.

Custodian/Trustee:  
Date:

**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 explanation to your tax return. Your IRA custodian/trustee should be furnishing you with a special form(s) to be used to provide this explanation.

IRA #54-TR1 (10C9)

White — Original Custodian/Trustee    Yellow — Successor Custodian/Trustee    Pink — Depositor/Grantor

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## Special Explanation to Accountholder for an IRA Recharacterization for the 2010 Tax Year

(Name of Accountholder)

The purpose of this special explanation is to provide you with information about your recharacterization. You recharacterized a contribution which you made for the 2010 tax year. You will need to properly report and explain your recharacterization when you file your 2010 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 2010 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, the amount which was recharacterized, and the amount of earnings which was recharacterized. You may attach a copy of the IRA Recharacterization Form for this purpose.

In some situations you will need to do more than just attach an explanatory statement. If both the original contribution and the recharacterization occurred during 2010, then you must also include on the 2010 tax return the amount deemed distributed from the one IRA on Form 1040, line 15(a) (or similar form). This is the gross amount you recharacterized. You should also complete line 15(b), the taxable amount, with zero. If the recharacterization of the contribution for 2010 occurred in 2011 then you only need to attach the explanatory statement.

Account holder \_\_\_\_\_ Date \_\_\_\_\_

Custodian \_\_\_\_\_ Date \_\_\_\_\_



IRA #56-TREX for 2010/8/09

White — Custodian/Trustee      Yellow — Accountholder

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