The Pension Digest

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ALSO IN THIS ISSUE –

October 17, 2011 is Deadline to Recharacterize a 2010 Roth IRA Conversion

In 2010 quite a few traditional IRA accountholders converted traditional IRA funds to be Roth IRA funds. They did so in order to take advantage of the special tax rule allowing 50% of the distribution to be taxed on the 2011 return and the other 50% on the 2012.

Some of these Roth Converters will decide to undo their conversions. The individual does not need to have a reason or explain why he or she wants to recharacterize the 2010 conversion.

The deadline to recharacterize (or undo) a 2010 conversion is October 17, 2011. This is a Monday. A person who misses this deadline will be unable to recharacterize the 2010 conversion unless a special IRS private letter ruling would be attained.

A recharacterization has the legal effect that the original conversion transaction is treated under the tax laws as if it never had occurred. For IRS tax reporting purposes, both of the conversion transactions and both of the recharacterization transactions are reported on the 1099-R and 5498 forms. It will be up to the IRA accountholder along with the tax preparer to explain the recharacterization. In some cases, filing a 2010 amended tax return will be required. ◆

Deadline for Qualified Charitable Distributions is December 31, 2011

Here are eight things taxpayers need to know about qualified charitable distributions.

1. This special distribution, created in 2006 and extended through 2011, is available to eligible IRA owners, regardless of whether they itemize their deductions. These rules will not apply for 2012 unless there is another tax law extending the QCD Rules.
2. The IRA owner must be age 70½ or older.
3. The Maximum amount that an IRA owner may transfer annually tax-free is $100,000 to an eligible organization.
4. To qualify, the charity must be the payee of the check issued by the IRA custodian.
5. Distributions from employer-sponsored retirement plans, including active SIMPLE IRAs and simplified employee pension plans – commonly referred to as SEP Plans – are not eligible.
6. Not all charities are eligible. For example, donor-advised funds and supporting organizations are not eligible recipients.
7. Amounts transferred are not taxable and no deduction is available for the amount given to the charity unless nondeductible contributions are transferred.
8. More information about qualified charitable distributions can be found in Publication 590, Individual Retirement Arrangements.

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

SIMPLE-IRA Summary Description — IRA Custodian Must Furnish by October 2011 for 2012

What are a financial institution's duties if it is the custodian or trustee of SIMPLE IRA funds? After a SIMPLE IRA has been established at an institution, it is the institution's duty to provide a Summary Description each year within a reasonable period of time before the employees' 60-day election period. CWF believes that providing the Summary Description 30 days prior to the election period would be considered "reasonable." The actual IRS wording is that the Summary Description must be provided "early enough so that the employer can meet its notice obligation." **You will want to furnish the Summary Description to the employer in September or the first week of October**. The employer is required to furnish the summary description before the employees' 60-day election period.

IRS Notice 98-4 provides the rules and procedures for SIMPLEs. This notice is reproduced in CWF's 2011 IRA Procedures Manual. If you do not have this resource manual, an order form is enclosed for your convenience.

The Summary Description to be furnished by the SIMPLE IRA custodian/ trustee to the sponsoring employer depends upon what form the employer used to establish the SIMPLE IRA plan.

As you are probably aware, the employer may complete either Form 5305-SIMPLE (where all employees' SIMPLE IRAs are established at the same employer-designated financial institution) or Form 5304-SIMPLE (where the employer allows the employees to establish the SIMPLE IRA at the financial institution of his or her choice).

There will be one Summary Description if the employer has used the 5305-SIMPLE form. There will be another Summary Description if the employer has used the 5304-SIMPLE form. If you are a user of CWF forms, these forms will be Form 918-A and 918-B.

The general rule is that the SIMPLE IRA custodian/trustee is required to furnish the summary description to the employer. This Summary Description will only be partially completed. The employer will be required to complete it and then furnish it to his employees. The employer needs to indicate for the upcoming 2012 year the rate of its matching contribution or that it will be making the non-elective contribution equal to 2% of compensation.

However, in the situation where the employer has completed the Form 5304-SIMPLE, the IRS understands that many times the SIMPLE IRA custodian/trustee will have a minimal relationship with the employer. It may well be that only one employee of the employer establishes a SIMPLE IRA with a financial institution. In this situation, the IRS allows the financial institution to comply with the Summary Description rules by using an alternative method.

To comply with the alternative method, the SIMPLE IRA custodian/trustee is to furnish the individual SIMPLE IRA accountholder the following:

- ✔ A current 5304-SIMPLE — this could be filled out by the employer, or it could be the blank form
- ✔ Instructions for the 5304-SIMPLE
- ✔ Information for completing Article VI (Procedures for withdrawal) (You will need to provide a memo explaining these procedures.)
- ✔ The financial institution's name and address.

Obviously, if an institution provides the employee with a blank form, he/she will need to have the employer complete it, and, the employee may well need to remind the employer that it needs to provide the form to all eligible employees.

CWF has created a form which covers the "alternative" approach of the Summary Description being provided directly to an employee.

The penalty for not furnishing the Summary Description is $50 per day.

Special Rule for a "transfer" SIMPLE IRA

There is also what is termed a "transfer" SIMPLE IRA. If your institution has accepted a transfer SIMPLE IRA, and there have been no current employer contributions, then there is no duty to furnish the Summary Description. However, if there is the expectation that future contributions will be made to this transfer SIMPLE IRA, then the institution will have the duty to furnish the Summary Description.

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Reminder of Additional Reporting Requirements

The custodian/trustee must provide each SIMPLE IRA account holder with a statement by January 31, 2012, showing the account balance as of December 31, 2011, (this is the same as for the traditional IRA), and include the activity in the account during the calendar year (this is not required for a traditional IRA). There is a $50 per day fine for failure to furnish this statement (with a traditional IRA, it would be a flat $50 fee). ◆

IRA Conversion and IRA Recharacterization—What is the Difference?

Sometimes there is confusion concerning IRA conversions and IRA recharacterizations. It seems these terms are used interchangeably throughout the financial industry, when, in fact, they are actually very different events. In the discussion below, we hope to clarify the differences.

IRA Conversion

An IRA conversion contribution is made when funds are distributed from a traditional IRA and put into a Roth IRA for the purpose of receiving the benefit of tax-free distributions (interest and principal) from the Roth IRA. Such Roth distributions must be "qualified" distributions in order for the interest to be distributed tax free. Another reason to make a conversion contribution to a Roth IRA is that there is no age 70½ required distribution as there is with a traditional IRA.

One must be aware that the conversion distribution from the traditional IRA is a taxable event. An individual will receive a 1099-R and will have to pay normal income tax on this traditional IRA distribution for the year in which the funds are received. However, a special rule did apply for 2010 conversions. Once the funds are deposited into the Roth IRA, the earnings accumulate tax free (just as with the traditional IRA), but are never taxed if used for a "qualified" distribution.

Each conversion contribution has a separate five-year holding period for purposes of the 10% pre-59½ tax which is considered to begin on the first day of the individual's tax year (normally January 1) in which the conversion contribution is made. This five-year holding period ends on the last day of the individual's fifth consecutive taxable year (normally 12/31). If funds are distributed prior to the completion of the five-year holding period, a 10% recapture tax will be assessed, unless an exception (such as attaining age 59½) applies.

IRA Recharacterization —

The law permits an individual to treat contributions made to a Roth IRA or traditional IRA as made to the other type of IRA. This is accomplished by means of a trustee-to-trustee transfer or by an internal transfer with the same trustee. There may be many reasons for recharacterizing a contribution, but it is mainly used as a correction mechanism, such as to correct a current-year excess contribution, or to move a current year nondeductible contribution from a traditional IRA to a Roth IRA or to un-do a Roth conversion. The recharacterized contribution is treated on the individual's federal income tax return as having been originally contributed to the second IRA on the same date and for the same taxable year as the original contribution to the first IRA. All earnings are attributed to the second IRA. A recharacterized contribution is not treated as a rollover for purposes of the one-rollover-per-year limitation.

The time frame for performing a recharacterization of a current-year contribution is generally October 15 of the following year (the tax-filing deadline of 4/15 plus 6 months). An individual who filed their tax return in a timely manner will be able to file an amended return to report the recharacterization.

The net income attributable to the contribution being recharacterized must be transferred to the second IRA. The method used to calculate these earnings is basically the same method used to calculate the earnings associated with an excess contribution to a traditional IRA. There are some minor differences.

A recharacterization is not subject to withholding, as it is not a taxable event. However, it is a reportable transaction, and your institution will need to prepare two 5498s: one to show the original contribution and one to show the recharacterization. A 1099-R will also need to be prepared to report the "deemed" distribution.

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IRA Conversion,
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In the case of an excess contribution, the excess amount may simply be withdrawn by the individual's tax-filing deadline, plus extensions. However, the reason to choose recharacterization over withdrawal is that under the withdrawal rules, the applicable income must also be withdrawn, normal income tax will be owing, and, if the individual is under age 59½, the 10% early withdrawal penalty will be assessed. By using recharacterization, the transaction is nontaxable, and the interest is allowed to be transferred along with the contribution.

In Summary: It is important that an IRA custodian's personnel be aware of the differences between conversion and recharacterization contributions. Sometimes your accountholders will incorrectly use one term when they mean the other term. In many instances the required IRS reporting is then completed incorrectly. Each transaction has very specific rules for completing the 1099-R and 5498. It is in you and your customer's best interest to complete these reporting forms correctly. ◆

Inform People – if Eligible, to Make Roth IRA Contribution

Roth IRAs are great in the sense that the income earned by the account may never be taxed. This happens when the distribution is a qualified distribution. There are three types of Roth IRA contributions. An individual may be eligible to make none, one, two or all three types of Roth IRA contributions as described below.

Type #1. A Direct Roth IRA Annual Contribution. To be eligible to make a Direct Roth IRA annual contribution, an individual must meet two requirements. First, he or she must have compensation. Secondly, the individual meets a modified adjusted gross income requirement. On this page, see the IRS chart showing the effect of Modified AGI on Roth IRA contributions. The income amounts totally disqualifying one from making a Roth IRA contribution for 2011 are: $179,000 if filing married filing jointly or qualifying widower; $10,000 if filing married filing separately and the person lived with his or her spouse at some time during the year; and $122,000 if filing single, head of household or married filing separately and the person did not live with his or her spouse at any time during year.

Type #2. A Roth Conversion Contribution. To be eligible to make a Roth IRA conversion contribution an individual must have funds within a traditional IRA. Prior to 2010, there were two eligibility requirements – an income limit of $100,000 or less for the current year and if married, the individual had to file the tax return as married filing jointly. These two requirements were repealed as of December 31, 2009 and no longer apply for conversions in 2010 and later years. There is no maximum limit placed on the size of the Roth IRA conversion other than one cannot convert more than the current value of his or her traditional IRA.

Type #3. An Indirect Roth IRA "Annual" Contribution. As summarized above, there are some fortunate individuals who are ineligible to make a "direct" annual Roth IRA contribution because their income is too high. These high income individuals may still be able to "contribute" funds on an annual basis to a Roth IRA if the following two step approach is used. Step One. The individual makes a nondeductible contribution to a Traditional IRA. Step Two. The individual immediately converts it to a Roth IRA. This third type of Roth IRA

The following Chart summarizes the special income and filing status rules for 2011:

Roth IRA Contribution Chart for 2011

Amount of AGI and Filing Status

Single, Head of Household or Qualifying Widow(er)

Below $107,000	Entitled to full contribution amount
$107,000-$121,999	Entitled to prorated contribution amount– use special formula*
$122,000 or over	No contribution permissible

*Explanation of special formula. Multiply the permissible contribution by the following ratio: amount of adjusted gross income in excess of $107,000/$15,000. This will give you a ratio that determines the amount you cannot contribute. Round to the lowest $10.00.

Married Filing Jointly

Below $169,000	Entitled to full contribution amount.
$169,000-178,999	Entitled to prorated contribution amount– use special formula.*
$179,000 or over	No contribution permissible.

*Explanation of special formula. Multiply the permissible contribution by the following ratio: amount of adjusted gross income in excess of $169,000/$10,000. This will give you a ratio that determines the amount you cannot contribute. Round to the lowest $10.00.

Married Filing Separate Returns

$0-$9,999	Entitled to prorated contribution amount– use special formula*
$10,000 or Over	No contribution permissible

*Explanation of special formula. Multiply the permissible contribution by the following ratio: amount of adjusted gross income in excess of $0/$10,000. This will give you a

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contribution is a subcategory of Type #2 since it does involve a Roth IRA conversion contribution. Most individuals are eligible to make a traditional IRA contribution, albeit a nondeductible contribution. He or she must have compensation for the current year and must not attain age 70½ or older in the current year. There are no "too much wealth" or "too high of income" restrictions. The making of a nondeductible traditional IRA contribution and then converting it immediately into a Roth IRA is the equivalent of making a Roth IRA contribution.

In order to illustrate the above situation, let's review a typical situation. Ann (age 46) has modified adjusted gross income (MAGI) of $130,000 in 2010; she is a participant in her company's 401(k) plan. She expects that her 2011 modified gross income will be very similar to 2010's. Ann is not married. Because of her income, she is ineligible to make a $5,000 contribution to a Roth IRA for 2010 and/or 2011. However, she will be eligible to contribute the maximum allowed contribution (i.e. $5,000) to a traditional IRA as a nondeductible contribution. It is assumed that Ann did not have any traditional IRA funds prior to contributing $5,000 for both 2010 and 2011.

After making the two contributions to a traditional IRA on January 5, 2011, Ann can immediately convert the contributions to be Roth IRA funds. Since she only has basis within her traditional IRA, she will not include in income or pay any taxes with respect to converting the $10,000. This is the equivalent of making two annual Roth IRA contributions.

General IRA Contribution Limitations. An individual who does not attain age 50 in 2011 is limited to making IRA contributions (traditional and/or Roth) equal to the lesser of: (1) his or her compensation or (2) $5,000. An individual who attains age 50 or older in 2011 is limited to making IRA contributions (traditional and/or Roth) equal to the lesser of: (1) his or her compensation or (2) $6,000.

In Summary: More individuals should be making Roth IRA contributions. You may have some customers/clients with higher incomes who don't understand that they could be making $5,000 or $6,000 annual Roth IRA contributions. Or they could make a nondeductible traditional IRA contribution and then convert it immediately into a Roth IRA. This is the equivalent of making a Roth IRA contribution. ◆

The Very Limited Interplay Between QCD Rules and RMD Rules.

Required minimum distributions (RMDs) returned for 2010 and subsequent years and qualified charitable distributions (QCDs) returned for 2010 and 2011. RMDs result in increased tax revenues whereas tax revenues decrease when QCDs are able to be made since no taxes are paid with respect to QCDs. It will be interesting to see if QCDs will be extended for 2012 and later years.

The purpose of this article is to illustrate the need in some situations to properly coordinate one's qualified charitable distribution with the RMD rules and the standard tax rules. These are two special types of distributions, each with its own set of rules.

Illustration. John Doe was born on May 10, 1940. He had a very sizable IRA arising from large rollovers from a 401(k) plan. He was first subject to the RMD rules for 2010 since he attained age 70½ on November 10, 2010. April 1, 2011 was his required beginning date. His RMD for 2010was $84,000. On March 13, 2011, he made a charitable contribution distribution of $100,000 to his alma mater, the University of Wisconsin. The tax rules allow him to use this $100,000 to satisfy his RMD requirement for 2008. However, it is now December of 2011 and he wants to give $100,000 to his wife's alma mater, the University of Iowa. He wants to do this before December 31, 2011. If $100,000 is transferred from his IRA to the University of Iowa, will it be tax-free since it satisfies the rules applying to qualified charitable distributions?

No, it will not qualify as a QCD. There is a $100,000 annual limit applying to qualified charitable distributions. He will have made $200,000 of distributions during 2011. He would be required to include $100,000 in his 2009 income. He may or may not be able to claim a deduction with respect to the $100,000 given to the University of Iowa. It does not matter that the QCD he made on March 13, 2011 was used with respect to his 2010 RMD amount. The tax rule is well settled that a person who waits to take his first RMD in the following year will have to include two distributions (i.e. the RMD for 2010 and the RMD for 2011) in income for 2011.

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QCD Rules and RMD Rules,
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The QCD rules and the RMD rules are two different tax rules. They are related in the sense that the QCD rules do allow a taxpayer to be able to use his or her QCD to satisfy his or her RMD for a given year. However, that is the extent of the relationship. The $100,000 limit is not impacted in any way by the RMD rules. The $100,000 limit is not increased or decreased because a person has one or more RMDs. The fact that John Doe used the $100,000 withdrawn on March 13, 2011 to satisfy his 2010 RMD does not mean that $100,000 is assigned to 2010 for purposes of applying the $100,000 limit. This $100,000 was transferred in 2011. Any further distribution in 2011 will exceed the $100,000 limit and will not qualify as a QCD.

One can understand why a person might conclude that the $100,000 limit is related to the "RMD year" rather than a "calendar year", but the tax laws do not support the "RMD year" approach. The IRS instructions do not do a very good job of explaining that the QCD rules are based on the calendar year. But the IRS has made clear that a QCD for a given tax year must be made by December 31 of that tax year. The only way to gain the maximum benefit of the QCD rules is to NOT use the RMD deferral rule.

In summary, the rules applying to qualified charitable distributions and required distributions are different. There is one situation where they are interrelated. That is, a person is allowed to use his or her QCD to satisfy his or her RMD. Although the RMD rules grant an IRA accountholder attaining age 70½, an extended period in which he or she may take his or her first RMD, this rule does not mean that a person's QCD is also deemed to have been made in the prior year. There was a special law allowing QCDs made between January 1, 2011 and January 31, 2011 to be deemed made as of December 31, 2010.

Political winds change. The charitable industry will certainly try to regain the right for IRA accountholders to be able to gift IRA funds (otherwise taxable) to a charity on a tax-free basis. From 2006-2011 there has been a $100,000 limit. The charitable industry, of course, would like to see no limit. There will be no QCDs in 2012 or future years unless there would be new legislation. ◆

Miscellaneous Tax Stats (IRS)

2010 Tax Stats Card

Summary of Collections Before Refunds by Type of Return, FY 2009 (1)

Type of Return	Number of Returns	Gross Collections (Millions of $)
Individual income tax	144,103,375	1,175,422
Corporation income tax	2,475,785(2)	225,482
Employment taxes	30,223,289	858,164
Excise taxes	809,461	46,632
Gift tax	245,262	3,094
Estate tax	47,320	21,583

Individual Returns

Top 1-percent Adjusted Gross Income (AGI) break (TY 2008) (3,4)	$380,354
Top 10-percent AGI break (TY 2008) (3,4)	$113,799
Bottom 10-percent AGI break (TY 2008) (3,4)	$5,942
Median AGI (TY 2008) (3,4)	$33,048
Percent that claim standard deductions (TY 2008) (3)	64.4%
Percent that claim itemized deductions (TY 2008) (3)	33.8%
Percent e-filed (TY 2009) thru 5/23/2010 (5)	75.7%
Percent using paid preparers (TY 2008) (3)	57.7%
Number of returns with AGI $1M or more (TY 2008) (5)	323,067
State with the highest number-California (TY 2008)	44,027
State with the least number – Vermont (TY 2008)	389
Number of individual refunds (TY 2008) (millions) (3)	111.7
Individual refund amount (TY 2008) (billions of $) (3)	$324.1
Average individual refund amount (TY 2008)	$2,902
Earned Income Tax Credit (TY 2008) (3)	
Number of returns with credit (millions)	(P) 24.8
Amount claimed (billions of $)	(P) $50.7

Miscellaneous IRA Consulting Questions and Answers

Question #1:

I have a question regarding an IRA Rollover. We have a customer, 62 years old, who rolled over his 401(k) into a Traditional IRA with our institution 6/11/11.

On 7/28/11 I received a check in the mail from this gentlemen's employer for $603.00. Apparently this amount should have been part of the original distribution. I called the employer and they weren't much help. They just indicated that this employee had retired and they missed the $603.00 (originally a contribution) when disbursing the funds. My question is since the one tax-free rollover has been met will this customer have to wait till 2012 to rollover the remainder of the funds or since this was the employer's mistake can we post as a 2011 transaction?

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CWF Response:

You may accept the rollover now since the once per year rollover rule applies only if the distribution is from an IRA. It does not apply to distributions from 401(k) plans and other qualified plans. There is no difficulty because there were two distributions from the 401(k) plan and two rollover contributions into the IRA.

Question #2:

I have a scenario that I need your expertise and knowledge regarding SEP-IRA's – contributions and RMDs. Here are the details/questions:

Client was born in 1937 so he is over 70½. Are there any "special" SEP contribution rules?

Since client is older than 70½ should he be receiving required minimum distributions? Client has been making contributions to his SEP for the past several years.

Is the individual allowed to contribute and also be required to take an RMD?

CWF Response:

A person older than age 70½ is allowed to make a SEP contribution as long as he or she has qualifying compensation. However, he or she must also comply with the RMD rules.

The standard RMD rules apply. The RMD for 2011 is determined by dividing the 12/31/10 FMV by the appropriate life expectancy factor based on his age in 2011. The 12/31/10 FMV is not adjusted even if he makes or made a SEP contribution for 2010 in 2011. A person over age 70½ must calculate an RMD for all of his IRAs, including SEPs. The rule allowing an IRA accountholder to combine his RMDs and then take the total from just one IRA still applies.

The rules for qualified plans allow a participant who is not a 5% owner, but who is still working, to not take RMDs until he retires. This special rule does not apply to SEPs. The maximum SEP contribution, in general, is the lesser of 25% of compensation or $49,000.

Question #3:

Have a few questions and was wondering if I could get some information:

1. If a customer has a self-directed IRA and no longer is able to care for himself, the wife is bringing in a POA, so she is going to make the decisions in regard to the investments on that IRA, can the self-directed IRA be transferred to a traditional IRA?

2. If and when the IRA customer passes, do we handle this self-directed IRA differently in regard to the beneficiary's election or do we treat it as a traditional IRA?

CWF Response:

The only difference between a self-directed IRA and a "regular" bank IRA is how the IRA funds are invested. The bank IRA or the custodial IRA limits investments to the bank's time and saving accounts.

The POA may change the IRA from a self-directed IRA to a bank IRA. This may be accomplished by an external or internal transfer.

The after-death IRA rules are the same for a self-directed IRA as for a regular bank IRA

Question #4:

In the situation where an IRA accountholder dies on or after his/her required beginning date and has multiple beneficiaries, the Bank would transfer the money into Inherited IRAs for each beneficiary. They must take RMDs regardless of the beneficiary age, correct?

We have a customer that is the beneficiary of an IRA at another Bank and was told they do not have to take RMDs until they attain the age of 70½ and I am certain that information is not accurate.

Can you please confirm for me please?

CWF Response:

The general rule is that for the year of death each beneficiary will need to take his or her pro-rata share of the decedent's RMD to the extent it had not been paid to the decedent prior to his or her death by December 31. Commencing with the year after the year of death each beneficiary will take an RMD based on his or her life expectancy. This assumes separate inherited IRAs are established in the year of the decedent's death.

You indicated there are multiple beneficiaries. You do not indicate if one of the beneficiaries is the spouse. If

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the spouse was the sole beneficiary, the spouse is not required to commence distribution until the year the decedent would have attained age 70$^1/_2$.

Any spouse beneficiary is allowed to rollover his or her inherited share into their own IRA and then there would be no RMD until he or she became subject to the RMD rules. But he or she cannot rollover the RMD for the year of death.

If the multiple beneficiaries are all non-spouse beneficiaries, I am aware of no rule which allows a beneficiary to not commence distribution until the beneficiary would reach age 70$^1/_2$.

Question #5:

We have a client that made a deposit in March of 2010 into a Roth IRA specified for 2010 tax year. She is now saying she got a notice from the IRS assessing income taxes and penalties.

Is it too late now in 2011 to do a recharacterization to a traditional IRA for the tax year 2009?

Will she still have to pay the penalties/taxes if we do this?

CWF Response:

It does happen, a person will change their mind about the type of their IRA contribution for purposes of completing their tax return, but fail to tell the IRA custodian. This is a good way to learn a tax lesson the hard way.

A person is unable to change the type of IRA contribution he or she previously made just by calling or informing the bank. There are time deadlines. There are procedures to be followed. A person wishing to make this change must recharacterize the original contribution.

I wish I had good news, but I don't. Late is sometimes too late. Unless some IRS representative would choose to okay it in writing, the deadline was missed. The deadline for recharacterizing 2009 IRA contributions was 10/15/2010. She will have to live with making a Roth IRA contribution.

This means she is not entitled to claim the tax deduction she took for having made a 2009 traditional IRA contribution. There will be additional taxes due and penalties. What is her explanation? Sometimes an IRS representative will simply not know the law and allow her to make the change. Other times, the IRS representative may choose to be nice when the law does not authorize it. She would need to have written guidance from the IRS that she could still make the change before an IRA custodian could make changes to the transaction(s).

Question #6:

I spoke to you earlier today relative to an early distribution from a Roth IRA. The customer (age 58) was unemployed for all of 2010 and contributed $6000 to her Roth on March 12, 2010. It is now July 2011. I will code the withdrawal as the withdrawal of an excess contribution; however as I was reviewing the file, I also need to calculate the interest paid from 3/12/10 to present. Since the interest paid will cover two different tax years; do I need to make (2) separate excess interest distributions.

CWF Response:

You have a Roth IRA accountholder who needs to withdrawal an excess Roth IRA contribution of $6,000 She also needs to take out the related income. The law provides this income is to be taxed on her 2010 tax return (i.e. the year contributed) even though much of it was earned in 2011. She may need to file an amended 2010 tax return.

In January of 2012, the bank should prepare a 2011 Form 1099-R. For discussion purposes, I am going to assume the interest earned to be $75. Box 1 of the 1099-R would show 6075.00, box 2a would show 75.00 and the reason code in box 7 would be JP. The IRS and the individual are informed that she withdrew in 2011 an excess contribution made in 2010 from a Roth IRA and therefore the $75 of income is taxable on the 2010 return.

There should be only one 2011 Form 1099-R generated to report this transaction. You should have to input two items of information – the amount of the contribution being withdrawn and the related income. ◆