The Pension Digest

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ALSO IN THIS ISSUE –

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

IRS Issues CWF Favorable Opinion Letters on Lead Qualified Plan Prototypes

On March 31, 2014, the IRS issued to CWF favorable opinion letters for our prototype plans. The IRS requires that retirement plans be rewritten (i.e. updated) every 5-6 years. This must be done to ensure that the plans remain qualified and so the employer and the participants are entitled to receive the tax benefits associated with a qualified plan. We at CWF have done this rewriting of the plan documents.

The IRS furnished similar letters to other pension companies who sponsor prototype plans.

The IRS will be issuing within the next 1-2 months the letters to each financial institution for which CWF made a filing. Once such IRS letters are received, then it will be time again to prepare the updated adoption agreements and have your business clients sign them.

CWF will soon be furnishing a letter discussing this project to its prototype sponsors.

The Long View – an Absolute for Roth IRA Contributions and Nondeductible IRA Contributions

The value of a person increasing one's balance within a Roth IRA cannot be overstated. The opportunity to earn tax-free income for a 30-60 year period must be realized and acted upon. With the current economy, Roth IRAs are well suited for trust departments and certain self-directed IRAs. As the economy improves, there will come a time when interest rates return to a historically normal range of 3-7% and then "banks" will have suitable Roth IRA investments.

More individuals are starting to make Roth IRA conversions. Some are starting to convert 10%, 15% or 20% each year because they know they don't need to convert the entire amount in one year.

More people should be making Roth IRA annual contributions. A person can make a contribution to both their Roth IRA and also their employer's 401(k) plan. This true even if they are contributing the maximum to their employer's 401(k) plan.

Many more people should be making nondeductible IRA contributions than are doing so. The primary reason for not making such contributions is that individuals are told by the "tax professionals" that the making of nondeductible contributions is not worth the additional accounting complexity because it will cause them tax complications in future years. We have all heard about the pro rata rule which requires a person who has after-tax amounts within his or her IRA to pay tax on the taxable portion of the IRA when he or she withdraws funds, even funds withdrawn to be converted to a Roth IRA.

More people are starting to understand that the more they have in their tradition-

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Email Q & A on Roth IRA Distributions

Q-1. My daughter is going to take from her Roth IRA with the bank for her first-time home purchase this summer. I've never had this situation and want to be sure I am marking the distribution form correctly.

A-1. Code J is to be used. The IRS instructions do not allow the bank to use a Code Q.

For IRS reporting purposes, the bank will not report the distribution as "qualified" even though she on her tax return will do so, if necessary. What do I mean by necessary?

If she withdraws $10,000 and that amount is comprised entirely of her own contributions, then no part of the distribution is taxable as she withdrew her own contributions (nontaxable).

If some part of the $10,000 is earnings, then again the entire distribution will not be taxed, but a different explanation will need to be attached to the tax return. For tax purposes, the distribution is qualified as she met the 5-year rule and it was used for a first time home purchase. Consequently, the income would be nontaxable as it was used for a first time home purchase. She will need to explain that the distribution is qualified notwithstanding that the bank used a Code J.

The IRS instructions for Form 1099-R do not allow (or require) the bank to make the determination that the requirements for a first home buyer have been met. This reporting approach is similar to the rules for a QCD or an HSA funding distribution. It is up to the individual to demonstrate to the IRS that the distribution is not taxable.

Q—Qualified distribution from a Roth IRA. *No mention of First-Time Homebuyer*	Use Code Q for a distribution from a Roth IRA if you know that the participant meets the 5-year holding period and: • The participant has reached age 59½, • The participant died, or • The participant is disabled. **Note:** *If any other code, such as 8 or P, applies, use Code J.*	None
T—Roth IRA distribution, exception applies. *No mention of First-Time Homebuyer*	Use Code T for a distribution from a Roth IRA if you do not know if the 5-year holding period has been met but: • The participant has reached age 59½, • The participant died, or • The participant is disabled. **Note:** *If any other code, such as 8 or P, applies, use Code J.*	None
J—Early distribution from a Roth IRA.	Use Code J for a distribution from a Roth IRA when Code Q or Code T does not apply. But use Code 2 for an IRS levy and Code 5 for a prohibited transaction.	8 or P

Q-2. I have a non-spouse Roth IRA beneficiary. His mother passed away 2-7-14. He has chosen the 5-year rule for his election. I have calculated this to mean that by 12-31-19 he would need to have the account depleted, correct? This is my first non-spouse Roth beneficiary.

A-2. If he has elected the 5-year rule, he is required to close such inherited Roth IRA by December 31, 2019, as you mention.

You do not mention the amount in the Roth IRA or his age. By electing the 5-year rule, he is giving up the right to earn future tax free income for those years after 2019. He may do so, but some would consider it to be an imprudent thing to do. See CWF Form 57-RI.

If his mother had met the 5-year requirement, all distributions to the son will be qualified distributions for IRS reporting reasons.

If his mother had not met the 5-year requirement, all distributions to the son will be qualified distributions once the 5-year rule has been met by considering the combined time held by the mother and son.

Q-3. I have a Roth IRA customer that wants to transfer his funds to an investment company. He just recently opened his Roth IRA with us in April of 2013 but applied it for tax year of 2012.

Am I correct in thinking that there will be a tax penalty on the funds that he transfers since his Roth IRA has not been in effect for more than five years?

If there is a penalty, what extra steps do we have to take?

A-3. Remember, that transfers are at the discretion of the custodian. The custodian is not obligated to participate in a transfer.

The custodian could require that he take a distribution and then roll it over. This assumes he is eligible to do a rollover. Or, you could ask him if he is willing to pay a $30 fee (or some other amount) for the convenience in order to do the transfer.

When there is a transfer, there is no taxable event so it does not matter if the five year requirement has not been met. That is, he will occur no adverse tax conse-

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quences if the Roth IRS funds are transferred. You have not indicated whether the bank would be charging an early withdrawal interest penalty or not.

Email Q & A on SEP-IRAs

Q-1. SEP-IRA vs. Traditional IRA

I know SEP & Traditional IRAs are pretty much treated the same but can you make a SEP contribution to a Traditional IRA Plan/Account? This has been somewhat of a discussion in our group and just trying to get clarification.

A-1. The standard traditional IRA form as written by the IRS provides that both an annual contribution and a SEP-IRA contribution may be made to the same "IRA."

The annual contribution will be reported in box 1 on the Form 5498 and the SEP-IRA contribution will be reported in box 8 on the Form 5498. In box 7, the type of IRA would be a SEP-IRA as a SEP-IRA contribution was made.

The IRS has never stated in writing when a SEP-IRA quits being a SEP-IRA. My answer is, when the individual acknowledges in writing that he or she no longer wants the funds classified as a SEP, but is willing to have them be in a traditional IRA. In a bankruptcy situation it might make a difference if the funds were SEP or traditional.

Q-2. SEP-IRA Contribution

I have a customer whom is an active president of his corporation and is 72 years of age . The CWF manual states that he is allowed to receive contributions to the SEP IRA. In looking at the contribution form under "Eligibility Determination" would I check mark the "You qualify under special SEP or Simple IRA contribution rules" since he is over the age of 70 W and I don't see any other options to mark?

A-2. You are correct. Because of the age discrimination rules, an employer must make SEP contributions to an eligible employee who is older than age 70 1/2. The age 70 1/2 restriction applies only to traditional IRAs and not to Roth, SEP or SIMPLE.

A SEP-IRA contribution made in March of 2014 for tax year 2013 will not require a recalculation of his RMD for 2014 which has already been presumably calculated. Obviously, since his balance as of 12-31-14 will include this amount, it will affect his 2015 RMD. The IRS wanted to keep the RMD calculation simple so it adopted a rule <u>not</u> requiring the 12-31-13 balance to be adjusted for a SEP for tax year 2013 as made in 2014.

On the Form 5498 SEP contributions are reported in box 8 for the year in which the receives the contribution. This contribution will be reported on the 2014 Form 5498 regardless of what tax year it is designated for.

Q-3. Establishing a SEP

A customer wants to transfer his SEP account to us. I have prepared CWF forms IRA #40-T and IRA #56. Is anything additional needed for this transaction?

A-3. You will also want a copy of the Form 5305-SEP or have him/her furnish a new one.

Q-4. SEP-IRA Contribution

First question is in regards to a customer that has a SEP IRA. He is actively serving as president of his own company and is over the age of 70 1/2. The company is a family run company which on an annual basis makes contributions to their employee's SEP-IRAs Are we allowed to accept the contribution to this employees' IRA since he is over 70 1/2?

Second question is in regards to coding the SEP IRA contributions: When a customer comes in and wants to make a contribution for the current year we code it as that, the same with a previous year contribution. we code as previous year. My question is, if it is the employer making the contributions should we be coding it as employer contribution current year/previous year instead of just using the basic current/previous year contribution code?

A-4. Due to the age discrimination rules, a person age 70 1/2 or older is eligible to receive a SEP contribution as younger individuals are also eligible. This is true even if it is a one person business. An employer is required to make SEP-IRA contributions for a person

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Preliminary Tax Data – IRA/Pension Statistics for 2012

The IRS has recently issued preliminary tax data for tax year 2012. The number of filed returns decreased from 145.6 million to 144.9 million. Taxable income increased to $6.4 trillion. An increase of 11.6%. Total tax liability increased to $1.2 trillion. An increase of 14.5%. The amount of funds being withdrawn from pension plans increased ($623 billion for 2012 versus $590 billion for 2011) and the amount of IRA distributions increased ($229 billion for 2012 versus $216 billion for 2011). The amount being contributed to pension plans and IRAs changed as discussed below.

These statistics are preliminary statistics in the sense they were devised by an IRS economist using a sample of approximately 237,403 tax returns to make estimates.

Note that 879,760 self-employed individuals contributed 19.2 billion to their profit sharing, SEP and SIMPLE plans, whereas 2.6 million IRA accountholders contributed 12.0 billion. There should be special marketing efforts to your customers who are self-employed.

CHART A — SEP/SIMPLE/Profit Sharing Chart

Year	Contribution Amount	Number of Contributors	Average Contribution
2003	$16.9 billion	1.19 million	$14,202
2004	$18.0 billion	1.17 million	$15,385
2005	$19.4 billion	1.20 million	$16,202
2006	$20.2 billion	1.18 million	$17,200
2007	$20.1 billion	1.14 million	$17,720
2008	$18.5 billion	.97 million	$19,072
2009	$17.5 billion	.88 million	$19,780
2010	$17.2 billion	.87 million	$19,776
2011	$17.6 billion	.87 million	$20,256
2012	$19.2 billion	.88 million	$21,843

CHART B — Traditional IRA Chart

Year	Contribution Amount	Number of Contributors	Average Contribution
2003	$10.16 billion	3.46 million	$2,936
2004	$10.20 billion	3.38 million	$3,018
2005	$12.21 billion	3.29 million	$3,707
2006	$12.77 billion	3.29 million	$3,885
2007	$13.19 billion	3.37 million	$3,914
2008	$11.91 billion	2.78 million	$4,284
2009	$11.49 billion	2.64 million	$4,358
2010	$11.71 million	2.63 million	$4,449
2011	$11.26 million	2.62 million	$4,302
2012	$12.05 million	2.61 million	$4,608

Deductible Traditional IRA Contributions

The number of tax returns claiming a deduction for a traditional IRA contribution decreased by .1%.

The amount contributed to traditional IRAs increased to 12.05 billion from 11.26 billion. This was a 7.0% increase.

What was the AGI of those who made traditional IRA contributions for 2012?

	Under $15,000	$15,001 to $29,999	$30,000 to $49,999	$50,000 to $99,999	$100,000 to $199,999	$200,000 Or more	Total
Number of Returns	96,628	290,640	540,812	966,608	585,735	134,211	2,614,633
% of Total Returns	3.7%	11.12%	20.68%	36.97%	22.40%	5.13%	100%
Contribution Amt. **(in thousands)**	$281,157	$1,032,306	$2,043,077	$4,412,120	$3,117,226	$1,162,843	$12,048,729
% of Total Contr.	3.3%	8.57%	16.96%	36.62%	25.87%	9.65%	100%
Avg. Contr. Amt.	$2,910	$3,552	$3,778	$4,565	$5,322	$8,664	$4,608

CWF Observations

1. The average IRA contribution, per return, was $4,608 for 2012.
2. 36.6% of all IRA contributions came from individuals with AGI between $50,000-$99,999.
3. 72% of all IRA contributions for 2012 came from individuals with AGI of $50,000 or More.

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IRA and SEP/SIMPLE/Keogh Deductible Contributions

1. The number of tax returns claiming a deduction for a self-employed person's contributions to a profit sharing, SEP or SIMPLE basically did not change (.87 million vs. .88 million).
2. The amount contributed by self-employed individuals to a profit sharing plan, SEP or SIMPLE increased from 17.6 billion to 19.2 billion. A 9.1% increase.

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

	Under $15,000	$15,001 to $29,999	$30,000 to $49,999	$50,000 to $99,999	$100,000 to $199,999	$200,000 Or more	Total
Number of Returns	16593	20987	35955	145896	256,181	404,148	879,760
% of Total Returns	1.89%	238%	4.09%	16.58%	29.12%	45.94%	100%
Contribution Amt. **(in thousands)**	$175,495	$114,766	$169,862	$1,541,419	$4,032,858	$13,182,627	$19,217,028
% of Total Contr.	.91%	.60%	.88%	8.02%	20.99%	68.60%	100%
Avg. Contr. Amt.	$10,576	$5,468	$4,724	$10,565	$15,742	$32,618	$21,843

CWF Observations on SEP/SIMPLE/Keogh Contributions for 2012

1. The average contribution per return is $21,843 for 2012.
2. 68.6% of contributions ($13.2 billion) come from individuals with AGI of $200,000 or more.
3. 88% of contributions (17.2 billion) come from individuals with AGI of more than $100,000.
4. The average contributions vary greatly depending on AGI.
5. Note that 880,000 self-employed individuals contributed 19.2 billion to their profit sharing, SEP and SIMPLE plans whereas 2.6 million IRA accountholders contributed 12.05 billion. There should be special marketing efforts to your customers who are self-employed.

Taxable IRA Distributions for 2012

(Based on AGI)

	Under $15,000	$15,001 to $29,999	$30,000 to $49,999	$50,000 to $99,999	$100,000 to $199,999	$200,000 Or more	Total
Number of Returns	1,812,226	2,033,015	2,051,743	4,042,602	2,435,946	918,108	13,293,639
% of Total Returns	13.63%	15.29%	15.43%	30.41%	18.32%	6.91%	100%
Distribution Amt. **(in thousands)**	$9,692,774	$15,194,394	$19,761,456	$59,502,776	$63,570,561	$61,317,835	$229,039,795
% of Total Distrib.	4.23%	6.63%	8.63%	2598%	27.76%	26.77	100%
Avg. Distrib. Amt.	$5,349	$7,474	$9,632	$14,719	$26,097	$66,787	$17,229

CWF Observations

1. 13.3 million returns reported a taxable IRA distribution.
2. There were taxable IRA distributions of 229 billion.
3. The average distribution was $17,229.
4. As one would expect, the average distribution was larger for those with higher incomes.
5. 74.8% of the tax returns filed show situations arising from tax returns with AGI of less than $100,000. The amount withdrawn was 104 billion.
6. 80.5% of the taxable distributions ($195 billion) arose from those returns showing AGI of $50,000 or more.

Pension Distributions for 2012
(Based on AGI)

	Under $15,000	$15,001 to $29,999	$30,000 to $49,999	$50,000 to $99,999	$100,000 to $199,999	$200,000 Or more	Total
Number of Returns	4,073,207	4,692,752	4,826,395	8,284,342	4513507	1,224,055	27,614,259
% of Total Returns	14.75%	16.99%	17.48%	30.00%	16.35%	4.43%	100%
Distribution Amt. **(in thousands)**	$27,798,034	$58,606,621	$85,182,988	$212,136,275	$172,248,548	$67,302,684	$623,275,150
% of Total Distrib.	4.46%	9.40%	13.67%	34.04%	27.63%	10.80%	100%
Avg. Distrib. Amt.	$6,825	$12,489	$17,649	$25,607	$38,163	$54,983	$22,571

Observations

1. 27.6 million returns reported a taxable pension distribution.
2. There were taxable pension distributions of 623 billion.
3. The average distribution was $22,571.
4. As one would expect, the average distribution was larger for those with higher incomes.
5. 79.2% of the tax returns filed show distributions arising from tax returns with AGI of less than $100,000. The amount withdrawn was 384 billion.
6. 72.5% of the taxable distributions ($452 billion) arose from those returns showing AGI of $50,000 or more.

Contributions, Continued from page 1

al IRA to convert to a Roth IRA the better-off they are. So what if Jane has $60,000 in her traditional IRA with $37,000 being taxable and $23,000 being nontaxable. It may be she will work for an employer in the future which will allow her to roll over the $37,000 into the 401(k) plan thereby giving her the opportunity to convert the $23,000 to her Roth IRA.

More people should be making traditional and Roth IRA contributions. They want to diversify and not have all of their retirement funds in their employer's 401(k) plan. A person must have a long range plan for their traditional IRA, Roth IRA and 401(k) funds. A person will constantly need to coordinate his or her retirement funds.

Email Q & A on HSAs

Q-1. HSA Mistaken Distribution

My customer wrote 2 HSA checks to his Dr in Dec 2013 totaling $194. The first week of February he received a refund check from their office for $153.60 for overpayment of his bill.

From what I am reading, I can re-deposit these funds back to his HSA, coding them as 'Non-Reportable'.

Does that sound correct & do I need to do anything different w/ the original distributions?!?

A-1. When there is mistaken distribution, neither the contribution nor the original withdrawal are to be reported to the IRS. Under this approach you would not report the 2014 recontribution, but the bank should then correct the 2013 Form 1099-SA which I presume showed the $153.60 included in the $194.

It would be possible to treat the return of the $153.60 as a rollover contribution. But note he or she is allowed to only have one rollover in 12 month period.

A person may not want to use the rollover option for the $153.60 distribution.

Q-2. HSA Contribution

An accountholder has Medicare coverage as of 4/1/14. Can he deposit the full $1,000 catchup contribution or does it get prorated for the 3 months of HSA eligibility?

A-2. He must pro-rate the catch-up also.

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over age 70 1/2. It makes no difference that the business is small and/or closely held.

On the Form 5498, the IRS requires the IRA custodian to report the SEP contribution(s) received during the current year in box 8 of the Form 5498 for such year. For example, ABC, Inc. makes a $20,000 contribution for Jane Doe on March 15, 2014, for tax year 2013. Although this contribution is for tax year 2013, the IRA custodian will report this $20,000 in box 8 on the 2014 Form 5498 because the contribution was received in 2014. It is up to the employer to show on its tax return(s) the year for which the contribution was made.

Q-5. One more question: When the employer makes. the contribution to the employees' SEP IRA should we be coding this as an "Employer Current Year Contribution/Employer Previous Year Contribution" as opposed to coding it as a simple "Current Year Contribution/Previous Year Contribution"?

A-5. It depends on how well written the software is. An employer SEP contribution must be reported in box 8 (SEP contributions). A SEP by definition is an employer contribution. The best SEP software will allow a contribution to be designated as prior year and show up on statements and forms as prior year, but the Form 5498 will be prepared as previously discussed (for current year of receipt).

It might be, if you do not use the "employer" transaction code, the contribution might show up in box 1 as an annual contribution rather than a SEP contribution in box 8.

Q-6. We need a little guidance with SEP contributions. We know that business owners can contribute a certain amount of their profits into a SEP, and if you are the owner of the business you can do that, plus put your own contribution in up to the annual limits. Our question is.... would we do everything as a SEP contribution or would we code the annual amount on the person level just a regular traditional contribution? We are concerned about the reporting end of these types on transactions.

A-6. A SEP-IRA is a traditional IRA to which an employer has made its employer SEP-IRA contribution. The individual may make his or her annual traditional IRA contribution to the same SEP-IRA.

SEP contributions are to be reported in box 8 of the Form 5498. In contrast, when a person makes an annual IRA contribution to a traditional IRA, that amount is to be reported in box 1 of the Form 5498. SEP contributions are made by the "employer."

You need to determine the appropriate transaction codes for your software system to achieve the proper IRS reporting for these two types of contributions.

For example, a self-employed farmer with sufficient net business earnings could make a $51,000 SEP-IRA contribution for himself/herself for 2013 and then also make a $5,500 or $6,500 annual traditional IRA contribution for 2013. Both contributions could be made to the individual's SEP-IRA and could be invested in the same CD or time deposit.

Be aware that the contributions to be reported in box 1 of the 2013 Form 5498 are annual traditional IRA contributions made between January 1, 2013 to April 15, 2014 whereas the SEP contributions to be reported in Box 8 of the 2013 Form 5498 are those made between January 1, 2013 to December 31, 2013 regardless if they were designated for tax year 2012 or 2013. The individual has the responsibility to properly to explain to the IRS for what year its SEP contributions were designated. This can be confusing. Illustration. Today Sarah Client makes a $5,500 contribution to her traditional IRA for 2013 and also makes a SEP contribution for 2013 in the amount of $38,000. The $5,500 would be reported on the 2013 Form 5498 in box 1 whereas the SEP contribution would be reported in box 8 on the 2014 Form 5498.

The reason that SEP contributions are reported on the 5498 form for the year in which the IRA custodian receives the contribution and not for the year the contribution is designated is that an employer may make a SEP contribution after April 15th if it has a tax extension. The IRS decided in

IRS Issues 2015 HSA Indexed Amounts

The Treasury Department and Internal Revenue Service issued new guidance on the maximum contribution levels for Health Savings Accounts (HSAs) and out-of-pocket spending and deductible limits for High Deductible Health Plans (HDHPs) that must be used in conjunction with HSAs. The HSA contribution limits for 2015 have increased by a small amount and a small percentage over the 2014 limits. The 2015 limits are set forth in Revenue Procedure 2014-30. The catch-up contribution amount of $1,000 is not subject to being adjusted by the COLA adjustment of Code section 223(g) and so it remains at $1,000 for 2015.

The minimum annual deductible limits and the maximum annual out-of-pocket expense limits for 2015 have also increased.

HSA Maximum Contribution Limits Under Age 55

	2014	2015	Change
Single HDHP	$3,300	$3,350	+ $50
Family HDHP	$6,550	$6,650	+ $100

HSA Catch-Up Contributions

	2014	2015	Change
Age 55 and Older	$1,000	$1,000	$0

HSA Maximum Contribution Limits Age 55 & Older

	2014	2015	Change
Single HDHP	$4,300	$4,350	+ $50
Family HDHP	$7,550	$7,650	+ $100

High Deductible Health Plans

	Minimum Annual Deductible			Maximum Annual Out-of-Pocket Expenses		
	2014	2015	Change	2014	2015	Change
Single Coverage	$1,250	$1,300	$50	$6,350	$6,450	+ $100
Family Coverage	$2,500	$2,600	$100	$12,700	$12,900	+ $200

The IRS normally announces these changes in May each year so that employers and individuals will have sufficient time to plan for HDHP insurance coverage and HSA contributions for 2015 and so that insurance companies may revise their HDHP policies. This year the IRS announced the new limits on April 25.

CWF will be updating our HSA brochures and our HSA Amendments immediately so they could be furnished with the mailing of 5498-SA forms◆