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ALSO IN THIS ISSUE –

IRS Adopts a Change to RMD Rules

Important leaders in the IRS and the DOL have been discussing for some time that people are living longer and there may need to be some changes in the RMD rules. Congressional tax committees have also been discussing this subject. There is a belief that some changes are needed relating to the RMD rules so more people will be able to "preserve" retirement funds so there will be funds available for individuals who are age 80 or older.

The IRS adopted a final regulation on July 2, 2014. The IRS had originally issued proposed regulations in February of 2012 authorizing qualified longevity annuity contracts (QLAC). For the most part, the proposed regulation is being finalized with minor changes.

Effective Date of Change

The final regulation is effective immediately. For 2014 RMD calculations, the current RMD rules must be used.

The new rules will be effective for annuity contracts purchased on or after the date of publication and the new rules will apply to RMDs for distribution calendar years beginning on or after January 1, 2015.

What requirements must be met to have a qualified longevity annuity contract? The article on page 3 discusses these requirements.

Continued on page 2

IRS Withdraws Portion of Proposed Regulation on IRA Rollovers

As of July 11, 2014, proposed regulation 1.408(4)(b)(4)(ii) as published on July 14, 1981, is withdrawn. The proposed regulation had adopted the rule that the once per year rollover rule was to be applied on an IRA-by-IRA plan agreement basis. And the IRS stated in its Publication 590 (IRAs) that whether or not the once year rule was met would be determined on an IRA-by-IRA basis.

The removal of the proposed regulation by the IRS means that the IRS will be following the decision of the Tax Court in Bobrow v. Commissioner, T.C. Memo. 2014-21. The court found the once per year rule applied to each and every IRA of the individual in the aggregate. The IRS does not state it as expressly as one would like, but it appears there will be no special rule for Roth IRAs. A person who has a traditional IRA and a Roth IRA and takes distributions from both during a 12 month period will be able to rollover only one of the distributions.

The IRS restates that it will not apply the Bobrow ruling to taxpayers who take a distribution prior to January 1, 2015 and then roll it over. That is, the once per year rollover rules as determined on an IRA-by-IRA basis continues to apply for the remainder of 2014.

Collin W. Fritz and Associates, Inc.,
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IRS Adopts Change,
Continued from page 1

What impact will a QLAC have on the RMD calculation and individuals who are subject to the RMD rules?

An individual who is subject to the RMD rules will wish to consider if he or she should use some of his/her traditional IRA funds to purchase a QLAC? That is, transfer some of the funds from their bank IRA to a QLAC IRA with an insurance company or have his/her self-directed IRA purchase the QLAC.

The new rules permit (limits) a person to invest 25% of his/her aggregated traditional IRA funds in one or more QLACs. The RMD rules do not apply to the QLAC amount until the person reaches the annuity starting date. The latest this may be is age 85. In addition, the amount of the annuity premiums paid for QLACs under all IRAs on a given date may not exceed $125,000.

Here is an example. Mary Doe is age 76. She has a traditional IRA with a balance of $80,000. Her divisor from the Uniform Lifetime Table is 22.0. Her 2014 RMD is $3636.36. In 2015 when she is age 77, her RMD divisor will be 21.2. In August of 2014 she uses $20,000 of her traditional IRA funds to buy a QLAC IRA from insurance company ABC which will commence annuity payments to her at age 85.

Her RMD for her bank IRA for 2015 is impacted in the following ways. First, it is assumed the balance in her traditional IRAs as of December 31, 2014 for RMD purposes will be $57,114 ($80,000 less $20,000 less $3636 plus earnings of $750. Her RMD for 2015 will decrease to $2694 as the FMV of her IRA for RMD purposes is $57,114 and not $76,364.

When she reaches age 85, the annuity payments to her will satisfy the RMD rules with respect to the QLAC.

What happens with the annuity funds ($20,000 plus future earnings) once Mary dies?

Mary could die before age 85 before any annuity payments are made to her or she could die after age 85.

What happens with the $20,000 and the earnings will depend upon the specific provisions of the annuity contract Mary chooses to buy. She could buy a life only contract which would not provide any funds to her beneficiary. Or, she could buy a deferred annuity which would provide certain payments to her beneficiary. Or, she could buy a deferred annuity with a return of premium (ROP) feature.

The final regulation authorizes that a qualified longevity annuity may now be sold with a return of premium feature. Many people are unwilling to agree to pay a premium to an insurance company if they will forfeit this premium if they die prior to the date annuity payments commence. This return of premium feature was not available under the proposed regulation which had required a life annuity, payable to a certain beneficiary, and certain requirements had to be met.

The new rules will permit a single sum death benefit to be paid to a designated beneficiary equal to the total premium payments less any payment which had been made to the IRA annuitant. No earnings could be paid to any beneficiary. Any return of premium payment must be made by December 31st of the year following the individual's death.

Time will tell if the ROP rules will mean a substantial number of IRA accountholders will be willing to purchase a QLAC. Without such a feature the insurance companies believed that there would be few sales of QLACs. These new QLAC rules will benefit large insurance companies to the detriment of other financial institutions.

IRS Authorizes QLACs for IRAs

Some IRA/pension professionals have raised the concern that some individuals may out-live their IRA/pension balances.

The DOL and the IRS have been receptive to the arguments of certain IRA/pension professionals. Individuals who in their 60's or 70's are wanting to invest in deferred annuity contracts that are scheduled to commence payments to the insured at an advanced age – such as age 75, 80 or 85. The goal is to accumulate funds to be used to cover the final years.

These professionals have argued that the RMD rules need to be changed. Under current law, an individual may have multiple IRAs with banks and other investment firms and the individual may have multiple IRA annuities with insurance companies. An individual age $70^1/_2$ or older will have an RMD calculated for each

Continued on page 3

The Pension Digest

IRS Authorizes QLACs,
Continued from page 2

IRA, but he or she is allowed to aggregate these RMDs and take the total from just one of the IRAs.

Under current law, the amounts invested in deferred annuity contracts must be included in the December 31 balance used to calculate the annual RMD. The IRS has adopted a regulation creating the rule that, as long as the contract has not yet commenced distribution (has not been annuitized), an individual will be allowed to exclude the value of these deferred annuity contracts from the account balance used to determined RMDs.

Such annuity contracts are called qualified longevity annuity contracts. The effect of excluding such longevity annuity contracts will be to lower a person's RMD amount prior to the time that he or she commences distributions from the annuity contracts. Example. Jane Doe has \$400,000 is four IRAs. If at age 70½ she invests \$100,000 in a longevity contract, this will reduce her RMD, in general, for future years by 25%.

The business goal of the insurance companies is clear. They will invest Jane's \$100,000 for many years.

The purported purpose of a qualified longevity annuity contract (QLAC) is to provide the IRA owner or pension participant with a predictable stream of lifetime income.

There are numerous requirements which a deferred annuity must meet in order to be a qualifying longevity annuity contract.

1. A person may not invest more than 25% of his or her aggregated IRA account balances in a longevity annuity contracts. A person's account balance is the total of all of his or her IRAs.
2. A person may not invest more than \$125,000 in one or more longevity contracts.
3. The specified annuity starting date must be no later than the first day of the month following a person's attaining age 85 unless he or she attains age 85 on the first day of the month. The annuity starting date may be less than age 85. The IRS may change the maximum age to be age 86 or higher to reflect changes in mortality.
4. An annuity contract is not a qualified longevity annuity contract unless it states, when issued, that it is intended to be a qualified longevity annuity contract.
5. A variable annuity, an indexed contract, or similar contract cannot qualify as a QLAC. The IRS rationale is – a contract should qualify as a QLAC only if the income under the contract is primarily attributable to contractual guarantees as this is consistent with the public policy that the QLAC will furnish predictable payments for many years.

   Certain participating annuity contracts will not be treated as a variable contract or an indexed contract merely because it provides certain dividend payments or because the payments may be adjusted pursuant to a cost of living provision.
6. A QLAC is not permitted to make available any commutation of benefit, cash surrender value or similar feature. Again, the goal of the QLAC is to furnish an income stream and not a lump sum distribution.
7. In order to be a QLAC, an annuity contract must meet the special RMD rules applying to annuities set forth in regulation 1.401(a)(9)-6, including the requirement that an annuity is not permitted to increase payments.
8. Once the IRA owner dies, the general rule will be that the benefit permitted to be paid is a life annuity payable to one designated beneficiary. Payment must commence by the last day of the calendar year immediately following the calendar year of the IRA owner's death. There are, of course, special rules when a spouse is the beneficiary.
9. For each year prior to when the individual starts to receive distributions from the longevity annuity contract, the issuer will need to furnish the individual with an annual report containing certain specified information. This requirement is discussed in more detail later.

The final regulation removed the requirement that a comprehensive disclosure must be furnished upon the issuance of the QLAC. The IRS concluded that there are other disclosure requirements which must be met with respect to deferred annuities under state law and under Title I of ERISA so an additional disclosure was not needed. However, the IRS has reserved the right to again implement a requirement to furnish a compre-

Continued on page 4

IRS Authorizes QLACs,
Continued from page 1

hensive disclosure if it determines that sufficient information is not being furnished prior to the purchase of the QLAC.

An IRA custodian/trustee/issuer is allowed to rely on the IRA accountholder's representations as to what amount of premiums he or she has paid for purposes of the $125,000 limit and what his or her IRA account balances are for purposes of the 25% limitation. Such reliance is lost if the IRA custodian/trustee/issuer has actual knowledge which is contrary to the representations.

The $125,000 limit will be revised by a cost of living adjustment, if applicable. Such adjustment will be made in $10,000 increments. All premium payments for a QLAC count against the $125,000 limit.

An annuity purchased by or for a Roth IRA will never be a QLAC since the RMD rules never apply while the Roth IRA accountholder is alive. Such premiums paid or account balances are not considered or aggregated with other IRAs for purposes of applying the $125,000 Limitation and the 25% limitation.

When a person converts funds, including an QLAC, within a traditional, SEP or SIMPLE IRA to a Roth IRA, any premiums previously paid will be disregarded in applying the two limitations once the conversion occurs. New calculations will be required.

What benefits, if any, are payable once the IRA accountholder dies? The proposed regulation had provided for a very limit benefit payment to a spouse beneficiary and no payment to a nonspouse beneficiary if the IRA accountholder died before starting date of QLAC. There was a forfeiture of the premiums paid if the IRA accountholder did not live until the annuity starting date.

If the surviving spouse is the sole beneficiary of the QLAC, then the only benefit which may be paid to such spouse is a life annuity that must not exceed 100% of the annuity payment being made to the IRA accountholder. However, the surviving spouse may also be entitled to a return of premium (ROP) payment.

The final regulation authorizes a QLAC to contain a ROP which may be payable regardless of when the IRA accountholder dies. That is, it may be paid to the beneficiary regardless if the IRA accountholder dies before or after the QLAC's starting date. The ROP payment to a beneficiary may be a single sum death benefit equal to the excess of the premium payments over any QLAC payments previously made to the IRA accountholder prior to his or her death.

An ROP payment must be paid to the beneficiary by December 31 of the year following the death of the IRA accountholder, or by December 31 of the year during which the surviving spouse dies, if later.

The ROP payment is defined to be the RMD for the year in which it is paid when the IRA accountholder dies after his or her required beginning date. Such amount is ineligible to be rolled over. Similarly, if the ROP payment is made after the required beginning date of the surviving spouse, then such amount is defined to be the RMD for the year in which it is paid.

If the surviving spouse is not the sole beneficiary of the QLAC, then the only benefit which may be paid to such spouse is a life annuity. In order to satisfy the MDIB requirement, the life annuity may not exceed an applicable percentage of the annuity payable to the beneficiary. The applicable percentage will come from one of the two tables.

The Annual QLAC Report

The issuer must furnish to the individual and the IRS an annual report. The report is required to be furnished to the individual on or before January 31 following the calendar year for which the report is required.

1. A statement that the annuity contract is intended to be a QLAC;
2. The name, address, and identifying number of the issuer of the contract, along with information on how to contact the issuer for more information about the contract;
3. The name, address, and identifying number of the individual in whose name the contract has been purchased;
4. If the contract was purchased under a plan, the name of the plan, the plan number, and the Employer Identification Number (EIN) of the plan sponsor;
5. If payments have not yet commenced, the annuity starting date on which the annuity is scheduled to commence, the amount of the periodic annuity

The Pension Digest

payable on that date, and whether that date may be accelerated;

6. For the calendar year, the amount of each premium paid for the contract and the date of the premium payment;
7. The total amount of all premiums paid for the contract through the end of the calendar year;
8. The fair market value of the QLAC as of the close of the calendar year, and
9. Such other information as the Commissioner may require.

The report must contain the provision – "This information is being furnished to the Internal Revenue Service."

For IRAs the fair market value of the account on December 31 must be provided to the IRA owners by January 31 of the following year. Trustees, custodians, and issuers are responsible for ensuring that all IRA assets (including those not traded on an established securities market or with otherwise readily determinable value) are valued annually at their fair market value. This incudes the value of a contract that is intended to be a QLAC.

The IRS and DOL apparently believe that it is preferred that individuals have annuity contracts rather than an account balance as the annuity contract provides a more a predicable income stream. The insurance companies are not going to be saying no to this new opportunity for annuity sales. It was not that long ago that the selling of an annuity to an older person was suspect. Times do change. We at CWF would argue for a simpler approach, at least with respect to IRAs – repeal the law requiring a person to take annual RMDs commencing for the year he or she attains age 70½. As most IRA custodians know, the large majority of IRA owners would never take an RMD if the federal income tax laws did not require it. ◆

An Inherited IRA Situation

We all learn by handling real life situations. A CSR with many duties called CWF and asked for guidance for the following situation. The names and other facts have been changed.

John Anderson died on March 15, 2014, with a traditional IRA with a balance of $32,000. He had 4 different time deposits within this IRA. The IRA custodian is a Minnesota bank. John had established his traditional IRA in 2003.

John was married at the time of his death, but he had designated his brother, Robert Anderson, to be his sole IRA beneficiary. John's date of birth was 7/25/1948 and Robert's date of birth was March 30, 1952. Robert is a resident of California and he is 95% sure he will keep this inherited IRA at the Minnesota bank.

The IRA custodian must establish an inherited IRA for Robert. The inherited IRA, at least for Form 5498 reporting purposes, is to be titled, "Robert Anderson as beneficiary of John Anderson's IRA."

IRS reporting rules require the IRA custodian to prepare a "final" 2014 Form 5498 for John Anderson and also prepare a 2014 Form 5498 for Robert. This is only required for Robert if there is a balance in his inherited IRA as of December 31, 2014.

The IRA custodian should communicate with Robert and inform him that his brother, John, had designated him to receive his IRA with a balance of $32,000. Since John died at age 65, he died prior to his required beginning date and so no RMD applies to 2014. Robert will need to be paid his RMD for 2015 or he will owe the 50% excess accumulations tax. The IRA custodian and Robert should complete an inherited traditional IRA application form. If CWF forms were being used, this would be CWF's Form 40-TI, an inherited custodial IRA. Robert may use this form to designate his own beneficiary(ies). Robert should be furnished the disclosure statement for the inherited IRA. Robert will need to furnish the CIP documentation.

The IRA custodian should furnish Robert with a special beneficiary distribution form and allow him to furnish his distribution instructions. CWF's Form 204 (Beneficiary's Distribution Notice and Payment Instruction)

Continued on page 6

An Inherited IRA Situation,
Continued from page 5

may be used or a similar form. Robert should be informed that he like every other non-spouse beneficiary is required to start taking an RMD for the year after John's death. This is 2015. Robert may take a 2014 distribution even though it is not required. Robert should be informed that if he ever wishes to move his inherited IRA to another financial institution it would need to be transferred as the tax rules do not authorize a nonspouse IRA beneficiary to roll over a distribution.

An estimate of his 2015 RMD calculation is $1,410 (12-31-14 FMV/22.7 or $32,000??/22.7). It is an estimate since the value as of 12/31/14 is an unknown at this time. The initial divisor of 22.7 is based on Robert's age of 63 in 2015 (the year after John's death) and the use of the Single Life Table.

Unless John would have imposed some restriction, Robert is permitted to withdraw more than the RMD amount for any year. Since the method used to determine the divisor for years after 2015 is the reduce by 1.0 method, the divisor for 2016 is 21.7, for 2017 is 20.7, etc.

Each and every distribution from the inherited traditional IRA to Robert will be reported as a reason code "4" for Form 1099-R purposes. This is true even when Robert attains age 70½ or older.

The more IRA custodian personnel work with inherited IRAs the less apprehensive they will be. CWF is glad to assist with IRA beneficiary situations.

Considerations and Concerns When an IRA is Involved in a Lawsuit

It might not happen often with an IRA with funds invested in time deposits, but once in awhile a divorce might result in one of the parties trying to involve an IRA in the legal proceedings.

In prior newsletter articles we have discussed Code section 408(d)(6) which provides that the transfer of IRA funds from one spouse to the other spouse is a nontaxable transaction.

This article discusses a situation where the attorney for the ex-spouse arranged with the bank serving as the IRA custodian to place a "hold" on his/her ex-spouse's IRA. That is, the ex-spouse would not have the right to take a distribution until the lawsuit matter was resolved. The idea was: by putting a hold on the IRA the financial institution would not have to endure the legal expense of defending the action to make it a party to the lawsuit.

A hold on an IRA raises some legal and tax issues. A financial institution should seek the guidance of its attorney. This article presents a general discussion of IRAs involved in legal proceedings.

An IRA is a special tax-preferred revocable trust. This special trust is a separate legal entity. The bank as trustee/custodian owns the IRA assets on behalf of a individual/beneficiary. The IRA plan document will define when distributions are permissible. State law will define when an IRA judgment creditor is entitled to levy funds within an IRA. Two situations may exist. The IRA is the debtor versus when the individual who is the IRA accountholder is the debtor.

An IRA as a separate legal entity may be sued by third parties and the IRA may sue third parties.

In order for an IRA to be established and to continue to exist as an IRA certain rules must be met. One of the rules is that if a prohibited transactions occurs, then the IRA is deemed distributed as of the first day of such year. Another rule which is implied, is that the individual has the right to take distributions at any time since such funds must be "nonforfeitable."

If the IRA itself is the debtor, its assets may be pledged as collateral for the IRA'S debt. However, if an individual who has an IRA has personal debt, the IRA cannot be pledged as collateral for such personal debt. The law (Code sections 4975 and 219) expressly define a pledge to be prohibited transaction.

Although simplistic, the general concept of the prohibited transactions rules is, an individual is not to benefit outside of his/her IRA because of the IRA assets.

The IRA plan agreement should contain a provision covering the topic of an IRA being involved in a legal dispute. Presumably, the IRA plan agreement will authorize the IRA custodian to be reimbursed for all litigation expenses related to the IRA and to receive a reasonable amount of compensation for this special

Continued on page 7

The Pension Digest

IRA Involved in Lawsuit,
Continued from page 6

work. An IRA custodian has the duty to act in the best interests of the IRA accountholder. A lawsuit must be defended to the extent of the assets within the IRA. The IRA custodian should discuss with the individual the course of action to be taken.

Did the individual consent in writing the hold placed on his/her IRA? Who did the hold primarily benefit? The individual or the bank?

In some situations a hold placed on an IRA may be a type of collateral or restriction on the use of the IRA and would be a prohibited transaction.

Additional research is needed to determine if a state court may assert jurisdiction over an individual's IRA, the IRA custodian, and then restrict the IRA accountholder's right to take an IRA distribution at any time. The IRS may well argue that an IRA is no longer an IRA if the individual has lost the right to take a distribution. The IRS and the DOL should be asked for their opinions. Most likely a court would decline asserting jurisdiction if its action meant the IRA was no longer an IRA.

The general rule is, if an IRA accountholder causes the prohibited transaction, then the IRA is deemed distributed as of the first day of the year during which the transaction takes place. However, a special rule applies for a pledge. Only the amount pledged is deemed distributed.

The tax rules are unclear as to the tax consequences if a party other than the individual (e.g. the IRA custodian) causes the prohibited transaction. The IRS applies the rule that a 15% tax and possibly a 100% tax is owed by the IRA custodian if it causes the prohibited transaction.

The law is unclear regarding how the IRA custodian is to prepare the IRS reporting for levies by non-tax authorities.

If the IRS levies an IRA, a Form 1099-R will be furnished to the individual showing the amount levied as a taxable distribution, but one which is not subject to the pre-59½ tax regardless of the individual's age. Federal law provides that the 10% additional tax is not owed if the IRS levies on an IRA.

This exception does not apply if a state department of revenue or family services imposes the levy. In such case, the IRA custodian will prepare the Form 1099-R for the individual and the IRS showing the amount levied as a taxable distribution. If the individual is under age 59½, the 10% additional tax would apply and reason code 1 would be used on the Form 1099-R. If the individual is age 59½ or older, the reason code would be the 7 and the 10% tax is no owed.

IRS guidance discussing the tax consequences on the IRA accountholder and the levying third party is very limited. Who includes the distribution in income?

Code sections 219 and 408 provide the rule that it is the recipient who is required to include the distribution in income. I don't believe that in all levy situations the IRA custodian is to issue the Form 1099-R to the individual who is the IRA accountholder. I am aware of one situation where the IRS ruled that when an IRA distribution was made from the former spouse's IRA to the ex-spouse, it was the ex-spouse who had to include the distribution in his/her income and pay the applicable taxes. For whatever reason the couple chose not to use the special law providing for no taxation of IRA funds when funds are transferred pursuant to a divorce decree from one spouse's IRA to the other spouse's IRA.

Does a prohibited transaction occur when there is a levy so that in some cases the entire IRA is deemed distributed and not just the levy amount? It is possible the IRS might make this argument in some situations. Normally, the IRS does not make this argument when it is the IRS imposing the levy.

An IRA custodian must be aware that the federal income withholding rules for IRAs apply to every IRA distribution. The fact that there is a levy on the IRA does not mean that the withholding rules do not apply. There is no special rule for a levy by a party other than the IRS. No state court or no state department of revenue has the authority to override the federal income tax withholding rules for IRAs. The IRA withholding rules are: a notice must be furnished to the IRA accountholder explaining the withholding rules prior to the distribution and the IRA custodian must withhold 10% of the distribution amount unless the accountholder instructs to have more withheld, including 100% of the distribution.

The accountholder could instruct to have no federal income tax withheld, but that is unlikely in a levy situ-

Continued on page 7

IRA Involved in Lawsuit,
Continued from page 7

ation for the following reason.

Creditors may not like it, but the federal withholding rules appear to allow an individual who has an IRA being levied to instruct to have the entire amount withheld. By having the entire amount withheld, there are no remaining funds to be paid to the party imposing the levy.

An IRA custodian would have liability issues with respect to the IRS and the individual if it would fail to follow the accountholder's instruction.

It may be that an attorney or a court will decide to not place a levy on the IRA funds since the individual most likely will instruct to have 100% of the levy distribution withheld for federal income tax purposes.

An IRA custodian must discuss any legal proceedings involving an IRA with its attorney.

Administering an Inherited IRA When a Church is the Beneficiary

An IRA custodian will generally administer an inherited IRA for a church beneficiary in the same way that it administers its other inherited IRAs, but there are some special considerations.

For discussion purposes we will assume Jane Doe had established her traditional IRA in 1988 with First State Bank. In 1988 she had designated First Community Church, 115 State Street, Ames, IA, as the sole primary beneficiary of her IRA. She had never changed her beneficiary. **Jane died on June 15, 2014, at age 79**. The IRA custodian had calculated her 2014 RMD to be $2,035 ($40,350/17.5). She had not withdrawn any amount from her IRA during 2014.

Note that First Community Church was her express designated beneficiary. Jane had not designated her estate as her beneficiary. If the personal representative of her estate asks the IRA custodian about her IRA, the IRA custodian will need to inform the personal representative that another person or entity is the designated beneficiary and not her estate.

Upon Jane Doe's death, an inherited IRA comes into existence. This inherited IRA should be titled for Form 5498 purposes, First Community Church as beneficiary of Jane Doe's IRA.

The IRA custodian will wish to verify that First Community Church still exists and then inform the church that it has inherited certain IRA funds. The IRA custodian will want to verify that it is working with authorized officials of the church. The CIP rules will need to be satisfied. The church must furnish the IRA custodian with its tax identification number and inform the IRA custodian of the individual(s) who are authorized to act for the church.

Since First Community Church is a tax exempt entity it will not pay any income tax when it withdraw funds from the inherited IRA. A Form 1099-R is required to be furnished to the church and the IRS. It will be prepared in the standard fashion. Box 1 and 2a will be completed with the distribution amount and box 2b (taxable amount not determined) is to be checked. The reason code in box 7 will be the "4" for death.

Most likely the church will take a lump sum withdrawal within a short period of time. Since Jane had not been paid her RMD for 2014, the church must withdraw the RMD by December 31 or it will owe the 50% excise tax unless a waiver would be granted.

The church as any beneficiary will need to complete an IRA distribution form and make its withholding instruction. Most likely it will instruct to have no income tax withheld.

In some cases, Jane Doe may have written her IRA beneficiary designation to provide that the church is limited to withdrawing 1/3 of her IRA balance in 2014 (year of her death), 1/2 of the remaining balance for 2015 and the remaining amount during 2016.

Giving IRA funds to a church and giving other nontaxable funds to your children may be a prudent tax planning tool since your children would pay income tax if the IRA funds were distributed to them.

If Jane had a Roth IRA rather than a traditional IRA, the main administrative difference is that the reason code on the Form 1099-R in box 7 will be a Q or T rather than a 4. Q is used if the decedent had met the 5 year rule and a T is used if the 5-year rule has not been met.