The Pension Digest

February 2015
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ALSO IN THIS ISSUE –

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

Establishing a SEP for 2014

As with any tax procedure, there are certain actions which must be taken in order for any business, including a one person business, to establish a Simplified Employee Pension Plan (SEP). If not properly established, the expected tax benefits will not be realized.

What must be done by the business?

First, there must be written plan agreement. Most businesses will choose to complete and execute the IRA model Form 5305-SEP, Simplified Employee Pension–Individual Retirement Accounts contribution Agreement. See page 3.

A business may set up its SEP for a year (e.g. 2014) as late as the due date including extensions for the tax year. So, a business may establish a SEP for 2014 on October 15, 2015, if it has an extension for its 2014 tax return.

The maximum contribution for 2014 is the lesser of: 25% of a person's qualifying compensation or $52,000.

The business must provide certain information to each employee, if any. If no employees, then this information is not furnished. If there are employees, in general, they will be furnished a copy of the Form 5305-SEP and its instructions.

What must be done by each individual?

Each eligible employee, including the individual who is the sole proprietor or sole shareholder, must establish a SEP-IRA. A SEP-IRA is a standard traditional IRA to which a SEP contribution

Continued on page 2

SEPs — The Last-Minute Retirement Plan and Tax Deduction

Definitions

SEP — SEP is the acronym for Simplified Employee Pension plan. In order to have a SEP, two requirements must be met. First, an employer must sign a SEP plan document which may be: (1) the IRS model Form 5305-SEP; (2) a SEP prototype; or (3) a SEP plan as written specifically for that employer by an attorney. The employer may be a gigantic corporation or a self employed person. Second, all eligible employees must establish (or have established for them) a SEP-IRA.

SEP-IRA — A SEP-IRA is a standard, traditional IRA established with a financial institution to which an employer has made a SEP-IRA contribution. The IRA custodian is required to report SEP-IRA contributions in box 8 on Form 5498. In all other respects, the standard, traditional IRA rules will apply to administering SEP-IRAs. Contributions to SEP-IRAs are always owned by the employee, once the funds have been contributed to the employee's SEP-IRA.

Discussion

SEP plans may be established and funded by the normal tax deadline, plus extensions. A person may come into your institution in July of 2015, and make a SEP contribution of $52,000, for tax year 2014. If an individual has the proper extension(s) a SEP contribution may be made as late as October 15 of 2015, for tax year 2014.

Continued on page 2

SEPs–Last-Minute
Continued from page 1

The Contribution Rules Applying to SEPs are Very Favorable

1. The maximum contribution for 2014 is the lesser of $52,000, or 25% of a person's compensation. The limit for 2015 is $53,000.

2. The age 70 1/2 eligibility rule which applies to traditional IRAs does not apply to SEP-IRAs. A farmer who is age 74 and still farming and has net income, may still make contributions to their SEP-IRA. A corporation (and any other employer) is required to make a contribution for any employee age 70 1/2 or older, as long as the employee has met the eligibility requirements. The age discrimination laws prohibit an employer from not making such contributions. An employee may not waive the contribution.

3. All contributions made to a SEP-IRA by an employer are employer contributions, and are reported in box 8 of Form 5498. However, an individual is permitted to make his or her annual traditional IRA contribution to the same IRA to which a SEP contribution is made. Annual contributions are reported in box 1 on Form 5498. Such annual contributions may or may not be deductible.

4. An employer is not required to make SEP IRA contributions each year. Contributions are also discretionary as to amount.

5. The contributions which an employer makes for its employees are deductible by the business entity on its tax return. A corporation will claim the deduction on Form 1120. A partnership will claim the deduction on Form 1065, and partners will be informed of their respective shares on Schedule K-1. A sole proprietor may deduct SEP contributions on his or her Schedule C for Form 1040.

6. Contributions by the employer to a person's SEP-IRA are not taxed for income tax purposes, withholding purposes, social security income tax purposes, medicare tax purposes, or federal unemployment income tax purposes.

7. There are special contribution rules for self employed individuals. A self-employed individual does "deduct" his or her contribution amount to a SEP-IRA on Form 1040. That is, the amount contributed to the SEP-IRA is not excluded from income, as occurs for corporate employers. Since the maximum contribution is the lesser of 25% of compensation, or $51,000 for 2013, one must calculate the "compensation" for a self-employed individual. Compensation for a self-employed person is his or her net earnings from self-employment, as decreased by (1) the amount contributed to their SEP-IRA, and (2) 50% of his or her self-employment tax (the IRS has a special chart and formula to be used for this calculation).

8. An employer is required to provide each employee with an annual statement indicating the amount contributed to the employee's SEP-IRA for the year. A self-employed person is not required to prepare a statement for himself. ◆

Establishing a SEP
Continued from page 1

has been or will be made. See the standard traditional IRA application on page 3. The tax laws do not require a person who has an existing traditional IRA to set up a new SEP-IRA. Some financial institutions choose for administrative reasons to require a separate IRA, but the tax laws do not require it. If any employee would fail to have a SEP-IRA so the business did not make a SEP contribution for such employee, there would be no SEP and the expected tax benefits would not apply for the sponsoring business and other employees.

In summary, establishing a SEP is easy as long as the two steps above are completed for a one person business and the three steps are completed for a business with employees. ◆

THE Pension Digest

Understanding Box 2 (Rollover Contributions) on the 2014 Form 5498

When an individual makes a rollover contribution to any of the four types of IRAs, the IRA 1 custodian must report such contribution in box 2 of the Form 5498. There are both indirect rollover contributions and direct rollover contributions. For 2014 the IRA custodian reports in box 2 the total amount of rollover contributions made from January 1,20 14 to December 31, 2014.

2828 ☐ VOID ☐ CORRECTED

Form 5498 — IRA Contribution Information — 2014 (OMB No. 1545-0747)

- TRUSTEE'S or ISSUER'S name, street address, city or town, state or province, country, and ZIP or foreign postal code
- TRUSTEE'S or ISSUER'S federal identification no.
- PARTICIPANT'S social security number
- PARTICIPANT'S name
- Street address (including apt. no.)
- City or town, state or province, country, and ZIP or foreign postal code
- Account number (see instructions)
- 1 IRA contributions (other than amounts in boxes 2–4, 8–10, 13a, and 14a) $
- 2 Rollover contributions $
- 3 Roth IRA conversion amount $
- 4 Recharacterized contributions $
- 5 Fair market value of account $
- 6 Life insurance cost included in box 1 $
- 7 IRA ☐ SEP ☐ SIMPLE ☐ Roth IRA ☐
- 8 SEP contributions $
- 9 SIMPLE contributions $
- 10 Roth IRA contributions $
- 11 Check if RMD for 2015 ☐
- 12a RMD date
- 12b RMD amount $
- 13a Postponed contribution $
- 13b Year
- 13c Code
- 14a Repayments $
- 14b Code
- 15a FMV of certain specified assets $
- 15b Code(s)

Copy A For Internal Revenue Service Center

File with Form 1096.

For Privacy Act and Paperwork Reduction Act Notice, see the **2014 General Instructions for Certain Information Returns.**

Form 5498   Cat. No. 50010C   www.irs.gov/form5498   Department of the Treasury - Internal Revenue Service

Do Not Cut or Separate Forms on This Page — Do Not Cut or Separate Forms on This Page

The Form 5498 is an IRS auditing form. Box 2 of the Form 5498 reports the gross amount being rolled over into any type of IRA for a given year.

For many years the IRS instructions for Form 5498 have stated the following rule, if property is being rolled over, enter the fair market value of the property when received by the IRA custodian. This value may well differ from the value of the property when distributed to the individual. As written, it is not clear if this duty to report the value at the time of receipt applies to both direct rollovers and indirect rollovers or just indirect rollovers. Hopefully, the IRS will revise its instructions to clarify this point.

The Form 5498 may be used to report one rollover contribution or multiple rollover contributions. Within limits the IRS will try to match-up rollover contributions with one or more distributions from 40 1 (k) and other employer plans or another IRA as reported on a Form 1099- R. The general tax rule, a person must include

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Form **5305-SEP** (Rev. December 2004)
Department of the Treasury
Internal Revenue Service

Simplified Employee Pension—Individual Retirement Accounts Contribution Agreement
(Under section 408(k) of the Internal Revenue Code)

OMB No. 1545-0499
Do not file with the Internal Revenue Service

______________________ (Name of employer) makes the following agreement under section 408(k) of the Internal Revenue Code and the instructions to this form.

Article I—Eligibility Requirements (check applicable boxes—see instructions)

The employer agrees to provide discretionary contributions in each calendar year to the individual retirement account or individual retirement annuity (IRA) of all employees who are at least ________ years old (not to exceed 21 years old) and have performed services for the employer in at least ________ years (not to exceed 3 years) of the immediately preceding 5 years. This simplified employee pension (SEP) ☐ includes ☐ **does not** include employees covered under a collective bargaining agreement, ☐ includes ☐ **does not** include certain nonresident aliens, and ☐ includes ☐ **does not** include employees whose total compensation during the year is less than $450*.

Article II—SEP Requirements (see instructions)

The employer agrees that contributions made on behalf of each eligible employee will be:

A. Based only on the first $205,000* of compensation.
B. The same percentage of compensation for every employee.
C. Limited annually to the smaller of $41,000* or 25% of compensation.
D. Paid to the employee's IRA trustee, custodian, or insurance company (for an annuity contract).

Employer's signature and date ______________________ Name and title ______________________

Instructions

Section references are to the Internal Revenue Code unless otherwise noted.

Purpose of Form

Form 5305-SEP (Model SEP) is used by an employer to make an agreement to provide benefits to all eligible employees under a simplified employee pension (SEP) described in section 408(k).

Do not file Form 5305-SEP with the IRS. Instead, keep it with your records.

For more information on SEPs and IRAs, see Pub. 560, Retirement Plans for Small Business (SEP, SIMPLE, and Qualified Plans), and Pub. 590, Individual Retirement Arrangements (IRAs).

Instructions to the Employer

Simplified employee pension. A SEP is a written arrangement (a plan) that provides you with an easy way to make contributions toward your employees' retirement income. Under a SEP, you can contribute to an employee's traditional individual retirement account or annuity (traditional IRA). You make contributions directly to an IRA set up by or for each employee with a bank, insurance company, or other qualified financial institution. When using Form 5305-SEP to establish a SEP, the IRA must be a Model traditional IRA established on an IRS form or a master or prototype traditional IRA for which the IRS has issued a favorable opinion letter. You may not make SEP contributions to a Roth IRA or a SIMPLE IRA. Making the agreement on Form 5305-SEP does not establish an employer IRA described in section 408(c).

When not to use Form 5305-SEP. Do not use this form if you:

1. Currently maintain any other qualified retirement plan. This does not prevent you from maintaining another SEP.

2. Have any eligible employees for whom IRAs have not been established.

3. Use the services of leased employees (described in section 414(n)).

4. Are a member of an affiliated service group (described in section 414(m)), a controlled group of corporations (described in section 414(b)), or trades or businesses under common control (described in sections 414(c) and 414(o)), unless all eligible employees of all the members of such groups, trades, or businesses participate in the SEP.

5. Will not pay the cost of the SEP contributions. Do not use Form 5305-SEP for a SEP that provides for elective employee contributions even if the contributions are made under a salary reduction agreement. Use Form 5305A-SEP, or a nonmodel SEP.

Note. *SEPs permitting elective deferrals cannot be established after 1996.*

Eligible employees. All eligible employees must be allowed to participate in the SEP. An eligible employee is any employee who: (1) is at least 21 years old, and (2) has performed "service" for you in at least 3 of the immediately preceding 5 years. You can establish less restrictive eligibility requirements, but not more restrictive ones.

Service is any work performed for you for any period of time, however short. If you are a member of an affiliated service group, a controlled group of corporations, or trades or businesses under common control, service includes any work performed for any period of time for any other member of such group, trades, or businesses.

Excludable employees. The following employees do not have to be covered by the SEP: (1) employees covered by a collective bargaining agreement whose retirement benefits were bargained for in good faith by you and their union, (2) nonresident alien employees who did not earn U.S. source income from you, and (3) employees who received less than $450* in compensation during the year.

Contribution limits. You may make an annual contribution of up to 25% of the employee's compensation or $41,000*, whichever is less. Compensation, for this purpose, does not include employer contributions to the SEP or the employee's compensation in excess of $205,000*. If you also maintain a salary reduction SEP, contributions to the two SEPs together may not exceed the smaller of $41,000* or 25% of compensation for any employee.

You are not required to make contributions every year, but when you do, you must contribute to the SEP-IRAs of all eligible employees who actually performed services during the year of the contribution. This includes eligible employees who die or quit working before the contribution is made.

Contributions cannot discriminate in favor of highly compensated employees. Also, you may not integrate your SEP contributions with, or offset them by, contributions made under the Federal Insurance Contributions Act (FICA).

If this SEP is intended to meet the top-heavy minimum contribution rules of section 416, but it does not cover all your employees who participate in your salary reduction SEP, then you must make minimum contributions to IRAs established on behalf of those employees.

Deducting contributions. You may deduct contributions to a SEP subject to the limits of section 404(h). This SEP is maintained on a calendar year basis and contributions to the

* *For 2005 and later years, this amount is subject to annual cost-of-living adjustments. The IRS announces the increase, if any, in a news release, in the Internal Revenue Bulletin, and on the IRS website at www.irs.gov.*

For Paperwork Reduction Act Notice, see page 2.   Cat. No. 11825J   Form **5305-SEP** (Rev. 12-2004)

IRA — Custodial Account Application — Form 5305-A

Revocation in accordance with the Disclosure Statement should be mailed or delivered to:
Custodian's Name ______________________
Address ______________________
City ______________ State ___ Zip ______
Attn: ______________ Phone ______________

Depositor Information
Name ______________________
Home Address ______________________
City ______________ State ___ Zip ______
County ______________ Date of Birth ______________
Phone: Home ______________ Work ______________
SSN ______________ Plan No. ______________

Adopting this plan agreement constitutes:
❍ the initial adoption of an IRA plan agreement, or
❍ the amendment and restatement (i.e. replacement) of a previous IRA plan agreement referenced as follows: ______________________

Designation of Beneficiary

Section 1.6 of Article VIII of the Individual Retirement Custodial Account (Form 5305-A) contains an important discussion of your right to name primary and contingent beneficiary(ies). Your designation will revoke all prior IRA beneficiary designations with respect to the referenced IRA account. In the event of your death you hereby direct that any balance in your IRA shall be paid to the following designated beneficiary or beneficiaries. If any primary or contingent beneficiary dies before you, then you wish to have the following result:

❍ the interest of that deceased beneficiary, his or her issue and spouse, if any, shall terminate totally and the percentage share of any surviving beneficiary(ies) shall increase on a pro rata basis; or

❍ the interest of that deceased beneficiary shall be paid to his or her issue who are alive or who have living issue, such issue will take by right of representation the share the deceased beneficiary would have taken if living, and persons of the same class shall share equally.

If you do not make the above designation, then you are deemed to have elected the "pro rata" selection.

If you designate your spouse as your sole primary beneficiary, and he or she predeceases you, then you intend the funds to be transferred to your contingent beneficiary(ies) who shall become the primary beneficiary(ies) and not pass per stirpes to the issue of your spouse.

You hereby designate the following individual(s) and/or entity(es) to be your beneficiary(ies). You must check Primary or Contingent for each beneficiary. If neither is checked, the designated beneficiary will be deemed to be a primary beneficiary.

❍ Contingent ❍ Primary
Name ______________________
Address ______________________
City ______________ State ___ Zip ______
SSN ______________ Date of Birth ______________
Share % ______________ Relationship ______________

❍ Contingent ❍ Primary
Name ______________________
Address ______________________
City ______________ State ___ Zip ______
SSN ______________ Date of Birth ______________
Share % ______________ Relationship ______________

❍ Contingent ❍ Primary
Name ______________________
Address ______________________
City ______________ State ___ Zip ______
SSN ______________ Date of Birth ______________
Share % ______________ Relationship ______________

❍ Contingent ❍ Primary
Name ______________________
Address ______________________
City ______________ State ___ Zip ______
SSN ______________ Date of Birth ______________
Share % ______________ Relationship ______________

Deposit Information
Date ______________________
Acct./Inst. No. ______________________
Deposit Amt. ______________ For Tax Yr. ______________

Type of Contribution
❍ **Regular or Spousal for:** ❍ Current Year, or ❍ Prior Year
❍ **Rollover to:** ❍ Regular IRA, or ❍ SEP-IRA
❍ **SEP for:** ❍ Current Year, or ❍ Prior Year
❍ **Recharacterization**
❍ **Transfer—From Another IRA or SEP-IRA Custodian to:**
❍ Regular/Spousal IRA, or ❍ SEP-IRA
❍ **Transfer—Incident to Divorce**
❍ **Transfer—Surviving Spouse Elects to Treat as Own**
❍ **Special Rollover regarding Exxon Valdez litigation**
❍ **Repayment and Postponed Contributions – Complete CWF Form #54**

Your Regular or Spousal Contribution Limit

Tax Year	If Not Age 50	If Age 50 or Older
2012	$5,000	$6,000
2013-2015	$5,500*	$6,500*

*These limits may be adjusted for cost of living changes after 2014

Special Situation–Spouse's Signature/Consent

If you reside in a state with community or marital property laws and you are married and you wish to name a person(s) other than or in addition to your spouse as the beneficiary, then you need to obtain your spouse's consent. Otherwise you do not.

Spouse's Notice, Certification of Consent and Signature

I am the spouse of the IRA depositor. I understand that my spouse wishes to name an IRA beneficiary other than or in addition to myself. I hereby agree or consent to my spouse's designation of beneficiaries. I expressly understand that my signature indicates my consent and that the legal effect of this signature is to change the character of the ownership of the interest I have in such IRA funds. I understand that I may consult with my attorney before deciding to give such consent.

Spouse's Signature ______________________
Date ______________________

Signatures and Revocation Right

You have requested that the Custodian establish an Individual Retirement Account (IRA) for you. You certify that your tax identification number (social security number) and other information are correct. In the event that this is a rollover contribution, you hereby irrevocably elect to treat this contribution as a rollover contribution subject to your right to revoke this IRA as discussed below. The rules and conditions governing this IRA form are contained in this application and the IRS Model Form 5305-A plan agreement as modified. You acknowledge that you are opening a custodial IRA and that it expressly requires that your IRA funds be invested in various deposit accounts as offered by us (i.e. the Custodian). You acknowledge that the Custodian has furnished you with a copy of the application, and the Individual Retirement Plan and Disclosure Statement. In addition, you have read the disclosure statement and you qualify to make an initial contribution to this IRA. The Financial Disclosure is furnished to you using this method:

❍ 1. The financial projection information and tables as shown on the reverse side and on page 28 of the Disclosure Statement.
❍ 2. Special Attachment. For example, a customized disclosure statement or computer printout.

You have the ability to terminate this IRA which you are establishing if you comply in a timely fashion with the revocation provisions as discussed in section 2 of the Disclosure Statement. In general, you have seven (7) calendar days in which to revoke this IRA plan agreement.

Depositor's Signature ______________________ Date ______________
Authorized Signature of Custodian ______________________ Date ______________
Witness ______________________
Use only if signature of the depositor, the custodian, or the spouse is required to be witnessed

IRA #40-T (1/15)   White — Custodian   Yellow — Depositor (Accountholder)   ©2015 Collin W. Fritz & Associates, Ltd.

each and every pension distribution in his or her taxable income unless he or she can substantiate why he or she is not required to do so.

If multiple rollover contributions are made into different IRA plan agreements, the IRA custodian will prepare separate 5498 forms to report such rollover contributions.

The subject of rollovers has become extremely complicated over the last 15 years. Some rollovers result in continued tax deferral as when taxable funds within a 401 (k) plan are rolled over into a traditional IRA. Some rollovers result in immediate taxation as when taxable funds within a 401 (k) plan are rolled over (i.e. converted) to a Roth IRA. A rollover may be comprised of taxable and nontaxable funds. Designated Roth funds may only be directly rolled over to a Roth IRA.

This article discusses the completing of box 2, rollover contributions. There are 7 types of rollover contributions. In theory all seven types could be made within one year. The 7 types are:

1. A standard 60 day and once per 12 month rollover between IRAs of the same type;
2. A direct rollover or indirect rollover from a 401(k),similar plan or other employer plan to a traditional IRA or SEP-IRA;
3. Any "qualified rollover contribution" as defined in Code section 408(A)(e) from a 401(k), similar plan, or other employer plan to a Roth IRA;
4. A military death gratuity;
5. An SGLI payment;
6. Qualified settlement income received in connection with the Exxon Valdez litigation; and
7. Airline payment amounts.

Observe the following about rollover contribution type #3. The funds are rolled over to a Roth IRA and such funds may either be non-Designated Roth funds or may be Designated Roth funds. The non-Designated Roth funds may either be taxable or non-taxable. If nothing else, the instructions should be revised to make this fact clear to all Roth IRA custodians.

The information set forth in Box 2 is extremely important to the individual and the IRS. This information is used by individuals to understand and explain on their tax return the tax consequences of their rollovers. ◆

Administering An HSA After the HSA Owner Dies

Once an HSA dies, the HSA custodian must administer the inherited HSA. When a person establishes his or her HSA, he or she almost always designates one or more beneficiaries.

If the decedent's spouse is the designated beneficiary, he or she assumes ownership of the decedent's HSA. The standard HSA taxation rules will apply to any distribution taken by the spouse. The HSA custodian must furnish the spouse with the standard HSA reporting forms, 1099-SA and 5498-SA, as applicable. The HSA custodian must prepare a Form 5498-SA for the decedent for the year of his or her death. This will be the last Form 5498-SA prepared with respect to the decedent's HSA. Any annual contributions made prior to his or her death must be reported. The instructions are not clear as to what amount is to be reported in the fair market value box. Most likely it is the value as of the date of death., but the IRS should furnish additional guidance.

2014 Form 5498-SA (For Decedent)

2727 ☐ VOID ☐ CORRECTED

TRUSTEE'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone number
1 Employee or self-employed person's Archer MSA contributions made in 2014 and 2015 for 2014 $
2 Total contributions made in 2014 $
OMB No. 1545-1518
2014
Form 5498-SA
HSA, Archer MSA, or Medicare Advantage MSA Information
TRUSTEE'S federal identification number | PARTICIPANT'S social security number
3 Total HSA or Archer MSA contributions made in 2015 for 2014 $
PARTICIPANT'S name
4 Rollover contributions $
5 Fair market value of HSA, Archer MSA, or MA MSA $
Street address (including apt. no.)
City or town, state or province, country, and ZIP or foreign postal code
6 HSA ☐ Archer MSA ☐ MA MSA ☐
Account number (see instructions)
Copy A For Internal Revenue Service Center
File with Form 1096.
For Privacy Act and Paperwork Reduction Act Notice, see the 2014 General Instructions for Certain Information Returns.
Form 5498-SA Cat. No. 38467V www.irs.gov/form5498sa Department of the Treasury - Internal Revenue Service
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2014 Form 5498-SA (For Surviving Spouse)

2727 ☐ VOID ☐ CORRECTED

TRUSTEE'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone number
1 Employee or self-employed person's Archer MSA contributions made in 2014 and 2015 for 2014 $
2 Total contributions made in 2014 $
OMB No. 1545-1518
2014
Form 5498-SA
HSA, Archer MSA, or Medicare Advantage MSA Information
TRUSTEE'S federal identification number | PARTICIPANT'S social security number
3 Total HSA or Archer MSA contributions made in 2015 for 2014 $
PARTICIPANT'S name
4 Rollover contributions $
5 Fair market value of HSA, Archer MSA, or MA MSA $
Street address (including apt. no.)
City or town, state or province, country, and ZIP or foreign postal code
6 HSA ☐ Archer MSA ☐ MA MSA ☐
Account number (see instructions)
Copy A For Internal Revenue Service Center
File with Form 1096.
For Privacy Act and Paperwork Reduction Act Notice, see the 2014 General Instructions for Certain Information Returns.
Form 5498-SA Cat. No. 38467V www.irs.gov/form5498sa Department of the Treasury - Internal Revenue Service
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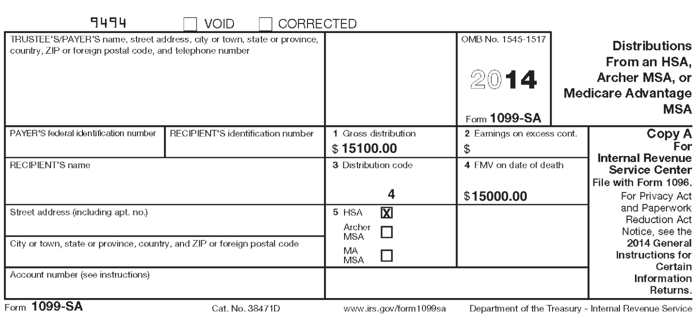
The HSA ceases to exist as of the time of death if the designated beneficiary is not the spouse or if there is no designated beneficiary. The HSA custodian does not prepare a Form 5498-SA for a non-spouse beneficiary. The HSA custodian will prepare the Form 1099-SA to report its distributions to a beneficiary. Regardless of when the beneficiary is paid his or her share, the beneficiary must include such share of the HSA's fair market value in his or her income for the year the HSA owner died. For this reason, the IRS has added Box 4 to the Form 1099-SA.

How an HSA custodian prepares the Form 1099-SA depends upon when it learned of the HSA's owner's death and when payment was made to the designated beneficiary. The instructions assume an HSA will be closed by December 31 of the year after the year the HSA owner died.

Hopefully, the IRS instructions will be issuing guidance as to what an HSA custodian is to do if the distribution is not completed by the year after the year of the HSA owner's death as there will be times when this situation will arise.

Set forth below is a 2014 Form 1099-SA illustrating how the form is to be completed for a nonspouse beneficiary if the HSA owner died in 2014, the HSA custodian learned of the owner's death in 2014 and a distribution was made to the non-spouse beneficiary in 2014. The gross distribution is reported in Box 1, code 4 is reported in Box 3, and beneficiary's share of the HSA's fair market value as of the date of death.


9494 VOID CORRECTED
TRUSTEE'S/PAYER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone number
OMB No. 1545-1517
2014
Form 1099-SA
Distributions From an HSA, Archer MSA, or Medicare Advantage MSA
PAYER'S federal identification number
RECIPIENT'S identification number
1 Gross distribution $ 15100.00
2 Earnings on excess cont. $
Copy A For Internal Revenue Service Center
File with Form 1096.
RECIPIENT'S name
3 Distribution code 4
4 FMV on date of death $15000.00
For Privacy Act and Paperwork Reduction Act Notice, see the 2014 General Instructions for Certain Information Returns.
Street address (including apt. no.)
5 HSA [X] Archer MSA [ ] MA MSA [ ]
City or town, state or province, country, and ZIP or foreign postal code
Account number (see instructions)
Form 1099-SA Cat. No. 38471D www.irs.gov/form1099sa Department of the Treasury - Internal Revenue Service
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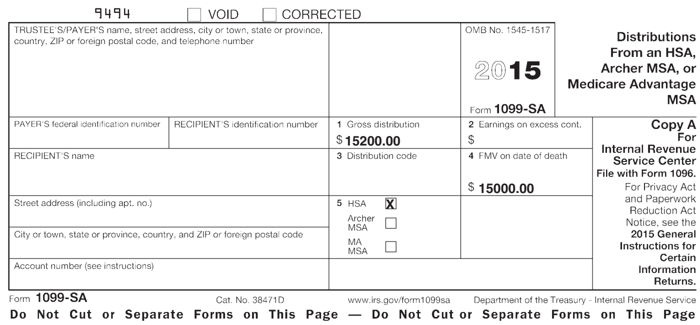
Set forth below is a 2015 Form 1099-SA illustrating how the form is to be completed for a nonspouse beneficiary if the HSA owner died in 2014, the HSA custodian learned of the owner's death in 2014 or 2015 and a distribution was made to the non-spouse beneficiary in 2015.


9494 VOID CORRECTED
TRUSTEE'S/PAYER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone number
OMB No. 1545-1517
2015
Form 1099-SA
Distributions From an HSA, Archer MSA, or Medicare Advantage MSA
PAYER'S federal identification number
RECIPIENT'S identification number
1 Gross distribution $ 15200.00
2 Earnings on excess cont. $
Copy A For Internal Revenue Service Center
File with Form 1096.
RECIPIENT'S name
3 Distribution code
4 FMV on date of death $ 15000.00
For Privacy Act and Paperwork Reduction Act Notice, see the 2015 General Instructions for Certain Information Returns.
Street address (including apt. no.)
5 HSA [X] Archer MSA [ ] MA MSA [ ]
City or town, state or province, country, and ZIP or foreign postal code
Account number (see instructions)
Form 1099-SA Cat. No. 38471D www.irs.gov/form1099sa Department of the Treasury - Internal Revenue Service
Do Not Cut or Separate Forms on This Page — Do Not Cut or Separate Forms on This Page

The IRS has special instructions for this year after death situation.

The instructions for Box 1 are the same, Box 1 is the gross distribution.

The instructions for Box 3 are different. Code 4 is not to be inserted for all beneficiary situations. Code 1 is to be inserted if the spouse is the beneficiary. Code 6 is to be inserted if the beneficiary is a nonspouse beneficiary. Code 4 is used only if the estate is the beneficiary. The discussion of a spouse beneficiary is confusing and unneeded as any distribution to a surviving spouse if coming from his or her own HSA and is a regular HSA distribution and not an inherited HSA distribution.

The instructions for Box 4 are also different. There will be times when an adjustment is to be made to the fair market value as of the date of death. If any of the decedent's qualified medical expenses were paid if within one year of the date of death, then report the adjusted amount. How is the HSA custodian supposed to determine this? The IRS gives no guidance. One wonders why this adjustment would also not apply for the year of death. Such expenses could be paid out later in the year of death just as well as the year after.

In summary, the HSA custodian does have special reporting duties once the HSA owner dies. The main duty is to furnish a properly prepared Form 1099-SA to each beneficiary. An HSA custodian wants to make sure it computer system has the necessary capabilities. ◆

Email Guidance – No Authority Exists to Terminate a SIMPLE-IRA Plan in the Middle of the Year

Q-1. I have an employer inquiring about suspending contributions to the SIMPLE-IRA plan that is housed with our institution. He plans on suspending all contributions starting April first. He does not want to terminate the plan because he intends on reactivating it in the future. I believe it is too late to suspend any contributions for 2015 since the notice went out to the company 30 days prior to 1/1/15 telling employees of the level of company contribution to be made for 2015. Am I correct on this? I also tried to research suspension of a SIMPLE-IRA but all I could find was information on terminating the plan. Can you please give me some insight concerning this matter when you have time?

A-1. I agree. I can see an employer thinking that the tax laws should permit an employer to discontinue SIMPLE contributions if the economic situation warrants. However, the law has not been written to authorize any type of suspension or allowing the employer to change what it promised to contribute. The employer must make the contributions it promised to make. An employer does have the right to terminate the plan at the end of the year.

I would agree that the IRS model forms for SIMPLE IRAs should be revised to set forth the IRS guidance on terminating a SIMPLE. Right now, such instructions do not do a good job of explaining that the employer has no right to modify its matching or nonelective contribution percentage. This may be stated or implied, but it is not expressly stated. One wonders whether the IRS has chosen to not expressly inform the employer that it has no right to change the promised matching or nonelective percentages once set.

The employees will have the right to sue the employer if the employer fails to make its matching contributions or nonelective contributions.

If the SIMPLE rules are not followed, contributions to date will not qualify to be treated as SIMPLE IRA contributions and must be treated as regular annual contributions which individuals would have the right to withdraw as excess contributions. I would think the employer would have to modify W-2 forms. ◆

Use the Proper Forms for 2014 and 2015 Recharacterizations

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 2014 or that their 2014 conversion should be undone.

A recharacterization can only be made for 2014, 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, 2015, to recharacterize an IRA contribution made for 2014.

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, 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, and the current and successor custodian, that they understand the situation, and that 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 2014 provides this information.

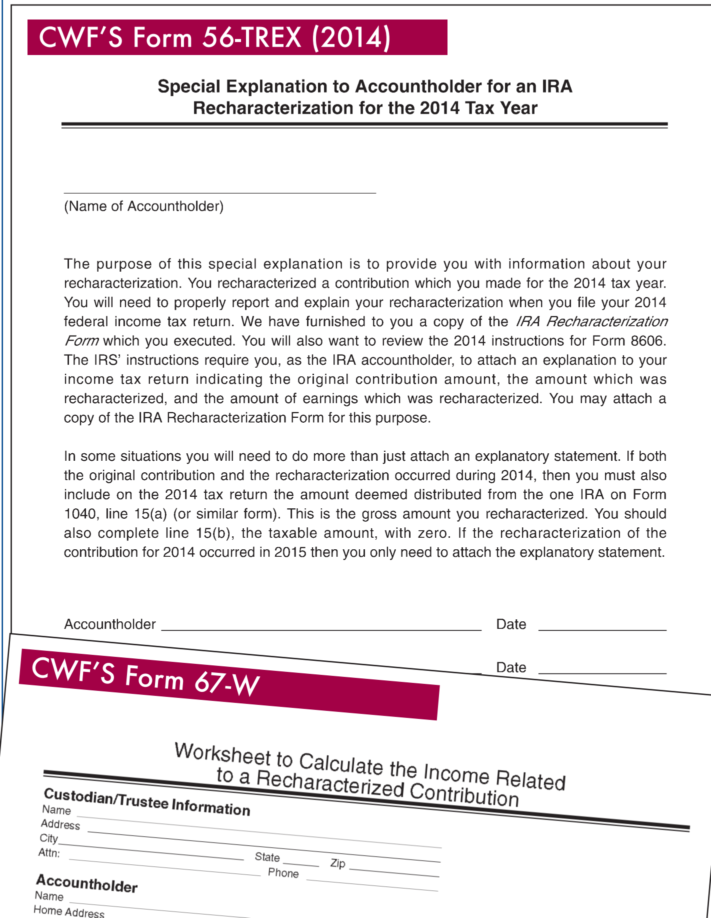
The income earned on the amount recharacterized must also be transferred with no tax penalty. This is a valuable tax advantage. CWF has created a form to use to calculate the applicable interest on the contribution — Form #67-W.

Continued on page 7

Recharacterization,
Continued from page 5

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. ◆



CWF'S Form 56-TREX (2014)

Special Explanation to Accountholder for an IRA Recharacterization for the 2014 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 2014 tax year. You will need to properly report and explain your recharacterization when you file your 2014 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 2014 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.

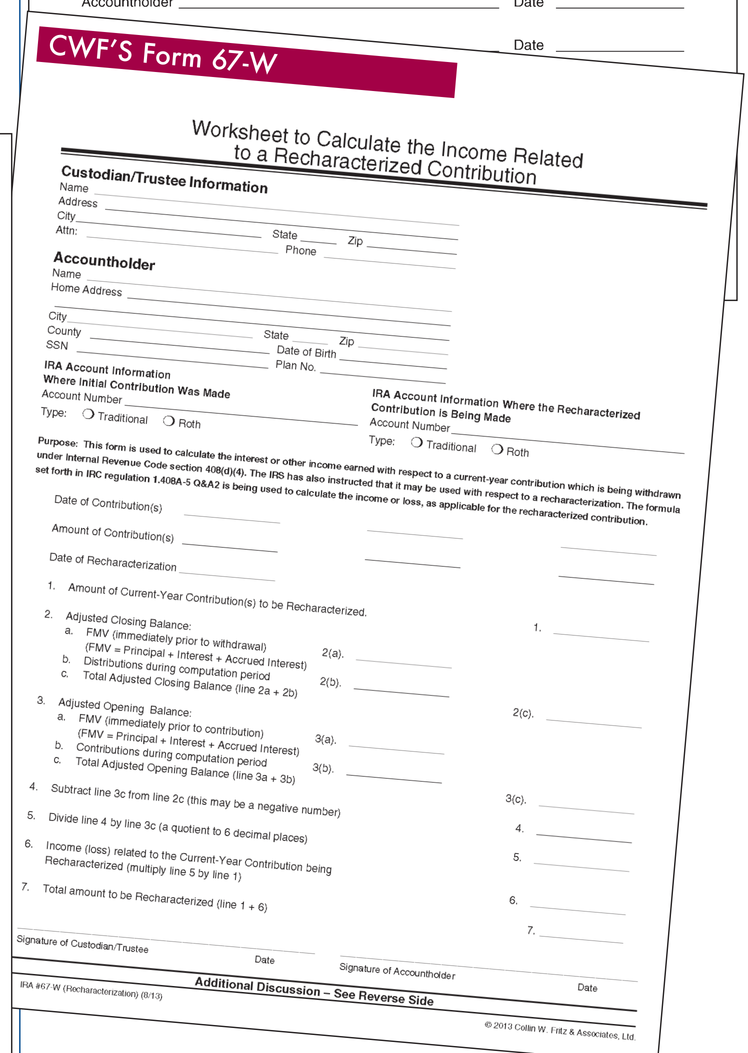
In some situations you will need to do more than just attach an explanatory statement. If both the original contribution and the recharacterization occurred during 2014, then you must also include on the 2014 tax return the amount deemed distributed from the one IRA on Form 1040, line 15(a) (or similar 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 2014 occurred in 2015 then you only need to attach the explanatory statement.

Accountholder ______ Date ______

______ Date ______

CWF's Recharacterization Forms

These forms are discussed in the article, "Use the Proper Forms for 2014 and 2015 Recharacterizations," page 6.



CWF'S Form 67-W

Worksheet to Calculate the Income Related to a Recharacterized Contribution

Custodian/Trustee Information
Name
Address
City State Zip
Attn: Phone

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

IRA Account Information Where Initial Contribution Was Made
Account Number
Type: ❍ Traditional ❍ Roth

IRA Account Information Where the Recharacterized Contribution is Being Made
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 IRS has also instructed that it may be used with respect to a recharacterization. The formula set forth in IRC regulation 1.408A-5 Q&A2 is being used to calculate the income or loss, as applicable for the recharacterized contribution.

Date of Contribution(s)
Amount of Contribution(s)
Date of Recharacterization

1. Amount of Current-Year Contribution(s) to be Recharacterized. 1.
2. Adjusted Closing Balance:
   a. FMV (immediately prior to withdrawal) (FMV = Principal + Interest + Accrued Interest) 2(a).
   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) (FMV = Principal + Interest + Accrued Interest) 3(a).
   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 6 decimal places) 5.
6. Income (loss) related to the Current-Year Contribution being Recharacterized (multiply line 5 by line 1) 6.
7. Total amount to be Recharacterized (line 1 + 6) 7.

Signature of Custodian/Trustee Date Signature of Accountholder Date

IRA #67-W (Recharacterization) (8/13)

Additional Discussion – See Reverse Side

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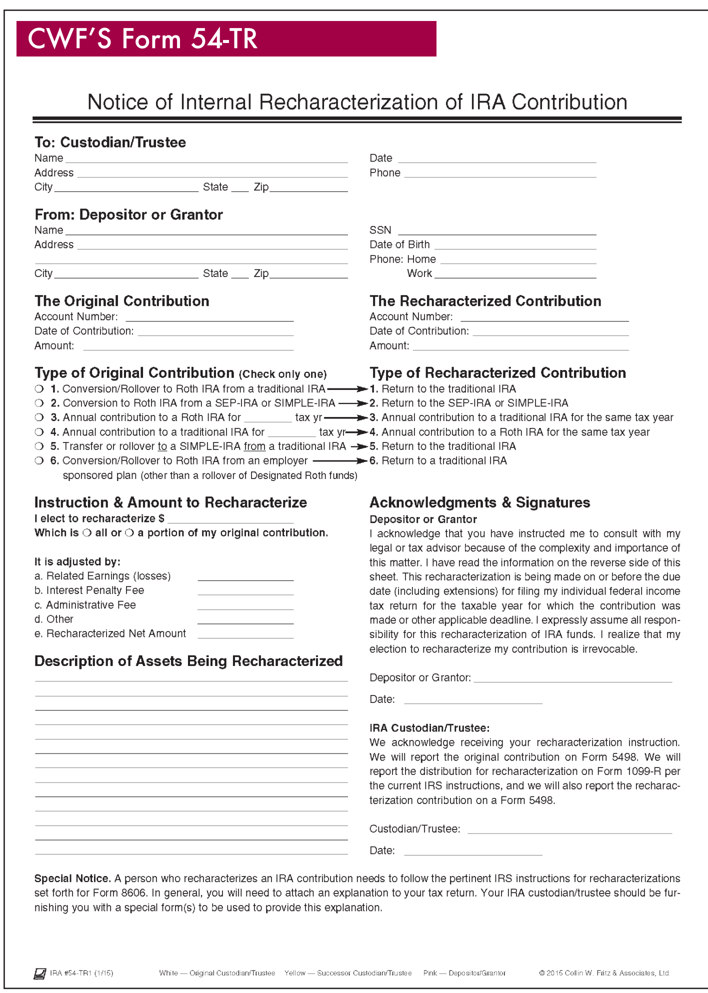

CWF'S Form 54-TR

Notice of Internal Recharacterization of IRA Contribution

To: Custodian/Trustee
Name
Address
City State Zip
Date
Phone

From: Depositor or Grantor
Name
Address
City State Zip
SSN
Date of Birth
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

Instruction & Amount to Recharacterize
I elect to recharacterize $ ______
Which is ❍ all or ❍ a portion of my original contribution.

It is adjusted by:
a. Related Earnings (losses)
b. Interest Penalty Fee
c. Administrative Fee
d. Other
e. Recharacterized Net Amount

Description of Assets Being Recharacterized

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.

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 (1/15) White — Original Custodian/Trustee Yellow — Successor Custodian/Trustee Pink — Depositor/Grantor © 2015 Collin W. Fritz & Associates, Ltd.

2015 HSA Limits – Reminder

The Treasury Department and Internal Revenue Service issued 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 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. In 2014 the IRS announced the new limits on April 25. We expect the IRS will announce the 2016 limits the last week of April 2015 or early May.◆