

THE Pension Digest

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"The Pension Specialists"



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IRA Contribution Limits for 2018 – Unchanged at \$5,500 and \$6,500; 401(k) Limits Do Change

Inflation was approximately 2.0% for the fiscal quarter ending September 30, 2017, so many of the IRA and pension limits as adjusted by the cost of living factor have not changed or the changes have been quite small.

The maximum IRA contribution limits for 2018 for traditional and Roth IRAs did not change – \$5,500/\$6,500.

The 2018 maximum contribution limit for SEP-IRAs is increased to \$55,000 (or, 25% of compensation, if lesser) up from \$54,000. The minimum SEP contribution limit used to determine if an employer must make a contribution for a part-time employee remains the same at \$600.

The 2018 maximum contribution limits for SIMPLE-IRAs are unchanged at \$12,500 if the individual is under age 50 and \$15,500 if age 50 or older.

The 2018 maximum elective deferral limit for 401(k) participants is changed to \$18,500 for participants under age 50 and \$24,500 for participants age 50 and older. The catch-up amount of \$6,000 did not change.

Contribution limits for a person who is not age 50 or older.

<u>Tax Year</u>	<u>Amount</u>
2008-12	\$5,000
2013-18	\$5,500

Contribution Limits for a person who is age 50 or older.

<u>Tax Year</u>	<u>Amount</u>
2008-12	\$6,000
2013-18	\$6,500

IRS Issues 2018 IRA/Pension Limits

IRS Announces Cost-of-Living Adjustments for 2018

The IRS in Notice 2017-62 Released its 2018 Adjustments as Follows:

	2015	2016	2017	2018
Taxable Wage Base — OASDI Only	\$118,500	\$118,500	\$127,500	\$128,700
SEP and Qualified Plan Maximum Compensation Cap — 401(a)(17) & 404(e)	\$265,000	\$265,000	\$270,000	\$275,000
Elective (Salary) Deferral Limit — 401(k) & SAR-SEP	\$18,000	\$18,000	\$18,000	\$18,500
Elective Deferral Catch-up Limit for 401(k)	\$6,000	\$6,000	\$6,000	\$6,000
SIMPLE Deferral Limit — 408(p)(2)(A)	\$12,500	\$12,500	\$12,500	\$12,500
SIMPLE Catch-up Limit	\$3,000	\$3,000	\$3,000	\$3,000
Highly-Compensated Employees (Compensation as Indexed)	\$120,000	\$120,000	\$120,000	\$120,000
Defined Benefit Limit — Section 415(b)(1)(A)	\$210,000	\$210,000	\$215,000	\$220,000
Defined Contribution Limit — Section 415(c)(1)(A)	\$53,000	\$53,000	\$54,000	\$55,000
SEP Minimum Compensation Threshold — 408(k)(2)(c)	\$600	\$600	\$600	\$600
Key Employee Top Heavy — 41(i)(ii)(a)(i)	\$170,000	\$170,000	\$175,000	\$175,000

IRA Contribution Deductibility Chart for 2017

(for participants and/or spouses in
employer-sponsored retirement plans.)

Amount of Modified AGI - (Combined modified AGI if married)

Single or Head of Household

Below \$62,000 or less	Entitled to full deduction
\$62,001-\$71,999.99	Entitled to prorated deduction amount - use special formula**
\$72,000 or more	No deduction permissible

**Explanation of special formula. Multiply the permissible contribution by the following ratio: amount of adjusted gross income in excess of \$62,000/\$10,000. This will give you a ratio that determines the amount you cannot deduct.*

Married - joint return, both are covered or qualifying widower

Below \$99,000 or less	Entitled to full deduction
\$99,001 - \$118,999.99	Entitled to prorated deduction amount - use special formula**
\$119,000 or more	No deduction permissible

**Explanation of special formula. Multiply the permissible contribution by the following ratio: amount of adjusted gross income in excess of \$99,000/\$20,000. This will give you a ratio that determines the amount you cannot deduct.*

Married -

joint return, but only you are covered or qualifying widower

Below \$99,000 or less	Fully Deductible
\$99,001-\$118,999.99	Entitled to prorated deduction amount - use special formula**
\$119,000 or more	No deduction permissible

**Explanation of special formula. Multiply the permissible contribution by the following ratio: amount of adjusted gross income in excess of \$99,000/\$20,000. This will give you a ratio that determines the amount you cannot deduct.*

Married - joint return, but only your spouse is covered

Below \$186,000 or less	Fully Deductible
\$186,001-\$195,999.99	Entitled to prorated deduction amount - use special formula**
\$186,000 or more	No deduction permissible

**Explanation of special formula. Multiply the permissible contribution by the following ratio: amount of adjusted gross income in excess of \$186,000/\$10,000. This will give you a ratio that determines the amount you cannot deduct.*

Married Filing Separately

Below \$10,000	Entitled to prorated deduction amount - use special formula**
\$10,000 or more	No deduction permissible

**Explanation of special formula. Multiply the permissible contribution by the following ratio: amount of adjusted gross income in excess of \$0/\$10,000. This will give you a ratio that determines the amount you cannot deduct.*

*Any amount determined under this formula which is not a multiple of \$10 shall be rounded to the next lowest \$10.

However, an IRA accountholder will be able to deduct a minimum of \$200 as long as his or her AGI is not above the phase-out range (base amount plus \$10,000).

IRA Contribution Deductibility Chart for 2018

(for participants and/or spouses in
employer-sponsored retirement plans.)

Amount of Modified AGI - (Combined modified AGI if married)

Single or Head of Household

Below \$63,000 or less	Entitled to full deduction
\$63,001-\$72,999.99	Entitled to prorated deduction amount - use special formula**
\$73,000 or more	No deduction permissible

**Explanation of special formula. Multiply the permissible contribution by the following ratio: amount of adjusted gross income in excess of \$63,000/\$10,000. This will give you a ratio that determines the amount you cannot deduct.*

Married - joint return, both are covered or qualifying widower

Below \$101,000 or less	Entitled to full deduction
\$101,001 - \$120,999.99	Entitled to prorated deduction amount - use special formula**
\$121,000 or more	No deduction permissible

**Explanation of special formula. Multiply the permissible contribution by the following ratio: amount of adjusted gross income in excess of \$121,000/\$20,000. This will give you a ratio that determines the amount you cannot deduct.*

Married -

joint return, but only you are covered or qualifying widower

Below \$101,000 or less	Fully Deductible
\$101,001-\$120,999.99	Entitled to prorated deduction amount - use special formula**
\$121,000 or more	No deduction permissible

**Explanation of special formula. Multiply the permissible contribution by the following ratio: amount of adjusted gross income in excess of \$121,000/\$20,000. This will give you a ratio that determines the amount you cannot deduct.*

Married - joint return, but only your spouse is covered

Below \$189,000 or less	Fully Deductible
\$189,001-\$198,999.99	Entitled to prorated deduction amount - use special formula**
\$189,000 or more	No deduction permissible

**Explanation of special formula. Multiply the permissible contribution by the following ratio: amount of adjusted gross income in excess of \$189,000/\$10,000. This will give you a ratio that determines the amount you cannot deduct.*

Married Filing Separately

Below \$10,000	Entitled to prorated deduction amount - use special formula**
\$10,000 or more	No deduction permissible

**Explanation of special formula. Multiply the permissible contribution by the following ratio: amount of adjusted gross income in excess of \$0/\$10,000. This will give you a ratio that determines the amount you cannot deduct.*

*Any amount determined under this formula which is not a multiple of \$10 shall be rounded to the next lowest \$10.

However, an IRA accountholder will be able to deduct a minimum of \$200 as long as his or her AGI is not above the phase-out range (base amount plus \$10,000).

Roth IRA Contribution Chart for 2017

Amount of AGI and Filing Status

Single, Head of Household or Qualifying Widow(er)

Below \$118,000	Entitled to full contribution amount
\$118,000-\$132,999.99	Entitled to prorated contribution amount—use special formula*
\$133,000 or more	No contribution permissible

*Explanation of special formula. Multiply the permissible contribution by the following ratio: amount of adjusted gross income in excess of \$118,000/\$15,000. This will give you a ratio that determines the amount you cannot contribute. Round to the lowest \$10.00.

Married Filing Jointly

Below \$186,000	Entitled to full contribution amount.
\$186,000-\$195,999.99	Entitled to prorated contribution amount—use special formula.*
\$196,000 or more	No contribution permissible.

*Explanation of special formula. Multiply the permissible contribution by the following ratio: amount of adjusted gross income in excess of \$186,000/\$10,000. This will give you a ratio that determines the amount you cannot contribute. Round to the lowest \$10.00.

Married Filing Separate Returns

\$0-\$9,999.99	Entitled to prorated contribution amount—use special formula*
\$10,000 or more	No contribution permissible

*Explanation of special formula. Multiply the permissible contribution by the following ratio: amount of adjusted gross income in excess of \$0/\$10,000. This will give you a ratio that determines the amount you cannot contribute. Round to the lowest \$10.00.

Roth IRA Contribution Chart for 2018

Amount of AGI and Filing Status

Single, Head of Household or Qualifying Widow(er)

Below \$120,000	Entitled to full contribution amount
\$120,000-\$134,999.99	Entitled to prorated contribution amount—use special formula*
\$135,000 or more	No contribution permissible

*Explanation of special formula. Multiply the permissible contribution by the following ratio: amount of adjusted gross income in excess of \$120,000/\$15,000. This will give you a ratio that determines the amount you cannot contribute. Round to the lowest \$10.00.

Married Filing Jointly

Below \$189,000	Entitled to full contribution amount.
\$189,000-\$198,999.99	Entitled to prorated contribution amount—use special formula.*
\$199,000 or more	No contribution permissible.

*Explanation of special formula. Multiply the permissible contribution by the following ratio: amount of adjusted gross income in excess of \$189,000/\$10,000. This will give you a ratio that determines the amount you cannot contribute. Round to the lowest \$10.00.

Married Filing Separate Returns

\$0-\$9,999.99	Entitled to prorated contribution amount—use special formula*
\$10,000 or more	No contribution permissible

*Explanation of special formula. Multiply the permissible contribution by the following ratio: amount of adjusted gross income in excess of \$0/\$10,000. This will give you a ratio that determines the amount you cannot contribute. Round to the lowest \$10.00.

SEP and SIMPLE Limits

	2015	2016	2017	2018
Maximum SEP Contribution	\$53,000	\$53,000	\$54,000	\$55,000
Maximum SIMPLE Deferral (Under age 50)	\$12,500	\$12,500	\$12,500	\$12,500
Maximum SIMPLE Deferral (Age 50 & older)	\$15,500	\$15,500	\$15,500	\$15,500

Saver's Credit Limits for 2017

The applicable percentage for 2017 is based on modified adjusted gross income (AGI) and your tax-filing status, and is determined by the following table:

<u>Joint Return</u>		
<u>AGI Over</u>	<u>AGI Not Over</u>	<u>Percentage</u>
\$0	\$37,000	50%
\$37,000	\$40,000	20%
\$40,000	\$62,000	10%
\$62,500	N/A	0%

<u>Head of Household</u>		
<u>AGI Over</u>	<u>AGI Not Over</u>	<u>Percentage</u>
\$0	\$27,750	50%
\$27,750	\$30,000	20%
\$30,000	\$46,500	10%
\$46,500	N/A	0%

<u>Other Filers Including Married, Filing Separately</u>		
<u>AGI Over</u>	<u>AGI Not Over</u>	<u>Percentage</u>
\$0	\$18,500	50%
\$18,500	\$20,000	20%
\$20,000	\$31,000	10%
\$31,000	N/A	0%

Saver's Credit Limits for 2018

The applicable percentage for 2018 is based on modified adjusted gross income (AGI) and your tax-filing status, and is determined by the following table:

<u>Joint Return</u>		
<u>AGI Over</u>	<u>AGI Not Over</u>	<u>Percentage</u>
\$0	\$38,000	50%
\$38,000	\$41,000	20%
\$41,000	\$63,000	10%
\$63,000	N/A	0%

<u>Head of Household</u>		
<u>AGI Over</u>	<u>AGI Not Over</u>	<u>Percentage</u>
\$0	\$28,500	50%
\$28,500	\$30,750	20%
\$30,750	\$47,250	10%
\$47,250	N/A	0%

<u>Other Filers Including Married, Filing Separately</u>		
<u>AGI Over</u>	<u>AGI Not Over</u>	<u>Percentage</u>
\$0	\$19,000	50%
\$19,000	\$20,500	20%
\$20,500	\$31,500	10%
\$31,500	N/A	0%

January 31, 2018 Deadline

January 31, 2018 is a Wednesday and so it is the deadline for furnishing three required IRA forms. An IRA custodian/trustee must furnish (i.e. mail, email, fax or personally deliver) the following to its IRA account holders and its inheriting IRA beneficiaries. If this deadline would be missed, the IRS may assess the fines discussed within the article.

2017 Form 1099-R

Any person (accountholder or beneficiary) who received a distribution(s) from an IRA totaling more than \$10 for the year must be furnished a 2017 Form 1099-R.

This Form 1099-R must be prepared on a per plan agreement basis. That is, if a person would have two traditional IRAs and one Roth IRA, then he or she would need to be furnished three Form 1099-Rs. In addition, there must be a Form 1099-R prepared for each applicable distribution code. For example, if a person has traditional IRA and one distribution required the use of Code "1", one the use of code "3" and one the use of Code "7", then three Form 1099-Rs must be furnished.

When an individual receives more than one copy of the Form 1099-R, then it is mandatory for the IRA custodian/trustee to insert a unique number in the account number box located in the lower left hand corner of the form. Even though there will be times when furnishing this account number is not required, the IRS encourages IRA custodians/trustees to voluntarily furnish it. This account number allows the IRS to process the submissions of any corrected forms.

If the IRA custodian would fail to timely furnish a 2017 Form 1099-R or furnishes one prepared with errors, then the IRS may assess a fine of \$250 per form unless certain exceptions would apply.

Fair Market Value (FMV) statements

An IRA custodian must furnish a FMV statement to each IRA accountholder and each inheriting beneficiary having a balance as of December 31, 2017, to each IRA accountholder who died during 2017, and to any IRA accountholder who made a reportable contribution for 2017 during 2017. The deadline to furnish the FMV statement is January 31, 2018.

This FMV statement must be prepared on a per plan agreement basis. That is, if a person would have two tra-

ditional IRAs and one Roth IRA, then he or she would need to be furnished three FMV statements these could be combined as long as there were three separate sections.

There must be a sentence on the statement informing the recipient that the FMV information (Balance as of December 31) will be furnished to the IRS when the 2017 Form 5498 will be filed with the IRS in May of 2018.

The IRA Custodian/trustee may, but is not required, to furnish contribution and earnings (including interest) information on the FMV statement for traditional IRAs, SEP-IRAs and Roth IRAs. However, a special rule applies for SIMPLE-IRAs. In the case of a SIMPLE-IRA, the IRA custodian must furnish a detailed statement listing all contributions (dates, and amounts) made by the employer on behalf of the SIMPLE-IRA accountholders.

Why is it required to furnish the FMV statement? A taxpayer who has basis within a traditional IRA, SEP-IRA or SIMPLE-IRA needs the FMV for purposes of completing the Form 8606 to determine the taxable portion of a distribution and the nontaxable portion.

The IRS may assess a penalty of \$50 for each failure to furnish the FMV statement for traditional IRAs, SEP-IRAs, and Roth IRAs. The penalty is \$100 PER DAY for failing to furnish the FMV statement for a SIMPLE-IRA.

RMD Notice for 2018.

An IRA custodian/trustee must furnish each traditional/SEP/SIMPLE-IRA accountholder who was born on or before June 30, 1938 and who has a balance as of December 31, 2017 with an RMD Notice. This RMD notice must be furnished to ALL such accountholders and not only to those individuals who attain age 70½ in 2018. The RMD notice is not required to be furnished to an individual who only attains age 70 in 2018 (i.e. born between July 1, 1938 and December 31, 2018).

There is no requirement and no need to furnish an RMD Notice to a Roth IRA accountholder since the RMD rules do not apply to a Roth IRA accountholder while he or she is alive.

Three items must be set forth in the required RMD Notice.

First, the deadline applying to the IRA accountholder must be set forth. This will be December 31, 2018, for

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an individual who is older than age 70½ in 2018 or April 1, 2018, if the individual does attain age 70½ in 2018. Second, there must be a sentence informing the individual that the IRS will be told on the 2017 Form 5498 that he or she is subject to the RMD rules for 2018. Third, the individual must be informed of his or her RMD amount for 2018 or that such amount has not been calculated, but will be if the individual contacts the IRA custodian/trustee and requests that the calculation be made.

Although the RMD laws apply to an inheriting IRA beneficiary of all four types of IRAs, current IRS rules do not require the IRA custodian/trustee to furnish an RMD notice. CWF strongly suggests you do so. The model IRS IRA forms do require that there be an RMD distribution made to an inheriting beneficiary. A beneficiary who fails to take an RMD will owe the 50% tax and may well argue that the custodian/trustee should pay some of this tax for its failure to notify or payout a RMD.

The IRS may assess a fine of \$50.00 for each time an IRA custodian/trustee would fail to furnish a complying RMD notice.

In summary, an IRA custodian/trustee must furnish the 2017 Form 1099-Rs, 2017 FMV statements, and 2018 RMD Notices by January 31, 2018 or it will be subject to being fined by the IRS.

12/31/17 RMD Deadline for 5-Year Rule if Death Occurred in 2012

This article is a reminder to an IRA custodian to make sure that any nonspouse beneficiary using the 5-year RMD rule must close out an inherited IRA by December 31, 2017, if the IRA accountholder died in 2012. If not closed, the beneficiary will owe the 50% tax on the balance as of December 31, 2017.

The tax laws require that the 5 year rule applies if the beneficiary is not an individual and the IRA holder has died prior to his or her required beginning date. For example, the IRA owner named his or her estate as the IRA beneficiary for his or her church. This requires the owner's entire IRA must be distributed to the beneficiary by the end of the fifth year following the year of the IRA owner's death. No distribution is required prior to that fifth year. There is one exception to this rule. The 5 year rule does not automatically apply if the beneficiary is a qualified trust.

Is it Always Necessary to set-up an Inherited IRA?

No. The most conservative administrative approach is to always set up an inherited IRA, but there are times or situations where it is unnecessary to do so. The IRA custodian wants to understand when and why it is unnecessary.

Keep in mind that the IRA accountholder's IRA does become an "inherited IRA" when he or she dies. It does so as a matter of law. What is being discussed is whether or not the IRA custodian needs to set up an inherited IRA on its computer system or have the beneficiary sign an inherited IRA plan agreement form. In some situations it is unnecessary.

Situation #1. A married couple both have their own IRAs with the same IRA custodian. One of the spouses dies and in the same calendar year, the surviving spouse elects to treat the deceased spouse's IRA as his or her own IRA. The IRA funds are transferred (nonreportable) from the decedent's IRA to the IRA of the surviving spouse.

There is no need to set up an inherited IRA for the surviving spouse. To do so, just creates additional work for IRA staff.

If the surviving spouse does not elect to treat the decedent's IRA as his or her own by December 31st, then the inherited IRA will need to be established so the proper 5498 reporting may be made.

Situation #2. The inheriting IRA beneficiary totally withdraws his or her share of the inherited IRA in the same calendar year the IRA accountholder died. The IRA custodian, of course, will need to prepare a Form 1099-R to report the distribution to the IRS and the individual. The IRA custodian will need to decide if it is worth it to set up the inherited IRA in order to get the Form 1099-R generated or if there are other ways to ensure that 1099-R will be prepared as required. Some institutions prepare these manually.

Moving Pension Funds Or Other 401(K) Funds To a 401(k) Plan Rather Than To an IRA: Direct Transfer vs. Direct Rollover

Many of the readers of this newsletter are IRA representatives. There are some readers who work with 401(k) plans or other pension plans in addition to IRAs.

When a person changes jobs, she or he must decide what will be done with their 401(k) funds. Options are: leave them in the former employer's 401(k) plan, directly roll them over into an IRA, directly roll them over into the new employer's 401(k) plan or transfer them into the new employer's 401(k) plan.

This article discusses the later option. The former employer transfers Jane Doe's 401(k) balance into the new employer's 401(k) plan. As with any non-reportable transfer, the two employers and the individual may adopt this transfer approach because there is less IRS reporting to do. The sponsor of the terminating plan is not required to prepare a Form 1099-R for Jane Doe and Jane Doe is not required to report this transaction on her Form 1040.

Set forth below is CWF's email response to a trust company's inquiry. A trust company sponsored both a defined benefit pension plan and a 401(k) profit sharing plan. The trust company was terminating its defined benefit plan. The basic question was, "due to the plan's termination was there a requirement to prepare/file a Form 1099-R for each participant?"

The answer is "no" if the funds are transferred, but "yes" if the funds are directly rolled over.

You called to discuss a pension plan's duty to prepare the Form 1099-R when funds within the defined benefit pension plan are moved to a 401(k) plan. An employer has decided to terminate its defined benefit pension plan. This employer also sponsors a 401(k) plan. Some employees wish to move their DB funds into the 401(k) plan.

Must the DB administrator in all cases prepare a Form 1099-R for an individual to report the distribution from the DB plan?

The answer is "no" for the following rationale.

If there is a distribution or a deemed distribution from the DB plan which is directly rolled over to an IRA or a 401(k) plan, or if the individual is paid cash (80%) with

20% withholding of federal income tax, then this distribution must be reported on the Form 1099-R as prepared by the defined benefit plan. With a direct rollover, there is a deemed distribution.

In contrast, when the DB trustee "transfers" assets from a participant's DB account to the 401(k) trustee for his or her 401(k) account, such a transfer is not to be reported on the Form 1099-R. See the highlighted portion from page 6 of the IRS instructions for Forms 1099-R and Form 5498.

So, the DB trustee and a participant are able to structure moving funds from the DB plan to the 401(k) plan either as a non-reportable transfer or as a reportable direct rollover.

As with much IRS guidance, your situation is one where the IRS could improve its guidance by making it easier to understand. The transfer rules are an administrative creation of the IRS. In a transfer there has been no taxable event (or reportable event) since the individual has not had access or deemed access to the assets. The assets move from one plan trustee to the other plan trustee.

After the recession of 1981 the federal tax law was changed to mandate 20% be withheld from any distribution which was eligible to be directly rolled over, but was not. The law was changed to mandate 20% withholding as too many people withdrew their pension accounts and then had a hard time paying their tax liability.

An express law was also written requiring the plan trustee to furnish a section 402(f) notice to a participant explaining his or her distributions rights and the tax consequences of making a direct rollover and the consequences of not making a direct rollover. That is, taxes must be paid if the funds are not rolled over.

The IRS has furnished suggested language for the section 402(f) notice. I don't believe the IRS discusses the topic of transfers in this section 402(f) notice. My educated guess is, the IRS' omission is intentional. The IRS favors the reporting of this transaction and so the IRS favors the direct rollover approach versus the transfer approach.

This does not mean one cannot use the transfer approach. The transfer approach is much simpler in the sense the DB plan would not prepare the 1099-R forms

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and the individuals do not need to explain on their tax returns. As we briefly discussed the Form 5500 for the DB plan will report these transfer distributions in the aggregate and the 401(k) plan will report the transfer contributions in the aggregate.

No Direct Rollovers From One to Another IRA

An IRA accountholder may move funds from one IRA to another IRA by two different methods. The IRA funds may be transferred from one IRA plan to a second IRA plan. Or, the individual may take a distribution from one IRA and then make a rollover contribution into a second (or the same) IRA. Certain rules must be met. Two basic rules are: only one rollover every 12 months and the rollover must be completed within 60 days of the distribution.

The Internal Revenue Code and the Form 1099-R instructions do not authorize an accountholder to directly rollover funds from one IRA to another IRA.

Historical Background. In 1986 the Internal Revenue Code was amended to add Code section 401(a)(31). In the early 1980's there was also a severe recession. Many individuals lost their jobs. Many withdrew their retirement funds via a lump sum distribution. At the time, the law allowed pension plan participants to waive federal income tax withholding just as is still the rule for IRA distributions. Many of these individuals had a hard time paying the income taxes they owed with respect to these pension distributions and the IRS presumably had to expend considerable resources to collect these taxes. The IRS convinced Congress that the tax laws for pension distributions needed to be changed. The law was changed: if a person was eligible to roll over his or her pension distribution, but did not do so, then the plan administrator must withhold 20% of such distribution. The individual could avoid the 20% withholding by directly rolling over his or her pension distribution to an IRA or other qualifying plan.

Code section 401(a)(31) defines a direct rollover as the direct transfer of plan funds from a qualified plan, section 403(b) plan or certain governmental 457 plans to an eligible plan. That is, the direct transfer must come from an employer plan. An IRA is not listed as being a

plan from which a direct rollover distribution is made.

In order to qualify as a direct rollover, the plan administrator must issue the payment to an IRA custodian or other plan administrator. The check can't be issued to the participant.

The IRS gives guidance as to how to report on the Form 1099-R a direct rollover distribution. In general, Box 1 is completed with the gross amount of the distribution, and Box 2a (taxable amount) is completed with a 0.00. The paying plan administrator knows it sent the check to the other plan and therefore it is not taxable.

Some tax preparers believe that the direct rollover rules do apply to some IRA distributions and they try to argue that Box 2a should be completed with a 0.00. They are wrong.

In summary, the direct rollover rules do not apply to IRA distributions. An individual cannot directly rollover funds from one IRA to another IRA. If an IRA custodian chooses to accommodate an IRA accountholder by agreeing to issue the check to another IRA custodian, but there is no transfer form, the paying IRA custodian must report the distribution on the 1099-R Form as it would any other standard IRA distribution. The reason code would either be a "1" or a "7" depending on the age of recipient. We would suggest an IRA custodian inform its IRA accountholders that they may either do a transfer or take a distribution and then do a rollover. Do not confuse matters by stating or indicating that you will directly rollover these funds to another IRA custodian. Do not use or accept forms from other IRA custodians indicating that IRA funds are being directly rolled over to an IRA.

It Is Mandatory to Furnish FMV IRA Statements by January 31, 2018

This article is being written since it appears that some financial institutions do not furnish an IRA FMV statement by January 31, 2018. They do furnish the 1099-R forms and RMD notices, but not the FMV statements. These institutions have come to believe that it is no longer necessary to furnish a separate FMV statement in January because this information is furnished when the 2017 Form 5498 is furnished by May 31, 2018. Some institutions believe this because that is what their large data processor is telling them.

Both the institution and the data processor may learn an IRS reporting lesson the hard way. The IRS may assess a fine of \$50 per IRA for each FMV statement furnished late or not at all. For example, if an institution failed to furnish its 900 IRA accountholders the FMV statement by January 31, 2018, then the IRS may assess a fine of \$45,000.

The IRS will look to collect the penalty from your institution and you will need to find out if the data processor will agree to pay some or all of the penalty. Hopefully, individuals and tax preparers do not report an institution to the IRS for failing to furnish the FMV statement by January 31, 2018.

The IRS instructions for completing the 2017 Form 1099-R and Form 5498 also set forth the rules for furnishing the 2017 FMV statements and the 2017 RMD notices. See the highlighted portions of pages 20 and 21. The rule is, "By January 31, 2018, you (the custodian) must provide participants with a statement of the December 31, 2017, value of the participant's account, and RMD, if applicable."

There is a separate and distinct rule for furnishing the 2017 Form 5498. You (the custodian) must furnish the Form 5498 to the participant and file a copy with the IRS by May 31, 2018.

The fact that the Form 5498 is furnished between April 16 and May 31st does not relieve the IRA custodian of furnishing the FMV statement by January 31, 2018.

Why must the IRA custodian furnish the statement by January 31, 2018?

The IRS has a good tax reason. The problem is, the IRS has never furnished an easy to understand explanation.

If an individual must file Form 8606 (Nondeductible IRAs), he or she (or the accountant) must use the FMV statement(s) to prepare Section I of the Form 8606. Remember, that a person who has multiple IRAs, including traditional, SEP and SIMPLE, must aggregate the information from all such IRAs for various contribution and distribution purposes. It does not matter that most IRA accountholders have never made a nondeductible contribution. Such information may also be important for certain Roth IRA distributions.

A financial institution must furnish all required IRS reporting forms. Sometimes a data processor may think it is doing the financial institution a favor and it is saving the institution money by not preparing a certain form or statement. That will be the case only if the data processor understands the applicable IRS rules for IRAs. The financial institution wants to make sure that when a data processor informs you that furnishing a form or statement is no longer required that the data processor is correct. Sometimes the data processor is incorrect.

IRS Penalties For Forms Other than Form 1099-R

Forms 1099-Q, 1099-QA, 1099-SA, 5498, 5498-ESA, 5498-QA, and 5498-SA (Section 6693)

The penalties under sections 6721 and 6722 do not apply to:

<u>Forms</u>	<u>Filed Under Code Section</u>
1099-SA and 5498-SA	220(h) and 223(h)
5498	408(i) and 408(l)
1099-Q	529(d) and 530(h)
1099-QA and 5498-QA	529A
5498-ESA	530(h)

The penalty for failure to timely file Forms 1099-SA, 5498-SA, 5498, 1099-Q, 1099-QA, 5498-QA, or 5498-ESA is \$50 per return with no maximum, unless the failure is due to reasonable cause. See section 6693.