THE Pension Digest

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ALSO IN THIS ISSUE –

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

Major Tax Bill Signed Into Law by President Trump On December 22, 2017

President Trump signed a major tax bill into law on December 22, 2017. The law changes generally go into effect on January 1, 2018.

There are three changes impacting IRAs - two are direct and one is indirect.

In 2018 and subsequent years an IRA owner who makes a Roth IRA conversion contribution from a traditional IRA, SEP IRA or SIMPLE IRA is no longer eligible to reverse the conversion by recharacterizing it. The practical effect is - the individual will have to include the distribution in their taxable income and pay the associated tax liability. Conversions made in 2017 may still be recharacterized in 2018 as long as the standard conversion rules are met. Annual contributions to either a traditional IRA or a Roth IRA for 2018 or later years may still be recharacterized.

It is also possible that a person may convert non-Designated Roth funds within a 401(k) plan to a Roth IRA. This is a type of Roth IRA conversion. Your institution as a Roth IRA custodian might receive such contributions. The tax bill did not expressly amend the statutory pension plan provisions authorizing such conversions or the authority for recharacterizing such conversions. Most commentators believe Congressional intent was that no ROTH IRA conversions once made may be recharacterized. If this situation arises at your institution, further research will need to be done.

As discussed in the September newsletter special tax relief is granted to IRA owners and pension plan participants who were victims of hurricanes Harvey, Irma, or Maria. The new tax bill expands the tax relief. Rather than applying only to the victims of the three hurricanes, it applies to victims of any federally declared disaster occurring in 2016 or 2017.

The indirect law change impacting IRAs has to do with a change (i.e. expansion) in the rollover rules.

There is a new rollover rule for certain 401(k) participants. Some 401(k) plans are written to allow participants to instruct to have loan made to themselves from their 401(k) account.

For example, Jane Doe has $40,000 in the 401(k) and she borrows $10,000. She quits her job and is to be distributed her 401(k) balance. She directly rolls over the $30,000 in her 401(k) account. She needs to repay the $10,000 loan. Under the old law she was considered to have been distributed the $10,000. She had 60 days to roll it over. If she couldn't, she had to include the $10,000 in her income.

The new law allows her to repay the $10,000 by her tax filing deadline rather than the standard 60 day period.

Roth IRA Conversions - Understanding the Rules And Procedures And Various IRA Administrative Approaches

Our federal income tax laws permit an individual to make either an annual Roth IRA contribution and/or a Roth IRA conversion contribution. Some people can make both and some people can only make the Roth IRA conversion contribution as they are ineligible to make the annual Roth IRA contribution as their modified adjusted gross income exceeds the eligibility limits.

The national economy is improving and more traditional IRA owners are starting to make Roth IRA conversion contributions. They understand the economic benefits to be realized by having funds within a Roth IRA. The ability to earn tax free income is to be valued greatly.

Roth IRAs have existed since 1998. From 1998 to 2009 only certain IRA owners were eligible to make a Roth IRA conversion contribution. That is, certain individuals were ineligible to a make a Roth IRA conversion contribution. An IRA owner was ineligible if his or her MAGI was more than $100,000 and, if married, he or she filed a separate income tax return. A 2005 tax law repealed these eligibility rules, but such repeal did not go into effect until 2010.

In 2018 every person who has funds in a traditional IRA, SEP-IRA or SIMPLE IRA is eligible to make a Roth IRA conversion contribution.

Financial institutions serving as the traditional IRA custodian and/or the Roth IRA custodian must understand their roles and their duties.

Individuals want to understand what they need to do to make and report their Roth IRA conversion contributions. They also want to understand how making their Roth IRA conversion contributions will help them achieve their financial planning goals.

What is a Roth IRA conversion contribution?

The IRA owner withdraws (or is deemed to have withdrawn) funds from a traditional IRA, SEP IRA or SIMPLE IRA and then re-contributes some or all of such funds into a Roth IRA. The IRA owner is generally required to include the amount withdrawn in his or her taxable income for that year. As will be discussed later, some individuals will be able to make a Roth IRA conversion contribution without having to pay any income tax. There is an exception if the IRA owner has only basis in his or her traditional IRAs and he or she has no funds in a SEP-IRA or SIMPLE IRA.

Four Conversion Methods

There are four (4) ways for a Roth IRA conversion contribution to be made. It is assumed John Doe converts $10,000 on December 17, 2017.

Method #1. John Doe withdraws $10,000 from his traditional IRA with traditional IRA. custodian #1 and then rolls it over into a Roth IRA with the same financial institution serving as the Roth IRA custodian.

Method #2. John Doe withdraws $10,000 from his traditional IRA with traditional IRA custodian #1 and then rolls it over into a Roth IRA with a different financial institution serving as the Roth IRA custodian.

Method #3. John Doe instructs his traditional IRA custodian that he wishes to withdraw $10,000 from his traditional IRA and have it added to his Roth IRA with the same financial institution as a Roth IRA conversion contribution.

Method #4. John Doe instructs his traditional IRA custodian that he wishes to withdraw $10,000 from his traditional IRA and have it sent to another financial institution serving the custodian of his Roth IRA and have it added to his Roth IRA with that other financial institution as a Roth IRA conversion contribution.

Understanding the Duties of the traditional IRA custodian and the Roth IRA custodian.

Preparing the Form 1099-R

Regardless of which of the 4 methods is used, the IRA custodian of the traditional IRA, SEP IRA or SIMPLE IRA must prepare a Form 1099-R for John Doe to report the distribution or the deemed distribution.

If John Doe is under age 59 1/2 at the time of the conversion withdrawal, the IRA custodian is to prepare his 2017 Form 1099-R as follows:

Continued on page 3

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CORRECTED (if checked)

PAYER'S name, street address, city or town, state or province, country, and ZIP or foreign postal code John Doe	1 Gross distribution 10,000.00 2a Taxable amount 10,000.00	OMB No. 1545-0119 2017 Form 1099-R	Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.
	2b Taxable amount not determined ☐	Total distribution ☐	Copy B Report this income on your federal tax return. If this form shows federal income tax withheld in box 4, attach this copy to your return.
PAYER'S federal identification number / RECIPIENT'S identification number	3 Capital gain (included in box 2a) $	4 Federal income tax withheld $	
RECIPIENT'S name	5 Employee contributions /Designated Roth contributions or insurance premiums $	6 Net unrealized appreciation in employer's securities $	
Street address (including apt. no.)	7 Distribution code(s) 2 / IRA/SEP/SIMPLE x	8 Other $ %	This information is being furnished to the Internal Revenue Service.
City or town, state or province, country, and ZIP or foreign postal code	9a Your percentage of total distribution %	9b Total employee contributions $	
10 Amount allocable to IRR within 5 years $ / 11 1st year of desig. Roth contrib. / FATCA filing requirement ☐	12 State tax withheld $ $	13 State/Payer's state no.	14 State distribution $ $
Account number (see instructions)	15 Local tax withheld $ $	16 Name of locality	17 Local distribution $ $

Form 1099-R www.irs.gov/form1099r Department of the Treasury - Internal Revenue Service

If John Doe is age 59 1/2 or older at the time of the conversion withdrawal, the IRA custodian is to prepare his 2017 Form 1099-R as follows:

CORRECTED (if checked)

PAYER'S name, street address, city or town, state or province, country, and ZIP or foreign postal code John Doe	1 Gross distribution 10,000.00 2a Taxable amount 10,000.00	OMB No. 1545-0119 2017 Form 1099-R	Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.
	2b Taxable amount not determined ☐	Total distribution ☐	Copy B Report this income on your federal tax return. If this form shows federal income tax withheld in box 4, attach this copy to your return.
PAYER'S federal identification number / RECIPIENT'S identification number	3 Capital gain (included in box 2a) $	4 Federal income tax withheld $	
RECIPIENT'S name	5 Employee contributions /Designated Roth contributions or insurance premiums $	6 Net unrealized appreciation in employer's securities $	
Street address (including apt. no.)	7 Distribution code(s) 7 / IRA/SEP/SIMPLE x	8 Other $ %	This information is being furnished to the Internal Revenue Service.
City or town, state or province, country, and ZIP or foreign postal code	9a Your percentage of total distribution %	9b Total employee contributions $	
10 Amount allocable to IRR within 5 years $ / 11 1st year of desig. Roth contrib. / FATCA filing requirement ☐	12 State tax withheld $ $	13 State/Payer's state no.	14 State distribution $ $
Account number (see instructions)	15 Local tax withheld $ $	16 Name of locality	17 Local distribution $ $

Form 1099-R www.irs.gov/form1099r Department of the Treasury - Internal Revenue Service

Note that reason Code 7 is to be inserted in box 7 when a person who is age 59 1/2 or older makes a Roth IRA conversion.

Preparing the Form 5498

Regardless of which of the 4 conversion methods is used, the Roth IRA custodian is required to prepare the 2017 Form 5498 to show that John Doe made a conversion contribution of $10,000. It is to be reported in box 3 (Conversion). The Roth IRA custodian is to prepare his 2017 Form 5498 as follows:

CORRECTED (if checked)

TRUSTEE'S or ISSUER'S name, street address, city or town, state or province, country, and ZIP or foreign postal code John Doe	1 IRA contributions (other than amounts in boxes 2–4, 8–10, 13a, and 14a) $ 2 Rollover contributions $	OMB No. 1545-0747 2017 Form 5498	IRA Contribution Information
TRUSTEE'S or ISSUER'S federal identification no. / PARTICIPANT'S social security number	3 Roth IRA conversion 10,000.00	4 Recharacterized contributions $	Copy B
	5 Fair market value of account to be completed	6 Life insurance cost included in box 1 $	For Participant
PARTICIPANT'S name	7 IRA ☐ SEP ☐ SIMPLE ☐ Roth IRA ☐ 8 SEP contributions $	9 SIMPLE contributions $	This information is being furnished to the Internal Revenue Service.
Street address (including apt. no.)	10 Roth IRA contributions $	11 If checked, required minimum distribution for 2018 ☐	
	12a RMD date	12b RMD amount $	
City or town, state or province, country, and ZIP or foreign postal code	13a Postponed contribution $	13b Year / 13c Code	
	14a Repayments $	14b Code	
Account number (see instructions)	15a FMV of certain specified assets $	15b Code(s)	

Form 5498 (keep for your records) www.irs.gov/form5498 Department of the Treasury - Internal Revenue Service

Understanding the Duties of the Individual Taxpayer.

He must report on his 2017 tax return his $10,000 distribution. In general, he will include the $10,000 in his taxable income and pay tax at whatever marginal tax rate applies to him. A conversion may result in a person being moved into a higher marginal income tax bracket.

That individual must complete Part II of the 2017 Form 8606 to show he made a conversion contribution of $10,000. He is not required to complete Form 5329 to indicate that he does not owe the 10% additional tax because his Form 1099-R shows the reason Code 2 which means he does not owe the 10% additional tax.

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Form **8606**

Department of the Treasury
Internal Revenue Service (99)

Nondeductible IRAs

▶ Go to *www.irs.gov/Form8606* for instructions and the latest information.

▶ Attach to 2017 Form 1040, 2017 Form 1040A, or 2017 Form 1040NR.

OMB No. 1545-0074

2017

Attachment Sequence No. **48**

Name. If married, file a separate form for each spouse required to file 2017 Form 8606. See instructions. | **Your social security number**

Form 8606 (2017) Page **2**

Part II **2017 Conversions From Traditional, SEP, or SIMPLE IRAs to Roth IRAs**

Complete this part if you converted part or all of your traditional, SEP, and SIMPLE IRAs to a Roth IRA in 2017 (excluding any portion you recharacterized).

16	If you completed Part I, enter the amount from line 8. Otherwise, enter the net amount you converted from traditional, SEP, and SIMPLE IRAs to Roth IRAs in 2017. **Do not** include amounts you later recharacterized back to traditional, SEP, or SIMPLE IRAs in 2017 or 2018 (see instructions)	16	
17	If you completed Part I, enter the amount from line 11. Otherwise, enter your basis in the amount on line 16 (see instructions)	17	
18	**Taxable amount.** Subtract line 17 from line 16. If more than zero, also include this amount on 2017 Form 1040, line 15b; 2017 Form 1040A, line 11b; or 2017 Form 1040NR, line 16b	18	

Part III **Distributions From Roth IRAs**

Basic Planning Considerations for Roth IRA Conversion Contributions

1. As of January 1, 2018, a person no longer has the right or ability to un-do a Roth IRA conversion contribution as was the law for 1998-2017. A 2018 conversion contribution is irrevocable.

2. Partial conversions are permitted. There is no minimum amount or maximum amount which can be converted. For example, a person who has $40,000 in her traditional IRA could choose to convert $8,000 per year for 5 years.

3. A person is ineligible to convert any amount which is a required distribution.

4. If the individual has no basis within his or her IRAs, the individual is required to include such amount in income for that year and pay tax according to whatever marginal tax rate applies.

There have been two times when the law permitted the individual to not have to pay tax on 100% of the distribution in the year of withdrawal. Once the amount could be spread over 4 years and the other time over two years. It may be possible in the future that again the individual would be able to spread the distribution over a number of years.

5. The once per year rollover rule does not apply to conversions. A person may make multiple conversion contributions during the same year. There is no maximum limit.

6. A person who has inherited their deceased spouse's IRA may convert such inherited IRA to the extent there is no required distribution.

7. A person who inherits an IRA from someone other than their spouse is ineligible to convert such IRA.

Advanced Planning Considerations for Roth IRA Conversion Contributions

1. There are some individuals who are ineligible to make an annual Roth IRA contribution because their MAGI exceeds the eligibility limits. If this person does not have any funds within a traditional IRA, SEP IRA or SIMPLE IRA, then such an individual should make a non-deductible contribution to his or her traditional IRA and then convert it immediately to his or her Roth IRA. The effect of this - a quasi-annual Roth IRA contribution. Many individuals of the Democratic Party persuasion feel the current law should not permit such contributions, but it is very unlikely the Republicans in Congress will change this law. Those individuals with higher incomes should be taking advantage of the current law by making non-deductible contributions and then converting them.

2. There are some individuals who are ineligible to make an annual Roth IRA contribution because their MAGI exceeds the eligibility limits, but they have taxable funds within a traditional IRA, SEP IRA, or SIMPLE IRA and they think they don't want to complicate their lives by making a non-deductible contribution. Many with this attitude are being short-sighted. Any non-deductible contribution one day may be converted to a Roth IRA with no income tax paid on the nondeductible portion.

Illustration #1. From 2010-2016 Jane Doe's employer has contributed $80,000 to her SEP IRA. It has realized earnings of $15,000. The current FMV is $95,000. Jane's tax advisor has advised to make a non-deducible contribution of $5,000 which would change the FMV to $100,000. If she would withdraw $5,000 to convert it, she would be required to include in income the amount of $4,750 (95% x $5,000) and she would exclude $250. She is unable to convert only her non-deductible amount of $5,000.

Illustration #2. From 2010-2016 Jane Doe's employer has contributed $80,000 to her SEP IRA. It has realized earnings of $15,000. The current FMV is $95,000. Jane's tax advisor advises her to contribute over the next 9 years $5,000 per year or $45,000.

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The $95,000 increases due to earnings to be $165,000. The $50,000 increases due to earnings to be $85,000.

The total IRS balance is $250,000 of which 80% is taxable ($200,000) and 20% is not ($50,000).

If she would withdraw $20,000 to convert it, the pro-rata taxation rule applies. The majority of the $20,000 will be taxable. She would be required to include in income the amount of $16,000 (80% x $20,000) and she would exclude $4,000.

Illustration #3. We now assume Jane is a participant in her new employer's 401(k) plan. This plan permits her to rollover her taxable IRA funds of $200,000 into the 401(k) plan. If she does so, then the only funds remaining in the traditional IRA are now the $50,000 of nondeductible contributions. She can convert this amount and she owes no income tax as the entire $50,000 being converted is her basis.

The point is - an individual should make non-deductible even though the person may not currently convert just the non-taxable portion but in the future this opportunity may very well be available because of the rollover rules.

Why make a Roth IRA conversion?

The answer is - all future earnings within the Roth IRA will be tax free if certain rules are met whereas funds distributed from a traditional are 100% taxable, except any withdrawn basis is not taxable as one is only withdrawing their after-tax contributions.

The income earned by the funds within a Roth IRA will be tax free to you or your beneficiaries when withdrawn as a qualified distribution. The income earned within your traditional IRA is generally taxable when withdrawn.

Example: You have $10,000 in your traditional IRA as of January 2017. You can certainly leave the funds within your traditional IRA and allow them to grow. Assume this $10,000 grows in value to $50,000 over the next 18 years.

The $40,000 of income will be taxable whenever it is withdrawn from a traditional IRA. However, if you had converted or moved this $10,000 to a Roth IRA, the $40,000 of income will never be taxed if the funds are withdrawn as a qualified distribution.

No matter how great your income or how wealthy you are, it will be tax free if the distribution from the Roth IRA is a qualified distribution.

As the economy improves and as more people conclude they will benefit from making a Roth IRA conversion contribution, more and more traditional IRA owners will do so. Some customers will even start making non-deducible traditional IRA contributions which they will choose to convert years from now. Such tax pre-planning can be very beneficial.

E-mail Guidance - HSA Owner Dies

I have a question regarding how to distribute funds from an HSA.

I have had an HSA accountholder die & her sister is the sole beneficiary. Typically, we distribute funds to an inherited account within a few days following the date of death, but the HSA manual says that when the beneficiary is not a surviving spouse, the HSA ceases to be an HSA upon death. Does this mean I shouldn't open an Inherited HSA for the beneficiary?

It also says that these funds can be distributed to an already existing account. Does this mean to the decedent's existing checking or savings account?

I've also read that the beneficiary can use these funds to pay any qualified medical expenses for the decedent 1 year following the date of death.

As you might have guessed by now, I am a little more than confused on how to proceed. Could you please advise?

CWF's Guidance.

Computer software for HSAs may not be written as well as it should be.

Federal tax law requires the HSA custodian to prepare a Form 1099-SA to report an distribution to an HSA owner or to report a distribution to an inheriting beneficiary.

There is no need to set up an inherited HSA for a beneficiary as long as the HSA custodian is able to prepare a Form 1099-SA for the beneficiary. Some HSA custodians might choose to prepare the Form 1099-SA manually. However, some HSA custodians will only have the ability to have the computer generate the Form 1099-SA for the beneficiary if an inherited HSA is established.

Unless a spouse is the HSA beneficiary, the HSA ceases to exist when the HSA owner dies and under the tax rules there is a deemed distribution to a non-spouse of this amount.

For example, Jane's HSA had a fair market value of

E-mail Guidance
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$20,400 on February 17, 2017, when she died. Her sister Sue is her HSA beneficiary. It is assumed the HSA has a balance as of December 15, 2017 of $20,600 and a balance of $20,750 as of May 10, 2018.

The tax rules provide that Sue must include the $20,400 in her 2017 income and pay tax on it at her applicable marginal income tax rate. There is an exception. She is allowed to reduce her taxable amount (i.e. $20,400) to the extent Sue uses some or all of $20,400 to pay any of Jane's qualified medical expenses as long as such expenses are paid within 1 year after Jane's death.

Note that Sue must include the $20,400 in her 2017 income. It does not matter when Sue actually withdraws the HSA funds. Whether she withdraws the HSA funds in 2017 or 2018, she includes the $20,400 in her 2017 income.

When the earnings earned after Jane's death will be taxed depends upon when Sue withdraws the funds. If she withdraws the $20,600 on December 15, 2017, she will include the $200 of earnings in her 2017 income in addition to the $20,400. If she withdraws the $20,750 on May 10, 2018, she includes the $350 of earnings on her 2018 tax return and the $20,400 on her 2017 tax return.

E-mail Guidance - Roth IRA Owner Dies

John Doe passed away 9-8-2017. He had Roth IRAs and his sister is his beneficiary. How long does the beneficiary have to take care of these IRAs? She does not seem to be in any hurry to take care of these and I wanted to see if there is a timeline.

CWF's Guidance.

Inherited Roth IRAs are different for a number of reasons from inherited traditional IRAs.

First, there is never an RMD due for the year of death when a Roth IRA owner dies. If a traditional IRA owner dies after 70 1/2, often the IRA owner has not withdrawn his/her RMD prior to their death and so the beneficiary must take such RMD by December 31st.

A non-spouse Roth IRA beneficiary must take his or her first annual RMD by December 31st of the year following the year the Roth IRA owner died.

So, initially, it may appear there is no urgency to set up the sister's inherited Roth IRA. But for IRS reporting reasons it is best to do it before 12/31/2017. The sister wants to designate her successor beneficiary as soon as possible. I am going to assume the Roth IRA owner had met the 5 year rule. This means all distribution to the sister or the sister's beneficiary will be tax free. Some tax benefits may be lost if the sister would die prior to designating her successor beneficiary.

The second difference is - the distribution rules applying to a Roth IRA beneficiary are the same rules applying when a traditional IRA owner dies on or before his or her required beginning. Remember, a Roth IRA owner does not have a required beginning date for his/her Roth IRA distributions. Although the 5 year rule is an option most Roth IRA beneficiaries should not select it as the ability to earn tax free income then ends at the end of the 5-year period.

Also, remember that a non-spouse Roth IRA beneficiary as any non-spouse beneficiary of any IRA has no rollover rights. Important tax benefits will be lost if an unwanted distribution is made.

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E-mail Guidance - IRS Reporting For A QCD

I would like to clarify with you that reporting a QCD on form 1099-R would be reported as a normal distribution, correct? There are no special codes for a 1099-R to report a QCD that I can find. I have information on how the customer reports it on their 1040, just need clarification for the 1099-R.

CWF's Guidance.

The IRA custodian is to report a QCD as any other IRA distribution. There are some exceptions, but a QCD is not one of the exceptions.

The IRS adopted the administrative approach of having the taxpayer explain on his/her tax return that the distribution is tax free because a QCD was made rather than having the IRA custodian report a special distribution code for a QCD on the 1099-R form and showing the distribution as not being taxable.

The IRS' approach does not ask or require the IRA custodian to determine if a QCD has occurred. In contrast, the IRS requires the IRA custodian in certain situations to make an initial determination that the 10% or 25% additional tax is due or not due.

Initially, the IRS approach was due to the fact that the QCD rules were only temporary (2006-2007, 2008-2009, etc.) and presumably the IRS was not going to adopt a special distribution code if the QCD rules were to be discontinued.

The IRS approach does provide information so that the IRS can ask more "audit" questions if it would want. I don't believe the IRS would have this ability to the same degree if there was a special QCD distribution code.

I have not read anything indicating to what degree, if any, the IRS audits QCDs to determine if the QCD rules were or were not met. As with many tax transactions this will occur only if there is a complete audit of an individual's tax return.

E-mail Guidance - Mistake of A Direct Rollover

We have a customer who left employment, received his packet from the investment company that handled the retirement accounts. He filled out his paperwork for a Direct Rollover to his IRA with us.

The check came in and was sent to one of our branches. It was Payable To: FNB customer name directly below FNB, then the bank address. The check was deposited to the customer's Savings Account There was no indication from what I was told, that it was a check issued for a Direct Rollover to his IRA. I argued the point that it read p/t FNB and it came from an Investment Firm, it even says and has a Plan number on it, I don't know what the stub had on it, it usually has the payout information on it.

So, that was back in September, the customer has since contacted the Investment Firm inquiring about the check and was informed it was issued already. He came to the bank with the letter from the Firm showing how it was distributed: A lump-sum rollover distribution and it was an eligible direct rollover distribution.

In conclusion, we have a Non-Taxable Distribution sitting in a savings account from more than 60 days ago, which was coming to us as a Direct Rollover, not a Regular Rollover.

Are we still able to withdraw the money from the savings and process the Direct Rollover as long as he signs the certification form, OR, do we just direct him right to his tax advisor?

CWF's Guidance.

I will discuss two approaches and the bank and/or your client can decide on the approach.

Approach #1. The bank corrects the situation by processing today his direct rollover for the original direct rollover amount. Will it be possible to somehow add the amount of interest to this new IRA? It doesn't necessarily have to be labelled interest. It could be a special transfer. His 2017 Form 5498 would show the direct rollover in box 2, the rollover box. A Form 1099-R would not be prepared for the quasi-distribution. This approach is a modification of the IRS' automatic rollover waiver rule which dealt with correcting the IRA custodian's error with respect to an indirect rollover.

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Approach #1 is not the most conservative approach as technically the initial transaction was a direct rollover and not an indirect rollover. In order to qualify for the automatic rollover waiver, the individual had to have completed all steps to do a rollover. An argument can be made, he did, albeit a direct rollover. Therefore, the bank can adopt the position it is eligible to correct the mistake as it was discovered within the one year time period.

Approach #2. The individual uses the self-certification late rollover procedure as authorized by the IRS. The bank would report the rollover as a late rollover on the 2017 Form 5498 (Box 13a and 13c). The bank would prepare a Form 1099-R to report the distribution. He will need to prepare his tax return showing a distribution and a rollover and his/her self-certification form along and with bank's letter explaining its error and the action taken to correct it.

In summary, I believe the bank may correct the error using Approach #1. It lessens the tax reporting tasks greatly. The individual did not make the error and he never had access to the funds.

E-mail Guidance - RMD Mistakes With Respect to Inherited IRAs

Thank you so much for taking the time to advise us on Beneficiary IRAs. As discussed in our phone conversation, we are seeking your advice on how we need to be calculating the RMD on Beneficiary IRAs. We called BBBRMD for help and they gave us the options available with their software for calculations: 1. Recalculate on subsequent distributions, 2. Reduced by 1 on subsequent distributions, 3. Uniform distribution period. Their system is hard coded to default to option 3, Uniform distribution period, but do we do have the capability to change the Life Expectancy Option to a different option if advised to do so. We would love any advice you may have on what options the beneficiary, in this case a non-spouse beneficiary, has. What are their distribution options? Which of the above options would you suggest we use to calculate the RMD in these situations?

CWF's Guidance.

The BBBRMD software apparently uses (or allows the use of) the Uniform Lifetime Table in the RMD calculation for both living IRA owners and inherited IRAs. Since 2002 the Uniform Lifetime Table cannot be used for an inherited IRA RMD calculation because using it means the RMD will be calculated incorrectly.

As the bank is aware, the RMD calculation for an IRA beneficiary is incorrect if the Uniform Life Time Table is used. In some instances the calculated distribution amount for the beneficiary is larger than it needed to have been and in some cases it may be the beneficiary has taken a distribution smaller than the RMD so the 50% tax is owed. In both situations you will have unhappy customers. You need to decide what corrections will need to be made.

The quick and easy solution is - the bank should buy/license CWF's MINCAL software as it will perform the required calculations correctly.