



THE Pension Digest

April 2019
Published Since 1984

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“The Pension Specialists”



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tion: \$95 per year.

A Person's 2018 Tax Filing Deadline Is Either April 15, 2019 or April 17, 2019

For most U.S. taxpayers the last day to make an annual IRA contribution for 2018 is April 15, 2019. For residents of Massachusetts and Maine it is April 17, 2019.

The tax filing deadline for a given tax year is April 15 of the following year unless the 15th falls on a Saturday, Sunday or a holiday. April 15, 2019, falls on a Monday which is not a holiday. April 15, 2019, is the tax filing deadline for 2018 for most U.S. taxpayers.

Emancipation Day is April 16th of each year. In 2019 April 16th is a Tuesday. For most U.S. taxpayers the Emancipation Day only has an impact on the tax filing deadline if it falls on a Saturday, Sunday or Monday which is not the case in 2019.

Patriots' Day is the third Monday in April of each year. In 2019 this is April 15, 2019. The IRS has furnished guidance that the residents of Massachusetts and Maine have a tax filing deadline of April 17, 2019 and not April 15, 2019 or April 16, 2019. The tax filing deadline cannot be a holiday and April 15, 2019, is a holiday for residents of Massachusetts and Maine. And the following day of April 16th is also a holiday, the Emancipation Day Holiday, so their revised deadline is Wednesday April 17, 2019.

Who would ever argue U.S. tax laws are too complicated?

Email Guidance – Proper IRS Reporting of a Direct Rollover

Q-1. I feel like we may not be coding rollovers/transfers properly and would like your help.

If a current IRA owner, say they are retired, is moving funds to an investment company but not into a 401(k) or any employer plan but just going to be invested in something there, say mutual funds. If the check is made payable to the company FBO the client should it be reported as a transfer, direct rollover or normal distribution?

I feel like because we only invest our IRAs in CDs, when it is going to be invested somewhere else in something else we have automatically been assuming it's a 'plan' and can't be coded as a transfer. However, from what I have read, the only time you would use a direct rollover tran code is if it is going to a qualified plan. I hope you can shed some light on this.

Also, if a customer has a SEP or a SIMPLE employer plan and have retired and are rolling it over into an IRA here, would we roll it into a traditional since there will be no more employer deposits and such?

A-1. I hope the following explanation helps. These subjects are more complicated than they should be. There are too many rules and exceptions.

There are 3 basic terms - rollover, direct rollover and transfer. Actually, there is now a 4th term, direct payment.

The general tax rule is, a person who

Continued on page 8

Final Review 2018 Form 5498

2828 ☐ VOID ☐ CORRECTED

| | | | | | |
|---|--|---|--|---|---|
| TRUSTEE'S or ISSUER'S name, street address, city or town, state or province, country, and ZIP or foreign postal code | | 1 IRA contributions (other than amounts in boxes 2-4, 8-10, 13a, and 14a) \$ | OMB No. 1545-0747 <div style="font-size: 2em; font-weight: bold;">2018</div> Form 5498 | | IRA Contribution Information |
| | | 2 Rollover contributions \$ | | | |
| TRUSTEE'S or ISSUER'S TIN PARTICIPANT'S TIN | | 3 Roth IRA conversion amount \$ | 4 Recharacterized contributions \$ | | Copy A For Internal Revenue Service Center File with Form 1096. |
| | | 5 FMV of account \$ | | | |
| PARTICIPANT'S name Street address (including apt. no.) City or town, state or province, country, and ZIP or foreign postal code | | 7 IRA <input type="checkbox"/> SEP <input type="checkbox"/> SIMPLE <input type="checkbox"/> Roth IRA <input type="checkbox"/> | | For Privacy Act and Paperwork Reduction Act Notice, see the 2018 General Instructions for Certain Information Returns. | |
| | | 8 SEP contributions \$ | | | |
| 10 Roth IRA contributions \$ | | 9 SIMPLE contributions \$ | | | |
| | | 11 Check if RMD for 2019 <input type="checkbox"/> | | | |
| 12a RMD date \$ | | 12b RMD amount \$ | | 13b Year 13c Code | |
| | | 13a Postponed/late contrib. \$ | | | |
| 14a Repayments \$ | | 14b Code | | 15a FMV of certain specified assets \$ | |
| | | 15b Code(s) | | | |
| Account number (see instructions) | | | | | |

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

Discussion of the 2018 Form 5498

The format is basically the same as recent forms. Obviously, the dates are changed.

Account Number

- On the bottom left there is an "Account Number" box. The IRA custodian is required to insert an account number in this box when filing more than one Form 5498 for the same person. If your institution wants to earn some bonus points with the IRS, you will complete this box even though it is not required. A unique number should be used. Using such a number helps the IRS to process corrected information accurately. The account number may be a checking or savings account number or some other unique number with respect to an individual. The number must not appear anywhere else on the form (i.e. it cannot be the social security number).
- In Box 7 only one of the 4 boxes must be checked

to indicate the type of IRA. A person who has a traditional IRA, SEP IRA and Roth IRA would need to be furnished three 5498 forms.

Contribution Amounts

- Box 1. IRA Contributions** (other than amounts in boxes 2-4, 8-10, 13a and 14a). Enter the amount of the annual contributions made on or after January 1, 2018 through April 15, 2019 as designated for 2018. The IRA custodian is to report the gross amount of the annual contributions even if such contributions are excess contributions, or will be later recharacterized. These are still to be reported. A traditional IRA contribution, which is not properly reported in one of the other traditional IRA boxes as discussed below, is to be reported in box 1. For example, if a person tries to roll over \$28,000, but does so on day 70 and does not furnish a late

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2018 Form 5498,
Continued from page 2

rollover certification and the IRA custodian learns of this fact prior to filing the current year's Form 5498, then the IRA custodian must report this \$28,000 in box 1. This same procedure would apply if somehow non-IRA funds had been mistakenly transferred into an IRA.

- 4. Box 2. Rollover Contributions.** Enter the amount of the rollover contributions made on or after January 1, 2018 through December 31, 2018. Made means received by the traditional IRA custodian.

A late rollover contribution made pursuant to a late rollover certification is reported in box 13a and not box 2.

A rollover may either be an indirect rollover or a direct rollover.

A direct rollover occurs when an employer plan issues the check to the IRA custodian on behalf of the individual. By definition, a direct rollover cannot occur between IRAs. Employer plan means a qualified plan, section 403(b) plan or a governmental section 457(b) plan. The funds attributable to a nonspouse beneficiary of such plans are eligible to be directly rollover to an inherited IRA and would be reported in Box 2.

An indirect rollover means the paying plan (could be an IRA or an employer plan) issues the distribution check to the individual who then makes a rollover contribution by the 60 day deadline. A 60 day indirect rollover may occur between two traditional IRAs, two SEP-IRAs, or between a traditional IRA and a SEP-IRA or vice versa.

Remember that nonspouse IRA beneficiaries are ineligible to roll over a distribution from one inherited IRA and redeposit it into another inherited IRA.

- 5. Box 3. Roth IRA Conversion Amount.** This box will be completed when a conversion contribution is made to a Roth IRA.
- 6. Box 4. Recharacterized Contributions.** The IRS instructions are very brief, "Enter any amounts recharacterized plus earnings from one type of IRA to another." If a person had made either an annual contribution or a conversion contribution to a Roth IRA in either 2017 and/or 2018, he or she may elect to recharacterize it as adjusted by earnings or losses to be traditional IRA contribution in 2018. The total amount recharacterized is to be reported in box 4.

Although the IRS instructions use the term, "plus earnings, the IRS should use the term, "plus or minus earnings or losses."

- 7. Box 5. Fair Market Value of Account.** The IRS instructions for this box are also very brief, "Enter the FMV of the account on December 31."

The IRS added a caution to self-directed and trust IRAs as follows: "Trustees and custodians are responsible for ensuring that all IRA assets (including those not traded on established markets or with otherwise readily determinable market value) are valued annually at their fair market value."

The instruction to report the FMV as of December 31 applies whether there is a living IRA accountholder or an inheriting IRA beneficiary.

If the IRA accountholder or inheriting beneficiary is alive as of December 31, the individual closed his or her IRA during the year by taking a total distribution and he or she made no "reportable contribution", then the IRA custodian is not required to prepare and file the Form 5498. However, if the IRA accountholder or inheriting beneficiary died during the year, the IRA custodian will need to prepare a final Form 5498 for the deceased IRA accountholder or inheriting beneficiary as discussed below.

With respect to a deceased accountholder or a deceased inheriting IRA beneficiary, the IRS gives the IRA custodian two options. Option #1 - report the FMV as of the date of death. Option #2 - report the FMV as of the end of the year in which the decedent died. This alternate value will usually be zero because the IRA custodian will be reporting the end of year value on the Form 5498's for the beneficiary or beneficiaries. If Option #2 is used, the IRA custodian must inform the executor or administrator of the decedent's estate of his or her right to ask for the FMV as of the date of death.

If the IRA custodian does not learn of the individual's death until after the filing deadline for the Form 5498 (i.e May 31), then it is not required to prepare a corrected Form 5498. However, an IRA custodian must still furnish the FMV as of the date of death if requested to do so.

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Continued from page 3

- 8. Box 6. Life Insurance cost included in box 1.** An IRA custodian will normally leave this box blank or will insert a 0.00 since it is only to be completed if there was a contribution to an IRA endowment contract as sold by an insurance company a long time ago.
- 9. Box 8. SEP Contributions.** Any SEP contributions made to the IRA custodian during 2018 are to be reported in box 8. Such contributions could have been for 2017 or 2018. Contributions made in 2019 for 2018 are to be reported on the 2019 Form 5498.
- 10. Box 9. SIMPLE Contributions.** Any SIMPLE-IRA contributions made during 2018 are to be reported in box 9. Such contribution could have been for 2017 or 2018. Contributions made in 2019 for 2018 are to be reported on the 2019 Form 5498.
- 11. Box 10. Roth IRA Contributions.** Any Roth IRA contributions for 2018 are to be reported in box 10 as long as made between January 1, 2018 and April 15, 2019.
- 12. Box 11. Check if RMD for 2019.** An IRA custodian is required to check this box if the traditional IRA SEP-IRA or SIMPLE-IRA accountholder attains or would attain age 70 1/2 or older during 2019. The instructions do not discuss whether or not this box is to be checked for an inheriting traditional IRA beneficiary. It should not be checked for an inherited IRA. Completing this box is necessary only if the IRA custodian is required to prepare a 2018 Form 5498 for a person. This box is not checked with respect to an individual who died during 2018 and who would have attained age 70 1/2 or older during 2018 had he or she lived.
- 13. Boxes 12a (RMD date) and 12b (RMD Amount).** An IRA custodian's use of these two boxes is optional, it is not mandatory.

Under current IRS procedures, the IRS does not require the traditional IRA custodian to furnish it with the RMD amount. The law is unsettled whether or not the IRS has the legal authority to require that an IRA custodian furnish the RMD amount. Since the IRS would like to be furnished this information, the IRS has added boxes 12a and 12b to the Form 5498.

The approach adopted by the IRS is that an IRA custodian by completing boxes 11, 12a and 12b on the Form 5498 and furnishing it to the IRA accountholder will meet the requirement that it must furnish a RMD Notice by January 31. The IRS instructions do permit the IRA custodian to furnish to the IRA accountholder a separate Form 5498 with the only information being furnished is the information for boxes 11, 12a and 12b.

14. Box 13a. Postponed contributions and late rollover contributions. Our federal tax laws are complicated and the reporting of certain special IRA contributions is complicated.

There is a limit as to the number of boxes which are present on the Form 5498 (IRA Contributions) to be used to inform the IRS and the taxpayer that a taxpayer has made various types of IRA contributions. There are standard contributions and then there are special contributions such as postponed contributions, late rollover contributions and repayment contributions.

Boxes 13 and 14 are to be completed to report special contributions such as postponed contributions, late rollovers and repayments of disaster distributions.

| 2018 | | VOID | CORRECTED | OMB No. 1545-0047 | 2018 | Form 5498 | IRA Contribution Information |
|--|--|---|-----------|---|------|--|------------------------------|
| TRUSTEE'S or ISSUER'S name, street address, city or town, state or province, country, and ZIP or foreign postal code | | 1 IRA contributions (other than amounts in boxes 2-4, 8-10, 13a, and 14a) | | | | | |
| | | 2 Rollover contributions | | | | | |
| | | 3 Roth IRA conversion amount | | 4 Reclassified contributions | | | |
| TRUSTEE'S or ISSUER'S TIN | | 5 RMD of account | | 6 Life insurance cost included in box 1 | | Copy A | |
| PARTICIPANT'S TIN | | | | | | For Internal Revenue Service Center File with Form 1096. | |
| PARTICIPANT'S name | | 7 IRA <input type="checkbox"/> SEP <input type="checkbox"/> SIMPLE <input type="checkbox"/> Roth IRA <input type="checkbox"/> | | 9 SIMPLE contributions | | | |
| Street address (including apt. no.) | | 8 SEP contributions | | 10 Roth IRA contributions | | For Privacy Act and Paperwork Reduction Act Notice, see the 2018 General Instructions for Certain Information Returns. | |
| City or town, state or province, country, and ZIP or foreign postal code | | 11 Check if RMD for 2019 <input type="checkbox"/> | | 12a RMD date | | 12b RMD amount | |
| | | 13a Postponed/late contrib. | | 13b Year | | 13c Code | |
| | | 14a Repayments | | 14b Code | | | |
| Account number (see instructions) | | 15a RMD of certain specified assets | | 15b Code(s) | | | |

Form 5498 Cat. No. 00010C www.irs.gov/Form5498 Department of the Treasury - Internal Revenue Service

The IRS has furnished the following instructions for completing the 3 boxes that make up Box 13. Box 13 reports postponed contributions and certain special late rollovers.

Some IRA owners are entitled to make an IRA contribution for a prior year in addition to make a current year contribution. Report the amount of the postponed contribution.

If the IRA owner makes a prior year contribution

for more than one year, each year's prior year postponed contribution must be reported on a separate Form 5498.

Some IRA owners will make late rollover contributions pursuant to the IRS procedures set forth in Rev. Proc. 2016-47. Report the amount of the late rollover contribution.

Box 13a. This is titled Postponed Contribution in the 2018 instructions and Postponed/late Contribution in the 2019 instructions. The IRS should change the 2019 title to somehow make clear it is a late rollover contribution.

If an IRA owner makes both a postponed contribution and a late rollover contribution, there must be two separate 5498 forms prepared.

Because of the once per year rollover rule, there cannot be two late rollover contributions in the same year. However, a person could have made a rollover of a qualified plan loan off-set amount. A separate Form 5498 would need to be prepared.

For 2019 there are two important changes with respect to reporting certain rollovers. Reports rollovers made with respect to qualified plan loan off-sets and for affected taxpayers in a federally declared disaster area. Note that there is no discussion for the reporting of a person's rollover after the IRS has returned levied funds. Most likely the IRS will provide such guidance later.

Box 13b. Year

Enter the year for which the postponed contribution was made if a postponed contribution.

Leave blank if a late rollover contribution or a rollover of a qualified plan loan off-set amount.

The 2018 and 2019 IRS instructions for this box are identical. Note that the IRS does not provide guidance for reporting the rollover of IRA funds levied by the IRS but returned to the taxpayer.

Box 13c. Code

Enter the applicable reason code for a postponed contribution.

For service in a combat zone enter the appropriate code as set forth at end of this guidance.

Enter FD for affected taxpayers of a federally declared disaster.

Enter PO for taxpayers who made a rollover of a qualified plan loan off-set amount.

Enter SC for taxpayers who made a late rollover certification.

The IRS has furnished the following instructions for completing the 2 boxes that make up

15. Box 14 reports repayment contributions.

A person can make two types of repayments, a repayment of a qualified reservist distribution or of a designated disaster distribution.

Box 14a. Repayments.

Enter the amount of the repayments.

Box 14b. Code.

Enter QR for the repayment of a qualified reservist distribution.

Enter DD for the repayment of a federally designated disaster distribution.

The instructions don't expressly state that separate forms are to be prepared if a person would have both transactions, but it is implied by having separate codes.

See below for the special codes applying to certain individuals serving in combat zones, hazardous duty zones or who have served in an active support area.

a. Use "EO13239" for Afghanistan and those countries in direct support, including Djibouti, Jordan, Kyrgyzstan, Pakistan, Somalia, Syria, Tajikistan, Uzbekistan, Yemen, and the Philippines. For the Philippines only, personnel must be deployed in conjunction with Operation Enduring Freedom supporting military operations in the Afghanistan combat zone.

b. Use "EO12744" for the Arabian Peninsula, including air space and adjacent waters (the Persian Gulf, the Red Sea, the Gulf of Oman, the Gulf of Aden, the portion of the Arabian Sea that lies north of 10 degrees north latitude and west of 68 degrees east longitude, and the total land areas of Iraq, Kuwait, Saudi Arabia, Oman, Bahrain, Qatar, and the United Arab Emirates), and Jordan which is in direct support of the Arabian Peninsula.

c. Use "EO13119" or Public Law 106-21 "PL106-21" for the Federal Republic of Yugoslavia (Serbia and Montenegro), Albania, Kosovo, the Adriatic Sea, and the Ionian Sea north of the 39th parallel. (**Note.** The combat zone designation for Montenegro and Kosovo (previously a province within Serbia) under Executive Order 13119 remains in force even though Montenegro and Kosovo became independent nations since EO13119 was signed.)

d. Use Public Law 115-97 "PL115-97" for the Sinai Peninsula of Egypt.



For additions to, or subtractions from, the list of combat zones or qualified hazardous duty areas implemented by executive orders and public laws, and direct support areas designated by the Secretary of Defense, after the publication date of these instructions, go to [IRS.gov/Form5498](https://www.irs.gov/Form5498).

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16. Box 15a. FMV of certain specified assets. Completion of Boxes 15a and 15b are mandatory for 2018. If you are an IRA custodian or trustee with IRA assets of which the fair market values are not readily determinable, you should review the following.

Box 15a is titled FMV of certain specified assets.

Box 15b will be used to furnish info on the type of the investment. It is titled "Codes."

The IRS has developed an administrative approach so that it can better administer IRAs that hold non-market assets. Such IRAs may either be trust IRAs or self-directed custodial IRAs. It appears the IRS will choose to audit more IRAs holding non-market assets than those holding only market assets. Without a doubt, it is more likely that prohibited transactions occur with respect to IRAs holding non-market assets than market assets.

Box 5 will still be used to report the FMV of the entire IRA. The total FMV will equal the FMV of the easy to value assets plus the FMV of the hard to value assets. An asset where there is a readily available market to determine an asset's value is an easy to value asset. When there is no readily available market to be used to determine an asset, this is a hard to value asset. It is also known as a non-market asset.

Box 15a will be used to report the FMV of all of the non-market assets. These are the assets which are not readily tradable on an established U.S. or foreign securities market or option exchange or that do not have a readily available FMV. The IRS does not define what is meant by "does not have a readily available FMV." As for box 5, the IRS states that the FMV must be determined annually. The amount in box 15a may be the same as in box 5, but most likely will be less as will be the case when there are both easy to value and hard to value assets in the same IRA.

The FMV of the "market" assets may be determined by subtracting the FMV of the non-market assets (box 15a) from box 5.

In box 15b, one or two letter codes must be inserted to identify the type or types of the non-market investment. If only one code applies, insert that one code. If only two codes apply, then insert both codes. However, if more than two codes apply, then

enter a Code H. Code H means there are more than two non-market assets held in the IRA. From the perspective of the IRA accountholder, he or she may prefer to have at least three hard to value assets rather than just one or two because when an "H" is used the IRS does not know specifically what assets are owned and would need to obtain this information from additional communications with presumably the IRA accountholder.

There are 7 identifying codes:

- A – Stock or other ownership interest in a corporation that is not readily tradable on an established U.S. or foreign securities market.
- B – Short or long-term debt obligation that is not traded on an established securities market.
- C – Ownership interest in a limited company or similar entity (unless the entity is traded on an established U.S. or foreign securities market).
- D – Real Estate
- E – Ownership interest in a partnership, trust, or similar entity (unless the entity is traded on an established U.S. or foreign securities market).
- F – Option contract or similar product that is not offered for trade on an established U.S. option exchange or established foreign option exchange.
- G – Other asset (i.e. not described in A-F) that does not have a readily available FMV.

In summary, the IRS requires an IRA custodian/trustee to furnish certain information regarding hard to value assets. The IRS will presumably use this information to determine if it wishes to gather additional information. The deadline to furnish the 2018 Form 5498 to the individual and the IRS is Friday, May 31, 2019. The IRA custodian/trustee wants to know what it has prepared as many 5498 forms as the rules require and that each form has been prepared correctly.

17. Duty To Prepare/Furnish Corrected Form 5498. An IRA custodian is required to prepare a corrected form 5498 as soon as possible after it learns there is an error on the original form as filed. The IRS furnishes the following example. "If you reported as

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2018 Form 5498,
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rollover contributions in box 2, and you later discover that part of the contribution was not eligible to be rolled over and was, therefore, a regular contribution that should have been reported in box 1 (even if the amount exceeds the regular contribution limit), you must file a corrected Form 5498.

Additional Discussion of Reporting Alternatives for Prior Year Postponed Contributions

The individual will instruct you on an IRA contribution form the “prior” year or years for which he or she is making the postponed contribution(s). The individual must designate the IRA contribution for a prior year to claim it as a deduction on the income tax year.

Postponed contributions may be made by individuals who have served in a combat zone or hazardous duty area or individuals who are “affected taxpayers” due to federally designated disasters.

If the IRA custodian will report the contribution made after April 15 and the individual designates a contribution for a prior year, then the IRA custodian must prepare either (1) a Form 5498 for the year for which the contribution was made or (2) on a Form 5498 for a subsequent year.

Under approach #1, the IRA custodian may choose to report the contribution for the year it is made. For example, if an individual in September of 2018 designated a contribution of \$5,500 to a traditional IRA for 2016. The IRA custodian could choose to prepare a 2016 Form 5498 and report the \$5,500 contribution in box 1. If the IRA custodian had not prepared a 2016 Form 5498 for this individual, the IRA custodian then would prepare an original 2016 Form 5498. If the IRA custodian had previously prepared a 2016 Form 5498 for this individual, the IRA custodian then would prepare a “corrected” 2016 Form 5498.

Under approach #2, the IRA custodian is furnished a contribution after April 15, the IRA custodian may choose to report it on that year’s Form 5498 even though designated for a prior year

The amount of the contribution must be reported in box 13a and the year for which the contribution was

made in box 13b and in box 13c the applicable code according to the IRS instructions.

If you report the contribution Form 5498 in a subsequent year, you must include the year for which the contribution was made, the amount of the contribution, and the applicable indicator.

Definition. An individual who is serving in or in support of the Armed Forces in a designated combat zone or qualified hazardous duty area has an additional period after the normal contribution due date of April 15 to make IRA contributions for the prior year. The period of time is the time the individual was in the designated zone or area plus at least 180 days.

Email Guidance – Reporting of an RMD to a Surviving Spouse

Q-1. We have two different options in the office regarding RMD distributions taken out of a spousal IRA. Example - An IRA owner is deceased the beneficiary is the spouse and treats the IRA as their own. The IRA owner did not take their RMD for the year so it must come out of the IRA of the Spouse since it was treated as their own. Should the RMD amount taken for the deceased be coded as a death distribution?

A-1. Our position at CWF is, since the distribution occurs after the surviving has elected to treat the decedent's IRA as their own, code 7 is the proper code.

As a practical tax matter we don't think it makes much difference. Both code 7 and code 4 mean the recipient does not owe the 10% additional tax.

The IRS has written the RMD rules to require the beneficiary to take the decedent's RMD by 12/31 to the extent the decedent had not been paid it.

I can see an argument being made, the surviving spouse is taking this additional amount only because their spouse died and so use of code 4 seems appropriate. However, the IRS also has adopted the elect as own rule and we believe this is the governing rule.

Email Guidance

Continued from page 1

takes a distribution from his or her IRA or pension plan must include that distribution in income unless the person rolls it over. The IRS has adopted the administrative approach that a person is to include such amount in income on their tax return and pay the tax amount owing unless the individual's tax return as supported by Forms 1099-R and 5498 confirm the rollover.

There must always be IRS reporting when there is a rollover, direct rollover or a direct payment. IRS reporting means a Form 1099-R must be prepared to report the distribution and Form 5498 must be prepared to report the rollover or direct rollover contribution.

In the case of a rollover the person actually receives the distribution. In the case of a direct rollover or a direct payment there is a deemed distribution to the individual.

By definition a direct rollover only occurs when funds are sent from a 401 (k) plan to an IRA custodian for benefit of a person's IRA. There is a deemed distribution for IRS reporting purposes. The 401(k) trustee must prepare a Form 1099-R and the IRA custodian must report the direct rollover contribution in box 2 of the Form 5498. Such rollover may not be taxable (going into a traditional IRA) or it may taxable (going into a Roth IRA).

A direct rollover does not occur when funds are moved from an IRA into a 401(k) plan. The IRS calls this transaction a direct payment. It is IRS reportable. The IRA custodian must prepare the Form 1099-R to report the deemed distribution. The 401(k) trustee will reflect this contribution on its 5500 Form. The IRS confuses things by saying, this transaction is not a direct rollover but the IRA custodian is still to use the reason code G on the Form 1099-R.

The original definition of a transfer was, because the funds moved from one plan to another plan of the same type on behalf of an individual there was no taxable event and thus the IRS did not want either plan to prepare any IRS reporting form.

When IRA funds are being transferred we at CWF suggest there must/should be a transfer form completed by both institutions and the individual acknowledging that the transaction is a non-reportable transfer.

There seems to be a fair number of accountants who argue, we don't want the transaction structured as transfer, we would prefer that it be structured as a direct rollover. They prefer that the Form 1099-R be prepared.

Reason Code G is never to be used if funds are moved from IRA to another IRA. Using Code G when it should not be used can be dangerous because the once per year applies when funds are distributed from an IRA to a person (or deemed distributed to a person) who then makes a rollover contribution. To be non-taxable and non-reportable, there must be a transfer between like kind IRAs.

When funds are moved from one IRA type into a different type of IRA (e.g. Roth IRA conversion or an IRA recharacterization) there is to be IRS reporting of the distribution on the Form 1099-R and the conversion contribution or the recharacterization contribution on the Form 5498.

When IRA funds are used to make a qualified HSA funding contribution there must be IRS reporting by the IRA custodian (Form 1099-R) and the HSA custodian (Form 5498-SA as an annual HSA contribution) even though the law defines such movements as non-taxable. The Individual must claim the non-taxable treatment on their tax return.

Q-2. I Just need one more clarification: So, if someone has a traditional IRA with us and it is being sent directly to an investment company to be invested in some kind of traditional plan there- It is coded as a transfer? An IRA can be any kind of investment (i.e stocks, bonds, CDs) and still be considered an 'IRA of the same kind' for reporting purposes?

A-2. Yes, IRAs are considered of the same type or kind even if the investments differ. When you send the check to the investment firm you want to code it as a transfer. Use a transfer form.

As for your question about rolling over or transferring SEP IRA funds and SIMPLE IRA funds, most individuals would choose/agree that such funds could be rolled over or transferred into a traditional IRA. This "simplifies" the administration.

Under federal bankruptcy laws, a person is able to exempt from their bankruptcy estate all SEP-IRA and SIMPLE-IRA funds in addition to a maximum amount of \$1,283,025 in traditional IRAs and Roth IRAs. In some situations, combining SEP-IRA funds and/or SIMPLE-IRA funds with a traditional IRA would mean such funds could be reached by the bankruptcy trustee and a person normally would not want this result.