The Pension Digest

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

Inherited IRA Reporting – Form 5498 and FMV Statement

We have received a number of consulting calls lately asking to discuss the proper reporting for Inherited IRAs.

IRS Revenue Procedure 89-52, a required procedure since 1989, dictates how an IRA Custodian/Trustee is to report IRAs once the IRA Accountholder has died. The procedure has not changed since 1989, and is to be used as soon as the IRA Custodian/Trustee knows of the death of the IRA Accountholder! Knowledge of death means anywhere in your financial institution. If the checking account department, the loan department, or the safety deposit vault department knew of the death but the IRA department did not, that is a lack of communication, NOT a lack of knowledge!

There are two aspects to complying with this procedure: One for the reporting for the deceased IRA Accountholder; the other for the reporting to the beneficiary.

The usual comment we hear is "The beneficiary has not come in" or "The beneficiary has not done anything with the IRA." Neither one of these comments has anything to do with your required reporting if there is knowledge the IRA owner has died. The IRS' position is that the IRA becomes an Inherited IRA owned by the beneficiary at the moment of death. And, the IRA Custodian/Trustee must report it accordingly. This applies to all beneficiary situations, spouse or nonspouse.

Reporting for the Deceased IRA Accountholder

For the year of death, there is required reporting for the decedent.

A year-end Fair Market Value (FMV) statement must be produced in the name and Social Security Number (SSN) of the deceased IRA Accountholder. The FMV that is reported is either the FMV as of the date of death, or zero. It is never the actual December 31 FMV unless the IRA Accountholder died on December 31. If the zero balance option is reported, the availability of the FMV on the date of death must be disclosed to the decedent's representative on both the FMV statement and in the instructions to the participant for Form 5498.

The IRS Form 5498 for the year of death must also be prepared in the name and SSN of the decedent, showing the FMV as was reported in the FMV statement at the end of the year. (All other reports for the decedent for IRA transactions completed before the death are, of course, also reported.)

These are the last reports/statements/forms prepared in the name and SSN of the deceased, whether the beneficiaries address the situation or not. But the responsibilities of the IRA Custodian/Trustee are just beginning because it also has reporting requirements for each Inherited IRA beneficiary starting with the year of death. It makes no difference that a beneficiary has not contacted the

Continued on page 2

Reporting
Continued from page 1

custodian/trustee. The reporting requirements are the financial institution's as soon as it knows of the death.

Reporting for the Inherited IRA/Beneficiary

Beginning in the year of death, the FMV of the Inherited IRA as of December 31 must be reported to each beneficiary. Each beneficiary must receive the statement showing their share of the December 31 FMV. This applies for all beneficiaries including spouses, non-spouses, trusts, estates, charities, foundations, etc. It is their Inherited IRA balance and it must be reported separately. It is reported in the name and SSN or TIN of the beneficiary, noted as beneficiary of the decedent. For instance,

ABC Financial Institution for the benefit of Jane Doe as beneficiary of Mary Doe's traditional IRA.

The SSN of the deceased can never be used for reporting to any beneficiary, including estates and trusts. IRS Form 5498 is also required for each beneficiary, reporting the FMV as was reported in their year-end FMV statement.

This reporting procedure for the beneficiary is required for each subsequent year there is a balance in the inherited IRA as of December 31. Of course, distributions to a beneficiary will be reported on Form 1099-R.

Common Consulting Call Question

The IRA accountholder died in 2018, the financial institution knew of the death, and the beneficiaries are just coming into the office now, April 2019. The IRA is still in the name and SSN of the deceased. What do we do?

IRS Rev. Proc. 89-52 requires that the reporting procedures be complied with. The year-end FMV statements must be corrected and the Form 5498s must be prepared correctly as described above. It was an Inherited IRA in 2018 and must be reported as such, even if the beneficiary is the spouse and the spouse now intends to treat it as his or her own IRA in 2010.

What if the IRA custodian did not know of the IRA Accountholder's death?

Obviously, if you do not know of the death, the reporting can not be done. But it does make a difference when you find out about the death. If you learn of the death before February 1 of the year after the death, even if your FMV Statements are already sent, this procedure applies. Any FMV Statement already sent would need to be corrected.

If you learn of the death between February 1 and May 31, the FMV Statement does not need to be amended, but likely should be because the Form 5498 procedure as described above must be complied with. So that your Form 5498 and your year end statement balance agree, you likely will want to correct the December 31 FMV.

If you learn of the death after May 31, neither the FMV Statement nor the Form 5498 for the year of death needs to be corrected. However, all future reports and statements must be prepared in a complying fashion. And, the FMV on the date of death must be made available to the decedent's representative if so requested.

Conclusion

This is a fairly complicated and administratively heavy procedure and we have heard that some systems do not make it easy to do the mandated reporting correctly. Never the less, it is required. IRS penalties on the financial institution for non-complying reporting can be severe, and can be assessed as far back as the IRS cares to go. You will get little understanding from the IRS for not complying with a 1989 required procedure.

If you have any questions concerning this complicated and required procedure, please contact our Consulting Department.

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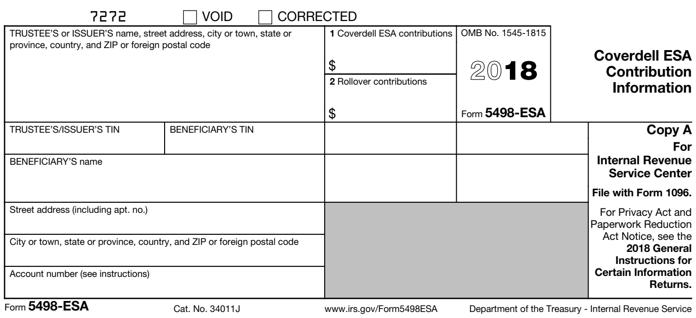
IRS Filing Requirements for the 2018 Form 5498-ESA

Beneficiary Deadline of April 30, 2019 and IRS Deadline of May 31, 2019.


7272 VOID CORRECTED

TRUSTEE'S or ISSUER'S name, street address, city or town, state or province, country, and ZIP or foreign postal code

1 Coverdell ESA contributions $

2 Rollover contributions $

OMB No. 1545-1815

2018

Form 5498-ESA

Coverdell ESA Contribution Information

TRUSTEE'S/ISSUER'S TIN | BENEFICIARY'S TIN

BENEFICIARY'S name

Street address (including apt. no.)

City or town, state or province, country, and ZIP or foreign postal code

Account number (see instructions)

Copy A For Internal Revenue Service Center

File with Form 1096.

For Privacy Act and Paperwork Reduction Act Notice, see the 2018 General Instructions for Certain Information Returns.

Form 5498-ESA Cat. No. 34011J www.irs.gov/Form5498ESA Department of the Treasury - Internal Revenue Service

The IRS has issued the following procedures for preparing and filing Form 5498-ESA. The IRS processes a low number of paper Forms 5498-ESA. If you are eligible to file a paper form, you may complete this form online at IRS.gov/Forms5498ESA. You may send the IRS the black and white Copy A with Form 1096. You may furnish copy B to the beneficiary. If you are required to file electronically with the IRS (filing 250 or more Forms 5498-ESA), then you must do so.

The CESA custodian is required to prepare the 2018 Form 5498-ESA for each CESA for which a reportable contribution was made for tax year 2018. Such contribution may be an annual contribution, a rollover contribution or a transfer contribution. You are not required to prepare this form if no reportable contributions were made for the 2018 tax year.

Note, the CESA custodian is not required to prepare Form 5498-ESA for any person just because the person has a CESA balance as of December 31, 2018.

Also, the CESA custodian is not required to prepare Form 5498-ESA for any person who took a total distribution during 2018 and who made no reportable contribution.

By April 30, 2019, the CESA custodian must furnish the beneficiary with the 2018 Form 5498-ESA if there was a reportable contribution for 2018.

By May 31, 2019, the CESA custodian must furnish the IRS with the 2018 Form 5498-ESA if there was a reportable contribution for 2018.

Email Guidance – 2019 RMD Calculation if Deferred the 2018 RMD

Q-1. We have a client that turned 70½ last year, but opted to take his 1st distribution (the 2018 RMD) this year (2019).

He just took the 2018 RMD, and is planning to take his 2019 RMD later in the year.

Is there a specific way to calculate the 2019 RMD? We are struggling finding anything in the manuals about this. (We do not have a spouse beneficiary that is more than 10 years younger.)

Do we subtract the 2018 RMD amount from the 12/31/18 IRA balance and use that amount divided by the factor from the Uniform Life Table?

A-1. We understand the IRS when it rewrote the RMD rules in 2002-2003 it intentionally adopted a very simple calculation.

The general rule is – in order to determine the RMD for 2019 the FMV as of 12/31/18 is divided by the 2019 divisor.

The IRS rule provides there is only one time or situation where the 12/31/18 FMV balance is adjusted. It is to be adjusted by any outstanding rollover or transfer.

This balance is not adjusted for carry-back contributions (IRA, SEP, SIMPLE). And it is not adjusted when a prior year's RMD is withdrawn in a subsequent year.

So, although it would be fair and logical that a person who has exercised their right to be distributed their 2018 RMD between January 1 to April 1, 2019, should be able to have their 2019 RMD determined by adjusting the 12/31/18 balance for the 2018 RMD, the IRS did not adopt this approach. It wanted a very simple approach and it adopted one. This means a person who defers their 2018 RMD until the following year will have a 2019 RMD larger than it would haven been had the person taken their 2018 RMD in 2018.

IRS Toughens EIN Application Process Form SS-4

The IRS exists to collect tax revenues. The IRS understands that income taxes will generally be paid one day when the tax deferred funds are withdrawn from IRAs, 401(k) plans and other retirement plans.

A 401(k) plan and trust or other retirement plan must have an Employer Tax Identification Number (EIN).

An IRA is generally not required to have an EIN. An EIN is unneeded if the IRA contributions have been invested in a bank's savings or time deposits. There are times when an IRA trustee will find it beneficial to have a unique EIN for a specific trust IRA or a custodial self-directed IRA. There are other times an IRA trustee/custodian will want to be assigned a special EIN for transacting business an IRA trustee for a number of trust IRAs or custodial self-directed IRAs.

An IRA trust or custodial self-directed IRA which is required to file Form 990-T, Exempt Organization Business Income Tax Return, must have an EIN.

On March 27, 2019, the IRS announced new tougher requirements for obtaining an Employer Tax Identification Number (EIN). The IRS believes these new procedures will provide greater security to the EIN process. In plain English, this means the IRS has concerns about EINs being issued to certain corporate and other non-individual requesters. The IRS wants to be able to pinpoint who is primarily responsible for the tax matters of a corporate entity or any multiple person entity.

An EIN is a nine digit tax identification number assigned to corporations, partnerships, limited liability companies, sole proprietorships, estates, trusts, employee retirement plans, IRAs, churches and other entities for tax filing and reporting reasons.

An EIN is to be used only on account of a business activity or a non-individual activity.

Commencing May 13, 2019, the person submitting a request for a new EIN must be an individual (a person) who has either a Social Security number (SSN) or an individual taxpayer identification number (ITIN). This person is defined to be the responsible party. No longer can a corporation submit a request by submitting either the print version of Form SS-4 (Application for EIN) or thee-version as on-line. The IRS has issued procedures for applying online, applying by telephone, applying by fax and applying by mail. See the instructions for Form SS-4. The online application can be used only if the responsible party has their legal residence in the U.S. or a U.S. possession. The IRS issues a responsible party only one EIN per day.

The IRS defines a "responsible party" as being a the person who ultimately owns or controls the entity or has effective control of the entity. This person as a practical matter controls and directs the entity, including the use of funds. There can only be one person who is the responsible party. A committee or team approach is impermissible.

For tax exempt entities (including IRAs and employee retirement plans) the responsible party is the same as the principal officer as defined in the instructions for Form 990 and Form 990-T.

A tax professional acting as a third party designee continues to have the authority to submit applications on behalf of a client.

The IRS must be notified when there is a change in the responsible party. This is done by completing and filing Form 8822-B, Change of Address or Responsible Party. It must be filed within 60 days of the change.

The IRS believes this new requirement that only a person may be the responsible party for filing Form SS-4 purposes will improve the transparency of numerous tax transactions and improve tax compliance. Time will tell.

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Form **SS-4** (Rev. December 2017) Department of the Treasury Internal Revenue Service

Application for Employer Identification Number
(For use by employers, corporations, partnerships, trusts, estates, churches, government agencies, Indian tribal entities, certain individuals, and others.)
▶ Go to *www.irs.gov/FormSS4* for instructions and the latest information.
▶ See separate instructions for each line. ▶ Keep a copy for your records.

OMB No. 1545-0003

EIN

Type or print clearly.

1 Legal name of entity (or individual) for whom the EIN is being requested

2 Trade name of business (if different from name on line 1)

3 Executor, administrator, trustee, "care of" name

4a Mailing address (room, apt., suite no. and street, or P.O. box)

5a Street address (if different) (Do not enter a P.O. box.)

4b City, state, and ZIP code (if foreign, see instructions)

5b City, state, and ZIP code (if foreign, see instructions)

6 County and state where principal business is located

7a Name of responsible party

7b SSN, ITIN, or EIN

8a Is this application for a limited liability company (LLC) (or a foreign equivalent)? . . . . ☐ Yes ☐ No

8b If 8a is "Yes," enter the number of LLC members . . . . . . ▶

8c If 8a is "Yes," was the LLC organized in the United States? . . . . ☐ Yes ☐ No

9a **Type of entity** (check only one box). **Caution**. If 8a is "Yes," see the instructions for the correct box to check.
☐ Sole proprietor (SSN)
☐ Partnership
☐ Corporation (enter form number to be filed) ▶
☐ Personal service corporation
☐ Church or church-controlled organization
☐ Other nonprofit organization (specify) ▶
☐ Other (specify) ▶
☐ Estate (SSN of decedent)
☐ Plan administrator (TIN)
☐ Trust (TIN of grantor)
☐ Military/National Guard
☐ Farmers' cooperative
☐ REMIC
☐ State/local government
☐ Federal government
☐ Indian tribal governments/enterprises
Group Exemption Number (GEN) if any ▶

9b If a corporation, name the state or foreign country (if applicable) where incorporated | State | Foreign country

10 **Reason for applying** (check only one box)
☐ Started new business (specify type) ▶
☐ Hired employees (Check the box and see line 13.)
☐ Compliance with IRS withholding regulations
☐ Other (specify) ▶
☐ Banking purpose (specify purpose) ▶
☐ Changed type of organization (specify new type) ▶
☐ Purchased going business
☐ Created a trust (specify type) ▶
☐ Created a pension plan (specify type) ▶

11 Date business started or acquired (month, day, year). See instructions.

12 Closing month of accounting year

13 Highest number of employees expected in the next 12 months (enter -0- if none). If no employees expected, skip line 14.

Agricultural	Household	Other

14 If you expect your employment tax liability to be $1,000 or less in a full calendar year **and** want to file Form 944 annually instead of Forms 941 quarterly, check here. (Your employment tax liability generally will be $1,000 or less if you expect to pay $4,000 or less in total wages.) If you do not check this box, you must file Form 941 for every quarter. ☐

15 First date wages or annuities were paid (month, day, year). **Note**: If applicant is a withholding agent, enter date income will first be paid to nonresident alien (month, day, year) . . . . ▶

16 Check **one** box that best describes the principal activity of your business. ☐ Health care & social assistance ☐ Wholesale-agent/broker
☐ Construction ☐ Rental & leasing ☐ Transportation & warehousing ☐ Accommodation & food service ☐ Wholesale-other ☐ Retail
☐ Real estate ☐ Manufacturing ☐ Finance & insurance ☐ Other (specify) ▶

17 Indicate principal line of merchandise sold, specific construction work done, products produced, or services provided.

18 Has the applicant entity shown on line 1 ever applied for and received an EIN? ☐ Yes ☐ No
If "Yes," write previous EIN here ▶

Third Party Designee
Complete this section **only** if you want to authorize the named individual to receive the entity's EIN and answer questions about the completion of this form.
Designee's name | Designee's telephone number (include area code)
Address and ZIP code | Designee's fax number (include area code)

Under penalties of perjury, I declare that I have examined this application, and to the best of my knowledge and belief, it is true, correct, and complete. | Applicant's telephone number (include area code)
Name and title (type or print clearly) ▶
Applicant's fax number (include area code)
Signature ▶ Date ▶

For Privacy Act and Paperwork Reduction Act Notice, see separate instructions. Cat. No. 16055N Form **SS-4** (Rev. 12-2017)

Form SS-4 (Rev. 12-2017) Page **2**

Do I Need an EIN?

File Form SS-4 if the applicant entity does not already have an EIN but is required to show an EIN on any return, statement, or other document.[1] See also the separate instructions for each line on Form SS-4.

IF the applicant...	AND...	THEN...
Started a new business	Does not currently have (nor expect to have) employees	Complete lines 1, 2, 4a–8a, 8b–c (if applicable), 9a, 9b (if applicable), and 10–14 and 16–18.
Hired (or will hire) employees, including household employees	Does not already have an EIN	Complete lines 1, 2, 4a–6, 7a–b (if applicable), 8a, 8b–c (if applicable), 9a, 9b (if applicable), 10–18.
Opened a bank account	Needs an EIN for banking purposes only	Complete lines 1–5b, 7a–b (if applicable), 8a, 8b–c (if applicable), 9a, 9b (if applicable), 10, and 18.
Changed type of organization	Either the legal character of the organization or its ownership changed (for example, you incorporate a sole proprietorship or form a partnership)[2]	Complete lines 1–18 (as applicable).
Purchased a going business[3]	Does not already have an EIN	Complete lines 1–18 (as applicable).
Created a trust	The trust is other than a grantor trust or an IRA trust[4]	Complete lines 1–18 (as applicable).
Created a pension plan as a plan administrator[5]	Needs an EIN for reporting purposes	Complete lines 1, 3, 4a–5b, 9a, 10, and 18.
Is a foreign person needing an EIN to comply with IRS withholding regulations	Needs an EIN to complete a Form W-8 (other than Form W-8ECI), avoid withholding on portfolio assets, or claim tax treaty benefits[6]	Complete lines 1–5b, 7a–b (SSN or ITIN optional), 8a, 8b–c (if applicable), 9a, 9b (if applicable), 10, and 18.
Is administering an estate	Needs an EIN to report estate income on Form 1041	Complete lines 1–6, 9a, 10–12, 13–17 (if applicable), and 18.
Is a withholding agent for taxes on non-wage income paid to an alien (i.e., individual, corporation, or partnership, etc.)	Is an agent, broker, fiduciary, manager, tenant, or spouse who is required to file Form 1042, Annual Withholding Tax Return for U.S. Source Income of Foreign Persons	Complete lines 1, 2, 3 (if applicable), 4a–5b, 7a–b (if applicable), 8a, 8b–c (if applicable), 9a, 9b (if applicable), 10, and 18.
Is a state or local agency	Serves as a tax reporting agent for public assistance recipients under Rev. Proc. 80-4, 1980-1 C.B. 581[7]	Complete lines 1, 2, 4a–5b, 9a, 10, and 18.
Is a single-member LLC (or similar single-member entity)	Needs an EIN to file Form 8832, Classification Election, for filing employment tax returns and excise tax returns, or for state reporting purposes[8], or is a foreign-owned U.S. disregarded entity and needs an EIN to file Form 5472, Information Return of a 25% Foreign-Owned U.S. Corporation or a Foreign Corporation Engaged in a U.S. Trade or Business (Under Sections 6038A and 6038C of the Internal Revenue Code)	Complete lines 1–18 (as applicable).
Is an S corporation	Needs an EIN to file Form 2553, Election by a Small Business Corporation[9]	Complete lines 1–18 (as applicable).

[1] For example, a sole proprietorship or self-employed farmer who establishes a qualified retirement plan, or is required to file excise, employment, alcohol, tobacco, or firearms returns, must have an EIN. A partnership, corporation, REMIC (real estate mortgage investment conduit), nonprofit organization (church, club, etc.), or farmers' cooperative must use an EIN for any tax-related purpose even if the entity does not have employees.

[2] However, do not apply for a new EIN if the existing entity only (a) changed its business name, (b) elected on Form 8832 to change the way it is taxed (or is covered by the default rules), or (c) terminated its partnership status because at least 50% of the total interests in partnership capital and profits were sold or exchanged within a 12-month period. The EIN of the terminated partnership should continue to be used. See Regulations section 301.6109-1(d)(2)(iii).

[3] Do not use the EIN of the prior business unless you became the "owner" of a corporation by acquiring its stock.

[4] However, grantor trusts that do not file using Optional Method 1 and IRA trusts that are required to file Form 990-T, Exempt Organization Business Income Tax Return, must have an EIN. For more information on grantor trusts, see the Instructions for Form 1041.

[5] A plan administrator is the person or group of persons specified as the administrator by the instrument under which the plan is operated.

[6] Entities applying to be a Qualified Intermediary (QI) need a QI-EIN even if they already have an EIN. See Rev. Proc. 2000-12.

[7] See also *Household employer* on page 4 of the instructions. **Note**: State or local agencies may need an EIN for other reasons, for example, hired employees.

[8] See *Disregarded entities* on page 4 of the instructions for details on completing Form SS-4 for an LLC.

[9] An existing corporation that is electing or revoking S corporation status should use its previously-assigned EIN.

Email Guidance – Reporting a Direct Rollover into a Roth IRA

Q-1. We have a customer that is transferring funds from an Eligible Retirement Plan to a Roth. Do we code this as a Conversion for tax reporting and check as Rollover on account application?

A-1. Your client has a direct rollover situation as non-Roth funds are moving from an ERP directly to a Roth IRA. There is a deemed distribution.

This transaction is a type of conversion contribution as non-Roth funds are moving from an ERP directly to a Roth IRA. The individual generally must include some or all of the deemed distribution in their taxable income.

However, the Roth IRA custodian reports this contribution as a rollover contribution (Box 2) on the person's 5498 form for the Roth IRA.

See page 8 of the IRS instructions. IRS guidance is that the Roth IRA custodian reports this type of direct rollover as a rollover contribution in box 2 on the Form 5498. It is not reported as a Roth IRA conversion in box 3 on the Form 5498.

The ERP is to prepare the person's Form 1099-R to show that even though the funds are being directly rolled over (reason code G) the amount is taxable because it is being converted and box 2a is to show the taxable amount.

In a standard direct rollover, box 2a is completed with 0.00.

How you complete the Roth IRA application to indicate the type of contribution may differ depending upon who wrote the Roth IRA plan agreement.

Email Guidance – HSAs

Q-1. Attached is the account history for an HSA that was established in 2018. Our customer apparently failed to discuss this with his tax advisor before contributing $6,900 for 2018.

His tax preparer has informed us that $5,175 is an excess contribution. As you can see, he used the account throughout the year and has a current balance far below that excess amount. Please assist us in determining what forms/process is needed to remedy this situation.

A-1. What is the HSA owner and the accountant wanting to do?

The HSA owner (and the accountant) has the primary duty to correct the excess contribution situation by withdrawing the excess amount plus any earnings.

Has the accountant determined the maximum permissible contribution amount by using the pro-rata rule or the last month rule? Was/Is the person eligible to use the last month rule? If so, there need be no excess contribution.

In reviewing the statement you sent, he had 2018 distributions and he has 2019 distributions.

If necessary or requested, you can change the coding of the 2019 distributions to indicate withdrawal of an excess rather than a normal distribution.

You need further guidance from the HSA owner and the accountant. The guidance should be in writing.

I believe there is no need to change the 2018 IRS reporting on Form 1099-SA and 5498-SA. It would be proper to treat all of his 2018 distributions as normal distributions since his eligible contribution amount exceeded the withdrawn amount.

A determination must be made - is there an excess or not?

Is he still covered by the HDHP? Is it single or family?

Any 2018 excess should be withdrawn by 4/15/2019. This will be reported on the 2019 Form -SA. The withdrawal of an excess contribution is a non-taxable event as is the withdrawal of a normal distribution used to pay a qualified business expense. The accountant may want to attach a note of explanation to the 2018 and 2019 tax returns.

Q-2. I just received a call regarding the following:

He made a Health Savings Contribution on March 21, 2018. He had a notation at the bottom of his check which stated HSA- 2017.

The employee did not use the correct Selector Code for Prior Year (2017) so it was added to his account as a Contribution for 2018.

He called today and wanted us to correct this. How would you correct this situation?

A-2. You will need to correct his 2017 Form 5498-SA. Whatever amount he contributed in 2018 for 2017 was/is to be reported in box 3 on the 2017 Form 5498-SA. You will need to prepare a corrected 2017 Form 5498-SA.

I understand the IRS does not require the use of the red/original copy for reporting HSA contributions and distributions.

You may find the 2017 Form 5498-SA on the IRS website. Look at the prior year forms section. You will need to check the "corrected" box if a 2017 Form 5498-SA was prepared for him. If one was not prepared, then you need to prepare his original form now.

You may print the 2017 form from the IRS website (prior year forms) and then mail/furnish one copy to your customer and mail the IRS copy A to the IRS.

This same contribution amount is to reported a second time in box 2 of the 2018 Form 5498-SA along with the contribution amount contributed in 2018 for tax year 2018.

By using this approach the IRS can determine what annual contributions were made for the current tax year during that calendar year and what annual contributions were made during the carry-back period for the prior year. Obviously, the IRS has one system for reporting IRA contributions and a different system for reporting HSA contributions.

You will want to change the Selector Code to show the contribution was for tax year 2017.

Continued on page 7

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HSAs,
Continued from page 6

Double check to see that his 2018 Form 5498-SA will be correct.

Q-3. Our bank is seeking advice on how to handle an HSA situation.

Our customer David N. #250250 set up an HSA with our bank in Dec. of 2017 with his spouse as a signer. During their tax preparations last month, their tax preparer said that due to the changes they made with their insurance plan they now needed the/a HSA in the spouse's name. David was not able to explain much about this switch except that their insurance plan is now under the spouse's name and not his. He indicated that the account was done correctly initially but now they are being instructed to change it.

I assume that we would need to create a new HSA account for the spouse? That changing ownership of the current account would just cause tax reporting confusion or other issues? Would we be able to transfer the funds from the current HSA to the new one if we did have to create a new account? David also wanted to know if he would be able to spend the HSA funds that have already accumulated on qualified expenses?

A-3. Has the tax accountant furnished a written explanation supporting his or her statement that the HSA needs to be in the spouse's name on account of the source of the insurance? I assume they are both covered under a family HDHP.

The tax rules do not require that most of their joint HSA contribution limit ($6900 for 2018) be contributed to his HSA. As you know, a spouse's $1,000 catch-up amount must go into that spouse's HSA, but they may split the $6900 any way they want. It was permissible that a $7900 contribution was made to her HSA. If he was age 50 or older his catch-up amount for 2018 was $1,000.

See the discussion from IRS pub. 969. I have sent the 2015 discussion as IRS has pulled the 2017 version for some reason and the 2018 version is not yet available,

No changes are mandatory for 2019 unless he wants to increase the contribution amount to his HSA. She may still contribute $8,000 to her HSA if they would decide to that.

Short of death or divorce funds may not be transferred between the spouse's HSAs.

An HSA owner is authorized to pay their own medical expenses, those of their spouse and of any dependent. There is no reason for her to close her HSA. I assume she is still HSA eligible. That is, she is not covered by a low deductible plan.

I will review whatever the tax accountant furnishes, but there is no law requiring that his HSA be the primary HSA unless his employer is making an HSA contribution.

Email Guidance – Inherited IRAs

Q-1. If we mail an IRA beneficiary their RMD check at the end of last year and they lose it does that cause a problem if we reissue the check?

A-1. I am unaware of any guidance issued by the IRS on this situation.

I believe the IRA beneficiary received the distribution in 2018 so it is income for 2018 tax purposes regardless that the check was lost or misplaced.

The 2018 distribution is to be reported on a 2018 Form 1099-R. The replacement distribution made in 2019 is not to be reported for IRS reporting purposes.

Q-2. An IRA customer who was in RMD status has passed away yesterday. The IRA is being distributed into 6 inherited IRA's between children in their 60's and grandchildren in their 40's. The RMD for this year has not been taken yet. I will transfer to the inherited IRA's and split the 2018 RMD 6 ways. If they decide to leave the inherited IRA's here I will distribute using the single life table depending on their age, beginning next year. If they decide to transfer, the have to transfer to an inherited IRA at another institution. If they decide to close, I would make the check payable them as the beneficiary of the inherited IRA of my customer. I want to make sure I am doing all of this correctly.

A-2. Your discussion is correct. I suggest for those who instruct they wish to close, double-check to make sure

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Inherited IRAs
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they understand, once paid the inherited IRS funds their decision is irrevocable and there is no undoing the distribution because a non-spouse has no rollover rights.

Q-3. I have a Beneficiary IRA question... I have a customer who is 79 years old and just became the Beneficiary of her daughter's IRA. The daughter was only 49 years old so was not taking an RMD yet. I am transferring the deceased daughters IRA to a beneficiary IRA for the mother but wondered what if I use the single life table then to figure out her annual RMD? Also would it be the 5-year rule or Life expectancy payments option?

A-3. If the IRA owner died in 2019, the beneficiary (her mother) will need to commence taking her first RMD in 2020.

Since the IRA owner died before her required beginning date, the mother may elect the life distribution rule or the 5-year rule.

If the life distribution rule will be used, then I don't believe the law is settled as to how the divisor is determined for the 2020 calculation. There are two options:

The conservative answer is, use the mother's age in 2020 and then use the reduce by one rule for subsequent years.

The non-conservative answer is – determine the joint life of the daughter and the mother as of 2019 and then subtract one for each subsequent year. She must talk with her tax advisor before adopting this option. In general the payout period is based on the age of the daughter and so the distribution period would be much longer.

Why Coverage Under Some HDHP Don't Make a Person HSA Eligible

The fact that a person is covered by a HDHP does not necessarily mean the person is eligible to have HSA contributions made to their HSA. An HSA HDHP must meet a minimum annual deductible requirement and it must meet a maximum limit for out-of-pocket expenses. If one or both requirements are not met, the person is ineligible for an HSA annual contribution. A person always wants something in writing from the insurance company stating the HDHP is one which makes them eligible for HSA contributions. See below for an email on this situation.

Q-1. I had an employee who thought their daughter should be eligible for an HSA as her new insurance at the school she teaches at will be $1,500 deductible for a single plan. The school told her it does not qualify for an HSA. Can you clarify? We usually tell the customer their insurance agent needs to tell them if they are qualified.

A-1. It may be the HDHP does not comply with the maximum limit which applies for out of pocket expenses.

If the HDHP requires the daughter to pay more out of pocket expenses than the HSA rules permit ($6750 for single coverage for 2019), then the HDHP is not one which makes a person HSA eligible.

For example if her employer's HDHP (single coverage) for 2019 requires her to pay out of pocket expenses of $9,000, such HDHP is not HSA eligible as the $9,000 amount exceeds the maximum limit of $6,750. The out of pocket expense limit set forth in the HDHP (HSA eligible) can be set lower than the maximum limit but it can not exceed that maximum limit. For example, this limit could be set at $6,000.

Her employer's plan with the $1,500 deductible does meet the minimum annual deductible requirement. For 2019 the minimum deductible for a HDHP with single coverage is $1,350. With respect to the minimum annual deductible limit, the HDHP may have a deductible larger than the minimum amount, but it cannot be less than the minimum amount.

In order for a person to be HSA eligible, the HDHP must meet both requirements. Exceeding the maximum out of pocket expenses limit is the primary reason a HDHP fails to be HSA eligible.