March 2020
Published Since 1984

The Pension Digest

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"The Pension Specialists"

New IRA and Pension Laws Within the CARES Act

Many U.S. residents will need and will benefit from economic assistance on account of COVID-19. On Friday, March 27, 2020, President Trump signed the "CARES Act", "Coronavirus Aid, Relief and Economic Security Act."

The CARES Act does have some express IRA and pension law changes. Limited relief is provided to individuals who have an IRA or who are participants of a defined contribution plan such as a 401(k) plan, profit sharing plan, 403(b) plan and/or 457(b) plan.

The concept behind the disaster relief laws, including the CARES Act is, let's increase the access people have to their IRA and 401(k) funds to help them survive and/or rebuild, by giving them a longer period in which to repay the distribution and not have it be taxable to the same degree as under standard situations and by giving some relief from the loan rules.

Many taxpayers have funds in IRAs, 401(k) plans and other retirement plans. Often these funds are tax deferred funds, so if a person withdraws these funds the individual will have income taxes to pay. In a disaster situation, the thinking is, let's lessen to a limited degree the taxes a person will pay with respect to a disaster distribution.

RMD Relief

The RMD relief is broad. An IRA accountholder or an IRA beneficiary otherwise required to take an RMD for 2020 no longer does.

In addition there is special relief granted for certain IRA accountholders and certain beneficiaries.

First, the 2020 RMD is waived for those individuals with a birthday between January 1, 1949 and June 30, 2019. These individuals had a required beginning date of April 1, 2020. The SECURE Act as written applied the new RMD age of 72 law only to those individuals not age 70½ or older by December 31, 2019. The CARES Act extends the age 72 rules to these IRA accountholders and they are not required to take an RMD for 2020.

The second RMD relief provision has to do with the 5-year rule for certain beneficiaries . The 2020 year is not to be considered in applying the 5-year rule, if applicable. So, a beneficiary will be given one additional year to close the inherited IRA.

An IRA custodian is administering some inherited IRAs where the IRA accountholder died before January 1, 2020, died before his or her required date and the 5-year rule applies to the beneficiary.

For example, John Doe died on July 5, 2015 at age 67. His beneficiary was his daughter, Maria. Maria had elected the 5-year rule. Her deadline to close the inherited IRA was December 31, 2020. The fifth year containing the anniversary of the IRA owner's death. She now has until December 31, 2021 to close this inherited IRA.

If a person was already distributed their RMD for 2020 are they eligible to re-contribute to their IRA? That is, can a rollover contribution be made?

The answer is "yes" if the IRA accountholder was distributed the RMD and it is "no" if an IRA beneficiary was distributed the RMD. We believe the IRS will need to issue additional guidance on this subject.

Expansion and Extension of the Disaster Relief Laws

The SECURE Act had expanded the disaster relief, but it applied to any disaster occurring between January 1, 2019 and February 28,

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2020. Because it may have been unclear it the COVID-19 had been declared a federal disaster on or before February 28, 2020, the CARES Act expressly defines a new coverage period for the COVID-19 disaster.

The term "coronavirus-related distribution" means any distribution from an IRA or other eligible retirement plan which meets the following requirements. It must be made on or after January 1, 2020, and before December 31, 2020. It must be made to a person who is described in one or more of the following categories:

1. A person diagnosed withe the virus SARS-CoV-2 or with the coronavirus disease 2019 (COVID-19) by a test approved by the CDC (Centers for Disease Control and Prevention).;

2. whose spouse or dependent is diagnosed with such virus or disease by such a test;

or

3. who experiences adverse financial consequences as a result of being quarantined, furloughed, laid off, or being unable to work due to lack of child care, or the closing or reducing of a business owned by the individual due to such virus or disease.

An IRA owner who takes a "coronavirus-related distribution" prior to age $59^1/_2$ does now the 10% additional tax.

Sometimes an eligible retirement plan allows a participant to take a distribution on account of a hardship. The definition of a hardship distribution has now been changed to include a "coronavirus-related distribution".

Administratively the IRA custodian or plan administrator is allowed treat a distribution as a "coronavirus-related distribution" as long as the individual furnishes a certification. That is, the IRA custodian or the plan administrator is allowed to rely on the individual's certification and need not verify it.

Generally, when a person takes an IRA distribution or a retirement plan distribution the IRA custodian or the plan administrator has the duty to furnish a disclosure form (section 402(f)) discussing the federal income tax laws and the direct rollover laws. Such laws do not apply to a "coronavirus-related distribution" and the IRA custodian or plan administrator is not required to furnish the disclosure form.

A person who may treat his or her distributions up to $100,000 as a "coronavirus-related distribution".

A person who has received a "coronavirus-related distribution" is allowed to spread the distribution in income over a 3-year period. Beginning with the year the distribution occurred.

A person who has received a "Coronavirus-related distribution" is allowed to repay the distribution at any time during the 3-year period beginning on the day after the distribution occurs. The person may make one or more re-contributions as long as the aggregate amount does not exceed the distribution. This special treatment applies only if the individual would have been eligible to rollover the distribution under the standard rollover rules. But this distribution is not considered for purposes of applying the once per year rule.

There is also special relief granted to plans which authorize loans to certain participants and then certain relief is granted to participants who have outstanding loans.

First, the maximum loan amount of $50,000 may be increased to $100,000 . The loan must be made during the 180 day period commencing on March 27, 2020.

Second, the loan may be for 100% of the participant's vested account balance rather than 50%.

Third, any loan payment scheduled between March 27, 2020 and December 31, 2020 may be delayed for one year. Any subsequent repayment of a deferred loan shall be appropriately adjusted for additional interest. With respect to the 5-year repayment rule it will not be adjusted on account of the delayed payments.

In general, an employer will be required to adopt an amendment implementing these law changes by December 31, 2022.

IRS Confirms July 15, 2020 as 2019 IRA/HSA Contribution Deadline

We furnished an email on 3/23/2020 informing you why we believed that the IRS had changed the 2019 IRA contribution deadline to July 15, 2020.

Soon after issuing Notice 2020-18 on March 20, 2020, the IRS issued "Filing and Payment Deadlines Questions and Answers." These Q&As set forth additional guidance.

Q&A-17 as set forth below confirms that the 2019 IRA contribution deadline has been changed by the IRS to be July 15, 2020.

Q17. Does this relief provide me more time to contribute money to my IRA for 2019?

A17. Yes. Contributions can be made to your IRA, for a particular year, at any time during the year or by the due date for filing your return for that year. Because the due date for filing Federal income tax returns has been postponed to July 15, the deadline for making contributions to your IRA for 2019 is also extended to July 15, 2020. For more details on IRA contributions, see Publication 590-A, Contributions to Individual Retirement Arrangements (IRAs).

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Q&A-21 as set forth below confirms that the 2019 HSA contribution deadline has been changed by the IRS to be July 15, 2020.

Q21. Does the relief provide me more time to contribute money to my HSA or Archer MSA for 2019?

A21. Yes. Contributions may be made to your HSA or Archer MSA, for a particular year, at any time during the year or by the due date for filing your return for that year. Because the due date for filing Federal income tax returns is now July 15, 2020, under this relief, you may make contributions to your HSA or Archer MSA for 2019 at any time up to July 15, 2020.

The IRS has given no indication that there will be change in an IRA custodian's duty to furnish the 2019 Form 5498 to IRA accountholders, beneficiaries and the IRS by June 1, 2020. Therefore, an IRA custodian/trustee must still furnish a copy of the 2019 5498 Forms to the individual and the IRS by June 1, 2020, as May 31, 2020, is a Sunday.

The IRS will need to issue additional guidance as to how contributions made between April 16, 2020 to July 15, 2020, for 2019 are to be reported on Form 5498. Presumably, they will be reported on the 2020 Form 5498. An IRA contribution form should be completed for the IRA contributions made after April 15 to July 15 to show the contribution is being made for 2019.

Our discussion regarding an IRA custodian's IRS reporting duties also apply to an HSA custodian except the form to be prepared and filed is Form 5498-SA.

We will inform you when and if the IRS issues further guidance.

IRS Establishes July 15, 2020 as 2019 IRA Contribution Deadline

The president has declared a federal emergency with respect to COVID-19.

The IRS changed the filing and payment deadline for 2019 income taxes from April 15, 2020. to July 15, 2020. The IRS issued Notice 2020-18 which revised Notice 2020-17.

We understand this change also impacts the IRA contribution deadline for 2019 IRA contributions. The deadline is now July 15, 2020.

Within Notice 2020-18 the IRS grants relief to any individual, corporation, company, trust, estate, partnership, business association or self-employment individual who owes an income tax payment, an estimated tax or has the duty to file an income tax return or estimated tax return due April 15, 2020. The relief has not yet been extended to other types of taxes or administrative duties. There is no relief for filing and paying other taxes such as Social Security and Medicare taxes. There is no relief (or change) with respect to filing information returns. There is no express discussion of IRAs within Notices 2020-18.

On Wednesday, March 18, 2020, the IRA had issued Notice 2020-17. It had postponed the due date for filing certain income and estimated tax payment forms. It had not extended any payment dates.

The SECURE Act as signed into law by President Trump on December 20, 2020, contained a law change requiring an automatic 60-day extension in the tax filing deadline when a federal emergency disaster has been declared. A federal emergency has been declared with respect to COVID-19. One of the law's express provisions is that the deadline for making IRA contributions is automatically extended. The IRS will need to issue guidance on how this new law applies to the current situation. It is possible the IRA contribution deadline for 2019 will be later than July 15, 2020.

In summary, individuals will have until at least July 15, 2020, to make an IRA contribution for tax year 2019. An IRA contribution form should be completed for IRA Contributions made after April 15 to July 15 to show the contribution is being made for 2019. An IRA custodian/trustee must still furnish a copy of the 2019 5498 forms to the individual and the IRS by June 1, 2020, as May 31, 2020, is a Sunday. We expect the IRS will issue additional guidance as to how contributions made between April 15, 2020, to July 15, 2020, for 2019 are to be reported. We will keep you informed.

Email Guidance – An IRA Owner Can't Transfer IRA Funds to a Child or Grandchild Prior to Dying

Q-1 I have a question regarding a disbursement made from an IRA account. The owner of the account disbursed funds to his children from his IRA. He is expecting that these disbursements would be taxable to the children and not himself. Is this correct if the owner of the IRA is not deceased? Isn't the disbursement taxable to the IRA owner and not the payee party? The children in turn turned the disbursement into a Roth Conversion in their own names. Is this legal?

A-1 Under existing law, an IRA distribution is always considered to be made to the IRA accountholder if the

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Can't Transfer,
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IRA accountholder is still living. This is true even if the IRS or some state department of revenue levies the IRA.

Once the IRA owner dies, then it is the beneficiary who upon taking a distribution includes it in income and pays the tax with respect to the distribution.

There is no authority for a living person to give IRA funds to someone else and have that person pay the income taxes. The IRA owner who withdraws the IRA funds or is deemed to have withdrawn the funds must pay the associated income taxes.

Any child who made a Roth conversion contribution was ineligible to do so. The bank cannot code it as a conversion contribution because the funds did not come from a traditional IRA, SEP IRA or SIMPLE-IRA belonging to that child. If the child was eligible to make an annual Roth IRA contribution and contributed the permissible amount of $6000/$7000 or less the contribution would be permissible. Any amount contributed in excess would be an excess contribution. The child might be eligible to make contributions for both 2019 and 2020.

You do not mention the amount of the IRA distribution or distributions. If he wanted to undo what has occurred, is he still within the 60-day rollover time period?

Email Guidance – Excess Roth IRA Contributions

Q-1 We have a customer that is mostly retired but was still making contributions to his Roth IRA because he does still have some compensation. Now, however, his accountant notified him that he had made an excess contribution for 2019. The accountant has figured the earnings and has directed the Roth accountholder to recharacterize $700 (which will cover his excess contribution and the earnings from it) of the 2019 contribution to be a 2020 contribution.

Would you please direct me on how to do this?

A-1 An interesting question, but additional information is needed.

When did he make the contribution? What date and year?

I'm guessing but I don't believe "recharacterizating" describes what the accountant and the customer are requesting.

Recharacterizing means changing the type of contribution from a traditional IRA contribution to a Roth IRA contribution or vice versa.

Recharacterizing does not apply when a person made an excess contribution for one tax year and then wishes to use it to make a partial contribution for a different tax year.

The bank needs to be given the amount of the excess contribution and the amount of the earnings. Knowing the $700 is not enough.

For discussion purposes I will assume the excess contribution is $680 and the earnings were $20. The excess contribution was made in 2019 and the re-contribution occurs in 2020. Two approaches may be considered for correcting the excess contribution situation.

Approach #1. The individual withdraws the $700 in 2020 and then contributes the $700 for tax year 2020. See CWF Form 67-R for 2019. The purpose of this form is to inform the person, you must include the income of $20 on your 2019 tax return even though you will not be given your 2020 Form 1099-R reporting this distribution until January of 2021. The individual will be furnished a 2019 Form reporting the total 2019 Roth IRA contributions and a 2020 Form 5498 reporting the total of his 2020 Roth IRA contributions. The individual does not owe the 6% excise tax and the individual is not required to file the 2019 Form 5329 indicating he had made an excess contribution because he will have corrected the excess prior to April 15, 2020.

Approach #2. The individual does not withdraw the $700 in 2020. Rather, he carries it forward (the $680) and uses it as part of his 2020 Roth IRA contribution. It is his duty (or the accountant's) to explain the situation on his tax returns for 2019 and 2020. He owes the 6% excise tax for 2019 or $40.80 ($680 x .06). He is not required to withdraw the $20 of earnings. He would be required to file the 2019 Form 5329 showing he owes the $40.80. Some people find it easier to pay the $40.80 so they don't have to furnish the explanation on the 2019 and 2020 tax return.

Q-2 I have a customer over 59½ that made a 2019 over contribution of $1500. I am using form #67-R. How do I code the Excess Contribution withdrawal?

A-2 Was the excess Roth IRA contribution for 2019 made in 2019 or 2020?

If made in 2019 use code JP.

If made in 2020 use code J8.

The withdrawal of income associated with an excess contribution is taxed in the year the contribution is made. It is not necessarily taxed for the year the contribution was made for.

Two examples.

#1. the income associated with an excess contribution made in 2020 for 2019 but withdrawn in 2020 is taxed on the 2020 tax return. Code J8 applies

#2. the income associated with an excess contribution made in 2019 for 2019 but withdrawn in 2020 is taxed on the 2019 tax return even though it gets reported on the 2020 Form 1099-R. Code JP applies.

Email Guidance – Transfers, Direct Rollovers and Rollovers

Q-1 If a customer has an existing Traditional IRA plan and then would like to Transfer more funds in from another bank. Clearly, its Traditional to Traditional, Roth to Roth, but do we also need to look at where the funds came from that are within those plans. Such as from a 401(k) plan, etc? Or should we Just stay high level at the Traditional to Traditional, etc?

A-1 An IRA custodian must determine what type of transfer is taking place? Some transfers are IRS reportable and some are not.

Many people use the terms transfer, rollover and direct rollover to describe the same transaction. They should not, but the do. You being on the front line dealing with customers and other third parties must figure out what is the actual transaction taking place. These three terms have defined meanings for IRS reporting purposes.

A true transfer means IRS reporting is not required by either the paying entity or the receiving entity. That is, no Form 1099-R is prepared and !her is no reporting of the transfer on the Form 5498. A Form 5498 is still prepared showing FEM. A true transfer, in general, occurs when funds from one traditional IRA go to a second traditional IRA or from one 401(k) plan to a second 401(k) plan. Same plan to same plan.

A transfer never occurs when 401(k) funds are sent directly to the IRA custodian. Such a movement is a direct rollover. The 401(k) administrator will prepare a Form 1099-R and the IRA custodian reports the rollover contribution on the Form 5498.

When there is a Roth IRA conversion contribution made by moving funds from a traditional IRA, SEP IRA or SIMPLE-IRA, such a transaction is always IRS reportable. A Form 1099-R is prepared to report the deemed distribution from the traditional IRA, SEP IRA or SIMPLE-IRA and the Form 5498 for the Roth IRA is prepared showing the Roth IRA conversion contribution.

Please call if you have further questions. I suggest the possibility that you and others attend our 90-120 minute webinar on rollovers and transfers and direct rollovers. It is informative. There is no way around it, there are many rules, and many of the rules are complicated.

Q-2 Do you know any of the rules with IPERS when an employee separates and their getting at the funds? If so, could you give me a call. IPERs is the Iowa Public Employees Retirement System.

A-2 I believe the standard employer rules for QP distributions apply to IPERS. There are no special rules for IPERS or other state plans.

IPERS must furnish the participant with a form explaining the tax rules which apply to the participant and their distribution/direct rollover rights or options. This form is called a section 402(f) distribution form.

What form has been furnished the individual?

I presume the IPERS plan gives the retiree or the terminated employee the option or receiving distributions from the plan over their life or they can take a lump sum distribution. The lump sum distribution could be a cash distribution or it can be directly rolled over into their IRA.

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Q-3a I have a new IRA customer that would like to move her SIMPLE-IRA to a traditional IRA here. How would we handle transferring/converting that to a Traditional?

A-3a You should complete a transfer form and send it to the other institution. See attached - our form #56 or #956. Either one may be used.

Note the 2-year rule. Verify that your customer has met the 2-year requirement.

The other institution should furnish you a copy of the signed transfer form along with its check.

Q-3b I received a check but I did not receive the signed transfer form. Is this something I will need to have for their file or does a copy with our signatures on it work?

They sent the check with a memo SIMPLE to Traditional Rollover. Should I code this as a direct rollover or a transfer?

A-3b Moving funds from a SIMPLE to a traditional is never a direct rollover. A direct rollover requires the sending entity to be a 401(k) or other employer plan, but not a SEP or SIMPLE.

Who is the payee of the check? the bank? The individual? Or both?

If it is the bank I believe you can process or code as a transfer.

The customer may wish to confirm with the other institution that it will NOT be preparing the Form 1099-R as a result of this transaction. If the other institution will be preparing a Form 1099-R, then we should discuss further.

Q4 Does the day you receive the distribution from an IRA count as a day for the 60? Had a bank customer receive a distribution on 12/9 and they deposited the funds with the bank on 2/7.

A4 The 60-day period starts to run on the first day following the date of receipt. See attached.

This would be December 10th. February 7 was day 60 of the 60-day period.

Initially, the IRS had adopted the position the 60-day period commenced on the date of receipt. It took some time, but the IRS finally changed its position to commencing on the after the day one receives the distribution.

IRS discussion from page 21 of Publication 590-A

Time Limit for Making a Rollover Contribution

You generally must make the rollover contribution by the 60th day after the day you receive the distribution from your traditional IRA or your employer's plan.

Example. You received an eligible rollover distribution from your traditional IRA on June 30, 2019, that you intend to roll over to your 403(b) plan. To postpone including the distribution in your income, you must complete the rollover by August 29, 2019, the 60th day following June 30.

The IRS may waive the 60-day requirement where the failure to do so would be against equity or good conscience, such as in the event of a casualty, disaster, or other event beyond your reasonable control. For exceptions to the 60-day period, see Ways to. get a waiver of the 60-day rollover requirement, later.

Q-5 We need your expertise to determine available options for our customer.

On Dec 26, 2018, the customer came in to open a CD, and according to the Branch, did not mention they wanted an IRA CD. They are just now realizing the account was opened as a regular CD and would like it changed to an IRA rollover. It is possible for the customer to do a self-certification? If so, would you let us know where we can find the form? If not, does the customer have any other options?

A-5 See the attached two forms.

Form 65-C is used if the mistake was the customer's fault. You indicated this is the situation. A late rollover gets reported in box 13a on the Form 5498 and not in box 2 which reports on-time rollovers.

Form 65-WR is used if the mistake was the bank's fault.

Q-6 We have a customer whom is wanting to wire in funds from his 401(k) to a Traditional IRA Plan. Have you ever heard or believe it to be permissible for funds to come via wire as opposed to the Check. I'm just thinking that typically the check provides paper trail and it is made to us FSB FBO the customer. The wire would

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have to come through a wire clearing account for further credit to the customer's IRA CD. There is still a paper trail with the wire documentation but I had just never heard of that before and wanted to make sure if it was ok to do so.

A-6 Who is the sending entity? What's the name of the 401(k) plan, the sponsor of the 401(k) plan and the name of any third party assisting this plan?

Technically a wire fund approach creates tax problems for the IRA custodian and for the remitting plan because there are prohibited transaction concerns. I understand these funds go into a general bank account and not into segregated account. Can/will the 401(k) plan furnish you some written explanation why the wire transfer approach is acceptable to the IRS?

I am unaware that the IRS or the DOL has issued guidance that a wire transfer is permitted because a special exemption to the PT rules have been granted. But the IRS may have?

In this day and age one would think the IRS and the DOL would authorize a wire transfer as a way to accomplish a direct rollover as long as certain procedures are followed, but I don't think they have.

Email Guidance – Transferring a Rollover IRA

Q-1A I am working to help a customer move a current rollover IRA account with Fidelity to an IRA account of the bank.

Would this be completed as a transfer since the funds are already in an IRA account with Fidelity or still as rollover funds?

A-1A I understand the account with Fidelity is an IRA (albeit a rollover IRA) and not a pension plan account.

It is best if it is transferred from her IRA with Fidelity to an IRA with ABC.

The fact that her IRA with Fidelity came into it being because there was a rollover from another IRA or a pension does not require that the current movement be a rollover.

Q-1B Yes, her statement that I had to prepare my transfer paperwork read "Fidelity Rollover IRA for customer name - rollover IRA". I know these were originally 401(k) funds of the accountholder years ago and then were moved to this account. So I assumed it should now just be transferred.

However, their distribution check to me has on the stub "FMT Co Cust IRA Rollover FBO of customer name" leading me to think they are doing it as a rollover

A-1B It is not as clear as I would like, but I believe Fidelity is handling it as a transfer. I assume ABC is the payee of the check and not the customer.

Fidelity by using its titling has identified this "rollover" IRA as a conduit IRA. ABC need not use the same titling when you establish her IRA.

Does Fidelity sign a transfer Form and furnish you a copy?

My guess is - FMT Co Cust IRA Rollover FBO of customer name is just way of referencing what account was closed or involved in the transfer.

Email Guidance – Roth IRA Conversion When There is Basis

Q-1 I have a client who would like to open a Roth IRA and convert his traditional IRA (roughly $27k) to ROTH. The sticker in this plan is that he just told me that his 2018 contribution of $6500 was NOT deductible and we were unaware of this until now.

How do we handle the conversion? What amount is reflected on the 1099R?

A-1 A person is able to convert their entire IRA when their IRA has basis.

For example, a person has a traditional IRA with a balance of $27,000 with basis of $6500. He can convert the $27,000. He will include in income the amount the amount of $20,500 because he is able to exclude from income the $6500.

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Roth IRA Conversion,
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It sounds like you client is willing to convert the entire IRA. This makes it simple. He understands he must include in income the taxable portion.

Box 1 (gross amount) and box 2a (taxable amount) would be completed with $27,000. He will have to complete Form 8606 (Part II) to handle/explain the non-deductible portion of the distribution.

Remember the general taxation rule. a person must aggregate all of their traditional IRAs SEP IRAs and SIMPLE IRAs wherever located in order to determine the taxable portion and nontaxable portion of an IRA distribution. That you cannot convert just the basis portion when there is basis and a taxable portion.

The current market loss situation presents an interesting tax situation. Assume the following:

Deductible contributions of	$42,000
Earnings on the deductible	$20,000
Nondeductible contribution	$10,000
Earnings on the nondeductible	$3,000
Total Balance as 12/31/19	$75,000

The current balance as of 3/23/20 is $60,000 on account of the market crash. This person could convert the $60,000. The taxable portion is $50,000. Deductible contributions and earnings are taxable. Nondeductible contributions are nontaxable. The non-taxable portion is $10,000. The investment loss of $15,000 is negative income and reduces the taxable income from $23,000 to $8000. Note that none of the investment loss is allocated the basis amount.

Email Guidance – Right to Stop or Reduce SIMPLE-IRA Contributions

Q-1 Are people able to reduce their contributions to their SIMPLE IRAs due to the current crisis?

A-1 A person has the right to stop their elective deferrals by giving the proper notice to the employer. Then, the question becomes, if and when, the person can re-start that year.

Whether the person is allowed to decrease their elective deferral amount (but not stop it) depends upon how the employer completed it's plan in Article II. The plan should define when the contribution amount can be decreased or increased.

Email Guidance – Understanding SIMPLE-IRA Contribution Limits

Q-3 I was wondering if you could maybe explain the way the contribution limits work for SIMPLE-IRAs? We have a few of those plan types here buy never any issues with people going over the $13,000/$13,500 amounts (plus the catch-up contribution) so I haven't ever worried too much on how to interpret the IRS rules for them.

However I have a customer that tried to do a Prior Year Contribution for $19,987. They were over 50 years old last year. I went to the IRS website to reread some information about contributions since I know there's a part that's based on salary but I think I'm just getting confused on how it works.

https://www.irs.gov/retirement-plans/simple-ira-plan-faqs-contributions

As the IRA custodian, what should we be allowing for contribution limits? The smaller $13,000/$13,500 amounts or the annual limits of $280,000/$285,000?

A-3 A person may certainly make a prior year SIMPLE-IRA contribution of $19,987 and not have any excess contribution concerns. Why?

What can be confusing is, a person who is a participant SIMPLE-IRA plan is allowed to make an elective deferral of the $13,000/$13,500 plus the catch-up, but then the EMPLOYER (including a one person business) must also make its EMPLOYER contribution. These contributions are aggregated. The EMPLOYER contribution will either be 3% of the person's eligible compensation or 2% of such compensation. The SIMPLE-IRA plan agreement requires the employer to make either a matching contribution (1-3%, but normally 3%) or a non-elective contribution of 2%.

Most core processing system try to implement the standard contribution limits, but do not address the EMPLOYER contribution. In order to determine the employer's contribution for a person their compensation must be known. Almost always a bank will not have this information. The Core systems many times will generate various reports incorrectly showing that a SIMPLE-IRA participant has made an excess contribution.