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THE Pension Digest

ALSO IN THIS ISSUE –

Collin W. Fritz and Associates, Inc.,
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The DOL Issues a Final Fiduciary Rule and a Proposes a New Major Prohibited Transaction Exemption

Most banks will be pleased with the recent actions taken by the DOL. So too will be insurance companies and securities firms.

On July 7, 2020, the DOL adopted a new regulation or rule defining who is an investment advice fiduciary. It became effective immediately as of July 7, 2020. The DOL has reinstated the 5-part definition of a financial advisor fiduciary. The law has not changed that a person or entity is a fiduciary if it has any discretionary authority with respect to the IRA or the plan.

Also on July 7, 2020, the DOL proposed a new rule or regulation creating a new prohibited transaction exemption which would allow an IRA custodian (and certain employees) to receive compensation from third parties on account of an IRA transaction. Generally, the receipt of such compensation is a prohibited transaction. The DOL has asked for comments and the comment period ends on Thursday, August 6, 2020. The proposed rule creates a new prohibited transaction exemption for entities and persons who provide investment advice to IRA owners, employers, workers and retirees.

The rules for banks and other financial institutions have become simpler. In this case simpler means, still complex, but less complex. There will not be as much concern about lawsuits, either by individuals or the DOL.

The statutory law provides a person who otherwise is a not a fiduciary is an investment advice fiduciary if he or she provides investment advice for a fee or other compensation, direct or indirect, with respect to plan assets, or has the responsibility or authority to do so. The term "person" encompasses both a financial institution and an investment professional. In 1975 the DOL defined the term "investment" advice. A person who otherwise was not a fiduciary will be defined to be an investment advice fiduciary if he or she meets all five of the following conditions and also receives a related fee or other compensation:

A. renders advice to the plan as to the value of securities and other property, or makes recommendations as to the advisability of investing in, purchasing, or selling securities or other property,

B. On a regular basis,

C. Pursuant to a mutual agreement, arrangement, or understanding with the IRA owner, plan fiduciary or plan that,

D. The advice will serve as the primary basis for the investment decisions, and that

E. The advice will be individualized based on the particular needs of the IRA or the plan.

The DOL has made the following changes. The DOL did not give the public the right to comment.

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DOL,
Continued from page 1

1. The old 1975 regulation defining who is an investment fiduciary has been reinstated. This regulation was known as the 5-part test. This 5-part test was replaced by an Obama administration IRA regulation adopted in 2016. The 2016 fiduciary rule was vacated by the 5th Circuit Court of Appeals so the Obama rule is treated as if it never existed.

2. In 2016 the Obama administration had amended the following prohibited transaction exemptions: PTE 75-1, 77-4, 80-83, 83-1 84-24 and 86-128). Such amendments were also vacated. Thus, the prohibited transaction exemptions as originally written have been reinstated to their pre-amendment form.

3. The Department Interpretative Bulletin 96-1, regarding participant investment education, has also been reinstated. It too had been modified greatly by the Obama administration.

4. Prohibited transaction exemption 2016-01 and prohibited transaction exemption 2016-02 as created by the Obama Administration were revoked by the 5th Circuit's decision and have been removed. PTE 2016-01 was the Best Interest Contract Exemption. PTE 2016-02 was the Class Exemption for Principal Transactions in Certain Assets Between Investment Advice Fiduciaries and Employee Benefit Plans and IRAs.

5. The DOL has also withdrawn the Proposed Best Interest Contract Exemption for Insurance Intermediaries because it was never finalized. It was related to Exemption 2016-01 and is now inapplicable because PRE 2016-01 has been vacated.

6. A typographical error in the original text of the 1975 regulation has been corrected. One of the five parts of the 1975 regulation was that the advice must serve as "the" primary basis for the investment decision, including a rollover recommendation. The DOL has changed "the" to be "a". The DOL's position now is, a person will be an investment advice fiduciary as long as the recommendation is one of a number of primary factors to be considered and it need not be the most important factor.

The DOL, in general, adopts the position that a bank sponsoring IRAs with the right to self-direct and invest in various non-deposit investment products will not render fiduciary investment advice as long as the sale of such products as equities, fixed income securities, exchange traded funds and annuities are pursuant to a networking arrangement with either a securities firm or an insurance company. The DOL understands that under most such arrangements, bank employees are limited to performing only clerical or ministerial functions in connection with brokerage transactions. This true even if bank employees may forward customer funds or securities and may describe in general terms the types of investments available from the bank and the broker dealer under the networking arrangement. The DOL does not discuss what compensation, if any, may be paid to the bank or its employees under a networking relationship. The DOL will need to furnish this additional guidance.

DOL Proposes New Prohibited Transaction Exemption For Investment Advice Fiduciaries. The DOL's proposal will allow investment advice fiduciaries to broaden the services and products which are made available to IRAs and qualified plans. In turn, this proposed exemption will permit the receipt of compensation or revenue by both financial institutions and an investment professionals whereas under existing law the receipt of such compensation would be a prohibited transaction. Such compensation would include sales loads, commissions, 12b-1 fees, trailing commissions, mark-ups, mark-downs and other revenue sharing arrangements. Such compensation must be reasonable.

This proposed exemption is available to registered investment advisers, broker-dealers, banks and insurance companies and the investment professionals affiliated with the financial institutions. To gain this relief, certain conditions must be met. These will be discussed in a subsequent newsletter. These conditions are still complex, but much less than under the Obama regulation. There is no longer a requirement to maintain a website.

DOL Discussion of Rollovers from Employee Benefit Plans to IRAs and IRAs to IRAs. The DOL retains its position that certain rollovers are Fiduciary Transactions. The DOL's position was definitely strained under the Obama administration and it is still strained under the Trump administration. Under the Obama administration almost every rollover involved a fiduciary decision because of the expanded definition of fiduciary. Although that is no longer the case, the DOL will be trying to argue that certain rollover transactions will still meet the new definition of providing fiduciary investment advice. This subject will be discussed in more detail in a subsequent newsletter.

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Recap of RMD Duties for 2020

Here is a general discussion of RMDs and rollovers for 2020.

1. RMDs have been waived for 2020.
2. An IRA custodian has the duty to inform affected IRA owners that RMDs have been waived for 2020. They need to be informed that the RMD notice they were sent in January no longer applies.
3. A person is free to take an IRA distribution equal to the amount which would have been the amount of their RMD. It gets reported as any other distribution. There is no special distribution reporting for an RMD. Code 7 applies because the person is older than 59½.
4. The standard rollover rules apply to an IRA distribution– the once per year rule and the 60-day rule. Certain rollovers were entitled to special relief, but that special relief ends as of August 31, 2020.
5. An IRA owner who takes a distribution and then makes a rollover contribution must prepare their tax return to show that the amount rolled over is not taxable because it is not included in income.
6. The IRA custodian reports the distribution on the Form 1099-R and the rollover contribution is reported in box 2 of the Form 5498.
7. There will be RMDs for 2021. The 2021 RMD is not determined by adding together the RMD for 2020 and the RMD for 2021. There will only be the RMD for 2021.

There will be a 2021 RMD for any person who attains age 72 in 2021 or they are older.

Certain life expectancy tables have been used to calculate the RMDs for 2002-2019. The RMDs for 2020 have been waived. The IRS has proposed that new life expectancy tables would be used to calculate the RMD for 2021. The IRS might delay the use of these new tables until 2022. The IRS will need to issue additional guidance.

RMDs for 2021

January 31, 2021,will soon be here. Unless there would be another tax law enacted, the RMD rules will again apply for 2021. RMD notices will again need to be furnished by January 31, 2021.

An IRA trustee recently sent the following email. Our discussion follows.

Have you heard any more about the proposed changes to the life expectancy changes that could start in 2021?

Do you know if this will change the factors for inherited accounts that were in place as of 12/31/19? Most of the inherited accounts that we have are under some type of a reduction by 1- either on the beneficiary's life or on the IRA owner life depending on the situation. If the tables change, would it somehow update that factor that is used for the new table and then continue on in the future reducing that factor by 1 starting in 2021? Or are those factors locked in, and it changes for live owners for their RMDs?

CWF Discussion

I have not heard or seen any additional discussion regarding when the proposed RMD life expectancy tables must or may be used.

There are the 3 tables, 2 for living accountholders and 1 for beneficiaries.

I understand that inherited accounts in place as of 12/31/19 are eligible to use the new single life table so the divisor will be a little larger (and the 2021 RMD amount a little smaller) than under the old table.

See page 9 illustrating how the 2021 divisor will be determined if the new table must or may be used.

My guess is – there is a good chance the IRS will delay the mandatory use of the new tables by the IRA custodian until 2022, but may permit an IRA custodian to calculate the 2021 RMDs by using the new table. As proposed the new tables are to be used for 2021. The IRS must adopt the proposed regulation.

We are modifying our MINCAL RMD software so that the RMD calculation may be made by using either the old tables or the new tables. One or the other must be selected.

Email Guidance – Revised IRA Beneficiary Forms

We have been sent a number of email asking about Form 204 because it no longer seemed to be the proper form for a non-spouse beneficiary to complete.

We agree. Most non-spouse IRA beneficiaries will be required to close their inherited IRA by using the 10-year rule. Most child beneficiaries will not be an Eligible Designated Beneficiary (EDB) and are required to use the 10 year rule.

We created a new form, Form 206 to be used by most non-spouse beneficiaries. There two versions, one for traditional IRAs (206) and one for Roth IRAs (206R). The sub-title is, "The Beneficiary is not an EDB or is Subject to the 10-Year Rule or the 5-Year Rule."

Form 204 and Form 204R continue to exist and will be used when the beneficiary is an EDB, including a spouse. But it too has changed because it no longer may be completed by a non-spouse beneficiary which is not an EDB.

Form 206 is set forth below. Contact us if you would like to be furnished a PDF fillable version.

Beneficiary's Distribution Notice and Certification Form and Payment Instruction

The Beneficiary is not an EDB or is Subject to the 10-Year Rule or 5-Year Rule

Beneficiary Information

Name ____________________

Address ____________________

City ____________ State ________ Zip ____________

Date of Birth ____________

Phone: ____________________

____

SSN ____________ Plan No. ____________

Deceased IRA Accountholder Information

Name ____________ SSN ____________

Date of birth of IRA accountholder ____________

Date of death of IRA accountholder ____________

Required beginning date of IRA accountholder ____________

Custodian/Trustee Information

Name ____________________

City ____________ State ________ Zip ____________

Purpose of Form

An IRA beneficiary who acquires an ownership share in an accountholder's IRA upon the death of the IRA accountholder (i.e. inherits) is required by law to commence withdrawing such IRA funds within certain time deadlines.

I am to use this form to instruct the Custodian/Trustee how and when to make distributions to me to comply with the rules.

Rules for the year of death. If the IRA accountholder died before his or her required beginning date, there is no RMD which must be distributed for such year. If the IRA accountholder died after his or her required beginning date, the RMD as determined for the IRA accountholder must be distributed for such year unless the special rule applies for when a surviving spouse is the sole beneficiary. To the extent this amount was not paid out to the IRA accountholder before his or her death, the beneficiary(ies) will need to be paid their proportionate share of the RMD by December 31, or the 50% tax will apply.

Beneficiary's Instruction/Acknowledgment

I hereby instruct you that I am not an EDB (eligible designated beneficiary) for purposes of the beneficiary RMD rules. In order to be an EDB, I must be disabled; chronically ill; a minor or I am not more than 10 years younger than the deceased IRA owner. I have consulted with my adviser (attorney, accountant or financial planner) or I have determined that such consultation is not needed. I understand that the tax rules require me to close the inherited IRA by December 31 of the year containing the 10th anniversary of the IRA accountholder's death. If I fail to do so the 50% excise tax as authorized by IRC section 4974(a) may be assessed. However, if the beneficiary is not a person, such as a charity, an estate or a certain trust, then the 5-year rule applies.

Under this 10-year or the 5-year rule I may establish a periodic distribution schedule so that I may take periodic distributions over the 10/11 year time period, but I am not required to establish such a schedule. I may take nonperiodic distributions.

❍ By checking here I am informing you I want to close. this inherited IRA. The balance to be paid to me is $____________ . If I am a nonspouse beneficiary, I understand any distribution to me is ineligible to be rolled over. The general tax rule is, I will be required to include the distribution amount in my income unless there is some basis.

❍ By checking here I am informing you (the IRA custodian) that I plan to take nonperiodic distributions from this inherited IRA. I will contact you to take these nonperiodic distributions. I have not scheduled to take any periodic distributions. I will need to complete an IRA distribution form for each nonperiodic distribution.

❍ By checking here I am informing you (the IRA custodian) that I plan to take periodic distributions from this inherited IRA as instructed below. I reserve the right to modify this schedule including terminating it.

- ❍ A. Pay me the amount of $____________ per ____________ until the IRA's balance is $0.00. This distribution is to commence on ____________.
- ❍ B. Pay me the amount of $____________ once per calendar year. This distribution is to commence on ____________.
- ❍ C. Other/Define ____________________. This distribution is to commence on ____________.

I instruct you to make payments to:

❍ Me directly by mail to:

- ❍ the address given above; or
- ❍ ____________________

❍ My regular savings account or share account #____________

❍ My checking account #____________

❍ Other/Special Instruction ____________

Beneficiary's Certification

I certify that I am a designated beneficiary of the referenced deceased IRA accountholder and that I am not an EDB. I understand I have inherited ______% of the referenced IRA. I have furnished you with a certified copy of the death certificate or other documentation verifying that the accountholder has died. I have instructed you above as to how to distribute my share of this IRA. I certify that my tax identification number (social security number) and other information are correct.

When signing the withholding certification, I signify that I understand that the initial distribution is subject to federal income tax withholding unless I elect to not have it apply. I also understand that my initial withholding instruction will stay in effect until I change it, and that this distribution may have income tax consequences; therefore, I should consult a tax advisor as necessary. If I do not have sufficient income tax withheld, then I realize that I may have to pay additional tax penalties under the withholding and estimated tax payment rules. **I am aware that if I am a nonspouse beneficiary I am not eligible to roll over any portion of a distribution from this inherited IRA to any other IRA, including another inherited IRA.** I would be able to transfer an inherited IRA if both IRA custodians/trustees complete an inherited IRA transfer form agreeing to the transfer.

I acknowledge that I should complete CWF's Form 61-I, or a similar form, to designate the beneficiaries that will inherit these funds in the event of my death.

If I die during this period, my beneficiary must close my inherited IRA by continuing the period applying to me.

Substitute
FORM W-4P **Withholding Certificate for IRA Pension or Annuity Payments** OMB NO. 1545-0074
Department of the Treasury (IRS)

The instructions to this substitute Form W-4P are on the reverse side, as well as additional discussion of special withdrawal topics. Select #1, #2, or #2 and #3.

1. ❍ I elect NOT to have income tax withheld from this IRA distribution.
2. ❍ I elect to have income tax withheld from this IRA distribution equal to 10% of the amount withdrawn.
3. ❍ I want the following additional amount withheld from each IRA payment. $____________

Signature of IRA Beneficiary Date Custodian/Trustee (Payer) Date

IRA #206 (6/20) White — Custodian/Trustee Yellow — Accountholder Pink — Administrator

9898 ☐ VOID ☐ CORRECTED

PAYER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and phone no.	1 Gross distribution $ 2a Taxable amount $	OMB No. 1545-0119 2020 Form 1099-R	Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.
	2b Taxable amount not determined ☐	Total distribution ☐	Copy A For Internal Revenue Service Center
PAYER'S TIN / RECIPIENT'S TIN	3 Capital gain (included in box 2a) $	4 Federal income tax withheld $	File with Form 1096.
RECIPIENT'S name	5 Employee contributions/ Designated Roth contributions or insurance premiums $	6 Net unrealized appreciation in employer's securities $	For Privacy Act and Paperwork Reduction Act Notice, see the 2020 General Instructions for Certain Information Returns.
Street address (including apt. no.)	7 Distribution code(s) / IRA/ SEP/ SIMPLE ☐	8 Other $ %	
City or town, state or province, country, and ZIP or foreign postal code	9a Your percentage of total distribution %	9b Total employee contributions $	
10 Amount allocable to IRR within 5 years $ / 11 1st year of desig. Roth contrib. / 12 FATCA filing requirement ☐	14 State tax withheld $ $	15 State/Payer's state no.	16 State distribution $ $
Account number (see instructions) / 13 Date of payment	17 Local tax withheld $ $	18 Name of locality	19 Local distribution $ $

Guidance to Prepare the 2020 Form 1099-R to Report a Traditional IRA, SIMPLE-IRA or SEP-IRA Distribution

#1. An IRA includes all investments under one IRA plan agreement. File only one Form 1099-R no matter how many distributions have been made from the investments of the same IRA plan agreement during one year unless different reasons codes apply. Example, Jane Doe is paid a death distribution (reason code #4) from her former spouse's IRA (she did not treat this IRA as her own) and she is also paid a distribution from her only IRA. She is age 65 (reason code #7). One Form 1099-R must be filed for all distributions with a reason code 4 and a Form 1099-R must be filed for all distributions with a reason code 7.

#2. The Form 1099-R and the Form 5498 are per plan agreement forms. If a person, age 65, has two traditional IRA plan agreements and takes a distribution from each IRA, he or she must be furnished two 1099-R forms each having a reason code 7 in box 7. The IRA custodian could be fined $280.00 times 2 if it only created one Form 1099-R. The IRA custodian must file Form 1099-R using the same name and EIN/TIN used to deposit any tax withheld and to file Form 945, Annual Return of Withheld Federal Income Tax.

#3. The IRS wants an IRA custodian to prepare a Form 1099-R for every distribution, even those less than $10.00.

#4. If an IRA custodian is required to file a Form 1099-R, then it must furnish a statement (i.e. a copy of the 1099-R form) to the recipient.

#5. An account number must be used on a Form 1099-R when a recipient has more than one IRA plan agreement and you are required to file multiple Form 1099-R's. However, the IRS encourages an IRA custodian to designate an account number for all Form 1099-Rs which it files.

#6. Never enter a negative amount in any box on Form 1099-R.

#7. Use the name and TIN of the individual or entity which receives-funds from the IRA. Normally, this will be the IRA accountholder. However, if you make a distribution to a beneficiary (whether an individual, trust or estate), then the 1099-R is prepared using the name and TIN of the beneficiary. You do not use the name of the decedent for payments made to beneficiaries after his or her death.

Continued on page 6

2020 Form 1099-R,
Continued from page 5

#8. An IRA custodian has a duty to correct a Form 1099-R that it knows was prepared incorrectly. The correction must be made as soon as possible. See the IRS instructions as a 2015 law does allow the IRA custodian to not correct an incorrect Form 1099-R in some limited situations.

#9. For a distribution from a traditional IRA, SEP-IRA or SIMPLE-IRA boxes 1 and 2a are to be completed with the same amount unless the IRS instructions discuss a special situation.

#10. For a distribution from a Roth IRA, box 2a is to be left blank unless an exception applies.

#11. An IRA custodian will generally check box 2b, taxable amount not determined. There will be times when it is not checked - withdrawal of an excess or current year contribution before the due date, a recharacterization and rolling funds from an IRA into an accepting employer plan.

#12. The total distribution box is also found in 2b. An "X" is to be entered in this box when the amount shown in box 1 is a total distribution. The instructions for the total distribution section of box 2b are not as clear as they should be. It is doubtful if this box applies to IRA distributions; but the instructions are unclear, and an IRA custodian should complete the box pursuant to the instructions. In order for a person to use the favorable 10 year averaging or capital gain treatment he or she must receive a total distribution. Such treatment does not ever apply to any type of IRA distribution. If this box is not checked, the IRS will question an individual's attempt to use 10 year averaging. A total distribution is one or more distributions within one tax year in which the entire balance is distributed. This means if two or more nonperiodic distributions occur in more than one year, then there is no total distribution and the box does not need to be checked. For example, a person with an IRA balance of $30,000 withdraws $10,000 in 2018 and the remainder in 2020 has not had a total distribution. Exception. If periodic or installment payments are made in more than one year, this box is to be marked for the year in which the final payment is made.

#13 For a distribution of contributions plus earnings from an IRA under **section 408(d)(4)**, report the gross distribution in box 1, only the earnings in box 2a, and enter Code 8 or P, whichever is applicable, in box 7. Enter Code 1, 2, 4 or 7, if applicable.

#14. For a distribution of contributions without earnings <u>after</u> the due date of the individual return, under section **408(d)(5)**, leave box 2a blank, and check the "Taxable amount not determined" check box in 2b. Use Code 1 or 7 in box 7 depending on the age of the accountholder.

#15. For a distribution from an IRA that is payable to the trustee of, or is transferred to, an employer plan, or for an IRA recharacterization, enter 0 (zero) in box 2a.

#16. In box 7 indicate the distribution code and enter an "X" in the **IRA/SEP/SIMPLE check box** if the distribution is from a traditional IRA, SEP IRA, or SIMPLE IRA. Do <u>NOT</u> check the box for a distributing from a Roth IRA or for an IRA recharacterization.

#17. **Roth IRAs.** For a distribution from a Roth IRA, report the total distribution in box 1 and leave box 2a blank except in the case of an IRA revocation or account closure and a recharacterization. Use Code J, Q, or T as appropriate in box 7. Use Code 8 or P, if applicable, in box 7 with Code J. Do not combine Code Q or T with any other codes.

However, for the distribution of excess Roth IRA contributions, report the gross distribution in box 1 and only the earnings in box 2a. Enter Code J and Code 8 or P in box 7.

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Email Guidance - New Form For the Repayment of a Disaster Distribution

We have received a number of emails asking if we have a form for when a recipient of a disaster distribution wishes to repay some or all of the disaster distribution.

We do. See Form 65-DIS as set forth below.

Special Repayment/Rollover Certification Form — for Use by Individuals Related to Certain Disasters

Purpose. The purpose of this form is to document a repayment or rollover under the special repayment/rollover rules applying to certain federally declared disasters.

To: IRA Custodian/Trustee

Date: ______________________________
Phone: ____________________________

Name ____
Address ____
City _______________________________ State _____ Zip ______________

From: IRA Accountholder

Name ____
Home Address ____
City _______________________________ State _____ Zip ______________
County ____________________________ Date of Birth _________________

Phone: Home ________________________
Work ________________________
SSN _________________________________

Re: Irrevocable election to make an IRA repayment/rollover contribution in the amount of $_________________ to my ❍traditional IRA or ❍Roth IRA.

IRA Plan No.______________________

I hereby certify that the cash or other property I contributed to the IRA referenced above qualifies to be repaid. I have made this repayment/rollover within three years from the day after the date I received the distribution. I received the distribution on ______________________ (insert date), with respect to the ______________ disaster and I made this repayment contribution on ______________________ (insert date).

I also certify that (1) my main home was located in a disaster area as defined in the Special Discussion section on page 2 of this form; (2) I have complied with the $100,000 limit, and I acknowledge that any amount in excess of the $100,000 limit will be an excess contribution; and (3) this distribution came from the following type of eligible retirement plan:

1. ❍ A qualified pension, profit-sharing, or stock bonus plan (including a 401(k) plan)
2. ❍ A qualified annuity plan
3. ❍ A tax-sheltered annuity contract
4. ❍ A governmental section 457 deferred-compensation plan
5. ❍ A traditional, SEP, SIMPLE, or Roth IRA

Signature & Certification

I acknowledge that you have instructed me to consult with my legal or tax advisor because of the complexity and importance of this matter. I acknowledge I have read the reverse side of this form. I expressly assume all responsibility for the tax consequences of this special repayment (i.e. rollover) contribution. I acknowledge that I have not relied on any statements made by personnel of the custodian or trustee. I also certify that I am not rolling over any part of a required minimum distribution (i.e. distributions required for the year I attain age 72 and for each subsequent year). I understand that the tax consequences related to depositing funds in an IRA which do not qualify for rollover treatment are extremely harsh and I hold you harmless if I make such a deposit. I understand my rollover election or instruction is irrevocable. I also expressly acknowledge that if I have rolled over any after-tax employee contributions into my IRA, I am solely responsible to account for such contributions now and in the future.

Signature of Accountholder ____ Date ______________

Signature of Acknowledgment of Custodian/Trustee _______________________________ Date ______________

65-DIS (7/20) – Page1 White — Custodian/Trustee Yellow — Accountholder

Email Guidance – Inherited IRAs

Q-1. On an inherited IRA with the new 10-year rule payout, does that include ROTH IRAs also? Or what is the rule to follow for an inherited ROTH IRA?

A-1. The ten year rule applies to both Roth IRAs and traditional IRAs.

From a logic standpoint, most beneficiaries should use one approach for withdrawing funds from their traditional IRA and a different approach when withdrawing funds from the Roth IRA.

To possibly lessen the taxes to be paid a traditional IRA beneficiary will choose to spread out the distributions over ten years (or 8 or 5 etc). With a Roth IRA, the distribution almost always will be tax-free. The beneficiary, in order to maximize the earning of tax-free income may wait and will take a lump sum distribution in the final year. Any earlier distribution will reduce the amount of tax free income which can be earned.

Q-2. We have an Inherited Roth IRA beneficiary who has taken a distribution, and we're not sure how to code it for reporting (J, Q, T).

The original owner passed in 2018. The beneficiary (non-spouse) was born in 1975 (she's 45 years old), and we opened the inherited IRA account in April of 2019.

A-2. Code J is never used to report a distribution to a Roth IRA beneficiary. Code Q or code T will be used.

The fact determining which code is to used by Custodian #1 is - when was this Roth IRA first opened with Custodian #1 by the original owner or by the beneficiary?

If it was 5 years ago or more, then code Q (qualified and tax free) is to be used.

If it was less than 5 years, then Code T (non-qualified and may or may not be taxable) is to be used.

For purposes of this 5-year rule, the time period of the beneficiary is combined with the time period of the original owner. However, a Roth IRA custodian only considers for its reporting duty the time the Roth IRA has been with it. This includes the original owner and the beneficiary.

If a beneficiary transfers in to Custodian #1 the inherited Roth IRA, code T will be used for the first 5 years even though the original Roth IRA owner had the Roth IRA with another custodian for more than 5 years. The beneficiary has the duty to complete their tax return to explain that the distribution was tax-free as the 5-year rule was met with another Roth IRA custodian or as combined with another custodian.

Q-3. We had an customer pass (age 63) and he was a SIMPLE-IRA accountholder. The beneficiary is his wife. Are these treated like a Traditional IRA as far as options available to her?

1 Treat as own

2 Life Distribution Rule

3 5-Year Rule

4 Lump Sum

She had discussed with one of our employees about taking money out to pay off loans and credit cards. She will be turning 57 in September. If she would want to do that her options are cut to 3 & 4 to avoid the penalty?

I would treat this as a rollover since we would be opening it as a traditional?

A-3. Technically, she has options 2-4 available to her under the inherited IRA rules for a spouse beneficiary.

She presently has an inherited IRA because he died. It does not really matter if it is an inherited SIMPLE-IRA or an inherited traditional IRA because the taxation rules are the same. To ease administration the inherited IRA may be set up for an inherited traditional IRA.

Any distribution she takes from the inherited IRA is to be coded a reason code 4 for death for Form 1099-R purposes. She will not owe the 10% additional tax, but she must include the distribution amount in her income.

If she would now elect to treat his IRA as her own IRA and then she takes a distribution she would owe the 10% tax.

She probably should maintain the IRA as an inherited IRA from age 57-59½. If any funds remains, at 59½ she could elect to treat the IRA as her own at that time.

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Example of how the new tables will be used

Jane Doe an IRA owner, died in 2012 at age 77. Her beneficiary was her son, Mark, whose date of birth is 2/17/70. He was age 43 in 2013. The divisor which applies for 2021 will be 34.8. The initial divisor of 40.7 for 2013 is replaced by 42.8 and the revised schedule applies to 2021 and subsequent years.

Original RMD Schedule			Revised RMD Schedule	
2013	40.7		42.8	
2014	39.7		41.8	
2015	38.7		40.8	
2016	37.7		39.8	
2017	36.7		38.8	
2018	35.7		37.8	
2019	34.7		36.8	
2020	33.7		35.8	
2021	32.7		34.8	X
2022	31.7		33.8	X

Replace the original divisor (40.7) with the new divisor (42.8) and then reduce by 1.0 for each subsequent year