

THE Pension Digest

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Collin W. Fritz and Associates, Inc.,
“The Pension Specialists”



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IRA Contribution Limits for 2021 – Unchanged \$6,000 and \$7,000

The 2021 maximum limits for annual traditional IRA and Roth IRA contributions remain the same at \$6,000 (if under age 50) and \$7,000 (if age 50 or older). For 2020 the limits are also \$6,000 and \$7,000. Federal tax law provides for a change in the contribution limit once the cost of living adjustment equals or exceeds \$500. The annual contribution catch-up for individuals age 50 or older remains at \$1,000 as it is not indexed. Note on page 2 that the compensation limits used to determine the amount an IRA owner who is an active participant is able to claim as a tax deduction for their traditional IRA contribution have increased.

The 2021 maximum contribution limit for SEP-IRAs is increased to \$58,000 (or, 25% of compensation, if lesser) up from \$57,000. The minimum SEP compensation limit used to determine if an employer must make a contribution for a part-time employee has increased to \$650 from \$600.

The 2021 maximum contribution limits for SIMPLE-IRAs have not changed. It is \$13,500 if the individual is under age 50 and \$16,500 if age 50 or older. The catch-up amount of \$3,000 has not changed.

The 2021 maximum elective deferral limit for 401(k) participants also has not changed. It is \$19,500 for participants under age 50 and \$26,000 for participants age 50 and older. The catch-up amount of \$6,500 has not changed.

Contribution limits for a person who is not age 50 or older.

Tax Year	Amount
2008-12	\$5,000
2013-18	\$5,500
2019-21	\$6,000

Contribution Limits for a person who is age 50 or older.

Tax Year	Amount
2008-12	\$6,000
2013-18	\$6,500
2019-21	\$7,000

IRS Issues 2021 IRA/Pension Limits

IRS Announces Cost-of-Living Adjustments for 2021

The IRS in Notice 2020-79 Released its 2021 Adjustments as Follows:

	2019	2020	2021
Taxable Wage Base — OASDI Only	\$132,900	\$137,700	\$142,800
SEP and Qualified Plan			
Maximum Compensation Cap – 401(a)(17) & 404(e)	\$280,000	\$285,000	\$290,000
Elective (Salary) Deferral Limit – 401(k) & SAR-SEP	\$19,000	\$19,500	\$19,500
Elective Deferral Catch-up Limit for 401(k)	\$6,000	\$6,500	\$6,500
SIMPLE Deferral Limit – 408(p)(2)(A)	\$13,000	\$13,500	\$13,500
SIMPLE Catch-up Limit	\$3,000	\$3,000	\$3,000
Highly-Compensated Employees (Compensation as Indexed)	\$125,000	\$130,000	\$130,000
Defined Benefit Limit – Section 415(b)(1)(A)	\$225,000	\$230,000	\$230,000
Defined Contribution Limit – Section 415(c)(1)(A)	\$56,000	\$57,000	\$58,000
SEP Minimum Compensation Threshold – 408(k)(2)(c)	\$600	\$600	\$650
Key Employee Top Heavy – 41(i)(ii)(a)(i)	\$180,000	\$185,000	\$185,000

IRA Contribution Deductibility Chart for 2020

(for participants and/or spouses in
employer-sponsored retirement plans.)

Amount of Modified AGI - (Combined modified AGI if married)

Single or Head of Household

Below \$65,000 or less	Entitled to full deduction
\$65,001-\$74,999.99	Entitled to prorated deduction amount - use special formula**
\$75,000 or more	No deduction permissible

**Explanation of special formula. Multiply the permissible contribution by the following ratio: amount of adjusted gross income in excess of \$65,000/\$10,000. This will give you a ratio that determines the amount you cannot deduct.*

Married - joint return, both are covered or qualifying widower

Below \$104,000 or less	Entitled to full deduction
\$104,001 - \$123,999.99	Entitled to prorated deduction amount - use special formula**
\$124,000 or more	No deduction permissible

**Explanation of special formula. Multiply the permissible contribution by the following ratio: amount of adjusted gross income in excess of \$104,000/\$20,000. This will give you a ratio that determines the amount you cannot deduct.*

Married -

joint return, but only you are covered or qualifying widower

Below \$104,000 or less	Fully Deductible
\$104,001-\$123,999.99	Entitled to prorated deduction amount - use special formula**
\$124,000 or more	No deduction permissible

**Explanation of special formula. Multiply the permissible contribution by the following ratio: amount of adjusted gross income in excess of \$104,000/\$20,000. This will give you a ratio that determines the amount you cannot deduct.*

Married - joint return, but only your spouse is covered

Below \$196,000 or less	Fully Deductible
\$196,001-\$205,999.99	Entitled to prorated deduction amount - use special formula**
\$206,000 or more	No deduction permissible

**Explanation of special formula. Multiply the permissible contribution by the following ratio: amount of adjusted gross income in excess of \$196,000/\$10,000. This will give you a ratio that determines the amount you cannot deduct.*

Married Filing Separately

Below \$10,000	Entitled to prorated deduction amount - use special formula**
\$10,000 or more	No deduction permissible

**Explanation of special formula. Multiply the permissible contribution by the following ratio: amount of adjusted gross income in excess of \$0/\$10,000. This will give you a ratio that determines the amount you cannot deduct.* A special rule provides that a married individual is not considered Married for IRA purposes for any year in which the individual and the individual's spouse file separate returns and did not live together at any time during the tax year.

*Any amount determined under this formula which is not a multiple of \$10 shall be rounded to the next lowest \$10.

However, an IRA accountholder will be able to deduct a minimum of \$200 as long as his or her AGI is not above the phase-out range (base amount plus \$10,000).

IRA Contribution Deductibility Chart for 2021

(for participants and/or spouses in
employer-sponsored retirement plans.)

Amount of Modified AGI - (Combined modified AGI if married)

Single or Head of Household

Below \$66,000 or less	Entitled to full deduction
\$66,001-\$75,999.99	Entitled to prorated deduction amount - use special formula**
\$76,000 or more	No deduction permissible

**Explanation of special formula. Multiply the permissible contribution by the following ratio: amount of adjusted gross income in excess of \$66,000/\$10,000. This will give you a ratio that determines the amount you cannot deduct.*

Married - joint return, both are covered or qualifying widower

Below \$105,000 or less	Entitled to full deduction
\$105,001 - \$124,999.99	Entitled to prorated deduction amount - use special formula**
\$125,000 or more	No deduction permissible

**Explanation of special formula. Multiply the permissible contribution by the following ratio: amount of adjusted gross income in excess of \$105,000/\$20,000. This will give you a ratio that determines the amount you cannot deduct.*

Married -

joint return, but only you are covered or qualifying widower

Below \$105,000 or less	Fully Deductible
\$105,001-\$124,999.99	Entitled to prorated deduction amount - use special formula**
\$125,000 or more	No deduction permissible

**Explanation of special formula. Multiply the permissible contribution by the following ratio: amount of adjusted gross income in excess of \$105,000/\$20,000. This will give you a ratio that determines the amount you cannot deduct.*

Married - joint return, but only your spouse is covered

Below \$198,000 or less	Fully Deductible
\$198,001-\$205,999.99	Entitled to prorated deduction amount - use special formula**
\$208,000 or more	No deduction permissible

**Explanation of special formula. Multiply the permissible contribution by the following ratio: amount of adjusted gross income in excess of \$198,000/\$10,000. This will give you a ratio that determines the amount you cannot deduct.*

Married Filing Separately

Below \$10,000	Entitled to prorated deduction amount - use special formula**
\$10,000 or more	No deduction permissible

**Explanation of special formula. Multiply the permissible contribution by the following ratio: amount of adjusted gross income in excess of \$0/\$10,000. This will give you a ratio that determines the amount you cannot deduct.* A special rule provides that a married individual is not considered Married for IRA purposes for any year in which the individual and the individual's spouse file separate returns and did not live together at any time during the tax year.

*Any amount determined under this formula which is not a multiple of \$10 shall be rounded to the next lowest \$10.

However, an IRA accountholder will be able to deduct a minimum of \$200 as long as his or her AGI is not above the phase-out range (base amount plus \$10,000).

Roth IRA Contribution Chart for 2020

Amount of AGI and Filing Status

Single, Head of Household or Qualifying Widow(er)

Below \$124,000	Entitled to full contribution amount
\$124,000-\$138,999.99	Entitled to prorated contribution amount - use special formula*
\$139,000 or more	No contribution permissible

*Explanation of special formula. Multiply the permissible contribution by the following ratio: amount of adjusted gross income in excess of \$124,000/\$15,000. This will give you a ratio that determines the amount you cannot contribute. Round to the lowest \$10.00.

Married Filing Jointly

Below \$196,000	Entitled to full contribution amount.
\$196,000-205,999.99	Entitled to prorated contribution amount - use special formula*
\$206,000 or more	No contribution permissible.

*Explanation of special formula. Multiply the permissible contribution by the following ratio: amount of adjusted gross income in excess of \$196,000/\$10,000. This will give you a ratio that determines the amount you cannot contribute. Round to the lowest \$10.00.

Married Filing Separate Returns

\$0-\$9,999.99	Entitled to prorated contribution amount - use special formula*
\$10,000 or more	No contribution permissible

*Explanation of special formula. Multiply the permissible contribution by the following ratio: amount of adjusted gross income in excess of \$0/\$10,000. This will give you a ratio that determines the amount you cannot contribute. Round to the lowest \$10.00. If your filing status is Married Filing Separately, you are eligible to make a Roth IRA contribution as if your filing status was Single, as long as you did not live with your spouse at any time during the year.

Roth IRA Contribution Chart for 2021

Amount of AGI and Filing Status

Single, Head of Household or Qualifying Widow(er)

Below \$125,000	Entitled to full contribution amount
\$125,000-\$139,999.99	Entitled to prorated contribution amount - use special formula*
\$140,000 or more	No contribution permissible

*Explanation of special formula. Multiply the permissible contribution by the following ratio: amount of adjusted gross income in excess of \$125,000/\$15,000. This will give you a ratio that determines the amount you cannot contribute. Round to the lowest \$10.00.

Married Filing Jointly

Below \$198,000	Entitled to full contribution amount.
\$198,000-205,999.99	Entitled to prorated contribution amount - use special formula*
\$208,000 or more	No contribution permissible.

*Explanation of special formula. Multiply the permissible contribution by the following ratio: amount of adjusted gross income in excess of \$198,000/\$10,000. This will give you a ratio that determines the amount you cannot contribute. Round to the lowest \$10.00.

Married Filing Separate Returns

\$0-\$9,999.99	Entitled to prorated contribution amount - use special formula*
\$10,000 or more	No contribution permissible

*Explanation of special formula. Multiply the permissible contribution by the following ratio: amount of adjusted gross income in excess of \$0/\$10,000. This will give you a ratio that determines the amount you cannot contribute. Round to the lowest \$10.00. If your filing status is Married Filing Separately, you are eligible to make a Roth IRA contribution as if your filing status was Single, as long as you did not live with your spouse at any time during the year.

SEP and SIMPLE Limits

	2018	2019	2020	2021
Maximum SEP Contribution	\$55,000	\$56,000	\$57,000	58,000
Maximum SIMPLE Deferral (Under age 50)	\$12,500	\$13,000	\$13,500	13,500
Maximum SIMPLE Deferral (Age 50 & older)	\$15,500	\$16,000	\$16,500	16,500

Saver's Credit Limits for 2020

The applicable percentage for 2020 is based on modified adjusted gross income (AGI) and your tax-filing status, and is determined by the following table:

<u>Joint Return</u>		
<u>AGI Over</u>	<u>AGI Not Over</u>	<u>Percentage</u>
\$0	\$39,000	50%
\$39,500	\$42,500	20%
\$42,500	\$65,000	10%
\$65,000	N/A	0%

<u>Head of Household</u>		
<u>AGI Over</u>	<u>AGI Not Over</u>	<u>Percentage</u>
\$0	\$29,250	50%
\$29,250	\$31,875	20%
\$31,875	\$48,750	10%
\$48,750	N/A	0%

Other Filers Single, Qualifying Widow(er) & Married, Filing Separately

<u>AGI Over</u>	<u>AGI Not Over</u>	<u>Percentage</u>
\$0	\$19,500	50%
\$19,500	\$21,250	20%
\$21,250	\$32,500	10%
\$32,500	N/A	0%

Saver's Credit Limits for 2021

The applicable percentage for 2021 is based on modified adjusted gross income (AGI) and your tax-filing status, and is determined by the following table:

<u>Joint Return</u>		
<u>AGI Over</u>	<u>AGI Not Over</u>	<u>Percentage</u>
\$0	\$39,500	50%
\$39,500	\$43,000	20%
\$43,000	\$66,000	10%
\$66,000	N/A	0%

<u>Head of Household</u>		
<u>AGI Over</u>	<u>AGI Not Over</u>	<u>Percentage</u>
\$0	\$29,625	50%
\$29,625	\$32,250	20%
\$32,250	\$49,500	10%
\$49,500	N/A	0%

Other Filers Single, Qualifying Widow(er) & Married, Filing Separately

<u>AGI Over</u>	<u>AGI Not Over</u>	<u>Percentage</u>
\$0	\$19,750	50%
\$19,750	\$21,500	20%
\$21,500	\$33,000	10%
\$33,000	N/A	0%

IRS Guidance on Tax Treatment of Expenses Related to a Qualified Birth or Adoption Distribution

The SECURE Act created another exception to the 10% additional tax of Code section 72(t). There is now an exception for expenses on account of a birth or an adoption of an individual. Code section 72(t)(2) sets forth the exceptions to the 10% tax. Sometimes an exception applies only to a distribution from an IRA or from an employer retirement plan and sometimes to both. A distribution from either an IRA or a 401(k) plan may qualify for this new exception.

A person is required to include a qualified birth or adoption distribution in their gross income, but the person does not owe the 10% additional tax.

A qualified birth or adoption distribution is any distribution of up to \$5,000 from an eligible IRA or other applicable retirement plan to a person as long as the distribution is made during the 1-year period beginning on the date of birth of the individual's child or the date the legal adoption of an eligible adoptee by the individual is finalized.

This section of the article focuses on a qualified birth or adoption distribution from an IRA.

A person who has received a qualified birth or adoption distribution is authorized to recontribute the distribution to an eligible plan to which a rollover may be made. A recontribution is another type of rollover. The IRS will in future guidance discuss the recontribution rules, including the rules related to the timing of the recontributions. The statute failed to discuss the deadline for making a recontribution of a qualified birth or adoption distribution and so the IRS will need to furnish guidance. This should be defined in a technical correction tax bill.

The IRS has clarified the following. An individual may receive a qualified birth or adoption distribution of up to \$5,000 with respect to the same child or eligible adoptee. If a person is related to multiple births or adoptions, the person may have a qualified birth or adoption distribution with respect to each child or eligible adoptee. If a person is married, each parent may receive

a qualified birth or adoption distribution of up to \$5,000 with respect to the same child or eligible adoptee.

An eligible adoptee is any individual who has not attained age 18 or is physically or mentally incapable of self-support. A person is considered to be physically or mentally incapable of self-support if the person is disabled as defined in Code section 72(m)(7). That is, the individual is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment that can be expected to result in death or to be of long-continued and indefinite duration. However, an eligible adoptee cannot include an individual who is the child of the taxpayer's spouse.

How does an IRA custodian report these transactions? Code "1" will be used in box 7 of the Form 1099-R. The recontribution (i.e. rollover) is to be reported in boxes 14a and b as a repayment. The repayment amount is reported in box 14a and enter "BA" in box 14b for repayment of a qualified birth or adoption distribution. It is not to be reported in box 2 as a rollover or in box 13a as a late certified rollover.

The individual will need to complete their tax return to show their was a qualified birth or adoption distribution. Presumably, the individual will do this by completing the applicable section of Form 5329 and claim exception to the 10% additional tax and attach it to his or her tax return. The individual must include the name, age, and the taxpayer identification number of the child or the eligible adoptee on their tax return for the tax year in which the distribution is made.

If the individual makes a rollover or repayment contribution, then the individual will need to show such rollover contribution on their Form 1040.

This section of the article focuses on a qualified birth or adoption distribution from a 401(k) plans or other defined contribution plan.

An employer is not required to amend its plan to permit an in service distribution which qualify as a qualified birth or adoption distribution. Such an amendment is a discretionary amendment. It is not a mandatory amendment.

If a plan sponsor chooses to amend its plan to provide for a qualified birth or adoption distribution, it must do so by the last day of the first plan year beginning on or after January 1, 2022.

A plan sponsor may rely on a participant's certification that he or she is eligible for a qualified birth or adoption distribution. If a plan permits a participant to take a qualified birth or adoption distribution, then such plan is required to permit that participant to make a recontribution if such participant is otherwise eligible to make a rollover contribution.

The 401(k) rules restrict the in-service distributions which may be made to a participant. However, there are exceptions, including an exception for certain hardship distributions. A qualified birth or adoption distribution is treated as meeting such an exception. Thus, if the applicable rules are met a participant may withdraw their elective deferrals, qualified non-elective contributions, qualified matching contributions or a safe harbor contribution.

With respect to a participant who is taking a qualified birth or adoption distribution, the plan sponsor is not required to offer a direct rollover or to provide a section 402(f) notice. Because there is no duty to offer a direct rollover the 20% mandatory withholding rule does not apply. The standard withholding rules will apply.

Even though a participant is ineligible under the plan for an in service distribution qualified birth or adoption distribution, such participant may treat on their tax return an otherwise permissible in-service distribution as a qualified birth or adoption distribution.

The IRS will need to issue guidance on the subject, if a participant takes a qualified birth or adoption distribution from their 401(k) account, then is the participant able to make a rollover contribution into the plan or may the person make a rollover into their IRA. At this time we believe the participant may rollover their qualified birth or adoption distribution from their 401(k) plan into their IRA and not into the distributing 401(k) plan.

In summary, there is a new exception to the 10% additional tax which generally applies when a person under age 59½ takes a distribution from an IRA or pension plan. The new exception is for a qualified birth or adoption distribution.

Email Guidance – HSA Funds Are Ineligible to be Moved into a 401(k) Plan

Q1. Looking for information on HSA rollovers or transfers into qualified plans. Can an HSA owner move HSA funds to a qualified plan? Or do HSA funds need to stay in a HSA plan to avoid taxes and penalties?

A1. Interesting question. The HSA funds need to stay in the HSA for continued tax deferral.

As is known, a withdrawal from an HSA used to pay a qualified medical expense is tax-free.

A rollover transaction is really two transactions, a distribution followed by a rollover contribution.

An HSA distribution is eligible to be rolled over into another or the same HSA, but no other tax preferred plan. An HSA distribution is ineligible to be rolled over to an IRA or a 401(k) plan.

My personal opinion is, it is unlikely the law will be changed to authorize HSA funds be rolled over or transferred into a 401(k) plan or an IRA. An HSA has a feature much like a traditional IRA. A person who takes a distribution but uses for retirement purposes rather than medical expenses must include the distribution in income and pay the associated tax. This is the same as taking funds from a traditional IRA.

A person who accumulates a sizeable sum in their HSA will have a tax planning situation. A non-spouse beneficiary must include the amount they inherit in their income for the year of death. Under current law there is no ability to stretch out inherited HSA distributions over a number of tax years. A person could designate a church, charity or other tax exempt entity as their HSA beneficiary.

If a person is married, the person will in most situations want to designate their spouse as their HSA beneficiary because the law requires a non-taxable transfer of the HSA funds to an HSA for the surviving spouse.

IRS Guidance on Difficulty of Care Payments Affect on IRAs and Retirement Plans

Some individuals in the past who were not eligible to make an IRA contribution may now do so. These individuals are workers who receive difficulty of care payments related to their foster care services.

Internal Revenue Code section 131 provides that a difficulty of care payment, which is a type of foster care payment, is excludable from the taxpayer's gross income. Under pre-2020 law, such payments were not considered to be qualifying compensation for purposes of making an IRA contribution. The general rule is, in order to make an IRA contribution, regardless if deductible or non-deductible, a person must have taxable income to support the contribution.

In Notice 2020-68 the IRS provides additional guidance.

A new exception to this rule is made for difficulty of care payments. Code section 408(o)(5) was added by the SECURE Act. It provides that an individual with difficulty of care payments is eligible to make certain designated nondeductible contributions to an IRA even though the person does not otherwise have sufficient compensation to make an IRA contribution (lesser of \$6,000 if under age 50, \$7,000 if age 50 or older or 100% of compensation).

These designated nondeductible contributions are limited. An individual is eligible to make a non-deductible IRA contribution to the extent of the lesser of the amount excluded under section 131 or the maximum IRA contribution amount as reduced by the amount of compensation which is includible in income. For example, Jane Doe, age 39, receives compensation of \$11,000 for certain difficulty of care payments. She is able to exclude \$9,000 under section 131 and she includes \$2,000 in her taxable income. She is limited to make a non-deductible contribution of \$4,000. The \$4,000 is the lesser of \$6,000 as reduced by the \$2,000 or \$9,000. If Jane Doe's excludable difficulty of care payments were \$5,000 and she has no other taxable compensation, then her nondeductible IRA contribution amount would be limited to \$5,000.

The IRS has stated that it will be providing guidance on how the excess contribution rules and reporting are affected by these new difficulty of care payment rules. The IRS will also need to provide guidance if a person is eligible to make a Roth IRA contribution based on difficulty of care payments.

Difficulty of care payment also impact contributions which are made under a qualified plan. In general an employer will make a contribution for a participant only if a participant has compensation for the current year. And the law imposes a maximum amount which can be contributed on behalf of a participant. Under pre-2020 law, difficulty of care such payments were not considered in applying the limitations on annual additions set forth in code sections 415(c)(1) and (2). Under section 415(c)(1), a person's annual additions may not exceed the lesser of \$40,000 as increased by annual cost of living adjustments (\$57,000 for 2020) or 100% of the participant's compensation. Under section 415(c)(2) a person's annual additions are the sum of the employer contributions, employee contributions and forfeitures.

As revised by the SECURE Act a person's compensation for section 415 purposes is increased by the amount of excludable difficulty of care payments. Thus, a person may make contributions to their account or receive allocations to their account based on these difficulty of care payments even if the person has no other compensation. Such a contribution is treated as investment in the contract and will not cause a plan to be treated as failing any requirements of code sections 1-1400Z-2. This law change applies to plan years beginning after December 31, 2015. It appears the IRS position is, this law change is a mandatory change and it is not a permissive or discretionary change.

Email Guidance – Inherited IRAs Under the New Laws

Q-1. I have a customer that wants to name his Trust as a Beneficiary of his Regular IRA. Can you explain the negatives?

A-1. Hopefully, the customer is discussing the situation with his or her tax adviser.

I personally believe as a general income tax rule it is imprudent to designate a trust as an IRA beneficiary. It is better to designate a spouse, children or grand children directly as her or his IRA beneficiary .

Trust rules and tax rules are complicated. In general, a higher marginal income tax rate will apply to distributions made to a trust versus distributions made to individuals. The additional tax liability can be substantial and this reduces the amount actually received by the beneficiaries. In general, a trust will need to withdraw the inherited IRA funds over a fewer number of years than other beneficiaries. This too can result in higher income taxes being paid.

Is this customer married? Will the spouse be a beneficiary of the trust? For tax reasons it is generally better for an IRA owner to name their spouse directly as an IRA beneficiary rather than a trust which covers the spouse. The 10-year rule discussed below does not apply to a spouse beneficiary. Tax deferral will be much longer when a person designates their spouse as their IRA beneficiary versus a child. For example, John Doe is currently age 55 is married with two children. His spouse is age 53 and his children are 28 and 25. If he would die in 2021 and he has designated his two children as his IRA beneficiary, they must close their inherited IRAs under the 10-year rule. If he would die in 2021 and he has designated his spouse as his IRA beneficiary, the spouse may elect to treat his IRA as her own and she may defer taxation until she attains age 72 when she will then be able to stretch out distributions over her life expectancy. The 10-year rule will apply at that time if the children are her beneficiaries.

The Secure Act as enacted on December 20, 2019, revised drastically the RMD rules applying to an IRA beneficiary after the IRA owner dies. A non-spouse

beneficiary who is an individual and who is not an eligible designated beneficiary (EDB) must close the inherited IRA under a 10-year rule. No longer may most children or grandchildren stretch out distributions over their life expectancy. A non-spouse beneficiary who is an estate or a trust which is not an eligible designated beneficiary (EDB) must close the inherited IRA under a 5-year rule. This means the associated tax benefits end after 5 years and not 10 years. The impact on Roth IRAs is very substantial as the period of earning tax free income for the Roth IRA beneficiary is reduced from 10 years to 5 years.

A non-spouse beneficiary who is an individual and who is an eligible designated beneficiary (EDB) will have the right in most situations to use the life distribution rule. In general, a trust will qualify as an EDB only if one of the beneficiaries of the trust is disabled or chronically ill. This rule allows the EDB to stretch out distributions over their life expectancy.

Some IRA custodians and trustees offer what is called a trustee IRA. Upon the death of the IRA owner the IRA itself become an IRA trust which may contain restrictive distribution provisions. The IRA trust will change over to a regular trust at the end of the 5-year period unless the trust would qualify as an EDB.

Again, the customer should be talking with their tax adviser.

Q-2. Could you help me understand the impact of the Cares Act legislation on 3 Beneficiary IRA accountholders whose mother died in 2019 after she had taken her RMD?

Her 3 sons (ages 66, 63, and 59) inherited the IRA in equal shares, and they all chose the lifetime distribution option at the time they opened each of their own Beneficiary IRA's. 2020 would be their first RMD.

1. If they choose to waive their 2020 RMD, what will be their options going forward?
2. Will they have to be put on a 10-year schedule now to deplete their IRA's? Is 2020's waived RMD simply a part of the total balance and would not significantly impact next year's RMD? The balance in each one's Bene IRA is \$64,454.90 today.

Continued on page 8

Inherited IRAs,
Continued from page 7

A-2. The CARES Act waived all RMDs for 2020.

Without the CARES Act waiver, each beneficiary would have been required to take an RMD for 2020, the first year of their life distribution rule schedule since their mother died in 2019 and she died after her required beginning date. The new 10-year rule does not apply to them. In general, the 10-year rule applies to a nonspouse beneficiary of an IRA owner who dies in 2020. However, upon the death of a beneficiary the 10-year rule will apply to their beneficiaries.

Although an IRA beneficiary does not get to decide if they will waive the RMD, a beneficiary in 2020 has every right to withdraw an amount equal to what the RMD would have been. It's just that the distribution is a voluntary beneficiary distribution and not an RMD.

RMDs return for 2021. Each beneficiary will continue to use the life distribution rule and will continue their RMD schedule. The divisor for 2021 will be the divisor for 2020 less 1.0. A beneficiary using the life distribution rule may withdraw more than their minimum for any given year. However, see the attached discussion that a new calculation may be required or used for 2021. We at CWF think there is a chance the IRS will postpone use of the new RMD life expectancy tables until 2022.

Remember, the initial divisor for a beneficiary is based on that beneficiary's age in the year following the death of the IRA owner. This would be 2020.

IRS Reporting for Coverdell ESA Rollovers and Transfers

IRS guidance is set forth in its instructions for Form 1099-Q and 5498-ESA and Publication 970. There are instructions for the CESA custodian and the designated beneficiary. An individual must also review the instructions for Form 1040. Specifically an individual must review the instructions for completing Schedule 1.

IRS guidance is as follows:

1. A person is not to report on their tax return a Coverdell ESA distribution if no portion of the distribution is taxable. This includes a deemed distri-

bution related to a transfer. A transfer may occur between certain family members. See pages 82 and 84 of the instructions for Form 1040.

2. Not totally clear, but the CESA custodian is to prepare Form 1099-Q for a transfer between financial institutions, but not if the transfer is internal and between certain family members.
3. The CESA custodian is to report all transfers and rollovers in box 2 of Form 5498-ESA

With a "true" IRA transfer the IRA custodian does not report the transfer on the Form 5498 or Form 1099-R. The individual does not report the transfer transaction on their tax return.

With a CESA transfer the procedures are a little different. The CESA custodian does report the transfer on the Form 5498-ESA and the Form 1099-Q. However, the individual is not to report the transfer transaction on their tax return as long as no tax is owing.

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	OMB No. 1545-1815
		\$	2020
		2 Rollover contributions	
		\$	Form 5498-ESA
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)			

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

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Coverdell ESA Contribution Information

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For Internal Revenue Service Center
File with Form 1096.
For Privacy Act and Paperwork Reduction Act Notice, see the 2020 General Instructions for Certain Information Returns.

3131 ☐ VOID ☐ CORRECTED

PAYER'S/TRUSTEE'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone no.		1 Gross distribution	OMB No. 1545-1760
		\$	Form 1099-Q (Rev. November 2019) For calendar year 20 ____
		2 Earnings	
		\$	
PAYER'S/TRUSTEE'S TIN	RECIPIENT'S TIN	3 Basis	
RECIPIENT'S name		\$	4 Trustee-to-trustee transfer <input type="checkbox"/>
Street address (including apt. no.)		5 Distribution is from:	6 Check if the recipient is not the designated beneficiary <input type="checkbox"/>
City or town, state or province, country, and ZIP or foreign postal code		• Qualified tuition program— Private <input type="checkbox"/> or State <input type="checkbox"/>	
Account number (see instructions)		• Coverdell ESA <input type="checkbox"/>	

Form 1099-Q (Rev. 11-2019) Cat. No. 3223J www.irs.gov/Form1099Q Department of the Treasury - Internal Revenue Service

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Payments From Qualified Education Programs (Under Sections 529 and 530)

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