



THE Pension Digest

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Completing the 2020 Form 5498 After IRS Guidance Related to The SECURE Act and the CARES Act

The due dates for the 2020 Form 5498 are: furnish copy B to the IRA accountholder by June 1, 2021 and file Copy A with the IRS also by June 1, 2021. If you file electronically, you must comply with the filing specifications set forth in Publication 1220.

Preparation of the 2020 Form 5498 is more difficult than usual because the IRS granted special relief with respect to certain rollovers in 2020.

The IRS had initially issued its 2020 version on the Instructions for Forms 1099-R and 5498 on February 14, 2020. This was before the CARES Act was enacted on March 27, 2020. In late 2020 the IRS removed these initial 2020 instructions. We at CWF believe the primary reason for the temporary removal is, the IRS needs to revise or provide additional guidance for reporting rollovers rules pursuant to the special IRS guidance provided in 2020 due to the CARES Act and the SECURE Act.

In late 2020 the IRS chose to temporarily remove the 2020 instructions for Forms 5498 and 1099-R from its website. We have decided to furnish this newsletter even though we expect the IRS will be releasing a revised version. We will inform you of any changes as soon as possible.

Note that the IRS has issued on its website the 2021 Instructions for Forms 1099-R and 5498 on February 14, 2020.

In the initial 2020 version the IRS indication of what was new was very limited. It is set forth.

What's New – 2021 Form 1099-R

Distributions for qualified birth and adoption. Section 113 of the Setting Every Community Up for Retirement Enhancement Act of 2019 (SECURE Act), which is Division O of the Further Consolidated Appropriations Act, 2020 (P.L. 116-94), added section 72(t)(2)(H). This new section provides for a distribution of up to \$5,000 for a qualified birth or adoption that is exempt from the 10% early distribution tax and that can be repaid. See [Table 1. Guide to Distribution Codes](#), later

Form 5498

New repayment code. We have added code “BA” for reporting a repayment of a qualified birth or adoption distribution. See the instructions for [Box 14a. Repayments](#) and [Box 14b. Code](#), later.

Required minimum distributions (RMDs). The SECURE Act, section 114, has increased the RMD age from 70½ to 72 for taxpayers turning 70½ after December 31, 2019. See the information, later, under [RMDs](#).

Final Review 2020 Form 5498

2020		<input type="checkbox"/> VOID <input type="checkbox"/> CORRECTED		OMB No. 1545-0747		IRA Contribution Information	
TRUSTEE'S or ISSUER'S name, street address, city or town, state or province, country, and ZIP or foreign postal code		1 IRA contributions (other than amounts in boxes 2-4, 8-10, 13a, and 14a)		2020 (Rev. April 2020) Form 5498			
		\$					
TRUSTEE'S or ISSUER'S TIN		2 Rollover contributions		4 Recharacterized contributions		Copy A 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.	
		\$					
PARTICIPANT'S TIN		3 Roth IRA conversion amount		6 Life insurance cost included in box 1			
		\$		\$			
PARTICIPANT'S name		5 FMV of account		7 IRA <input type="checkbox"/> SEP <input type="checkbox"/> SIMPLE <input type="checkbox"/> Roth IRA <input type="checkbox"/>			
		\$		8 SEP contributions		9 SIMPLE contributions	
Street address (including apt. no.)		10 Roth IRA contributions		11 Check if RMD for 2021 <input type="checkbox"/>			
City or town, state or province, country, and ZIP or foreign postal code		12a RMD date		12b RMD amount			
		\$		\$			
		13a Postponed/late contrib.		13b Year		13c Code	
		\$					
		14a Repayments		14b Code			
		\$					
Account number (see instructions)		15a FMV of certain specified assets		15b Code(s)			
		\$					

Form 5498 (Rev. April 2020) Cat. No. 50010C www.irs.gov/Form5498 Department of the Treasury - Internal Revenue Service

Discussion of the 2020 Form 5498

The format is basically the same as recent forms.
Account Number

1. On the bottom left there is an "Account Number" box. The IRA custodian is required to insert an account number in this box when filing more than one Form 5498 for the same person. If your institution wants to earn some bonus points with the IRS, you will complete this box even though it is not required. IRS instructions state the account number must be unique. This instruction that this number must be unique can be confusing. It must be unique with respect to this particular IRA account older. If a person has 3 IRAs each one must have an account number which is different. The account numbers could be 01, 02 and 03. The purpose of the account number is to identify which Form 5498 is being corrected when there have been multiple 5498 forms

prepared for a person and a correction is now being submitted to IRS. It is best if the account number is not based on the person's SSN.

2. In Box 7 only one of the 4 boxes must be checked to indicate the type of IRA. A person who has a traditional IRA, SEP IRA and Roth IRA would need to be furnished three 5498 forms.

Contribution Amounts

3. **Box 1. IRA Contributions** (other than amounts in boxes 2-4, 8-10, 13a and 14a). Enter the amount of the annual contributions made on or after January 1, 2020 through April 15, 2021 as designated for 2020. The IRA custodian is to report the gross amount of the annual contributions even if such contributions are excess contributions, or will be later recharacterized. A traditional IRA contribution, which is not properly reported in one of the other

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traditional IRA boxes as discussed below, is to be reported in box 1. For example, if a person tries to roll over \$28,000, but does so on day 70 and does not furnish a late rollover certification and the IRA custodian learns of this fact prior to filing the current year's Form 5498, then the IRA custodian must report this \$28,000 in box 1. This same procedure would apply if somehow non-IRA funds had been mistakenly transferred into an IRA. If an excess contribution is treated as a contribution in a subsequent year under section 219(f)(6), do not report it on Form 5498 for the subsequent year. It has already been reported as a contribution on Form 5498 for the year it was actually contributed.

4. Box 2. Rollover Contributions. Enter the amount of the rollover contributions made on or after January 1, 2020 through December 31, 2020. Made means received by the traditional IRA custodian.

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

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

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

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

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

These contributions may be any of the following.

- A 60-day rollover between Roth IRAs or between other types of IRAs.

- A direct or indirect (within 60 days) rollover from a qualified plan, section 403(b) plan, or governmental section 457(b) plan.
- Any qualified rollover contribution as defined in section 408A(e) from an eligible retirement plan (other than an IRA) to a Roth IRA.
- A military death gratuity.
- An SGLI payment.

For the rollover of property, enter the FMV of the property on the date you receive it. This value may be different from the value of the property on the date it was distributed to the participant.

5. Box 3. Roth IRA Conversion Amount. This box will be completed when a conversion contribution is made to a Roth IRA from a traditional IRA, SEP-IRA or SIMPLE-IRA. Do not include the rollover of non-Designated Roth funds from a 401(k) or similar plan into a Roth IRA. Such rollover contributions are to be reported in box 2.

6. Box 4. Recharacterized Contributions. The IRS instructions are very brief, "Enter any amounts recharacterized plus earnings from one type of IRA to another." If a person had made an annual contribution he or she may elect to recharacterize it as adjusted by earnings or losses. The total amount recharacterized is to be reported in box 4. Although the IRS instructions use the term, "plus earnings, the IRS should use the term, "plus or minus earnings or losses."

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

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

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

If the IRA accountholder or inheriting beneficiary is alive as of December 31, the individual

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

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

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

- 8. Box 6. Life Insurance cost included in box 1.** An IRA custodian will leave this box blank or will insert a 0.00 since it is only to be completed if there was a contribution to an IRA endowment contract as sold by an insurance company a long time ago.
- 9. Box 8. SEP Contributions.** Any SEP contributions made to the IRA custodian during 2020 are to be reported in box 8. Such contributions could have been for 2019 or 2020. Contributions made in 2021 for 2020 are to be reported on the 2021 Form 5498.
- 10. Box 9. SIMPLE Contributions.** Any SIMPLE-IRA contributions made during 2020 are to be reported in box 9. Such contribution could have been for 2019 or 2020. Contributions made in 2021 for 2020 are to be reported on the 2021 Form 5498.
- 11. Box 10. Roth IRA Contributions.** Any Roth IRA contributions for 2020 are to be reported in box 10 as long as made between January 1, 2020 and April 15, 2021.

12. Box 11. Check if RMD for 2021. An IRA custodian is required to check this box if the traditional IRA SEP-IRA or SIMPLE-IRA accountholder attains or would attain age 72 or older during 2021. The instructions do not discuss whether or not this box is to be checked for an inheriting traditional IRA beneficiary. It should not be checked for an inherited IRA. Completing this box is necessary only if the IRA custodian is required to prepare a 2020 Form 5498 for a person. This box is not checked with respect to an individual who died during 2020 and who would have attained age 72 or older during 2020 had he or she lived.

13. Boxes 12a (RMD date) and 12b (RMD Amount). An IRA custodian's use of these two boxes is optional, it is not mandatory.

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

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

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

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

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

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

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

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

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

Box 13a. This is titled Postponed/late Contribution in the 2019 and 2020 instructions. The IRS should change the title to somehow make clear it is a late rollover contribution.

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

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

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

Box 13b. Year

Enter the year for which the postponed contribution was made if a postponed contribution. Leave blank if a late rollover contribution or a rollover of a qualified plan loan off-set amount.

Note that the IRS does not provide guidance for reporting the rollover of IRA funds levied by the IRS but returned to the taxpayer.

Box 13c. Code

Enter the applicable reason code for a postponed contribution.

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

Enter FD for affected taxpayers of a federally declared disaster.

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

Enter SC for taxpayers who made a late rollover certification.

15. Box 14 reports repayment contributions.

A person can make three types of repayments, a repayment of a qualified reservist distribution, a designated disaster distribution or related to a qualified birth or adoption distribution.

Box 14a. Repayments.

Enter the amount of the repayments.

Box 14b. Code.

Enter QR for the repayment of a qualified reservist distribution.

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

Enter BA for the repayment of a qualified birth or adoption distribution.

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

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

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

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

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

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



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

Electronic filers. You may request an automatic waiver from filing Forms 5498 for combat zone participants by submitting Form 8508, Request for Waiver From Filing Information Returns Electronically. Once you have received the waiver, you may report all Forms 5498 for combat zone participants on paper. Alternatively, you may report contributions made by the normal contribution due date electronically and report the contributions made after the normal contribution due date on paper. You also may report prior year contributions by combat zone participants on a corrected Form 5498 electronically or on paper.

16. Box 15a. FMV of certain specified assets. Completion of Boxes 15a and 15b are mandatory for 2018 and subsequent years. If you are an IRA custodian or trustee with IRA assets of which the fair market

values are not readily determinable, you should review the following.

Box 15a is titled FMV of certain specified assets.

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

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

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

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

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

In box 15b, one or two letter codes must be inserted to identify the type or types of the non-market investment. If only one code applies, insert that one code. If only two codes apply, then insert both codes. However, if more than two codes apply, then enter a Code H. Code H means there are more than two non-market assets held in the IRA. From the perspective of the IRA accountholder, he or she may

prefer to have at least three hard to value assets rather than just one or two because when an “H” is used the IRS does not know specifically what assets are owned and would need to obtain this information from additional communications with presumably the IRA accountholder.

There are 7 identifying codes:

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

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

- 17. Duty To Prepare/Furnish Corrected Form 5498.** An IRA custodian is required to prepare a corrected form 5498 as soon as possible after it learns there is an error on the original form as filed. The IRS furnishes the following example. “If you reported as rollover contributions in box 2, and you later discover that part of the contribution was not eligible to be rolled over and was, therefore, a regular contribution that should have been reported in box 1

(even if the amount exceeds the regular contribution limit), you must file a corrected Form 5498.

Additional Discussion of Reporting Alternatives for Prior Year Postponed Contributions

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

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

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

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

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

The amount of the contribution must be reported in box 13a and the year for which the contribution was made in box 13b and in box 13c the applicable code according to the IRS instructions.

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

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

Inherited IRA Reporting – Form 5498 and FMV Statement

This article discusses the proper reporting for Inherited IRAs.

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

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

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

Reporting for the Deceased IRA Accountholder

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

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

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

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

Reporting for the Inherited IRA/Beneficiary

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

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

The SSN of the deceased can never be used for reporting to any beneficiary, including estates and trusts. IRS Form 5498 is also required for each beneficiary, report-

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**Inherited,
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ing the FMV as was reported in their year-end FMV statement.

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

Common Consulting Call Question

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

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

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

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

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

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

Conclusion

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

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

**Email Guidance – IRA Rollover
Mistake by the IRA Custodian
Occurred More Than One Year Ago**

Situation/Question

The bank has an IRA CD that was mislabeled at the time it was opened. We have a lot of documentation on the fact that it should have been opened as an IRA CD but the banker didn't do it right. The account was transferred from the bank's brokerage to the bank as a trustee to trustee transfer, with a check to the bank. This was done in April 2019.

All interest in 2019 was then taxable to the owner on a 1099INT. There has not been a distribution that we reported as taxable.

The issue is how we need to properly get this back into an IRA.

Response

What is the amount of the CD? I don't need to know, but you will see from my discussion why I am asking.

The IRS was given by law the right to grant relief to a person who for equity reasons failed to comply with the 60 day rollover rule.

From 2001 or 2002 until 2013 the IRS procedure was – the person had to write a letter to the IRS asking for relief. An IRS Rev. Proc required the person to furnish specific information. The IRS required the person to pay a fee. This fee was reasonable: \$500 if the rollover

Guidance,
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amount was \$50,000 or less, \$1,000 if between \$50,000 and \$100,000 and \$1,500 if over \$100,000. The IRS relief, the IRS would give the person a new 60 day rollover period if the IRS concluded the situation warranted it. In 2013 or 2014 the IRS developed a new procedure. It authorized a person to make a certified late rollover and it authorized that an IRA trustee could accept a certified late rollover. A certified late rollover is reported in a special box on the Form 5498. It is box 13a. It is not reported in box~ which reports fully qualifying rollovers. At the same time the IRS came up with this new certified late rollover procedure it increased the filing fee for a written request to \$10,000.

In the current situation, the written request procedure could be used, but the \$10,000 fee must be paid.

The IRS had also developed a third procedure – if the rollover mistake was on account of the IRA trustee.

I understand there is no time limit applying to the late certification approach. I believe as long as the person did not somehow benefit or use these funds from April of 2019 until now I think the IRS would agree he or she is entitled to relief as long as the bank file notes it was the bank's fault. I cannot guaranty such IRS treatment.

A person is not guaranteed that just because he or she makes a certified late rollover that the IRS will always grant relief. If the IRS follows-up (probably very rarely) and determines the person was lying, then there will be adverse tax consequences. The impermissible rollover would be an excess contribution.

The person must consult with their tax adviser. How did the individual complete his or her 2019 tax return? I assume the individual prepared their tax return to show the distribution not being taxable because it was rolled over. It is possible the individual will receive a letter from the IRS in the future because as of now there is no Form 5498 showing a rollover contribution was made or was there?

If the late rollover contribution has not yet been reported on a 2019 Form 5498, I believe it will need to be reported on the 2021 Form 5498 in box 13a and 13c.

Reporting 2021 RMDs for Beneficiaries on the 2020 Form 5498

The IRS policy regarding IRA beneficiaries and RMD reporting since 2002/2003 has been that an IRA custodian is NOT required to report the RMDs for inherited/beneficiary IRAs. The IRS for many years has furnished instructions for the IRA custodian to complete and furnish Forms 1099-R and 5498. Discussion of RMDs starts on the bottom of page 15. On page 16 of the 2020 Instructions for Forms 1099-R and 5498 the IRS states, "Until further guidance is issued, no reporting is required for IRAs of deceased participants (except where the surviving spouse elects to treat the IRA as the spouse's own, as described above)." The IRS has not adopted any further guidance.

No reporting means that box 11 is not required to be checked for a beneficiary. Because of this rule, the IRS has also adopted the policy that the IRA custodian is not required to furnish an inheriting IRA beneficiary with an RMD Notice as it must to living accountholders. Some IRA custodians have asked "even though the IRA custodian is not required to furnish this RMD information on the Form 5498 to either the IRS or the beneficiary, may we choose to do so?" With respect to furnishing a Form 5498 for a beneficiary to the IRS with box 11 being checked, we at CWF believe the conservative answer is to not do so. Privacy is a very important subject. Some people are litigious. If the IRS does not require this information be furnished to the IRS, we expect that most beneficiaries would choose to not have it furnished to the IRS.

If an IRA custodian would choose to voluntarily furnish this information to the IRS, such IRA custodian will want to determine if its IRA plan agreement authorizes such action. We would be surprised if the IRA plan agreement authorizes the IRA custodian to send information to the IRS which is not required.

With respect to furnishing a Form 5498 for a beneficiary to the beneficiary with box 11 being checked, this will be unnecessary if the IRA custodian has followed CWF's advice and furnished an RMD Notice to the beneficiary in January. As mentioned previously, the IRA custodian presently has no duty to furnish an RMD Notice to a beneficiary. An IRA custodian may furnish this RMD information to the beneficiary more than once.

PAYER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone no.		1 Gross distribution \$		OMB No. 1545-0119		Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.
		2a Taxable amount \$		2021 Form 1099-R		
		2b Taxable amount not determined <input type="checkbox"/>		Total distribution <input type="checkbox"/>		Copy B Report this income on your federal tax return. If this form shows federal income tax withheld in box 4, attach this copy to your return. This information is being furnished to the IRS.
PAYER'S TIN	RECIPIENT'S TIN	3 Capital gain (included in box 2a) \$		4 Federal income tax withheld \$		
RECIPIENT'S name		5 Employee contributions/ Designated Roth contributions or insurance premiums \$		6 Net unrealized appreciation in employer's securities \$		
Street address (including apt. no.)		7 Distribution code(s)	IRA/ SEP/ SIMPLE <input type="checkbox"/>	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 <input type="checkbox"/>	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 \$

Form 1099-R www.irs.gov/Form1099R Department of the Treasury - Internal Revenue Service

Guidance to Prepare the 2021 Form 1099-R to Report a Traditional IRA, SIMPLE-IRA or SEP-IRA Distribution

What's New.

The IRS has stated an IRA custodian/trustee may report a code "1" or a "2" in box 7 to report a disaster distribution. The secure Act creates a new exception to the 10% early distribution tax for certain withdrawals of up to \$5,000 for a qualified birth or adoption.

The RMD age is now age 72 and no longer age 70½.

Online fillable forms. To ease statement furnishing requirements, Copies B, C, D, 1, and 2 have been made fillable online in a PDF format available at IRS.gov/Form1099R and IRS.gov/Form5498, You can complete these copies online for furnishing statements to recipients and for retaining in your own files.

- #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

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Form 1099-R,
Continued from page 11

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 account holder. 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.
- #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 the law now 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 after 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 account holder.
- #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 NOT 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.