

THE Pension Digest

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



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2022 IRA Limits and Possible Changes for Inflation

In order to alleviate the negative impact of inflation on a person's ability to make IRA and 401(k) contributions various tax limits are adjusted by a cost of living formula. It appears the inflation rate for the period ending September 30, 2021 will be in the range of 5.2% - 6.0%. The IRS will announce the inflation rate in mid October of 2021.

The income limits applying to making a deductible traditional IRA contribution and a Roth IRA will be increasing. Our estimate of the new limits are set forth below. The IRS will either confirm these new limits or announce the new limits.

At this time it does not appear that the IRA Contribution Limits of \$6,000 (under age 50) and \$7,000 (age 50 or over) will be changing. However, if there has been sufficient inflation these limits may change to \$6,500 (under age 50) and \$7,500 (age 50 or over)

The limits for SEP-IRAs, SIMPLE-IRAs and 401(k) are estimated to increase. The

maximum SEP-IRS limit will be \$61,000 up from \$58,000. The deferral limits for SIMPLE-IRAs are estimated to be \$14,000 (under age 50) and \$17,000 (age 50 or older) up from \$13,500 and \$16,500. The deferral limits for 401(k) plans are estimated to be \$20,500 (under age 50) AND \$27,000 (age 50 or older) up from \$19,500 and \$26,000.

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

Tax Year	Amount
2008-12	\$5,000
2013-18	\$5,500
2019-22	\$6,000

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

Tax Year	Amount
2008-12	\$6,000
2013-18	\$6,500
2019-22	\$7,000

IRS to Issue 2022 IRA/Pension Limits

	2020	2021	2022
Taxable Wage Base — OASDI Only	\$137,700	\$142,800	\$150,511
SEP and Qualified Plan			
Maximum Compensation Cap – 401(a)(17) & 404(e)	\$285,000	\$290,000	\$305,000
Elective (Salary) Deferral Limit – 401(k) & SAR-SEP	\$19,500	\$19,500	\$20,500
Elective Deferral Catch-up Limit for 401(k)	\$6,500	\$6,500	\$6,500
SIMPLE Deferral Limit – 408(p)(2)(A)	\$13,500	\$13,500	\$14,000
SIMPLE Catch-up Limit	\$3,000	\$3,000	\$3,000
Highly-Compensated Employees (Compensation as Indexed)	\$130,000	\$130,000	\$135,000
Defined Benefit Limit – Section 415(b)(1)(A)	\$230,000	\$230,000	\$230,000
Defined Contribution Limit – Section 415(c)(1)(A)	\$57,000	\$58,000	\$61,000
SEP Minimum Compensation Threshold – 408(k)(2)(c)	\$600	\$650	\$650
Key Employee Top Heavy — 41(i)(ii)(a)(i)	\$185,000	\$185,000	\$185,000

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-\$207,999.99	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).

IRA Contribution Deductibility Chart for 2022

(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 \$68,000 or less	Entitled to full deduction
\$68,001-\$77,999.99	Entitled to prorated deduction amount - use special formula**
\$78,000 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 \$68,000/\$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 \$109,000 or less	Entitled to full deduction
\$109,001 - \$128,999.99	Entitled to prorated deduction amount - use special formula**
\$129,000 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 \$109,000/\$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 \$109,000 or less	Fully Deductible
\$109,001-\$128,999.99	Entitled to prorated deduction amount - use special formula**
\$129,000 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 \$109,000/\$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 \$204,000 or less	Fully Deductible
\$204,001-\$213,999.99	Entitled to prorated deduction amount - use special formula**
\$214,000 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 \$204,000/\$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 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.
\$198,000-207,999.99	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.

Roth IRA Contribution Chart for 2022

Amount of AGI and Filing Status

Single, Head of Household or Qualifying Widow(er)

Below \$129,000	Entitled to full contribution amount
\$129,000-\$143,999.99	Entitled to prorated contribution amount - use special formula*
\$144,000 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 \$204,000	Entitled to full contribution amount.
\$204,000-213,999.99	Entitled to prorated contribution amount - use special formula*
\$214,000 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

	2019	2020	2021	2022
Maximum SEP Contribution	\$56,000	\$57,000	58,000	61,000
Maximum SIMPLE Deferral (Under age 50)	\$13,000	\$13,500	13,500	14,000
Maximum SIMPLE Deferral (Age 50 & older)	\$16,000	\$16,500	16,500	17,000

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 Widower & 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%

Saver's Credit Limits for 2022

The applicable percentage for 2022 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	\$41,000	50%
\$41,000	\$44,000	20%
\$44,000	\$68,000	10%
\$68,000	N/A	0%

<u>Head of Household</u>		
<u>AGI Over</u>	<u>AGI Not Over</u>	<u>Percentage</u>
\$0	\$30,750	50%
\$30,750	\$33,475	20%
\$33,475	\$51,380	10%
\$51,380	N/A	0%

Other Filers Single, Qualifying Widower & Married, Filing Separately

<u>AGI Over</u>	<u>AGI Not Over</u>	<u>Percentage</u>
\$0	\$20,500	50%
\$20,500	\$22,000	20%
\$22,000	\$34,000	10%
\$34,000	N/A	0%

Email Guidance – Inherited IRA

Q-1. I am distributing a deceased owners traditional IRA to her 5 children. I have received paperwork back from all but 1. How would I go about handling this if I do not receive paperwork back in a timely manner?

A-1. The law does not require an IRA beneficiary to close an inherited IRA immediately. Certain deadlines apply to withdrawing required minimum distributions and closing the inherited IRA. Many beneficiaries are now subject to a 10-year rule.

Are you setting up 5 inherited IRAs?

Did you send a letter to each beneficiary? What did it say? Did you discuss what paperwork you need completed and what happens if that deadline is missed?

If your bank does not service inherited IRAs, a beneficiary should have the right to transfer their inherited IRA to another IRA custodian. A distribution made to a beneficiary is ineligible to be rolled over.

Q-2. I have a 2 scenarios for you.

1. Wife died. Husband is the primary beneficiary. He is going to take her IRA as his own. Which table do I use to calculate his RMD? Minimum or Single.

2. Cousin 1 died. Cousin 2 is the primary beneficiary. Cousin 2 dies in 2021. Cousin 2's wife is the primary beneficiary. Which table do I use to calculate her RMD? Single? Distribute within 5 years or 10 years?

A-2. Situation #1. Spouse Beneficiary situation.

What's her date of birth?

When did she die? In 2020 or 2021?

I'm assuming she died in 2021. An RMD should have been calculated for her? .By 12/31/21 he must withdraw the amount calculated for her to the extent she had not taken it. There is no RMD calculation for him if she died in 2021.

What is his date of birth? Once he elects as own, he becomes subject to the RMD rules for a living account holder.

Situation #2. Non-Spouse Beneficiary situation. When did cousin #1 die? Before 2020 or after 2019? If after, did cousin #1 die in 2020 or 2021?

What are the dates of birth of cousin #1 and cousin #2?

If cousin #1 died before 2020 and cousin #2 was using the life distribution rule and died in 2021, then the next beneficiary (the wife) must use the 10-year rule. She must close the inherited IRA by 12/31/31. The RMD as calculated for cousin #2 must be paid to his beneficiary by 12/31/21 to the extent it had not been withdrawn prior to his death.

If cousin #1 died after 2019, is cousin #2 an EDB or a non-EDB? Call me so we can discuss. In general, the 10-year rule will apply to the wife of cousin #2.

Q-2A. Here is a third scenario -

Mom was born 7/1/1925 and died 7/1/2016.

Son inherits the IRA. Son was born 7/1/1967. What table do I use for the inherited RM D's? What factor? Does it need to be closed in xx years?

A-2A. The son's beneficiary RMD for 2021 should have been determined as follows - 12/31/2020 balance divided by the 2021 divisor. As discussed below it is 30.2. It will be 29.2 for 2022.

The divisor for 2021 is determined as follows: determine the initial divisor for 2017 which is the year following the year the IRA owner died. The beneficiary was age 50 in 2017. The divisor for 2017 comes from the original single life table for a person age 50 and is 34.2 (see attached). The divisor for 2021 is 30.2 (34.2-4.0). Subtract 1.0 for each year since 2017.

The IRS requires the use of a new/revised single life table for the 2022 RMD calculation. See the attached explanation. The divisor for 2022 will be 32.2 (36.2-4.0).

The IRS issued new life expectancy tables in November of 2019 just before COVID19) and also in November of 2020. The IRS has not given any indication that the use of the newest tables for IRAs are not to be used on account of life expectancy decreasing on account of COVID 19. Some governmental unit other than the IRS made the determination that life expectancy in the US has decreased on account of COVID 19. Time will tell if the IRS will again issue revised tables.

Q-3. I was wondering on a Bene Roth IRA, if I need to make it as Death as I do for a Trad IRA?? I don't see the death option under the ROTH, so was wondering if I need to mark it as Q for Qualified?? Also does a bene IRA owner have to obtain the IRA for 5 years??

One more question

We have been having a couple beneficiary of a beneficiary IRA, on those we have to take the IRA back to the original bene, correct? Example Original IRA DOD 3/2008, the existing IRA DOD 6/2021. Our system does not give us the 10-year rule for this example, so what is the rule on how long they have to close this out?

A-3. Code Q (qualified) is used to report a distribution to a Roth IRA beneficiary if the 5-year rule has been met by the beneficiary. One gets to add together the time the Roth Owner had the Roth IRA and the time the beneficiary has the inherited IRA. So, if the IRA owner had met the 5-year rule, so too has the owner. If the owner had not met the 5-year rule, the beneficiary will meet the 5-year rule once his/her time plus the owner's is 5 years. The fact that a beneficiary takes a distribution before the 5 year period does not mean the distribution is taxable because non-taxable contributions are withdrawn first before any earnings are distributed. The beneficiary explains this on their tax return.

Code 4 is not used with respect to a Roth IRA distribution.

As for your second question, I understand the original IRA owner died in 2008 and first beneficiary recently died in June of 2021. You are correct the 10-year rule applies to the beneficiary of the first beneficiary. The inherited IRA must be closed by 12/31/2031. Under the 10-year rule the only requirement is to close the account by 12/31/31. Periodic distributions are not required.

The RMD as calculated for the first beneficiary must be withdrawn by the second beneficiary by 12/31/21. The 10-year rule governs 2022-2031.

Q-4. I have a question concerning an IRA. We have a customer, I'll call her Catherine, she had a Traditional IRA with our bank. Her husband James, was her beneficiary. She died May 1 2021 He died a week later (May 8, 2021). He never came in and transferred Catherine's

IRA to his own. Now I have Catherine's IRA sitting here with no living beneficiary. My question is, will I move that IRA to Catherine's estate account or can I transfer it to her husband's estate account? I'm not sure what to do. Please help?

He was her designated IRA beneficiary. He did not elect to treat her IRA as his own IRA. He died one week later without having designated a beneficiary of this inherited account. Under CWF's form, his estate is defined to be his beneficiary.

You should establish an inherited IRA for the estate. The inherited IRA would be titled, the John Doe estate as beneficiary of John Doe's IRA. IRS guidance is to no longer reference the original IRA owner.

How old were these two?

As a spouse beneficiary he was/is an EDB. He could have used either the life distribution rule or the 10 year. He did not make any election prior to his death. Because his estate is his beneficiary I believe the 5-year rule now applies. The inherited IRA must be closed by 12/31/26.

The personal representative of the estate should inform you how and when distributions will be withdrawn. The instruction might be to take a partial distribution in 2021 and the remainder in 2022 or to take a lump sum distribution in 2021. Other approaches are also possible as long as the inherited IRA is closed by 12/31/26.

Any RMD for 2021 for her to the extent not distributed prior to her death should be withdrawn by estate by 12/31/2021.

Q-4A. Both Catherine and James were 84 years old. Catherine had not taken her RMD for 2021. To make sure I understand clearly, I will transfer Catherine's IRA to James Doe Estate. It will be titled James Doe Estate as beneficiary of Catherine Doe. The 5-year rule will apply but the representative of the estate will have to take the RMD for 2021 by 12/31/2021.

Q-4A. See the IRS guidance from the instructions for Form 5498 as underlined/highlighted for titling an inherited account after the first beneficiary (James) dies.

I agree with you that it seems that the original IRA owner (Catherine) should be referenced in the title.

Inherited IRAs,
Continued from page 5

However, that is not the approach adopted by the IRS. The IRS rarely explains why a certain procedure is adopted.

I don't see the bank having substantial adverse consequences if you would use your suggested titling, but I also don't see substantial benefits.

Note you are to prepare 3 5498 forms for this situation: a final one for Catherine, a final one for James as beneficiary of Catherine and a final one for James' estate as beneficiary of James.

Q-5. I have an Inherited IRA owner who as died and she did not have any beneficiaries listed. Our agreement says I that the funds would go to the Estate. Does that have to go into an Inherited IRA in the name of the Estate or , is there another way to distribute it?

A-5. The most conservative approach is that an IRA custodian establishes an inherited IRA for the estate. The estate was the designated beneficiary. For example, the Jane Doe Estate as beneficiary of Jane Doe's IRA. The personal representative of the estate would complete and IRA distribution form, The bank would issue the Form 1099-R to the estate using the estate TIN number.

Many states have laws for small estates. Family members of the decedent are not required for state law purpose to have an estate. Distributions may be made directly to certain family members.

We at CWF believe that if a family member furnishes an IRA custodian/trustee with an attorney's letter stating that under state law and federal law the estate has the right to pass through to certain family members the right to withdraw the IRA funds, then the bank may establish separate inherited IRAs for such family members. The withdrawal period would be the 5-year rule because the estate was the designated beneficiary. The 10-year rule applies only if the beneficiary is a living person.

If there was a 2021 RMD for the deceased IRA owner and it was not fully distributed prior to the person's death, each beneficiary should withdraw their share by 12/31/2021.

Q-6. I have an IRA customer that passed away in July. He was 83 years old. His primary beneficiary is his spouse who is 91 years old. Is she able to treat his IRA

as her own, but use his age for calculating RMDs going forward or does this have to be set up as an inherited IRA?

A-6. As you know a surviving spouse over age 59 1/2 will normally elect to treat their deceased spouse's IRA as her own. However, there should be a special determination if the deceased IRA owner was much younger than the surviving spouse.

The 2021 RMD needs to be withdrawn by the surviving spouse by 12/31/21 to the extent it had not been paid to him prior to his death.

1. Her first option is to elect to treat his IRA as her own IRA. The divisor from the Uniform Lifetime Table for a person age 92 in 2022 is 10.8.

2. Her second option is to keep it as an inherited IRA. The RMD rules are not totally clear if she keeps it as inherited IRA.

Approach # 1. Her divisor is actually based upon the age of her deceased spouse because he is younger than she. He was age 83 in 2021. The divisor from the old table is 8.6 and the divisor from the new table is 9.3.

The 9.3 is "initially" used and so the divisor for 2022 will be 8.3.

Approach #2. The divisor is based on her age in upcoming years. Since she will be 92 in 2022 the divisor will be 4.9.

The IRS needs to furnish additional guidance whether the IRS will continue the "old" rule with respect to the life distribution calculation when the beneficiary is older than the deceased IRA owner. This special calculation would not be used if the beneficiary was not a spouse, but it would be used for a spouse or other EDB.

I would think she would elect to treat his IRA as her own. This will give the longer distribution period. The distribution period using the Uniform Table of 10.8 is larger than using the 9.3 from the Single Life Table. It was fairly close.

I believe the IRS also must issue guidance on what schedule applies once the spouse beneficiary dies. If the spouse elected as own, then the next beneficiary (assuming a person) is able to use the 10-year rule. This appears to be the result regardless of how old the IRA

**Inherited IRAs,
Continued from page 6**

owner is. That is, a beneficiary of an IRA owner who is age 99 is still able to use the 10-year rule even if the single life expectancy is only 3.0 years.

That is not the case if the spouse did not elect as own. The beneficiary would be required to complete the schedule as started by the spouse, but that schedule could not exceed 10 years. I will be reviewing this discussion, but that is my current understanding.

Q-7. We have a customer that passed away on 7/23/2021. He was receiving an automatic distribution from his IRA on the 1st of each month. We were not informed of his death until after 8/1/2021 and so he received his monthly distribution. His spouse is his sole primary beneficiary and she is electing to treat this IRA as her own. She would like to continue with these automatic monthly distributions. My question for you is, can we code the 8/1/2021 distribution in his name using code 7 as we did or should it be coded in the spouse's name with a code 7 even though no paperwork had been signed yet? Or should it be coded in her name as beneficiary using code 4? The deceased customer and spouse beneficiary are over age 72.

A-7. Since he had died the tax rules do not recognize that a distribution was made to him.

She is considered to have received the 8/1/2021 distribution. Code 7 or code 4 will be used to report the distribution to her. I suggest using code 7 as it is easier. She will be furnished only one Form 1099-R rather than two. Her Form 1099-R will be prepared with a reason code 7 for this distribution and the others occurring in 2021.

I can see using code 4 for that one distribution because technically she may not have treated the inherited IRA as her own at that time. I don't see the IRS as being harmed and she is not harmed. Both the code 7 and the code 4 mean the person does not owe the 10% tax.

Email Guidance – Certain Direct Rollovers Required by Law

Q-1. On the ABC 401(k) Plan is there any option to force a terminated employee to take his funds out of the plan? We've been trying to contact Julie L. and we just don't get any response. She has a vested balance of around \$800.

A-1. The employer as the plan administrator should put her on notice that it is required by law to close out a participant's balance if that balance is less than \$5,000.

I have sent two pages from the Basic Plan Document discussing the law applying when a person's balance is less than \$5,000. When the balance is less than \$5,000 a participant does not have the right or ability to leave the funds within the plan. The amount is to be distributed. If the balance is between \$1,000 and \$5,000 the employer must directly rollover the person's balance in an IRA. This IRA is often called an automatic IRA. Neither the former employee nor the employer have the discretion to not follow the law. The \$800 is to be distributed to her.

The best approach is, pay her directly. Cut her the check and mail it with a letter of explanation. Has anyone tried more than once to call or talk with her?

If she will not cash the check, the law becomes less clear. The law assumes she will cash the check.

There is a possible alternative approach. The employer will establish an IRA on her behalf and her funds will be directly rolled over into this IRA. Establishing such an IRA is not mandatory because her balance of \$800 is less than a \$1,000. Presumably, the employer may still take this action.

The second alternative approach is, the employer has notified the person that the funds will be escheated to the state under existing law (3 years with no activity?) if she fails to cash the check. She is treated as she was distributed the funds and she will need to include the \$800 in her income for the year the funds are escheated.

Paying HDHP Premiums With HSA Funds or Reimbursing Oneself From an HSA for Paying Medicare Premiums

An HSA owner who is age 65 or over is able to reimburse himself or herself to the extent they have paid (or are considered to have paid) the premiums for Medicare Part A, Part B or Part D.

I believe the payment of premiums related to Part C would also qualify for tax free income treatment. However, neither the IRS nor HHS has given much guidance on the Part C topic. I believe the premiums for Part C can vary as HHS will negotiate with the Medicare C provider and the Medicare C provider then sets the premium. This premium is sometimes \$0.00.

Here is my understanding. The current law is, a person's paying a premium for a health plan is not a qualified medical expense. Code section 223(d)(2)(B).

Code section 223(d)(2)(C) provides a number of exceptions. One exception is found in subsection(iv) and this exception is quite broad - the payment of any health insurance other than a medicare supplemental policy qualifies as a medical expense entitled to tax free income treatment. See attached. Any insurance is any insurance.

I admit that I should know more about Medicare. I have Medicare Part C coverage pursuant to a Blue Cross/Blue Shield policy. HHS reduces my Social Security benefit check by \$145 every month for my Part B coverage. I have no premium for the Part A coverage. I do have some premium for the Part D coverage. HHS sends all or some portion of this \$145 to BCBS. In some previous years I had to pay an additional premium for my Part C/D coverage. This year there is no additional amount. From televisions ads, I get the idea that in some situations a portion of the \$145 might be refunded to me.

I don't have an HSA, but if I did, I understand I would be entitled to reimburse myself for the \$145 plus the additional amount for the part C coverage. One year it was \$50 per month.

Most Part C plans will include Part D coverage. So there will not be a separate premium for Part D. However, I was late in initially signing up for Part D because HHS does a poor job of explaining a certain situation. To no avail I have suggested to HHS it should improve its discussion. Consequently, I am required to pay a special late penalty premium of \$1.50 per month forever. I understand I could pay this Part D premium from my HSA.

There are four parts of Medicare: Part A, Part B, Part C and Part D

- Part A provides inpatient/hospital coverage.
- Part B provides outpatient/medical coverage.
- Part C offers an alternate way to receive your Medicare benefits (see below for more information).
- Part D provides prescription drug coverage.

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Medicare A

If you are covered under social security (or if you are a government employee who paid Medicare tax). you are enrolled in Medicare A. The payroll tax paid for Medicare A isn't a medical expense.

If you aren't covered under social security (or weren't a government employee who paid Medicare tax), you can voluntarily enroll in Medicare A. In this situation, you can include the premiums you paid for Medicare A as a medical expense.

Medicare B

Medicare B is a supplemental medical insurance. Premiums you pay for Medicare B are a medical expense. Check the information you received from the Social Security Administration to find out your premium.

Medicare D

Medicare D is a voluntary prescription drug insurance program for persons with Medicare A or B. You can include as medical expense premiums you pay for Medicare D.

HDHP Premiums,
Continued from page 8

Insurance Premiums You Can't Include

You can't include premiums you pay for:

- Life insurance policies;
- Policies providing payment for loss of earnings;
- Policies for loss of life, limb, sight, etc.;
- Policies that pay you a guaranteed amount each week for a stated number of weeks if you are hospitalized for sickness or Injury;
- The part of your car insurance that provides medical insurance coverage for all persons injured in or by your car because the part of the premium providing insurance for you, your spouse, and your dependents isn't stated separately from the part of the premium providing insurance for medical care for others; or
- Health or long-term care insurance if you elected to pay these premiums with tax-free distributions from a retirement plan made directly to the insurance provider and these distributions would otherwise have been included in income.

Taxes imposed by any governmental unit, such as Medicare taxes, aren't insurance premiums.

Email Guidance – HSA Eligibility

Q-1. At what age is a dependent no longer eligible to be covered on parents insurance or HSA?

I am working on a new HSA and one child is 25 the other is 26. We were thinking 25 was the cut off age.

A-1. It is age 26 for purposes of the HDHP. See attached.

Regardless of age any person who could be claimed by another person as a dependent under federal tax laws is ineligible to establish or make an HSA contribution.

Email Guidance – Transfer, Rollover or Direct Rollover IRS Reporting Duties Differ

Q-1. We have a client that last year and also this year moved some IRA funds over to us. At the time we coded them as a transfer. We have since learned that these should have been coded as a direct rollover. There was a total of 3 different rollovers. My first question is can you do more than one direct rollover in a year? My next question is can we correct the ones from last year.

A-1. The once per year only applies when funds are withdrawn from an IRA and then the funds are rolled over into an IRA.

When funds are moved into an IRA the IRA custodian needs to know - where did the funds come from and if the funds came from an IRA, were they transferred or were they distributed and then directly rolled over?

Funds coming from an IRA can either be a transfer or a rollover. In a transfer IRA custodian #1 makes the check payable to IRA custodian #2. There should be a transfer form signed by both IRA custodians. In a rollover, IRA custodian #1 makes the check payable to the individual.

Funds coming from a 401(k) plan or other employer will never be a transfer. These will either be a direct rollover or rollover. What can be confusing with a direct rollover is, the 401 (k) plan makes the check payable to the IRA custodian. This check may look like it is a transfer check but it isn't since the issuer is not an IRA custodian. It is a direct rollover.

A corrected 2020 Form 5498 should be prepared for this person and the total amount reported in box 2 as a rollover. And any transaction occurring in 2021 should be corrected