

# THE Pension Digest

## ALSO IN THIS ISSUE –

IRA Contribution Deductibility Charts for 2021 and 2022, Page 2

Roth IRA Contribution Charts for 2021 and 2022, Page 3

SEP and SIMPLE Limits and Saver's Credit Limits for 2021 and 2022, Page 3

Compliance With PTE 2020-02, Page 4

Email Guidance – Roth IRA Conversion, Page 4

Email Guidance – HSA Eligibility, Page 5

HSAs – COVID-19 Eligible Expenses, Page 5

Email Guidance – Assisting With Direct Rollovers into an IRA From a 401(k) Plan – What About an RMD?, Page 6

Email Guidance – Assisting With Direct Rollovers into an IRA From a 401(k) Plan – Outstanding Loans, Page 6

Email Guidance – Inherited IRA, Pages 7 & 8

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



© 2021 Collin W. Fritz and Associates, Ltd. Copyright is not claimed in any material secured from official U.S. Government sources. Published by Collin W. Fritz and Associates, Ltd. Subscription: \$95 per year.

## 2022 IRA Limits as adjusted for Inflation

On October 15, 2022, the IRS announced the 2022 IRA limits.

The rate of inflation for the fiscal year ending September 30, 2021, has been substantially larger (5.4%) than it had been in many of the preceding years. Consequently, various IRA limits will be increasing more than has been the case in the prior years. These 2022 IRA limits are set forth on pages two and three.

The IRA contribution limits of \$6,000 (under age 50) and \$7,000 (age 50 or older) which applied for years 2018-2021 will also apply for 2022.

The income limits applying to making a deductible contribution are also increasing as are the Roth IRA eligibility limits. More individuals who are active participants will be eligible to claim a tax deduction for their traditional IRA contribution and more individuals will be eligible to make a Roth IRA contribution.

The limits for SEP-IRAs, and SIMPLE-IRAs plans are also increasing. The maximum SEP-IRA limit will be \$61,000 up from \$58,000. The deferral limits for SIMPLE-IRAs will be \$14,000 (under age 50) and \$17,000 (age 50 or older) up from \$13,500 (under age 50) and \$16,500 (age 50 or older).

### 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

Continued on page 8

## IRS Issues 2022 IRA/Pension Limits

### IRS Announces Cost-of-Living Adjustments for 2022

The IRS in Notice 2021-61 Released its 2021 Adjustments as follows:

	2020	2021	2022
Taxable Wage Base — OASDI Only	\$137,700	\$142,800	\$147,000
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	\$245,000
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	\$200,000

## 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 \$129,000/\$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

	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>
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:

### Joint Return

<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%

### Head of Household

<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%

## 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:

### Joint Return

<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%

### Head of Household

<u>AGI Over</u>	<u>AGI Not Over</u>	<u>Percentage</u>
\$0	\$30,750	50%
\$30,750	\$33,000	20%
\$33,000	\$51,000	10%
\$51,000	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	\$20,500	50%
\$20,500	\$22,000	20%
\$22,000	\$34,000	10%
\$34,000	N/A	0%

## Compliance With PTE 2020-02

Requirements to be met by a financial institution if it elects to use PTE 2020-02.

1. Advice must be given pursuant to the Impartial Conduct Standards.
  - A. The advice must be in the best interest of the retirement investor.
    1. The following prudent standard of professional care applies. Such advice reflects the care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims, based on the investment objectives, risk tolerance, financial circumstances and needs of the Retirement Investor.
    2. The following loyalty standard of professional care applies: the advice provider cannot place their own interests or the interest of any employee or affiliate ahead of the interests of the Retirement Investor
  - B. All compensation must be reasonable and when applicable, comply with federal securities laws regarding best execution; and
  - C. Make no misleading statements about a relevant matter.
2. The adviser must acknowledge in writing their fiduciary status under Title I and the Code as applicable and they must explain what services are to be provided and describe if there are any material conflicts of interest.
3. Must adopt written policies and procedures to ensure compliance with the Impartial conduct standards and which will mitigate conflicts of interest.
4. Conduct an annual review to determine if the procedures are being followed and are working.

## Email Guidance – Roth Conversion

Q-1. I have another unusual situation I'd like to run by you. AB serves as custodian for an IRA that holds three rental properties. One of the rental properties is a condo recently purchased by the IRA for about \$180,000. The Account Holder also has a Roth IRA with I cash and securities worth about \$90,000. The client has asked if there is any way to get the condo out of the IRA and into the Roth. He is willing to accept a taxable distribution up to \$90,000.

So a few issues to consider. First, is there any way to produce this result that does not violate any of the self-dealing rules? Second, is there a way to accomplish this with minimal income tax consequence to the account holder? Any insight you can provide is appreciated.

A-1. I understand a person is allowed to convert an in-kind asset within a traditional IRA to a Roth IRA. You mention the condo currently has a value of approximately \$180,000. Does the traditional IRA have any debt related to this condo investment?

The critical requirement is - what is the FMV of the condo as of the time/date it is converted? You mention that he is willing to accept a taxable distribution up to \$90,000. He doesn't get to vote. I don't believe he can't convert only part of the condo. For example. 50% this year and 50% next year:

If there is no debt and he converts this condo, he will be required to include \$180,000 in his 2021 taxable income. I assume he has no basis in any of his traditional, SEP or SIMPLE-IRAs.

If there is debt of \$90,000 on the condo so the traditional IRA's equity in the condo is \$90,000, then he would include only \$90,000 in his income for 2021. I assume there would be some legal costs in making the change in ownership from being his traditional IRA to his Roth IRA. He would need to verify this with his tax adviser or attorney. The financial institution making the loan to his traditional IRA or Roth IRA should be independent of AB. There would also be some legal costs in changing the loan documentation. The borrower would be the Roth IRA versus the traditional IRA.

There is discussion in Congress that the Roth IRA conversion rules might be changed by Congress and President Biden.



## Email Guidance – HSA Eligibility

Q-1. I have a retired teacher that works part time as a substitute at the school. She has her insurance through the school. She thought her deductible was either \$500 or \$1000. Is she eligible for an HSA? She will not be 65 for a little over 2 years.

A-1. No in order to be eligible to make an annual HSA contribution she must be covered by a HDHP which has a minimum deductible of at least \$1400 (for 2021 and 2022) and she cannot be covered by a plan which has a lower deductible .

Q-2. Our HSA accountholder Tom has an HSA-eligible insurance policy covering himself and his spouse. Tom signed up for Medicare as of 9/1/2021, so he is only eligible to contribute for 8 months of 2021. His spouse is age 61 and has established an HSA with us in her name to allow the \$1,000 catch-up contribution for herself.

A current-year contribution of \$7,000 was made on 4/23/21 to Tom's HSA. Will that be considered an over-contribution? Should that contribution actually be split between the 2 HSAs (putting 8-month's worth in Dennis's and the remainder in his spouse's?

A-2. Excellent.

Tom may contribute 2/3 of \$8,200 (\$7,200 + \$1,000) or \$5,466.67. He will need to withdraw the excess amount of \$1,533.33 (\$7,000 - \$5,466.67) plus any interest earned by the excess contribution.

The maximum contribution for the two of them is \$9,200.

The spouse's maximum contribution for 2021 then is \$3,733.33 (\$9,200 - \$5,466.67). The spouse is not required to contribute the maximum. The spouse may contribute the spouse's catch-up amount of \$1,000 plus the remaining portion of the \$7,200 which could not be contributed by Tom or \$2,733.33.

This totals \$3,733.33. The excess amount of \$1,533.33 can be used as the source of funds to partially make the spouse's contribution.

The above discussion is premised on the couple maintaining family HDHP coverage for all of 2021.

Q-3. The bank president will turn 65 soon. If he enrolls in Medicare for Oct, I believe he can contribute \$6,149.97 to his HSA for the year. He has employee/spouse insurance coverage so he can contribute the family amount of \$8,200/year but prorated back.

Would you agree with this calc?

A-3. Yes. His maximum HSA contribution is 75% of \$8,200 or \$6,150 (\$6,149.97). This assumes he has family coverage.

If married, will his spouse, if eligible, also make a contribution to her HSA. She, of course, is not required to make an HSA contribution.

If she would make a contribution then their maximum contribution amount is \$8,959 and not \$9,200. She may contribute her \$1,000 catchup plus \$1,800 or \$2,800. The \$1,800 is that portion of the \$7,200 which he could not contribute (25% of \$7,200).

His contribution of \$6,150 plus her contribution of \$2,800 equals \$8,950.

## HSA's – COVID-19 Eligible Expenses

The Internal Revenue Service reminds taxpayers in news release IR-2021-181 that the cost of home testing for COVID-19 is an eligible medical expense that can be paid or reimbursed under health flexible spending arrangements (health FSAs), health savings accounts (HSAs), health reimbursement arrangements (HRAs), or Archer medical savings accounts (Archer MSAs).

The IRS also reminds taxpayers that the costs of personal protective equipment, such as masks, hand sanitizer and sanitizing wipes, for the primary purpose of preventing the spread of COVID-19 are eligible medical expenses.

## Email Guidance – Assisting With Direct Rollovers into an IRA From a 401(k) Plan – What About an RMD?

Q-1. A participant in a 401(k) plan wishes to rollover his entire balance to his IRA. However, he turned 72 this year and has to withdraw his RMD by April 1st 2022. Can he rollover all of his 401(k) to his IRA and take his 2021 RMD by April 1st from his IRA? The 401(k) custodian informed him that he must take his RMD before rolling over to his IRA.

A-1. The 401(k) custodian is correct. An RMD is always ineligible to be rolled over. It doesn't matter if the distribution is being withdrawn from a 401 (k) or an IRA. The law requires that a person must satisfy their RMD before being eligible to take any distribution which is eligible to be rolled over.

So, a person taking a distribution in 2021 is unable to defer their RMD until 2022 ( on or before 4/1/22). He is unable to rollover his entire balance.

This person will be furnished two 1099-R forms by the 401(k) plan - one for the RMD and one for the amount directly rolled over.

## Email Guidance – Assisting With Direct Rollovers into an IRA From a 401(k) Plan – Outstanding Loans

Q-1. My Customer Sent me the following email. Would you have time next week to talk about my work 401(k)? I took out a loan and did not get it all paid back before I left the firm. It will show up as income this year. I am told I can put the equivalent of the loan into some type of account to offset so that I don't have to pay taxes on the amount.

Are there special rollover rules for 401(k) loans?

A-1. A few years ago the rollover laws were changed to allow a person who had an outstanding QP/401(k) loan to rollover the outstanding loan amount as long as it is accomplished by 4/15 of the year following the year the distribution is considered to have occurred. That is,

the 60 day rule no longer applies when there is an outstanding loan.

This would be 4/15/2022 if she withdrew or directly rolled over her other plan funds in 2021.

When did she separate from service?

See our Form 65A as attached.

This rollover is to be reported in boxes 13a and 13c of the Form 5498. See the attached .

She will be allowed to complete her tax return to explain that she need not include the "deemed" distribution in her income because she rolled it over.

Q-1A. I did speak with this individual and have a little more information.

She separated from service on 10/6/2020. She had received a loan from her 401 Kon 9/18/2018 in the amount of \$20,000.00. She had been making monthly payments from her paycheck to her 401(k) loan until she separated from service on 10/6/2020. She currently has approximately \$15,000.00 owing yet on this outstanding loan.

Would she still be eligible to rollover this money this year to an IRA and have it not be taxable to her?

A-1A. Has she received any written guidance from her accountant or anyone? She should discuss with her tax accountant.

Did she withdraw or directly rollover her other 401(k) funds in 2020 or 2021? If in 2020 I believe she is late as the deadline is the tax filing deadline for the 2020 tax year which was May 17, 2021. I don't believe it helps to have a tax extension, but I would need to research this.

If the distribution of the other 401(k) funds occurred in 2021, she would have until 4/15/2022 to complete the rollover.

Did she receive one or two 2020 Form 1099-Rs from the 401(k)? One would have a Land one a 1 or 7 in box 7.

Does she have copies she would share?

If the distribution occurred in 2020 and she would be entitled to relief under the COVID- 19 Disaster rules, she has 3 years in which to repay that \$15,000. The

**Continued on page 7**

Outstanding Loans,  
Continued from page 6

---

repayment is a special type of rollover. See the attached form. She would furnish it to you and you to us. She must complete the applicable Form 8915. She could repay it in 2021 and she will owe no income tax on the 2020 return. If she repays it in 2022 or 2023 she will need to include it in income for 2020, but then would receive a refund if she files an amended return for 2020.

The 2021 5498 Form must be prepared to report the repayment in box 14.

It may be she has not yet filed her 2020 tax return because she has an extension. If she certifies she eligible to repay the \$15,000 because it qualifies as a COVID-19 distribution, then her 2020 tax return could be completed to show the outstanding loan (what is this amount) is not taxable. She could attach an explanation.

Because of your question I will be reviewing whether our contribution forms need to be revised to handle these two situations.

## Email Guidance – Inherited IRA

---

Q-1. We have a client who inherited his mother's IRA and he has been taking RMDs from this. Now, He has passed away. He was 61.

He has left this inherited IRA to his wife. Can she inherit this IRA and continue taking the RMDs based on his? Does this need to be depleted within a certain time frame?

A-1. No, she is unable to continue the schedule which he was using. She must use the 10-year rule.

I'm thinking your client was using the life distribution rule because the original IRA owner had died before 2020. Your client had designated his wife as his successor beneficiary. If your client died in 2021, then the 2021 RMD had been calculated for him. To the extent he had not withdrawn this amount prior to his death his wife will need to withdraw this amount by 12/31/2021. The SECURE Act then requires that the 10-year will apply to her as it does to any living non-spouse beneficiary. She does not have the right to continue the schedule which had applied to him. Her deadline to close out this inherited IRA is 12/31/2031. The right of

a spouse who is the sole beneficiary of their spouse's IRA to treat their spouse's IRA as their own does not apply to an inherited IRA situation.

If the original IRA owner dies after 2019, then the initial beneficiary generally will have to use the 10-year rule. The successor beneficiary of a beneficiary who has died and who was using the 10-year rule is subject to the same 10-year period. That is, the successor beneficiary will finish out the 10-year period applying to the first beneficiary. For example, John Doe inherited his mother's IRA. The mother had died in 2020. Thus, John's deadline to close this inherited IRA is 12/31/2030. John has designated his wife as his beneficiary. John dies in 2021. His wife is also required to close this inherited IRA by 12/31/30. The right of a spouse who is the sole beneficiary of their spouse's IRA to treat their spouse's IRA as their own does not apply to an inherited IRA situation.

Q1-A. Thanks for getting back to me. Ok, since she will not continue using his schedule and using the 10-year rule. Does it matter how she takes the distributions? Could she take RMD amounts each year until the 10th when its been fully taken? If so, how could we figure that amount out? Would be MV as of 12/31/21 divide by 10 years that would be the amount for the current year?

A1-A. Yes, a person who has inherited a traditional, SEP or SIMPLE-IRA most likely will want to set up a periodic distribution schedule.

It does matter how and when a beneficiary will take their distributions. The general tax rule is - you must include the withdrawn amount in income for the year withdrawn. Based on the person's other income the person could decide to vary the amount being withdrawn.

Yes, divide the 12/31/21 balance by 10. This will be the withdrawal amount for 2022.

Yes, divide the 12/31/22 balance by 9. This will be the withdrawal amount for 2023.

Continue this schedule for the remaining 8 years.

As an alternative a person could withdraw the same amount for years 1-3 and then modify it based on earnings or losses.

## Email Guidance – Inherited IRA

Q-2. I am needing some assistance with an IRA that the owner passed away on 10/24/2020. We have finally heard from the beneficiary. I will need to set up an inherited IRA for the beneficiary, but how do I treat the RMD?. The beneficiary mentioned that she would like to withdraw half this year and half next year would it still be the 10-year payout but she would just close earlier?

A-2. The IRA owner died after 2019.

What RMD are you asking about? 2020 or 2021.

Was there an RMD for 2020 because the IRA owner who died in 2020 was older than age 72?

A beneficiary is required to take by 12/31 of the year of death the calculated RMD to the extent it had not been taken by the IRA owner prior to their death.

The 10-year rule applies to most non-spouse beneficiaries. It applies to the years after the year the death occurred. Since the death occurred in 2020 the beneficiary (not an EDB) must close the inherited IRA by 12/31/30. Taking 50% in 2021 and 50% in 2022 is permissible and she will comply with the 10-year rule.

If there was a missed RMD for 2020, technically the beneficiary owes the 50% tax for 2020. The beneficiary should discuss with their tax adviser. From a practical standpoint, when the beneficiary withdraws 50% in 2021 she or he will be meeting the 2020 and 2021 requirements.

Q2-A. I was inquiring about the 2021 RMD, for the 2020 RMD I thought they were waived. So if she would withdraw half of it in 2021 she would not be required to take the RMD? But I would still need to do a transfer to an inherited IRA for her?

A2-A. You are correct in that RMDs were waived for 2020. There is no "2021" RMD for the decedent or the beneficiary. The entire inherited amount is an RMD.

I get the idea that your system may have calculated an RMD for the decedent because the account was still in the decedent's name and you had waited until you had heard from the beneficiary.

The decedent's duty or ability to take an RMD ends upon their death. That duty automatically transfers to the beneficiary regardless if the beneficiary has only recently informed you of the death.

There must be an inherited IRA for the beneficiary. Any IRS reporting for 2021 (Forms 5498 and 1099-R) should be in the beneficiary's name. The 2020 Form 5498 was the last one for the decedent. Because the 10-year rule applies to this beneficiary, there is no requirement to take any amount for 2021. She may withdraw 50%. A 2021 Form 5498 must be prepared for the beneficiary, "daughter as beneficiary of mom's IRA."

Q-3. On the inherited IRA I am working with that I had sent some questions on earlier. The daughter is the beneficiary and she lives in Kentucky. She is asking if taxes are withdrawn from the amount that she is withdrawing for 2021 and how that works, she said that in Kentucky they do not have Federal tax, so she did not think I would deduct for Federal only for State.

A-3. Any person (whether the account holder or a beneficiary) withdrawing funds from a traditional IRA is to have 10% withheld for federal income tax purposes, unless the person instructs to have no withholding or more than 10% withheld. She can make things easy and instruct to have no federal withholding.

The bank needs to be concerned about withholding state income tax only if the person is a resident of Iowa. The bank should not be withholding state income taxes for residents of other states.

She may misunderstand the tax rules. Although Kentucky may have no income tax she will need to pay federal taxes on her IRA distributions.

### 2022 Limits, Continued from page 1

The deferral limits for 401(k) participants will be \$20,500 (if under age 50) and \$27,000 (if age 50 or older) up from \$19,500 (under age 50) and \$26,000 (age 50 or older).

Too many Americans are not making IRA contributions which they are eligible to make. Less than 20% of those eligible make one of the four types of IRA contributions. There are still many individuals who do not participate in a 401(k) plan. Those individuals who participate in a 401(k) are also eligible to make an IRA contribution.

We suggest an IRA custodian/trustee inform your existing IRA account holders of these changes and your prospective new customers. One should not assume the general public is aware of these changes.