



# THE Pension Digest

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



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## ***Duty to Furnish the 2023 SIMPLE-IRA Disclosures Discussed on Page 2***

### **The Current Economic Times Present Roth IRA Conversion Tax Planning Opportunities for Some**

An IRA custodian may now have some IRA owners who are considering converting some of their IRA assets which have decreased in value because of the current economic conditions.

The current investment market is down with many investments being down 10-15%. Some investments are down 20-30% or more.

Many taxpayers are not interested in making a Roth IRA conversion contribution from a traditional IRA, SEP-IRA or SIMPLE-IRA. The reason is, they must include the amount converted in their taxable income for the year. They will have income tax to be paid. It could be in the range of 15%-37%. It is possible a person may have basis within their traditional IRA. The withdrawal of basis is not required to be included in a person's taxable income. The taxation rules do not allow a person the ability to convert the amount equal to their basis. These rules require a pro-rate rule be applied. For example, a person who has an IRA with a fair market value of \$100,000 with basis of \$20,000 will included 80% of any distribution amount in income and will exclude from income 20% of any distribution amount.

The taxation rules allow a person the ability to convert a specific investment.

The purpose of this article is to suggest that certain taxpayers should be considering converting those IRA assets which have declined in value if there is a reasonable belief those assets will recover their lost value in the future. A person will be making a bad situation worse if they convert an asset which continues to decrease in value.

For discussion purposes, Jane Roe has an IRA with a total value of \$100,000 as of 1/1/2022 as follows:

	FMV 12/31/21	Current Value (7/22)
1. Ultra conservative	\$25,000	\$25,000
2. Conservative	\$45,000	\$41,000
3. Aggressive	\$30,000	\$20,000
Total	\$100,000	\$86,000

**Under current IRS rules Jane is allowed to convert specific investments.** She elects to convert her aggressive investments. The general tax planning rule is - make the conversion at the time an investment has a low value. Since their current value is \$20,000 at the time she does the conversion this is the amount she will need to include in income. The assumption is - her tax bracket is 22% . She must pay \$4400 with respect to her conversion.

Any increase in the value after the conversion will not be taxable when she or her beneficiary withdraws these funds from her Roth IRA. It is assumed that any future distribution from the Roth IRA is qualified and tax free. If the \$20,000

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## **SIMPLE-IRA Summary Description — IRA Custodian Must Furnish to its SIMPLE-IRA Clients by September/October 2022 for 2023**

What are a financial institution's duties if it is the custodian or trustee of SIMPLE-IRA funds? After a SIMPLE-IRA has been established at an institution, it is the institution's duty to provide a Summary Description each year within a reasonable period of time before the employees' 60-day election period. CWF believes that providing the Summary Description 30 days prior to the election period would be considered "reasonable." The actual IRS wording is that the Summary Description must be provided "early enough so that the employer can meet its notice obligation." You will want to furnish the Summary Description to the employer in September or the first week of October. The employer is required to furnish the summary description before the employees' 60-day election period.

IRS Notice 98-4 provides the rules and procedures for SIMPLE-IRAs, including furnishing the Summary Description Notice. The penalty for not furnishing the Summary Description is \$50 per day.

The Summary Description to be furnished by the SIMPLE-IRA custodian/trustee to the sponsoring employer depends upon what form the employer used to establish the SIMPLE-IRA plan.

The employer may complete either Form 5305-SIMPLE (where all employees' SIMPLE-IRAs are established at the same employer-designated financial institution) or Form 5304-SIMPLE (where the employer allows the employees to establish the SIMPLE-IRA at the financial institution of his or her choice).

There will be one Summary Description if the employer has used the 5305-SIMPLE form. There will be another Summary Description if the employer has used the 5304-SIMPLE form. If you are a user of CWF forms, these forms will be Form 918-A and 918-B.

The general rule is that the SIMPLE-IRA custodian/trustee is required to furnish the summary description to the employer. This Summary Description will only be partially completed. The employer will be required to

complete it and then furnish it to his employees. The employer needs to indicate for the upcoming 2023 year the rate of its matching contribution or that it will be making the non-elective contribution equal to 2% of compensation.

In the situation where the employer has completed the Form 5304-SIMPLE, the IRS understands that many times the SIMPLE-IRA custodian/trustee will have a minimal relationship with the employer. It may well be that only one employee of the employer establishes a SIMPLE-IRA with a financial institution. In this situation, the IRS allows the financial institution to comply with the Summary Description rules by using an alternative method.

To comply with the alternative method, the SIMPLE-IRA custodian/trustee is to furnish the individual SIMPLE-IRA accountholder the following:

- A current 5304-SIMPLE — this could be filled out by the employer, or it could be the blank form
- Instructions for the 5304-SIMPLE
- Information for completing Article VI (Procedures for withdrawal) (You will need to provide a memo explaining these procedures.)
- The financial institution's name and address.

Obviously, if an institution provides the employee with a blank form, he/she will need to have the employer complete it, and, the employee may well need to remind the employer that it needs to provide the form to all eligible employees.

CWF has created a form which covers the "alternative" approach of the Summary Description being provided directly to an employee.

Special Rule for a "transfer" SIMPLE-IRA. There is also what is termed a "transfer" SIMPLE-IRA. If your institution has accepted a transfer SIMPLE-IRA, and there have been no current employer contributions, then there is no duty to furnish the Summary Description.

If there is the expectation that future contributions will be made to this transfer SIMPLE-IRA, then the institution will have the duty to furnish the Summary Description.

Reminder of Additional Reporting Requirements

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**Custodian Must Furnish,**  
Continued from page 2

The custodian/trustee must provide each SIMPLE-IRA account holder with a statement by January 31, 2023, showing the account balance as of December 31, 2022, (this contribution and distribution is the same as for the traditional IRA), and include the specific contribution activity in the account during the calendar year (this is not required for a traditional IRA). There is also a \$50 per day fine for failure to furnish this January FMV statement.

## Is it Still Possible to Establish a SIMPLE-IRA Plan for 2022?

Yes, if the sponsoring business has never sponsored a SIMPLE-IRA Plan before and if the business has not made any contributions for 2022 to another type of retirement plan (e.g. profit sharing plan or SEP).

A person or business can set up a SIMPLE-IRA plan effective on any date between January 1 and October 1 of a year, provided it did not previously maintain a SIMPLE-IRA plan. This requirement does not apply if there is a new employer that comes into existence after October 1 of the year the SIMPLE-IRA plan is established.

A new business must set up a SIMPLE-IRA plan as soon as administratively feasible after it comes into existence. If it previously maintained a SIMPLE-IRA Plan, it can set up a SIMPLE-IRA plan effective only on January 1 of the next year. A SIMPLE-IRA plan cannot have an effective date that is before the date you actually adopt the plan.

## Tax Year 2019 IRA Statistics

### What at the FMVs of the four (4) IRA types

IRA Type	Number of IRAs Taxpayers*	FMV	Percentage of Total	Average Balance
Traditional	49,483,938	\$ 9,297,255,762,000	84.92%	\$187,844
Roth	21,959,859	\$1,013,727, 436,000	9.26%	\$46,163
SEP	3,143,142	\$ 491,380,027,000	4.49%	\$156,334
SIMPLE	3,196,812	\$ 146,432,038,000	1.33%	\$45,806
Total	62,772,529	\$10,948,795,283,000	100.00%	\$174,420

\* Note a taxpayer may have multiple IRAs.

### Observations - FMV

1. There was 10.95 trillion in IRAs as of 12/31/2019. 94% was in traditional IRAs and Roth IRAs with 84.9% in traditional IRAs and 9.3% in Roth IRAs.
2. The average IRA balance is \$174,420.
3. The average balance of a traditional IRA is \$187,844.
4. The average balance of a SEP-IRA is \$156,334.
5. The average balance of a Roth IRA is \$46,163.
6. Assuming an average tax rate of 25%, the U.S. Treasury looks to collect taxes of \$2.484 trillion.
7. In general, the funds in traditional IRAs, SEP-IRAs and SIMPLE-IRAs are taxable when withdrawn, but the funds withdrawn from a Roth are generally not taxable.

### What contributions were made for 2019 to the four (4) IRA types

IRA Type	Number of IRAs/ Taxpayers*	Contribution Amount	Average Contribution
Traditional	7,940,008	\$27,606,885,000	\$3,477
Roth	4,566,422	\$20,061,171,000	\$4,393
SEP	1,085,534	\$16,522,641,000	\$15,221
SIMPLE	2,036,199	\$11,314,686,000	\$5,557
Total	14,878,148	\$75,505,384,000	\$5,075

\* Note a taxpayer may have multiple IRAs.

### Observations - 2019 Contribution

1. There were annual contributions of 75.5 billion.
2. There were rollover contributions of 554.4 billion

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Statistics,  
Continued from page 3

3. More annual IRA contributions were made to Roth IRAs (27.6 billion) versus traditional IRAs (20.1 billion).
4. SEP-IRA contributions of 16.5 billion were relatively close to the contributions made to traditional IRAs (20.1 billion).
5. SIMPLE-IRA contributions of 11.3 billion were made.
6. The total number of taxpayers making contributions was 14,878,148  
Roth IRAs - 7,940,008  
Traditional IRAs - 4,566,422  
SIMPLE-IRAs - 2,036,199  
SEP-IRAs - 1,085,534
7. The average contribution SEP-IRA was \$15,221.  
SIMPLE-IRA - \$5,557  
Traditional IRA - \$4,383  
Roth IRA - \$3,462
8. Breakdown of those making Traditional IRA contributions  
Those claiming a tax deduction: 2,847,364.  
Amount contributed: \$12,611,339,000  
The average contribution: \$4,429  
  
Those not claiming a tax deduction: 1,719,058  
Amount contributed: \$7,499,832,000  
The average contribution: \$4,636

**What rollover contributions were made for 2019 to the four (4) IRA types**

IRA Type	Number of IRAs/ Taxpayers*	Contribution Amount	Average Rollover Contribution
Roth	587,893	\$12,984,374,000	\$22,086
Traditional	4,785,371	\$535,669,598,000	\$111,939
SEP	47,201	\$5,029,399,000	\$106,553
SIMPLE	18,089	\$703,211,000	\$38,875
Total	5,079,809	\$554,386,583,000	\$109,135

\* Note a taxpayer may have multiple IRAs.

**Rollovers into IRAs**

Rollover Chart Summary:

Size of AGI	Number of Taxpayers	Amount (000's)	Average
No MAGI	29,126	\$3,212,614	\$110,301
\$1 under \$5,000	51,758	\$2,127,927	\$41,113
\$5,000 under \$10,000	81,329	\$3,027,344	\$37,223
\$10,000 under \$15,000	122,890	\$5,034,513	\$40,968
\$15,000 under \$20,000	117,053	\$4,104,118	\$35,062
\$20,000 under \$25,000	145,043	\$7,217,491	\$49,761
\$55,000 under \$30,000	147,393	\$4,655,550	\$31,586
\$30,000 under \$40,000	296,821	\$10,313,506	\$34,747
\$40,000 under \$50,000	291,027	\$13,896,740	\$47,751
\$50,000 under \$75,000	732,627	\$44,090,681	\$60,182
\$75,000 under \$100,000	659,922	\$57,484,912	\$87,109
\$100,000 under \$200,000	1,498,678	\$185,137,692	\$123,534
\$200,000 under \$500,000	713,921	\$145,689,345	\$204,069
\$500,000 under \$1,000,000	131,218	\$42,635,572	\$324,922
\$1,000,000 or more	61,003	\$25,758,579	\$422,251
<b>Totals:</b>	<b>5,079,809</b>	<b>\$554,386,584</b>	

**CWF Observations**

1. Rollovers of \$554 billion were made in 2019 into IRAs.
2. 5.1 million taxpayers made a rollover.
3. The average rollover of all taxpayers was \$109,135.
4. As one would expect, those individuals having higher incomes make larger rollover contributions.
5. The average rollover for MAGI of \$1 to \$50,000 was in the range of \$31,586-47,751.
6. The average rollover for MAGI of \$50,000-\$75,000 was \$60,182.
7. The average rollover for MAGI of \$75,000-\$100,000 was \$87,109.
8. The average rollover for MAGI of \$100,000-\$200,000 was \$123,534.
9. The average rollover for MAGI of \$200,000-\$500,000 was \$204,069.
10. The average rollover for MAGI of \$500,000-\$1,000,000 was \$324,922.
11. The average rollover for MAGI over \$1,000,000 was \$422,251.



## Email Guidance – Assist a Beneficiary by Informing Them - No Rollover Right

Q-1. If I have a customer who is taking a full distribution from an inherited IRA with one institution and rolling it to us within the 60 day grace period I still classify this as an inherited IRA, correct?

I am assuming I would since this customer is not eligible to contribute any longer, but wanted to confirm this with you.

The other institution is being difficult when I've asked to have the funds transferred.

A-1. The critical rule is - a non-spouse beneficiary is ineligible to take a distribution and then make a rollover contribution. The beneficiary never wants to take a distribution because it will be taxable and it can't be rolled over.

The only way to move an inherited IRA if you are a non-spouse beneficiary is to have it transferred by the two financial institutions.

A spouse beneficiary has rollover rights, but the standard IRA rollovers rules must be met.

Q-1a. Thank you! I do not feel the need for a phone call as you explained this clearly. I wish I would have contacted you sooner since the other financial institution has made it impossible to complete the transfer and this was the work around suggested to me. I will reach out to the customer, who was debating on cashing it in any way to let them know their options.

A-1a. Does she have a copy of the IRA plan agreement? I would think they would furnish her a copy if she requests one.

Who is the other financial institution? Bank, mutual fund, securities firm, insurance company etc.

What is their explanation why they won't cooperate and transfer the inherited funds?

Sometimes if a person complains to the appropriate regulator the current financial institution will change their approach or tune.

## Email Guidance – 401(k) RMDs are Ineligible to be Rolled Over

Q-1. As you know, Mary retired in May. She rolled over \$85,000 from her 401K into an IRA. Does she need to take an RMD for 2022 for the \$85,000 she rolled over? She did not take an RMD before rolling over.

A-1. The 401(k) plan administrator should have known better. An RMD is ineligible to be directly rolled over. The 401(k) plan should have paid her the 2022 RMD and then directly rolled over the remainder.

A non-tax person may think - what does it matter as long as she takes the RMD by December 31? The IRS publishes many statistics regarding IRAs and if the entire amount rolled over then the rolled over amount is "wrong" because it includes an RMD.

As a practical matter Mary should withdraw her 2022 RMD. Sooner is better than later.

The IRS if it knows about the situation will inform the 401(k) plan - ask that the RMD be returned from the IRA to the 401 (k) and then the 401(k) should distribute the RMD amount to the participant.

## Email Guidance – Making an IRA Contribution for the Year One Retires

Q-1. I passed this on to Greta. She did have another question. She hasn't made a contribution for 2022. Would she be eligible to make one since she was employed until May of this year?

A-1. I assume she is asking about her 2022 IRA contribution. A person is eligible to make an IRA contribution for a year as long as she has income/compensation for that . She is eligible because she has compensation because she has worked for 5 months.

It used to be the law that a person subject to the RMD rules was ineligible to make an IRA contribution. That law was repealed.

In this situation many times an employer will make a 2022 profit sharing contribution which she would share in and this contribution would be made after 12/31/2022.

## Email Guidance – Must an IRA Custodian Withhold Less Than 10%, But Not 0%

Q-1. Is there a federal requirement that says if someone is going to withhold for federal taxes that the minimum is 10%? For some reason that is what I thought but I can't find anything on this issue.

A-1. Here is my understanding of the 10% and less than 10% withholding topic.

Prior to 2022 the IRS had written its Form W-P to provide the rule - 10% must be withheld unless the recipient instructs to have 0% withheld or to have more than 10% withheld. That is, the Form W-4P was not written to allow a person to have 1-9.9% withheld.

I believe this approach is the correct approach because that is the approach set forth by the applicable statute.

The position of CWF has always been - a bank can voluntarily choose to accommodate the person and so some banks did allow less than 10% to be withheld. But the individual cannot take the approach - the bank is required to withhold whatever percentage I instruct even if it is less than 10%. So some banks did NOT allow less than 10% to be withheld.

I believe the IRS regulation sets forth the rule that a bank cannot be required to withhold less than 10%. I don't believe the regulation (or the statutory law) has been formally changed by the IRS.

Nevertheless, the IRS has created a new Form W-4R which applies to almost all IRA distributions since most IRA distributions are payable upon demand. See the attached. The recipient can complete this form so that less than 10% is to be withheld. So, the IRS now requires a bank to withhold less than 10% if so instructed by the recipient because of the way the new Form W-4R was written.

To me the purpose of the new form W-4R is clear - the federal government benefits when there is more withholding.

The IRS approach is - if we inform a person that most likely 10% withholding will not cover the taxes they

owe related to the IRA distribution then more people will elect to have more than 10% withheld. Time will tell.

## Email Guidance – IRS Reporting for Beneficiary Roth IRA Distributions

Q-1. If our customer has a Roth Inherited IRA and they take a distribution from it, should it be marked as a Qualified Distribution if the deceased held it for 5 years or a Death Distribution?

A-1. Once the 5-year rule has been met, the distribution to a beneficiary is qualified, So the reason code is to be the "Q".

Q-2. We have coded a Roth IRA distribution to a beneficiary as a "T." CWF has informed us that "Q" is the correct code. Why?

A-2. Our administrative procedure is - we at CWF are to always follow the code number or letter to be reported in box 7 on the Form 1099-R as shown on an IRA distribution form.

There are times when we will bring to a bank's attention that we believe the code as shown on a form is incorrect.

I'm writing regarding the Roth IRA distribution made by Joe M. We believe the code should be a "Q" and not "T."

The taxation rules applying to Roth IRAs are very different from the taxation rules applying to traditional IRA. This is certainly the case when a distribution is made to a beneficiary. Almost always a distribution to a Roth IRA beneficiary will be tax-free whereas the distribution to a traditional IRA beneficiary will be taxable.

A Roth IRA distribution to a beneficiary is qualified (and tax-free) once the 5-year rule has been met by the beneficiary.

In meeting this 5-year rule the beneficiary is able to aggregate the time the deceased Roth owner had the account with the time the beneficiary has had the

**IRS Reporting for Beneficiary,**  
**Continued from page 6**

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account. This means if the Roth owner had met the 5-year requirement so has the beneficiary and code Q is to be used.

If the beneficiary has not met the 5-year requirement, the beneficiary will meet it within the next 1-4 years. Until it is met, Code T is to be used. Code J is never used with respect to a Roth IRA beneficiary.

I understand that Mark M. died in 2022. He had a Roth IRA with the bank since at least 2015. That is, he had met the 5-year requirement. So, his beneficiary (Joe M.) has also met the 5-year requirement and any distribution to Joe M. is qualified.

Inform us if you want us to use the Q code. Otherwise the Code T will. be used.

For purposes of determining if the 5-year rule been used, an IRA custodian only considers the time the Roth IRA has been at that institution. You do not consider the time when the person had their Roth IRA with a different custodian/trustee.

**Assist a Beneficiary,**  
**Continued from page 5**

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Q-2a. CWF provides us with a preliminary Form 1099-R report. It shows that Box 2 will show a taxable amount?

A-2a. Are we showing this amount in a "taxable" column?

There is special 1099-R reporting for Roth IRA distributions. In general, box 2 of the 1099-R form is to be left blank (do not report 0.00) when reporting a Roth IRA distribution.

In general, the IRS does not ask the Roth IRA custodian to determine if there is taxable income with respect to a Roth IRA distribution. That is why box 2 is to be left blank. There are two exceptions discussed below ..

The recipient of a Roth IRA distribution (owner or beneficiary) has the duty to complete his or her tax return and explain whether any portion of the distribution must be included in income (i.e. taxable) and to explain why a distribution is not required to be included in income.

When a person takes a qualified Roth IRA distribution, it is tax-free and no tax is owing.

When a person takes a non-qualified Roth IRA distribution, it too will generally also not be taxable (no tax is owing) because the ordering rules provide that basis is withdrawn first and then any earnings are withdrawn after there is no basis.

When earnings are part of a qualified distribution they are not taxable. When earnings are part of a non-qualified distribution they are taxable, but even so box 2 is to be left blank.

The two exceptions:

Exception #1. When a person has made an excess Roth IRA contribution and corrects it by withdrawing both the excess contribution plus the related income. That income is taxable and is to be reported in box 2. Box 2 is not to be left blank.

Exception #2. When a person recharacterizes a Roth IRA contribution to be a traditional IRA contribution, box 2 is to be completed with 0.00 because the purpose of doing a recharacterization is to move the excess/current year contribution along with any earnings to a traditional IRA. That is, the person is treated as if the first contribution had been made to the traditional IRA.

Let me if we need or should change a report.

## Email Guidance – RMD Requirement for the Year the IRA Owner Dies

Q-1. I hope you can confirm the following:

IRA owner turns 88 years in 2022. His sole beneficiary, his wife, turns 70 in 2022. To calculate IRA owner's 2022 RMD, I use Joint Life and Last Survivor Expectancy (Table II) to calculate the RMD. I see a factor of 19.2. Is this correct? '

A-1. Yes, you are correct. That is the factor under the new applicable RMD table (Joint). The spouse beneficiary is more that 10 years younger than the IRA owner.

Q-1a. Thank you. We made his 2022 RMD.

Now, even though his surviving spouse (and sole beneficiary) is more than 10 years younger than the decedent, is she still considered an eligible designated beneficiary? If so, can she rollover deceased husband traditional IRA to her traditional IRA? OR will we need to set up an inherited IRA?

If we can rollover from husband's IRA to her IRA, can she wait to take her RMD until she turns 72? OR do we start her RMD's based on:

A-1a. If there was a 2022 RMD calculated for an IRA owner who has died in 2022 and who had not been distributed 100% of the RMD, the spouse beneficiary must be distributed any remaining RMD by 12/31/22.

Upon her election to treat as own, the IRA funds become her IRA funds (her IRA) and the standard RMD rules apply to her IRA. She has no RMD year until the year she attains age 72. The fact that the spouse beneficiary had attained age 72 is no longer to be considered.

Under current law the spouse who is the sole beneficiary has the right at any time to make such election. The IRS has written a proposed regulation which imposes a deadline on a spouse to make the election and other special rules.

### Roth IRA Conversion, Continued from page 1

would grow to be \$50,000, that \$50,000 will be withdrawn tax free.

It may be that the current law could be changed to not allow an IRA owner to convert specific assets, but that is the current law.

Here is another more extreme example.

	FMV 12/31/21	Current Value
1. Ultra Conservative	\$150,000	\$150,000
2. Conservative	\$200,000	\$190,000
3. Bitcoin	\$ 50,000	\$ 15,000
Total	\$400,000	\$355,000

**Under current IRS rules Jane is allowed to convert specific investments.** She elects to convert her Bitcoin investment. The general tax planning rule is - make the conversion at the time an investment has a low value. Since their current value is \$15,000 at the time she does the conversion this is the amount she will need to include in income. The assumption is - her tax bracket is 30%. She must pay \$4500 with respect to her conversion.

Any increase in the value after the conversion will not be taxable when she or her beneficiary withdraws these funds from her Roth IRA. It is assumed that any future distribution from the Roth IRA will be qualified and tax free. If the \$15,000 would grow to be \$60,000 (or more) that \$60,000 or other amount will be withdrawn tax free.

Some IRA clients may want to convert certain assets because of the tax planning opportunities. Remember, under current law any person with money in a traditional IRA, SEP-IRA or SIMPLE-IRA is eligible to move money from such IRA to a Roth IRA. Even though he person may be extremely wealthy, they are eligible to make a Roth IRA conversion contribution.