



# THE Pension Digest

November 2022  
Published Since 1984

## ALSO IN THIS ISSUE –

*Charges For Each Information Return or Payee Statement, Page 2*

*Guidance to Prepare the 2022 Form 1099-R to Report a Traditional IRA, SIMPLE-IRA, SEP-IRA or Roth Distribution, Page 2*

*CWF's Guide For the IRS Distribution Codes For Box 7 of the 2022 Form 1099-R, Page 4*

*CWF's Email Guidance - 2023 Iowa IRA Changes - No Taxation, No Withholding on Distributions/Withdrawals or Retirement Income, Including IRAs, Page 4*

*Email Guidance – Old and New Laws For a IRA Beneficiary, Page 5*

*Table 1. Guide to Distribution Codes, Page 6*

*Are IRA Amendments Required For 2022-2023?, Page 8*

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



© 2022 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.

## Why So Important For an IRA Custodian/Trustee to Prepare the 2022 Form 1099-R Correctly?

It can be very expensive when a 2022 Form 1099-R is not prepared correctly. An IRA custodian/trustee will be fined if it fails to prepare a 2022 Form 1099-R when required to do so. In 2022 the typical penalty is  $\$280 \times 2 = \$580$  for each incorrect Form 1099-R. The most common error is, an IRA custodian/trustee treats a transaction as a transfer and does not report the distribution. Another common error is, a transfer which is reportable (conversion, recharacterization, or QHFD), is not reported.

The chart on page 2 summarizes the penalties. There is one penalty when an IRA custodian/trustee furnishes the IRS with an incorrect form and an additional penalty when an IRA custodian/trustee furnishes the IRA accountholder or beneficiary with an incorrect form.

The IRS charges penalties for each incorrect Form 1099-R.

The IRS has provided the following summary when the IRS will remove or reduce the penalty.

We may be able to remove or reduce the penalty if you acted in good faith and can show reasonable cause.

If you have reasonable cause, respond to Notice 972CG within 45 days (60 days if you're a foreign filer) before we assess the penalty. You may have reasonable cause if you:

- Acted responsibly before and after the failure occurred and
- Have significant reasons or the failure resulted from circumstances beyond your control

For details on reasonable cause for missing and incorrect names or Taxpayer Identification Numbers, see Publication 1586, Reasonable Cause Regulations & Requirements for Missing and Incorrect Name/TINs (PDF).

By law, we cannot remove or reduce interest unless the penalty is removed or reduced. Page 2 sets forth a penalty chart.

9898		<input type="checkbox"/> VOID <input type="checkbox"/> CORRECTED	
PAYER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone no.		1 Gross distribution	OMB No. 1545-0119
		\$	2022
		2a Taxable amount	
		\$	Form 1099-R
		2b Taxable amount not determined <input type="checkbox"/>	Total distribution <input type="checkbox"/>
PAYER'S TIN	RECIPIENT'S TIN	3 Capital gain (included in box 2a)	4 Federal income tax withheld
		\$	\$
RECIPIENT'S name		5 Employee contributions/Designated Roth contributions or insurance premiums	6 Net unrealized appreciation in employer's securities
		\$	\$
Street address (including apt. no.)		7 Distribution code(s)	8 Other
			\$ %
City or town, state or province, country, and ZIP or foreign postal code		9a Your percentage of total distribution %	9b Total employee contributions \$
10 Amount allocable to IRR within 5 years	11 1st year of design. Roth contrib.	12 FATCA filing requirement <input type="checkbox"/>	14 State tax withheld
\$			\$
Account number (see instructions)		13 Date of payment	15 State/Payer's state no.
			\$
		17 Local tax withheld	18 Name of locality
		\$	\$
		19 Local distribution	\$

Form 1099-R Cat. No. 14436Q www.irs.gov/Form1099R Department of the Treasury - Internal Revenue Service

Do Not Cut or Separate Forms on This Page — Do Not Cut or Separate Forms on This Page

## Charges For Each Information Return or Payee Statement

Tax Year	Up to 30 Days Late	31 Days Late Through August 1	After August 1 or not filed	Intentional Disregard
2023	\$50	\$110	\$290	\$580
2022	\$50	\$110	\$280	\$570
2021	\$50	\$110	\$280	\$560
2020	\$50	\$110	\$270	\$550
2019	\$50	\$100	\$270	\$540
2018	\$50	\$100	\$260	\$530
2017	\$50	\$100	\$260	\$530
2016	\$50	\$100	\$260	\$520
2011-2015	\$30	\$60	\$100	\$250

The maximum penalty is different for small and large businesses. There is no maximum penalty for intentional disregard. For details, see General Instructions for Certain Information Returns.

## Guidance to Prepare the 2022 Form 1099-R to Report a Traditional IRA, SIMPLE-IRA, SEP-IRA or Roth Distribution

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

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

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

#1. An IRA includes all investments under one IRA plan agreement. File only one Form 1099-R no matter how many distributions have been made from the investments of the same IRA plan agreement during one year unless different reasons codes apply. Example, Jane Doe is paid a death distribution (reason code #4) from her former spouse's IRA (she did not treat this IRA as her own) and she is also paid a distribution from her only IRA. She is age 65 (reason code #7). One

Form 1099-R must be filed for all distributions with a reason code 4 and a Form 1099-R must be filed for all distributions with a reason code 7.

- #2. The Form 1099-R and the Form 5498 are per plan agreement forms. If a person, age 65, has two traditional IRA plan agreements and takes a distribution from each IRA, he or she must be furnished two 1099-R forms each having a reason code 7 in box 7. The IRA custodian could be fined \$280.00 times 2 if it only created one Form 1099-R. The IRA custodian must file Form 1099-R using the same name and EIN/TIN used to deposit any tax withheld and to file Form 945, Annual Return of Withheld Federal Income Tax.
- #3. The IRS wants an IRA custodian to prepare a Form 1099-R for every distribution, even those less than \$10.00 on an annual basis.
- #4. If an IRA custodian is required to file a Form 1099-R, then it must furnish a statement (i.e. a copy of the 1099-R form) to the recipient.
- #5. An account number must be used on a Form

Continued on page 3

1099-R when a recipient has more than one IRA plan agreement and you are required to file multiple Form 1099-R's. However, the IRS encourages an IRA custodian to designate an account number for all Form 1099-Rs which it files.

- #6. Never enter a negative amount in any box on Form 1099-R.
- #7. Use the name and TIN of the individual or entity which receives funds from the IRA. Normally, this will be the IRA accountholder. However, if you make a distribution to a beneficiary (whether an individual, trust or estate), then the 1099-R is prepared using the name and TIN of the beneficiary. You do not use the name of the decedent for payments made to beneficiaries after his or her death.
- #8. An IRA custodian has a duty to correct a Form 1099-R that it knows was prepared incorrectly. The correction must be made as soon as possible. See the IRS instructions as the law now does allow the IRA custodian to not correct an incorrect Form 1099-R in some limited situations.
- #9. For a distribution from a traditional IRA, SEP-IRA or SIMPLE-IRA boxes 1 and 2a are to be completed with the same amount unless the IRS instructions discuss a special situation.
- #10. For a distribution from a Roth IRA, box 2a is to be left blank unless an exception applies.
- #11. An IRA custodian will generally check box 2b, taxable amount not determined. There will be times when it is not checked - withdrawal of an excess or current year contribution before the due date, a recharacterization and rolling funds from an IRA into an accepting employer plan.
- #12. The total distribution box is also found in 2b. An "X" is to be entered in this box when the amount shown in box 1 is a total distribution. The instructions for the total distribution section of box 2b are not as clear as they should be. It is doubtful if this box applies to IRA distributions; but the instructions are unclear, and an IRA custodian should complete the box pursuant to the instructions. In order for a person to use the favorable 10 year averaging or capital gain treatment he or she must receive a total distribution. Such treatment does not ever apply to any type of IRA distribution. If this box is checked, the IRS

will question an individual's attempt to use 10 year averaging. A total distribution is one or more distributions within one tax year in which the entire balance is distributed. This means if two or more nonperiodic distributions occur in more than one year, then there is no total distribution and the box does not need to be checked. For example, a person with an IRA balance of \$30,000 withdraws \$10,000 in 2021 and the remainder in 2022 has not had a total distribution. Exception. If periodic or installment payments are made in more than one year, this box is to be marked for the year in which the final payment is made.

- #13 For a distribution of contributions plus earnings from an IRA under **section 408(d)(4)**, report the gross distribution in box 1, only the earnings in box 2a, and enter Code 8 or P, whichever is applicable, in box 7. Enter Code 1, 2, 4 or 7, if applicable.
- #14. For a distribution of contributions without earnings after the due date of the individual return, under section **408(d)(5)**, leave box 2a blank, and check the "Taxable amount not determined" check box in 2b. Use Code 1 or 7 in box 7 depending on the age of the accountholder.
- #15. For a distribution from an IRA that is payable to the trustee of, or is transferred to, an employer plan, or for an IRA recharacterization, enter 0 (zero) in box 2a.
- #16. In box 7 indicate the distribution code and enter an "X" in the **IRA/SEP/SIMPLE check box** if the distribution is from a traditional IRA, SEP-IRA, or SIMPLE-IRA. Do NOT check the box for a distributing from a Roth IRA or for an IRA recharacterization.
- #17. **Roth IRAs.** For a distribution from a Roth IRA, report the total distribution in box 1 and leave box 2a blank except in the case of an IRA revocation or account closure and a recharacterization. Use Code J, Q, or T as appropriate in box 7. Use Code 8 or P, if applicable, in box 7 with Code J. Do not combine Code Q or T with any other codes.

However, for the distribution of excess Roth IRA contributions, report the gross distribution in box 1 and only the earnings in box 2a. Enter Code J and Code 8 or P in box 7.

## **CWF's Guide For the IRS Distribution Codes For Box 7 of the 2022 Form 1099-R**

---

Box 7 is to be completed by the IRA custodian with one descriptive code or with two codes which will help the IRS determine if a person is paying the correct taxes with respect to his or her IRA distributions. The IRS asks the IRA custodian to help in determining if a person owes the 10% or 25% additional tax and for what year any income is taxable, if any.

In some cases only one code is to be used to describe a certain IRA distribution. The solo codes are: 5, N, Q, R, S and T.

In other cases it is mandatory to use two code. It is mandatory when there is an applicable numeric code and an alpha code. It is not permitted to enter more than two codes. It is also mandatory in three numeric code combination situations. They are: codes 81, 82 or 84 or 18, 28, or 48.

If two or more distribution codes are not valid combinations, then the IRA custodian must file more than one Form 1099-R. That is, a separate Form 1099-R must be filed for each distinct distribution code.

If two or more other numeric codes are applicable, an IRA custodian must file more than one Form 1099-R. The IRS chart is set forth on pages 6 and 7.

### **CWF's Email Guidance Continued**

---

State of Iowa taxation and withholding rules are unchanged if the IRA accountholder or beneficiary is not yet age 55, disabled or a surviving spouse. If person who is not age 55, disabled or a surviving spouse is having federal income tax withheld, then there is to be state of Iowa withholding. Presumably this withholding is to be at the rate 3.9%.

Non-residents of Iowa are not taxed by the State of Iowa when there is an IRA distribution. This applies to IRA accountholders and to beneficiaries.

## **CWF's Email Guidance - 2023 Iowa IRA Changes - No Taxation, No With- holding on Distributions/Withdrawals of Retirement Income, Including IRAs**

---

In 2023 and subsequent years the state of Iowa is giving special tax treatment to certain taxpayers who have retirement income. They will be able to exempt it from their taxable income. Not all taxpayers will receive this special tax benefit. If you are eligible, there is no limit on the size of the withdrawal or distribution. An estimated 294,824 Iowa taxpayers will see their state of Iowa income tax liability reduced in 2023 because of this non-taxation approach.

An IRA distribution in 2023 will be exempt from Iowa income tax for any IRA accountholder or beneficiary who is age 55 or older.

An IRA distribution in 2023 will be exempt from Iowa income tax for any IRA accountholder or beneficiary who is disabled.

An IRA distribution in 2023 will be exempt from Iowa income tax for any IRA accountholder who is a surviving spouse. It appears this exemption applies regardless of the age of the surviving spouse. The age requirement must still be met by a non-spouse beneficiary.

If an IRA distribution for an Iowa resident is not subject to taxation in 2023, one presumes the IRA accountholder or beneficiary will not elect to have withholding, but this may not always be the case. The Iowa Department of Revenue will need to issue additional guidance.

Any individual taking an IRA distribution must still comply with the federal income tax consequences. The federal laws in 2023 applying to IRA distributions, including the withholding rules, are unchanged.

Retirement income means any distribution from any of the four types of IRAs, a Keogh plan, a one person 401(k) plan, other 401(k) plans, other defined contribution plans, governmental plans, IPERS, defined benefit plans and other retirement plans.

These changes do not apply to everyone. They apply to individuals who are age 55 or older, disabled or a surviving spouse.

**Continued**



## Email Guidance - Old and New Laws For an IRA Beneficiary

---

The 5-year rule is an old rule, but it continues in one situation under the new law. Congress revised the law in December of 2019. The new laws apply when the IRA owner dies after 2019. It may continue to be used if the IRA owner dies before 2020.

### The Old Law

Certain rules applied to a beneficiary of an IRA owner who died before their required beginning date. The beneficiary could stretch out distributions over his or her life expectancy or she or he could use the 5-year rule. For example a 30 year old beneficiary having a life expectancy of 53 years could elect to have RMDs distributed over 53 years. A RMD was required to be made each year. Alternatively, the beneficiary could elect the 5-year rule. One cannot elect both. Under the 5-year rule, the only requirement is that the inherited IRA be closed by the end of the 5th year. For example, if the IRA owner died in 2018, the beneficiary could have elected the 5-year rule. The beneficiary could take distributions for 2019-2022 but was not required to. Many beneficiaries elected not to use the 5-year rule.

Certain rules applied to a beneficiary of an IRA owner who died after their required beginning date. The beneficiary was allowed to take distributions over their life expectancy. For example, the IRA owner died at age 76 and the beneficiary was age 50. The beneficiary could not elect the 5-year rule. The beneficiary had to take annual RMDs or more. The beneficiary could stretch out distributions for 33 years. IRA funds continue to be tax deferred as long as they are in the inherited IRA

### The New Law

Congress decided in 2019 that the U.S. Treasury (IRS) was having to wait too long to collect taxes from the IRA Congress decided most beneficiaries should be required to close the inherited IRA within 10 years rather than the 33 year period.

So, the SECURE Act now requires most beneficiaries to close the inherited IRA under the 10-year rule when the IRA owner has died before their required beginning date. The beneficiary no longer has the option of withdrawing it over their life expectancy. The 10-year rule requires the inherited IRA be closed now under the 10-year rule. As with the 5-year rule the beneficiary is not required to take any distribution for years 1-9. Most beneficiaries will now most likely take 10% each year, but that is not required.

The IRS in writing the new RMD rules has determined that Congress did not intend to allow the beneficiary to use the 10-year rule when the IRA owner has died after their required beginning date. That is, the beneficiary can't take 0.00 for years 1-9. The IRS interpretation of the new law, the beneficiary must take annual RMDs AND must close the IRA within 10 years. The IRS has said that it will not require this new rule be used for 2021 or 2022. I will be sending additional discussion.

The 5-year rule still applies when the beneficiary is not a person such as when an estate is the beneficiary. The 10-year rule only applies to a beneficiary who is a person.

A bank should not overly worry about these RMD duties. The beneficiaries should be talking with their tax advisers.

It is a good idea to tell IRA owners and beneficiaries about these new rules.

**Table 1. Guide to Distribution Codes**

<b>1—Early distribution, no known exception.</b>	Use Code 1 only if the participant has not reached age 59½, and you do not know if any of the exceptions under Code 2, 3, or 4 apply. However, use Code 1 even if the distribution is made for medical expenses, health insurance premiums, qualified higher education expenses, a first-time home purchase, a qualified reservist distribution, or a qualified birth or adoption distribution under section 72(t)(2)(B), (D), (E), (F), (G), or (H). Code 1 must also be used even if a taxpayer is 59½ or older and he or she modifies a series of substantially equal periodic payments under section 72(q), (t), or (v) prior to the end of the 5-year period which began with the first payment.	8, B, D, K, L, M, or P
<b>2—Early distribution, exception applies.</b>	Use Code 2 <b>only</b> if the participant has not reached age 59½ <b>and you know</b> the distribution is the any of the following. <ul style="list-style-type: none"> <li>• A Roth IRA conversion (an IRA converted to a Roth IRA).</li> <li>• A distribution made from a qualified retirement plan or IRA because of an IRS levy under section 6331.</li> <li>• A governmental section 457(b) plan distribution that is not subject to the additional 10% tax. But see <a href="#">Governmental section 457(b) plans</a>, earlier, for information on distributions that may be subject to the 10% additional tax.</li> <li>• A distribution from a qualified retirement plan after separation from service in or after the year the participant has reached age 55.</li> <li>• A distribution from a governmental defined benefit plan to a public safety employee (as defined in section 72(t)(10)(B)) after separation from service, in or after the year the employee has reached age 50.</li> <li>• A distribution that is part of a series of substantially equal periodic payments, as described in section 72(q), (t), (u), or (v).</li> <li>• A distribution that is a permissible withdrawal under an eligible automatic contribution arrangement (EACA).</li> <li>• Any other distribution subject to an exception under section 72(q), (t), (u), or (v) that is not required to be reported using Code 1, 3, or 4.</li> </ul>	8, B, D, K, L, M, or P
<b>3—Disability.</b>	For these purposes, see section 72(m)(7).	D
<b>4—Death.</b>	Use Code 4 regardless of the age of the participant to indicate payment to a decedent's beneficiary, including an estate or trust. Also, use it for death benefit payments made by an employer but not made as part of a pension, profit-sharing, or retirement plan. Also, use it for payments of reportable death benefits.	8, A, B, D, G, H, K, L, M, or P
<b>5—Prohibited transaction.</b>	Use Code 5 if there was a prohibited transaction involving the IRA account. Code 5 means the account is no longer an IRA.	None
<b>6—Section 1035 exchange.</b>	Use Code 6 to indicate the tax-free exchange of life insurance, annuity, long-term care insurance, or endowment contracts under section 1035.	W
<b>7—Normal distribution.</b>	Use Code 7: (a) for a normal distribution from a plan, including a traditional IRA, section 401(k), or section 403(b) plan, if the employee/taxpayer is at least age 59½; (b) for a Roth IRA conversion if the participant is at least age 59½; and (c) to report a distribution from a life insurance, annuity, or endowment contract and for reporting income from a failed life insurance contract under section 7702(g) and (h). See Rev. Proc. 2008-42, 2008-29 I.R.B. 160, available at <a href="https://www.irs.gov/irb/2008-29_IRB#RP-2008-42">IRS.gov/irb/2008-29_IRB#RP-2008-42</a> . Generally, use Code 7 if no other code applies. Do not use Code 7 for a Roth IRA. <b>Note.</b> Code 1 must be used even if a taxpayer is age 59½ or older and he or she modifies a series of substantially equal periodic payments under section 72(q), (t), or (v) prior to the end of the 5-year period which began with the first payment.	A, B, D, K, L, or M
<b>8—Excess contributions plus earnings/excess deferrals (and/or earnings) taxable in 2022.</b>	Use Code 8 for an IRA distribution under section 408(d)(4), unless Code P applies. Also, use this code for corrective distributions of excess deferrals, excess contributions, and excess aggregate contributions, unless Code P applies. See <a href="#">Corrective Distributions</a> , earlier, and <a href="#">IRA Revocation or Account Closure</a> , earlier, for more information.	1, 2, 4, B, J, or K
<b>9—Cost of current life insurance protection.</b>	Use Code 9 to report premiums paid by a trustee or custodian for current life or other insurance protection. See the instructions for <a href="#">box 2a Box 2a</a> , earlier, for more information.	None
<b>A—May be eligible for 10-year tax option.</b>	Use Code A only for participants born before January 2, 1936, or their beneficiaries to indicate the distribution may be eligible for the 10-year tax option method of computing the tax on lump-sum distributions (on Form 4972, Tax on Lump-Sum Distributions). To determine whether the distribution may be eligible for the tax option, you need not consider whether the recipient used this method (or capital gain treatment) in the past.	4 or 7
<b>B—Designated Roth account distribution.</b>	Use Code B for a distribution from a designated Roth account. But use Code E for a section 415 distribution under EPCRS (see Code E) or Code H for a direct rollover to a Roth IRA.	1, 2, 4, 7, 8, G, L, M, P, or U
<b>C—Reportable death benefits under section 6050Y.</b>	Use Code C for a distribution to report payments of reportable death benefits.	D
<b>D—Annuity payments from nonqualified annuities and distributions from life insurance contracts that may be subject to tax under section 1411.</b>	Use Code D for a distribution from any plan or arrangement not described in section 401(a), 403(a), 403(b), 408, 408A, or 457(b).	1, 2, 3, 4, 7, or C

<b>E—Distributions under Employee Plans Compliance Resolution System (EPCRS).</b>	See <a href="#">Distributions under Employee Plans Compliance Resolution System (EPCRS)</a> , earlier.	None
<b>F—Charitable gift annuity.</b>	See <a href="#">Charitable gift annuities</a> , earlier.	None
<b>G—Direct rollover and direct payment.</b>	Use Code G for a direct rollover from a qualified plan, a section 403(b) plan, or a governmental section 457(b) plan to an eligible retirement plan (another qualified plan, a section 403(b) plan, a governmental section 457(b) plan, or an IRA). See <a href="#">Direct Rollovers</a> , earlier. Also, use Code G for a direct payment from an IRA to an accepting employer plan, and for IRRs that are direct rollovers. <b>Note.</b> Do not use Code G for a direct rollover from a designated Roth account to a Roth IRA. Use Code H.	4, B, or K
<b>H—Direct rollover of a designated Roth account distribution to a Roth IRA.</b>	Use Code H for a direct rollover of a distribution from a designated Roth account to a Roth IRA.	4
<b>J—Early distribution from a Roth IRA.</b>	Use Code J for a distribution from a Roth IRA when Code Q or Code T does not apply. But use Code 2 for an IRS levy and Code 5 for a prohibited transaction.	8 or P
<b>K—Distribution of traditional IRA assets not having a readily available FMV.</b>	Use Code K to report distributions of IRA assets not having a readily available FMV. These assets may include: <ul style="list-style-type: none"> <li>• Stock, other ownership interest in a corporation, short- or long-term debt obligations, not readily tradable on an established securities market;</li> <li>• Ownership interest in a limited liability company (LLC), partnership, trust, or similar entity (unless the interest is traded on an established securities market);</li> <li>• Real estate;</li> <li>• Option contracts or similar products not offered for trade on an established option exchange; or</li> <li>• Other asset that does not have a readily available FMV.</li> </ul>	1, 2, 4, 7, 8, or G
<b>L—Loans treated as deemed distributions under section 72(p).</b>	Do not use Code L to report a plan loan offset. See <a href="#">Loans Treated as Distributions</a> , earlier.	1, 2, 4, 7, or B
<b>M—Qualified plan loan offset.</b>	Use Code M for a qualified plan loan offset (which is generally a type of plan loan offset due to severance from employment or termination of the plan). See <a href="#">Plan loan offsets</a> , earlier.	1, 2, 4, 7, or B
<b>N—Recharacterized IRA contribution made for 2022.</b>	Use Code N for a recharacterization of an IRA contribution made for 2022 and recharacterized in 2022 to another type of IRA by a trustee-to-trustee transfer or with the same trustee.	None
<b>P—Excess contributions plus earnings/excess deferrals taxable in 2021.</b>	See the explanation for Code 8. The IRS suggests that anyone using Code P for the refund of an IRA contribution under section 408(d)(4), including excess Roth IRA contributions, advise payees, at the time the distribution is made, that the earnings are taxable in the year in which the contributions were made.	1, 2, 4, B, or J
<b>Q—Qualified distribution from a Roth IRA.</b>	Use Code Q for a distribution from a Roth IRA if you know that the participant meets the 5-year holding period and: <ul style="list-style-type: none"> <li>• The participant has reached age 59½,</li> <li>• The participant died, or</li> <li>• The participant is disabled.</li> </ul> <b>Note.</b> If any other code, such as 8 or P, applies, use Code J.	None
<b>R—Recharacterized IRA contribution made for 2021.</b>	Use Code R for a recharacterization of an IRA contribution made for 2021 and recharacterized in 2022 to another type of IRA by a trustee-to-trustee transfer or with the same trustee.	None
<b>S—Early distribution from a SIMPLE IRA in the first 2 years, no known exception.</b>	Use Code S only if the distribution is from a SIMPLE IRA in the first 2 years, the employee/taxpayer has not reached age 59½, and none of the exceptions under section 72(t) are known to apply when the distribution is made. The 2-year period begins on the day contributions are first deposited in the individual's SIMPLE IRA. Do not use Code S if Code 3 or 4 applies.	None
<b>T—Roth IRA distribution, exception applies.</b>	Use Code T for a distribution from a Roth IRA if you do not know if the 5-year holding period has been met but: <ul style="list-style-type: none"> <li>• The participant has reached age 59½,</li> <li>• The participant died, or</li> <li>• The participant is disabled.</li> </ul> <b>Note.</b> If any other code, such as 8 or P, applies, use Code J.	None
<b>U—Dividends distributed from an ESOP under section 404(k).</b>	Use Code U for a distribution of dividends from an employee stock ownership plan (ESOP) under section 404(k). These are not eligible rollover distributions. <b>Note.</b> Do <b>not</b> report dividends paid by the corporation directly to plan participants or their beneficiaries. Continue to report those dividends on Form 1099-DIV.	B
<b>W—Charges or payments for purchasing qualified long-term care insurance contracts under combined arrangements.</b>	Use Code W for charges or payments for purchasing qualified long-term care insurance contracts under combined arrangements which are excludable under section 72(e)(11) against the cash value of an annuity contract or the cash surrender value of a life insurance contract.	6

\*See the first two [Cautions](#) for the box 7 instructions, earlier.

## Are IRA Amendments Required For 2022-2023?

In 2022 there have been many important IRA changes affecting 2022 and 2023:

1. New RMD rules for beneficiaries;
2. New maximum IRA contribution limits of \$6,500 and \$7,500;
3. New maximum SEP-IRA (\$66,000) and SIMPLE-IRA contribution limits;
4. New compensation limits applying to all four types of IRAs (traditional, Roth, SEP and SIMPLE showing large changes due to inflation;
5. New taxation rules for Iowa residents;
6. Revised IRS procedures for withholding with respect to an IRA distribution; and
7. Other technical changes.

In February of 2022 the IRS issued a new proposed regulation setting forth new beneficiary RMD rules. This proposed regulation has not been finalized, but in all likelihood the proposed changes will be adopted. These rules are important because when an IRA beneficiary fails to withdraw their RMD they will owe the 50% excess accumulations tax. The IRS has announced that the IRS will not try to collect this tax for certain 2021 or 2022 RMDs which should have been withdrawn under these new proposed rules.

The governing IRA regulation requires an IRA custodian/trustee to furnish an IRA amendment when the IRA plan agreement provisions are changed or when one or more of the topics discussed in the IRA disclosure statement is no longer correct and it needs to be revised or amended to set forth a current and correct explanation. Regulation 1.408-6(4)(ii)(C) requires that an IRA amendment be furnished no later than the 30th day after the amendment is adopted or becomes effective.

A cardinal rule of IRA and pension law is, the terms of the IRA plan agreement control and in order for a person to benefit from a law change the plan document must be revised to set forth the new law. Individuals have the right to be informed and understand current laws and the particulars of the specific IRA plan agreement. Many individuals and possibly many IRA custodians might wish the law to be, since federal tax law authorizes a certain tax benefit, then a person should be able to realize a tax benefit regardless of what the IRA

plan agreement provides. The law does not adopt this approach. For example, in order for a person age 74 to make an IRA contribution in 2022 or subsequent years to his or her traditional IRA or Roth IRA, the IRA plan agreement must be revised to authorize the person to make such a contribution.

The IRS in Notice 2022-23 has extended the amendment deadline for IRAs from December 31, 2022 to December 31, 2025. A user of IRS Model forms is permitted to continue to use these forms until revised by the IRS.

Each institution must make its own determination because one needs to understand when was the IRA agreement last amended and how is it being amended. A primary question is, "when is the last time the financial institution furnished an amendment?" What do the current IRA plan agreements provide? Are there some IRAs set up with one certain plan agreement and others with a different plan agreement?

A long time ago (1986/1987) the IRS acknowledged that there are times that even though the IRA plan agreement has not been changed, a disclosure statement amendment must still be furnished. The IRS stated there needed to be a disclosure statement amendment discussing or explaining the deductible/ nondeductible rules.

In summary, answering a question whether or not an amendment is required is not simple. Each financial institution will need to make its own decision to furnish one or both amendments.

It is true that the IRS has not been very active in auditing whether or not IRA custodian/trustees are furnishing IRA amendments as required by the IRA regulation. We at CWF believe it is in the best interest of a financial institution to furnish the amendments. The governing IRA regulation provides that a \$50 fine may be assessed an institution for each time it fails to furnish the IRA plan agreement and \$50 each time it fails to furnish the IRA disclosure amendment.