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ALSO IN THIS ISSUE –

Collin W. Fritz and Associates, Inc.,
"The Pension Specialists"

A Roth IRA is a Personal Emergency Savings Account

A Roth IRA is not only for retirement. At least not for individuals who are not close to retiring.

A Roth IRA is a fantastic investment and savings account. Individuals hopefully understand that by maintaining and contributing to a Roth IRA an individual has his or her own emergency savings account. One does not go to jail or get tax penalized because one withdraws money from their Roth IRA. If one needs to fix the car or replace a washing machine, you may need to use funds from your Roth IRA.

Many individuals do not understand well the tax features of Roth IRAs. Normally, a person may withdraw funds from their Roth IRA at any time without having to pay any income taxes because the person is only withdrawing their own contributions. The law mandates the order of the distributions from a Roth IRA and the order is, annual contributions are withdrawn first, conversion contributions, if any, are withdrawn second and then any income is withdrawn third or last. This income is taxable if the distribution is a non-qualified distribution. This income is not taxable if the distribution is qualified.

To be qualified the distribution of income is made to the accountholder or the beneficiary and the 5-year requirement has been met and the distribution is because the accountholder is age 59½ or older or disabled, or the distribution is to a beneficiary.

A person almost never wants to withdraw the income earned by the Roth IRA if it would be taxed, but one is always able to withdraw their own contributions without any adverse tax consequences.

Every person should have a Roth IRA because it can act as a personal emergency savings account. If one has a financial emergency one may certainly withdraw funds from their Roth IRA with the only income tax consequence being - having to explain on their tax return that the distribution is not taxable. The person may even be able to make a rollover contribution back into the Roth IRA.

Maximum Roth IRA Contributions

	2023	2024
Under Age 50	$6,500	$7,000
Age 50 or older	$7,500	$8,000

What are the income limits for 2023 and 2024 which require a person to make a lesser Roth IRA contribution?

Roth IRA Contribution Chart for 2023 – Amount of AGI and Filing Status

Single, Head of Household or Qualifying Widow(er)	
Below $138,000	Entitled to full contribution amount
$138,000-$152,999.99	Entitled to prorated contribution amount - use special formula
$153,000 or more	No contribution permissible
Married Filing Jointly	
Below $218,000	Entitled to full contribution amount.
$218,000-227,999.99	Entitled to prorated contribution amount - use special formula
$228,000 or more	No contribution permissible.
Married Filing Separate Returns	
$0-$9,999.99	Entitled to prorated contribution amount - use special formula
$10,000 or more	No contribution permissible

Roth IRA Contribution Chart for 2024 – Amount of AGI and Filing Status

Single, Head of Household or Qualifying Widow(er)	
Below $146,000	Entitled to full contribution amount
$146,000-$160,999.99	Entitled to prorated contribution amount - use special formula
$161,000 or more	No contribution permissible
Married Filing Jointly	
Below $230,000	Entitled to full contribution amount.
$230,000-239,999.99	Entitled to prorated contribution amount - use special formula
$240,000 or more	No contribution permissible.
Married Filing Separate Returns	
$0-$9,999.99	Entitled to prorated contribution amount - use special formula
$10,000 or more	No contribution permissible

Pension-Linked Emergency Savings Accounts are New for 2024

This article discusses that employers with an existing defined contribution plan can now make the decision whether to add to its existing 401(k) or profit sharing plan a "linked" emergency savings account feature to its plan. Some employers may choose to do so, but some will not.

Section 127 of the SECURE 2.0 authorizes emergency savings accounts. These new accounts will allow individuals and employers to increase the amount of their contributions going into certain tax preferred plans.

The IRS in January of 2024 issued initial guidance to help employers and individuals understand these new PLESA accounts. The IRS issued Notice 2024-22 and IR Announcement 2024-11. The IRS needed to issue guidance because PLESA accounts may be established on or after January 1, 2024. Section 127 law stipulates that the Secretary of the Treasury in consultation with the Secretary of the Department of Labor is to issue a regulation or other guidance by the end of 2023 with respect to the anti-abuse rules. The IRS' and the DOL's guidance is helpful, but only partially. The IRS and the DOL don't really help an employer in creating reasonable limits on when a participant is able to make a contribution, receive the employer's matching contribution and then withdraw their contribution and the employer's matching contribution.

The IRS and the DOL should issue additional guidance.

Many employers sponsor a defined contribution plan such as a 401(k) plan, a profit sharing plan or a money purchase plan. These plans normally restrict the right of a participant to take an in service withdrawal.

Some employers choose to make matching contributions and others do not. A safe harbor 401(k) plan requires an employer to make a matching contribution. There are new rules for automatic contributions.

Many individuals have a need to save for unexpected emergencies. Many will need to take withdrawals.

An employer will need to decide whether or not they will amend their existing plan to add this new PLESA account. An employer may but is not required to add these new accounts. The law provides that an employer at any time may amend the plan to terminate immediately the offering of PLESA accounts. If a plan does have PLESA accounts, there must be separate accounting for such accounts.

An employee who has chosen not to be a participant of the employer's plan is still eligible to participate in this PLESA account. A participant's contribution is treated as if it is a "Roth" contribution. The amount in this new account attributable to contributions is, in general, limited to $2,500 unless the plan would set a lower limit.

If an employer makes matching contributions under its defined contribution plan it is required to make matching contributions under its PLESA. The same matching rate which applies to the plan deferrals will also apply to the PLESA contributions. Any matching contribution to be made by the employer the maximum account balance of the PLESA for the plan year.

The participant must have the right to have at least one withdrawal per month. The distribution is to be made as soon as practicable after signing a distribution form.

The law contemplates that employees will make contributions in order to get the employer's match. The law provides for two anti-abuse rules.

The first rule gives the plan (i.e. an employer) the right to have reasonable procedures to limit the frequency or the amount of its matching contributions made with respect to the participant's contributions solely to the extent necessary to prevent manipulation of the plan rules to cause or allow a person to receive a matching contribution which exceeds the intended amount or frequency.

The second rule is, a plan is not required to suspend making matching contributions if a participant withdraws their contributions whether or not matched and whether or not made pursuant to an automatic arrangement.

The IRS/DOL guidance provides some examples when it believes the imposition of a limit on frequency or the amount of the matching contribution would be unreasonable and not permitted.

Continued on page 3

Emergency Savings
Continued from page 2

The IRS/DOL provides a quasi-safe harbor to an employer who chooses to be very generous to the participants. The IRS permits a finding that there is no manipulation of the plan rules if a participant makes the permitted contribution in one year, receives the matching contribution for that year and then withdraws that $2500 the same year, and then repeats these transactions in subsequent years.

The IRS/DOL have issued guidance that the following actions would be unreasonable:

1. A participant could not forfeit a matching contribution because he or she exercised the right to take a withdraw!;

2. A participant could not be suspended from participating in the plan because she or he withdrew any funds; and

3. A participant who withdraws funds from their PLESA account cannot be suspended from receiving matching contributions under the plan.

Note the IRS/DOL provide no guidance (i.e. no help) as to when a limit on the amount or the frequency of the matching contribution would be reasonable and permitted.

The Treasury Department and the IRS state they do not believe the rules set forth in Revenue Rulings 74-55 and 74-56 apply to PLESAs, regardless if the contributions are matched.

Additional Discussion by CWF. PLESA funds are Designated Roth funds. A withdrawal by a participant in general is a qualified distribution (i.e. tax-free).

The general rule is - a withdrawal by a currently employed individual is ineligible to be rolled over or directly rolled over. However, a person who has separated from service is eligible to make a rollover or direct rollover of these funds. And if the employer terminates the PLESA the participant would be able to rollover or directly rollover their distribution.

Email Guidance – Questions About the 2023 Form 5498

Q-1. We have a quick question as we are printing all of our year end forms. Our 5498s have their Fair Market Value as of 12-31-2023 and then it also has their 2024 RMD values if applicable. Are we required to also still send them a separate Fair Market Value statement as well or could we just send the 5498s since it covers it all?

A-1. If you send your 5498s now in January you will have met the FMV statement requirement.

And when applicable, if you complete boxes 11, 12a and 12b on the 5498s you will have met the RMD notice requirements.

If you have customers who make carryback contributions for 2023 you will need to prepare another 5498 for these customers showing the additional contribution.

Note – one cannot meet the IRS FMV reporting rules for a SIMPLE-IRA by sending just the Form 5498.

Q-2. We have previously discussed whether we should check the RMD box on a 5498 for an Inherited IRA. I wanted to confirm your understanding is that we should continue to NOT check the RMD box for inherited IRAs. Please let me know if your thoughts.

We have and will continue to send the beneficiaries letters informing them that they are required to take an RMD.

A-2. You are correct in that the RMD check box on the Form 5498 in box 11 is not to be checked for a beneficiary for an inherited IRA.

The IRS should explain it more clearly, but the IRS instructions state that the RMD box is to be checked for a participant age 73 or older. A beneficiary is not a participant.

You are rendering excellent service when you furnish a RMD notice to a beneficiary.

Two RMD Notices for a Roth IRA Beneficiary

Things a Roth IRA Beneficiary Should Know and Consider

1. The beneficiary must determine if she or he is an EDB or not an EDB.
2. Almost every distribution withdrawn by a Roth IRA beneficiary is tax-free.
3. Regardless how old the Roth IRA accountholder was when he or she dies, the beneficiary uses the RMD rules that apply when the accountholder died before the required beginning date.
4. To maximize the tax-free income to be earned a beneficiary wants to wait or postpone withdrawing funds from the inherited Roth IRA.
5. A non-EDB must use the 10-year rule.
6. An EDB must decide if she or he will use the life distribution rule or the 10-year rule. One would expect that most EDB's would select the life distribution rule because it may be continued for a period which may be much longer than 10 years.

Required Distribution Notice for 2024 for a Non-Eligible Designated Beneficiary

From: IRA Custodian/Trustee (Name & Address)

Date: January 2024

IRA Type: ○ **Traditional** ○ **Roth**

Telephone Number: ______________________

To: IRA Beneficiary (Name & Address)

Your Required Distribution Amount for 2024

$

You are a beneficiary of a deceased Roth IRA accountholder. The required distribution tax rules apply to you.

You are a non-eligible designated beneficiary because you are more than 10 years younger than the Roth IRA accountholder or you are not disabled, chronically ill, or a qualifying minor child.

As a non-eligible designated beneficiary the law requires you to close this inherited Roth IRA under the 10-year rule. Since the Roth IRA accountholder died in ________ your deadline to close this inherited Roth IRA is December 31, _______.

Under this 10-year you are able to set up periodic or non-periodic distributions in any manner. You may take a lump sum immediately or defer the distribution until the 10th year. The only requirement is that this IRA be closed by December 31st of the year containing the 10th anniversary of the Roth accountholder's death.

The RMD tax of 10% or 25% will apply to you if you miss this deadline.

You may wish to discuss your distribution(s) with your legal and tax advisers.

Once you as a beneficiary have met a 5-year rule all distributions from the Roth IRA are tax-free. That is, you are not required to include the amount in income and pay tax. You may decide to leave the funds in the inherited Roth IRA until that 10th year to maximize the amount of tax-free income to be earned, but you must be sure to not miss your deadline. You will have met the 5-year rule if the Roth IRA accountholder had met the 5-year rule or if your time when added to the time of the deceased Roth IRA accountholder has met the 5-year rule.

If you would be an eligible designated beneficiary, then you would be permitted to elect to use the life distribution rule and the 10-year rule would not apply to you.

Notice - No Rollover Right.

You as a non-spouse beneficiary are ineligible to rollover any distribution which you have requested into a Roth IRA, personal or inherited. This would mean the ability to continue to earn tax-free income will no longer exist.

IRA #62 (Version 7G) (1/24)

Required Distribution Notice for 2024 for an Eligible Designated Beneficiary

From: IRA Custodian/Trustee (Name & Address)

Date: January 2024

IRA Type: ○ **Traditional** ○ **Roth**

Telephone Number: ______________________

To: IRA Beneficiary (Name & Address)

Your Required Distribution Amount for 2024

$

You are a beneficiary of a deceased Roth IRA accountholder. The required distribution tax rules apply to you.

You are an Eligible Designated Beneficiary (EDB) because you are not more than 10 years younger than the Roth IRA accountholder or you are disabled, chronically ill, or a qualifying minor child.

As an EDB you had the choice of electing the life distribution rule or the 10-year rule. We understand you elected to use the life distribution rule. This means you must commence taking an RMD based on your life expectancy the following year of when the Roth IRA accountholder died.

Your RMD for 2024 is $ _____________ . Your deadline to take your 2024 RMD is December 31, 2024.

Once you as a beneficiary have met a 5-year rule all distributions from the Roth IRA are tax-free. That is, you are not required to include the amount in income and pay tax. You will have met the 5-year rule if the Roth IRA accountholder had met the 5-year rule or if your time when added to the time of the deceased Roth IRA accountholder has met the 5-year rule.

If you fail to take your annual RMD or fail to close the inherited by your deadline, the law imposes an excise tax of 10% or 25%. The 10% tax applies if you have a missed RMD and you timely pay the tax. The 25% tax applies if you have a missed RMD and you do not timely pay the tax. The IRS may waive the assessment of this RMD tax if you have a reasonable explanation for your failure to timely receive the required distribution.

You may wish to discuss your distribution schedule with your tax adviser. Since you only have 10 years in which to close your inherited IRA, you may for income tax reasons wish to withdraw an amount larger than your RMD for years 1-9.

Notice - No Rollover Right
You as a non-spouse beneficiary are ineligible to receive a distribution from an inherited IRA and then roll it over into any IRA, personal or inherited. Such distribution must be included in your income. You would be able to transfer an inherited IRA if both IRA custodians/trustees complete an inherited IRA transfer form agreeing to the transfer.

IRA #62 (Version 7H) (1/24)

Email Guidance – Mistakes Regarding a SEP-IRA or SIMPLE-IRA

Q-1. I have a customer that put money into a SEP-IRA on January 12, 2023. We were notified by his accountant that he was supposed to put his contribution into a SIMPLE not a SEP. Can this be rolled over from the SEP to a new SIMPLE?

A-1. How were you notified? Phone call, email, letter, etc.

We are dealing with a federal tax subject. Sometimes accountants are not as formal as they should be.

It may be the accountant may be hoping that the bank can simply change the contribution type from the SEP-IRA to being a SIMPLE-IRA. I don't recommend that approach.

The mistaken transaction cannot be corrected by doing a rollover. In the right situation a person may roll funds from a SEP-IRA to a SIMPLE-IRA, but not for this situation.

Does the customer even have a SEP-IRA plan? If not, the customer may withdraw his SEP-IRA contribution as an excess contribution. He then can make the contribution to his SIMPLE-IRA.

Call me at 1-800-346-3961 if you wish to discuss further. The various contributions and distributions will be reported to the IRS and the accountant may explain on the tax return.

Email Guidance – Missed RMDs by a Beneficiary

Q-1. We have a customer who has an inherited IRA with us and is wondering if they should be taking distributions each year. It looks like the deceased passed away in 2019 at the age of 91 years old. The beneficiary that banks with us was born in 1952 and did a transfer to ABC Bank in 2020. Since it was opened here there has not been any distributions completed. Can you give us some guidance on what we should tell this customer?

A-1. What procedures does the bank use for your inherited IRAs?

You indicated the inherited IRA was transferred in 2020. funds.

Has the bank made any RMD calculation for 2024?

Procedures can vary from IRA custodian to IRA custodian/trustee. The IRS has indicated that it is the beneficiary who has the primary duty to comply with the RMD rules. An IRA custodian/trustee is not required to furnish an IRA beneficiary an RMD notice each year.

Whatever your procedures are need to be communicated to the beneficiaries.

The general tax rule is - if the deceased IRA owner dies after their required beginning date, then the beneficiary is required to start taking or withdrawing annual distributions the following year. These annual distributions are based on the age of the beneficiary.

There are now two sets of rules. One set of rules apply if the IRA accountholder died before 2020 which is the case in your beneficiary customer's situation. A second set of rules apply if the IRA accountholder died after 2019 which is not the case in your customer's situation.

The RMD tax for a missed RMD is 50% if the missed RMD occurred in 2021 and 2022. It was changed to be 10% or 25% for 2023 and later years. Because of COVID there is a special tax rule that there was no RMD for 2020.

What is the date of birth of your beneficiary?

Your beneficiary customer wants to withdraw the missed RMDs for 2021, 2022 and 2023 as soon as possible. The customer has the duty to explain on his or her tax return. A taxpayer is able to complete and file Form 5329 and request the IRS waive the RMD tax for him. The IRS has not made it very clear when it will waive this tax.

It would be best if the customer or a family member discusses this situation with the tax adviser.

Email Guidance – Failing to Withhold

Q-1. We had a customer take a distribution last year and requested there to be Federal withholding. In error, we distributed all the funds to the customer. The customer has just realized this error when reviewing their 1099-R Form. Is there any way to correct this error at this point?

A-1. Possibly, but I think it is simplest that the bank decide on the amount to be paid to the customer, if anything, for the bank's error.

I don't know anything about the amounts involved.

The customer was paid the amount that he or she wanted withheld. Will the customer return this amount to the bank?

Has the customer been harmed? Possibly, but not necessarily.

The customer could/should have realized she or he received an amount which was too large if there had been withholding.

The potential harm to the customer arises from the estimated income tax rules. The tax rules impose upon a taxpayer a penalty for not complying with the withholding and the estimated tax rules. The customer did not make an estimated tax payment because he or she thought they were having the taxes withheld from the IRA distribution.

The customer or the customer's accountant should inform the bank if the customer is now required to pay the estimated tax penalty. I suggest the bank consider paying that amount to the customer as a way of correcting for its error.

The alternative is the bank will need to correct the withholding tax forms which have been filed with the IRS. The person could pay or return to the bank the amount she or he wanted withheld and the bank could send this amount to the IRS. The IRS probably would assess a penalty against the bank for being late in paying the withheld amount.

Q-1A. The distribution took place in April of 2023. The amount distributed was $21,008.81, the withholding was supposed to be $3,151.32, so the customer was supposed to received $17,857.49. The customer received the entire $21,008.81 into their deposit account. I don't know if these additional details help guide your answer.

A-1A. As I discussed it may be he or she will owe a penalty tax for not having complied with the estimated tax rules.

Does the customer do their own taxes or a tax firm?

A determination needs to be made - does the customer owe the estimated tax?

The bank could agree to pay the fee of an accountant to make this determination.

Email Guidance – Understanding Why the Interest Penalty Related to an IRA CD is Not Reported to the Customer or the IRS

Q-1. I have customer who took a penalty an internal transfer for change of investments since he closed the CD before it's maturity date. Our customer is questioning what he needs to provide to his tax preparer to show that penalty amount.

Would this be a tax form that we would need to provide, or is this something that we give him the amount of the penalty and he creates with his tax preparer since the internal transfer was a nonreportable transaction?

A-1. He does not need to provide the penalty amount to the tax preparer because it is an IRA CD.

The penalty was paid from or by the IRA. He was not distributed the penalty amount so the IRS does not tax the penalty amount.

I presume the bank withdrew the penalty from the IRA and that the individual did not pay it separately. The individual could not pay it separately.

There is no tax form to be prepared because this was an internal transfer. The amount of income that the IRA has earned is decreased by the penalty.

Email Guidance – What is Separate Accounting for RMDs?

Q-1.Our bank has IRAs that are owned by deceased customers, some died in 2022 and earlier. If the deadline has passed for separate accounting, what is our option for getting these accounts distributed?

A-1. I understand that separate accounting is important to determine the RMD divisor to be used in the RMD calculation. Separate accounting does not impose on a beneficiary or an IRA trustee the duty to close an inherited IRA right away.

For example, I have designated my 3 daughters ages 39, 37 and 35 in 2022 as my IRA beneficiaries. I die after my required beginning date in 2022. None of my daughters is an EDB.

Commencing in 2023 and if there is no separate accounting because the deadline was missed, the RMD divisor for all 3 of them is based on my oldest daughter who is 40 in 2023. The RMD divisor is 45.7 for all daughters.

Commencing in 2023 and if there is separate accounting , then the RMD divisor is based on the age/date of birth of each daughter. My oldest daughter's divisor is 45.7. The divisor for my daughter who is 38 is 47.7. The divisor for my daughter who is 36 is 49.6.

Separating accounting allows a younger beneficiary to base their RMD divisor on their age rather than the age of an older sibling.

Separate accounting needs to be elected by a beneficiary by December 31st of the year following the year the IRA account holder died. There is no need for this special election if each beneficiary has their own inherited IRA. For example, an inherited IRA is comprised of two investments which the two beneficiaries don't wish to sell. If the there is separate accounting (i.e. two subaccounts) then there will two separate RMD calculations based on the age of each beneficiary.

Email Guidance – A Parent Who is an IRA Beneficiary is an EDB

Q-1. The child passed away in 2023 and was 48 years old. Just want to clarify, the customer has 2 options for distributing the IRA. First option is 10-year rule and the second option since they are an EDB they can do life expectancy? ·

We have an IRA beneficiary account that the beneficiary is the parent and the child is the deceased. The parent is 77 years old, would this still follow the 10-year rule??

A-1. The parent is an EDB since he or she is older.

The parent should discuss with his/her tax adviser.

Based on your information I understand the child died before his or her required beginning date. The parent beneficiary then has the right to elect the life distribution rule or the 10-year rule. This election must be made by 12/31 of the year after the child died.

If the parent as an EDB elects the life distribution rule, an RMD is due annually starting the year after the child died. It the parent would die, his or her beneficiary would be able to use the 10-year rule.

The parent may elect the 10-year rule. No distribution is required for years 1-9 after the death, but the account must be closed by the end of the 10th year. If the parent would die in year 6 when he or she had not taken any distribution, the parent's beneficiary would be required to close that IRA according to the parent's deadline (3- 4 more years).

No Current-Year Contribution Rule for HSAs

Many of the same rules which apply to IRAs also apply to HSAs. This is NOT the case for the "current year contribution rule."

Commencing in 1987, the law changed so that a contribution to a traditional IRA may or may not be deductible. It depended upon whether or not a person was an active participant in an employer-sponsored retirement plan, and the amount of the person's modified adjusted gross income (MAGI). In many cases, a person does not know what amount he or she is entitled to deduct until after December 31, when they are able to determine their MAGI.

In order to encourage people to make contributions during the period of January 1 to December 31, the IRS

Continued on page 8

Rule for HSAs,
Continued from page 7

created what we, at CWF, call the "current-year contribution rule." This rule, in essence, allows a person to undo a current-year contribution made for a current tax year, by October 15 of the following year, as if this contribution was an excess contribution. That is, even if the person was eligible to make the contribution, the person is allowed to use the excess contribution rules to withdraw it. These rules require that the person withdraw the contribution (the amount being withdrawn as an excess), as adjusted for any earnings/losses associated with that amount.

It must be noted that this special IRA rule DOES NOT apply to HSAs. All annual contributions to an HSA are either eligible to be deducted or eligible to be excluded from income. If an individual is eligible to make an HSA contribution and does so, there is no procedure to "undo" the contribution, as there is with IRAs.

If an individual makes an HSA contribution and then decides he/she should not have, the funds cannot simply be withdrawn without tax consequences. The result of withdrawing funds from an HSA and not using them to pay qualified medical expenses is that the withdrawn amount is subject to normal income tax, plus a penalty tax. Obviously, it is better for an individual to not make an HSA contribution, than to make it and decide later that he/she needs the funds for something else.

Revisiting the Topic of Dificulty of Care Payments

In October of 2020 we had written a newsletter article discussing IRS guidance in Notice 2020-68 regarding difficulty of care payments. Code section 408(o)(5) was added by the SECURE Act. It provides that an individual with difficulty of care payments is eligible to make certain designated nondeductible contributions to an IRA even though the person does not otherwise have sufficient compensation to make an IRA contribution

A person is an individual provider if he or she lives with another person and provide care services to such person.

Some individuals in the past who were not eligible to make an IRA contribution may now do so, These individuals are workers who receive difficulty of care payments related to their foster care services.

Internal Revenue Code section 131 provides that a difficulty of care payment, which is a type of foster care payment, is excludable from the taxpayer's gross income. Under pre-2020 law, such payments were not considered to be qualifying compensation for purposes of making an IRA contribution. The general rule is, in order to make an IRA contribution, regardless if deductible or non-deductible, a person must have taxable income to support the contribution.

In Notice 2020-68 the IRS provides additional guidance of the law change.

A new exception to this rule is made for difficulty of care payments.

These designated nondeductible contributions are limited. An individual is eligible to make a nondeductible IRA contribution to the extent of the lesser of the amount excluded under section 131 or the maximum IRA contribution amount as reduced by the amount of compensation which is includible in income. For example, Jane Doe, age 39, in 2023 receives compensation of $11,000 for certain difficulty of care payments. She is able to exclude $9,000 under section 131 and she includes $2,000 in her taxable income. She is limited to make a non-deductible contribution of $4,500. The $4,500 is the lesser of $6,500 as reduced by the $2,000 or $9,000. If Jane Doe's excludable difficulty of care payments were $7,000 and she has no other taxable compensation, then her nondeductible IRA contribution amount would be limited to $6,500.

In Notice 2020-68 the IRS stated it would be issuing additional guidance as to how this new rule impacted the rules applying to excess contributions. It does not appear that the IRS has issued this additional guidance.

Is a person eligible to make a Roth IRA contribution because they have difficulty of care compensation? The IRS still does not discuss whether or not a person is eligible to make a Roth IRA contribution because they have difficulty of care compensation. The IRS should improve its discussion to make clear to the public what the IRS position is. We at CWF believe the law as written authorizes a person with difficulty of care compensation to make a Roth IRA contribution. A Roth IRA contribution by definition is a non-deductible contribution.