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IRS Finalizes RMD Regulations

These final RMD regulations go into effect on September 17, 2024. However, the applicability date or effective date for most of the new RMD rules is January 1, 2025.

The IRS adopted on July 19, 2024 with only minor changes the RMD rules set forth in the proposed regulation as issued on February 24, 2022. As many governmental entities, the IRS is stubborn. The IRS rarely adopts the suggestions made by the public. The IRS decided it was keeping its new special rules creating a deadline when a spouse who is the sole IRA beneficiary must elect to treat their deceased spouse's IRA as his or her own IRA and that certain older spouse beneficiaries may have a hypothetical RMD which is ineligible to be rolled over.

The IRS has made very clear in its introductory comments to the final regulation that an IRA custodian/trustee's duties with respect the RMDs related to inherited traditional IRA and inherited Roth IRAs are greatly limited. The IRS makes the express statement, "An IRA custodian has no obligation to ensure compliance with the required minimum distribution rules, so there is no need for a beneficiary of an IRA to file any type of election with custodian."

The final RMD regulations also apply to 401(k), profit sharing, defined benefit and other employer sponsored plans.

An IRA custodian/trustee may adopt the approach with respect to inherited IRAs - it is the responsibility of the IRA beneficiary to comply with the laws applying to a beneficiary. The final regulations provide that the IRA custodian/trustee has no requirement to be provided documentation by a beneficiary that he or she is disabled or chronically ill. That is, there is no certification requirement regarding disability or being chronically ill. The IRA custodian/trustee may rely on the beneficiary's instruction. Similarly, the trustee of a see-through trust is not required to provide any trust documentation to an IRA custodian/trustee. The IRA custodian/trustee of a see-through trust may rely on the trustee's instruction or method of RMD calculation.

The IRS has adopted the rule that if an IRA accountholder dies with multiple beneficiaries the RMD for that year may be satisfied by just one beneficiary rather than each beneficiary being required to withdraw their pro rata share of the RMD.

A person's required beginning date is the April 1 of the year following:

1. the year a person attains age 70½ if born before 7/1/1949;

2. the year a person attains age 72 if born during the period of 7/1/1949-12/31/1950;

3. the year a person attains age 73 if born during the period of 1951-1958; and

4. the year a person attains age 75 if born on or after January 1, 1960.

The law must be corrected for those born in 1959 as the current law Is unclear whether the RMD age is age 73 or 75. It appears that Congress will adopt age 73.

The final RMD rules apply as of January 1, 2025. For years prior to 2023 a taxpayer is to apply the 2002 and 2004 final regulations and is to apply a reasonable good faith interpretation of the amendments made by the SECURE Act. For 2023 and 2024 a taxpayer is to apply a reasonable good faith interpretation of the amendments made by the SECURE Act 2.0.

We at CWF will be discussing in more detail the final RMD rules in upcoming newsletter articles and in separate webinars to be held September-November.

SIMPLE-IRA Summary Description — IRA Custodian Must Furnish By October 2024 For 2025

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 SIMPLEs. This notice is reproduced in CWF's 2024 IRA Procedures Manual. If you do not have this resource manual, you may order it.

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.

An 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. We at CWF have revised our summary description forms for 2025 to discuss whether the employer has decided to allow a participant to designate a contribution as a Roth SIMPLE-IRA contribution, whether the employer will be making a matching contribution and at what rate, a non-elective contribution and at what rate and if the employer will be making any other contribution. For those of users of the CWF IRA/HSA FormSystem, the revised forms are 918-A, 918-B and 918-C. If an institution wishes to buy the PDF versions of these forms, the cost is $500 per form.

However, 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.

The penalty for not furnishing the Summary Description is $50 per day.

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,

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SIMPLE-IRA Summary Description, Continued from page 2

and there have been no current employer contributions, then there is no duty to furnish the Summary Description.

However, 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 The custodian/trustee must provide each SIMPLE-IRA accountholder with a statement by January 31, 2025, showing the account balance as of December 31, 2024, (this is the same as for the traditional IRA), and include the transaction activity in the account during the calendar year (this is not required for a traditional IRA). There is a $50 per day fine for failure to furnish this statement (with a traditional IRA, it would be a flat $50 fee).

Is It Still Possible To Establish A SIMPLE-IRA Plan For 2024?

Yes, if the sponsoring business has never sponsored a SIMPLE-IRA Plan before and if the business has not made any contributions for 2024 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 a year. A SIMPLE-IRA plan cannot have an effective date that is before the date you actually adopt the plan.

SIMPLE-IRA Fees May Be Charged Good Notices And Timing Are Needed

The IRS has written two model SIMPLE-IRA forms. One (Form 5305-SIMPLE) provides for a designated financial institution and other (Form 5304-SIMPLE) does not.

An employer may choose to complete Form 5305-SIMPLE because it allows the employer to designate a particular financial institution to which all SIMPLE-IRA contributions will be made. This right greatly reduces the employer's administrative tasks of having to make contributions at multiple financial institutions. An employer which sponsors a SEP does not have such a right. Each employee can have his or her SEP-IRA set up with the financial institution of its choice. These requirements must be met in order for there to be a designated financial institution:

1. The employer and the financial institution must agree in writing the financial institution will be the designated financial institution (DFI).

2. Upon a participant's request his or her SIMPLE-IRA balance will be transferred without cost or penalty to another SIMPLE-IRA or to any IRA once 24- months have elapsed since the date of the first SIMPLE- IRA contribution.

3. Each participant must be furnished a notice explaining the procedures which must be used in order that the SIMPLE-IRA balance will be transferred without cost or penalty.

If a financial institution is not a DFI, then it is free to impose a reasonable fee with respect to transferring funds from the SIMPLE-IRA to another SIMPLE-IRA or any IRA if the 2-year requirement has been met.

The general rule is – if a financial institution is a DFI, it is unable to impose any fee and/or cost for transferring funds from the SIMPLE-IRA to another SIMPLE-IRA or any IRA if the 2-year requirement has been met. Code section 408(p)(7) states this requirement. "A transfer is deemed to be made without cost or penalty if no liquidation, transaction redemption or termination fee, or any commission, load (whether front-end or back-end) or surrender charge, or similar fee or charge is imposed with respect to the balance being transferred.

Note that this rule does not prevent the imposition of fees for any non-transfer transaction. For example, if the SIMPLE-IRA accountholder wanted to take a distribution, the SIMPLE-IRA custodian could impose a distribution fee, or if the SIMPLE-IRA accountholder would close his or her SIMPLE-IRA, the financial institution

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SIMPLE-IRA Fees
Continued from page 3

could impose a closing fee. This restriction of fees applies once the employee has notified the custodian the he or she will be exercising their rights under the transfer policy.

The DFI will need to settle on its fee policies and write a notice explaining such policies and procedures. The DFI should furnish this notice to both the employer and the employees. It could be an attached summary description which the DFI furnishes the employer.

In 1998 in Notice 98-4 the IRS created and announced some major exceptions to this no fee for transfers requirement. There are four significant exceptions where the SIMPLE-IRA custodian has the right to charge a reasonable transfer fee. We discussed these four exceptions in our September 2019 issue.

In summary, many financial institutions performing SIMPLE-IRA services wrongly believe that fees cannot be charged on SIMPLE-IRAs The only time there is a legal restriction on fees for SIMPLE-IRAs is when the employer has chosen one financial institution to act as the designated financial institution. And then the restriction applies only to certain transfers. As discussed above, the IRS has created a number of exceptions allowing for fees to be charged in some transfer situations.

Errata Correction - 10% Tax

We recently published in the July newsletter IRS guidance discussing the new exceptions to the 10% tax applying to most distributions from an IRA or retirement plan prior to the age of 59½. One of the new exceptions is for a terminal illness. Note that the IRS position is - this exception only applies for distributions from a retirement plan to an employee so this exception does NOT apply to a distribution from an IRA. It should apply to IRAs also. This situation should be corrected by Congress, but time will tell if it is corrected.

In the March 2024 newsletter on page 8 an article discussed that an IRA accountholder could take a distribution on account of the IRA accountholder being terminally ill and the 10% additional tax would not apply.

2024 IRS Extends RMD Relief To 2024

For Certain IRA And Pension Beneficiaries IRS Notice 2024-35

The IRS initially granted tax relief to certain beneficiaries for certain missed RMDs for 2021 and/or 2022. This relief was granted in Notice 2022-54.

This relief was granted to a non-EDB beneficiary of an IRA accountholder who had died after 2019 and who had died after their required beginning date. Such a beneficiary was required to continue the distribution schedule (but modified) being used by the deceased IRA accountholder and the beneficiary had to close the inherited IRA under the 10-year rule. There have been beneficiaries who did not do so because they thought the 10-year rule applied. Technically, these beneficiaries owed the RMD tax.

In 2023 the IRS issued Notice 2023-53 and extended this RMD relief for 2023.

The IRS states its relief as follows, "To the extent a taxpayer did not take a specified RMD, the IRS will not assert that the taxpayer owes the RMD excise tax."

And now in Notice 2024-35 the IRS again extends this relief to 2024. The IRS also uses this Notice 2024-35 to furnish additional information about the RMD rules.

The notice provides, "Final regulations regarding RMDs under section 401(a)(9) and related provisions are anticipated to apply for determining RMDs for calendar years beginning on or after Jan. 1, 2025."

The IRS clarifies that if the beneficiary is an eligible designated beneficiary that he or she uses the standard life distribution rule and that the 10-year rule does not apply to this beneficiary. Once this EDB dies, the next beneficiary must continue the same distribution schedule, and the 10-year rule applies to him or her.

We have asked the IRS to clarify that the missed or skipped RMDs for 2021-2024 will not need to be withdrawn in 2025. They must be withdrawn by the applicable 10-year deadline, if applicable. The general tax rule is – an RMD exists until it is withdrawn.

The IRS issuance of additional tax relief is certainly good news to those beneficiaries who need it or for those who want to take advantage of an opportunity to skip taking their 2024 RMD.

Why Does The IRS Do Such A Poor Job Of Explaining The Tax Rules Applying To A Roth IRA Beneficiary?

We at CWF admit our bias. We don't believe the IRS is as publicly orientated or as unbiased as it was in prior years. The mission of the IRS as stated in CCDM 32.1.1.1 is set forth below.

(1) The mission of the Internal Revenue Service is to provide America's taxpayers top quality service by helping them understand and meet their tax responsibilities and by applying the tax law with integrity and fairness to all. It is the duty of the IRS to correctly apply the laws enacted by Congress; to determine the reasonable meaning of various Internal Revenue Code provisions in light of the Congressional purpose in enacting them; and to perform this work in a fair and impartial manner, with neither a government nor a taxpayer point of view.

(2) At the heart of sound tax administration is interpretation of the Code. It is the responsibility of each person in the IRS charged with the duty of interpreting the law to try to find the proper interpretation of the statutory provision and not to adopt a strained construction in the belief that he or she is "protecting the revenue." The revenue is properly protected only when we ascertain and apply the proper interpretation of the statute.

The reality is - many times the IRS does not in practice apply these principles. The IRS does not meet its tax responsibilities and apply the tax laws with integrity and fairness to all and in a fair and impartial manner, with neither a government nor a taxpayer point of view.

The IRS and the U.S. Treasury often construes the law to maximize revenue regardless of the intent of Congress. The IRS fails to issue guidance or answer questions in certain situations if such guidance will result in a taxpayer paying less taxes. The IRS no longer has a workable system where you can call the IRS and get an answer to a question.

We at CWF believe the IRS intentionally does a poor job of explaining the rules which apply to a Roth IRA beneficiary. Almost all distributions to a Roth IRA beneficiary are tax-free. If a Roth IRA beneficiary delays withdrawing funds from an inherited Roth IRA, more tax-free income will be earned. The IRS would prefer it if the income is earned and taxed. Publication 590-B (IRS Distributions) has a lengthy discussion of the rules applying to a traditional IRA beneficiary but a very brief discussion of the rules applying to a Roth IRA beneficiary. This is intentional. Why? a Roth IRA beneficiary has a certain number of years in which a Roth IRA will earn tax-free income. The IRS will not be disappointed if a beneficiary withdraws funds sooner from an inherited Roth IRA.

Set forth below is a recent email on this topic.

Question #1. I have questions regarding RMDs which a beneficiary must take. The IRA owner died in 2022. She had both a traditional IRA and a Roth IRA. The non-EDB beneficiary withdrew more than was required for 2023, but a decision needs to be made for 2024. Is it correct, that she might skip taking an RMD for 2024 from the traditional IRA? What about the Roth IRA?

Answer#1. See page 4 of this newsletter. It discusses the tax relief for 2024 for certain beneficiaries. This tax relief initially applied to 2021 and 2022. It has been extended to 2023 and now 2024.

The RMD rules applying to a beneficiary of an IRA owner who died after age 70-73 (their required beginning date) are very different depending upon the IRA type (traditional versus Roth).

A non-EDB beneficiary of such a traditional IRA owner <u>must take annual RMDs and must close the inherited traditional IRA by 12/31 of the 10th year following the death</u>.

A non-EDB beneficiary of a Roth IRA owner is required to close the inherited Roth IRA by 12/31 of the 10th year for the death. There is no requirement to take any RMD for the first 9 years.

A Roth IRA owner does not have the requirement to take any RMD while alive. For purposes of determining when and what amount a Roth IRA beneficiary must withdraw, the Roth IRA owner Is considered to have died before the required beginning date.

I may be biased, but I believe the IRS has decided to not explain clearly the tax consequences and how the RMD rules apply to a beneficiary of a Roth IRA. The IRS doesn't want a beneficiary to maximize the tax-free income which may be earned by an inherited Roth IRA. This maximization will occur if the beneficiary waits until year 10 to take any withdrawal.

A Be Careful Topic – A Spouse Roth IRA Beneficiary Closing The Inherited Roth IRA

A spouse beneficiary almost always wants to treat their deceased spouse's Roth IRA as their own Roth IRA. Why? A Roth IRA accountholder never has an RMD while he or she is alive. The balance in the Roth IRA will grow to substantial amounts if allowed to do so. The right or ability to earn tax-free income is very valuable.

We recently had a consulting call with the following situation. One of the bank's customers recently came into the bank. His spouse had recently passed. She had designated him as her Roth IRA beneficiary. She had her Roth IRA for 7 years. There was $18,000 in the Roth IRA. He was in the bank wanting to close her Roth IRA because someone had advised him to close her Roth IRA.

I asked why? The fact that his withdrawal is tax-free doesn't mean he should close the Roth IRA. The opposite is true - he wants to delay taking any distribution form the Roth IRA as long as possible. When possible, he should never take a distribution. The right to earn tax-free income is very valuable.

The purpose of this article is - if the spouse does close the Roth IRA the Roth IRA custodian wants to be able to substantiate the fact that this was the husband's decision and that the husband in the future will not be able to argue, the Roth IRA custodian should have informed him not to close the Roth IRA.

We have created the adjacent charts to illustrate the great amount of tax-free income which will be earned if no distributions are taken. Upon the death of the spouse, the beneficiary of the spouse have additional years of tax-free income and then the Roth IRA must be closed.

We have set forth 4 examples showing the growth in a Roth IRA.

In illustration #1 the balance in the Roth IRA is $18,000 and she died in early January of 2024 when she was 72 and he is age 74. It is assumed he lives until age 94.

In illustration #2 the balance in the Roth IRA is $18,000 and she died in early January of 2024 when she was 47 and he is age 49. It is assumed he lives until age 94.

In illustration #3 the balance in the Roth IRA is $80,000 and she died in early January of 2024 when she was 72 and he is age 74. It is assumed he lives until age 94.

In illustration #4 the balance in the Roth IRA is $80,000 and she died in early January of 2024 when she was 47 and he is age 49. It is assumed he lives until age 94.

Illustration #1 - $18,000. He is age 74. Balance as of 12/31.

Year		Accumulated Earnings (tax-free)	Balance as of 12/31
Year 1	2024	$828.00	$18,828.00
Year 5	2028	$4,538.81	$22,538.81
Year 10	2033	$10,222.10	$28,222.10
Year 15	2038	$17,338.47	$35,338.47
Year 20	2043	$26,249.28	$44,249.28

Illustration #2 - $18,000. He is age 49. Balance as of 12/31.

Year		Accumulated Earnings (tax-free)	Balance as of 12/31
Year 1	2024	$10,222.10	$28,222.10
Year 15	2038	$17,338.47	$35,338.47
Year 20	2043	$26,249.28	$44,249.28
Year 25	2048	$37,407.00	$55,407.00
Year 30	2053	$51,378.20	$69,378.20
Year 35	2058	$68,872.33	$86,872.33
Year 40	2063	$90,777.70	$108,777.70
Year 45	2068	$118,206.65	$136,206.65

Note, the amount of tax-free earnings in the later years is substantial even though the starting balance was very modest,

Illustration #3 - $80,000. He is age 74. Balance as of 12/31.

Year		Accumulated Earnings (tax-free)	Balance as of 12/31
Year 1	2024	$3,680.00	$83,680.00
Year 5	2028	$20,172.48	$100,172.48
Year 10	2033	$45,431.56	$125,431.56
Year 15	2038	$77,059.88	$157,059.88
Year 20	2043	$116,663.46	$196,663.46

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Spouse Roth IRA Beneficiary
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Illustration #4 - $80,000 He is age49 Balance as of 12/31

Year		Accumulated Earnings (tax-free)	Balance as of 12/31
Year 1	2024	$3,680.00	$83,680.00
Year 5	2028	$20,172.48	$100,172.48
Year 10	2033	$45,431.56	$125,431.56
Year 15	2038	$77,059.88	$157,059.88
Year 20	2043	$116,663.46	$196,663.46
Year 25	2048	$166,253.32	$246,253.32
Year 30	2053	$228,347.56	$308,347.56
Year 35	2058	$306,099.24	$386,099.24
Year 40	2063	$403,456.46	$483,456.46
Year 45	2068	$525,362.89	$605,362.89

Note, the amount of tax-free earnings in the later years is very substantial if the beginning balance is greater.

This article has been prepared for two reasons.

First, to illustrate the great value of having the right to earn tax-free income by maintaining the Roth IRA as long as possible. One does wonder - will the tax laws be changed so the US Treasury will have the right to tax some or all of the accumulated funds. The right of a spouse to treat their deceased spouse's Roth IRA as their own is a valuable tax right. Non-spouses do not have this right.

Second, a Roth IRA custodian when servicing a surviving spouse wants to be able to substantiate that the spouse was advised to discuss this situation with their tax adviser and that the decision to close the Roth IRA was not on account of information furnished by the Roth IRA custodian. Again, if the spouse does close the Roth IRA the Roth IRA custodian wants to be able to substantiate the fact that this was the husband's decision and that the husband in the future will not be able to argue, the Roth IRA custodian should have informed me not to close the Roth IRA.

A Be Careful Topic - A Roth IRA Beneficiary Non-spouse And Non-EDB

A non-spouse non-EDB Roth IRA beneficiary has 10 years in which to close the inherited Roth IRA regardless of the age of the Roth IRA accountholder owner who has died. Under the RMD tax rules the Roth I RA accountholder has died before his or her required beginning date because a Roth IRA accountholder has no required beginning date.

The purpose of this article is to illustrate the amount of tax free income to be earned during this 10-year period. A person should strive to maximize the amount of tax free income. Waiting to take a lump sum distribution at the end of year 10 will maximize the amount tax free income to be earned.

An inherited Roth IRA will earn tax free income as long as funds stay in the inherited Roth IRA. A qualified distribution (tax-free) is made to a Roth IRA beneficiary when she or he withdraws the Roth IRA funds and the 5-year requirement has been met.

We discuss the following hypothetical situation. A daughter was in the bank wanting to close her inherited Roth IRA. She was designated as her mother's Roth IRA beneficiary. The mother had the Roth IRA for 7 years. The mother had died on December 15, 2023. There was $18,000 in the Roth IRA. She was in the bank in July of 2024 wanting to close her inherited Roth IRA because someone had advised him to close her Roth IRA.

Even though any withdrawal she takes will be tax free, she doesn't want to take any distribution from an income tax standpoint prior to 2033.

Her inherited Roth IRA will earn tax free income for as long as she doesn't take a withdrawal from the Roth IRA. She is required to close this inherited Roth IRA by 12/31/2033 which is the end of the 10th calendar year following the IRA accountholder's death.

We have created the chart below to illustrate the substantial amount of tax-free income which will be earned by this Roth IRA with $18,000 as long as he doesn't take any distribution. An annual earnings rate of 4.6% is assumed.

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Non-Spouse and Non-EDB,
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Chart #1 - $18,000

Year		Accumulated Earnings (tax-free)	Balance as of 12/31
Year 1	2024	$828.00	$18,828.00
Year 2	2025	$1,694.09	$19,694.09
Year 3	2026	$2,600.02	$20,600.02
Year 4	2027	$3,547.62	$21,547.62
Year 5	2028	$4,538.81	$22,538.81
Year 6	2029	$5,575.59	$23,575.59
Year 7	2030	$6,660.07	$24,660.07
Year 8	2031	$7,794.43	$25,794.43
Year 9	2032	$8,980.98	$26,980.98
Year 10	2033	$10,222.10	$28,222.10

The total amount of tax free income to be earned is $10,222.10.

Set forth below is an example of the tax free income to be earned if the inherited Roth IRA has a balance of $80,000 rather than $18,000. The amount of tax free income to be earned is $45,431.56. This amount is substantial

Chart #1 - $80,000

Year		Accumulated Earnings (tax-free)	Balance as of 12/31
Year 1	2024	$3,680.00	$83,680.00
Year 2	2025	$7,529.28	$87,529.28
Year 3	2026	$11,555.63	$91,555.63
Year 4	2027	$15,767.19	$95,767.19
Year 5	2028	$20,172.48	$100,172.48
Year 6	2029	$24,780.41	$104,780.41
Year 7	2030	$29,600.31	$109,600.31
Year 8	2031	$34,641.92	$114,641.92
Year 9	2032	$39,431.56	$119,915.45
Year 10	2033	$45,431.56	$125,431.56

Why is this a be careful situation?

A Roth IRA custodian/trustee should be aware that a Roth IRA beneficiary may take a distribution not knowing the tax ramifications. For example assume the daughter withdrew the $80,000 in July of 2024 because she did not understand the tax consequences. She has given up the rights to earn the tax free income. She only has the right to make a rollover contribution to try to undo her mistake if she is able to convince the IRS that it was the Roth IRA custodian's mistake and not her mistake.

Obviously, a larger Roth IRA beginning balance means there is the ability to have more tax free income and a higher earnings rate will also increase the tax free earnings.

In summary, a non-EDB non-spouse beneficiary of a Roth IRA does have the right to have the inherited Roth IRA earn tax free income for the 10-year period. A beneficiary may well have a good reason to withdraw the funds before the end of the 10-year withdrawal period, but a Roth IRA custodian wants to help this beneficiary customer make an informed decision and protect itself from possible future litigation.

A Tax Credit Should Be Granted To An IRA Custodian/Trustee

Admit it or not there is a quasi-partnership between the IRS and all financial institutions serving as IRA custodians/trustees. IRAs are certainly important to the IRA accountholders and to the U.S. government. One day the IRS will be collecting taxes on those funds which are pre-tax accounts. IRAs are a valued tool in providing older citizens with financial security for their retirement years. IRAs are a valued tool for individuals who are not yet in their retirement years when they rollover their 401(k) funds or other retirement funds into an IRA. This partnership should not be one-sided. An IRA custodian/trustee performs many tasks to assist the IRS in its administration of IRAs. There should be some compensation for the IRA custodian/trustee.

We at CWF believe the federal tax laws should be modified to authorize an IRA custodian/trustee to receive an annual tax credit of $10 per IRA for its work in preparing and furnishing the annual FMV statement, Form 5498, Form 1099-R and RMD notices. The various banking associations, insurance companies and securities firms should be asking their congressional representatives for such a law change. Time will tell.