THE Pension Digest

December 2024
Published Since 1984

ALSO IN THIS ISSUE –

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

2025 RMD Notices and FMV Statements (12-31-2024)

Fair Market Value (FMV) statements

An IRA custodian must furnish a FMV statement to each IRA accountholder and each inheriting beneficiary having a balance as of December 31, 2024, to each IRA accountholder who died during 2024, and to any IRA accountholder who made a reportable contribution for 2024 during 2024. The deadline to furnish the FMV statement is January 31, 2025.

This FMV statement must be prepared on a per plan agreement basis. That is, if a person would have two traditional IRAs and one Roth IRA, then he or she would need to be furnished three FMV statements. These could be combined on one statement as long as there were three separate sections.

There must be a sentence on the FMV statement informing the recipient that the FMV information (Balance as of December 31) will be furnished to the IRS when the 2024 Form 5498 will be filed with the IRS in May of 2025.

The IRA Custodian/trustee may, but is not required, to furnish contribution and earnings (including interest) information on the FMV statement for traditional IRAs, SEP-IRAs and Roth IRAs. However, a special rule applies for SIMPLE-IRAs. In the case of a SIMPLE-IRA, the IRA custodian must furnish a detailed statement listing all contributions (dates, and amounts) made by the employer on behalf of the SIMPLE-IRA accountholder.

Why is it required to furnish the FMV statement by January 31, 2025? A taxpayer who has basis within a traditional IRA, needs the FMV for purposes of completing the Form 8606 to determine the taxable portion of a distribution and the nontaxable portion.

The IRS may assess a penalty of $50 for each failure to furnish the FMV statement for traditional IRAs, SEP-IRAs, and Roth IRAs. The penalty is $100 PER DAY for failing to furnish the FMV statement for a SIMPLE-IRA.

RMD Notice for 2025

An IRA custodian/trustee must furnish an RMD notice to each traditional/SEP/SIMPLE-IRA accountholder who was born during 1952 or earlier.

There is no requirement and no need to furnish an RMD Notice to a Roth IRA accountholder since the RMD rules do not apply to a Roth IRA accountholder while he or she is alive.

Three items must be set forth in the required RMD Notice.

First, the deadline applying to the specific IRA accountholder must be set forth. This will be December 31, 2024, for an individual who is older than age 73 in 2025 or April 1, 2026, if the individual attains age 73 in 2025. Second, there must a sentence informing the individual that the IRS will be informed on the 2024 Form 5498 that he or she is subject to the RMD rules for 2025. Third, the individual must be informed of his or her RMD amount for 2025 or that such amount has not been calculated, but will be if the individual contacts the IRA custodian/trustee and requests that the calculation be made.

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Qualified Charitable Distributions – Limit is $108,000 in 2025

The basic planning rule is, a QCD must be made from an IRA. A QCD cannot be made from a profit sharing plan, 401(k) plan or other employer sponsored plan.

Many individuals age 70½ or older may be considering making a qualified charitable distribution (QCD) or may know they want to make a QCD. Many of the laws governing IRAs are set forth in Code section 408. Code section 408(d)(8) authorizes an IRA accountholder to make a QCD if certain rules are met. The basic rules are: the IRA custodian must make the check payable to the charity, the aggregated IRA distribution amount must be $108,000 or less, the individual IRA accountholder or beneficiary must be age 70½ or older and the individual donor must get a tax receipt from the charitable organization confirming the contribution before filing their income tax return. The IRS on November 16, 2023 issued newswire IR-2023-215 discussing QCDs.

What tax benefits does a person receive when she or he makes a QCD?

The person receives two tax benefits for one transaction. This is rare under the federal income tax laws. For discussion purposes Alexa Taxpayer, age 78, has an IRA with a balance of $600,000. She has made 3 QCDs totaling $50,000 in 2025. She instructed her IRA custodian to send a check for $20,000 to Michigan State University, a check for $20,000 to her church and a check for $10,000 to the Salvation Army. Alex's RMD for 2025 is $27,273.

Her first tax benefit is, she is not required to pay taxes on the $50,000 because she excludes the QCD of $50,000 from her income.

Her second tax benefit is, she is not required to withdraw her RMD of $27,273 and include it in income and pay the applicable income tax because the IRS has ruled a person's QCD counts towards the person's RMD for that year.

Does the law authorize a 401(k) participant or a profit sharing plan participant to make a QCD?

The answer is no. A 401(k) or profit sharing participant is ineligible to make a QCD. Common sense says that the law should be changed so that a profit sharing plan participant or a 401(k) participant is eligible to make a QCD if he or she is age 70½ or older but that is not the current law. A profit sharing plan participant or 401(k) participant who wants to make a QCD must directly rollover their 401(k) funds into an IRA and then make the QCD. Remember, an RMD is ineligible to be rolled over. So, the direct rollover needs to completed by December 31, 2023 if the QCD will be made in 2024.

A 401(k) participant may make a charitable contribution under the laws set forth in Code section 170, but the tax benefits realized are more limited. If Alexa's balance in a 401(k) plan was $600,000 she would be required to withdraw her RMD of $27,273. She would include that amount in her income. If she made charitable contributions to her three charities she would be able to claim some deductions for her charitable contributions. The IRS has written Publication 526 (Charitable Contributions) The amount which a person is able to deduct is not 100%. There are various limits (15%, 30%, or 60%) which apply and which reduce the amount which can be deducted. IRS Publication 526 (Charitable Contributions) discusses charitable contributions in detail.

These two transactions - QCDs and Charitable Contributions sound a lot alike, but they are two separate and different transactions having different tax consequences. QCDs provide a much greater tax benefit than a charitable contribution which is deducted.

In summary, a person needs to move his or her funds in a profit sharing plan or 401(k) plan into an IRA by December 31, 2023 if the individual wishes to use those funds to make a QCD in 2024. The amount one pays in income taxes will be substantially reduced by making a QCD. To do so the funds need to be in IRA. A QCD cannot be made from funds in a 401(k) plan or other qualified plan.

RMD Notices,
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Although the RMD laws apply to an inheriting IRA beneficiary of all four types of IRAs, current IRS rules do not require the IRA custodian/trustee to furnish an RMD notice. CWF strongly suggests you do so. The model IRS IRA forms require that there be an RMD distribution made to an inheriting beneficiary. A beneficiary who fails to take an RMD will owe the RMD tax of 10% or 25% and may well argue that the custodian/trustee should pay some of this tax for its failure to notify or payout a RMD.

The IRS may assess a fine of $50.00 for each time an IRA custodian/trustee fails to furnish a complying RMD notice.

Email Guidance – Roth IRA "Midair Conversion"

Q-1. We have a request from a customer to do a Roth plan however the funds are currently in an investment which is traditional funds. The current institution will not do the conversion and are requesting us to accept these funds as a "midair" conversion. We have never heard of this nor have done anything like this. Have you heard of this and if so, is it possible to proceed with accepting these funds?

I have spoken to a rep from the investment company and she indicated there is certain paperwork the customer will need to sign on that end so assuming he would have to sign something other than just a plan agreement on our end? How we understand it that part the funds will need to be placed in a traditional plan within our institution to begin with and would need to be coded internally specifically to reflect the conversion?

A-1. I do not understand the entire situation. I have never heard that term.

A traditional IRA may be converted into a Roth IRA. The individual should complete a form indicating he or she is converting a portion or all of the traditional IRA. Upon doing so, the IRA custodian/trustee of the traditional IRA will be required to report on a Form 1099-R to show the distribution. Most likely it is 100% taxable. The Roth IRA custodian must report the conversion contribution in box 3 of the Form 5498.

Who is the current IRA custodian/trustee?

Does this traditional IRA have investments other than a time deposit(s)? If so, what are those investments? Those assets can be converted.

There are two possible approaches.

Approach #1. There could be an IRA transfer of the traditional IRA with the other institution to a traditional IRA with ABC and then the conversion could be done .

Approach #2. There could be a CONVERSION IRA transfer of the traditional IRA with the other institution to Roth IRA with ABC. ABC as the Roth IRA custodian must report the conversion contribution in box 3 of the Form 5498.

Email Guidance – Roth IRA Conversion

Q-1. I don't think this is permissible but want to confirm. We have a Roth IRA owner that wants to convert/transfer the Roth funds (over 20k) into his traditional IRA. He understands the unfavorable tax ramifications and they are less important than pooling his money. Is this even permissible?

A-1. How much money is in the Roth IRA?

He can withdraw the Roth IRA funds and then use the funds to make an annual contribution to a traditional IRA, if eligible. There is no such thing as converting Roth IRA funds to be traditional IRA funds.

I presume his need to pool the funds is because of a possible investment. I have not researched the issue if funds of 2 different IRAs could be aggregated. There would need to be separate accounting.

Email Guidance – Reporting After the IRA Accountholder Dies

Q- 1. If an IRA beneficiary takes a full distribution how should the reporting show for the deceased and the beneficiary? On our new core system no Inherited IRA needs to be set up, the distribution is funneled through the deceased IRA owner.

On our old system we were required to set up an Inherited IRA even if the beneficiary was taking a full distribution so we showed a transfer out from the deceased, a transfer to the beneficiary and a death distribution.

A-1. You must make sure the system creates or shows the total distribution to the beneficiary on the Form 1099-R. Reason code is a 4 for death.

There is no Form 1099-R prepared for the deceased IRA accountholder unless she or he took a distribution that year prior to dying.

Email Guidance – Roth IRA Distributions on Form 1099-R

Q-1. How do you code a ROTH distribution for a customer under 59½ who has met the 5-year rule (ROTH was established in 2010)?

A-1. Is the person who is under age 59½ the Roth IRA accountholder or a beneficiary of a Roth accountholder who has died?

Q-1A. The person is the ROTH accountholder.

A-1A. You will use the Code "J" on the Form 1099-R because the Roth IRA accountholder is withdrawing funds from the Roth IRA and she or he is younger than age 59½ and is not disabled.

You have an individual who established the Roth IRA in 2010. He or she has made nondeductible contributions which he or she can withdraw and not have to include in income.

Remember that with a Roth IRA the contributions come out first and are not taxable. The earnings come out last and if withdrawn will be taxable and subject to the 10% unless the individual is eligible for one of the exceptions. If the individual does not withdraw the earnings there will be no taxes owing.

The CODE J does not inform the IRS whether the amount withdrawn is taxable or is not taxable. The individual will need to complete IRS Form 8606 and possibly Form 5329.

Email Guidance – Completing Form 1099-R

Q-1. I am reviewing our 1099R forms from our new system. They have an amount in Box 1, amount in Box 2A (taxable amount) and then in 2B they have an "X" for amount not determined.

First, it shouldn't have an amount in 2A and an "X" in 2 B, correct? IT should be one or the other?

Also, on the old system we did not report the taxable amount. We always checked 2B declaring the taxable amount was not determined . If I remember correctly, I think you said that we could do that and then the taxable amount would be determined by the customer/tax preparer. Did I remember that correctly?

A-1. You are correct. Logically, it should be one or the other.

But with tax matters logic is many times not the determining factor.

The IRS for one year adopted the approach that box 2a was not to be completed. That is logical, because a bank may not know the taxable amount because the person may have IRAs with another IRA custodian and all IRAs are to be aggregated for taxation purposes. That one year might have been around 2009. And an IRA custodian is not required to report or keep track of whether any contribution is deductible or nondeductible.

The IRS learned a lesson the hard way - because box 2a was not completed many tax payers did not include any amount in their taxable income and the IRA had a tax collection issue.

The IRS policy and procedures for many years has been as prepared by your new system Box 1 and 2a are to be completed with the same amount and box 2b is to be checked because the IRA custodian does not know if the amount listed in box 2b is truly taxable. The individual might have made some non-deductible contributions.

The IRS has never thought it was necessary or desirable to explain why the IRA custodian, is to complete both boxes 1 and 2a and then also check the box in 2b.

Email Guidance – HSAs Owned by Two Married Individuals

Q-1. We have a health savings account currently in Jim's name with his wife Greta on as authorized signer. Greta called and said there was a change and the insurance policy is now in her name still a family coverage . Our question is does the HSA need to have her as the owner now or can it stay in the husband's name?

A-1. His HSA must stay in his name. How much money is in Jim's HSA? It cannot be transferred to her HSA. Sufficient withdrawals may be made so that his HSA will be closed.

Will Greta be establishing her own HSA? Funds cannot be transferred from is HSA into her HSA.

It is not all that important who is the source of the insurance just that they would have a family HDHP.

Are the contributions going to be made by Greta and Jim or are some of the contributions being made by one or both of their employers? It is best if there is an employer contribution that it is made to HSA of their employee.

Email Guidance – On Form W-4R

Q-1. Can a customer request less than 10% federal tax withholding or if they choose to withhold tax is that the minimum percentage?

A-1. A few years ago the IRS created the Form W-4R. The Form W-4R is to be used for non-periodic distributions . In general , almost all IRA distributions are defined to be nonperiodic distributions even though they are periodic. As long as the person has the right to take a lump sum distribution from the IRA the distribution is defined to be non periodic.

One of the reasons the IRS created Form W-4R was to try to encourage more individuals to have withholding.

The IRS instructions for this form state that the person may have anywhere from 0%-100% withheld. So, the conservative approach is - the customer can request less than 10% be withheld.

Technically, the IRS had a withholding regulation that provided the rule that a bank for customer services may agree to withhold less than 10%, but technically the bank is not required to withhold less than 10%. I need to check to see if that regulation was changed.

Email Guidance – Reporting Certain HSA Contributions

Q-1. I have a customer who's employer makes deposits into the account. The employer and the customer did not inform us that the account has gone from a family plan to an individual plan last year. The employer has over contributed into the account for last year by $585.00. The employer was wondering if we could change the contribution to this year's plan. The funds that were deposited are now gone .

A-1. An HSA custodian is required by IRS rules to report all contributions made to a person's HSA. An HSA custodian is unable to somehow show a certain amount contributed in 2024 as a 2025 contribution.

The employer will need the advice of the accountant as to the tax issues caused by the extra $585 contributed for the employee . It sounds like it did not qualify as an HSA contribution.

Is this additional W-2 income for that employee?

Did the employee have an excess contribution on account of the $585?

I do not need to address the question whether the bank could return a certain amount to the employer because there are insufficient funds in the HSA.

What is the maximum amount the individual was eligible to contribute for 2024? This amount needs to be known. If the employer contributed more than that amount and there were such funds in the person's HSA, the HSA custodian could pay that amount to the employer .

For how any months did the employee have single coverage? How many months did the individual have family coverage? This information is needed to calculate the maximum contribution .

Your employer should follow the advice of the tax adviser.

Email Guidance – Reporting Contributions for SEPs and SIMPLEs

Q-1. We have a customer who made a contribution to their SEP on 3/1/2024. This contribution was inadvertently applied to a wrong account and was just found when the customer received their FMV. We are now making the correction to credit this to his SEP. As far as reporting, this contribution would have been made for 2024 and will report on the 5498 generated May 2025, correct. So, since we are making this correction now we are ok and will not have to put through any 5498 correction. Am I thinking this through correctly?

A-1. A bank reports SEP and SIMPLE contributions for the year received. You are going to correctly report it on the 2024 Form 5498.

You do not indicate whether the customer had designated the contribution for 2023 or 2024. The IRS requires him to explain to the IRS. The bank does not. It simply reports the year the contribution was received.

Q-1A. This was a prior year contribution for 2023. My understanding though is that we report in the year that the contribution was made, so isn't that irrelevant to us for reporting purposes.

Doesn't he take care of that with his accountant?

A-1A. The bank reports the contribution on the Form 5498 relating to the year bank receives the contribution.

Email Guidance – Discussion of a Beneficiary Disclaiming a Portion of His or Her Designated Share

Q-1. I have a situation where a beneficiary died before the IRA account owner there were two primary bene's listed. On our account application it states that in a case such as this, the funds will be reallocated to the other beneficiary (see attached). Jon Tate is the bene that passed away before his mother Clara Tate (IRA Owner). Once the IRA owner, Clara Tate, passed away, the daughter Mary, came in and took her 50% share of the IRA. We now have a situation with the remaining funds. I understand that Mary is entitled to receive the remaining funds in the IRA according to our document. My question is, can Mary relinquish her rights to the remaining portion of the IRA? If she does and can do so, do the remaining funds go to Jon's Estate, or is his heirs entitled to it?

A-1. Before answering your questions I am going to discuss what I think is the best practical approach. She receives the entire balance and then if she wishes to give some or 1/2 to Jon's family or kin. She would estimate the additional taxes she must pay because she is withdrawing this other share. That amount would reduce the amount she would give Jon's kin.

You are correct. Mary as the surviving and only beneficiary is entitled to 100%.

If Mary would disclaim 1/2 of the account, then that amount would go to Clara's estate and not Jon's estate. The interest of Jon or any beneficiary ceases to exist once Jon predeceased the IRA owner unless the beneficiary form provides for a different result.

Whether or not Jon's kin would receive any portion of Clara's estate would depend upon what her will stated or what state law provides.

Q-1A. When disbursing the remaining funds to Clara's Estate, how is this coded? Is this coded as a normal distribution, and I can withhold taxes if I am given instructions by the Estates representative, and they sign a distribution form saying so?

A-1A. It will be coded as a death distribution.

When she takes a distribution she should complete a distribution form. It will be a regular distribution (code 7 or 1) and not the death code. She may have withholding. Right now there has be.en no actual distribution to her so withholding does not apply.

Second, in this case the personal representative of the estate should complete an IRA distribution form and may instruct to have whatever percentage is decided upon withheld. The estate will have its own federal TIN.

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Beneficiary Disclaiming Share,
Continued from page 6

Q-1B. Concerning this I have a few more questions . Mary, the only surviving beneficiary has decided to disclaim the other portion of the inheritance, we have a signed document with her signature confirming this. The Attorney handling this case is requesting that the funds be distributed to Clara's Estate checking account and that taxes be withheld if possible.

My questions:

1. Do I need to have Mary also sign an IRA Distribution form, or can we go off the disclaimer instructions document that she signed?

2. What type of distribution will this be, death, transfer, something else?

3. Can I hold taxes from this distribution? I'm under the impression that I cannot since she is deceased. I'm thinking the Estate will have to handle this.

A-1B. No, the bank as the IRA custodian is making a distribution to a beneficiary. The estate is the default beneficiary, Code 4 (death) is to be inserted in box 7.

Email Guidance – RMD Tables

Q-1. If I use her age 87 and his age this year 82 = 11.7

Or

Do you use his age of 81 from last year= 12.2

Can you explain where the 14.4 is coming from?

A-1. You indicated she had elected to treat his IRA as her own IRA It is now her IRA She is treated as if she had made the contributions. He is no longer considered.

An IRA accountholder is to use the Uniform Lifetime Table unless the joint life table applies. See IRS publication 590-B. The joint life table is used only if a spouse beneficiary is more than 10 years younger than the IRA accountholder.

The uniform table is at the very end of three tables . The single table is used by a beneficiary, but since she has elected as own she is no longer a beneficiary. It is her IRA. You are using the Joint Life Table for 87/82 and you should not be. Use the Uniform Life time table. See page 65.

Q-1A. Husband died and he was younger. 1/15/1943 - 3/7/2024.

Her dob is 9/16/1938 .

Yes, now it is her IRA.

A-1B. She was born in 1938 so she is 87 is 2025. The divisor from the Uniform Lifetime Table is 14.4. See page 7.

Her RMD for 2025 is $12,843.78. $184,950.40 divided by 14.4.

Q-1B. Another customer question -

Wife inherited husband's IRA.

Balance is $184,950.40

DOB is 9/16/1938

What is her RMD this year?

A-1B. What is her date of birth?

What was his date birth?

In what year did he die?

Will she or has she elected to treat his IRA as her own?

Q-1-C. I just want to make sure that the distribution is right going forward.

Wife inherited husband's IRA. He was alive 1951-2024. He turned 73 in 2024 and his RMD was $2,258.16.

Wife was born in 1955. Her RMD is showing $1,904.36. This is about $353.80 less.

Does this look right to you? Should she be considered single now or still married?

A-1C. It does not. All IRA accountholders use the Uniform Table which is a type of Joint Life Expectancy Table.

With the change in the RMD age to age 73, assuming she elects to treat his IRA as her own IRA she has no RMD for 2025. She attains age 73 in 2028.

In my opinion she does not want to maintain the IRA as an inherited IRA, she wants to elect as own.

Email Guidance – RMDs for Roth IRAs

A Roth IRA beneficiary wants to understand the RMD rules to avoid the RMD tax.

A Roth IRA beneficiary should also understand by delaying any distribution to the 10th year he or she will maximize the tax-free earnings.

Email Guidance – Inherited IRA Distribution Form

Q-1. We would typically use form 204 for a new Inherited IRA distribution to establish the distribution schedule and EDB status details. What form is used for this purpose when our institution has a new Inherited IRA that has been in existence at another institution and this is being transferred to us and the Secure Act changes were not in effect since the accountholder died before those changes??

A-1. I have sent you 3 forms - 204, 204G and 56i.

You may use Form 204 since a pre-2020 beneficiary is an EDB. We need to change Form 204 to expressly state that such a beneficiary is an EDB.

Form 204G may be used by such a beneficiary (pre-2020) to instruct what election had she or he had made. That election must be continued.

Form 56i. That beneficiary must continue the rule being used at the transferring institution. I presume this is the life distribution rule. The divisor should be reset if that was not done at the other institution.

Email Guidance – Rollovers

Q-1. The 60 day rollover 1 x per year. Is that 365 day or calendar year?

I have a customer that took a rollover 1-24-24 and returned the $ on 03-01-24.

They would like to do that again but I'm not sure if he has to wait until January 24, 2025 or if he can take sooner in January.

A-1. The 365 day period starts the day following the day of the distribution. It is not affected by when the rollover contribution is made. This 365 day period started on 1/25/2024 and it ends on 1/24/2025. He must wait until January 25 to take another distribution. The 25th is a Saturday.

Email Guidance – Federal Thrift Savings Plan

Q-1. I have a customer that has a Federal Thrift Savings plan. They want to move the plan here. I have the check from "the United State Treasury" payable to Charlevoix State Bank FBO -customer. How do I code this?

A-1. The check is a direct rollover check. You code the transaction as a rollover. The amount needs to show up in box 2 of the Form 5498.

The funds could go into either a traditional IRA or a Roth IRA. Most individuals would instruct the employer or the federal government that the funds are to go into a traditional IRA.