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ALSO IN THIS ISSUE –

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

A Person's 2024 Tax Filing Deadline is April 15, 2025

For most U.S. taxpayers the last day to make an annual IRA contribution for 2024 is April 15, 2025. Taxpayers of FEMA declared disaster areas will have an extended deadline to make their IRA contributions. Refer to the IRS website for these extended deadlines.

The tax filing deadline is not extended for traditional and Roth IRA contributions because the taxpayer has an extension to file their 2024 tax return. The deadline is extended for SEP-IRA contributions when the taxpayer has an extension.

The tax filing deadline for a given tax year is April 15 of the following year unless the 15th falls on a Saturday, Sunday or a holiday. April 15, 2025, falls on a Tuesday which is not a holiday. April 15 2025, is the tax filing deadline for 2024 for most U.S. taxpayers.

Emancipation Day is April 16th of each year. In 2025 April 16th is a Wednesday. For most U.S. taxpayers the Emancipation Day only has an impact on the tax filing deadline if it falls on a Saturday, Sunday or Monday which is not the case in 2025.

Patriots' Day is the third Monday in April of each year. In 2025 this is April 21, 2025.

An IRA custodian/trustee which receives in the mail after Tuesday may process it as a 2024 contribution as long as the letter bears a postmark of April 15 or earlier and the contribution has been designated for 2024.

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

Q-1. As you know, Mary retired in February. Her 2025 RMD is $3,500. She rolled over $85,000 from her 401(k) into an IRA. Did she need to take an RMD for 2025 for the $85,000 she rolled over? She did not take an RMD before rolling over.

A-1. The 401(k) plan administrator should have known better. An RMD is ineligible to be directly rolled over. The 401(k) plan should have paid her the 2025 RMD and then directly rolled over the remainder.

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

As a practical matter Mary should withdraw her 2025 RMD. Sooner is better than later.

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

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

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

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

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

The taxation rules allow a person the ability to convert a specific investment. The IRS intentionally has decided not to discuss this rule.

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

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

	FMV 12/31/24	Current Value (7/25)
1. Ultra conservative	$25,000	$25,000
2. Conservative	$45,000	$41,000
3. Aggressive	$30,000	$20,000
Total	$100,000	$86,000

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

Any increase in the value after the conversion will not be taxable when she or her beneficiary withdraws these funds from her Roth IRA. It is assumed that any future distribution from the Roth IRA is qualified and tax free. If the $20,000 would grow to be $50,000, that $50,000 will be withdrawn tax free.

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

Here is another more extreme example.

	FMV 12/31/24	Current Value
1. Ultra Conservative	$150,000	$150,000
2. Conservative	$200,000	$190,000
3. Bitcoin	$ 50,000	$ 15,000
Total	$400,000	$355,000

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

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

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

Email Guidance – Spousal Contributions

Q-1. Can you explain what a Spousal Contribution entails? Can a spouse come in an open an IRA or contribute on behalf of their spouse without their spouse's signature?

A-1. You have two questions.

Yes, a spouse can make a spousal contribution on behalf of their spouse. The IRA custodian may consider having a procedure to check with the receiving spouse that she or he wants the contribution made.

A long time ago the concept of the law was - the working spouse made a contribution on behalf of the non-working spouse. The law now is - the spouse with the lower income can base his or her contribution on their joint income. This contribution may be made by either spouse. This benefits a married couple by authorizing a larger combined contribution amount.

The law does not expressly address the subject of establishing an IRA and then making the spousal contribution. The spouse will need to execute the IRA plan agreement and want to designate his or her own beneficiary(ies). It is doubtful, but a spouse may have given a power of attorney to their spouse to establish the IRA on her or his behalf. The CIP rules must be met. The IRA custodian should have a procedure to confirm with the spouse that he or she wants an IRA and that the contribution is wanted.

Email Guidance – HSAs

Q-1. I have a customer who wants to open an HSA and then he wants to make a prior year contribution. He does have a HDHP and he had the HDHP last year. Is he eligible to make that prior year contribution?

A-1. Yes. His deadline is April 15, 2025 to make the 2024 contribution.

Q-2. We have a situation where a husband and wife had family coverage and the HSA was in the husband's name with wife on as authorized user but he listed no beneficiaries. The husband has passed away so we are saying the funds need to be paid out to his estate?

The wife is wondering about using funds from this HSA to pay medical bills from when he was living?

A-2. You are correct - the estate is the beneficiary.

HSA funds may used by the estate to pay the medical expenses of the decedent. These distributions are tax free There is a time limit. I believe it is one year.

Q-3. I have a customer who has a small IRA here and an HSA account here. He wants to do the One Lifetime Transfer to his HSA account from his IRA account, do I need to fill out any other form besides the IRA Distribution form?

A-3. We recommend that CWF 56H be used.

Q-3A. I have been doing some reading on this and I am not sure if my customer qualifies to be able to do this. He is 73 years old and is on Medicare, that doesn't make him eligible then does it?

A-3A. You are correct. A person must be eligible to make an annual HSA contribution if they wish to make the one-time HSA qualified funding distribution.

A person needs to do it prior to enrolling in Medicare. In fact, the person needs to do it at least a year before enrolling in Medicare as the person must maintain the HDHP coverage during their testing period.

Email Guidance – Using Wrong Debit Card

Q-1. We had a recent HSA come up showing that the customer had over contributed to his HSA but when we reached out to the customer he referenced a transaction that he made using the wrong debit card and he understood that if he put the funds back right away that it wouldn't count as a contribution. This is not a mistaken because it wasn't related to anything medical. I was try-

Continued on page 4

ing to look back at my notes from a previous communication with you and you had referenced treating this transaction as a rollover. I am not understanding how this would be eligible to be treated as a rollover since it didn't come from other HSA funds.

A-1. I understand he withdrew on 2/20/2024 funds ($110.03) from his HSA when he used his HSA debit card to pay for a non-medical expense. He re-contributed or rolled over the $110.03 on 3/15/2024.

By rolling over this distribution of $110.03 he is not required to include it in his 2024 income because that is the reason a person does a rollover. He complied with the 60-day rule. I have assumed he is eligible to make the rollover because he had not made a previous rollover within the preceding 365 days of 2/20/2024. He will have to explain on his Form 8889 that he rolled over the $110.03.

A rollover contribution does not count against the annual contribution limit. Somehow the computer system must be informed his deposit was a rollover and not an annual contribution.

Q-2. I had a customer call this morning that had done the same thing. Her total mistaken distributions are $2,001.76. When I talked with her I said I did not think we could do a distribution reversal (I remembered this email but couldn't recall the exact scenario). Before I call her back, I wanted to make sure I knew what I was talking about and be clear on what her options are.

- I will tell her to consult her tax advisor for sure.
- Can she repay the funds to her HSA (per the explanation below) that would not constitute as a contribution but is treated as a non-reportable transaction? If that is true, I'm not sure what code we would have to use. Or do you Just suggest doing this
- Is the best way for her to repay, just do it as a contribution? It gets so darn confusing.

A-2. Mistaken distributions can be a complicated subject.

Why does the customer think that she has made a mistaken distribution or a number of mistaken distributions? When did these distributions occur?

A mistaken distribution does not occur because a person uses the wrong debit card.

A person does not make a mistaken distribution because he or she did not understand the tax consequences of not using the withdrawn funds for a non-medical reason. Has her tax accountant informed her to see if the bank will treat it as a mistaken distribution? This might require the bank to correct the 2024 Form 1099-SA which the bank has already prepared.

The IRS defines a mistaken distribution as a distribution which occurs because a person withdraws funds from the HSA to pay a medical expense which she believes the HDHP will not pay. But the HDHP does pay it. She is allowed to repay the HSA. Neither the repayment nor the withdrawal are to be reported on an IRS reporting form. The individual does not report it on her tax return.

The IRS does not require a bank to process a mistaken distribution, but it may as a customer service. The bank does not want the customer's problem to become the bank's problem. This could happen if the bank tries to help the customer without some good basis for treating the distributions as mistaken distributions.

She has the right to explain on her tax return that she had distributions which were mistaken distributions. The IRS could ask her to substantiate those mistaken distributions.

Sometimes we all learn tax lessons the hard way. A person who uses HSA funds for non-medical reasons must include the withdrawn amount in income and pay a 20% penalty tax. If she is in the 22% tax bracket, this means she would owe approximately $840 ($2000 X 42%).

Q-3. We have a customer that by mistake had cut up the wrong debit card and was using her HSA debit card in error. She has 10 transactions on her HSA account that are personal expenses. She wants to transfer money from her personal account to cover the expenses. Do we do a Distribution Reversal for the transactions? Do I need to post each amount back separately or can I do one lump sum?

A-3. She may have learned a tax lesson the hard way. She must talk with her tax adviser. Any distribution not

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used for medical reasons must be included in income and the 20% penalty tax is also owed. You did not mention the total of these transactions.

She could rollover one of the distributions. The other contributions would count towards her annual contribution limit.

HSAs are a tax subject. Often a person cannot correct what they think they should be able to correct.

I realize the bank wants to help the customer, but the bank does not want the customer's problem to become the bank's problem. That is what could happen if the bank decides to not report to the IRS the distributions and you would allow a lump sum re-contribution which is not reported. These transactions would be coded as transfers or some code that does get reported. We don't recommend it.

The IRS does not ask the bank to determine the tax consequences. You report the contributions and the distributions to both the IRS and the customer. It is up to the HSA owner/customer on Form 8889 to report/explain the tax consequences of the contributions and the distributions on her tax return.

Email Guidance – Rollovers and Transfers

Q-1. Helping a customer who has the wrong understanding of a distribution/rollover.

We have a customer who received their 1099-R, and they're questioning the amount. The 1099-R distribution amount was $24,250.00. They did a distribution for this amount on 8/01/2024. Then on 09/26/2024, they put $10,000.00 of that back into the IRA. We need to get them a corrected 1099-R to reflect the correct distribution amount. But how does the $10,000.00 need to be coded on our system to reflect that it wasn't an actual contribution and it was actually put back into the IRA before the 60-day deadline?

A-1. The customer does not understand the IRS procedures for this situation. The IRS requires an IRA custodian to report all distributions and all contributions on various tax reporting forms. There is to be no "netting" of two transactions. The individual needs to complete his tax return and explain why the entire $24,500 is not taxable.

The customer withdrew $24,500. He did not withdraw $14,500. His 2024 Form 1099-R must show he withdrew $24,500.

He made a rollover contribution of $10,000 within the 60-day limit. You want to use the appropriate transaction code for a rollover contribution. This rollover contribution is to be reported in box 2 on the 2024 Form 5498. That form will be provided to him by 5/31/2025.

I understand he must complete his tax return as follows : box 4a is completed with $24,500 and box 4b (taxable amount) is to be completed with $14,500. He is to write "RO" next to line 4 b to inform the IRS that he made a rollover. He should discuss/confirm with his tax accountant.

Q-2. Direct rollover vs. rollover.

I have a client that would like to transfer a Roth 401(k) to our bank. There is nothing special I need to do for this is there? Just set it up as a transfer into a Roth with us from his work 401(k). We don't have too many of these, and I want to be sure I am doing it correctly.

A-2. Whenever funds move into a traditional IRA or Roth IRA from a 401(k) plan, the movement is a direct rollover. The movement is not a transfer because it must be reported to the IRS and the individual.

The 401(k) plan will report a direct rollover distribution occurs. This is reported on a Form 1099-R. The Form 1099-R gets prepared specially when the distribution is directly rolled over.

The Roth IRA custodian reports this rollover contribution in box 2 on the Form 5498 for the Roth IRA.

The individual will prepare his or her tax returning showing that the distribution was not taxable because it was rolled over. Lines 4 and 4b will need to be complete on the Form 1040.

The 401(k) plan will have the individual complete a special distribution form. The individual will complete and instruct that the Roth 401(k) finds are to go into a Roth IRA.

Q-3. I have a customer who just retired from our local county sheriff's office. He has a Missouri Lagers account with the state which he is wanting to roll over to an IRA with us. Will I fill out a CWF 40T as a rollover account application and a CWF 54 as a direct rollover contribution.

We have received the check directly from the Missouri Lagers.

A-3. Yes those are the two forms to be completed when a new IRA is being established because a person has directly rolled their retirement plan funds.

He will also have his forms for his time deposit or other investment.

Q-4. Correcting - Reported as a distribution/rollover when it was a transfer.

I have an issue where a customer did an Internal IRA Transfer from one of their IRAs to another IRA within our institution and it generated a 1099-R for the full amount which was received by the·customer. The customer contacted me concerning this. We have corrected it in our system, but the file was already sent to the IRS showing a 1099-R was generated and reported. My question is, how do I correct this on the 1099-R that I need to process manually? Do I enter $0.00 for box 1 (gross distribution) and $0.00 for box 2a (taxable amount)? Also, as you know transfers are not reported so what needs to be entered in box 7 (distribution code)?

A-4. Yes, complete the corrected Form 1099-R just as the original was completed, but show 0.00 in box both 1 and 2a. The reason code stays the same.

You could also furnish a short note to the individual explaining what has happened. The individual should attach the corrected Form 1099-r and this note of explanation to their tax return.

Email Guidance – RMD Rules Applying to a Successor Beneficiary

Q-1. We have an IRA where the primary beneficiary passed away. The original owner passed away before 2020 so the beneficiary was using the stretch rule. I have a few questions regarding the successor inherited IRA. Lets say John Doe was the original owner, Jane Doe was the primary beneficiary and sister of John, and Jimmy is the successor beneficiary of Jane and her grandson (there are actually 3 successor beneficiaries).

1. What is the correct way to name this IRA? John Doe, Deceased, IRA FBO Jane Doe, Successor Beneficiary Jimmy Doe?
2. I am each successor beneficiary will need to adhere to the 10-year rule and take RMDs? Whose life expectancy is used here?
3. One of Jane's beneficiaries (her daughter) is on disability. Does this make her an EDB and will she be able to use the stretch rule then?

A-1. When an IRA accountholder died before 2020, a beneficiary was able to continue to use the life distribution rule commonly called the stretch rule.

The new law defines such a beneficiary as an EDB so that the beneficiary is able to continue to use the life distribution rule. That is, such a beneficiary was grandfathered and is not covered by the new rules.

The initial divisor is based on the age of the beneficiary determined in the year following the year the IRA accountholder died. This divisor is to be reset because of the new single life expectancy table. This schedule is used by the beneficiary as long as she or he lives and the divisor has not reached 1.0.

I understand this beneficiary died after 2019. Any successor beneficiary is not grandfathered and is subject to the new laws. Any successor beneficiary must continue the schedule (the RMD divisor) in effect for that beneficiary and must close the account under the 10-year rule.

I understand this beneficiary may have had 2 or 3 beneficiaries. It does not matter if any of these beneficiaries would be an EDB. It does not matter the age of any beneficiary. The successor beneficiary must continue the original schedule and close the inherited IRA under the 10-year rule.

If the beneficiary only had 6 years left on the schedule when he or she died the successor beneficiary would only have those 6 years.

As for titling an inherited IRA for a successor beneficiary the IRS guidance is - drop the name of the original IRA accountholder and use the name of the beneficiary as if he or she had been the IRA accountholder.

Q-2. RMD options for a beneficiary.

I have a new application for an Inherited Traditional IRA. The original owner died the year she turned 73. Her brother is only 4 years younger than she was and was one of the designated beneficiaries. He will be turning 70 this year.

Since he is not more than 10 years younger, he would be an EDB and not required to take RMDs from this IRA until he reaches73. Is this correct?

A-2. You have an interesting situation. If he would elect the 10-year rule, he would not be required to commence distributions when he attains age 73.

The IRA owner has died before her required beginning dated. So, he as an EDB has the right to elect between the life distribution rule or the 10-year rule.

He is deemed to have elected to use the life distribution rule unless he elects the 10-year rule. The election to use the 10-year rule is irrevocable once made.

If he elects the 10-year rule, then he is not required to take any distribution for years 1-9, but he is required to close by 12/31 of the 10th year.

Under the life distribution rule, he must commence annual life expectancy distributions the year after the year the IRA owner died. The IRA is not required to be closed in year 10 and his distribution schedule will continue as long as his divisor is greater than 1.0.

He should confirm with his adviser.

Email Guidance – Roth IRAs

Q-1. We have a ROTH IRA owner that has passed away (DOB 07/19/1941) His beneficiary spouse (DOB 04/17/1949) also has a ROTH IRA at our bank. She would like to just move his balance over to hers so she doesn't have to have 2 IRAs. Is this something we can do or do we need to do something different?

Is there a form necessary for this transaction and what form name/number would that be?

A-1. She may instruct to have that move/transfer. On a Roth IRA contribution form she may indicate she is electing to treat his Roth IRA as her own Roth IRA. The funds may be transferred from his Roth IRA to her Roth IRA. The Roth IRA distribution form may also be completed.

Does she want to review or update her beneficiary designation?·A person does not generally want their estate to be their Roth IRA beneficiary because the distribution period for an estate is 5 years and not 10 years.

Q-2. Excess Roth IRA Contributions.

Do you have a minute to discuss the proper procedure for correcting an over-contribution to a Roth IRA? We have an instance where the Roth has declined in value due to the current market and it is creating some disagreement in calculating the appropriate amount to withdraw to correct it.

A-2. The normal rule is - when an excess contribution is made the IRA accountholder must also withdraw the related income.

However, when there is negative income because the investment assets have deceased in value the contributor is able to correct the excess by withdrawing less than the original contribution. The standard pro-rata rule applies to determine how much less.

Example - Jane has $32,000 in her Roth IRA as of 3/1/2024 before her contribution of $8,000 contribution for 2024. So, her balance is $40,000 after the contribution. In March of 2025 her accountant informs her that her 2024 income was too high so she is ineligible to make a Roth IRA contribution. She is to withdraw this excess plus the related income or minus the related losses. Her current account balance is $35,000. It has decreased $5,000. How much is she required to withdraw to resolve her excess contribution situation?

The $5,000 loss must be allocated to the $8,000 and the $32,000.

She must withdraw $7,000 ($8,000 - $1,000). Her ratio is 20% $8,000:$40,000. 20% of $5,000 is $1,000.

The IRS position is - even though the $8,000 may have been invested in a specific asset and that asset had a known loss the earnings/loss calculation is based on all of the assets within the Roth IRA.

I understand an IRA trustee is to prepare the 2025 Form 1099-R with $7,000 in box 1, box 2a should be 0.00 (not blank) and the reason code in box 7 is to be JP. There is no income to be added to the 2024 tax return as would have been the case had there been income rather than a loss.

Q-3. The 5-Year Rule.

We opened a ROTH IRA as a transfer from another Roth custodian in 2022 and she is wanting to close it today. She is over 59.5. Am I correct that since she has not met the "new" 5-year, she may be subject to some taxation?

A-3. Yes, she may be subject to some taxation, but it is not likely if she transferred the Roth funds from another Roth IRA custodian.

She will taxed on any income earned by her Roth IRA and which is withdrawn if she has not met the 5-year rule. The 5-year rule starts on January 1 of the year for which the first contribution was made.

For what tax year did she make her Roth IRA contribution? If it was 2020 or earlier, she has met the 5-year.

The IRS procedure - the bank is to use code T to describe a distribution to a Roth owner age 59 1/2 or older who has not met the 5-year at that institution. The T does not mean the distribution is taxable. It only means the distribution is not qualified. If only basis is withdrawn, basis is not taxable. She may explain on her tax return that she has met the 5-year rules.

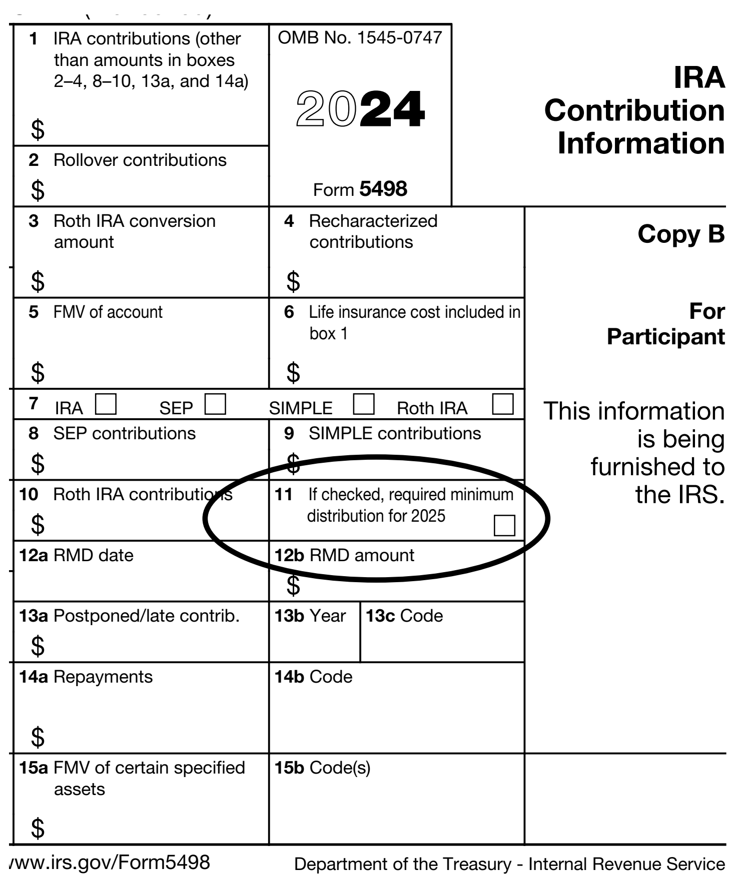
Completing Box 11 on the 2024 Form 5498

Box 11 on the 2024 Form 5498 is titled, "Check if RMD for 2025".

IRS instructions are clear, box 11 is to be checked if an IRA owner has an RMD for 2025. Otherwise, box 11 is not to be checked.

Box 12a (RMD date) and 12b (RMD amount) should also not be completed.

Unless the IRS issues additional guidance an IRA custodian must files its 2024-5498 forms by May 31, 2025.



1 IRA contributions (other than amounts in boxes 2–4, 8–10, 13a, and 14a) $

OMB No. 1545-0747

2024

Form 5498

IRA Contribution Information

2 Rollover contributions $

3 Roth IRA conversion amount $

4 Recharacterized contributions $

Copy B

For Participant

5 FMV of account $

6 Life insurance cost included in box 1 $

7 IRA ☐ SEP ☐ SIMPLE ☐ Roth IRA ☐

This information is being furnished to the IRS.

8 SEP contributions $

9 SIMPLE contributions $

10 Roth IRA contributions $

11 If checked, required minimum distribution for 2025 ☐

12a RMD date

12b RMD amount $

13a Postponed/late contrib. $

13b Year

13c Code

14a Repayments $

14b Code

15a FMV of certain specified assets $

15b Code(s)

www.irs.gov/Form5498

Department of the Treasury - Internal Revenue Service