

## Answers to IRA Test #501 (Take the test on [www.irsquiz.com](http://www.irsquiz.com))

IRA Test #501 was published in the April newsletter on pages 6-8. It may be found at [www.irsquiz.com](http://www.irsquiz.com). Below are the answers to the test questions and an explanation.

1. (b) or false is the correct answer. A new tax law extending the qualified charitable distribution rules for 2015 or any subsequent year has not been enacted as of June 1, 2015.
2. (c) is the correct answer. A transfer between two Roth IRAs is a non-reportable transfer as there is no box on the Form 5498 to report a transfer contribution.
3. (b) is the correct answer. Although the new once per year rollover rule when into effect on January 1, 2015 restricting a person who had multiple IRAs to only rollover one distribution, the old rule that a person must wait 12 months if he or she has taken a distribution from a particular IRA and rolled it over still means this person is ineligible to rollover any subsequent distribution occurring from that same IRA if occurring within the 12 month period.
4. (a) is the correct answer. A person or business with a tax extension is able to change the contribution deadline for a SEP-IRA contribution, but not for a traditional IRA or Roth IRA contribution.
5. (c) is the correct answer. A major tax law was enacted in 1986 and it went into effect as of January 1, 1987. Due to revenue needs, many individuals who were participants in 401(k) plans and whose income exceeded a certain limit lost the right to claim a tax deduction for some portion of all of their IRA contribution. Such individuals were still allowed to make contributions now known as non-deductible contributions. Such contributions still receive the tax benefit of tax deferral of the interest earning on such contributions. Non-deductible contributions do not need to be included in a person's income when withdrawn. There is a special pro rata taxation rule.
6. (a) or True is the correct answer. Code section 402(c) (3) (B) and Code section 408 (d) (3) (I) grants the IRS the authority to waive the 60 day rollover requirement if the failure to waive this requirement would be against equity or good conscience, including casualty, disaster or other events beyond the reasonable control of the individual subject to the requirement. Prior to 2002 the IRS had always contended the law did not allow the IRS to grant any relief to a person who had not complied with the 60-day rule. The IRS now has a special procedure where the a person after paying a filing fee may request the IRS to waive the 60 day rule and grant a new 60-day rollover period. The IRS has the authority to waive the 60-day requirement. It has no authority to waive other rollover requirements.
7. (b) or False is the technically correct answer. This is true notwithstanding the fact that the IRS in Announcement 2014-15 announced it would be applying the new once per year rollover rule only for 2015 and later years and not for 2014. There is no statutory authority for the IRS' position. For public relations reasons (i.e. the IRS had published an incorrect rule), the IRS in effect did waive the once per year rollover rule for 2014 even though the law does not give the IRS the authority to do so.
8. (c) is the correct answer. IRS reason code 3 is used to describe a person who has received a distribution from a traditional IRA, SEP-IRA or SIMPLE IRA (2-year requirement met) and who is under the age of 59½. If disabled, a person even though not 59½ or older does not owe the 10% tax.
9. (b) is the correct answer. IRS reason code 7 is used to describe a person who has received a distribution from a traditional IRA, SEP-IRA or SIMPLE IRA and who is age of 59½ or older. The 10% tax is never owed by a person age 59½ or older.
10. (c) is the correct answer. IRS reason code 2 is used to describe a person who has received a distribution from a traditional IRA, SEP-IRA or SIMPLE IRA (2-year requirement met), who is under the age of 59½ and who then makes a conversion contribution to a Roth IRA. Since the public policy is to encourage younger individuals to make conversions, the 10% tax is not owed on the conversion amount. If this person would withdraw the conversion amount within a 5 year time period, he or she will the 10% tax on such distribution even though the distribution itself would not be taxable.

11. (b) or False is the correct answer. There is no statutory authority for the IRS to waive the rule that a person is ineligible to rollover a required distribution. It does not matter if the mistake is due to the 401(k) administrator or another IRA custodian.
12. (b) or False is the correct answer. There is no statutory authority for the IRS to waive the rule that a person who has inherited an IRA or a 401(k) balance may receive a distribution and then roll it over. It does not matter if the mistake is due to the 401(k) administrator or another IRA custodian.
13. (d) is the correct answer. The IRS reason code "R" is used to describe the distribution deemed to have occurred when a person recharacterizes in 2015 a contribution originally made in 2014. Code "N" is used if the two transactions occur during the same year and if the contribution was made for such year.
14. (c) is the correct answer. The tax impact of doing a recharacterization of a contribution is that nothing is taxable (0.00) as the contribution is deemed made to the second type of IRA and not the first to which the actual contribution was made.
15. (a) or True is the correct answer. All taxable IRA funds are now eligible to be rolled over or directly rollover over from an IRA to an 401(k) plan or other retirement plan. IRS reason code G is used by the 401(k) administrator to report a direct rollover to an IRA and is also used by the IRA custodian when IRA funds are sent (direct rollover) to the 401(k) administrator for the benefit of the individual.
16. (c) is the correct answer. IRS reason code 4 only applies to distributions to a beneficiary of a traditional IRA. The five year rule has not been met by either the deceased Roth IRA owner or the beneficiary. This means reason code "T" is to be used because either the "T" or the "Q" is used to describe a payment of a Roth IRA beneficiary. The "Q" does not apply since the distribution is not qualified as the five-year rule has not been met.
17. (d) is the correct answer. The IRA itself as a separate legal entity does not pay tax with respect to the interest added to the IRA as such interest is tax-deferred. A Form 1099-INT is not to be prepared.
18. (b) is the correct answer. Roth IRA fund are ineligible to be moved into a 401(k) plan, even a designated Roth account. Therefore, the IRS has no code for such a transaction.
19. (d) is the correct answer. The five-year rule has been met. Thus, the distribution to the non-spouse beneficiary is qualified (Q). If needed, the time period of the decedent is added to the time period of the beneficiary to determine when the five year requirement has been met.
20. (b) is the correct answer. Senator Roth died in 2003. He was a Senator from the State of Delaware and chairman of the Senate Finance Committee at the time the tax law was enacted in 1997 authorizing Roth IRAs. This law was the Taxpayer Relief Act of 1997.