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The IRA Authority !

IRA & Employer Plan Rules, News & Tips in Plain Language

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Content

Annual IRA Calendar

Please mark your calendar with the following deadlines:

January 31 : January 31 is the deadline by which IRA custodians and plan trustees must provide certain retirement accounts statements to your clients. These include the following:

- ***IRS Form 1099-R:*** Form 1099-R is used to report distributions that occur from IRAs and employer plans during the previous year.

  If the information reported on a Form 1099-R is incorrect, the issuer should be contacted immediately, so that they can make any required corrections.

  Form 1099-R is not required to be filed with your clients' income tax return unless it shows amounts being withheld for income tax. However, a 1099-R should be provided to the person who prepares the account owner's tax return, as it might contain other information which is required to be reported on the client's tax return.

- ***Fair Market Value Statement:*** The fair market value (FMV) statement is issued for IRAs and shows the shows the value of the IRA as of December 31 of the previous year. The FMV is used in the computation of the client's required minimum distribution (RMD), which is required to be computed for traditional IRA (including SEP IRA and SIMPLE IRA) owners who are at least age 70½ during the year, and certain owners of inherited traditional and Roth IRAs.
- ***RMD statement :*** The RMD statement must be issued to owners of traditional (including SEP and

SIMPLE) IRAs who are at least age 70½ during the year.

These must be issued by the IRA custodian that held the IRA as of December 31 of the previous year. The statement must include either the calculated RMD amount, or an offer to calculate the RMD amount upon request from the IRA owner.

April 1

RMD Deadline for IRA owners who reach 70½ in 2018

An IRA owner who reached age 70½ during 2018 is required to take an RMD from his IRA for 2018. However, consistent with provisions under the RMD regulations, individuals are allowed to defer their RMD for the year they reach age 70½, until April 1 of the following year.

April 15 IRA Contribution

Your clients who want to make regular contributions to Roth IRAs and Traditional IRA for 2018 must do so by April 15, 2019. The contributions must be received by the financial institution by this date (if hand delivered) or postmarked by this date (if mailed).

Remind clients to indicate the tax year on any checks or instructions provided with their IRA contributions. If that information is not included, the IRA custodian/trustee has the right to apply the amount to 2018, if they receive it on or after January 1, 2019.

Limits for IRAs and Other Retirement Plans	
Contribution Limits if you are under age 50 at year-end	
Traditional IRA and/or Roth IRA	$6,000
401(k), 403(b), TSP salary deferral	$19,000
Governmental 457(b) plans salary deferral	$19,000
SIMPLE IRA salary deferral	$13,000
SIMPLE 401(k) salary deferral	$13,000
Defined Contribution plans and SEP IRAs	$56,000
Defined Benefit plans limitation on the annual benefit	$225,000

Catch-up contribution if you are at least age 50 at year end	
Traditional IRA and/or Roth IRA	$1,000
401(k), 403(b), TSP	$6,000
457(b) plans	$6,000
SIMPLE IRA	$3,000
SIMPLE 401(k)	$3,000
Other Limits for Retirement Plans	
IRA bankruptcy exemption	$1,283,025
Compensation cap	$275,000
Minimum SEP Compensation	$600
Dollar limitation for defining HCE	$120,000
Dollar limitation for defining a key employee	$175,000
Maximum ESOP amount under 409(o)(1)(C)(ii)	$1,105,000
ESOP dollar limit for lengthening 5-year period	$220,000
Compensation limit for governmental plans	$415,000

MAGI limits for deducting contributions to Traditional IRAs		
Tax Filing Status	**MAGI**	**Allowed deduction**
Single or Head of Household	$64,000 or less	100%
	$64,000 to $74,000	Partial
	$74,000 or more	None
Married filing jointly or a qualifying widower, and covered under an employer sponsored retirement plan	$103,000 or less	100%
	$103,000 to $123,000	Partial
	$123,000 or more	None
Married filing jointly. Not covered under an employer sponsored retirement plan, but spouse is covered	$193,000 or less	100%
	$193,000 to $203,000	Partial
	$203,000 or more	None
Married filing separately	Less than $10,000	Partial
	$10,000 or more	None

MAGI limits for contributing to a Roth IRA		
Tax Filing Status	**MAGI**	**Allowed contribution**
Single	$122,000 or less	100%
	$122,000 to $137,000	Partial
	$137,000 or more	None
Married filing jointly	$193,000 or less	100%
	$193,000 to $203,000	Partial
	$203,000 or more	None
Married filing separately	Less than $10,000	Partial
	$10,000 or more	None

5 Key Checklist Items for Reviewing Clients 2018 RMDs

An IRA owner who fails to take any required minimum distribution (RMD) by the applicable deadline, owes the IRS a 50% excess accumulation penalty for any RMD shortfall. To make a proper determination of whether an IRA owner has an RMD shortfall, one must follow the guidelines provided in the RMD regulations.

According to a 2010 Pew Research Center study, roughly 10,000 Baby Boomers turned age 65 on January 1, 2011 and "…about 10,000 more will cross that threshold every day for the next 19 years". That means that since January 1, 2016, over 1,1390,000 Baby boomers turned age 70. With one third of US households owning IRAs (ICI study) and the average life expectancy being 78.6 years, odds are that you, as an advisor, have a client that is of RMD age- which begins at 70-½.

Background

IRA owners must start taking required minimum distributions (RMD) for the year they reach age 70-½ and continue for every year after.

Any RMD amount that is not taken by the applicable deadline is subject to an excess accumulation penalty of 50%, which would be owed to the IRS. For advisors, determining whether an IRA owner has distributed the required minimum -amount can be a complex process.
But, carefully following the rules can help to ensure accuracy.

As you conduct RMD reviews for affected clients, consider adding the following to your checklist:

1. Narrow Down Your Review to RMD Eligible Clients

The RMD rules apply only to owners of traditional IRAs, SEP IRAs, and SIMPLE IRAs that reached at least age

70- ½ during the year. Therefore, a client would be subject to the RMD rules for 2018 only if she was at least age 70-½ on December 31, 2018.

An individual is considered to have reached age 70-½ six months after her 70th birthday.
The RMD rules do not apply to Roth IRA owners.

Notes:

- *Employer-sponsored retirement plans, such as pension plans, 401(k) plans, and 403(b) plans are also subject to the RMD rules.*
- *Inherited IRAs: individuals with inherited traditional IRAs, inherited SEP IRAs, inherited SIMPLE IRAs, and inherited Roth IRAs are also subject to the RMD rules.*

Both of these categories are beyond the scope of this article.

2. RMDs Must Be Taken by December 31- with one Exception

Generally, required minimum distributions must be taken by December 31 of the year for which they are due. For instance, an RMD for 2018 should've been taken by December 31, 2018. An exception applies to the year in which the IRA owner reaches age 70-½. Under that exception, the RMD for that year can be deferred until April 1 of the following year.

Example 1

Sue reached age 70-½ on June 15, 2017. Sue's first RMD was due for 2017, but could've been taken as late as April 1, 2018.
Sue's 2018 RMD was required to be distributed by December 31, 2018.

Example 2

Tom reached age 70-½ on December 20, 2018. His first RMD was due for 2018 but can be taken as late as April 1, 2019.
Tom's 2019 RMD must be distributed by December 31, 2019.

Caution: An individual who chooses to defer an RMD to a future year, will need to take two RMDs in that year. For instance, if Tom defers his 2018 RMD until 2019, he will need to take two RMDs in 2019, since the 2019 RMD must be taken by December 31, 2019. Tom should consult with his tax advisor to determine how each option could affect him from an income tax perspective.

3. Deferral or Missed Deadline Does Not Change the Formula and Factors

The RMD for a year is determined by dividing the previous year-end fair market value (FMV) by the distribution or life expectancy factor for the calculation year. For instance, when calculating the RMD for 2018 the following apply:

- The December 31, 2017 FMV must be used. This FMV is provided by the IRA custodian that held the IRA on December 31, 2017. However, if there are any outstanding transactions, the IRA owner will need to manually adjust the FMV to add such amounts.

  Outstanding transactions are:

  - *Outstanding transfers:* amounts that left a delivering IRA in one year and is credited to the receiving IRA the following year.
  - *Outstanding rollovers:* amounts that were dis-

tributed from an IRA in one year and rolled over to an IRA the following year.

- *Outstanding recharacterization*: amounts that were converted from a non-Roth IRA to a Roth IRA in one year and recharacterized back to a traditional IRA the following year.

IRA custodians are required to provide IRA owners with FMV statements by January 31 of the following year. For instance, FMV statements for 2017 should have been mailed by January 31, 2018. The FMV statement issued by the IRA custodian would not have included these outstanding amounts, thus requiring annual additions.

- The RMD factor based on the IRA owner's age as of December 31, 2018 must be used.

The RMD factor is obtained from the Uniform Lifetime Timetable in all cases, except when an IRA owner is eligible to use the Joint Life and Last Survivor Expectancy Table. An IRA owner would be eligible to use the Joint Life and Last Survivor Expectancy Table only if the IRA owner's spouse is the sole primary beneficiary, and the beneficiary is more than 10 years younger than IRA owner.

This December 31, 2017 FMV and 2018 RMD factor must be used to calculate the 2018 RMD, even if that RMD is taken in 2019 or later.

4. IRAs Can Only Be Aggregated with IRAs

Individuals with multiple traditional IRAs, SEP IRAs and SIMPLE IRAs are permitted to aggregate RMDs for those IRAs. When using the aggregation method, RMDs for each of these IRAs must be calculated separately, but can be totaled and taken from one or more of the IRAs.
RMDs for IRAs cannot be taken from employer plans and vice versa.

There could be an RMD shortfall if a client misapplied the RMD aggregation rule.

Example: Sally has a 401(k) and a traditional IRA
The RMD for the traditional IRA is $5,000
The RMD for the 401(k) is $10,000
Sally aggregates the RMDs and take the total of $15,000 from the 401(k).
Since RMD aggregation between an IRA and a 401(k) is not permitted, Sally's IRA has an RMD shortfall of $5,000.
Sally will owe the IRS an excess accumulation penalty of $2,500 ($5,000 x 50%)

5. The Penalty Applies Only to the Shortfall

The 50% excess accumulation penalty applies only to the portion of an RMD that was not distributed by the deadline. Therefore, if an IRA owner's RMD for 2018 was $10,000, and $2,000 was withdrawn by December 31, 2018 (April 1, 2019 if the IRA owner reached age 70-½ in 2018), the excess accumulation penalty is owed only on $8,000 making it (the penalty) $4.000.

If an RMD checkup reveals that a client owes the IRS an excess accumulation penalty due to a shortfall, the affected client may either pay the excess accumulation penalty or request a waiver from the IRS.

Requesting the Waiver

The IRS will waive the penalty, if the deadline was missed due to 'reasonable cause'. Examples of reasonable cause include death, serious illness, and incapacitation of the IRA owner or a member of the IRA owner's immediate family. The IRS makes its determination on a case by case basis, and when doing so, considers the facts and circumstances that apply to the IRA owner.

The waiver is requested by filing IRS Form 5329, Additional Taxes on Qualified Plans (including IRAs) and Other Tax-Favored Accounts. The application section is Part IX. A letter of explanation should be attached.
As part of the correction process, the IRA owner should take steps to correct the RMD shortfall.

Partner with IRA Custodians

IRA custodians are required to send RMD statements for IRAs that they held as of December 31 of the preceding year. For instance, is an IRA custodian held an IRA on December 31, 2017, that custodian was supposed to send an RMD statement to the owner for 2018.

RMD statements are generally required to be sent to the IRA owner by January 31 of the RMD year, which means RMD statements for 2018 should have been mailed by January 31, 2018.
The RMD statement should include the calculated RMD amount or an offer to calculate the RMD amount upon request.

Bear in mind, that the IRA custodian is not required to make adjustments for outstanding transactions. Considered too, an IRA custodian could choose to use Uniform Lifetime Table, even in cases where an IRA owner is eligible to use the Joint Life and Last Survivor Expectancy Table which would produce a lower RMD amount.

It is practical therefore to doublecheck RMD calculations that are provided by IRA custodians. Nevertheless, it can be helpful to partner with IRA custodians as they usually provide additional RMD support, including access to RMD calculators; and many answer technical questions about RMD rules.

IRS Allows Spouse Beneficiary Life Expectancy Payment Options- Trust was Beneficiary and Subtrust was Beneficiary of Trust

In private letter ruling (PLR) 201902023, the IRS allows a surviving spouse to take distributions over her life expectancy, when she was the Beneficiary of a Trust Beneficiary.

The IRA owner established a living revocable Trust, which was the beneficiary on record at the time of the IRA owner's death. The trust document established a Subtrust to hold the benefits and distributions from retirement plans, including a traditional IRA. She was the beneficiary of the Subtrust.

The PLR requested that:

1. the individual Beneficiary of the Subtrust is treated as the designated beneficiary of the IRA for purposes of determining the applicable distribution period under section 401(a)(9); and
2. The applicable distribution period for Decedent's IRA is to be calculated based on the life expectancy of Beneficiary.

The IRS approved both requests.

Disclaimer

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The information provided in this newsletter is for general information purposes only, and is not intended to provide tax, legal, estate or retirement planning advice. Individuals should consult with their respective professional for advice on such matters.

Every effort has been made to ensure the accuracy of the content. However, the information references rules that are in effect at the time of publishing and these rules might change.

Nothing contained herein is intended to replace or circumvent the procedures for obtaining revenue rulings and/or technical advice. Such procedures are spelled out in the several revenue procedures currently in effect. Because of the complexities and the many recent changes in this area, the practitioner is urged to merely use this newsletter as one source of information.

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Please do not hesitate to contact us with any questions and/or comments about the content.