January to March | V o l u m e 12 | Issue 1

The IRA Authority!

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

Appleby Retirement Consulting

Mark Your Calendar for These IRA Season Deadlines

January 31

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

In this issue:

- **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 that 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 by December 31,2019- and certain owners of inherited traditional and Roth IRAs.

- **RMD Statement**

  The 2020 RMD statement must be issued to owners of traditional (including SEP and SIMPLE) IRAs who were at least age 70½ by December 31, 2019.

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 Not Applicable for 2021**
  RMDs were waived for 2020 and no anyone who reached age 72(the new RMD beginning age) in 2020 would have already started RMDs before 2020- under the old age 70 ½ rule. Therefore, no IRA owners have a RMD of April 1, 2021. However, the RBD of April 1, 2020 would apply to an individual who was at least age 72 in 2020 and separate from service with the sponsor of an employer plan- which allowed deferral of RMDs page age 70 ½ until retirement, would need to start taking their RMDs from those accounts by April 1, 2021.

April 15 IRA Contribution

- Your clients who want to make regular contributions to Roth IRAs and Traditional IRA for 2020 must do so by April 15, 2021. 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 2021, if they receive it on or after January 1, 2021.

4 Key Reminders for the IRA Tax Season

2020 was an unusual year for IRA activity. IRA practitioners must be aware of the 2020 exceptions to help their clients take advantage of available benefits.

The 2020 IRA season is here! With it comes many questions about whether the rules have changed from those that applied to the 2019 IRA season. Knowing the answers could help eligible individuals take advantage of tax-saving opportunities. To that end, we provide some key reminders for 2020 IRA transactions.

1. **2020 IRA Contribution Deadline is April 15, 2021**
   The deadline for making regular contributions to a traditional IRA and/or a Roth
   IRA is the IRA owner's tax filing due date, which is April 15 for most taxpayers. Extensions do not apply. In response to the coronavirus disease 2019 (COVID-19) pandemic, the deadline for 2019 IRA contributions was

postponed to July 15, 2020. But there is no postponement for 2020 IRA contributions which means that the deadline is April 15, 2021.

Tip: For IRA contributions made in 2021 for 2020, IRA owners must include clear instructions to book and report the amounts as 2020 contributions. This includes contributions made via direct deposits from income tax refunds, for which the instructions must be provided separately. Failure to include such instructions would result in the IRA custodian reporting the amount as a contribution for 2021.

2. **No Age Limit on Traditional IRA Contributions**

   The Setting Every Community Up for Retirement Enhancement (SECURE) Act removed the age 70-½ cap that applied to traditional IRA contributions made for 2019 and earlier. As a result, anyone with eligible compensation may make regular contributions to traditional IRAs for 2020 and after.
   Modified adjusted gross income caps continue to apply to Roth IRA contributions.

3. **QCDs Must Be Offset by Deductible Traditional IRA Contributions**

   Eligible individuals may make qualified charitable distributions (QCD)s from their IRAs. One of the eligibility requirements is that the distribution must occur on or after the date the individual reaches age 70-½. QCDs are tax-free if they meet this and other requirements. *Please contact us if you have questions about the QCD requirements.*

   With the repeal of the age 70-½ limit on traditional IRA contributions, individuals may now make traditional IRA contributions and QCDs for the same year. To prevent a taxpayer from claiming a deduction for a traditional IRA contribution and taking a tax-free QCD at the same time, the SECURE Act requires a QCD to be reduced by tax deducted traditional IRA contributions made for the year the owner was at least age 70-½. This means that any QCD taken in 2020 must be reduced by any traditional IRA contribution made for 2020, if the IRA owner claimed a deduction for that contribution.

   For example: Assume that 75-year-old Althea made a deductible traditional IRA contribution of $5,000 for 2020. Assume too that she made a QCD of $20,000 in 2020.
   Because Althea was at least age 70 ½ on December 31, 2020, the nontaxable portion of her QCD is reduced by her 2020 $5,000 traditional IRA contribution for which she claimed a deduction. This makes the nontaxable QCD amount $15,000.

Note: Once a QCD is reduced by a contribution amount, that amount is no longer available for reduction of the nontaxable portion of future QCDs. Instead, future QCDs would be reduced only by any additional deductible traditional IRA contributions made in the year of the QCD or earlier year/s in which the IRA owner was at least age 70-1/2, if the contribution was not already used to reduce or offset the nontaxable portion of a QCD. In short, deductible contributions made when the IRA owner is at least age 70-½ by the end of the IRA contribution year is used to offset the nontaxable portion of a QCD only once.

Ready, Set, RMDs Are Back on Track for 2021

The year 2020 is one of the most eventful in recent times, and changes to the rules that govern retirement accounts is no exception. One of these changes is the waiver of required minimum distributions (RMDs) for 2020. As a result of this waiver, your clients have no RMDs to take for 2020. But those that are of RMD age in 2021, must resume RMDs for 2021 and continue for every year after. RMDs were waived for beneficiary IRAs as well and will need to resume in 2021 for certain beneficiaries.

Reminder: RMDs do not apply to Roth IRA owners.

RMDs- A Mild Refresher

An RMD is the minimum amount that an account holder must distribute (or withdraw) from a retirement account, for any RMD year. More than the RMD can always be distributed; but, a distribution of less than an RMD amount will result in the account holder owing the IRS an excess accumulation penalty of 50% of the RMD shortfall. For example, if the RMD for an IRA for 2021 is $20,000 and 2021 distributions total only $12,000, the account holder would owe the IRS an excess accumulation penalty of $4,000 [($20,000 - $12,000) x 50%].

For an IRA owner who is required to take RMDs for 2021, the IRA custodian will issue an RMD notice by January 31, 2021. This will include the calculated RMD amount or an offer to calculate the amount upon request. This requirement does not apply to Beneficiary IRAs.

New RMD Age- A Reminder

The Setting Every Community Up for Retirement Enhancement (SECURE) Act, a new law passed in 2019, increased the RMD beginning age for IRA owners from age 70 ½ to age 72. As a result of this change any IRA owner who reached age 70 ½ by December 31, 2019 – those born June 30, 1949 or earlier – must begin taking RMDs for the year he or she reaches age 70 ½ and continue for every year thereafter (except for 2020- where

RMDs are waived). IRA owners who reach age 70 ½ after December 31, 2019 must begin RMDs for the year they reach age 72.

RMDs are Due for 2021 If…

Whether an IRA holder must take an RMD for 2021 depends on factors that include whether it is the individual's own IRA and his or her age in 2021; or- if it is a beneficiary IRA, and if so, when the IRA was inherited.

- **If it is the individual's own IRA**: For 2021, an IRA owner must take an RMD from a non-beneficiary IRA for 2021 if he or she was born at any time in 1949 or earlier, as this means that the IRA holder would be at least age 72 on December 31, 2021.

  If the IRA holder was born 1950 and after, no RMD would be due for 2021 because he or she would not have reached age 70 ½ by December 31, 2019 and would be under age 72 as of December 31, 2021.
- **If it is a Beneficiary IRA- including a beneficiary Roth IRA**: For beneficiary IRAs, whether the IRA holder must take an RMD for 2021 depends on several factors, which starts with when the IRA was inherited.

A. **Inherited before 2020**: If the IRA was inherited before 2020- including a Roth IRA, the beneficiary must take an RMD for 2021 if:
   - *The beneficiary IRA must be distributed within five years (the 5-year rule), and the IRA was inherited in 2015*. This is because 2020 was not counted due to the RMD waiver, making 2021 year 5 of the 5-year period.
     1. 2016
     2. 2017
     3. 2018
     4. 2019
     5. 2021

     Under the 5-year rule, distributions are optional until the end of the 5th year that follows the year the IRA owner died, at which time the entire account must be distributed.
   - *Distributions are taken under the life-expectancy rule*. Under this option, the beneficiary must take a beneficiary RMD for every year that follows the year in which the IRA owner died (except for 2020). *Please note:* For spouse beneficiaries, exceptions could apply. For example, if the IRA owner would have reached age 70-½ after 2021, there would be no RMD due for 2021. Instead, the first RMD would be due the year the decedent would have reached age 70 ½. Also, the owner rules above would apply if the spouse beneficiary elects to move the assets to his or her own IRA.

B. **Inherited in 2020:** If the IRA was inherited in 2020- including a Roth IRA, an RMD must be taken for 2021 if the beneficiary is an eligible designated beneficiary who is taking distributions over his or her life expectancy. An individual is an eligible designated beneficiary if he or she is:

   a. The surviving spouse of the IRA owner. *But, the owner rules above apply if the beneficiary elects to treat the IRA as his or her own, instead of electing the beneficiary IRA option.*

   b. Disabled

   c. Chronically ill

   d. A minor, as defined under state law

   e. None of the above, but is not more than 10 years younger than the IRA owner.

   In other cases, distributions for 2021 are optional, as the 10-year rule would apply. Under the 10-year rule, distributions are optional until December 31 of the 10th year that follows the year the IRA owner dies, at which time the entire balance must be distributed.

Spouse beneficiary caveat: For a surviving spouse beneficiary who elects to keep the funds in a beneficiary IRA, no RMD would be due for 2021, if the decedent would have reached age 72 in a later year.

RMDS May Be Due from Employer Plan Accounts Too

Clients with accounts under employer sponsored plans – such as 401(k) and 403(b) plans- might need to take RMDs from accounts under those plans. If you have clients of RMD age with assets under employer sponsored plans, encourage them to contact their plan administrators or HR department regarding their RMD polices- to determine if they will automatically distribute RMDs or if your clients are required to submit RMD instructions. Remind clients to be careful if they plan to rollover amounts from these accounts, as RMDs may not be included in those rollovers. Ideally, they should contact you before initiating any rollovers, so that you can help them to avoid mistakes.

Reviewing RMDs Can Help to Avoid Penalties

Even though IRA custodians would calculate RMDs for non-Beneficiary IRAs, it is still advisable to review those calculations when practicable. This is primarily because IRA custodians are permitted to make assumptions that could cause RMD calculations to be incorrect. For example, IRA custodians are not required to add outstanding rollovers to the fair market value when calculating RMDs, which would result in an RMD shortfall.

Also, in cases where the spouse is the sole primary beneficiary of the IRA and is more than 10 years younger than the IRA owner, the joint life expectancy table- which would produce a lower RMD amount may be used. However, IRA custodians are permitted to ignore that and use the uniform lifetime table, which assumes the beneficiary is 10 years younger than the IRA owner, regardless of the beneficiary's age.

RMD penalties are high, and requesting a waiver can be bothersome. To avoid having to deal with excess accumulation penalties conduct a review of clients RMDs, to ensure that the required minimum amount is distributed.

Questions? We can Help

The rules that govern IRAs are complex. But those that apply to transactions that occur in or for 2020 are more nuanced, and mistakes can result in IRA owners missing out on tax benefits. This can be avoided by engaging an advisor who actively keeps abreast of the changes that apply to these rules. Please contact us if you have questions about these and other IRA rules.

IRA Updates

The following are some recent updates that apply to retirement accounts.

- **New Reason for Waiver of 60-Day Penalty under Self-certification method**: The IRS issued Revenue procedure 2020-46, in which they announced that another 'reason' has been added to the list for purposes of self-certification of a distribution that is eligible for a waiver of the 60-day deadline. The new reason is (l) the distribution was made to a state unclaimed property fund. This brings the total list to nine (9). The full list and the applicable requirements for a waiver are available in Revenue Procedure 2020-46, which is available here https://www.irs.gov/pub/irs-drop/rp-20-46.pdf .
- **10% Early Distribution penalty is a tax, not a penalty:** In a classic case of IRA misnomer, the Tax Court have ruled that the "10% early distribution penalty" is a tax and not a penalty (Grajales, (2021) 156 TC No 3). As a result, the IRS is free to assess the tax without supervisor approval, to an early distribution penalty that does not qualify for an exception.
- **Draft of IRS Form 8615E issued:** The IRS has issued a draft of IRS Form 8915E Qualified 2020 Disaster Retirement Plan Distributions and Repayments (Use for Coronavirus-Related and Other Qualified 2020 Disaster Distributions). Go to www.irs.gov/Form8915E for instructions and the latest information.
- **From Groom Law: DOL Issues Missing Participants Guidance:** *"On January 12, 2021, the Department of Labor (the "DOL") issued three pieces of guidance detailing the DOL's* view *of what steps plan fiduciaries should take to locate and distribute retirement benefits to missing or nonresponsive participants ("missing participants"). The guidance is largely consistent with positions taken by DOL in investigations*" Read more at https://www.groom.com/resources/dol-issues-missing-participants-guidance/ .

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