2019-2020

Trust Comprehensive Roth IRA Amendment

TRUST—NONDEPOSIT INVESTMENTS NOT FDIC-INSURED. Under your trust Roth IRA, you may use your Roth IRA funds to purchase mutual funds and other nondeposit investment products. nondeposit investment products, such as mutual funds, stocks, bonds, etc., are not FDIC-insured; are not deposits or other obligations of this institution and are not guaranteed by this institution; and involve investment risks, including possible loss of principal.

Dear Roth IRA Grantor:

You have established a Roth Individual Retirement Account (Roth IRA) (under section 408A of the Internal Revenue Code) to provide for your retirement and for the support of your beneficiaries after your death. We, as your Roth IRA custodian, are updating or amending the Roth IRA documents (IRS Form 5305-R, as modified, and the Disclosure Statement) previously furnished you.

We are furnishing you this Comprehensive Roth IRA Amendment so that you are informed of these changes and may take advantage of the law changes. The general rule is that the Roth IRA plan agreement must authorize the transaction being made by a Roth IRA accountholder or an inheriting Roth IRA beneficiary and the Roth IRA custodian. The Roth IRA Disclosure Statement has been revised to set forth the Roth IRA rules applying for the 2019 and 2020 tax years. It is important for you to understand the current laws.

President Trump signed into law the Further Consolidated Appropriations Act of 2020 on December 20, 2019. The SECURE Act was incorporated into this legislation. Numerous IRA law changes go into effect, in general, for tax year 2020.

Some of the Roth IRA changes made by the SECURE Act are very important. For example, some beneficiaries of an inherited Roth IRA will no longer have the right to stretch out distributions over their life expectancy. Rather, these beneficiaries will be required to close their inherited Roth IRA under the 10-year rule. A summary of the changes made by the SECURE Act are set forth below. In general, these laws apply for the 2019 and 2020 tax years. In addition to the changes made by the SECURE Act, there have been other law, and regulatory Roth IRA changes enacted in 2017-2018. There have been a number of changes regarding rolling funds from a 401(k) plan or another IRA into either a traditional IRA or a Roth IRA and with respect to special tax relief extended to IRA accountholders who have suffered economic harm on account of a federally declared natural disasters.

Set forth immediately below is a summary of the primary law changes within the SECURE Act and the following pages set forth a comprehensive discussion of the Roth IRA laws applying for 2019 and 2020.

1. There are new rules applying to Roth IRA beneficiaries. These rules are complicated. These new rules apply to an Roth IRA owner who dies on or after January 1, 2020. In general, the ability to establish a stretch Roth IRA has been repealed and the inherited Roth IRA must be closed within 10 years of the date of death of the IRA owner. The IRS will need to issue guidance whether it will be permissible to close the inherited Roth IRA by December 31 of the year containing the 10th anniversary of the Roth IRA owner's death.

   The new rules will not apply to certain individuals who are called eligible designated beneficiaries (EDB). That is, certain individuals are "grandfathered" and the pre-2020 rules continue to apply to them.

   See pages 15-19 for an additional discussion. You should discuss with your legal and tax advisers.

2. A new exception to the 10% additional tax required by Code section 72(t) is added. Such tax is not owed for certain childbirth and adoption expenses up to $5000. Such a distribution may be rolled over or repaid.

3. Many home health care workers do not have taxable income as is required by pre-2020 rules. The reason, their compensation comes from "difficulty of care" payments which Code section 131 exempts from taxation. Such payments now are deemed to qualify as compensation for purposes of making IRA contributions and contributions to defined contribution plans.

4. Effective for Qualified Charitable Distributions (QCDs) made in 2020 and subsequent years, the QCD exclusion amount for the current year must be reduced by an amount (but not below zero) equal to the excess of: the aggregate of all deductions allowed for all tax years on or after attaining age 70½ over the aggregate amount of the QCD reductions for all tax years preceding the current year.
5. Under pre-2020 rules, stipend and non-tuition fellowship payments do not qualify as compensation for IRA contribution purposes. Such payments are received by graduate and post doctoral students. Such payments now are deemed to qualify as compensation for purposes of making IRA contributions.
6. A direct trustee to trustee transfer is authorized for certain lifetime income investments or a qualified plan distribution annuity. Such investments may be held by a defined contribution plan, a 403(b) plan or a governmental 457(b) plan. However, if such investments are no longer authorized to be held as an investment option under the plan such may be transferred to another employer plan or an IRA.
7. There are special disaster related rules for use of IRA funds. Special tax relief was enacted within the Further Consolidated Appropriations Act of 2020 regarding qualified disasters for the time period commencing on January 1, 2018, and ending on the date which is 60 days after the enactment of this Act. Such disaster must be so declared by the President under section 401 of the Robert T. Stafford Disaster Relief and Emergency Assistance Act if the incident period of the disaster with respect to which such declaration is made begins on or before the date of enactment of this Act. In general such tax relief permits a victim who is an IRA owner to include a distribution in income over a three year time period rather than having to include it all in income for the year of withdrawal and allows the individual three years to repay a distribution. Similar relief was enacted for qualified disasters occurring in earlier time periods by the Tax Cuts and Jobs Act of 2017 and the Bipartisan Budget Act of 2018.

Unless indicated otherwise, the law changes apply to contributions and distributions made after December 31, 2019.

There will be times when you will want to conduct additional research, and you will want to contact a tax professional for advice. You will find helpful information at the IRS website, www.irs.gov.

We suggest you keep this Roth IRA Disclosure Statement Amendment in your personal files for safekeeping.

Sincerely,
Your Roth IRA Trustee

Roth Individual Retirement Trust Account

FORM

This is Form 5305-R as issued by the Department of Treasury, Internal Revenue Service in April of 2017. Do not file with the IRS. This Roth IRA account is established under section 408A of the Internal Revenue Code.

NOTICE OF AGREEMENT

Since your name appears on the application, you understand that you are establishing a Roth Individual Retirement Trust Account (Roth IRA) (under section 408A of the Internal Revenue Code) to provide for your retirement and for the support of your beneficiaries after your death. The Trustee named on the application has given you the disclosure statement under the Income Tax Regulations under section 408(i) of the Code. You have deposited in cash the sum indicated on the application. You and the trustee make the following agreement with the following terms:

ARTICLE I

Except in the case of a rollover contribution described in section 408A(e), a recharacterized contribution described in section 408A(d)(6), the custodian will accept only cash contributions up to $5,500 per year for 2013 through 2017. For individuals who have reached the age of 50 by the end of the year, the contribution limit is increased to $6,500 per year for 2013 through 2017. For years after 2017, these limits will be increased to reflect a cost-of-living adjustment, if any.

ARTICLE II

1. The annual contribution limit described in Article I is gradually reduced to $0 for higher income levels. For a grantor who is single or treated as single, the annual contribution is phased out between adjusted gross income (AGI) of $118,000 and $133,000; for a married grantor filing jointly, between AGI of $186,000 and $196,000; and for a married grantor filing separately, between AGI of $0 and $10,000. These phase-out ranges are for 2017. For years after 2017, the phase-out ranges, except for the $0 to $10,000 range, will be increased to reflect a cost-of-living adjustment, if any. Adjusted gross income is defined in section 408A(c)(3).

2. In the case of a joint return, the AGI limits in the preceding paragraph apply to the combined AGI of the depositor and his or her spouse.

ARTICLE III

The grantor's interest in the balance in the trust account is nonforfeitable.

ARTICLE IV

1. No part of the trust account funds may be invested in life insurance contracts, nor may the assets of the trust account be commingled with other property except in a common trust fund or common investment fund (within the meaning of section 408(a)(5)).

2. No part of the trust account funds may be invested in collectibles (within the meaning of section 408(m)) except as otherwise permitted by section 408(m)(3), which provides an exception for certain gold, silver, and platinum coins, coins issued under the laws of any state, and certain bullion.

ARTICLE V

1. If the grantor dies before his or her entire interest is distributed to him or her and the grantor's surviving spouse is not the designated beneficiary, the remaining interest will be distributed in accordance with (a) below or, if elected or there is no designated beneficiary, in accordance with (b) below:

   (a) The remaining interest will be distributed, starting by the end of the calendar year following the year of the grantor's death, over the designated beneficiary's remaining life expectancy as determined in the year following the death of the grantor.

   (b) The remaining interest will be distributed by the end of the calendar year containing the fifth anniversary of the grantor's death.

2. The minimum amount that must be distributed each year under paragraph 1(a) above is the account value at the close of business on December 31 of the preceding year divided by the life expectancy (in the single life table in Regulations section 1.401(a)(9)-9) of the designated beneficiary using the attained age of the beneficiary in the year following the year of the grantor's death and subtracting 1 from the divisor for each subsequent year.

3. If the grantor's surviving spouse is the designated beneficiary, such spouse will then be treated as the grantor.

ARTICLE VI

1. The grantor agrees to provide the trustee with all information necessary to prepare any reports required by sections 408(i) and 408A(d)(3)(E), Regulations sections 1.408-5 and 1.408-6, or other guidance published by the Internal Revenue Service (IRS).

2. The trustee agrees to submit to the IRS and grantor the reports prescribed by the IRS.

ARTICLE VII

Notwithstanding any other articles which may be added or incorporated, the provisions of Articles I through IV and this sentence will be controlling. Any additional articles inconsistent with section 408A, the related regulations, and other published guidance will be invalid.

ARTICLE VIII

This agreement will be amended as necessary to comply with the provisions of the Code, the related regulations, and other published guidance. Other amendments may be made with the consent of the persons whose signatures appear on the application.

ARTICLE IX

Article IX may be used for any additional provisions. If provisions are added, they must comply with applicable requirements of state law and the Internal Revenue Code.

Introduction

In this Article, the words "you" and "your" mean the person for whose benefit the Roth IRA has been established. The words, "we," "us," and "our" mean the Trustee of your Roth IRA. In addition to the provisions of Articles I-VIII, you and we agree that your Roth IRA will be governed by these terms.

1. Your Duties and Rights.

1.1 Purpose and Savings Provision. The express intent of you as the Roth IRA grantor and we as the Roth IRA trustee is to execute and create a Roth IRA which meets the requirements of Internal Revenue Code section 408A and related regulations. No action may be made by you or us with respect to your Roth IRA which would adversely affect the qualification of your Roth IRA and such action is null and void to the extent permitted by the prohibited transaction rules.

1.2 Tax Consequences. Because Roth IRAs are so influenced by tax laws, you expressly acknowledge that you should consult with your tax advisor before making almost any Roth IRA transaction. You are responsible for the tax consequences of any contribution or distribution, including rollovers, transfers, excess contributions, and prohibited transactions. You acknowledge that you have not relied upon us for any advice concerning such tax consequences.

Notwithstanding the provisions of Article II, you agree to be solely responsible for determining your eligibility to convert any portion of your traditional IRA(s) to a Roth IRA. You also assume sole responsibility if you choose to recharacterize any contribution. You further agree that you will be solely responsible for any recordkeeping of such deposits for federal income tax purposes, including but not limited to, the timing and ordering of distributions.

1.3A Investments and Selection of Investments. You will have the right to self-direct the assets of this Roth IRA only if so indicated on the application page. If so, you, or your authorized investment manager, may direct us to invest your Roth IRA funds or some portion in any other assets as described in section 1.3B.

You agree to notify us in writing with sufficient direction so that we may properly execute the transaction. You also agree to comply with any other conditions or requests we may require for administrative reasons. You expressly agree that your Roth IRA will be charged for all transaction costs and other fees related to any directed investments. Such costs and fees are in addition to any other fees we may charge under this agreement.

You may invest your Roth IRA assets only in assets which are clearly permitted by the laws governing Roth IRAs. Thus, you cannot direct that your Roth IRA assets be invested in any investment so that a prohibited transaction occurs. And, although we may permit you to self-direct the investments, we reserve the right to refuse to follow any investment direction.

When you direct your investments, you assume full responsibility and we shall not be liable for any loss you suffer. We shall be able to rely fully on your directions without making any inquiry or investigation. We are granted the discretion to decline your investment direction for any reason. We shall have the right to request that you furnish us with a written attorney's opinion that the proposed transaction will not be a prohibited transaction. If we are a trust entity and we are not authorized to offer our own deposit accounts, then those provisions discussing depository accounts as offered by us are inapplicable

You may also instruct us in writing to invest your IRA into one or more of the savings or time deposit instruments which we are offering at that time if Applicable. You expressly authorize this even though we are acting as the Roth IRA trustee of your Roth IRA. Our name is set forth on the IRA application. Such deposit account must bear a reasonable rate of interest as determined by the terms of the deposit instruments and the short and long term economic conditions. the terms of any such accounts are incorporated by reference into this agreement.

If on the application you have indicated that we will fully invest your Roth IRA funds on your behalf, then section 1.3B sets forth our powers, rights and duties.

FDIC insurance will only apply to the portion of your Roth IRA funds invested in our time and savings accounts or those of another insured institution, and then only to the extent provided under governing rules. Such insurance does not apply to Roth IRA funds which you self-direct into other types of investments.

Securities are not bank deposits or FDIC insured, are not obligations of or guaranteed by the Trustee, and involve risk to principal.

1.3B Investments. We will invest the assets comprising this Roth IRA unless the application page indicates otherwise. We have the following powers, rights and duties regarding the investment of your Roth IRA assets.

a. You expressly authorize us to invest your IRA funds into one or more deposit accounts as being offered by our financial institution or any related affiliate.

   See the application page for our name. Such deposit accounts must bear a reasonable rate of interest as determined by the terms of the deposit instruments and the short and long term economic conditions. The terms of any such accounts are incorporated by reference into the agreement.

b. To hold any property in our name or that of our nominee or in any other form we consider desirable.

c. To invest in bonds, notes, debentures, mortgages, trust interests, investment stock, mutual funds, general and limited partnership interest, deposits which bear a reasonable interest rate in the trustee, or in such other property, real or personal, within the United States, as the trustee may deem advisable, or as directed by you.

d. To invest in common trust funds and common investment funds (within the meaning of Code section 408(a)(5)).

e. To hold in cash such portion of the Roth IRA assets as shall be reasonable under the circumstances.

f. To exercise any powers and rights of any individual owner with respect to any property of the IRA including, but not limited to, conducting business or litigation, participating in a voting trust, merger, borrowing funds and to do all other acts in its judgment necessary or desirable for the investment of your IRA assets even though the specific power to do such acts is not listed.

g. To allow you (the Roth IRA grantor) pursuant to written policy to direct the investment of your Roth IRA assets. For purposes of this section, the term "you" includes any Investment Manager which you have named. When we permit you to direct the investment, we shall not be liable for any loss you suffer.

1.4 Withdrawals/Termination. You may withdraw any amount of money from your Roth IRA at any time. You must, however, complete our distribution form and furnish us with the reason for your distribution. If you indicate the distribution is because of a disability or death or a substantially equal periodic payment, then you must provide us with the necessary verification in the format we require. With any distribution, including transfers, you will be required to pay from your Roth IRA funds, if applicable, the interest penalty for the early surrender of a time deposit(s) and/or any fees related to the distribution.

1.5 Special Distribution Rules to Ensure Compliance with Required Distribution Rules by Beneficiaries and Special Provisions for an Inherited Roth IRA(s). You agree to inform any person who is your beneficiary that he or she is your beneficiary and he or she must inform us of your death. We have the right to require that your beneficiary(ies) furnish us with a certified copy of your death certificate or other documentation as we feel appropriate to verify your death.

An inheriting beneficiary is subject to these terms of your IRA. Your beneficiary is required to complete such forms and furnish such information as we deem appropriate in order to handle a distribution request, including a transfer distribution.

After your death, there are rules which mandate that your Roth IRA funds be distributed to your beneficiary(ies) on or before certain time deadlines. These deadlines are explained in the Disclosure Statement portion of this Roth IRA booklet.

If a time deadline is not met and the applicable required distribution is not withdrawn, an inheriting beneficiary will owe the 50% excise tax. The rules and time deadlines which apply depend upon whether you die on or before December 31, 2019 or whether you die after December 31, 2019 and whether or not a beneficiary is an eligible designated beneficiary as defined in the SECURE Act or is not an eligible designated beneficiary. These rules and deadlines are discussed in the IRA Disclosure Statement. You acknowledge that these rules are complex and that your beneficiaries should discuss with their own advisers.

Upon your death, your Roth IRA will be converted into one or more inherited Roth IRAs. The number of inherited Roth IRAs to be created depends upon the number of your primary beneficiaries alive as of the date of your death. There will be an inherited Roth IRA created for each such beneficiary. The following rules will govern such inherited Roth IRAs. These rules are in addition to the other rules of this agreement and will govern if there is a conflict.

You agree that we have the right to establish an inherited Roth IRA account for each beneficiary on our data processing system even before a beneficiary instructs us as to how he or she will take withdrawals. We will have the authority to move the funds from your Roth IRA to one or more new inherited Roth IRA accounts. We will have the right, if necessary, because of data processing or administrative requirements, to surrender the savings and time deposits which comprised your account and establish new ones for the inherited Roth IRAs.

There will be earnings (or losses) from the time of your death until the time the separate inherited IRAs are set-up. Such earnings (or losses) will be allocated on a pro rate basis in a reasonable and consistent manner between the separate inherited Roth IRAs. An inheriting beneficiary is only entitled to receive a distribution with respect to his or her inherited Roth IRA.

There may be times when your estate will be the beneficiary of your Roth IRA upon your death. You hereby authorize us to establish separate inherited IRAs for the beneficiaries of your estate if the following requirement is met. If the estate's attorney will furnish a legal opinion that under federal and state law that it is permissible for the estate to pass-through to its beneficiaries the estate's right to withdraw the Roth IRA funds over your life expectancy, then the Roth IRA custodian shall establish such separate inherited Roth IRAs. You agree that your estate and your beneficiary(ies) will hold us (i.e. the Roth IRA custodian/trustee) harmless with respect to taxes, penalties, and all other tax and non-tax consequences should the IRS or any other party contest this procedure.

There may be times when your trust will be the beneficiary of your Roth IRA upon your death. You hereby authorize us to establish separate inherited IRAs for the beneficiaries of your trust if the trustee or trustees of such trust decide to terminate this trust. You hereby authorize the amendment of your trust to accomplish this result. An attorney for the trust shall furnish a legal opinion that under federal and state law that it is permissible for the trust to pass-through to its beneficiaries the trust's right to withdraw the Roth IRA funds using the measuring life of the oldest beneficiary of the trust. In such case the Roth IRA custodian shall establish separate inherited Roth IRAs. You agree that your trust and the beneficiary(ies) of such trust will hold us (i.e. the Roth IRA custodian/trustee) harmless with respect to taxes, penalties and all other tax and non-tax consequences should the IRS contest this procedure.

We will transfer an inherited Roth IRA to another Roth IRA custodian or trustee, but only if the requesting beneficiary and the receiving Roth IRA custodian/trustee will furnish us with a special transfer of inherited Roth IRA administrative form so it is clearly acknowledged that it is an “inherited Roth IRA” which is being transferred. Inherited Roth IRAs are not eligible to be rolled over unless the beneficiary is a spouse.

Each beneficiary will be required to instruct us in writing as to how he or she will withdraw funds from his or her inherited Roth IRA so that the required minimum distributions rules will be satisfied.

A beneficiary who wishes to disclaim his or her interest must do so within nine months of your death or by the attaining the age of 21, if later and must comply with the requirements of Code section 2518 and applicable state law. Your beneficiary will be required to furnish us a written disclaimer as prepared by his or her attorney.

We have forms available which can be used by your beneficiary to instruct us which option he or she elects and to establish a distribution schedule. Alternatively, the beneficiary may elect to use the alternative certification method. The beneficiary must furnish us a written notice of his or her intent to use the alternative certification method. We will furnish the beneficiary a form which can be used to make this election, upon his or her request.

If your beneficiary fails to furnish us with his or her instruction as to how he or she will comply with the required distribution rules which apply to the situation, if applicable, then you hereby authorize us to mail a check to the beneficiary or to set-up a non-IRA savings account for such beneficiary and to deposit such funds into such account. We shall have the authority to make such a distribution by November 15 of the applicable year, but not the duty. Any beneficiary shall be solely responsible to make sure that required distributions take place on a timely basis so the 50% excise tax of Code section 4974(a) will not apply. <u>A nonspouse beneficiary must remember that he or she has no rollover rights with respect to a distribution from an inherited Roth IRA unless the exception for the return of the IRS levy would apply.</u>

If the five-year option applies to the beneficiary, and he or she has failed to withdraw his or her inherited Roth IRA funds by October 31 of the year containing the fifth anniversary of your death, then we shall have the right to issue a check to such beneficiary during the period of November 1 to December 31 on a day of our choice. We shall have the authority but not the duty to distribute any required distribution to your beneficiary(ies). Any beneficiary shall be solely responsible to make sure that the required distributions take place on a timely basis.

1.6 Naming Beneficiaries and Method of Payment. You may name one or more beneficiaries to receive your Roth IRA assets after your death. We require that you use our beneficiary form and that you sign it and file it with us during your lifetime. You are deemed to have furnished us with your beneficiary designation if you furnished such a form to an entity with respect to which we are considered to be a successor custodian and we have such designation in our files. You may change your beneficiaries at any time, and the consent of a beneficiary is not required unless you reside in a state with community or marital property laws. When you sign a new beneficiary form, you revoke all prior beneficiary designations. If you do not name a beneficiary, or if none of the named beneficiaries are alive on the date of your death, your Roth IRA assets will be paid to your estate. As the beneficial owner of the Roth IRA assets, you can instruct how and when these assets will be paid to the beneficiaries. If you don't instruct, your beneficiaries will have the right to choose how and when the assets will be paid. Any method of payment must satisfy the provisions of Article V and other governing law.

Should any beneficiary pre-decease you, his or her share of the Roth IRA is distributed pursuant to the selection you made on the account application in the Designation of Beneficiary section. The first choice, the pro rata method, terminates the interest of the deceased beneficiary and distributes those funds pro rata according to the remaining beneficiary's share percentage(s). The second choice (a per stirpes method) transfers the deceased beneficiary's share equally to the next generation of his or her living issue. Living issue is defined first as children, then grandchildren, then great-grandchildren (natural and/or adopted). If the predeceased primary beneficiary does not have any living tissue, then his or her share shall be transferred to the other primary beneficiary(ies) on a pro rata basis based on their respective percentage shares unless you indicate on the Roth IRA application that the share of the predeceased primary beneficiary is to go to his or her surviving spouse, if any.

In order that your funds be distributed according to your wishes, we strongly recommend you complete a new beneficiary designation as soon as possible when a beneficiary dies before you.

After your death, each primary beneficiary who acquires an interest in your Roth IRA shall have the right to designate his or her own beneficiary(ies) with respect to his or her share. The procedures for designating a beneficiary(ies) which apply to you as the accountholder shall also apply to your beneficiary. When a beneficiary signs a new or revised beneficiary designation form, your beneficiary revokes all of his or her prior beneficiary designations. If the beneficiary does not designate other beneficiary(ies), or if a designated beneficiary is not alive when the beneficiary dies, then the remaining Roth IRA assets will be paid to such beneficiary's estate. Any method of payment must satisfy the provisions of Article V and other governing law.

1.6.A Beneficiary Restricted Distributions and Restricted Investments. You as the Roth IRA grantor have the right to place restrictions on the distributions to be made to one or more of your Roth IRA beneficiaries. This is true whether the beneficiary is your spouse, a child, a parent, a trust, your estate or any other designated beneficiary.

You as the Roth IRA grantor have the right to place restrictions on your inheriting beneficiary's right to make the investment decisions. That is, you may retain the Roth IRA trustee to perform the investment duties and not permit the beneficiary to perform these duties. This is true whether the beneficiary is your spouse, a child, a parent, a grandchild, another person, a trust, your estate or any other designated beneficiary.

Unless you restrict your beneficiary's distribution options, he, she or it is entitled to a total distribution upon his, her or its instruction.

Unless you restrict your beneficiary's right to make investment decisions, he or she or it is entitled to make the investment decisions.

Your restrictions must be set forth in your Roth IRA Beneficiary Designation which is incorporated and is part of your Roth IRA plan agreement and trust.

Although you may restrict the distributions, there must always be compliance with the required distribution rules. Required distributions are not subject to any restriction. The required distribution for a year is to be withdrawn pro rata from the account of each primary beneficiary.

1.6B Resignation and/or Change in the Trustee After Your Death. Unless you restrict your beneficiary's distribution options and his, her, its right to select and appoint a new financial institution to serve as the successor Roth IRA trustee, he, she or it is entitled to have a direct transfer of the inherited Roth IRA. Both the existing Roth IRA trustee and the successor Roth IRA trustee must mutually prepare and sign the direct transfer form and then make the transfer accordingly.

Unless you restrict your beneficiary's right to make investment decisions and his, her, its right to select and appoint a new financial institution to serve as the successor Roth IRA trustee he, she, or it is entitled to have a direct transfer of the inherited Roth IRA. Both the existing Roth IRA trustee and the successor Roth IRA must mutually prepare and sign the direct transfer form and then make the transfer accordingly.

1.7 Assignment Rights. You or your beneficiaries may not borrow from your Roth IRA, or pledge any portion of it as security or otherwise assign or create a lien on any part of your Roth IRA account.

1.8 Indemnification. You hereby agree to release us from any and all liability with respect to your Roth IRA except if such liability arises from our intentional misconduct or gross negligence.

1.9 Sale of Trustee-Successor Trustee. If another institution should purchase this, the custodian institution, or any of our Roth IRA deposits, or we elect to change our corporate structure via a merger, consolidation or name change, then you hereby consent that the purchasing entity or the resulting corporate entity will be the successor custodian of your Roth IRA funds with all duties and rights listed in Section 2.

1.10 General Rule–No FDIC Insurance Coverage. Normally FDIC insurance does NOT apply to assets held within a trust Roth IRA because FDIC insurance applies only to certain deposit accounts. Your Roth IRA has primarily been invested or will be invested in investments other than such deposit accounts and therefore will NOT be insured by the FDIC.

Stated another way, under your trust Roth IRA, your Roth IRA funds may be used to purchase mutual funds and other nondeposit investment products. The nondeposit investment products are not FDIC insured; are not deposits or other obligations of this institution and are not guaranteed by this institution; and involve investment risks, including loss or principal.

In some instances a portion of your Roth IRA funds will be invested in deposits at this institution or another institution which is an “insured” institution. In such case, such deposits would be insured pursuant to the rules as established by the FDIC. A summary follows. Such IRA deposits are insured on a per institution basis and are insured separately from other deposit accounts, pursuant to the Federal Deposit Insurance Act, up to $250,000. Any IRA, Roth IRA, most eligible deferred compensation plans described in section 457 of the Internal Code, a Keogh plan as described in Code section 401(d) and any individual account plan as defined in section 3(34) of ERISA shall be aggregated and insured in an amount not to exceed $250,000. This aggregation requirement applies to a Keogh plan or an individual account plan only when you have the right to direct the investment of your account. Amounts in excess of $250,000 are not insured.

The FDIC has stated that funds within an Inherited Roth IRA are insured separately from funds within your personal Roth IRA. The reason – the funds are held in a different right and capacity

1.11 Special Agreement Regarding Prohibited Transactions. You acknowledge that the prohibited transaction rules set forth in Code section 4975 are complex and can result in harsh tax consequences. Generally, if you or your beneficiary engages in a prohibited transaction in connection with your Roth IRA account at any time during the year, the account stops being a Roth IRA as of the first day of that year. Therefore, you expressly agree that you will consult with your attorney or tax advisor prior to any proposed transaction which might be a prohibited transaction. You shall furnish us with an attorney’s written opinion that a prohibited transaction will not occur on account of the proposed transaction. You agree to hold us harmless for any prohibited transaction which occurs unless we would be principally at fault.

Generally, a prohibited transaction is any improper use of your Roth IRA account or annuity by you, your beneficiary, or any disqualified person.

Disqualified persons include your fiduciary and members of your family (spouse, ancestor, lineal descendant, and any spouse of a lineal descendant).

The following are examples of prohibited Roth IRA transactions.

- Borrowing money from it.
- Selling property to it.
- Receiving unreasonable compensation for managing it.
- Using it as security for a loan.
- Buying property for personal use (present or future) with Roth IRA funds.

Fiduciary. For these purposes, a fiduciary includes anyone who does any of the following.

- Exercises any discretionary authority or discretionary control in managing your Roth IRA or exercises any authority or control in managing or disposing of its assets.
- Provides investment advice to your Roth IRA for a fee, or has any authority or responsibility to do so.
- Has any discretionary authority or discretionary responsibility in administering your Roth IRA.

1.12 Express Duty to Notify Us When You Become an Expatriate. You acknowledge that you have the express duty to notify us (your Roth IRA custodian/ trustee) of your expatriation date when you become an expatriate or covered expatriate. In general, an expatriate is either a United States citizen who has relinquished his or her citizenship or is a long term resident who ceases residence in the United States.

You agree to complete such administrative forms as we believe necessary. In our sole discretion, we will have the right to deduct and pay from your Roth IRA assets any amount which reasonably might be owed to the United States Treasury regarding your expatriation. Refer to section 5.13G for a summary.

1.13 Power of Attorney. You may designate in writing one or more individuals to act as your power of attorney with respect to your Roth IRA. He or she will have the full authority to make contributions, take distributions and take other actions with respect to your Roth IRA on your behalf. There is one exception. He or she will not have the authority to name himself or herself as a beneficiary unless the power of attorney expressly grants this authority. You agree that this power of attorney continues in full force and effect even if you become incapacitated or unable to conduct your own affairs. You agree to assume all liability and responsibility for the acts of your power of attorney or for his or her failure to act. We shall have no liability for any loss of any kind incurred as a result of actions taken by your power of attorney. We shall have no duty or obligation to question any direction or instruction given by your power of attorney, including taking a distribution closing your Roth IRA. This written power of attorney shall be furnished to us while you are alive. We must find it acceptable. We may rely on your power of attorney designation until we have been notified in writing that you have either revoked or changed such power of attorney. If we have a valid tax or business reason, we may decline to follow a direction or instruction as given by your power of attorney. The power of attorney designation is revoked by your death. The power of attorney no longer has any power to act with respect to your Roth IRA once you die. You agree to inform your power of attorney that he or she has the duty to inform us in writing of your death, if he or she has knowledge of your death. We are not liable for the acts of your power of attorney after your death unless we have received written notification of your death.

1.14 Required Information to Open this Roth IRA. When opening a Roth IRA or any other banking account, you are required to provide your name, address of residence, date of birth, and your social security number or other tax identification number. We may ask for additional information to allow us to verify your identity. These requirements are designed to allow a financial institution to participate in the public policy goal of allowing the government to effectively fight the funding of terrorism and money laundering activities.

1.15 Effective Date. The effective date of this Roth IRA plan agreement is the date that the Roth IRA trustee signs or accepts the Roth IRA application of the grantor.

1.16 Counterparts. The Roth IRA application may be signed in any number of copies, each one shall be deemed to be an original even though the other copies are not available.

1.17 Notice and Address Change. You and your beneficiaries must deliver or mail any required information to our office unless we ask that you send it elsewhere. Any notice or election is effective only upon actual receipt. You and your beneficiaries must notify us any change in address.

2. Our Duties and Rights

2.1 Reports. Each year we will provide you or your beneficiary with one or more reports showing the activity in your Roth IRA for the preceding year as required by IRS regulations.

We may furnish these reports by either providing a print version or an electronic version of the forms.

2.2 Reporting Errors. You or your beneficiary must carefully review each report for any errors. You are to notify us immediately if there are any errors. If you do not tell us of any errors within 90 days after the date we mailed the report, we are relieved of any responsibility for the error.

2.3 Corrections of Errors. We shall have the right to correct any error we make with respect to your Roth IRA unless IRS rules and procedures would not permit us to do so. Such errors include both reporting errors and non-reporting errors.

2.4 Agents. We may use agents to assist us in fulfilling our duties under this agreement.

2.5 Contribution Limitations. For any tax year, we will only accept contributions to your Roth IRA which do not exceed the maximum dollar amount which a person may be eligible to contribute for federal income tax purposes (see Disclosure Statement Section 4.2). However, if you provide us with a certification, we may accept a rollover contribution, or a transfer contribution.

Your contribution will be reported as a contribution for the year in which it is made, unless you clearly instruct us, in writing, that it is for the prior year. This procedural rule also applies to a direct deposit of your tax refund into your Roth IRA.

2.6 Investments. We will invest the assets comprising this Roth IRA unless the application page indicates otherwise. We have the following powers, rights and duties regarding the investment of your Roth IRA assets.

a. You expressly authorize us to invest your Roth IRA funds into one or more deposit accounts as being offered by our financial institution or any related affiliate.

   See the application page for our name. Such deposit accounts must bear a reasonable rate of interest as determined by the terms of the deposit instruments and the short and long term economic conditions. The terms of any such accounts are incorporated by reference into the agreement.

b. To hold any property in our name or that of our nominee or in any other form we consider desirable.

c. To invest in bonds, notes, debentures, mortgages, trust interests, investment stock, mutual funds, general and limited partnership interest, deposits which bear a reasonable interest rate in the trustee, or in such other property, real or personal, within the United States, as the trustee may deem advisable, or as directed by you.

d. To invest in common trust funds and common investment funds (within the meaning of Code section 408(a)(5)).

e. To hold in cash such portion of the Roth IRA assets as shall be reasonable under the circumstances.

f. To exercise any powers and rights of any individual owner with respect to any property of the Roth IRA including, but not limited to, conducting business or litigation, participating in a voting trust, merger, borrowing funds and to do all other acts in its judgment necessary or desirable for the investment of your Roth IRA assets even though the specific power to do such acts is not listed.

g. To allow you (the Roth IRA grantor) pursuant to written policy to direct the investment of your Roth IRA assets. For purposes of this section, the term "you" includes any Investment Manager which you have named. When we permit you to direct the investment, we shall not be liable for any loss you suffer.

2.7 Vacating of the DOL's June 7, 2017, Definition of a Fiduciary. The DOL had adopted its regulation creating a new definition of a fiduciary. It was primarily to be used to apply the prohibited transaction rules and exemptions as set forth in Code section 4975 to certain investment companies and representatives. This regulation was vacated by the Fifth Circuit Court of Appeals in May of 2018 and the regulation is considered to have never been in effect. This June 9, 2017, definition had been discussed in some previous versions of the IRA plan agreement. Due to the vacating, all such discussion has been removed from this IRA plan agreement.

The DOL's prior definition of a fiduciary has been reinstated. Adopted in 1975 the regulation provided for a 5-part test to determine if a person was a fiduciary. Under this rule a person is a fiduciary only if he or she:

1) makes recommendation on investing in, purchasing or selling securities or other property; or gives advice as to their value;

2) on a regular basis;

3) pursuant to a mutual understanding that the advice;

4) will serve as a primary basis for investment decisions; and

5) will be individualized to the particular needs of the IRA or plan.

A person who does not meet all five conditions is not a fiduciary.

2.8 Termination and Resignation as Custodian. We may resign or terminate our position as custodian of your Roth IRA at any time by giving you written notice. You may then instruct us in writing to distribute your Roth IRA assets to you or transfer them to another Roth IRA custodian if done within 30 days of our written notice. If you fail to so instruct us in writing within 30 days of our written notice, the Roth IRA assets will be paid to you.

2.9 Amendments. We may amend this agreement at any time in order to meet the requirements of the tax laws or regulations. We will send you a copy of any such amendment. You also agree that we may amend any provision of Article IX and it will become effective 30 days after it is mailed to you or your beneficiary.

2.10 Good Faith Payments. We are not liable for any payments we make in good faith. We can rely fully on any information or direction you give us or on any document which we believe sufficient to determine a person's identity. We can rely on the latest beneficiary form in our possession. We may presume that a beneficiary is fully competent until we are told otherwise. If a beneficiary is a minor or is incompetent, we may make payments to the beneficiary's legal representative, or to the person with whom the beneficiary resides or to the beneficiary directly.

2.11 Withholding Payments and Resolution of Disputes. We shall have the right to withhold payments from your Roth IRA assets if there is any dispute or uncertainty with respect to these assets. For example, disputes could arise in a divorce situation, or different individuals could claim that they were entitled to be paid as your beneficiaries. This right of ours to withhold payment is expressly authorized until the dispute or uncertainty is settled to our satisfaction by all of the parties. At any time, we shall have the right (but not the duty) to request a judicial determination from a Court of law as to ownership of the assets. The Court's determination shall be binding upon us, you and all persons claiming an interest in the assets. You expressly authorize and agree that we have the right to be paid (i.e. deduct) from your Roth IRA assets any fees and expenses including but not limited to legal and accounting fees, whether internal or external, associated with resolving any dispute.

2.12 Legal Claims Against Your Roth IRA. We will attempt to notify you if we are served with any type of legal process which affects or might affect your Roth IRA. The provisions of section 2.10 will apply to this situation except rather than request a judicial determination as to the ownership of the assets there would be a request to determine the validity of the legal process against your Roth IRA assets. Your Roth IRA will be responsible for all fees and expenses associated with responding to the legal process claim.

2.13 Notices. We may give a notice or report to you or your beneficiary by mailing it to you or your beneficiary at the address last furnished to us. The notice or report is considered given when it is mailed by either an agent or us.

2.14 Transfers, Rollovers, Conversions, Recharacterizations, and Special Recontributions. We may request certification acceptable to us before we will accept any transfer, rollover, conversion, recharacterization or special recontribution. We reserve total discretion whether or not we will transfer your Roth IRA assets to another custodian or trustee. You also expressly state that you have the sole responsibility for complying with all IRS eligibility rules for conversions, recharacterizations, recontributions and rollovers, including the rule that you are allowed only one rollover per 12 months. Also, since the IRS has not expressly ruled whether an individual has until the following Monday or business day when the 60th day ends on a Saturday, Sunday, or holiday, you accept full responsibility if you make such a rollover contribution.

The rollover and direct rollover rules are complicated. You should consult with your tax adviser. The new rollover rules are discussed in the Disclosure Statement.

2.15 Fees. You agree to pay us the fees specified in our current schedule of fees, if any, for establishing and maintaining your Roth IRA. We may replace or change our fee schedule at any time, upon giving you 30 days written notice. You hereby authorize us to deduct these fees from your Roth IRA assets. However, in the case of an administrative fee, we will allow you to pay such fee with nonRoth IRA funds, but we have no duty to inform you of this option other than herein.

If your Roth IRA is escheated to a state, we will have the discretion to charge a $50 fee. In addition, we will have the discretion to charge a $50 fee if we use the IRS missing person programs or similar programs to find you or your beneficiary or to try to find you or a beneficiary. If state law does not permit such fee or fees, then these fees shall not apply. You expressly authorize us to use the IRS' program if we have not had contact with you for a period of 12 months.

2.16 Authority to Deduct Taxes. In our sole discretion, you authorize us to deduct and pay from your Roth IRA assets the amount necessary to pay any and all taxes which relate to this Roth IRA for which it may be liable.

3. General Provisions

3.1 Entire Agreement/Reproductions. This agreement is made up of two documents: (1) the application form and (2) the IRS model Form 5305-RA plan agreement along with Article IX. You and we have received or retained a copy of these documents. You also acknowledge the fact that we have given you a Roth IRA Disclosure Statement. A copy of these documents shall be admissible in evidence in any judicial or administrative proceeding as if they were originals. This agreement contains the entire agreement of the parties. It may not be changed orally; you and we must agree to any changes according to the procedure set forth in Section 2.8.

3.2 Controlling Law. The laws of the state in which our principal office is located will govern this agreement for purposes of the relationship between us (i.e. the Roth IRA custodian and the Roth IRA accountholder or the inheriting beneficiary). However, if controlling law must be determined for another reason, then the laws of the state of the accountholder's domicile shall govern this agreement.

3.3 Waiver of a Breach and Severability. Your waiver or our waiver of a breach of any provision of this agreement by the other party shall not operate or be construed as a waiver of any subsequent breach. If any provision of this agreement is held to be illegal or nonenforceable, the remaining provisions shall be construed as if that provision had not been included.

3.4 Privacy Policies. We will furnish you our privacy policies as required by applicable banking laws. We hereby incorporate into this Agreement the terms of our Privacy Policies.

3.5 Special Plan Agreement Change for the Law Changes Impacting Roth IRA Conversion Contributions. To the extent necessary, the provisions of Article II are modified to authorize a Roth IRA custodian/trustee to accept a Roth IRA conversion contribution for tax year 2010 and subsequent years without regard to the modified adjusted gross income and filing status requirements. Such requirements applied to a Roth IRA conversion made before January 1, 2010, but were repealed or eliminated for conversion contributions made on or after January 1, 2010. These changes are discussed in the Disclosure Statement.

3.6 Special Plan Agreement Changes for the Roth IRA Law Change Made by the Heroes Earned Retirement Opportunities Act. To the extent necessary, the previous provisions are modified to authorize the special Roth IRA tax benefits allowed under the Heroes Earned Retirement Opportunities Act. These changes are discussed under Section 5.4.B of the Disclosure Statement.

3.7 Special Plan Agreement Changes for the Roth IRA Law Changes Affecting Certain Reservists as Set Forth in the Pension Protection Act of 2006. To the extent necessary, the previous provisions are modified to authorize the special Roth IRA tax benefits relating to certain reservists. These changes are discussed under Section 5.4.G of the Disclosure Statement. In general, certain reservists are entitled to recontribute funds during a 2-year time period. The standard 60-day rollover period will not apply.

3.8 Special Plan Agreement Changes Authorizing Tax-Free Charitable Distributions. To the extent necessary, the previous provisions are modified to authorize the special IRA tax benefits for tax years 2006 to 2015 relating to tax-free charitable distributions. These changes are discussed in the Disclosure Statement.

3.9 Various Contribution Amounts, Income Limits and Limits Relating to the Saver's Tax Credit are to be Adjusted for Cost of Living Beginning, in General, in 2007, as Set Forth in the Pension Protection Act of 2006. To the extent necessary, the previous provisions are modified to authorize these adjustments. These changes are discussed in the Disclosure Statement.

3.10 Special Plan Agreement Change Authorizing Roth IRA Funds to be Transferred Tax-Free to Health Savings Accounts. On or after January 1, 2007, a person who is eligible to make an HSA contribution, who has taxable funds within a Roth IRA may make a special election once during their lifetime to transfer a certain amount from their Roth IRA to their HSA. This type of special transfer is called a qualified HSA funding distribution. Such an election, once made, is irrevocable. The amount transferred in such a direct trustee-to-trustee transfer will be excluded from your income.

3.11 Special Plan Agreement Changes Authorizing a New Type of Inherited Roth IRA as Set Forth in the Pension Protection Act of 2006. To the extent necessary the previous provisions are modified to authorize the special Roth IRA tax benefits relating to the new type of inherited Roth IRA arising from direct rollovers of a designated Roth account of nonspouse beneficiaries. These changes are discussed under Section 5.17 of the Disclosure Statement.

3.12 Special Plan Agreement Changes Authorizing Funds from an Eligible Employer Retirement Plan (ERP) to be Directly Converted to a Roth IRA. On or after January 1, 2008, you will be eligible to directly roll over some or all of your account balance into a Roth IRA. The standard eligibility rules for a conversion apply. The amount moved to the Roth IRA will be a conversion contribution. You will be required to include the distribution your income for federal income tax purposes.

3.13 Special Plan Agreement Changes Authorizing The Rollover of Certain Death Gratuities Into a Roth IRA as Set Forth in Heroes Earnings Assistance and Relief Tax Act of 2008. To the extent necessary, the previous provisions are modified to authorize a rollover contribution relating to contributions of military death gratuities. This change is discussed under Section 5.4.C.

3.14 Special Plan Agreement Changes for Special Conversion/Rollover Contributions Arising from Certain Amounts Received in an Airline Carrier Bankruptcy. To the extent necessary, the previous provisions are modified to authorize the special rollover or conversion contributions arising from the Airline Carrier Bankruptcy rules as set forth in the "Worker, Retiree, and Employer Recovery Act of 2008" These changes are discussed in Section 5.4.C of the Disclosure Statement.

3.15 Special Plan Agreement Changes for Special Rollover Contributions Arising from Exxon Valdez Litigation. To the extent necessary, the previous provisions are modified to authorize the special rollover contributions arising from the Exxon Valdez litigation rules as set forth in the Emergency Economic Stabilization Act of 2008. These changes are discussed in the Disclosure Statement.

3.16 Special Plan Agreement Changes Authorizing Rollovers of Airline Payments to Traditional IRAs and Recharacterizations of Previous Rollovers of Airline Payments to Roth IRAs. To the extent necessary, the previous provisions are modified to authorize the special rollover contributions and transfer contributions as authorized by the FAA Modernization as signed into law on February 14, 2012. This law has been modified by the Protecting Americans From Tax Hikes Act of 2015. These changes are discussed in the Disclosure Statement.

3.17 Special Plan Agreement Changes for Laws Enacted in 2017 Relating to Certain 2016/2017 Hurricanes And other Federally Declared Disasters. To the extent necessary, the previous provisions are modified to authorize the special IRA tax benefits made by the Tax Cuts Act and the Disaster Tax Relief and Airport and Airway Extention Act of 2017. These changes are discussed in the Disclosure Statement. One of the primary changes is, a qualified individual is authorized to roll over a qualified hurricane disaster distribution within a 3-year time period rather than the standard 60 days as set forth in the Internal Revenue Code sections referenced in Article I.

3.18 Special Plan Agreement Changes for IRA Laws Enacted By The Tax Cuts Act As Signed Into Law By President Trump on December 22, 2017. To the extent necessary, the previous provisions are modified effective for tax years commencing after December 31, 2017. A person who makes a Roth IRA conversion in 2018 or subsequent years is unable to recharacterize it. And there is a new rollover rule for certain plan loan offset amounts. These changes are discussed in the IRA Disclosure Statement.

3.19 Special Plan Agreement Changes for IRA Laws Enacted By The Bipartisan Budget Act of 2018 as signed into law by President Trump on February 9, 2018. To the extent necessary, the previous provisions are modified effective for tax years commencing after December 31, 2017 to authorize the new rollover rule for an IRA owner who has had their Roth IRA levied by the IRS and then the IRS has had to return some or all of the levied funds. Also victims of the California fires are to receive the special tax benefits as summarized in section 3.17. These changes are discussed in the Roth IRA Disclosure Statement.

3.20 Special IRA Plan Agreement Changes for IRA Law Changes Enacted by the SECURE Act as incorporated into the Further Consolidated Appropriations Act of 2020 as signed into law by President Trump on December 20, 2019. To the extent necessary the preceding Roth IRA plan agreement provisions are modified to adopt the Roth IRA changes authorized by the Further Consolidated Appropriations Act of 2020. In general, these changes apply for tax year commencing after December 31, 2019. The following changes (and also others) are discussed in the Roth IRA Disclosure Statement. The rules applying to inherited Roth IRAs have changed radically. In general, with respect to a Roth IRA accountholder dying on or after January 1, 2020, a nonspouse beneficiary who is more than 10 years younger than the IRA owner will have 10 years in which to close the inherited Roth IRA. The rules for spouse beneficiaries have not changed. These rules changes are complex and you will wish to discuss with your legal and tax advisers. There are two new exceptions to the 10% additional tax of Code section 72(t), certain adoption and birth expenses and certain disaster distributions. There are two new rules regarding compensation for IRA contribution purposes. Certain taxable stipend payments and non-tuition payments are to be treated as compensation. Certain difficulty of care payments are also to be treated as compensation. There are special IRA rules for contributions and distributions if you are eligible to use the disaster related rules.

4. Special Amendment to Article V

4.1 The Internal Revenue Service (IRS) in IRS Notice 98-49 states that the model Roth IRA forms may be amended to provide a designated spouse beneficiary with options to comply with the required distribution rules which apply to a Roth IRA which are different than those set forth in Article V.

Therefore, Paragraph 3 of Article V is amended to read as follows:

3. If the depositor's spouse is the sole beneficiary on the depositor's date of death, such spouse will then be treated as the depositor unless he or she expressly elects in writing on or before September 30 of the year following the year of the depositor's death to elect to be distributed the entire remaining interest either by December 31 of the year containing the fifth anniversary of the depositor's death or have it be distributed over his or her life expectancy starting no later than December 31 of the year the depositor would have attained age 70½. In addition, if a federal court or state court construes the Internal Revenue Code of 1986, as amended, as providing the spouse beneficiary with more rights than set forth in regulation 1.408A or regulation 1.401(a)(9)-9 then the spouse beneficiary shall have such additional rights.

Roth IRA Disclosure Statement

1. Revocation Procedure

You are entitled to revoke or cancel your Roth IRA for any reason within seven (7) calendar days of the day you established it. You revoke your Roth IRA by mailing or delivering a written notice to the Custodian's/ Trustee's representative as shown on the application page. If you mail your notice, it is deemed mailed on the postmark date if you deposited it, properly addressed, in the United States mail with first class postage. Your timely revocation within the first seven days will mean your original contribution will be returned to you without any adjustment. Be advised that the current procedures of the Internal Revenue Service require us to report your contribution and distribution even if you exercise this right to revoke your Roth IRA.

2. Introduction

This Roth IRA Disclosure Statement is an explanation of the rules which govern your Roth IRA, because that is the type of IRA which you have established.

3. Overview

What is a Roth Individual Retirement Account (Roth IRA)? A Roth IRA is a type of tax-preferred savings and investment account authorized by Internal Revenue Code section 408A. The Roth IRA allows you to accumulate assets for retirement purposes and for other purposes.

What is the basic concept of a Roth IRA and what are the associated tax benefits? If you are eligible, you may make contributions, within limits, to the Roth IRA. You make these contributions with after-tax dollars. The earnings realized by the Roth IRA are not presently taxed, and if certain distribution rules are met, will never be taxed. For example, if you are age 42 on January 1, 2020, and you contribute $1,000 a year for 34 years (2020-2053) to a Roth IRA, then your contributions of $34,000 would accumulate to $110,434.88 as of December 31, 2053, if an earnings rate of 6% compounded annually was realized. You and your beneficiary(ies) would, of course, not pay any federal income tax on the contribution amount of $34,000 when distributed, because you cannot claim a tax deduction for your contributions. However, the great tax benefit to be realized from a Roth IRA is that you and your beneficiary(ies) will not have to include in your taxable income the earnings of $76,434.88 (and subsequent future earnings) when distributed to you or your beneficiary(ies) as long as the distributions are qualified distributions as defined later. You are not required to withdraw any required distribution amount from a Roth IRA while you are alive. And, even though your beneficiaries will be required to receive certain required distributions, these distributions will be made over a number of years. This means the funds (contributions and earnings) within your Roth IRA which your beneficiary(ies) will have inherited will continue to accumulate for some time within the inherited Roth IRA and will not be taxed when distributed.

4. Statutory Requirements of a Roth IRA

4.1 Cash Contributions. Your Roth IRA contribution must be in cash unless it is a rollover contribution, a recharacterized contribution or a Roth IRA conversion contribution.

4.2 Eligibility and Contribution Limits. The first eligibility requirement for a Roth IRA is that you have compensation. The second requirement is that you not have too much modified adjusted gross income (MAGI). Individuals whose MAGI exceeds a certain level are not allowed to contribute to a Roth IRA. The income levels under which the ability to contribute to a Roth IRA is phased out depends on the accountholder's tax-filing status. See Disclosure Statement Section 5.4.A for a discussion of these limits.

The maximum amount which may be contributed to the Roth IRA is determined as follows: Maximum amount permitted to be made to a traditional IRA (i.e. the lesser of 100% of compensation or the applicable amount from the Chart of IRA Contribution Limits set forth below) reduced by the amount actually contributed.

Compensation is generally defined to include salaries, wages, self-employment income and other personal service income included in your gross income. Compensation does not include income from property. If you are self-employed, your net earnings must be reduced by any amount allowed as a deduction on your behalf under a qualified plan. Compensation includes any amount includable as alimony in your gross income under section 71(a)(1). The term compensation also includes any differential wage payment. This is any payment made by an employer to an individual with respect to the time he or she is performing service in the uniformed services while on active duty for a period of more than 30 days and which represents all or a portion of the wages the individual would have received from the employer if he or she was performing service for the employer.

In general, if for some reason your income is not taxable for federal income tax purposes, then you are unable to use it to make an IRA contribution.

The regular or spousal contribution to your IRA for any taxable year cannot exceed the lesser of the amount set forth in the Chart of IRA Contribution Limits as set forth below or the amount of your compensation, which is defined to include salaries, wages, self-employment income and other personal service income included in your gross income. Compensation does not include income from property. If you are self-employed, your net earnings must be reduced by any amount allowed as a deduction on your behalf under a qualified plan, SEP or SIMPLE. Compensation includes any amount includable as alimony in your gross income under section 71(a)(1). As of January 1, 2009, the term compensation also includes any differential wage payment. This is any payment made by an employer to an individual with respect to the time he or she is performing service in the uniformed services while on active duty for a period of more than 30 days and which represents all or a portion of the wages the individual would have received from the employer if he or she was performing service for the employer. Commencing on or after January 1, 2020, compensation includes certain taxable stipend payments and non-tuition fellowship payments, and difficulty of care payments.

The definition of compensation for purposes of being eligible to make an annual IRA contribution is clarified to make clear that compensation includes certain “difficulty of care payments.” The general rule, in order to make an IRA contribution regardless if deductible or non-deductible, a person must have “taxable” income to support such contribution.

There is a special rule for a person who excludes from gross income under code section 131 certain. The person will be eligible to make a traditional IRA contribution. Such a person is eligible to make a non-deductible contribution to the extent of the lesser of the amount excluded or the maximum IRA contribution amount as reduced by the amount of compensation which is includible in income.

For example, Jane Doe, age 39, receives compensation of $11,000 from certain “difficulty of care payments.” Jane is able to exclude $9,000 under section 131 and she includes $2,000 in her taxable income. She is eligible to make a non-deductible contribution of $4,000 (the lesser of $9000 or $6,000 less $2,000).

On May 22, 2006, President Bush signed the Heroes Earned Retirement Opportunities Act (HEROA), which provides that an individual who has nontaxable combat-zone pay on or after January 1, 2004, may use such pay to make his or her Roth IRA contribution for 2004, 2005, 2006, or subsequent years, as applicable. To compute your permissible Roth contribution, you must determine your “modified adjusted gross income” (MAGI). If you file Form 1040, use the amount on the page 1 “adjusted gross income” line, but modified (changed) by figuring it without taking any Foreign earned income exclusion, Foreign housing exclusion or deduction, or exclusion of series EE bond interest shown on Form 8815, and by not including the amount includable in income because of converting a traditional IRA to a Roth IRA. In addition, beginning in 2005, you will also not include any amount attributable to a required minimum distribution. Unlike the traditional IRA, you are allowed to determine your MAGI by taking an IRA deduction under section 219 into account.

Chart of Roth IRA Contribution Limits

Tax Year	Amount If Not Age 50 or Over	Amount If Age 50 or Over
2002-2004	$3,000	$3,500
2005	$4,000	$4,500
2006-2007	$4,000	$5,000
2008-2012	$5,000	$6,008
2013-2018	$5,500	$6,500
2019-2020	$6,000*	$7,000*

*The limits for subsequent years may be larger than $6,000 and $7,000 as they may be adjusted by a COLA.

4.3 Custodian/Trustee Requirements. The custodian or trustee of your Roth IRA must be a bank, trust company, savings and loan association, a federally insured credit union, or other person approved by the Secretary of the Treasury.

4.4 No Life Insurance. Your contributions or any funds in your Roth IRA cannot be invested in life insurance to any extent.

4.5 Nonforfeitable. Your contributions and Roth IRA funds are nonforfeitable.

4.6 Segregated Funds. Your Roth IRA funds must be kept separate from other property, although these assets may be combined with other property in a common Roth IRA trust fund.

4.7 RMDs for IRA Beneficiaries

Are my Roth IRA beneficiaries required to take RMDs after I die? Yes. Once an Roth IRA accountholder dies, the law generally requires that a beneficiary take required distributions over his or her life expectancy or by using the 5-year rule or the 10-year rule, if applicable. Unless you have restricted how much your beneficiary may withdraw, he or she is able to withdraw more than the required distribution amount, including closing the Roth IRA. If your beneficiary fails to take his or her required distribution, then he or she will owe the 50% tax.

Have the RMD rules for certain beneficiaries changed? Yes. With the enactment of the SECURE Act within the Further Consolidations Act of 2020 there are now different rules depending upon whether the Roth IRA owner died on or before December 31, 2019 or after December 31, 2019.

What are the RMD rules and options if my spouse is my beneficiary? The rules applying to a spouse beneficiary were not changed by the SECURE Act.

Situation #1. If your spouse is your sole beneficiary, and you die before the required beginning date, then your spouse may choose from three options.

Most often a surviving spouse who is the sole primary beneficiary will elect to treat the deceased spouse's Roth IRA as his or her own IRA because there is no RMD while a Roth IRA accountholder is alive.

Option #1. Election as Own – Your spouse is able to elect to treat his or her interest as a beneficiary in your Roth IRA as his or her own Roth IRA. This is true even if distribution has commenced to your spouse. The effect of this election is that all standard distribution rules will apply to your spouse's new Roth IRA.

Your spouse makes such an election when he or she redesignates the Roth IRA to be his or her own Roth IRA as an owner rather than as a beneficiary. Such election is also deemed made when, if at any time, your spouse fails to take an RMD within an appropriate time period or contributes any additional amounts to the Roth IRA.

Your spouse is eligible to make this election only if he or she is the sole beneficiary of your Roth IRA and he or she must have an unlimited right to withdraw funds from the Roth IRA. Your spouse does not have the ability to treat your Roth IRA as his or her own Roth IRA if he or she is not your sole primary beneficiary or you have limited his or her right to take IRA withdrawals.

Surviving Spouse's Right to Treat Deceased Spouse's Roth IRA as Own. A spouse who is the sole primary beneficiary, and who has an unlimited right to withdraw amounts from the deceased spouse's Roth IRA, has the right to treat this IRA as his or her own Roth IRA at any time after the spouse's date of death. When a surviving spouse elects to treat the deceased spouse's Roth IRA as his or her own, the Roth IRA is no longer an "inherited" Roth IRA. The effect of treating the deceased spouse's IRA as his or her own Roth IRA is that the surviving spouse is now treated as if he or she had originally made the Roth IRA contributions. The surviving spouse is now considered to be the Roth IRA owner, for whose benefit the Roth IRA is maintained, for all purposes under the tax laws (e.g. the application of the 10% excise tax for pre-age 59½ distributions, the right to designate a beneficiary(ies), the right to convert the funds to a Roth IRA, the RMD Rules, etc).

The IRS has written the rule to be — the RMD for the calendar year of the election and each subsequent year is made by using the age of the surviving spouse.

The surviving spouse, however, may choose to use a special rule (i.e. the exception). If the surviving spouse's election to "treat as own" occurs during the same year in which the deceased spouse died, then the surviving spouse has the right to be paid the RMD amount, if any, as determined for the deceased Roth IRA owner. The surviving spouse only needs to be paid the RMD amount which had not yet been distributed to the deceased Roth IRA owner prior to his or her death.

Note. The IRS has made clear that even though your spouse beneficiary does not have the right to elect to treat your Roth IRA as his or her own because he or she is not the sole beneficiary or for some other reason, your spouse may still roll over a distribution as long as the standard rollover rules are satisfied.

Option #2. Life-Distribution Rule – If your spouse is the sole beneficiary of your Roth IRA, then he or she is required to commence distributions over his or her life-expectancy - no later than the later of: December 31 of the year you would have attained age 70½, or December 31 of the following year if you would die in the year you would have attained age 70½.

A special rule applies if your spouse is your sole beneficiary and you die before your required beginning date and then your spouse dies before payments commence to him or her. In this case, the 5-year rule or the life-distribution rule will be applied as if your spouse is the Roth IRA accountholder.

Option #3. Five-Year Payout – Under this option, your spouse must remove all funds from the Roth IRA by December 31 of the year that contains the fifth anniversary of your death. As much or as little as your spouse desires can be removed each year, as long as the entire IRA balance is distributed by the deadline.

Situation #2. If your spouse is your sole beneficiary, and you die after the required beginning date, then your spouse has two options: elect as own or a special life distribution rule. As discussed in Situation #1, your spouse may elect to treat your Roth IRA as his or her own at any time. Your spouse's second option is to use a special life distribution rule. He or she may establish a periodic distribution schedule which will be based on his or her life-expectancy factor as set forth in the Single Life Table as prepared by the Internal Revenue Service – in Internal Revenue Code regulation 1.401(a)(9)-9. Each year's factor is based on your spouse's age as of his or her birth date for such year. For example, if you died in 2014 at age 79, and your spouse attained age 71 in 2014, then your spouse's factor will be 15.5 (age 72) for 2015, 14.8 (age 73) for 2016, 14.1 (age 74) for 2017, etc.

After your spouse dies, there will be a different method of determining the distribution period to govern the required distributions to any subsequent beneficiary(ies) for years after the year your spouse dies. This method requires a preliminary factor to be determined from the Single Life Table for the year of the spouse's death by using the birth date your spouse either attained or would have attained for the year of his or her death. The actual factors to be used for subsequent years are determined by reducing the preliminary factor by one for each subsequent year. For example, if your spouse died in 2014 at age 74, then the factors to be used for subsequent years will be as follows: 13.1 (14.1-1.0) for 2015; 12.1 (14.1-2.0) for 2016; 11.1 (14.1-3.0) for 2017, etc.

Your beneficiary is, of course, permitted to take more than the required distribution amount unless you have imposed permissible restrictions.

What are the beneficiary RMD rules applying to my non-spouse beneficiary who is not an eligible designated beneficiary and I die after December 31, 2019? The general rule is, a non-spouse beneficiary must use the 10-year rule. The 10-year rule replaces the five year rule. The life distribution rule no longer may be used by a non-spouse beneficiary. This includes a beneficiary which is a qualified trust, a nonqualified trust, an estate on any other non-living entity such as a charity. The general tax rule is, your non-spouse beneficiary may structure distributions over this 10-year period as he or she chooses, and the beneficiary will include these distributions in their income except to extent that a portion of the distribution is the withdrawal of basis.

So, if you die after December 31, 2019, and your beneficiary is not your spouse, then your Roth IRA must be closed by December 31 of the year containing the 10th anniversary of your death. The beneficiary is no longer eligible to stretch out distribution's over the beneficiaries life expectancy. A non-spouse beneficiary does not have the right to elect to treat your inherited IRA as his or her own Roth IRA and he or she cannot take a distribution and then make a rollover contribution. A non-spouse beneficiary does have the right to transfer an inherited Roth IRA to another Roth IRA custodian/trustee unless you have imposed a restriction preventing such a transfer. If your non-EDB beneficiary dies during this 10-year period, the 10-year period continues to apply to a subsequent beneficiary.

What are the beneficiary RMD rules applying to my non-spouse beneficiary who qualifies as an eligible designated beneficiary and I die after December 31, 2019? Such a beneficiary is entitled to use either the life distribution rule or the 5-year rule, if applicable, and is not required to use the 10-year rule. There are five individuals or trusts who qualify as an eligible designated beneficiary.

1. A beneficiary who is disabled as defined for IRA and pension plan purposes.

2. A non-spouse beneficiary who is not more than 10 years younger than the deceased Roth IRA. For example, Jane age 65 and designated her brother John age 58 as her primary beneficiary.

3. A beneficiary who is a child of the Roth IRA owner who has not reached the age of majority. This exception is limited. Once the child attains the age of majority, she or will have 10 years in which to close the inherited Roth IRA. In most states, the age of majority is age 18.

4. A beneficiary who is chronically ill. A certification must be provided showing a period of inability that is an indefinite one and which reasonably is expected to be lengthy.

5. A beneficiary which is a trust which meets certain special rules. These rules are not the rules that must be met under pre-2020 rules to have a qualified trust. First, the trust must have multiple beneficiaries. Second, the trust must have at least one beneficiary who is either disabled or chronically ill. Third, all of the beneficiaries are treated as designated beneficiaries for purposes of determining the distribution period.

Two Types of Trusts Will Qualify

First, upon the death of the Roth IRA owner, the trust is divided immediately into separate trusts for each beneficiary. There is to be a separate life distribution rule calculation for each beneficiary who is disabled or chronically. It is not clear what calculation is to be made for other beneficiaries.

Second, upon the death of the Roth IRA owner, the trust must provide that only a beneficiary who is disabled or a beneficiary who is chronically is entitled to be distributed such trust funds. Other beneficiaries may be distributed such funds only after all such eligible designated beneficiaries have died. However, in that situation any remaining beneficiary (not an eligible designated beneficiary) shall be treated as a beneficiary of the eligible designated beneficiary.

If your EDB beneficiary dies during their life distribution RMD period and funds remain in the inherited Roth IRA, then the 10-year rule applies to any subsequent beneficiary.

What are the beneficiary RMD rules applying to my non-spouse beneficiary and I died on or before December 31, 2019? The tax rules in effect prior to the enactment of the Further Consolidated Appropriations Act of 2020 (including the SECURE Act) continue to apply. A summary is set forth.

When must my beneficiary(ies) be paid a required distribution? If an RMD had been calculated for you for the year you die, then your beneficiary(ies) will need to be paid an RMD by December of 31 of such year to the extent it had not been paid to your prior to your death. An RMD is calculated for the year you attain age 70½ or would have attained age 70½ since for RMD purposes it is assumed you lived the entire year.

The RMD due for the years after the year of your death depend upon the RMD rules as discussed below. In general, your beneficiary(ies) must take an RMD by December 31 of every year after the year of your death. There are some exceptions as discussed later.

What is the tax consequence for my beneficiary if he or she fails to take an RMD by December 31? He or she will owe the 50% tax. For example, if the RMD is $600, then the penalty tax amount owed is $300. The IRS does have the authority to waive this tax if special circumstances explain why a beneficiary missed taking his or her RMD.

What is the general RMD formula for an IRA beneficiary? It is the same formula which applies to a living IRA accountholder, except the life-expectancy table to be used is different. A Roth IRA beneficiary uses the Single life Table. A Roth IRA beneficiary never uses either the Uniform Lifetime Table or the Joint and Last Survivor Table.

The Formula:
12-31-XX of Preceding Year = RMD for Current Year
Period from Single Life Table (As Adjusted)

What RMD rules apply to the beneficiary? The RMD rules depend upon whether you die before or on/after your required beginning date. You and your beneficiary will want to understand the following four situations.

Situation #1. If your beneficiary is a living person other than your spouse, or your spouse is not your sole beneficiary, and you die before your required beginning date, then the beneficiary has two options:

Five-Year Payout – All funds must be distributed by December 31 of the year that contains the fifth anniversary of your death. As much or as little as the beneficiary desires can be removed each year, as long as the entire IRA balance is distributed by the deadline.

Life-Distribution Rule – Under this option, the distribution is based on the beneficiary's life-expectancy, using one-year reduction. This is the option which automatically applies unless your beneficiary elects the five-year payout option on or before 12/31 of the year after the year of death.

If a beneficiary using the life-distribution rule neglects to take a distribution when required, normally a 50% excise tax would be owing on the amount which was required to be withdrawn but was not. The IRS is allowed to waive this excise tax if the beneficiary would agree to a total distribution of the IRA account by 12/31 of the year which includes the fifth anniversary of the accountholder's death. Although the IRS is allowed to waive the 50% excise tax, it is not required to do so.

Situation #2. If your beneficiary is a living person other than your spouse, or your spouse is not your sole beneficiary, and you die after your required beginning date, then the applicable distribution period for years after the year of your death will be based on the remaining life-expectancy of your designated beneficiary. The beneficiary's remaining life-expectancy is calculated using the age of your beneficiary in the year following the year of your death. For subsequent years, the initial factor is reduced by one for each subsequent year.

Situation #3. If you did not designate a living person as a beneficiary and you died before your required beginning date, then the estate or other beneficiary will be required to use the 5-year rule.

Situation #4. If you do not designate a living person as a beneficiary and you die on or after your required beginning date, then the applicable distribution period (i.e. the original factor) for years after the year of your death is based on your age and life-expectancy as determined as of December 31 of the year you die. For subsequent years, the original factor is reduced by one for each elapsed year.

Special Exception. Under Situation #2 or Situation #4, the distribution period will be based on the remaining life expectancy of the accountholder, as determined under Situation #6, rather than that of the beneficiary, if it results in a longer distribution period.

If I designate a trust as my Roth IRA beneficiary, will such trust be entitled to use a distribution period which normally would apply only to a beneficiary who is an individual? Yes. If special rules are met, the beneficiaries of a trust will be treated as if they had been the beneficiaries of the Roth IRA. The effect of this is that the age of such beneficiary(ies) may then be used to determine the distribution period which applies after your death.

The trustee of the trust, by October 31 of the year after your death, must either provide a copy of the actual trust document for the trust that is named as a beneficiary as of your date of death, or provide a final list of all beneficiaries of the trust as of October 31 of the year after the accountholder's death (including contingent and remainderman beneficiaries with a description of their entitlement); certify to the best of his or her knowledge that the list is correct and complete and that requirements 1-3 below are satisfied; and agree to provide a copy of the trust instrument upon demand.

1. The trust is a valid trust under state law, or would be but for the fact that there is no CORPUS.
2. The trust is irrevocable or will, by its terms, become irrevocable upon your death.
3. The beneficiaries of the trust who are the beneficiaries with respect to the trust's interest in the IRA are identifiable from the trust instrument.

What life-expectancy table is used to determine the life expectancy which applies to an inheriting IRA beneficiary?

Single Life Table

Age of IRA Benefi-ciary	Distribu-tion Period (in yrs)	Age of IRA Benefi-ciary	Distribu-tion Period (in yrs)	Age of IRA Benefi-ciary	Distribu-tion Period (in yrs)	Age of IRA Benefi-ciary	Distribu-tion Period (in yrs)
0	82.4	28	55.3	56	28.7	84	8.1
1	81.6	29	54.3	57	27.9	85	7.6
2	80.6	30	53.3	58	27	86	7.1
3	79.7	31	52.4	59	26.1	87	6.7
4	78.7	32	51.4	60	25.2	88	6.3
5	77.7	33	50.4	61	24.4	89	5.9
6	76.7	34	49.4	62	23.5	90	5.5
7	75.8	35	48.5	63	22.7	91	5.2
8	74.8	36	47.5	64	21.8	92	4.9
9	73.8	37	46.5	65	21.0	93	4.6
10	72.8	38	45.6	66	20.2	94	4.3
11	71.8	39	44.6	67	19.4	95	4.1
12	70.8	40	43.6	68	18.6	96	3.8
13	69.9	41	42.7	69	17.8	97	3.6
14	68.9	42	41.7	70	17.0	98	3.4
15	67.9	43	40.7	71	16.3	99	3.1
16	66.9	44	39.8	72	15.5	100	2.9
17	66.0	45	38.8	73	14.8	101	2.7
18	65.0	46	37.9	74	14.1	102	2.5
19	64.0	47	37.0	75	13.4	103	2.3
20	63.0	48	36.0	76	12.7	104	2.1
21	62.1	49	35.1	77	12.1	105	1.9
22	61.1	50	34.2	78	11.4	106	1.7
23	60.1	51	33.3	79	10.8	107	1.5
24	59.1	52	32.3	80	10.2	108	1.4
25	58.2	53	31.4	81	9.7	109	1.2
26	57.2	54	30.5	82	9.1	110	1.1
27	56.2	55	29.6	83	8.6	111	1.0

What RMD rule applies if an inheriting beneficiary alive as of December 31, 2019 of a Roth IRA accountholder who died before January 1, 2020, dies on or after January 1, 2020? The 10-year rule applies. Any subsequent beneficiary is not entitled to continue the life distribution schedule which applied to the person who was a beneficiary as of December 31, 2019.

4.8 What is an Inherited Roth IRA? A person establishes and maintains a Roth IRA because of the special tax attribute that if certain requirements are met, then the income earned by the Roth will never be taxed. A person is able to designate a person to take over the "ownership" of these Roth IRA funds after his or her death. Once the original Roth IRA accountholder dies, this Roth IRA becomes an Inherited Roth IRA. The person who was designated as the beneficiary "inherits" this Roth IRA. The Roth IRA custodian now owns this Roth IRA on behalf of the beneficiary rather than the original accountholder.

4.9 What type of distributions may be made to a beneficiary from an inherited Roth IRA?

The distribution will be one of two types. It will either be qualified or non-qualified. If the five-year rule has been met, the distribution will be qualified. If the five-year rule has not been met, then the distribution will be non-qualified. A qualified distribution is never subject to being taxed. It is tax-free. A non-qualified distribution may be tax-free or it may be taxable.

A nonqualified distribution from a Roth IRA will be tax-free as long as the amount being distributed is a return of basis (i.e. contributions) and not the return of earnings.

4.10 Will all distributions from an Inherited Roth IRA necessarily be tax-free? No. If the beneficiary withdraws the income from the Roth IRA and the five-year rule has not been met, the income will be taxable.

4.11 Will almost all distributions from an inherited IRA be tax-free? Yes. The tax rules provide a specific order for the distribution of the contributions and the earnings from the Roth IRA. Annual contributions come out first and then conversion contributions. The earnings come out only after all of the contributions have been distributed. Even though a beneficiary may take some distributions before the five-year rule has been met, these distributions most likely are not taxable because it is the contributions which will be distributed and these are not taxable.

4.12 Must I, as the inheriting beneficiary, elect the life distribution rule or the five-year rule? The life distribution rule automatically applies to a beneficiary who is a person. In order for the five-year rule to apply, the individual must elect the five-year rule. One would think a person normally would not want to elect the five-year rule as the right to earn tax-free income is lost as the funds must be paid out within the five-year period. Be aware that if the decedent's estate is the beneficiary, the five-year rule applies and the life distribution rule is inapplicable.

4.13 Can you, as the inheriting beneficiary, withdraw more than the required distribution amount in any given year? Yes. Unless restricted by the account owner, the beneficiary would have the right to withdraw as much as he or she wants.

4.14 Does the Roth IRA accountholder have the right to restrict the amount of the distribution the inheriting beneficiary could take each year? Yes. Normally most Roth IRA plan agreements grant the inheriting beneficiary the discretion to withdraw the funds within the Roth IRA whenever he or she wants. The Roth IRA accountholder may place restrictions on the amount to be withdrawn by the inheriting beneficiary. Generally, a special beneficiary designation form would need to be prepared by the Roth IRA accountholder's attorney.

For example, a Roth IRA accountholder could designate his or her church to receive $50,000 from her Roth IRA. In order to restrict the church from spending the entire $50,000 immediately, she could stipulate that the church was to withdraw no more than $10,000 during a calendar year.

4.15 How is it determined that the five-year rule for a qualified distribution has been met? The five-year period has been met if the distribution to the beneficiary is made after the five-year period beginning with the first tax year for which a contribution was made to a Roth IRA of the deceased Roth IRA accountholder. If a Roth IRA accountholder established his or her Roth IRA for 2010, the five-year rule is met with respect to any distribution made to his or her beneficiary only if the distribution occurs after December 31, 2014.

4.16 Is it possible to transfer an inherited Roth IRA? Yes. You as a beneficiary are eligible to instruct that your inherited Roth IRA funds be transferred from one Roth IRA custodian to another Roth IRA custodian. The two custodians must agree to process the transfer request.

4.17 Do the tax rules authorize you to take or receive a distribution from your inherited Roth IRA and roll it over to another inherited Roth IRA? No. You as a beneficiary have no roll over rights with respect to a Roth IRA distribution. Under existing law there is no way to un-do the distribution. You need to protect yourself as it does not matter who made the mistake in making the distribution.

4.18 Does the 50% excess accumulation tax apply to a beneficiary if he or she fails to take a required distribution by a deadline? Yes. The IRS may choose to waive this tax if the excess accumulation is due to a reasonable error, and the beneficiary takes, or is taking steps to correct the insufficient distribution.

4.19 Does an individual who inherits an Inherited Roth IRA have the right to designate his or her own beneficiary(ies) and may such beneficiary continue the schedule as established by the first beneficiary? Yes. The federal income tax laws certainly permit it. The distribution schedule applying to the first inheriting beneficiary will also apply to any subsequent inheriting beneficiary. You will want to check the Roth IRA plan agreement to see what provisions it contains regarding this subject. Be aware, however, there may be some question regarding individual state law. You or your beneficiary should check with an attorney or your tax advisor regarding the laws applying in your state.

5. Federal Income Tax Consequences.

5.1 General Concept. You contribute funds to your Roth IRA which have already been taxed. The general rule is that the earnings which will be generated by your Roth IRA contributions will never be taxable as long as they are distributed pursuant to a qualified distribution as discussed later. If the earnings are not distributed pursuant to a qualified distribution, then the earnings will be taxable, and in some cases, subject to a special tax or taxes as discussed later.

5.2 Prohibited Transaction. You may incur a prohibited transaction with respect to your Roth IRA. If you engage in a prohibited transaction at any time during the year, your Roth IRA funds will generally be treated as if they were distributed on January 1 of that year. IRC section 4975 names the prohibited transactions. Some examples are: (1) borrowing from your Roth IRA; (2) selling property to your Roth IRA; (3) using your Roth IRA as security for a loan; or (4) receiving unreasonable compensation for managing your Roth IRA. If any of your Roth IRA funds are invested in collectibles in any year, the amount invested is considered distributed to you in that year. Collectibles include tangible personal property such as artwork, rugs, antiques, metals, gems, coins, alcoholic beverages, etc.

Exception #1: Roth IRA funds may be invested in certain gold, silver, and platinum coins issued by the United States.

Exception #2: Roth IRA funds may be invested in any coin issued under the laws of any state. After December 31, 1997, a Roth IRA may purchase certain gold, silver, platinum or palladium bullion. Such bullion must be in the physical possession of the Roth IRA trustee or custodian. Such bullion must be of a fineness that a contract market requires for metals which may be delivered in satisfaction of a regulated futures contract.

5.3 Federal Estate and Gift Taxes. IRC sections 2039(c) and 2517 provide limited exceptions so that certain Roth IRA transactions will not be subject to federal estate or gift taxes. For example, no federal gift tax has to be paid when you name a beneficiary or when the funds are paid to the beneficiary after your death. In general, Roth IRA funds are includable in the computation of federal estate taxes. Publication 590 should be read for an explanation of the rules.

The Tax Cuts and Jobs Act of 2017 has greatly expanded the federal estate tax exemption. For 2018-2025 the law provides an estate tax exemption for an individual of $10,000,000. This is twice the $5,000,000 limit (as COLA adjusted) which will apply in 2026. This amount is adjusted annually pursuant to a COLA adjustment. The exclusion amount for 2019 is 11.40 million. The adjusted amount for 2020 is $11,580,000. In general, a married couple is able to exclude 22.80 million from federal estate tax for 2019 and 23.16 million for 2020.

The IRS has furnished guidance by issuing a final regulation that there will be no claw back of large gifts, including IRA gifts, made before 2026.

The final regulation provides that the credit to be claimed on the estate's return is the larger of the exclusion amount as in effect on the decedent's date of death or the exclusion amount to be used to determine the gift tax payable. This means the decedent's estate is not inappropriately taxed with respect to gifts made when exclusion amount was greater.

5.4 The Contribution Rules. Ten (10) types of contributions may be made to a Roth IRA: (i) regular; (ii) spousal; (iii) rollover; (iv) transfer; (v) conversion; (vi) recharacterization; (vii) an authorized recontribution (viii) a special conversion contribution regarding Exxon Valdez litigation; (ix) a special rollover contribution by certain airline employees; or (x) a special rollover contribution of a death gratuity. A conversion contribution is a special type of rollover or transfer contribution.

Maximizing Contributions To a Roth IRA. A person wants to maximize the amount he or she contributes to a Roth IRA. The tax rules permit the following different types of Roth IRA contributions:

1. An annual contribution;
2. A conversion contribution from a traditional IRA;
3. A conversion contribution from a SEP-!RA;
4. A conversion contribution from a SIMPLE-IRA;
5. A direct rollover (i.e. a conversion) of non-Roth funds, from an employer plan;
6. A direct rollover or rollover of Designated Roth funds, from an employer plan;
7. A direct rollover or rollover of a deceased spouse's Designated Roth funds; or
8. A direct rollover (i.e. a conversion) of non-Roth funds from a deceased spouse's 401(k) plan.

5.4.A Regular Contributions.

When may I establish a Roth IRA? You are able to establish a Roth IRA on or before April 15 of the following tax year unless the 15th falls on a Saturday or Sunday or there is a holiday recognized for federal income tax purposes.

Am I eligible to contribute to a Roth IRA? You are eligible if you satisfy the following two requirements: (1) you must have earned income or compensation and; (2) you meet certain MAGI limitations. Be aware that you are eligible to make contributions to a Roth IRA even though you are age 70½ or older. For a given year, you may be ineligible to contribute to a Roth IRA, but still be eligible to contribute to a traditional IRA.

Electronic Contribution of Federal Tax Refund. The IRS has authorized a procedure to allow you to have all or a portion of your federal tax refund electronically deposited to a retirement plan (in addition to, or instead of, a checking or savings account); this would include a traditional and/or Roth IRA.You will need to use IRS Form 8888, and you will indicate (at the time you file your return) up to three accounts into which you wish to have your federal tax refund electronically deposited. The funds may be deposited with any U.S. financial institution, and you must provide valid routing and account numbers. You will attach Form 8888 to your tax return. The ability to allocate direct deposit refunds among multiple accounts is available to all individual filers using the 1040 series of forms. Such a contribution will be considered to be a contribution for the current calendar year unless you designate it as being for the prior tax year.

What are the income limits for eligibility purposes? If your income (and your spouse's income, if you are married) is too high, you will not be eligible to make a contribution to a Roth IRA. If you are single, you become ineligible when your adjusted gross income is $137,000 or greater for 2019 and $139,000 or greater for 2020. If you are married and you file a joint return, you become ineligible when the adjusted gross income (AGI) of you and your spouse is $203,000 or greater for 2019 and $206,000 or greater for 2020. If you are married and you file a separate return, you become ineligible when your adjusted gross income is $10,000 or greater.

Can I make a contribution to a traditional IRA and a Roth IRA in the same year? Yes, but your annual Roth IRA contribution will be limited to the lesser of (1) the applicable contribution limit; or (2) the sum of your compensation which is includable in gross income for such year plus the compensation of your spouse as reduced by your spouse's contribution to his or her own traditional IRA and Roth IRA.

How much am I eligible to contribute to my Roth IRA for the 2019 tax year if I will NOT be at least age 50 as of December 31, 2019? You are eligible to contribute the lesser of 100% of your compensation, or $6,000, as reduced by (1) application of the special income and filing status limitation rule and (2) any amount you contributed to your traditional IRA for the same tax year.

How much am I eligible to contribute to my Roth IRA for the 2019 tax year if I will be at least age 50 as of December 31, 2019? You are also eligible to contribute the lesser of 100% of your compensation, or $7,000, as reduced by (1) application of the special income and filing status limitation rule and (2) any amount you contributed to your traditional IRA for the same tax year.

What are the contribution limits for a person who is <u>not</u> age 50 or older?

Tax Year	Amount
2002-2004	$3,000
2005-2007	$4,000
2008-2012	$5,000
2013-2018	$5,500
2019-2020	$6,000*

*The limits for subsequent years may be larger than $6,000 as it may be adjusted by a COLA.

What are the contribution limits for a person who is age 50 or older?

Tax Year	Amount
2002-2004	$3,500
2005	$4,500
2006-2007	$5,000
2008-2012	$6,000
2013-2018	$6,500
2019-2020	$7,000*

*The limits for subsequent years may be larger than $7,000 as it may be adjusted by a COLA.

How much can I contribute to the Roth IRA? For each tax year, you are eligible to contribute the lesser of 100% of your compensation, or the applicable limit, as reduced by (1) application of the special MAGI and filing status limitation rule and as reduced by (2) any amount you contributed to your traditional IRA for the same tax year.

The following Chart summarizes the special income and filing status rules:

<u>2019 Roth IRA Contribution Chart</u>

Amount of MAGI and Filing Status
<u>Single, Head of Household or Qualifying Widow(er)</u>

Below $122,000 — Entitled to full contribution amount

$122,000-$136,999.99 — Entitled to prorated contribution amount– use special formula*

$137,000 or over — No contribution permissible

*Explanation of special formula. Multiply the permissible contribution by the following ratio: amount of adjusted gross income in excess of $122,000/$15,000. This will give you a ratio that determines the amount you cannot contribute. Round to the lowest $10.00.

<u>Married Filing Jointly</u>

Below $193,000 — Entitled to full contribution amount.

$193,000-202,999.99 — Entitled to prorated contribution amount– use special formula.*

$203,000 or over — No contribution permissible.

*Explanation of special formula. Multiply the permissible contribution by the following ratio: amount of adjusted gross income in excess of $193,000/$10,000. This will give you a ratio that determines the amount you cannot contribute. Round to the lowest $10.00.

<u>Married Filing Separate Returns</u>

$0-$9,999 — Entitled to prorated contribution amount– use special formula*

$10,000 or Over — No contribution permissible

*Explanation of special formula. Multiply the permissible contribution by the following ratio: amount of adjusted gross income in excess of $0/$10,000. This will give you a ratio that determines the amount you cannot contribute. Round to the lowest $10.00.

<u>2020 Roth IRA Contribution Chart</u>

Amount of MAGI and Filing Status
<u>Single, Head of Household or Qualifying Widow(er)</u>

Below $124,000 — Entitled to full contribution amount

$124,000-$138,999.99 — Entitled to prorated contribution amount– use special formula*

$139,000 or over — No contribution permissible

*Explanation of special formula. Multiply the permissible contribution by the following ratio: amount of adjusted gross income in excess of $124,000/$15,000. This will give you a ratio that determines the amount you cannot contribute. Round to the lowest $10.00.

<u>Married Filing Jointly</u>

Below $196,000 — Entitled to full contribution amount.

$196,000-205,999.99 — Entitled to prorated contribution amount– use special formula.*

$206,000 or over — No contribution permissible.

*Explanation of special formula. Multiply the permissible contribution by the following ratio: amount of adjusted gross income in excess of $196,000/$10,000. This will give you a ratio that determines the amount you cannot contribute. Round to the lowest $10.00.

Married Filing Separate Returns

$0-$9,999 — Entitled to prorated contribution amount– use special formula*

$10,000 or Over — No contribution permissible

*Explanation of special formula. Multiply the permissible contribution by the following ratio: amount of adjusted gross income in excess of $0/$10,000. This will give you a ratio that determines the amount you cannot contribute. Round to the lowest $10.00.

5.4.B Spousal Contributions.

May my spouse or I use the spousal IRA contribution rules to make a contribution to our respective Roth IRAs for the 2019 or 2020 tax years? Yes. You (or your spouse) will be eligible to make a spousal contribution to a Roth IRA if the following rules are satisfied:

- You and your spouse must each have your own Roth IRA.
- You must be married as of the end of the tax year (i.e. December 31).
- You must file a joint income tax return.
- You must have compensation includable in gross income which is less than that of your spouse.

Your annual Roth IRA contribution will be limited to the lesser of (1) $6,000 or $7,000, as applicable; or (2) the sum of your compensation which is includable in gross income for such year plus the compensation of your spouse as reduced by your spouse's contribution to his or her own traditional IRA and Roth IRA. In addition, when your Roth IRA contribution is aggregated with your traditional IRA contributions and with the contributions of your spouse, the maximum permissible amount for all IRAs will be the lesser of $12,000, $13,000 or $14,000 for 2019 or 2020, as applicable, or 100% of your combined incomes.

A spousal IRA is an IRA to which a spousal IRA contribution has been made. Due to a law change in 2013, spousal IRAs were renamed as Kay Bailey Hutchison Spousal IRAs. Note there was no change in any of the rules applying to such IRAs.

Special HEROA Rules

As discussed previously, the tax rules have been changed so that a person's combat-zone compensation earned on or after January 1, 2004, is now considered to be compensation or earned income for Roth IRA contribution purposes.

5.4.C Rollover Contributions.

If I receive a distribution from one Roth IRA, may I roll over the funds to a second Roth IRA? Yes. Distributed funds, unless rolled over, may need to be partially included in income. The rules which govern a "Roth-to-Roth" rollover are generally the same as for a rollover from one traditional IRA to another traditional IRA. You must comply with the 60-day rule and you are only entitled to one rollover within a 12-month period.

Rollover from a Roth IRA to a Roth IRA. If a person receives a distribution (i.e. the check is made payable to the Roth IRA accountholder) of all or a part of his or her Roth IRA, he or she can redeposit the funds into a Roth IRA without being taxed on the receipt of the funds, if:

A. The funds are rolled over (i.e. redeposited) within 60 days after the day the funds were received and

B. The person has not rolled over a previous distribution from this Roth IRA, any other Roth IRA, or any other IRA within the previous 12 months. The one-year period commences on the date the person received the previous distribution and not on the date of the redeposit.

A person is authorized to rollover only one distribution in a one year period. It does not matter how many IRAs this person has. A person who withdraws $3,000 from her Roth IRA on January 15, 2019 and then withdraws $6,000 from her Roth IRA on January 28, 2019, will have to decide which one of the two distributions will be partially or totally rolled over since only one distribution is eligible to be rolled over.

The tax consequences may be harsh if a person attempts to rollover two distributions within a 12-month period. The second distribution is ineligible to be rolled over which means it is generally taxable if it was from a traditional IRA. Or, if the second distribution was from a Roth and was ineligible to be rolled over, then individual will have lost the right to have such funds earn tax-free income. Any ineligible rollover contribution will be an excess contribution subject to the 6% excise tax unless timely corrected.

In summary, a person who takes distribution in 2019 (e.g. April 20, 2019) from his or her Roth IRA and rolls it over within the 60 day limit is eligible to rollover a subsequent distribution from any of his or her other IRAs only if such distribution occurs on April 20, 2020 or later. In addition, he or she is eligible to take a distribution on April 20, 2019 and roll it over, only if he or she has taken no previous distribution from the same Roth IRA during the preceding 12 months (i.e. April 21, 2018 to April 20, 2019).

You must roll over into the new Roth IRA the same property which you received from your old Roth IRA.

There is no authority, as there is with qualified plan distributions, for you to roll over the proceeds of the sale of the property.

There are three exceptions to the 60-day rule. First, if your distribution deposit was put into an institution which has had its deposits "frozen," then you may have longer than 60 days to complete the rollover. Refer to IRS Publication 590 for a discussion of the special "frozen deposit" rules. The second exception is, if you withdrew your funds for purposes of using such funds under the First-Time Home Buyer exception as discussed later, but your acquisition or construction was delayed, then the 60-day limit is changed to 120 days.

The third exception is that the IRS may waive the 60-day requirement where it would be against equity or good conscience not to do so.

The IRS has three procedures available so that an individual may benefit by the IRS waiving the 60-day requirement. The individual is to follow IRS instructions as set forth in Revenue Procedure 2003-16 as modified by Revenue Procedure 2016-47. If you have missed your 60-day deadline, you will want to discuss with your tax advisor whether or not you will qualify for an IRS waiver of the 60-day rule. The first waiver method set forth in Revenue Procedure 2003-16 requires the taxpayer to file an application requesting a waiver of the 60-day rule and the IRS must grant the waiver. The second waiver method authorizes an automatic waiver of the 60-day rule if four requirements are met. Because the current filing fee is $10,000 many taxpayers are no longer able to have the IRS process their application and receive a concrete ruling that they were not entitled to a waiver of the 60-day rule. The application process provided a taxpayer with tax certainty. In Revenue Procedure 2016-47 the IRS authorizes a self-certification procedure that a taxpayer may use to request the waiver of the 60-day requirement rather than using the application procedure. The IRS tentatively grants the waiver upon the making of the self-certification and the tax payer is permitted to prepare his or her tax return to reflect that he or she made a complying rollover so the distribution amount is not required to be included in his or her taxable income. however, the IRS retains the right to examine the individual's tax return for such year (ie audit) and determine if the requirements for a waiver of the 60-day rule were or were not meet. If the IRS determines the individual was not entitled to a waiver of the 60-day rule, the individual will have to include such distribution in his or her income and have an excess IRA contribution situation needing to be corrected. How does this self-certification procedure work? You will furnish the IRA custodian/trustee with a written certification meeting the following requirements. You may use the IRS' model letter set forth in the appendix of Revenue Procedure 2016-47 on a word-for-word basis or by using a form or letter that is substantially similar in all material respects.

An automatic waiver of the 60-day requirement is granted by the IRS if the following conditions have been met: (i) the financial institution received the funds from the individual before the end of the 60-day period; (ii) the individual followed all of the financial institution's procedures for making a rollover contribution into another eligible retirement plan; (iii) solely due to an error by the financial institution, the funds were not timely deposited into the other eligible retirement plan; (iv) the deposit must have constituted a valid rollover but for the delay and (v) the funds must be deposited within one year from the beginning of the 60-day rollover period (i.e. the day after the day of receipt). The source of authority for this automatic waiver is Revenue Procedure 2003-16.

Rollover and Direct Rollover to a Roth IRA <u>from</u> a Qualified Plan or Other Eligible Employer Plan. When you separate from service or you reach retirement age, your employer is required by law, within a reasonable period of time before making a distribution, to furnish you with a special explanation form (i.e. a section 402(f) notice). This form will inform you if your entire account balance is entitled to be rolled over (or directly rolled over) or if only a portion is eligible. This form will then give you three options, and you will be asked to furnish your instruction. The first option—you can roll over or directly roll over 100% of your vested account balance which is eligible to be rolled over. You may directly rollover a portion of your non-designated Roth funds to a Roth IRA and/or a portion to your traditional IRA. The withholding rules do not apply to whatever amount you elect to directly roll over. The second option—you can have your vested account balance paid to you in cash. If so, the plan administrator is required by law to withhold 20% of the amount to be distributed, to the extent it is eligible to be rolled over. The third option—you can elect to have some of your vested account balance paid to you in cash (and the 20% withholding would apply, if applicable) and you could directly roll over the remainder.

If you choose a direct rollover to a Roth IRA;

- Your payment will be taxed in the current year and income tax will be withheld.
- You choose whether your payment will be made directly to your Roth IRA or to an eligible employer plan that accepts your rollover. Your payment cannot be rolled over to a SIMPLE-IRA, or a Coverdell Education Savings Account because these are not traditional IRAs.
- The taxed portion of your payment will not be taxed later when you take it out of the Roth IRA or the eligible employer plan. Depending on the type of plan, the later distribution may be subject to different tax treatment than it would be if you receive a taxable distribution from this Plan.

By rolling over or directly rolling over your distribution to a Roth IRA, you then are required to include the distribution in your taxable income but you will not owe the 10% additional tax which generally applies to a person who has not attained age 59½.

A direct rollover may be accomplished by any reasonable means of direct payment to an eligible retirement plan. If payment is made by check, the check must be negotiable only by the trustee of the eligible retirement plan. For example, “ABC Bank as trustee of the Roth IRA of Maria Evert” or the “Trustee of XYZ Corporation Profit Sharing Plan FBO Jim Davis.” If payment is made by wire transfer, it must be directed only to the trustee. It is permissible to have the plan furnish you with a check, if you are instructed to deliver the check to the trustee, and the check is made payable, as indicated above, solely to the trustee.

If your distributions during the year are reasonably expected to total less than $200, then the plan administrator need not offer you the right to directly roll over these funds.

Again, the plan administrator will inform you to what degree your vested account balance in a qualified plan or other employer plan is eligible to be rolled over.

In Notice 2014-54 (September 18, 2014) the IRS issued guidance for when an individual has basis within a qualified plan or similar plan and takes a distribution and wishes to roll over or directly rollover such basis into a Roth IRA or another tax preferred plan. Prior law had required a person with basis to apply a pro rata taxation rule. For example, a person who had $60,000 in his or her account within the 401(k) plan comprised of $45,000 being taxable and $15,000 being nontaxable was NOT allowed to directly rollover' only the $15,000 of nontaxable funds into her Roth IRA. The issuance of Notice 2014-54 means an individual in many situations is able to directly rollover the $15,000 of basis into his/her Roth IRA. The new rules apply to distributions made on or after January 1, 2015.

You and/or your advisor should read Notice 2014-54. This is a complex topic and it would be best if you or any other person with basis within the qualified plan would seek the guidance and assistance of your tax advisor before deciding how to structure your "basis" distribution or distributions. In some cases the rules require the recipient to inform the plan administrator of an allocation what portion is taxable and what portion is nontaxable prior to the time the direct rollover is made.

Once you are subject to the Required Distribution Rules, you must start taking distributions from your account each year. These RMD distributions are ineligible to be rolled over to a Roth IRA. You are also ineligible to roll over any distribution which is paid over life or life expectancy (single or joint) or any distribution which is one of a series of substantially equal periodic payments (i.e. installments) for a period spanning ten years or more. Also, corrective distributions of excess deferrals and contributions, defaulted loans and hardship distributions are ineligible to be rolled over.

Additional rules applying to rollovers and direct rollovers from an eligible employer plan.

- You must roll over the property you received, unless you sell it. If you sell the property, you may roll over the proceeds of the sale.

  You CANNOT roll over any life insurance to a Roth IRA.

- You must complete the rollover within 60 days after the day the distribution was received. If there are multiple distributions, in general, the 60 days starts to run from the last distribution.

- If you die, your surviving spouse may roll over all or part of a distribution, but the rules discussed above must be satisfied.

- Often in divorce, one spouse (i.e. the alternate payee) is given, by court order, the right to be paid the other spouse’s pension benefits. Any amount paid to a spouse or former spouse pursuant to a qualified domestic relations order is eligible to be rolled over if the distribution would qualify under the above-described rules if the spouse or nonspouse was substituted for the employee.

- The amount you choose to keep and not roll over must be included in your gross income as ordinary income in the year in which you receive it. In addition, unless a special exception applies, you will be subject to the 10% additional tax if you have not attained age 59½.

New Rollover Rule For Certain Plan Loan Offset Amounts. As of January 1 2018, there is a new rollover rule for certain plan loan offset amounts which are treated as distribution in tax years beginning after December 31, 2017. In certain situations a plan loan offset amount is deemed distribution. A plan offset amount is the amount by which a participant’s vested account balance is reduced in order to repay a loan from the plan. A participant is entitled to rollover his or her plan loan offset amount, but the rollover must be completed by the tax filing deadline for the year during which the distribution occurred rather than under the standard 60 day rule.

Rollover Rule for Certain IRS Levies Returned to an IRA Owner or IRA Beneficiary. With respect to IRS payments made after December 31, 2017, an IRA owner or an IRA beneficiary is eligible to make a rollover contribution of the following IRS payment. At times, in order to collect tax funds owed the IRS will levy an individual's IRA funds or pension funds. Sometimes the IRS must return all or some of the levied amount. An individual is now eligible to rollover the returned amount into a traditional IRA. This special rollover must be made no later than the due date of the individual's tax return for the year the individual receives the IRS' repayment. This situation is the only time a non-spouse beneficiary may roll over a distribution from either an IRA or a pension plan. This special rollover is not to be counted for purposes of the once per 12 month rollover rule.

May I roll over or directly roll over funds from a Roth 401(k) account within a 401(k) plan, a 403(b) plan, or a governmental section 457(b) plan to a Roth IRA? Yes. The direct rollover rules to apply to distributions from a Roth 401(k) or Roth 403(b) account to a Roth IRA. The plan administrator should provide an eligible participant with a form (402(f) notice) detailing these rules.

A participant who is eligible to receive a distribution and who made Roth 401(k) elective deferrals, will be eligible to roll over such contributions (plus the related income/loss) to a Roth IRA. He or she will have to comply with the 60-day rule. This is true even if they are otherwise ineligible to make a regular Roth IRA annual contribution or a Roth conversion contribution. However, once the Roth 401(k) funds are rolled over to a Roth IRA, the current federal income tax laws do not allow them to ever be rolled back into a Roth 401(k) elective deferral account.

If this rollover contribution is the first contribution made to the Roth IRA for this person, then the five-year period starts as of January 1 of this year. If there are other funds already in the Roth IRA, then the five-year period commences as of January 1 of the year for which the first contribution was made.

What duties do the 401(k) Plan Administrator and I have? You are required to be furnished the following information when you have made elective deferrals to a designated Roth account within the 401(k) plan. First, you will be informed whether your withdrawal of your Roth elective deferrals plus related income qualifies as a "qualified distribution" or not. When the distribution is a qualified distribution, then the entire amount is "basis" and, in the future, you will not pay tax when you withdraw this amount. You will need to report this basis on your tax return pursuant to IRS instructions. See the instructions for Form 8606. If the distribution is not a qualified distribution, then the earnings will not be treated as basis. Your elective deferrals are still treated as basis. These earnings within the 401(k) plan then are to be treated as earnings within the Roth IRA for ordering and taxation purposes. ***Special Note.*** If you receive a non-qualified distribution and rollover only a portion of your Roth elective deferrals (and earnings) account, then the earnings portion of the account is deemed to have been rolled over first. It is your responsibility to know this and to inform your tax preparer/adviser. This is not the duty of the Roth IRA custodian.

Rollover of Death Gratuities. Contributions of certain military death gratuities now qualify to be rolled over into a Roth IRA. The general rule will be that such a rollover contribution will be permissible to an individual's Roth IRA if made before the end of the 1-year period beginning on the day the individual receives the death gratuity with respect to a certain person as provided under section 1477 of title 10, United States Code or section 1967 of title 38 of such Code. Such rollover amount cannot exceed the sum of the amounts the individual received during such period reduced by any amounts rolled over into a Coverdell Education Savings Account. This rollover does not count towards the rule which allows an individual to do only one rollover during a 12 month period. The rollover is treated as basis or investment in the contract if these funds are withdrawn pursuant to a nonqualified distribution.

The general rule is that these rollover rules apply to a death occurring from injuries on or after June 17, 2008. There is one exception. If the death occurred on or after October 7, 2001 and before June 17, 2008 then the deadline for rolling over such funds is June 17, 2009 (i.e. within 1 year after the date of enactment).

Rollover or Conversion of Certain Amounts Received by a Qualified Airline Employee. A qualified airline employee is eligible to contribute any portion of an airline payment amount to a Roth IRA within 180 days of receipt of such amount (or, if later, within 180 days of the law's enactment). It does not matter if such payments occurred before, on or after such date.

An airline payment amount is the payment of any money or other property by a commercial passenger airline carrier to a qualified airline employee under the approval of an order of a Federal bankruptcy court in a case filed after September 11, 2001, and before January 1, 2007, and in respect of the employee's interest in a bankruptcy claim against the carrier, any note of the carrier, an amount paid in lieu of a note being issued, or any other fixed obligation of the carrier to pay a lump sum amount. The qualifying amount is the gross amount and it is not reduced by any requirement to deduct and withhold employment and social security taxes. However, any airline payment based on the carrier's future earnings or profits does not qualify.

A qualified airline employee is any employee or former employee of a commercial airline carrier who was a participant of a defined benefit plan maintained by the carrier which was qualified under Code section 401(a) and was terminated or became subject to the restrictions contained in paragraphs (2) and (3) of section 402(b) of the Pension Protection Act of 2006.

The commercial carrier will be required to report to the IRS the names of the payment recipients and to the IRS and the employees the years and the amounts of the payments. The IRS will create the necessary reporting forms.

Special Rollovers of Airline Payments to Traditional IRAs and Recharacterizations of Previous Rollovers of Airline Payments to Roth IRAs. The FAA Modernization and Reform Act was signed into law on February 14, 2012. Certain qualified airline employees were authorized to roll over up to 90% of all the airline payments they had received to a traditional IRA. And qualified airline employees who previously rolled over an airline payment into a Roth IRA were authorized to transfer such funds (i.e. recharacterize) to a traditional IRA. Generally, the deadline to roll over an airline payment to a traditional IRA was 180 days from the date you received the airline payment, or before August 14, 2012, which ever is later. Generally, the deadline to transfer the previously rolled over Roth IRA funds to a traditional IRA was 180 days from the date you received the airline payment, or before August 14, 2012.

A special law was included in the Protecting Americans From Tax Hikes Act of 2015 which provides an additional rollover period for airline payments. This special period commences on December 18, 2014, and ends on the date which is 180 days after the enactment of the Protecting Americans From Tax Hikes Act of 2015. Since President Obama signed this legislation on December 18, 2015, the deadline is June 15, 2016.

These special rules do not apply to covered executives of an airline carrier. If you would be a qualifying airline employee, you will want to consult with your tax adviser. There are numerous requirements or rules associated with these special airline rules.

Special Rollover Contribution(s) Arising From Exxon Valdez Litigation. The Emergency Economic Stabilization Act of 2008 contains authority for a new type of rollover and/or Roth conversion contributions. Any individual who is a plaintiff in the civil action In re Exxon Valdez (No. 89-095-CV) (HRH)(Consolidated (D. Alaska) and who receives any qualified settlement income during the tax year may contribute some or all of such income to his or her IRA or other eligible retirement plan of which he or she is a participant (or beneficiary). Qualified settlement income is defined to be any interest earned with respect to the damages awarded plus any punitive damage awards which are otherwise includible in taxable income. The individual may make one or more such contributions for such year. The deadline to make such contributions for most taxpayers will be April 15th of the following year as it is for annual IRA contributions as long as the individual has designated such contribution as being for the prior tax year. Technically, the deadline is the taxpayer's tax filing deadline for such tax year (not including tax extensions). By contributing such funds to a traditional IRA or other non-designated Roth eligible retirement plan the individual will NOT be required to include the qualified settlement income in his or her taxable income for the year of receipt. There is a deemed rollover. Taxation is deferred until later distributed from the IRA. This is a new type of rollover contribution since the source of the finds was a payment by Exxon or its insurer rather than another IRA or eligible retirement plan. There is a special contribution limit. An individual may contribute the lesser of: (1) the amount of that year's qualified settlement income or (2) $100,000 as reduced by the amount of any qualified settlement income contributed to an IRA or other eligible retirement plan in prior years.

A qualifying individual will have another choice. He or she may contribute the qualified settlement income to a Roth IRA or a designated Roth account within a 401(k), 403(b) or 457 plan. In such case the individual will be required to include such amount in his or her taxable income for the year of receipt and such amount shall be considered to be basis (or investment in the contract). There is a deemed Roth conversion contribution. This is a new type of Roth conversion contribution. The funds going into the Roth IRA or designated Roth account are not pre-tax dollars in an IRA or 401(k) plan, but are coming from Exxon or its insurer.

A qualifying individual also has a third choice. He or she may contribute a portion of such qualifying settlement income to a traditional IRA or other eligible retirement plan and contribute a portion to a Roth IRA or a designated Roth account.

Any individual who is a beneficiary of the plaintiffs estate and who has acquired the right to receive such qualified settlement income from the plaintiff may also make the special contributions discussed above as long as such individual is the spouse or an immediate relative of the plaintiff.

Special Rules Applying To IRA Owners For Relief Related to Hurricanes Harvey, Irma, Maria and California wildfires and other Federally Declared Disasters. Specific tax legislation has been enacted for IRA owners who were victims of the hurricanes Harvey, Irma and Maria in 2017 or who were victims with respect to a 2016/2017 disaster area as declared by the President.

Specific tax legislation has been enacted for IRA owners who were victims of federally declared disasters in 2018 and 2019 as declared by the President including additional California wildfires.

You qualify for a disaster distribution as long as you sustain an economic loss on account of the disaster You may qualify regardless of your need or the actual amount of your loss.

This legislation provides for tax favored withdrawals and repayments of such withdrawals. If you receive a qualified disaster distribution, it is taxable, but it is not subject to the 10% additional tax. You may include this distribution in your income ratably over a three year time period. Otherwise, you include the entire distribution in your income in the year you received the distribution. You are permitted to repay this distribution. If you do so, you need not include the distribution in your income. You have 3 years from the day after the date you received the distribution to make a repayment. Amounts that are repaid are treated as a trustee-to-trustee transfer and are not included in income. Such repayment is not considered a rollover for purposes of the once per year rollover rule. You should review Form 89158 and Publication 976 for further IRA guidance.

IRS grants general tax relief for certain IRA owners who live in certain disaster areas. The federal tax laws give the IRS broad authority to grant relief when the President declares a disaster and FEMA designates an area or areas for assistance. This authority is set forth in Code section 7508A and regulation 301.7508. The primary relief given by the IRS is to extend the time a taxpayer has to file various tax returns and pay the tax owing. However, there are many deadlines by which a taxpayer, such as an IRA account holder, must complete a tax transaction. However, it is possible, if there has been a disaster, that the IRS could extend a tax deadline. Regulation section 301.7508-l(c)(iii) provides for the postponement by the IRS of rules for making certain IRA contributions, taking certain distributions, recharacterizing IRA contributions or making rollovers. A person needs to determine if there is a public event which qualifies for the special rules and if he or she qualifies for the special tax rules. You should visit the IRS web site at www.irs.gov and review the guidance for tax relief in disaster situations. You should consult your tax advisor.

5.4.D Transfer Contribution. You are entitled to transfer other Roth IRA funds or assets into this Roth IRA. You are not, of course, entitled to any deduction for such a transfer contribution. You may not transfer funds to this Roth IRA from a traditional IRA or any type of IRA other than another Roth IRA, except as a conversion.

You will be required to furnish us the information we request with respect to your transfer contribution.

5.4.E Converting or Rolling Over Your Traditional IRA(s) to a Roth IRA. Notice of tax law change. Effective for tax years commencing after December 31, 2017, a person who makes a Roth IRA conversion is unable to recharacterize it. The Tax Cut Act as signed into law by President Trump on December 22, 2017, repealed the law authorizing a Roth IRA conversion contribution to be recharacterized. Such law as explained by the conference committee report did not change the recharacterization rules for annual Traditional IRA and Roth IRA contributions. These rules are discussed in section 4.12.

You might benefit more (from a tax and/or nontax standpoint) if you would move or convert some or all of the assets in this traditional IRA to a Roth IRA. You may find it advantageous to incur the tax consequences of a present distribution in order to qualify to earn the right to have no taxation when the earnings are ultimately distributed from the Roth IRA. You will need to make this decision after considering all relevant rules, tax consequences and other factors. You should discuss this with your tax advisor.

Beginning January 1, 2010, anyone having a traditional IRA, SEP-IRA or SIMPLE-IRA may convert funds from their traditional IRA to a Roth IRA.

You can convert amounts from your traditional IRA to a Roth IRA by using any of the following three methods. The first method is the standard rollover. You can receive a distribution from a traditional IRA and roll it over (contribute it) to a Roth IRA within 60 days of the distribution. The second method is a trustee-to-trustee transfer. If permissible, you may direct the custodian/ trustee of your traditional IRA to transfer an amount from the traditional IRA to the custodian/ trustee of your Roth IRA. The third method is an internal movement. You direct the custodian/trustee of your traditional IRA to transfer an amount from your traditional IRA to your Roth IRA.

All three methods are reportable transactions and will be reported to the IRS and to you. This situation presents a new and unique meaning of “rollover” and “transfer.” Normally, there is no taxation when a rollover or transfer occurs. This is not the case with this type of rollover or transfer. You may find it advantageous to incur the tax consequences of a present distribution in order to qualify to earn the right to have no taxation when the earnings are ultimately distributed from the Roth IRA.

A nonspouse beneficiary is ineligible to convert funds within an inherited IRA to a Roth IRA.

If you do elect to roll over or convert funds from your traditional IRA to a Roth IRA, then the amount distributed to you from your traditional IRA will be included in your income for the year of receipt and will be subject to income taxes for such year. However, even if you are younger than age 591/2 at the time you receive the distribution, you will not owe the 10% excise tax.

Congress had concerns that an individual might roll over or convert funds from his or her traditional IRA to a Roth IRA and then withdraw funds before certain time periods are completed.

If you roll over or convert funds from your traditional IRA to a Roth IRA, and the 10% excise tax of Code section 72(t) would otherwise have applied, and you later withdraw funds from the Roth IRA before you meet the 5-year requirement, then you will owe the 10% excise tax as imposed by Code section 72(t). You will owe the 10% excise tax to the extent that the distribution is attributable to amounts that were includable in income due to the conversion/ rollover and to which the 10% excise tax would have been applied except for the Roth conversion/ rollover exception. Note that for the purpose of this additional 10% tax, there is a separate 5-year requirement for each conversion contribution. This 5-year period begins on the first day of your tax year (normally January 1) in which the conversion contribution is made. This 5-year period ends on the last day of the fifth consecutive taxable year beginning with the taxable year described in the preceding sentence (normally this is December 31).

5.4F Reconversion. With the repeal in 2018 of the rules allowing a person to recharacterize a Roth IRA conversion contribution, the Roth IRA reconversion rules and the failed reconversion rules no longer apply.

5.4.G Special Recontribution Rules for Certain Military Reservists. A military reservist called to active duty for 180 days or more on or after September 11, 2001, has special recontribution rights. The standard 60-day rollover rule is overridden by this special rule. The military reservist has the right to recontribute a distribution over a 2-year period ending two years after his or her active duty ended as long as the distribution was or is made during his or her time on active duty. The recontribution may be made in one or more contributions, and such recontributions are independent of the normal contribution limits. The recontribution amount cannot exceed the distribution amount.

If there is some tax rule which would otherwise prevent the individual from realizing the tax benefit of his/her recontribution, the law expressly authorizes that a refund or credit be allowed. This refund or credit is to be allowed even if it would be considered late under other tax rules, including res judicata.

5.5 Contribution Deadline. You must make your annual contribution by the time prescribed by law for filing your Federal income tax return for such year, but determined without regard to extensions. Normally, this is April 15 of the subsequent year.

5.6 Credit for IRA contributions and salary reduction contributions. If you are an eligible individual, you may be able to claim a credit for a percentage of your qualified retirement savings contributions, such as contributions to your traditional or Roth IRA or salary reduction contributions to your SEP or SIMPLE.

You must meet the following five requirements in order to claim this credit for any given year.

- Be at least 18 years of age as of December 31 of such year
- Not be a dependent on someone else's tax return
- Not be a student as defined in Internal Revenue Code section 25B(c)
- Have adjusted gross income under certain limits which are based on your filing status.
- Must not have received certain distributions which disqualify you from claiming the credit, or certain distributions which were made to your spouse.

The maximum contribution amount allowed to be used in calculating this credit is $2,000, even though you may have contributed more than that amount to your Roth IRA.

A formula is used to calculate the amount of your credit.

This formula is complex, since it requires you to reduce your qualifying contributions by the amount of certain distributions — even by the amount of certain distributions to your spouse, if you are married.

The formula to be used is: Contributions /Certain Distributions x Applicable Percentage = Credit.

Contributions equal the sum of contributions to a traditional IRA, contributions to a Roth IRA, elective deferrals to a 401(k) plan, elective deferrals under a section 457 plan, and certain voluntary employee contributions. This total contribution amount must be reduced by certain distributions which occur during a testing period. The testing period for a tax year is comprised of the current tax year, the two preceding tax years, and the carry-back period for such tax year (i.e. January 1 to April 15), plus extensions.

Therefore, the total contribution amount must be reduced by any distribution amounts paid to you or your spouse during the above-described period from a section 401(a) plan, 401(k) plan, section 402(a) plan, section 457 plan, a traditional IRA, or a Roth IRA, which are not rolled over. However, a technical correction was enacted to make clear that a reduction in the allowable credit will not be required for that portion of any distribution which is not includable in gross income by reason of a trustee-to-trustee transfer of a rollover distribution.

Saver's Credit Limits for 2019

The applicable percentage for 2019 is based on modified adjusted gross income (AGI) and your tax-filing status, and is determined by the following table:

Joint Return

AGI Over	AGI Not Over	Percentage
$0	$38,500	50%
$38,500	$41,500	20%
$41,500	$64,000	10%
$64,000	N/A	0%

Head of Household

AGI Over	AGI Not Over	Percentage
$0	$28,875	50%
$28,875	$31,125	20%
$31,125	$48,000	10%
$48,000	N/A	0%

Other Filers Including Married, Filing Separately

AGI Over	AGI Not Over	Percentage
$0	$19,250	50%
$19,250	$20,750	20%
$20,750	$32,000	10%
$32,000	N/A	0%

Saver's Credit Limits for 2020

The applicable percentage for 2020 is based on modified adjusted gross income (AGI) and your tax-filing status, and is determined by the following table:

Joint Return

AGI Over	AGI Not Over	Percentage
$0	$39,000	50%
$39,500	$42,500	20%
$42,500	$65,000	10%
$65,000	N/A	0%

Head of Household

AGI Over	AGI Not Over	Percentage
$0	$29,250	50%
$29,250	$31,875	20%
$31,875	$48,750	10%
$48,750	N/A	0%

Other Filers Including Married, Filing Separately

AGI Over	AGI Not Over	Percentage
$0	$19,500	50%
$19,500	$20,150	20%
$20,150	$32,500	10%
$32,500	N/A	0%

This credit is nonrefundable, and it is meant to be used to reduce a person's regular tax liability and alternative tax liability. If the credit is greater than your tax liability, you may use only the amount of credit necessary to reduce your tax liability to zero (0) — any amount of credit remaining will not be refunded to you.

5.7 The Distribution and Taxation Rules. There are numerous tax rules which apply to distributions from a Roth IRA. These rules are discussed and explained below.

You may begin withdrawals at any time. However, you will want to understand the income tax consequences of taking distributions at certain times.

A distribution from a Roth IRA is not includable in your gross income if it is a qualified distribution. A qualified distribution is one that is both—

- Made after a five-taxable year period; and
- Made on account of one of the following four reasons:
  1. made on or after the date on which you attain age 59½;
  2. made to a beneficiary or your estate on or after the date of your death;
  3. attributable to you being disabled within the meaning of section 72(m)(7); or
  4. used for a first-time home purchase within the meaning of section 72(t)(2)(F)

After the technical corrections bill, there no longer exists a five-year period for annual contributions and another five-year period for conversion contributions. There is now just one five-year period. The five-year period begins on the first day of your taxable year for which the first regular/annual contribution is made to any Roth IRA or, if earlier, the first day of your taxable year in which the first conversion contribution is made to any of your Roth IRAs.

However, as discussed later, there is a separate 5-year period for inherited Roth IRAs.

Except for the exception discussed below, your death does not require a recalculation of the five-year period. This is true even if a spouse beneficiary elects to treat your Roth IRA as his or her own. This means a person who inherits a Roth IRA will most likely have a separate five-year period for the inherited Roth IRA versus any Roth IRAs which he or she has established for himself or herself.

The exception is a "be kind to spouse" rule. A spouse beneficiary who elects or who is deemed to have elected the deceased spouse's Roth IRA as his or her own will determine just one five-year calculation. His or her five-year period will end on the earlier of the five-year period which applied for the decedent or the five-year period which applies to the surviving spouse's own Roth IRAs.

A distribution from a Roth IRA is not includable in your gross income even if it is not a qualified distribution to the extent that the distribution, when added to the amount of all previous distributions (whether or not they were qualified distributions from your Roth IRA) exceeds your contributions to all of your Roth IRAs.

A distribution from a Roth IRA is not includable in your gross income even if it is not a qualified distribution if it is rolled over to another Roth IRA.

A distribution from a Roth IRA is not includable in your gross income, even if it is not a qualified distribution, if it involves the withdrawal of an excess contribution in accordance with section 408(d)(4). The return of the contribution is not required to be included in income, but the related income must be included in income for the year in which the excess contribution was made.

A distribution from a Roth IRA can be comprised of one or more of the following: regular contributions, conversion contributions or earnings.

The law mandates the following order for distributions: (1) from regular/annual contributions; (2) from conversion contributions on a first-in-first-out basis and (3) from earnings. The order is determined as of the end of the taxable year, and each category must be exhausted before the next is used. With respect to a conversion contribution, it is treated as being made first from the portion, if any, that was includable in gross income as a result of the conversion. To aid in administering this ordering, the IRS has created the following rules.

5.7.A All distributions from all of an individual's Roth IRAs made during a taxable year are aggregated. There are two exceptions.

First, a distribution which is rolled over to another Roth IRA is disregarded.

Second, a distribution of an excess contribution along with the net income is disregarded.

5.7.B All regular/annual contributions made for the same taxable year to all of the individual's Roth IRAs are aggregated and added to the undistributed total of regular/annual contributions for prior years. Note that there are two exceptions.

First, a rollover contribution from another Roth IRA is disregarded.

Second, the making of an excess contribution is disregarded if it is corrected in accordance with the rules.

There is also a special rule arising from the recharacterization rules. If you recharacterize a contribution made to a traditional IRA by transferring it to a Roth IRA, the contribution to the Roth IRA is taken into account. It is treated as contributed to the Roth IRA on the same date and for the same taxable year that the contribution was made to the traditional IRA.

5.7.C All conversion contributions received during the same tax year by all of the individual's Roth IRAs are aggregated. Thus, if there are two conversion contributions in 1998 and three in 1999, then the two 1998 conversion contributions will be aggregated, as will the 1999 conversion contributions. However, there is a special rule. The conversion contributions received in 1999 must be segregated into two types. Type one is comprised of those Roth conversion contributions withdrawn in 1998 but recontributed in 1999 and with respect to which the 4-year spread method was selected. Type two is comprised of all other Roth conversions contributed in 1999.

There are three special rules.

First, a rollover contribution from another Roth IRA is disregarded.

Second, the making of an excess contribution is disregarded if it is corrected in accordance with the rules.

There is also a special rule arising from the recharacterization rules. If an individual recharacterizes a regular or a conversion contribution made to a Roth IRA by transferring it to a traditional IRA, then the original contribution to the Roth IRA and the recharacterizing transfer are disregarded in determining the amount of both contributions and distributions for the Roth IRA.

If you die before the five-year requirement has been satisfied, then a portion of any distribution may be required to be included in income. If there are multiple beneficiaries, there must be a method to allocate the different types of contributions to the beneficiaries. The method to be used is a pro rata method. Assume the following: a Roth IRA accountholder dies in 2006; the Roth IRA contains regular/annual contributions of $4,000; a conversion contribution of $20,000 and earnings of $2,000; beneficiary #1 is to receive 50%, beneficiary #2 is to receive 30% and beneficiary #3 is to receive 20%; and beneficiary #3 is distributed $3,000. The share for beneficiary #3 is $5,200 allocated as follows: $800 ($4,000 x 20%) of regular contributions; $4,000 ($20,000 x 20%) of conversion contributions; and $400 ($2,000 x 20%) of earnings. Of the $3,000 withdrawn, $800 is allocated to regular contributions and the remainder of $2,200 is allocated to conversion contributions.

The 10% additional tax of Code section 72(t) applies to that portion of a distribution from a Roth IRA which is includable in gross income unless an exception applies.

The 10% additional tax of Code section 72 (t) also applies even if the distribution from the Roth IRA is not includable in gross income if the distribution is allocable to a conversion contribution which is withdrawn before a five-year requirement is met.

Note that for the purpose of this additional 10% tax, there is a separate five-year requirement for each conversion contribution. This five-year period begins on the first day of the individual's tax year (normally January 1) in which the conversion contribution is made. This five-year period ends on the last day of the individual's fifth consecutive taxable year beginning with the taxable year described in the preceding sentence (normally this is December 31).

This five-year requirement for the purpose of this additional 10% tax need not be the same period as the five-year period calculated to determine if the distribution is a qualified distribution for purposes of determining if the income will not be taxed. For example, Jane Doe, a calendar-year taxpayer, withdraws

$10,000 from her traditional IRA on December 30, 2015. She makes a conversion contribution on February 24, 2016, by contributing the distributed amount to a Roth IRA in a qualifying rollover contribution and simultaneously makes a regular Roth contribution for 2015. For purposes of assessing the 10% additional tax, the five-year period commences on 1-1-16, whereas the five-year period for purposes of determining if the income will be excluded is 1-1-15.

This additional 10% tax applies only to the amount of the conversion which is includable in gross income as a result of the conversion and then, only if none of the exceptions of Code section 72(t) apply.

5.7.D Will the 10% excise tax ever be assessed? Yes. If you are not age 59½ (and none of the other exceptions apply at the time you withdraw funds from your Roth IRA), then you will be liable to pay the 10% excise tax on that portion of the distribution which is taxable (i.e. the income or earnings). You will not pay the 10% excise tax when your contributions or basis is returned to you. You will not be liable for the 10% excise tax if any of the following exceptions apply.

The first exception is if you are age 59½ or over at the time of the distribution.

The second exception is if you are disabled. You are considered disabled if you can furnish proof that you cannot do any substantial gainful activity because of your physical or mental condition. A physician must determine that your condition can be expected to result in death or to be of long, continued, and indefinite duration.

The third exception is if you die. Payments to a beneficiary are not subject to the 10% additional tax.

The fourth exception is for substantially equal periodic payments. The 10% additional tax will not apply if the distribution is part of a series of substantially equal periodic payments (not less frequently than annually) made for your life (or life expectancy) or the joint lives (or joint life expectancies) of you and your beneficiary. However, if this schedule is changed prior to the later of attaining age 59½ or the schedule being in effect for 5 years, then a new penalty tax will be imposed. This tax will be equal to the tax that would have been imposed had the "substantially equal" exception not applied (i.e. all previous distributions will be assessed the 10% tax plus an amount equal to the accrued interest).

The fifth and sixth exceptions are for certain distributions used to pay medical expenses or to pay certain health insurance premiums. The 10% additional tax will also not apply on or after January 1, 1997, in the case of certain distributions made for the payment of certain medical expenses and the payment of certain health insurance premiums. The additional 10% tax will not apply if the distribution is used to pay medical expenses that exceed 10% of your adjusted gross income for 2013 and subsequent years. This means that the medical expenses must qualify as an itemized deduction on your federal income tax return. The 10% additional tax will also not apply to a distribution which is used to pay health insurance premiums in certain situations after you become unemployed. In order to qualify for this special rule, you must have been receiving unemployment benefits for at least 12 consecutive weeks. The distribution must occur in either the year you received the unemployment benefits or during the next tax year. This special rule no longer applies to distributions made once you have been reemployed for at least 60 days after your initial separation from service. You will qualify to use this unemployment exception even if you are self-employed, if you would have been eligible for unemployment benefits but for your self-employment.

The seventh exception is if the distribution is used to pay certain first-time home buyer expenses.

Qualified first-time home buyer distributions are distributions from a Roth IRA which are used to pay the qualified acquisition costs of the principal residence of the first-time home buyer.

The first-time home buyer can be you, your spouse or your child or grandchild, and any ancestor of you or your spouse. To qualify as a first-time home buyer, you, and if married, your spouse, must not have had any ownership interest in a principal residence for the two-year period ending on the date of acquisition of the principal residence being purchased under this exception. The date of acquisition is defined as the date a binding contract to purchase the residence is entered into, or the date on which construction or reconstruction of the residence begins.

Qualified acquisition costs include the cost of acquiring, constructing, or reconstructing a residence. The term also includes any usual and reasonable settlement, financing and closing costs. The funds that are distributed for the first-time home purchase must be used within 120 days after the day the funds were received to pay the qualified acquisition costs.

If the distributed amount is recontributed, i.e. rolled over, within the 120-day period, there will be no income tax or penalty tax consequences. Written documentation will be necessary to insure compliance with these rules. If the funds are not recontributed within this time period, the amount will be taxable and subject to the 10% premature distribution penalty, if applicable.

Under this exception, you are limited to an aggregate amount of $10,000 for your lifetime. While you may be able to use this exception more than once in your lifetime, the total lifetime distribution that can fall under this exception is $10,000.

The eighth exception is if the distribution is used to pay certain higher education expenses.

Distributions made from a Roth IRA will not be subject to the 10% premature distribution penalty tax if the funds are used to pay the qualified higher education expenses of yourself, your children or grandchildren for the year for education furnished at an eligible education institution.

Qualified higher education expenses include tuition, fees, books, supplies, and equipment required for enrollment or attendance at an eligible educational institution. This amount may also include, for students who are carrying at least one-half of the normal full-time course load, reasonable expense amounts incurred for room and board.

An eligible educational institution is generally any accredited college, university, junior college, community college or postsecondary vocational institution that is approved to participate in the Department of Education student aid programs.

The amount of educational expenses for which a distribution from a Roth IRA can be used and not be subject to the penalty under this exception must be reduced by the amount of any qualified scholarship, educational assistance allowance, or payment that is excludable from gross income.

The ninth exception is if the distribution has occurred because of an IRS levy.

The tenth exception is that the 10% additional tax will not apply to certain military reservists. A military reservist called to active duty for 180 days or more on or after September 11, 2001, is not subject to the 10% premature penalty tax of Code section 72(t), as long as the distribution was or is made during his or her time on active duty. This provision is retroactively effective as of September 11, 2001. If you took a distribution during the period of September 11, 2001, to August 17, 2006, you may be entitled to a tax refund.

The eleventh exception is that the 10% tax will not apply if you are a covered expatriate and you are deemed to have received a distribution of your entire IRA account under the special tax rules applying to expatriates

The twelfth exception is that the 10% tax will not apply if your distribution is on account of you being a victim of a qualifying hurricane or other federally declared disaster.

The thirteenth exception is that the 10% tax will not apply if your distribution is on account of you being a victim of a qualifying hurricane or other federally declared disaster.

The fourteenth exception is that the 10% tax will not apply if your distribution is used to make a qualified HSA funding contribution.

The fifteenth exception is that the 10% tax will not apply if your distribution is used to assist with the birth of a child or an adoption or a child.

There is a $5,000 aggregate limit. The actual language is, “The aggregate amount which may be treated as qualified birth or adoption distributions by any individual with respect to any birth or adoption shall not exceed $5,000.” We construe this limit as being a per person lifetime limit. Because this language is not totally clear we believe, the IRS or Congress should clarify.

Presumably, the individual will need to claim this exemption by completing and filing Form 5329.

A qualified birth or adoption distribution means any distribution from an IRA or other applicable retirement plan to an individual as long as the distribution is made during the 1-year period beginning on the date a child of the individual is born or on the date the legal adoption of an eligible adoptee child is finalized. An eligible adoptee is any person who has not attained age 18 or any person who is physically or mentally incapable of self-support. A child of a taxpayer’s spouse is ineligible to be an eligible adoptee.

A taxpayer who has taken a qualified birth or adoption distribution may repay such distribution. This part of the law will also need to be clarified as the law does not define the repayment period. A qualified repayment of a qualified birth or adoption distribution means the distribution is not taxable.

Note, the 10% additional tax only applies to distributions made to an individual younger than age 59½ which must be included in the individual’s taxable income.

5.7.E A Tax to Consider Before Withdrawing IRA Funds. Effective as of January 1, 2013, a 3.8% tax went into effect. The IRS has chosen to call this tax, the Net Investment Income Tax.

This tax may apply only if you are withdrawing income from your Roth IRA and such income must be included in your income and is taxable to you and results in your having to pay the 3.8% tax as explained in the remainder of this section.

This 3.8% tax applies to certain individuals having net investment income and certain estates and trusts having net investment income. To determine the tax owing, a person will multiply 3.8% time the lesser of: (1) his or her net investment income (NII) or a person's modified adjusted gross income as reduced by a threshold amount as set forth in the following table:

Filing Status	Threshold Amount
Married filing jointly	$250,000
Married filing separately	$125,000
Single $200,000	
Head of household (with qualifying person)	$200,000
Qualifying widow(er) with dependent child	$250,000

This tax will be owed only if an individual has net investment income and his or her modified adjusted gross income exceeds the applicable threshold amount.

The tax means an individual before taking a Roth IRA distribution will want to determine if he or she will have to pay the 3.8% tax on account of such distribution. For most people and situations, a person will not owe the 3.8% tax on account of his or her IRA or pension distribution, but in some situations the tax would be owed.

There will be times, however, when a person's Roth IRA distribution will mean the individual will have to pay the 3.8% tax on account of the Roth IRA distribution.

There will also be times when a person will take a Roth IRA distribution and he or she will be required to pay the 3.8% tax, but the amount owed does not increase because of such Roth IRA distribution.

What types of income are defined to be non-investment income?

Distributions from IRAs, pension plans, 401(k) plans, tax sheltered annuities, etc. are not investment income. Social security benefits are not investment income. Wages and income or profits from a nonpassive business including self-employment income are not investment income. Unemployment compensation and workers compensation are not net investment income.

What types of income are net investment income and so they might be subject to the 3.8% tax?

Investment income includes interest, dividends, gains from the sale of stocks, bonds, mutual funds, capital gain distributions from mutual funds, certain sales related to real estate, rental and royalty income, non-qualified annuities, income from businesses involved in trading of financial instruments or commodities, business income arising from certain passive activities, and the sale of an interest in a partnership and S corporations by an individual who had a passive interest. Such investment income is reduced by certain expenses properly allocable to the income. And any income or gain excluded from gross income for regular income tax purposes is also excluded from a person net investment income (e.g. $250,000 exclusion for sale of primary residence).

This new 3.8% tax is different from the new 9/10ths of 1 percent Additional Medicare tax which also went into effect on January 1, 2013.

If you have net investment income for a tax year, then you should review the IRS instructions for Form 8960, Net Investment Income Tax – Individuals, Estates and Trusts to determine if you are required to complete and file this form.

5.7 F Special Rules Applying To IRAs For Relief Related to Hurricanes, Storms, Floods and Tornados. There are special rules applying to withdrawals and repayments from an IRA for taxpayers who suffered an economic loss as a result of certain federally declared disasters such as hurricanes, storms, floods and tornados. This is a complex tax topic.

5.7 G. General Discussion Of How The Special IRS Relief Rules and Procedures Impact IRAs. The federal tax laws give the IRS broad authority to grant relief when the President declares a disaster and FEMA designates an area or areas for assistance. This authority is set forth in Code section 7508A and regulation 301.7508. The primary relief given by the IRS is to extend the time a taxpayer has to file various tax returns and pay the tax owing. However, there are many deadlines by which a taxpayer, such as an IRA account holder, must complete a tax transaction. However, it is possible, if there has been a disaster, that the IRS could extend a tax deadline. Regulation section 301.7508-l(c)(iii) provides for the postponement by the IRS of rules for making certain IRA contributions, taking certain distributions, recharacterizing IRA contributions or making rollovers. For example, if Jane Doe withdrew $8,000 from her IRA on June 1, 2008, but she did not complete her rollover within the 60 days, the general rule is that she could not make the rollover contribution. However, if because of a disaster occurring in early June, the IRS had set a new deadline as August 29, 2008, then Jane Doe could complete her rollover by August 29, 2008. An individual must consult with his or her tax advisor and the IRS for the special tax rules applying if there has been a disaster.

5.7H. Do the withholding rules apply to distributions from a Roth IRA? The general rule is that the withholding rules do not apply to distributions from Roth IRAs. There are very limited exceptions which, because of their rarity, are not discussed herein.

5.7 I. If I make an excess contribution to my Roth IRA, are there rules which allow me to correct it? Yes. An excess contribution to a Roth IRA is any contribution which is not a permitted contribution. Such contributions could arise: (i) if other contributions have been made to a traditional or Roth IRA; (ii) the accountholder's adjusted gross income exceeds the applicable limits with respect to a conversion contribution or annual contribution; (iii) the accountholder and his or her spouse might have contributed more than their compensation; or if a nonqualifying rollover contribution is made.

There are two ways to correct an excess contribution. The first way is to withdraw the excess contribution before the due date of the current year's tax return.

If you satisfy the following two (2) requirements you will not be taxed on the withdrawal of a contribution from your Roth IRA. First, you must withdraw the contribution by the date, including extensions, your tax return is due. Second, any interest or other income earned by the contribution must also be withdrawn.

The interest or other income earned on the excess contribution must be included in your gross income and the 10% additional tax must be paid, if applicable.

Special Rule. The IRS has adopted a rule for correcting current-year and excess contributions very similar to the one which it has adopted with respect to recharacterizations. This special rule is set forth in the instructions for Form 8606. You will have 6 months from the due date of your tax return to withdraw an excess contribution plus the related income (or less any loss). For most taxpayers this is October 15 of the following year. The effect of this special rule is that the deadline for correcting an excess contribution (or a current-year contribution) becomes October 15 of the following year rather than April 15 of the following year plus extensions. The effect of your withdrawal on or before October 15 of the following year is that the contribution is treated as if it had never been contributed. You are still required to withdraw the related income, and you will need to include it in your income for the year in which the contribution is made. You should discuss this special rule with your tax advisor or consult the IRS' instructions, as the rules are complicated. If you have already filed your tax return for such year, then you will need to file an amended return with "Filed pursuant to section 301.9100-2" written at the top.

The second way to correct an excess contribution is to recharacterize or transfer, if permissible, the excess from the Roth IRA to a traditional IRA. The related earnings must also be transferred. If such a transfer takes place, the contribution is considered made with the transferred IRA custodian.

5.8 Must I commence distributions from my Roth IRA at age 70½ or age 72, as applicable? No. The required distribution rules for living accountholders (age 70½ and older) do not apply to distributions from a Roth IRA.

5.9 What happens to my Roth IRA after I die? The funds or assets in your Roth IRA will be paid to your designated beneficiaries in any way which either you or they select, as long as the required distribution rules are satisfied.

5.10 Must my beneficiary(ies) commence required distributions from my Roth IRA after my death? No, not if your surviving spouse is your sole primary beneficiary and he or she elects to treat your Roth IRA as his or her own.

Yes, if the inheriting beneficiary is not your spouse or your spouse does not elect to treat your Roth IRA as his or her own. The general rules were explained previously.

5.11 What happens if my Roth IRA is transferred incident to a divorce or due to an election to treat as own? When a Roth IRA is transferred from one spouse to another by a divorce decree or written document relating thereto, or after the death of one spouse, the transfer is not a distribution and is deemed tax free. The Roth IRA becomes the Roth IRA of the transferee as of the date of transfer, subject to all rules governing Roth IRAs.

5.12 Could my receiving Social Security and Railroad Retirement Benefits affect my eligibility to make a type of Roth contribution and the taxation of a distribution from a Roth IRA? Yes, there are rules which govern when Social Security benefits and Tier 1 Railroad Retirement benefits must be included in a taxpayer's gross income. If you receive such benefits, then you must include a portion of these benefits in your gross income if your provisional income exceeds either of two threshold amounts. Your provisional income includes modified adjusted gross income (adjusted gross income plus tax-exempt interest plus certain foreign-source income) plus 50% of your Social Security or Railroad Retirement benefit.

If your provisional income exceeds the following applicable threshold amount – $32,000 for married taxpayers filing joint returns, $25,000 for unmarried taxpayers and $0 for married taxpayers filing separate returns – then you are required to include in gross income the lesser of (1) 50% of your Social Security or Railroad Retirement benefit or (2) 50% of the excess of your provisional income over the applicable threshold level.

If your provisional income exceeds the following applicable threshold amount – $44,000 for married taxpayers filing joint returns, $34,000 for unmarried taxpayers and $0 for married taxpayers filing separate returns, then you are required to include in gross income the lesser of (1) 85% of your Social Security or Railroad Retirement benefit or (2) the sum of 85% of the excess of your provisional income over the applicable threshold level plus the lesser of: (a) the amount determined using the applicable threshold described in the immediately preceding paragraph or (b) $4,500 if you are unmarried, $6,000 if you are married and filing jointly and $0 if you are married but are filing a separate return.

The consequence of this rule may be: (1) any taxable Social Security amounts will increase your AGI for purposes of the income limitations which apply to a Roth IRA and (2) a distribution from your Roth IRA which is partially or totally taxable could result in some of your Social Security benefits being taxable.

5.13 Special Withdrawal Rules

5.13.A Withdrawal of Current-Year Contribution(s) Before the Due Date of the Current Year's Tax Return. If you satisfy the following two (2) requirements, you will not be taxed on the withdrawal of a contribution from your Roth IRA. First, you must withdraw the contribution by the date, including extensions, your income tax return is due. Second, any interest or other income earned by the contribution must also be withdrawn. The interest or other income earned on the excess contribution must be included in your gross income for the year in which the contribution was made, and the 10% additional tax must be paid, if applicable.

5.13.B Withdrawal of Prior Year's Excess Contribution After the Due Date of that Year's Tax Return. Even though the time for filing your income tax return has passed, you may withdraw such an excess contribution. Since you did not claim a deduction with respect to your Roth IRA contribution, you will not be taxed when the excess contribution amount is returned to you. You should be aware, however, that the IRS has not yet addressed many of the tax issues which may exist in this situation.

5.13.C Recharacterizing a Contribution. The law now permits you to elect to treat a contribution made to a Roth IRA or traditional IRA (i.e. the First IRA) as made to the other type of IRA (i.e. the Second IRA). This can be accomplished by means of a trustee-to-trustee transfer or it can be done by an internal transfer with the same trustee.

The concept is – the contribution as made to the First IRA which is being recharacterized is treated on your federal income tax return as having been originally contributed to the Second IRA on the same date and (in the case of a regular contribution) for the same taxable year that the contribution was made to the First IRA. The income is considered earned by the Second IRA. A recharacterized contribution is not treated as a rollover for purposes of the one-rollover-per-year limitation.

This election can be made only if accomplished on or before the due date (including extensions) for filing your Federal income tax return for the taxable year for which the contribution was made to the First IRA. For this purpose, an actual distribution from a traditional IRA late in a calendar year which is then rolled over to a Roth IRA (conversion method #1) in the following calendar year is treated as being contributed in the earlier calendar year.

An election to recharacterize a contribution cannot be revoked after the transfer.

In order to have a qualifying recharacterization, the net income attributable to the contribution being recharacterized must be transferred to the Second IRA. The method used to calculate the net income is the method used to calculate the earnings associated with an excess contribution to a traditional IRA.

You cannot recharacterize employer contributions to a SIMPLE-IRA or a SEP IRA as contributions to another type of IRA.

You cannot recharacterize a contribution to the First IRA if it was a tax-free contribution (i.e. a rollover or a transfer).

The fact that a rollover or transfer (i.e. a tax-free transfer) has occurred from the First IRA to a subsequent IRA does not mean that the IRA contributor cannot recharacterize the initial contribution as long as the other rules are met. The subsequent IRA is deemed to be the first IRA for these purposes. The rollover or transfer is ignored and the recharacterization is permissible.

In order to make an election to recharacterize a contribution, you must do the following. You must notify both the custodian/trustee of the First IRA and the Second IRA that you have elected to treat the contribution as having been made to the Second IRA, instead of the First IRA for Federal income tax purposes. This notification must be furnished on the date of the transfer (i.e. simultaneously) or before the date of the transfer. The notification must also include the following information:

- Type and amount of the contribution to the First IRA that is to be recharacterized;
- The date on which the initial contribution was made;
- A direction to the custodian or trustee of the First IRA to transfer in a custodian/ trustee-to-custodian/trustee transfer, the amount of the contribution plus the allocable net income to the custodian/ trustee of the Second IRA;
- The name of the first trustee and the second trustee; and
- Any additional information needed to make the transfer.

5.13.D Discussion of the Special Rules Applying to Tax-Free Charitable IRA Distributions/ Contributions. The federal income tax laws governing Qualified Charitable Distributions are now permanent as a result of a new budget and tax bill as signed into law by President Obama on December 18, 2015.

The IRS has issued guidance that a qualified charitable distribution will count towards your required minimum distribution.

A qualified charitable distribution (QCD) is a non-taxable distribution made directly by the trustee of your IRA (other than a SEP or SIMPLE-IRA) to an organization eligible to receive tax-deductible contributions. You must have been at least age 70½ when the distribution was made. Also, you must have the same type of acknowledgement of your contribution that you would need to claim a deduction for a charitable contribution. See Records To Keep in IRS Publication 526. Charitable Contributions. Your total QCDs of the year cannot be more than $100,000.If you file a joint return, your spouse can also have a QCD of up to $100,000. However, the amount of the QCD is limited to the amount of the distribution that would otherwise be included in income. If your IRA includes non-deductible contributions, the distribution is first considered to be paid out of otherwise taxable income.

What requirements must I meet in order to take advantage of this charitable contribution law? (a) You must be age 70½ or older; (b) You must have a traditional or Roth IRA; (c) You must be allowed to itemize deductions on your Form 1040 income tax return; (d) Your contribution to a qualifying charity must also have been able to qualify as an itemized deduction, but for this special charitable contribution rule under Code section 170 (disregard the percentage limits). **Caution:** You receive the tax-free charitable contribution treatment only if the entire amount would have qualified as a charitable deduction. Thus, if the contribution amount is reduced because of a benefit received by you in exchange, or because the custodian does not obtain sufficient substantiation, the exclusion is not available with respect to any part of the IRA distribution; (e) The distribution, but for this rule, must otherwise have been required to be included in your gross income. The withdrawal of basis (i.e. non-deductible contributions or nontaxable distributions) from a traditional IRA and/or Roth IRA is not includable in income, and consequently, such withdrawal does not qualify as a tax-free charitable contribution; and (f) Payment, no matter in what form (electronic transfer, check, etc.), must be made directly from the IRA to the qualifying charitable organization. The instrument used for payment must not be negotiable by the IRA accountholder. The IRS has stated, however, that the accountholder may hand de-liver the payment to the charity.

IRS Reporting Tasks for QCDs. There is no special reporting for QCDs by the IRA custodian. Many times IRA accountholders and their tax advisors think the IRA custodian should be preparing the Form 1099-R to show the distribution as being tax-free. This is not the IRS procedure. A QCD is to be reported as a "normal" distribution since you are older than age 59½. You will be required to complete lines 4a and 4b of your federal income tax return. The general rule is that most IRA distributions are fully taxable so line 4a is left blank and the taxable amount is inserted on line 4b. An exception applies to QCDs. If the total distribution is a QCD, enter 0 on line 4b and write QCD next to line 4b. If only part of the distribution is a QCD, enter the part that is not the QCD on line 4b. Enter QCD next to line 4b.

5.13.E An IRA Distribution May Disqualify a Person For the Premium Tax Credit. The premium tax credit (PTC) is a refundable tax credit authorized under the Affordable Care Act. It assists individuals and families with low or moderate income to afford health insurance purchased through a health insurance marketplace. A person is ineligible for this credit if the health insurance coverage is purchased outside the marketplace. A person who is eligible to enroll in certain employer-sponsored coverage or government programs such as Medicare, Medicaid or TRICARE is ineligible. To be eligible and to obtain this credit a person must meet certain requirements and must file a federal income tax return. One of the requirements is that a person's household income must fall within a certain range.

If you are receiving this credit, before taking any IRA distribution you will want to determine that such an IRA distribution will not make you ineligible to receive this credit. You become ineligible for this credit if the increase in your household income increases to more than 400% of the Federal poverty line for your family size. You will be required to repay any advance payment you receive for which you later become ineligible. You will want to review Publication 974 and other IRS guidance.

5.13.F Transfer Incident to Divorce and/or Election to Treat as Own. When a Roth IRA is transferred from one spouse to another by a divorce decree or written document relating thereto, or after the death of one spouse, the transfer is not a distribution and is deemed tax free. The Roth IRA becomes the Roth IRA of the transferee as of the date of transfer, subject to all rules governing Roth IRAs.

5.13.G Discussion of the Special Rules Applying to Tax-Free Transfers to Health Savings Accounts. As a general tax matter you as a Roth IRA accountholder most likely will not want to use your Roth IRA funds to make a qualified HSA funding distribution. The tax rules, however, permit you to do so if you choose to do so. You should consult an experienced tax advisor if you would choose to do so. The discussion which follows explains the rules applying when a person makes a qualified HSA funding distribution. On or after January 1, 2007, a person who is eligible to make an HSA contribution and who has funds within a traditional IRA or Roth IRA may make a special election once during their lifetime to transfer a certain amount from such IRA to their HSA. This type of special transfer is called a qualified HSA funding distribution. Such an election, once made, is irrevocable. The amount transferred in such a direct trustee-to-trustee transfer will be excluded from the person's income.

This one-time transfer rule would allow a person to change funds which would be taxable (money distributed from an IRA) to funds which will escape taxation if they are withdrawn from the HSA and used to pay qualified medical expenses.

The right allowing a person to transfer funds from an IRA to an HSA tax-free applies even when the person has inherited an IRA. When a beneficiary transfers funds from his or her inherited IRA to an HSA, such a transfer will count to satisfy his or her IRA required distribution from the inherited IRA.

The amount contributed to an HSA, when transferred from an IRA, does count against the HSA contribution limit for such year.

The maximum amount which can be transferred tax-free is determined at the time of the transfer and not later in the year. A person who is covered under a HDHP in March of the current year may transfer from an IRA to an HSA in March the "family" amount even though later in the current year he switches to a "single" HDHP.

The amount to be excluded is limited. It shall not exceed the annual contribution limit for single or family coverage, as applicable, as based on the HDHP coverage as of the time of the special transfer, or, in some cases, the amount of an earlier qualified HSA funding distribution. Thus, the maximum amount eligible for this special transfer for 2019 will be $5,000 for single coverage and $7,000 for family coverage plus any applicable catch-up amount.

Any traditional IRA and/or Roth IRA funds may be transferred to an HSA, including non-taxable basis. However, if a person chooses to transfer his or her basis from either a traditional IRA and/or Roth IRA, the individual will not be able to carry over this basis to his or her HSA. The IRS has adopted the position that the general HSA distribution rule will be applied even if a person has transferred Roth IRA basis into his or her HSA.

The general rule is that a person is allowed only one tax-free transfer during his or her lifetime. One means one. Therefore, if a person has two or more IRAs and wants to use amounts in multiple IRAs to make the tax-free transfer, if eligible, the individual must first make an IRA to IRA or Roth IRA to Roth IRA transfer of the amounts to be distributed into a single IRA, and then make the one tax-free transfer. A person who has both a traditional IRA and a Roth IRA will only be able to do the transfer from one or the other IRA.

A person will be able to transfer SEP-IRA or SIMPLE-IRA funds to his or her HSA only if the SEP or SIMPLE is not an "on-going" plan. That is, the transfer is permissible as long as the employer has not made an employer contribution for the plan year ending with or within the SEP-IRA or SIMPLE-IRA owner's tax year.

There are special testing period taxes if you make this special type of transfer and then end your coverage under an HDHP before a one-year time period has expired.

The testing period starts with the month in which the qualified HSA funding contribution is contributed to the HSA and ends on the last day of the 12th month following such month.

If, at any time during the testing period, you are no longer an eligible individual, then you will be penalized as follows. You will have to add to your income all contributions which had been excluded from income. This is required for the first month you become ineligible. The tax you owe will depend on what marginal tax rate applies. You will also owe an additional 10% tax.

Caution — Once the IRA funds are contributed to the HSA, there is no authority or provision in the law to recontribute the funds to the IRA. However, if the recontribution took place within the standard 60-day rollover period, it would be permissible.

IRS Reporting Tasks for Qualified HSA Funding Distributions. There is no special reporting for Qualified HSA Funding Distributions (HFD). Many times IRA accountholders and their tax advisors think the IRA custodian should be preparing the Form 1099-R to show the movement of the IRA funds to their HSA as being tax-free. This is not the IRS procedure. An HFD is to be reported as any other IRA distribution (code 7 if you are 59½ or older and code 1 if less than age 59½). You will be required to complete lines 4a and 4b of your federal income tax return to show what portion is taxable, if any. If the total distribution is an HFD, then enter 0 on line 4b and write HFD next to line 4b.

5.13.H Discussion of the Special Rules Applying to Distributions to Expatriates. The Heroes Earnings Assistance and Relief Tax Act of 2008 changed the tax laws regarding expatriation. President Bush signed this bill into law on June 17, 2008. The expatriation changes apply to any individual whose expatriation date is on or after June 17, 2008.

An expatriate is any United States citizen who relinquishes his or her citizenship and any long term resident of the United States who ceases to a lawful permanent resident. An individual's expatriation date is the date he or she relinquishes citizenship or ceases being a permanent resident. A covered expatriate, in general, is an expatriate who meets the requirements of subparagraphs (A), (B), or (C) of Internal Revenue Code section 877(a)(2). However, there are exceptions where such a person is not treated as a covered expatriate. An individual will need to consult with his or her attorney or tax advisor.

There are special tax rules applying to IRA accounts and other tax preferred accounts. Any IRA of a covered expatriate is deemed totally distributed on the day before his or her expatriation date. The 10% early distribution tax does not apply. There are to be appropriate adjustments made with respect to subsequent distributions from the account to reflect the deemed distribution. Special withholding rules apply.

5.14 Special Taxes that Apply Even Though No Distribution.

5.14.A Six Percent Excise Tax on Excess Contributions. You must pay a 6% excise tax each year on excess amounts that remain in your Roth IRA. The tax cannot be more than 6% of the value of your Roth IRA as of the end of the tax year. In general, an excess contribution is the amount paid to your Roth IRA which exceeds your contribution limit (lesser of 100% of compensation or the applicable contribution limit) or which is an improper rollover amount.

If the excess contribution is made for the current tax year, you will not have to pay the 6% excise tax if you withdraw or eliminate the excess amount by the date, including extensions, your tax return is due for the current year.

If the excess contribution is attributable to a prior year, you will not have to pay the 6% excise tax if you withdraw or eliminate the excess by December 31 of the current year. The carryback concept does not apply in this situation.

5.14.B Fifty Percent Excise Tax on Excess Accumulations Within an Inherited Roth IRA. There is a 50% excise tax on any excess accumulations which occur within your Roth IRA after your death if your beneficiary(ies) do not comply with the required distribution rules. An excess accumulation is the difference between the amount actually distributed to your beneficiary, and the amount required to be distributed.

5.15 Form 5329 – Reporting Requirements when an Excise Tax applies. The IRS has created Form 5329 because sometimes an IRA accountholder makes an excess contribution, fails to take a required distribution, or takes a withdrawal before he or she is age 59½. If you make an excess contribution, you have the duty to file Form 5329 and complete the applicable section. You must inform the IRS if you corrected the excess situation and so the 6% excise tax is not owed. Or, you must indicate the excess contribution situation has not been corrected and the annual 6% excise tax is owed. If you as the IRS account holder or your inheriting beneficiary fails to timely withdraw his or her required distribution for a tax year, then you must complete the applicable section to show you owe the 50% tax or you may complete the form to request the IRS waive the 50% tax. If you have taken a distribution prior to age 59½, then you will in certain situations complete the applicable section of Form 5329 to claim an exception from the 10% additional tax or you will complete the form to indicate you owe the 10% additional tax**.** If you or your beneficiary(ies) owe the 6% excise tax on an excess contribution, the 10% additional tax on premature distributions or the 50% excise tax for failing to satisfy the minimum distribution requirements, you or your beneficiary(ies) must file IRS Form 5329. If you only owe the 10% additional tax for premature distributions, and the payer properly shows the correct code on the Form 1099-R, you may not have to file Form 5329. See the instructions for Form 5329 for more information. You may be required to file Form 5329 even though your income level would not otherwise require the filing of an income tax return (i.e. Form 1040 or 1040A).

5.16 IRS Reporting Duties of the Roth IRA Accountholder and the Inheriting Roth IRA Beneficiary. You as the Roth IRA accountholder and/or your inheriting Roth IRA beneficiary have federal tax reporting duties. You must report certain Roth IRA contributions and you and your beneficiaries must report certain Roth IRA distributions.

You are to complete the following IRS tax forms as applicable: Form 1040, 8606 (Nondeductible contributions) and Form 5329 (Additional Taxes on IRAs and Other Tax-Favored Accounts).

Form 1040 is the standard U.S.Individual Income Tax Return. You will use such forms to report a Roth IRA distribution and/or to claim the Retirement Savings Contribution Credit. Somewhat surprisedly, the IRS does not have an individual inform the IRS that he or she has made an annual Roth IRA contribution for a given tax year. The Roth IRA custodian/trustee will report such annual Roth IRA contribution on the Form 5498. You will want to maintain a file containing copies showing all of your Roth IRA contributions. If you do make a Roth conversion contribution during a current year you must complete Part II of Form 8606 as a Roth conversion contribution is a special type of nondeductible contribution.

In order for a Roth IRA accountholder or an inheriting Roth IRA beneficiary to report information regarding a Roth IRA penalty tax, Form 1040 and Form 5329 must be completed.

With respect to reporting a Roth IRA distribution on the Form 1099-R, the Roth IRA custodian/trustee will inform both the individual and the IRS whether the distribution is qualified (tax-free) or nonqualified (possibly taxable). The Roth IRA custodian/ trustee makes its determination only by considering when the Roth IRA was established with it. You are to complete Form 1040 to report a qualified distribution. Such distribution is tax-free. You are to complete Part III of Form 8606 if the distribution is a nonqualified distribution. This distribution may or may not need to be included in income. Note that a Roth IRA custodian may complete the Form 1099-R to show a distribution as nonqualified since the 5-year rule has not been met at such institution, but the distribution is qualified as you met the 5-year rule on account of making earlier contributions at another Roth IRA custodian.

If you are required to file one or more of the required tax forms, but fail to do so, the IRS may assess a tax penalty. The same is true for an inheriting beneficiary.

5.17 RMDs for Beneficiaries of an Inherited Roth IRA Arising from a Direct Rollover from a designated Roth Account with in a 401(k) Plan or Other Eligible Employer Retirement Plan (ERP)

On or after January 1, 2007, if you are a nonspouse beneficiary of a deceased plan participant, then you will be able to directly roll over your designated Roth account inherited funds into a new type of inherited Roth IRA, if the plan is amended to authorize such a direct rollover. Prior to 2007, a nonspouse beneficiary of a pension plan participant was unable to roll over such inherited funds. He or she was required to take distributions from the pension plan as the plan stipulated.

You will be required to take required distributions from this new type of inherited Roth IRA. The IRS has adopted the approach that the inherited Roth IRA established to receive the direct rollover must apply the same required distribution rules as set forth in the ERP. That is, if the ERP mandated that the 5-year rule applies, then the 5-year rule must be applied by the Roth IRA, unless a special election has been made to use the life-distribution rule. If the ERP mandated the life-distribution rule, then the life-distribution rule must be applied by the Roth IRA.

Special rule and election. If the 5-year rule applies, the nonspouse beneficiary may elect to use the life-distribution rule rather than the 5-year rule. There are two requirements. First, the funds must be directly rolled over before the end of the year following the year of death. Secondly, the life-distribution rule must be determined using the same nonspouse beneficiary. Note that the amount ineligible to be directly rolled over includes the required distribution amount for any prior year and current year to the extent not distributed.

5.18 New Special Procedures Relating To an Incorrect Form 1099-R Until 2016, an IRA custodian had the duty to correct an IRS reporting form if it had knowledge that it had been prepared incorrectly. The IRS may assess an IRA custodian/trustee with a $250 penalty for furnishing an incorrect form to the individual and a $250 penalty for filing as incorrect form with the IRS. This $250 amount is subject to adjustment by a COLA formula. It is $270 for 2019. There is a new general rule for 2016. In two limited situations, an IRA custodian is no longer required to correct an incorrect Form 1099-R. First, no correction is necessary and the $270 penalty is not owed if the error relates to an incorrect dollar amount and the error differs from the correct amount by no more than $100. Second the $270 penalty is not owed if the error relates to an incorrect tax withheld amount and the error differs from the correct amount by no more than $25. There is an exception to this new general rule. An IRA distributee has the right to say (i.e. elect) that the IRA custodian/ trustee must still furnish a corrected Form 1099-R and it will owe the $270 penalty amounts unless the IRA custodian/trustee within 30 days of the election prepares and files a corrected Form-R. You should contact us if you wish to make such an election. You as an IRA distributee who has been furnished an incorrect Form 1099-R must furnish the following information-(1) that you are making the election; (2) your name, address and TIN; (3) that a certain Form 1099-R was prepared with an error; and (4) the year or years you want your election to apply to. The IRS has stated it will be writing a regulation to provide additional guidance on this topic.Some IRA custodians/ trustees may choose to continue pre-2016 procedures of correcting all incorrectly prepared forms even though in some situations the law no longer requires this.

6. Summary of Contractual Terms

6.1 You must refer to your savings or time deposit agreement(s) for the terms which govern the investment of your Roth IRA deposits, including an early withdrawal penalty or fee for taking a distribution prior to maturity, if applicable.

6.2 You have the right to designate a beneficiary or beneficiaries to inherit your Roth IRA account. Refer to Section 1.6 of Article IX so that you can understand the rules and procedures.

6.3 You do not have any ability to assign your rights in this Roth IRA.

6.4 We may charge fees as set forth in section 2.6 of Article IX.

6.5 We may amend the terms of this Roth IRA from time to time to comply with law changes. If we amend it for any other reason, such amendment becomes effective 30 days after we have sent our notice of amendment to you.

6.6 You are to refer to Article IX for the following topics: withdrawals, withholding rules, reporting errors, changes in the Roth IRA custodian or trustee, good faith payments, termination and resignation of the IRA custodian or trustee, withholding payments and resolution of disputes, transfer and rollovers and payment of taxes.

7. Miscellaneous

7.1 Approved as to Form. Your Roth IRA has been approved as to form for use as a Roth IRA by the IRS. This approval as to form does not represent a determination of the merits of such Roth IRA or its investments.

7.2 Further Roth IRA Information. The IRS has published guidance on Roth IRAs and this guidance may be found online at www.irs.gov. Commencing with the 2014 publications, the IRS is publishing two IRA Publications; Publication 590A, Contributions to Individual Retirement Arrangements (IRAs); and Publication 590B, Distributions from Individual Retirement Arrangements (IRAs). Combined these provide a comprehensive discussion of Roth IRAs.

7.3 Financial Disclosure Information. You are to refer to the application page.

7.4 Administrative Fees or Costs. We have the right to charge service fees as indicated in Article IX.