2019-2020

Trust SIMPLE-IRA Amendment

TRUST—NONDEPOSIT INVESTMENTS NOT FDIC-INSURED. UNDER YOUR SIMPLE-IRA, YOUR SIMPLE-IRA FUNDS MAY BE USED 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 SIMPLE-IRA Grantor:

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

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.

We are furnishing you this Comprehensive SIMPLE-IRA Amendment so that you can be informed of these changes and take advantage of the law changes. The general rule is that the IRA plan agreement must authorize the transaction being made by an IRA accountholder or an inheriting IRA beneficiary and the IRA custodian. The IRA Disclosure Statement has been revised to set forth the IRA rules applying for the 2019 and 2020 tax years. Set forth is a summary of some of these revisions.

1. The eligibility requirement that you could not be age 70½ or older in order to make a Traditional IRA contribution has been repealed for 2020 and subsequent years. As long as you have compensation you are eligible to make a SIMPLE-IRA contribution.

2. Since 1975 the age for required distributions for traditional IRAs, SEP IRAs and SIMPLE-IRAs has been age 70½. Commencing for 2020, it is age 72. A person's required beginning date is now April 1 of the year following attaining age 72.

   Those individuals who are already subject to the RMD rules would remain subject to the old rules. That is, they will need to take RMDs for 2019 and subsequent years. An RMD would apply for 2021 for any person attaining age 72 in 2021. It appears those individuals attaining age 71 in 2020 would not have any RMD for 2020.

   Also be advised that the IRS has issued proposed Regulations setting revised life expectancy tables to reflect the fact that individuals are living longer. These new tables would be used for 2021 RMD calculations.

3. There are new rules applying to IRA beneficiaries. These rules are complicated. These new rules apply to an IRA owner who dies on or after January 1, 2020. In general, the ability to establish a stretch IRA has been repealed and the inherited 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 IRA by December 31 of the year containing the 10th anniversary of the 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 19-23 for an additional discussion. You should discuss with your legal and tax advisers.

4. 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.

5. 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.
6. 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.
7. 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.
8. 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.
9. 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 Comprehensive SIMPLE-IRA Amendment in your personal files for safekeeping. The revised and updated Individual Retirement Account (IRA) and Disclosure Statement are both set forth in this Comprehensive SIMPLE-IRA Amendment and they replace previously furnished forms.

Sincerely,
Your SIMPLE-IRA Trustee

SIMPLE Individual Retirement Trust Account

FORM

This is Form 5305-S as issued by the Department of Treasury, Internal Revenue Service in April of 2017. Form 5305-S is a model custodial account agreement that meets the requirements of sections 408(a) and 408(p) and has been automatically approved by the IRS. A SIMPLE individual retirement account (SIMPLE-IRA) is established after the form is fully executed by both the individual (participant) and the custodian. This account must be created in the United States for the exclusive benefit of the participant or his or her beneficiaries.

Do not file Form 5305-S with the IRS. Instead, keep it for record purposes.

NOTICE OF AGREEMENT

The Participant whose name appears above is establishing a Savings Incentive Match Plan for Employees of Small Employers individual retirement account (SIMPLE-IRA) under sections 408(a) and 408(p) to provide for his or her retirement and for the support of his or her beneficiaries after death.

The Custodian named above has given the Participant the disclosure statement required under Regulations section 1.408-6.

The Participant and the Custodian make the following agreement:

ARTICLE I

The custodian will accept cash contributions made on behalf of the participant by the participant's employer under the terms of a SIMPLE-IRA plan described in section 408(p). In addition, the custodian will accept transfers or rollovers from other SIMPLE-IRAs of the participant and, after the 2-year period of participation defined in section 72(t)(6), transfers or rollovers from any eligible retirement plan (as defined in section 402(c)(8)(B)) other than a Roth IRA or a designated Roth account. No other contributions will be accepted by the custodian.

ARTICLE II

The participant's interest in the balance in the custodial account is nonforfeitable.

ARTICLE III

1. No part of the custodial account funds may be invested in life insurance contracts, nor may the assets of the custodial 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 custodial 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 IV

1. Notwithstanding any provision of this agreement to the contrary, the distribution of the participant's interest in the custodial account shall be made in accordance with the following requirements and shall otherwise comply with section 408(a)(6) and the regulations thereunder, the provisions of which are herein incorporated by reference.

2. The participant's entire interest in the custodial account must be, or begin to be, distributed not later than the participant's required beginning date, April 1 following the calendar year in which the participant reaches age 70½. By that date, the participant may elect, in a manner acceptable to the custodian, to have the balance in the custodial account distributed in:

(a) A single sum or

(b) Payments over a period not longer than the life of the participant or the joint lives of the participant and his or her designated beneficiary.

3. If the participant dies before his or her entire interest is distributed to him or her, the remaining interest will be distributed as follows:

(a) If the participant dies on or after the required beginning date and:

(i) the designated beneficiary is the participant's surviving spouse, the remaining interest will be distributed over the surviving spouse's life expectancy as determined each year until such spouse's death, or over the period in paragraph (a)(iii) below if longer. Any interest remaining after the spouse's death will be distributed over such spouse's remaining life expectancy as determined in the year of the spouse's death and reduced by 1 for each subsequent year, or, if distributions are being made over the period in paragraph (a)(iii) below, over such period.

(ii) the designated beneficiary is not the participant's surviving spouse, the remaining interest will be distributed over the beneficiary's remaining life expectancy as

determined in the year following the death of the participant and reduced by 1 for each subsequent year, or over the period in paragraph (a)(iii) below if longer.

(iii) there is no designated beneficiary, the remaining interest will be distributed over the remaining life expectancy of the participant as determined in the year of the participant's death and reduced by 1 for each subsequent year.

(b) If the participant dies before the required beginning date, the remaining interest will be distributed in accordance with (i) below or, if elected or there is no designated beneficiary, in accordance with (ii) below:

(i) The remaining interest will be distributed in accordance with paragraphs (a)(i) and (a)(ii) above (but not over the period in paragraph (a)(iii), even if longer), starting by the end of the calendar year following the year of the participant's death. If, however, the designated beneficiary is the participant's surviving spouse, then this distribution is not required to begin before the end of the calendar year in which the participant would have reached age 70½. But, in such case, if the participant's surviving spouse dies before distributions are required to begin, then the remaining interest will be distributed in accordance with (a)(ii) above (but not over the period in paragraph (a)(iii), even if longer), over such spouse's designated beneficiary's life expectancy, or in accordance with (ii) below if there is no such designated beneficiary.

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

4. If the participant dies before his or her entire interest has been distributed and if the designated beneficiary is not the participant's surviving spouse, no additional contributions may be accepted in the account.

5. The minimum amount that must be distributed each year, beginning with the year containing the participant's required beginning date, is known as the "required minimum distribution" and is determined as follows:

(a) The required minimum distribution under paragraph 2(b) for any year, beginning with the year the participant reaches age 70½, is the participant's account value at the close of business on December 31 of the preceding year divided by the distribution period in the uniform lifetime table in Regulations section 1.401(a)(9)-9. However, if the participant's designated beneficiary is his or her surviving spouse, the required minimum distribution for a year shall not be more than the participant's account value at the close of business on December 31 of the preceding year divided by the number in the joint and last survivor table in Regulations section 1.401(a)(9)-9. The required minimum distribution for a year under this paragraph (a) is determined using the participant's (or, if applicable, the participant and spouse's) attained age (or ages) in the year.

(b) The required minimum distribution under paragraphs 3(a) and 3(b)(i) for a year, beginning with the year following the year of the participant's death (or the year the participant would have reached age 70½, if applicable under paragraph 3(b)(i)) 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 individual specified in such paragraphs 3(a) and 3(b)(i).

(c) The required minimum distribution for the year the participant reaches age 70½ can be made as late as April 1 of the following year. The required minimum distribution for any other year must be made by the end of such year.

6. The owner of two or more IRAs (other than Roth IRAs) may satisfy the minimum distribution requirements described above by taking from one IRA the amount required to satisfy the requirement for another in accordance with the regulations under section 408(a)(6).

ARTICLE V

1. The participant agrees to provide the custodian with all information necessary to prepare any reports required by sections 408(i) and 408(l)(2) and Regulations sections 1.408-5 and 1.408-6.

2. The custodian agrees to submit to the Internal Revenue Service (IRS) and participant the reports prescribed by the IRS.

3. The custodian also agrees to provide the participant's employer the summary description described in section 408(l)(2) unless this SIMPLE-IRA is a transfer SIMPLE-IRA.

ARTICLE VI

Notwithstanding any other articles which may be added or incorporated, the provisions of Articles I through III and this sentence will be controlling. Any additional articles inconsistent with sections 408(a) and 408(p) and the related regulations will be invalid.

ARTICLE VII

This agreement will be amended as necessary to comply with the provisions of the Code

and the related regulations. Other amendments may be made with the consent of the persons whose signatures appear on the application page.

Article VIII may be used for any other provisions the Participant and Custodian want to add. If provisions are added, they must comply with applicable requirements of State law and the Internal Revenue Code.

ARTICLE VIII

Introduction

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

1. Duties and Rights.

1.1 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 or your beneficiaries must notify us of any change in address.

1.2 Tax Consequences. Because SIMPLE-IRAs are so influenced by tax laws, you expressly acknowledge that you should consult with your tax advisor before making almost any SIMPLE-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.

1.3A Investments and Selection of Investments. You will have the right to self-direct the assets of this SIMPLE-IRA only if so indicated on the application page. If so, you, or your authorized investment manager, may direct us to invest your SIMPLE-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 SIMPLE-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 SIMPLE-IRA assets only in assets which are clearly permitted by the laws governing SIMPLE-IRAs. Thus, you cannot direct that your SIMPLE-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.

You may also instruct us in writing to invest your SIMPLE-IRA into one or more of the savings or time deposit instruments which we are offering at that time. You expressly authorize this even though we are acting as the SIMPLE-IRA trustee of your SIMPLE-IRA. Our name is set forth on the SIMPLE-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 SIMPLE-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 SIMPLE-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 SIMPLE-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 SIMPLE-IRA unless the application page indicates otherwise. We have the following powers, rights and duties regarding the investment of your SIMPLE-IRA assets.

a. You expressly authorize us to invest your SIMPLE-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 SIMPLE-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 SIMPLE-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 SIMPLE-IRA assets even though the specific power to do such acts is not listed.

g. To allow you (the SIMPLE-IRA grantor) pursuant to written policy to direct the investment of your SIMPLE-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 are permitted to withdraw funds from your SIMPLE-IRA at any time. To request a distribution, you must notify us and complete our distribution form, and furnish us with the reason for your distribution. If you indicate the distribution is because of your disability, or because you have been a plan participant for two years or more and are age 59½ or older, then you must provide us with the necessary verification in the format we require.

All distributions will be subject to ordinary income tax unless they are rolled over pursuant to the rules discussed below. Distributions made prior to age 59½, death, or disability, will also be subject to the IRS premature distribution penalty tax. This tax is equal to 25% of the distribution amount if the distribution is made before you have satisfied the two-year participation requirement, and 10% if the distribution is made after you have satisfied the two-year participation requirement.

Unless you instruct us otherwise in writing, we must withhold income tax on any SIMPLE-IRA distribution for federal income tax purposes and also for state income tax purposes, if applicable. The amount to be withheld will be the amount then required under governing laws.

You have the right to roll over these funds to another SIMPLE-IRA or a regular IRA in accordance with Internal Revenue Code section 408(d)(3)(G). See the rollover discussion which is set forth later. You have the right to have this rollover without any cost or penalty being imposed.

Except for the special rollover rule which applies to a distribution from a SIMPLE-IRA, your SIMPLE-IRA will be assessed and required to pay, if applicable, the interest penalty for the early surrender of a time deposit, and/or fees related to the distribution.

1.5 Special Distribution Rules to Ensure Compliance with 70½ RMD Rules. You are required to establish a periodic distribution schedule so that you are paid a distribution amount which equals or exceeds your required minimum distribution amount for the year you attain age 70½ and each subsequent year. We have forms available which can be used to establish this schedule. Alternatively, you may elect to use the alternative certification method. You must furnish us a written notice of your intent to use the alternative certification method. Upon your request we will furnish you a form which you can use to make this election.

Note. Commencing with tax year 2020, the age 70½ requirement is changed to an age 72 requirement for an IRA owner who attains age 70½ in 2020. An IRA owner who attained age 70½ in 2019 or earlier is ineligible to use the new age 72 requirement. Such an IRA owner must take an RMD for 2020 or 2021 even if he or she is not age 72.

Unless you instruct us otherwise in writing, you hereby authorize us to issue you a check from your SIMPLE-IRA funds on or before November 15 of each year for the amount of your annual required distribution as determined above or deposit such amount into any non-SIMPLE-IRA checking or savings account which you maintain with us. If you do not maintain such a non-SIMPLE-IRA savings account, then you hereby grant us the authority to establish a non-SIMPLE-IRA savings account to receive your RMD. We shall have the right to select a date other than November 15, but we must furnish you 15 days' notice. We shall have the authority but not the duty to distribute this annual required distribution amount from your IRA. You are solely responsible to make sure that your required minimum 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 SIMPLE-IRA assets after your death. We require that you use our

beneficiary form (or such other form which we have acknowledged in writing) to designate your beneficiary or beneficiaries and that you sign this form 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 SIMPLE-IRA assets will be paid to your estate. As the beneficial owner of the SIMPLE-IRA assets, you can instruct how and when these assets will be paid to the beneficiaries. Such instruction must be in writing. 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 IV and other governing law.

Should any beneficiary pre-decease you, his or her share of the 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 issue, 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 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 SIMPLE-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 his other beneficiary(ies), or if a designated beneficiary is not alive when the beneficiary dies, then the remaining SIMPLE-IRA assets will be paid to such beneficiary's estate. Any method of payment must satisfy the provisions of Article IV and other governing law.

1.7 Special Distribution Rules to Ensure Compliance with Required Minimum Distribution Rules by Beneficiaries and Special Provisions for an Inherited SIMPLE-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 SIMPLE-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 SIMPLE-IRA funds be distributed to your beneficiary(ies) on or before certain time deadlines. The time deadlines which will apply will depend upon whether you died before or on/after your required beginning date and which available option your beneficiary elects. These deadlines are explained in the Disclosure Statement portion of this SIMPLE-IRA booklet.

Upon your death, your SIMPLE-IRA will be converted into one or more inherited IRAs. The number of inherited 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 SIMPLE-IRA created for each such beneficiary. The following rules will govern such inherited IRAs. These rules are in addition to the other rules of this agreement and will govern if there is a conflict.

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 you as the beneficiary are 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 SIMPLE-IRA Disclosure Statement. You acknowledge that these rules are complex and that your beneficiaries should discuss with their own advisers.

You agree that we have the right to establish an inherited SIMPLE-IRA account for each beneficiary on our data processing system even before a beneficiary instructs us how he or she will take withdrawals. We will have the authority to move the funds from your SIMPLE-IRA to one or more new inherited SIMPLE-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 IRAs.

There will be earnings (or losses) from the time of your death until the time the separate SIMPLE-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 SIMPLE-IRAs. An inheriting beneficiary is only entitled to receive a distribution with respect to his or her SIMPLE-IRA.

There may be times when your estate will be the beneficiary of your SIMPLE-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 SIMPLE-IRA funds over your life expectancy, then the SIMPLE-IRA custodian shall establish such separate inherited SIMPLE-IRAs. You agree that your estate and your beneficiary(ies) will hold us (i.e. the SIMPLE-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 SIMPLE-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 SIMPLE-IRA funds using the measuring life of the oldest beneficiary of the trust. In such case the SIMPLE-IRA custodian shall establish separate inherited SIMPLE-IRAs. You agree that your trust and the beneficiary(ies) of such trust will hold us (i.e. the 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 SIMPLE-IRA to another SIMPLE-IRA custodian or trustee, but only if the requesting beneficiary and the receiving SIMPLE-IRA custodian/trustee will furnish us with a special transfer of inherited SIMPLE-IRA administrative form so it is clearly acknowledged that it is an "inherited SIMPLE-IRA" which is being transferred. Inherited IRAs are not eligible to be rolled over unless the beneficiary is a spouse who is the sole beneficiary.

Each beneficiary will be required to instruct us in writing as to how he or she will withdraw funds from his or her inherited SIMPLE-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 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.

A spouse beneficiary will be deemed to have elected the life-distribution rule unless he or she expressly elects the 5-year rule on or before December 31 of the year following the year of your death. A nonspouse beneficiary will also be deemed to have elected the life distribution rule unless he or she expressly elects the 5-year rule on or before December 31 of the year following the year of your death.

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-SIMPLE-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 1 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 SIMPLE-IRA unless the exception for the return of an IRS levy would apply</u>.

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

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

1.10 Sale of Custodian-Successor Custodian. If another institution should purchase this, the custodian institution, or any of our SIMPLE-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 SIMPLE-IRA funds with all duties and rights as listed herein.

1.11 General Rule–No FDIC Insurance Coverage. Normally FDIC insurance does NOT apply to assets held within a self-directed IRA because FDIC insurance applies only to certain deposit accounts. Your SIMPLE-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 SIMPLE-IRA, your SIMPLE-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 SIMPLE-IRA funds will be invested in deposits at 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 SIMPLE-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.

1.12 Special Terms Regarding SIMPLE-IRA Contributions. Your SIMPLE-IRA may accept SIMPLE-IRA contributions which are made either by your employer or, if you are self-employed, by yourself. You hereby acknowledge that we have no responsibility or duty to determine your eligibility for such contributions or the correctness of the contribution amount. You also acknowledge that you could well have excess IRA contributions if your employer (or you as the employer) makes a mistake as to which employees of the sponsoring business are entitled to be allocated a share of the employer contribution and the amount of each allocation. Other administrative errors could also occur. Therefore, you agree to hold us harmless with respect to any and all adverse tax consequences (e.g. excess contributions) which arise or may arise as a result of your employer (or you as the employer) making such administrative error(s).

1.12A Special Terms Regarding SEP-IRA Contributions. Your SIMPLE-IRA shall not accept SEP-IRA contributions which are made either by your employer or, if you are self-employed, by yourself.

1.13 Reports. Each year we will provide you or your beneficiary with one or more reports showing the activity in your SIMPLE-IRA for the preceding year as required by IRS regulations and pronouncements.

You agree that we may furnish these reports by either providing a print version or an electronic version of the reports.

1.14 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.

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

1.16 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 SIMPLE-IRA account at any time during the year, the account stops being a SIMPLE-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 SIMPLE-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 SIMPLE-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 SIMPLE-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 SIMPLE-IRA or exercises any authority or control in managing or disposing of its assets.
- Provides investment advice to your SIMPLE-IRA for a fee, or has any authority or responsibility to do so.
- Has any discretionary authority or discretionary responsibility in administering your SIMPLE-IRA.

1.17 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.

1975 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.

1.18 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.

1.19 Agents. We may use agents to assist us in fulfilling our duties under this agreement. Such agents must abide by applicable federal privacy laws and our policies. Access to your personally identifiable financial information is limited to the employees of the agent who have been retained to enter data so that various IRS reporting forms and statements and other non-IRS reports and statements may be prepared.

1.20 Contribution Limitations and Procedures. For any tax year, we will only accept contributions to your SIMPLE-IRA which do not exceed the maximum annual dollar amount as permitted by federal law. 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 SIMPLE-IRA.

1.21 Fees. You agree to pay us the fees specified in our current schedule of fees, if any, for establishing, maintaining and administering your SIMPLE-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 SIMPLE-IRA assets and to surrender or sell such SIMPLE-IRA assets at our discretion to pay any fee of which you have been notified, and which remains unpaid 30 days thereafter. However, in the case of an administrative fee, we will allow you to pay such fee with non-SIMPLE-IRA funds, but we have no duty to inform you of this option other than herein.

If your SIMPLE-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.

1.22 Termination and Resignation as Custodian. We may resign or terminate our position as custodian of your SIMPLE-IRA at any time by giving you written notice. You may then instruct us in writing to transfer your SIMPLE-IRA assets to another SIMPLE-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 SIMPLE-IRA assets will be paid to you by mailing a

check to you or by depositing such funds into a non-SIMPLE-IRA checking account or savings account which you maintain with us. In addition, if you do not maintain such a non-SIMPLE-IRA checking or savings account, then you hereby grant us the authority to establish a non-SIMPLE-IRA savings account to receive this transfer.

1.23 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 VIII and it will become effective 30 days after it is mailed to you or your beneficiary.

1.24 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, notwithstanding state law to the contrary.

1.25 Withholding Payments and Resolution of Disputes. We shall have the right to withhold payments from your SIMPLE-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. We shall have the right (but not the duty) to request a judicial determination as to ownership of the assets at any time from a Court of law. 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 SIMPLE-IRA assets any fees and expenses including but not limited to legal and accounting fees, whether internal or external, associated with resolving any dispute.

1.26 Legal Claims Against Your SIMPLE-IRA. We will attempt to notify you if we are served with any type of legal process which affects or might affect your SIMPLE-IRA. The provisions of section 1.25 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 SIMPLE-IRA assets. Your SIMPLE-IRA will be responsible for all fees and expenses associated with responding to the legal process claim.

1.27 Transfers and Rollovers. We may request certification acceptable to us before we will accept any transfer or rollover contribution. We reserve total discretion whether or not we will transfer your SIMPLE-IRA assets to another custodian or trustee. You certify that you understand that you are not eligible to roll over any required minimum distribution amount. You assume sole responsibility for complying with this requirement. You also expressly state that you have the sole responsibility for complying with all IRS eligibility rules for rollovers, including the rule that you are allowed only one rollover per SIMPLE-IRA per 12 months. 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.

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

1.29 Express Duty to Notify Us When You Become an Expatriate. You acknowledge that you have the express duty to notify us (your 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 IRA assets any amount which reasonably might be owed to the United States Treasury regarding your expatriation. Refer to section 7.17 for a summary.

1.30 Power of Attorney. You may designate in writing one or more individuals to act as your power of attorney with respect to your SIMPLE-IRA. He or she will have the full authority to make contributions, take distributions and take other actions with respect to your SIMPLE-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 SIMPLE-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 SIMPLE-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.

1.31 Required Information to Open this SIMPLE-IRA. When opening a SIMPLE-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.

1.32 Effective Date. The effective date of this SIMPLE-IRA plan agreement is the date that the SIMPLE-IRA custodian signs or accepts the SIMPLE-IRA application of the depositor.

1.33 Counterparts. The SIMPLE-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.

1.34 Withholding of State Income Tax. If you are a resident of a state which has income tax laws, then we will withhold income tax for such state if we are required by law to do so or if we choose to do so. In general, we will withhold income tax for a state only if we have the minimal contacts with such state so we are required to do so.

2. General Provisions and Special Law Changes

2.1 Entire Agreement/Reproductions. This agreement is made up of two documents: (1) the application form and (2) the IRS model Form 5305-S plan agreement along with Article VIII. You and we have received or retained a copy of these documents. You also acknowledge the fact that we have given you a SIMPLE-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 1.23.

2.2 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 SIMPLE-IRA custodian and the SIMPLE-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.

2.3 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.

2.4 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.

2.5 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.

2.6 Special Plan Agreement Change Authorizing SIMPLE-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 funds within a certain SIMPLE-IRA may make a special election once during their lifetime to transfer a certain amount from their SIMPLE-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. This transfer is only permissible if the two year requirement has been met.

A person will be able to transfer SIMPLE-IRA funds to his or her HSA only if the SIMPLE <u>is not an "on-going" plan</u>. 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.

2.7 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 relating to tax-free charitable distributions. These changes are discussed in

the Disclosure Statement.

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

2.9 Special Plan Agreement Changes for the 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 IRA tax benefits relating to certain reservists. These changes are discussed in 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.

2.10 Special Plan Agreement Changes for the SIMPLE-IRA made by the Protecting Americans From Tax Hikes Act of 2015. Notwithstanding the limit set forth in Article I that no contributions other than a rollover or transfer from another SIMPLE-IRA of the participant may be made, it is expressly authorized that as of December 19, 2015 a SIMPLE-IRA may accept rollover or direct rollover contributions arising from distributions from 401(k) plans, 403(b) plans, 457(b) plans and certain other qualified plans and also traditional IRAs and SEP-IRAs. Such contributions can only be made after the 2-year period described in section 72(t)(6) has been met.

2.11 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 under section 4.5.I of 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.

2.12 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.

2.13 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 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 2.13. These changes are discussed in the IRA Disclosure Statement.

2.14 Special SIMPLE-IRA Plan Agreement Changes for SIMPLE-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 SIMPLE-IRA plan agreement provisions are modified to adopt the SIMPLE-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 SIMPLE-IRA Disclosure Statement. An individual with compensation regardless of age is eligible to makes a SIMPLE-IRA contribution. From 1975-2019 a person who attained age 70½ was required to take an RMD for the year he or she attained age 70½ and all subsequent tears as long as living. The 70½ age is changed to age 72. The rules applying to inherited IRAs have changed radically. In general, with respect to an IRA accountholder dying on or after January 1, 2020, a nonspouse beneficiary who is more than 10 years younger than the SIMPLE-IRA owner will have 10 years in which to close the inherited SIMPLE-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 or the 25% additional tax of Code section 72(t), certain adoption and birth expenses and certain disaster distributions. There are special SIMPLE-IRA rules for contributions and distributions if you are eligible to use the disaster related rules.

Disclosure Statement

3.1 Introduction

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

You have not established a Roth IRA, a Coverdell Education Savings Account or a traditional IRA. You would need to sign other special documents if you would like these special

types of IRAs.

This summary or explanation of your SIMPLE-IRA is intended to be a nontechnical explanation. However, as with any plan or program created by the Internal Revenue Code, these rules are complicated. Note that this is a summary and you may well wish to conduct additional research. You are advised to always seek professional tax advice.

4.1 Revocation Procedure

Refer to Section 8.6.

5.1 An Overview of a SIMPLE-IRA

A Savings Incentive Match Plan for Employees of Small Employers (SIMPLE) is a written arrangement (a plan) that allows an employer to make contributions for the retirement of its employees, without becoming involved in more complex retirement plans. An employer may establish a SIMPLE to be effective for 1997 and subsequent years.

A SIMPLE retirement account is a SIMPLE-IRA which meets special rules set forth in a new Code section 408(p). In general, it is only available to employers with 100 or fewer employees, who maintain no other type of retirement plan.

A SIMPLE has similarities to a 401(k) plan, but it is not a 401(k) plan. The basic concept is that an employee/participant will be eligible to contribute his/her own funds from his/her payroll or bonus, and that the employer will make matching contributions. Limits exist as to how much the employee may contribute (i.e. electively defer), and there are limits as to the matching contribution the employer must make.

An employee may elect to defer an amount not to exceed the amount set forth in the following table:

Tax Year	Contribution if Younger Than Age 50	Contribution if Age 50 or Over
2002	$7,000	$7,500
2003	$8,000	$9,000
2004	$9,000	$10,500
2005	$10,000	$12,000
2006	$10,000	$12,500
2007-2008	$10,500	$13,000
2009-2012	$11,500	$14,000
2013-2014	$12,000	$14,500
2015-2018	$12,500	$15,500
2019	$13,000	$16,000
2020*	$13,500	$16,500

*This limit may increase for 2021 and subsequent years because of a COLA adjustment.

Additional contributions to a SIMPLE-IRA plan (i.e. increased elective deferrals) will be permitted for individuals who attain age 50 before the close of the year. The amount which an employee defers must be expressed as a percentage of compensation. However, there is no limit with respect to this percentage. An employee may not defer more than the amount of his or her compensation.

The employer must match on a dollar-for-dollar basis what the employee has chosen to electively defer, up to 3% (or the applicable lesser percentage) of the employee's compensation. An employer may set its matching rate at as little as 1% of compensation if two requirements are met. First, the employer must notify the employees of the lower percentage within a reasonable amount of time before the 60-day "decision" period commences. Second, during any 5-year period, the actual annual percentage of the employer's match cannot be less than 3% for more than two of the five years considered in the calculation (current-year plus previous four years).

Any employee who was paid at least $5,000, as applicable, in compensation during two preceding years, and who is reasonably expected to receive at least $5,000 in compensation during the "upcoming" year, must be eligible to participate in the SIMPLE for the upcoming year. Compensation for an employee is defined to be the sum of his or her Form W-2 compensation plus any elective deferral amount. Self-employed individuals can participate in a SIMPLE. Compensation for a self-employed individual is defined to be his or her net earnings without regard to any contribution under the SIMPLE.

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.

In order to have a SIMPLE-IRA plan, an employer must maintain either a Form 5305-SIMPLE or another plan document which meets the statutory requirements.

For an additional discussion of SIMPLE-IRA plans and SIMPLE-IRA accounts, you should

refer to the copy of the 5305-SIMPLE, IRS Publication 590 or the summary discussion which the employer is required to furnish its employees, if applicable. SIMPLE plan contributions made by your employer may not be made to this SIMPLE-IRA since it is not written to accept such contributions.

6.1 Statutory Requirements of a SIMPLE-IRA

6.2 Cash Contributions. Your SIMPLE-IRA contribution must be in cash unless it is a rollover contribution or a transfer contribution or a recharacterized contribution.

6.3 Contribution Limits. Your employer may make contributions on your behalf as authorized under the terms of the employer's SIMPLE plan as described in section 408(p). You may roll over or transfer funds to this SIMPLE-IRA from another SIMPLE-IRA established on your behalf. No other contributions are authorized.

6.4 Custodian/Trustee Requirements. The custodian or trustee of your SIMPLE-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.

6.5 No Life Insurance. Your contributions or any funds in your SIMPLE-IRA cannot be invested in life insurance to any extent.

6.6 Nonforfeitable. Your contributions and SIMPLE-IRA funds are nonforfeitable.

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

6.8 Distributions which must be taken by Age 70½ or Age 72, as applicable. The following discussion is presented in question and answer format.

Why are there federal tax rules mandating required minimum distributions from a traditional IRA or SIMPLE-IRA? The primary purpose of a traditional IRA or SIMPLE-IRA is to provide retirement funds for the traditional IRA or SIMPLE-IRA accountholder. Therefore, the tax laws require an IRA accountholder to take a required minimum distribution for the year he or she attains age 70½ and each subsequent year. After the IRA accountholder dies, the beneficiary or beneficiaries will be required to take required distributions. There are specific formulas for determining how much must be withdrawn, and when. These amounts are called "required minimum distributions" (RMDs). **Note.** Commencing with tax year 2020, the age 70½ requirement is changed to an age 72 requirement for an IRA owner who attains age 70½ in 2020. An IRA owner who attained age 70½ in 2019 or earlier is ineligible to use the new age 72 requirement. Such an IRA owner must take an RMD for 2020 or 2021 even if he or she is not age 72.

What happens if I fail to withdraw the required minimum distribution? Current federal income tax law provides a penalty tax of 50% of the amount required to be distributed, but which was not. For example, if you failed to withdraw a required minimum distribution of $900 for 2015, then you would owe a tax of $450.

What are the tax consequences of receiving an RMD? The general taxation rule for traditional IRAs will apply. You (or your beneficiary) will include the amount received in your gross income for the year of receipt. You will pay taxes with respect to this amount at the marginal income tax rate which applies to you, unless a portion of the distribution is not taxable because it is comprised of basis.

Must I withdraw all of my money because I am 70½ or 72 as applicable, or may I withdraw SIMPLE-IRA funds in a number of payments? You are not required to withdraw all of your SIMPLE-IRA funds in one year. You may, if you wish, but you are not required to do this. You are also permitted to set up a distribution schedule over a number of years, as long as you take your RMD amount or a larger amount each year.

As long as your money is in your SIMPLE-IRA, it remains tax deferred, as do any earnings. By using Periodic Payments over a number of years, you spread your income out over the payment schedule and typically will pay less tax.

6.9 RMDs for Accountholders

What is the basic RMD calculation? There are actually two formulas which must be used to calculate the RMD amount. The RMD equals the SIMPLE-IRA's balance as of the preceding December 31, divided by the distribution period set forth in the Uniform Lifetime Table or the Joint and Last Survivor Table.

Formula #1

$$\text{RMD} = \frac{\text{Account Balance}}{\text{Period from Uniform Lifetime Table}}$$

Formula #2

$$\text{RMD} = \frac{\text{Account Balance}}{\text{Period from Joint Lives Table}}$$

The account balance of the SIMPLE-IRA as of December 31 of the previous year is adjusted for outstanding rollovers, transfers and recharacterizations, if any.

For example: the fair market value of your SIMPLE-IRA as of 12/31/17 is $15,000. Your age is 77 in 2018. The divisor from the Uniform Lifetime Table is 21.2. Your required minimum distribution for 2018 is $15,000/21.2, or $707.55.

Do all distributions count towards satisfying the RMD amount? Almost all distributions do count, even the distribution of nondeductible contributions are counted. However, "corrective distributions" pursuant to Code section 408(d)(4), 408(d)(5), 408(k)(6)(C) or similar items defined by the IRS commissioner do not reduce the RMD amount.

Should I consult with my legal and/or tax advisor? Yes. It is important that you understand these RMD rules, as the 50% tax is very punitive.

What "age" is used to determine the distribution period (i.e. life-expectancy factor) for the first year? The age to be used is the age you attain as of December 31 of the year you attained age 70½. If your date of birth is 1/4/46, then you attain age 70 on 1/4/18, and 70½ on 7/4/18. Therefore, age 70 would be used for 2018. If your date of birth had been 8/10/47, then you would attain age 70½ on 2/10/18, and also age 71 in 2018 Thus, age 71 would be used for 2018.

What is the Uniform Lifetime Table? It is the table which the IRS has instructed be used for determining the distribution period for lifetime distributions to a SIMPLE-IRA accountholder when his or her spouse is either not the sole designated beneficiary, or is the sole beneficiary, but is not more than 10 years younger than the accountholder. This is a joint life-expectancy table created by the IRS using the age of the SIMPLE-IRA accountholder and a hypothetical beneficiary who is 10 years younger than the accountholder.

What life-expectancy table is used if the Uniform Lifetime Table is NOT used? It is the Joint and Last Survivor Table. You may find it in IRS Publication 590 or in the final RMD regulation. Again, the only time this table is used is if your spouse is your sole beneficiary at all times during the distribution calendar year and he or she is more than 10 years younger than you are.

When is the determination made that my spouse is my sole beneficiary and is more than 10 years younger? It is made on January 1 of each required distribution year.

Uniform Lifetime Table

Age of IRA Accountholder	Distribution Period (in years)	Age of IRA Accountholder	Distribution Period (in years)
70	27.4	93	9.6
71	26.5	94	9.1
72	25.6	95	8.6
73	24.7	96	8.1
74	23.8	97	7.6
75	22.9	98	7.1
76	22.0	99	6.7
77	21.2	100	6.3
78	20.3	101	5.9
79	19.5	102	5.5
80	18.7	103	5.2
81	17.9	104	4.9
82	17.1	105	4.5
83	16.3	106	4.2
84	15.5	107	3.9
85	14.8	108	3.7
86	14.1	109	3.4
87	13.4	110	3.1
88	12.7	111	2.9
89	12.0	112	2.6
90	11.4	113	2.4
91	10.8	114	2.1
92	10.2	115	1.9

What happens if there is a change in my marital status after January 1? If your spouse would die after January 1, or you become divorced after January 1, you will still be treated as married for such year. However, you would not qualify to use the Joint Table for subsequent years unless you would re-marry and qualify again under the special rule.

What happens if I designate a beneficiary other than or in addition to my spouse who had been my sole beneficiary during the distribution calendar year? The RMD amount will need to be redetermined and it will be a larger amount.

What is my required beginning date? The required beginning date is April 1 of the year following the year in which you reach age 70½. You reach age 70½ on the day six months after your 70th birthday. For example, if your 70th birthday is June 25, six months from June 25 is December 25. You would be considered to be "70 and ½" in that year and must begin distributions by April 1 of the next year.

If my first distribution has to be withdrawn by April 1 of the year after the year I reach age 70½, when do I have to take additional distributions? You are required to take dis-

tributions for each calendar year after the year you reach age 70½. While you have until April 1 of the year after the year in which you turn age 70½ to take your first distribution, the distribution for the second year must be made by December 31 of such year. The deadline for subsequent distributions is December 31 of each subsequent year.

May I withdraw more than my required minimum distribution? Yes, you are always able to withdraw more, but only to the extent of your SIMPLE-IRA account balance.

Must the distribution schedule I establish also be the same as my required minimum distribution schedule? No. The rule is that the amount distributed each year must always equal or exceed your RMD amount for such year.

Am I required to take a minimum distribution from each SIMPLE-IRA I have? No. The minimum distribution amount must be calculated separately for each SIMPLE-IRA you have. Under the final RMD rules, the SIMPLE-IRA custodian must determine your RMD if you request it. However, you do not have to take a distribution from each SIMPLE-IRA, as long as you satisfy the total minimum distribution amount from at least one SIMPLE-IRA.

Example: Roberta is age 76 (distribution period of 22.0) in 2018, and she has four IRAs at four different custodians:

IRA Custodian	IRA Balance	RMD Amount
First Bank	$5,000.00	$227.27
First Brokerage	$15,000.00	$681.82
Second Bank	$30,000.00	$1,363.64
Second Brokerage	$20,000.00	$909.09
Aggregate RMD TOTAL		$3,181.82

Roberta can take the $3,181.82 from the first SIMPLE-IRA, the second SIMPLE-IRA, the third SIMPLE-IRA, the fourth SIMPLE-IRA or in any combination, as long as she satisfies her required minimum distribution of $3,181.82. If Roberta withdraws $3,181.82 from the SIMPLE-IRA at First Bank, then she should inform the other three custodians in writing that she has satisfied her RMD requirement by withdrawing funds from the SIMPLE-IRA at First Bank.

Since 2002 only the RMDs of “like-kind” IRAs may be aggregated for purposes of this special distribution rule.

Examples of “like-kind” IRAs:

1. Traditional IRAs of a person who holds them as an accountholder;
2. Traditional IRAs of a person who holds them as a beneficiary, as long as related to the same deceased IRA accountholder (i.e. an inherited IRA); and
3. Roth IRAs of a person who holds them as a beneficiary of the same deceased Roth IRA accountholder (i.e. an inherited Roth IRA).

A distribution from an IRA which is not of the same type may not be used to satisfy the RMD requirement of another type of IRA. For example, if John Doe inherits two IRAs from his dad and an IRA from his mom, then he may aggregate the two IRAs he inherited from his dad, but he may not aggregate these two with the inherited one from his mom.

Traditional IRAs, SEP-IRAs, and SIMPLE-IRAs may all be aggregated for purposes of satisfying the required distribution rules. These three types of IRAs may not be aggregated with Roth IRAs, since the Roth IRA is fundamentally different from traditional IRAs, SEP-IRAs, and SIMPLE-IRAs. In addition, 403(b) accounts may not be aggregated with any of these types of IRAs. Also, this special aggregation rule does not apply to distributions from Qualified Plans. There must be a separate distribution from each Qualified Plan, and a distribution from an IRA can never be used to satisfy an RMD for a QP, or vice versa.

What rules apply if I wish to roll over funds from a SIMPLE-IRA to a different SIMPLE-IRA? Are there any special RMD rules with which I must comply? Yes. The rules applying to rollovers have not changed. A person is not eligible to roll over an RMD. If one does, then it will be an excess contribution.

The IRS rules provide that the first money out of your SIMPLE-IRA for a given year is defined to be your required distribution for such year, until your requirement is met. Therefore, if you were to take a distribution early in the year, thinking you could roll it over and later take your RMD amount, the IRS would consider the distribution to be part of your RMD amount, and rolling over an RMD amount is not permissible. You may, of course, use the alternative certification method and take your RMD amount for one SIMPLE-IRA from a different SIMPLE-IRA.

What rules apply if I wish to transfer funds from a SIMPLE-IRA to a different SIMPLE-IRA, and am I required to take a required distribution if I have not yet done so? You may transfer your entire SIMPLE-IRA balance (including any RMD for such year) from one SIMPLE-IRA to another SIMPLE-IRA. SIMPLE-IRA accountholders must understand that there are some risks associated with the new rules because the two SIMPLE-IRA custodians (i.e. sending and receiving) are not responsible to redetermine your RMD amount just

because you transfer funds out of their SIMPLE-IRA or transfer funds into their SIMPLE-IRA. This means that you, the accountholder, will be responsible to make sure that you withdraw your RMD from wherever you wish.

What is an RMD Notice? Every SIMPLE-IRA custodian or trustee is required to send you an RMD notice by January 31 of each year informing you what your required distribution amount is for each SIMPLE-IRA which you maintain with such SIMPLE-IRA custodian or trustee. The annual RMD notice must also inform you of your deadline for taking your RMD. Alternatively, the SIMPLE-IRA custodian must advise you that you must take an RMD with respect to a specific SIMPLE-IRA plan agreement, inform you of your deadline, offer to calculate the RMD upon your request, and then, if requested, calculate the RMD and provide it to you. The SIMPLE-IRA custodian may choose to inform you that you do not need to take a distribution from that specific SIMPLE-IRA as long as you were using the alternative certification method and take the RMD amount for that SIMPLE-IRA from another SIMPLE-IRA plan agreement.

Is my SIMPLE-IRA custodian required to give the IRS any information about my RMD? Yes. The SIMPLE-IRA custodian must, on an annual basis, indicate on the Form 5498 if an RMD is required. At the present time, the IRS is not asking that the actual RMD amount be reported to the IRS.

What is an IRA qualified longevity annuity contract (IRA QLAC)? It is a special type of annuity sold by an insurance company which you may wish to consider as an IRA investment when you are subject to the required distribution rules. In July of 2014 the IRS adopted a final regulation authorizing qualified longevity annuity contracts (QLAC) for traditional IRAs, SEP-IRAs and SIMPLE-IRAs. The new rules are effective for IRA QLACs purchased on or after July 2, 2014, and apply to RMDs for 2015 and subsequent years. The concept and rationale of the law change is, individuals are living longer and thus something must be done to preserve assets for when a person lives into their 80's and 90's. Forcing a person during his or her 70’s to take a full RMD each year may result in too few assets for those later years. The IRA QLAC rules allow a person to take the lesser of $125,000 or 25% of his/her aggregated IRA balances from a non-QLAC annuity IRA investment and use such funds to purchase an IRA QLAC. The individual is required to commence RMD distributions from the IRA QLAC by age 85. Once the individual commences distribution from the QLAC special RMD rules apply. However, prior to this time the amount in deferred IRA QLACs are excluded from the RMD rules and calculations.

6.10 RMDs for SIMPLE-IRA Beneficiaries

Are my SIMPLE-IRA beneficiaries required to take RMDs after I die? Yes. Once a SIMPLE-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 SIMPLE-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 SIMPLE-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 <u>before</u> the required beginning date, then your spouse may choose from three options:

<u>**Option #1**. Election as Own</u> – Your spouse is able to elect to treat his or her interest as a beneficiary in your SIMPLE-IRA as his or her own SIMPLE-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 SIMPLE-IRA.

Your spouse makes such an election when he or she redesignates the SIMPLE-IRA to be his or her own SIMPLE-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 SIMPLE-IRA.

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

Surviving Spouse’s Right to Treat Deceased Spouse’s SIMPLE-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 SIMPLE-IRA, has the right to treat this SIMPLE-IRA as his or her own SIMPLE-IRA at any time after the spouse’s date of death. When a surviving

spouse elects to treat the deceased spouse's SIMPLE-IRA as his or her own, the SIMPLE-IRA is no longer an "inherited" SIMPLE-IRA. The effect of treating the deceased spouse's SIMPLE-IRA as his or her own SIMPLE-IRA is that the surviving spouse is now treated as if he or she had originally made the SIMPLE-IRA contributions. The surviving spouse is now considered to be the SIMPLE-IRA owner, for whose benefit the SIMPLE-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 RMD rules will apply to this "elected" SIMPLE-IRA only if the surviving spouse attains age 70½ or older during the year his or her spouse died. The RMD rules will NOT apply to this "elected" SIMPLE-IRA if the surviving spouse is sufficiently young so that he or she is not subject to the RMD rules for the current year.

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 SIMPLE-IRA owner. The surviving spouse only needs to be paid the RMD amount which had not yet been distributed to the deceased SIMPLE-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 SIMPLE-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 SIMPLE-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 SIMPLE-IRA accountholder.

Option #3. Five-Year Payout – Under this option, your spouse must remove all funds from the SIMPLE-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 SIMPLE-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 SIMPLE-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 SIMPLE-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 SIMPLE-IRA as his or her own SIMPLE-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 SIMPLE-IRA to another SIMPLE-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 SIMPLE-IRA and pension plan purposes.
2. A non-spouse beneficiary who is not more than 10 years younger than the deceased SIMPLE-IRA. For example, Jane age 65 and designated her brother John age 58 as her primary beneficiary. Another example, Julie age 52 designates her brother Raul age 47 as her primary beneficiary.
3. A beneficiary who is a child of the SIMPLE-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 SIMPLE-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 SIMPLE-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 SIMPLE-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 SIMPLE-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 a SIMPLE-IRA beneficiary? It is the same formula

which applies to a living SIMPLE-IRA accountholder, except the life-expectancy table to be used is different. A SIMPLE-IRA beneficiary uses the Single life Table. A SIMPLE-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 SIMPLE-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 5-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 SIMPLE-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 SIMPLE-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 SIMPLE-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 SIMPLE-IRA are identifiable from the trust instrument.

What life-expectancy table is used to determine the life expectancy which applies to an inheriting SIMPLE-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 SIMPLE-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.

7.1 Federal Income Tax Consequences.

7.2 Contribution Limits. Refer to Section 5.1 for a discussion of these limits.

7.3 Permissible Types of Contributions and Effects of Contributions. Because this is a SIMPLE-IRA, the only permissible contributions are qualifying SIMPLE contributions. A contribution to a SIMPLE-IRA is a qualifying one if the employer has made it pursuant to a qualifying SIMPLE-IRA plan or if it is a rollover or transfer from another SIMPLE-IRA to this SIMPLE-IRA.

SIMPLE-IRA contributions are made by your employer and therefore you do not claim a tax deduction for the contribution. However, special rules apply for self-employed individuals.

The contributions which may be made to a traditional IRA may not be made to this SIMPLE-IRA. Spousal contributions may not be made. SEP contributions may not be made.

As of December 19, 2015, SIMPLE-IRAs may accept rollover contributions arising from distributions from 401(k) plans, 403(b) plans, 457(b) plans and certain other qualified plans and also a traditional IRA and a SEP-IRA. Such contributions can only be made after the 2-year period described in section 72(t)(6) has been met. For example, funds now in a 401(k) plan may be rolled over into a SIMPLE-IRA if the 2-year requirement has been met or funds in a traditional IRA may be rolled over into a SIMPLE-IRA if the 2-year requirement has been met. This new rule applies to contributions made after December 18, 2015 which is the date President Obama signed into law the Protecting Americans From Tax Hikes Act of 2015.

If contributions are made to your SIMPLE-IRA, then you will be considered to be an active participant for purposes of applying the MAGI limits for determining whether or not you will be able to claim a tax deduction for your contribution to a traditional IRA.

7.4 Contribution Deadlines. The business sponsor or employer of the SIMPLE plan must contribute the elective contributions not later than the close of the 30-day period following the last day of the month with respect to which the contributions are to be made, and make the matching contributions or the nonelective contributions not later than the time for filing the employer's tax return for such taxable year.

7.5 Credit for SIMPLE-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 deferrals.

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

A. Be at least 18 years of age as of December 31 of such year

B. Not be a dependent on someone else's tax return

C. Not be a student as defined in Internal Revenue Code section 25B(c)

D. Have adjusted gross income under certain limits which are based on your filing status. See the limit charts.

E. 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 SIMPLE-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 % = 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.

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%

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 to zero (0) - any amount of credit remaining will not be refunded to you.

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.

7.6 Deferred Taxation. Your SIMPLE-IRA funds (whether contributions or related earnings) are not taxed until actual distribution unless (1) you engage in a prohibited transaction, (2) you invest in collectibles, (3) your contribution is nondeductible, (4) you pledge your SIMPLE-IRA as security, or (5) you engage in a trade or business with these funds so that the unrelated business income tax imposed by Internal Revenue Code section 511 applies. If you engage in a prohibited transaction at any time during the year, your SIMPLE-IRA funds will be treated as if they were distributed on January 1 of that year. IRC section 4975 names the prohibited transactions. Some examples: (1) borrowing from your SIMPLE-IRA; (2) selling property to your SIMPLE-IRA; (3) using your SIMPLE-IRA as security for a loan; or (4) receiving unreasonable compensation for managing your SIMPLE-IRA. If any of your SIMPLE-IRA funds are invested in collectibles after 1981, 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: SIMPLE-IRA funds may be invested in certain gold, silver, and platinum coins issued by the United States. Exception #2: SIMPLE-IRA funds may be invested in any coin issued under the laws of any state. Exception #3: After December 31, 1997, a SIMPLE-IRA may purchase certain gold, silver, platinum or palladium bullion. Such bullion must be in the physical possession of the SIMPLE-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.

7.7 Federal Estate and Gift Taxes. IRC sections 2039(c) and 2517 provide limited exceptions so that certain SIMPLE-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, SIMPLE-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 2018 is 11.18 million. The adjusted amount for 2019 is $11,400,000. In general, a married couple is able to exclude 22.36 million from federal estate tax for 2018 and 22.80 million for 2019.

7.8 Distributions.

7.8.A In General. For SIMPLE-IRA purposes a distribution is defined to be a removal of funds or property from a SIMPLE-IRA which is actually paid to you or your beneficiary or which is transferred to another qualifying SIMPLE-IRA or inherited SIMPLE-IRA.

A distribution will either be fully taxable, partially taxable or will not be taxable because all, some or none of the amount distribution will be required to be included in income for federal income tax purposes.

7.8.B Tax Treatment of Distributions. Any money or property that you receive from your SIMPLE-IRA is a distribution. The standard IRA distribution taxation rules apply to distributions of SIMPLE-IRA funds. All funds within traditional IRAs, SEP-IRAs and SIMPLEs must be aggregated for purposes of applying the distribution taxation rules. The **general rule** is that any distribution is included in the gross income of the recipient in the year received. The favorable ten-year averaging or capital gain provisions of IRC section 402 do not apply. If you have made nondeductible contributions, then a portion of the distribution will not be taxable as determined by applying the rules of IRC section 72 as modified by some special SIMPLE-IRA rules. See IRS Publication 590.

General Rule. Distributions from your SIMPLE-IRA may be fully or partly taxable, depending on whether your IRAs include any nondeductible contributions or other basis.

Fully taxable. If only deductible contributions were made to your traditional IRA (or IRAs, if you have more than one), you have no basis in your IRA. Because you have no basis in you IRAs, any distributions are fully taxable when received.

Partly taxable. If you made nondeductible contributions to any of your traditional IRAs, you have a cost basis (investment in the contract) equal to the amount of those taxed con-

tributions. These nondeductible contributions are not taxed when they are distributed to you. They are a return of your investment in your IRA.

Only the part of the distribution that represents nondeductible contributions (your cost basis) is tax-free. If nondeductible contributions have been made, distributions consist partly of nondeductible contributions (basis) and partly of deductible contributions, earnings, and gains (if there are any). Until all of your basis has been distributed, each distribution is partly nontaxable and partly taxable.

Form 8606. You must complete Form 8606, and attach it to your return, if you receive a distribution from an IRA and have ever made nondeductible contributions to any of your traditional IRAs. Using the form, you will figure the nontaxable distributions and your total IRA basis.

Note. If you are required to file Form 8606, but you are not required to file an income tax return, you still must file Form 8606. Complete Form 8606, sign it, and send it to the IRS at the time and place you would otherwise file an income tax return.

In addition, see the discussion of the special rules which apply if you convert your funds from this SIMPLE-IRA to a Roth IRA.

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

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.

<u>The new tax means an individual before taking an IRA distribution will want to determine if he or she will have to pay the 3.8% tax on account of such distribution.</u> 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 IRA distribution will mean the individual will have to pay the 3.8% tax on account of the IRA distribution.

There will also be times when a person will take an 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 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.

7.8.C Transfers. A transfer occurs when ownership of the SIMPLE-IRA funds or property

is changed from one SIMPLE-IRA Custodian/Trustee on behalf of a SIMPLE-IRA depositor or beneficiary to a subsequent SIMPLE-IRA Custodian/Trustee on behalf of the same depositor or beneficiary. A transfer is not a reportable event to either the individual or the IRS because an actual payment has not been made. The following types of transfers may take place with respect to your SIMPLE-IRA: (1) you may transfer funds to another of your SIMPLE-IRAs; (2) your spouse who is your spouse beneficiary may elect to treat your SIMPLE-IRA as his or her own SIMPLE-IRA; (3) there may be a transfer of your SIMPLE-IRA funds to your spouse or ex-spouse, if pursuant to a court decree or property settlement or (4) there will be a transfer by operation of law from your SIMPLE-IRA to our beneficiary's inherited SIMPLE-IRA.

7.8.D Withholding. If you receive a SIMPLE-IRA distribution which is payable upon demand, the payer-Trustee will withhold Federal income tax at the rate of 10% unless you elect not to have any withholding or instruct to have a greater amount withheld. You use Form W-4P to instruct your Trustee that you do not want withholding.

7.8.E 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.

Note: If you have funds in a SIMPLE-IRA you must transfer these funds to a traditional IRA and then you could make the QCD.

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.

What new QCD rule applies for 2020? Effective for 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.

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 15a and 15b of your federal income tax return. The general rule is that most IRA distributions are fully taxable so line 15a is left blank and the taxable amount is inserted on line 15b. An exception applies to QCDs. If the total distribution is a QCD, enter 0 on line 15b and write QCD next to line 15b. If only part of the distribution is a QCD, enter the part that is not the QCD on line 15b. Enter QCD next to line 15b.

7.8.F Federal Income Tax Withholding. If you receive an IRA distribution which is payable upon demand, the payer-custodian will withhold federal income tax at the rate of

10%, unless you elect not to have any withholding or instruct to have a greater amount withheld. You use Form W-4P to instruct your custodian that you do not want withholding.

The standard withholding rules, as summarized above, apply fully to any distribution you take from your traditional IRA, even though you make a Roth IRA conversion contribution by rolling it over to a Roth IRA. Special withholding rules apply if you are a covered expatriate.

7.8.G Twenty-Five Percent Additional Tax for Certain SIMPLE-IRAs. If you receive a distribution on or after January 1, 1997, from your SIMPLE-IRA before you attain age 59½ or become disabled and before you have complied with the two-year requirement of Internal Revenue Code section 72(t)(6), you must pay an additional income tax equal to 25% of the amount distributed. You are disabled if you cannot do any substantial gainful activity because of your physical or mental condition. A physician must determine that the condition has lasted, or can be expected to last, continuously for 12 months or more or that the condition can be expected to bring death. For more information, see IRS Publication 522 and Schedule R. This tax is in addition to any regular income tax. To satisfy the two-year requirement, your distribution must take place two years or more after the date you first commence participation in the related SIMPLE-IRA plan.

7.8.H Ten Percent Additional Tax. If you receive a SIMPLE-IRA distribution which must be included in your gross income before you attain age 59½ or become disabled, but after you have satisfied the two-year participation requirement, you must pay an additional tax equal to 10% of the amount distributed. This tax is in addition to any regular income tax due. A distribution made to your beneficiary(ies) at your death will not be subject to the 10% tax.

7.8.I Exception to Additional Taxes. The general SIMPLE-IRA taxation rule is that the SIMPLE-IRA distribution will be included in income and it will also be subject to an additional tax equal to 10% of the amount required to be included in income (but in some cases 25%) unless one of the following twelve exceptions applies.

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 7.5% of your adjusted gross income. 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. This exception applies only to distributions occurring on or after January 1, 1998

Qualified first-time home buyer distributions are distributions from a SIMPLE-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. This exception applies only to distributions occurring on or after January 1, 1998.

Distributions made from a SIMPLE-IRA will not be subject to the 10% premature distribution penalty tax in 1998 if the funds are used to pay the qualified higher education expenses of yourself, your children or grandchildren.

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 post-secondary 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 SIMPLE-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. This exception applies only to distributions occurring after July 22, 1998.

The tenth exception is if the distribution is rolled over to a Roth IRA or converted to a Roth IRA. This exception applies only to distributions occurring on or after January 1, 1998.

The eleventh 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 twelfth 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 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 distri-

bution. 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.

7.8.J 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.

Automatic 60 Day Extension of IRA Contribution Deadline And Other Tax Acts For Certain Federally Declared Disasters. The new law authorizes an automatic 60 day extension to file a tax return and certain other tax acts. With respect to IRAs and pension plans the 60 day extension shall apply to: annual IRA contributions which have a deadline of April 15 (with no extension), a withdrawal of an excess contribution made before the tax return due date (plus extensions), a recharacterizing of a contribution and making a rollover contribution.

This automatic extension shall be in addition to or concurrent with other IRS guidance issued pursuant to other subsections of Code section 7508A. Past practice of the IRS was to not allow extensions of the contribution deadline for annual contributions. The contribution deadline is now extended for a disaster victim.

The 60 day period ends on the date which is 60 days after the latest disaster incident date.

The 60 day extension is granted to a qualified taxpayer who was in or in some cases was impacted by the disaster area.

7.8.K 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.

7.8.L Effect on Taxation of Social Security and Railroad Retirement Benefits. Commencing with the 1994 tax year (i.e. January 1, 1994), new rules 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.

There are two primary consequences when Social Security and Railroad Retirement Benefits are taxable. First, because you are an active participant, any taxable Social Security amounts will increase your AGI for purposes of the deductible/nondeductible calculation. Second, a distribution from your SIMPLE-IRA may well result in some of your Social Security benefits being required to be included in income and being taxable.

7.8.M Distributions Which Are Not Subject To The General Taxation Rules. There are five exceptions to the general rule of when a distribution is not subject to tax: (i) rollovers; (ii) the return of a current-year contribution before the due date of the current-year's tax return; (iii) the return of certain excess contributions after the due date of the tax return for the year the excess was made; (iv) transfers incident to a divorce; and (v) nondeductible contributions.

7.8.M(1) Rollovers. The information presented below is intended to provide you with general information. You are strongly advised to see your tax advisor. A rollover is valid only if you make an irrevocable election in writing to the new Custodian/Trustee at the time of the contribution.

Two-year rule. To qualify as a tax-free rollover (or a tax-free trustee-to-trustee transfer), a rollover distribution (or a transfer) made from a SIMPLE-IRA during the 2-year period beginning on the date on which you first participated in your employer's SIMPLE plan must be contributed (or transferred) to another SIMPLE-IRA. The 2-year period begins on the first day on which contributions made by your employer are deposited in your SIMPLE-IRA.

After the 2-year period, amounts in a SIMPLE-IRA can be rolled over or transferred tax-free to an IRA other than a SIMPLE-IRA, or to a qualified plan, a tax-sheltered annuity (section 403(b) plan), or deferred compensation plan of a state or local government (section 457 plan).

Why would I want to roll over funds? You will avoid paying current taxes, which is the normal result when a distribution is received. That is, you avoid paying current taxes on the distribution amount plus the 25% or 10% excise tax which would apply if you were not yet age 59½, unless a special exception applied. It is important to note that these recontributed funds plus related earnings will continue to compound or grow tax deferred until distribution.

7.8.M(2) What rules must be satisfied to gain the beneficial tax treatment bestowed on rollover contributions?

Rollover <u>from</u> a SIMPLE-IRA <u>to</u> another SIMPLE-IRA. If a person receives a distribution (i.e. the check is made payable to the SIMPLE-IRA accountholder) of all or a part of his or her SIMPLE-IRA, he or she can re-deposit the funds into a SIMPLE-IRA without being taxed on the receipt of the funds, if:

-The funds are rolled over (i.e. redeposited) within 60 days,

-The funds were not a required minimum distribution, and

-The person has not rolled over a previous distribution from the same SIMPLE-IRA or other type of IRA within the last year. The one-year period commences on the date the person received the previous distribution and not on the date of the redeposit.

Example. You receive an eligible rollover distribution from your SIMPLE-IRA on June 30, 2018, that you intend to roll over to another SIMPLE-IRA to postpone including the distribution in your income, you must complete the rollover by August 29, 2018, the 60th day following June 30.

7.8.M(3) Special Rule for SIMPLE-IRAs Rolling into a Traditional IRA and Expansion of Rollovers Into SIMPLE-IRAs. The general rules which apply for IRA-to-IRA rollovers also apply in this situation. In addition, a rollover from a SIMPLE-IRA to a traditional IRA is only permissible if the distribution from the SIMPLE which you are rolling over occurred after the 2-year period which commences on the date you first participated in the related SIMPLE plan.

As of December 19, 2015, SIMPLE-IRAs may accept rollover contributions arising from distributions from 401(k) plans, 403(b) plans, 457(b) plans and certain other qualified plans. Such contributions can only be made after the 2-year period described in section 72(t)(6) has been met. For example, funds now in a 401(k) plan may be rolled over into a SIMPLE-IRA if the 2-year requirement has been met or funds in a traditional IRA may be

rolled over into a SIMPLE-IRA if the 2-year requirement has been met. This new rule applies to contributions made after December 18, 2015 which is the date President Obama signed into law the Protecting Americans From Tax Hikes Act of 2015.

7.8.M(4). What rules must be satisfied to gain the beneficial tax treatment bestowed on rollover contributions?

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

- The funds are rolled over (i.e. re-deposited) within 60 days after the day the funds were received,
- The funds were not a required minimum distribution, and
- The person has not rolled over a previous distribution from the same IRA or another IRA within the last year. The one-year period commences on the date the person received the previous distribution and not on the date of the redeposit.

In 2015 and subsequent years 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, 2017, and then withdraws $6,000 from her traditional IRA on January 28, 2017, 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 60 day rule must be met. Although a person is limited to being able roll over just one distribution, he or she is permitted to make multiple rollover contributions. For example, a person who withdraws $15,000 on May 6, 2017, will be able to make a $6,000 rollover contribution on May 27, 2017, a $7,000 rollover contribution on June 5, 2017 and a $2,000 rollover contribution on June 24, 2017.

The tax consequences will 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 2016 (e.g. April 20, 2016) from his or her traditional 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, 2017 or later. In addition, he or she is eligible to take a distribution on April 20, 2016 and roll it over, only if he or she has taken no previous distribution from an IRA during the preceding 12 months (i.e. April 21, 2015 to April 20, 2016).

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

vidual 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.

Special Rule for SAR-SEPs. If you are a highly compensated employee and you make a transfer or take a distribution from your SEP-IRA before the nondiscrimination test has been satisfied (ADP test), the distribution will be subject to regular income tax and the 10% additional tax for pre-age 59½ distributions, if applicable.

Rollover and Direct Rollover to an IRA from 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. 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.

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

An "automatic" rollover rule applies for 2005 and subsequent years. If your vested account balance never exceeded $5,000, but it did exceed $1,000, and you failed to elect to have such distribution paid to an eligible retirement plan in a direct rollover or to receive the distribution directly, the plan administrator may execute the necessary documents to establish an individual retirement plan on your behalf, with a financial institution selected by the plan administrator.

Under the rules, a "direct rollover" is a distribution from an eligible retirement plan that would be eligible to be rolled over, but is instead paid directly to another retirement plan. The transaction must be executed for the benefit of the person entitled to receive the distribution from the employer's plan.

Commencing January 1, 2008, the law authorizes certain individuals with funds in an employer-sponsored plan to directly rollover some or all of his or her account balance into a Roth IRA. The standard eligibility rules for a conversion apply. See the discussion regarding the conversion rules set forth later in this booklet. The amount moved to the Roth IRA will be a conversion contribution. The individual will be required to include the distribution in his or her income for federal income tax purposes. An individual will want to discuss such a transaction with his or her tax advisor BEFORE making such a conversion contribution.

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 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 an IRA. You are also ineligible to roll over any distribution which is paid over your life or your 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.

<u>Additional rules applying to rollovers and direct rollovers from an eligible employer plan.</u>

- 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 an 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 non-spouse 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.

Rollover and Direct Rollover <u>to</u> an IRA <u>from</u> a Section 403(b) plan/annuity. If you receive an eligible rollover distribution from a tax-sheltered annuity, you may roll over these funds to an IRA within 60 days of receipt. However, you should be aware that an annuity contract qualifies as a section 403(b) plan/annuity only if the contract is written so that distributions attributable to contributions made pursuant to a salary-reduction agreement can be paid only if the annuitant has attained age 59½, separated from service, died or became disabled, or, in the case of a hardship, the distribution was received on or before December 31, 1998.

If you die, your surviving spouse may roll over any tax-sheltered annuity funds to an IRA as long as the applicable rollover rules are satisfied.

Rollover and Direct Rollover to an IRA from a Governmental Section 457 Plan. If you receive an eligible rollover distribution from a governmental section 457 plan, then you may roll over these funds into an IRA within 60 days of receipt. As discussed in the section dealing with rollovers from qualified plans, not all distributions are eligible to be rolled over. The plan administrator is to inform you in writing what portion of your distribution is eligible to be rolled over or directly rolled over.

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. 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.

You cannot claim a deduction for a qualified reservist repayment. This means that your recontribution is comprised of nondeductible contributions. You should include such amount on line 1 of Form 8606 (Nondeductible IRA Contributions). The amount you may repay is in addition to the amount you are eligible to contribute under the standard contribution rules.

7.8.N Withdrawal of Current-Year Contribution(s) Before the Due Date of the Current Year's Tax Return. It is unclear whether or not, and to what extent, this exception (which applies to other IRAs) will apply, if at all, to a distribution from a SIMPLE-IRA. If it would apply, then the following rules would apply.

If you satisfy the following three (3) requirements, you will not be taxed on the withdrawal of a contribution from your SIMPLE-IRA. First, you must withdraw the contribution by the date, including extensions, your income tax return is due. Second, no deduction must have been allowed for the contribution for that tax year. Third, 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% or 25% additional tax must be paid, if applicable.

7.8.O Withdrawal of Prior-Year's Excess Contribution After the Due Date of that Year's Tax Return. See related discussion under 7.8.J(2). It is unclear whether or not, and to what extent, this exception (which applies to other IRAs) will apply, if at all, to a distribution from a SIMPLE-IRA. If this situation arises you will wish to discuss this situation with your tax advisor.

7.8.P Transfer Incident to Divorce and/or Election to Treat as Own. When a SIMPLE-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 SIMPLE-IRA becomes the SIMPLE-IRA of the transferee as of the date of transfer, subject to all rules governing SIMPLE-IRAs.

7.9 Special Taxes That Apply Even Though No Distribution.

7.9.A Six Percent Excise Tax on Excess Contributions. It is unclear whether or not, and to what extent, this 6% excise tax will apply to SIMPLE-IRA contributions. An impermissible SIMPLE-IRA contribution will most likely constitute an excess SIMPLE contribution. Under the law, this wrongful SIMPLE contribution is automatically converted into a regular IRA contribution. If you have made other regular IRA contributions, you could also have an excess IRA contribution. Because this SIMPLE-IRA permits only SIMPLE-IRA contributions, you will be required to somehow correct this situation. It is unclear under the current law as to how you would make this clarification on this issue because The Small Jobs Protections Act of 1996 does not contain sufficient instruction. The following is a general discussion of the 6% excise tax which applies to excess contributions.

You must pay a 6% excise tax each year on excess amounts that remain in your SIMPLE-IRA. The tax cannot be more than 6% of the value of your SIMPLE-IRA as of the end of the tax year. In general, an excess contribution is the amount paid to your SIMPLE-IRA which exceeds your contribution limit.

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.

7.9.B Fifty Percent Excise Tax on Excess Accumulations. There is a 50% excise tax on any excess accumulations in your SIMPLE-IRA or SIMPLE-IRAs in the year you attain age 70½ and any subsequent year. An excess accumulation is the difference between the amount actually distributed to you and the amount required to be distributed as explained in Section 6.8.

7.10 Form 5329 – Reporting Requirements when an Excise Tax applies. If you or your beneficiary(ies) owe the 6% excise tax on an excess contribution, the 10% or 25% 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). If you engaged in a prohibited transaction, then you must report the entire SIMPLE-IRA's value as of such day as being distributed.

7.11 Reporting Requirements of Non-deductible Contributions, Conversions and Recharacterizations. The law does not permit a person to make non-deductible contributions to a SIMPLE-IRA. A person may not recharacterize a SIMPLE-IRA contribution to be a traditional IRA contribution or a Roth IRA contribution. It is however, permissible to convert funds in a SIMPLE-IRA to a Roth IRA. A person would need to check with his or her tax advisor, but it appears a person may recharacterize or un-do a conversion made from the SIMPLE-IRA to a Roth IRA and return it to the SIMPLE-IRA as long as it would be accomplished within the appropriate time deadlines.

The instructions for Form 8606 and Form 8606 should be reviewed.

The Form 8606 is required to be filed if any of the following apply:

- You made nondeductible contributions to a traditional IRA for a current tax year.
- You received distributions from a traditional, SEP or SIMPLE-IRA in the current tax year (other than a rollover, conversion, recharacterization, or return of certain contributions) and you have ever made nondeductible contributions to a traditional IRA.
- You converted an amount from a traditional, SEP, or SIMPLE-IRA to a Roth IRA in a current tax year (unless you recharacterized the entire conversion).

7.12 Converting or Rolling Over this SIMPLE-IRA 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. Any Roth IRA conversion made in 2017 may still be recharacterized in 2018 as long as the standard rules are followed. 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 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).

7.13 Conversion of Funds in Employer-Sponsored Plan Directly to a Roth IRA Commencing January 1, 2008, the law authorizes certain individuals with funds in an employer-sponsored plan to directly roll over some or all of his or her account balance into a Roth IRA. The standard eligibility rules for a conversion apply. See the discussion regarding the conversion rules set forth later in this amendment. The amount moved to the Roth IRA will be a conversion contribution. The individual will be required to include the distribu-

tion in his or her income for federal income tax purposes. An individual will want to discuss such a transaction with his or her tax advisor BEFORE making such a conversion contribution.

7.14 SIMPLE-IRAs and the Recharacterization Rules. Set forth is a discussion of the recharacterization rules. These rules create a method to correct or modify contributions to a traditional IRA and/or Roth IRA. These rules generally do not apply to SIMPLE-IRA contributions. You cannot recharacterize employer contributions (including elective deferrals) to a SIMPLE-IRA as contributions to another type of IRA. However, if you mistakenly rollover or transfer an amount from a traditional IRA to a SIMPLE-IRA, you can use the recharacterization rules to later recharacterize the amount as a contribution to another traditional IRA.

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 transaction or it can be done by an internal transaction 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 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 or by such deadline as otherwise set by the IRS. As with excess contributions, the IRS has stated that October 15 of the following year is the deadline for completing a recharacterization. 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 once it has been completed.

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 a method very similar to the method used to calculate the earnings associated with an excess contribution to a traditional 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 he 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: (1) Type and amount of the contribution to the First IRA that is to be recharacterized; (2) The date on which the initial contribution was made; (3) 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; (4) The name of the first trustee and the second trustee; and (5) Any additional information needed to make the transfer.

You and your tax advisor will wish to review the IRS instructions for Form 8606 and other applicable forms as to how you are to report a recharacterization on your federal income tax return(s).

7.15 Reconversion. With the repeal in 2018 of the rules allowing a person to recharacterize a Roth IRA conversion contribution, the Roth IRA reconversion rules no longer apply. Similary, the failed conversion rules no longer exist because by definition there can be no failed conversion in 2018 or subsequent years.

7.16 Discussion of the Special Rules Applying to Tax-Free Transfers to Health Savings Accounts. 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 allows 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 2018 may transfer from an IRA to an HSA in March the "family" amount even though later in 2018 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 2018 will be $3,450 for single coverage and $6,900 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 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.

7.17 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.

7.18 Special Rules Applying To IRA Owners For Relief Related to Hurricanes Harvey, Irma, and Maria 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. You may read a discussion set forth at www.pension-specialists.com/special-hurricanestaxrelief.pdf. The 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 website www.irs.gov and review the guidance for tax relief in disaster situations. You should consult your tax advisor.

8.1 Miscellaneous

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

8.3 Further SIMPLE-IRA Information. You may obtain further information about SIMPLE-IRAs from any district office of the IRS. IRS Publication 590 discusses SIMPLE-IRAs very thoroughly.

8.4 Financial Disclosure Information. You are to refer to the application page, the reverse side of the application page, and the Financial Disclosure Section of this plan document for this information.

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

8.6 Applicability of Revocation Procedure. You are entitled to revoke or cancel your SIMPLE-IRA for any reason within seven (7) calendar days of the day you established it. You revoke your SIMPLE-IRA by mailing or delivering a written notice to the Custodian'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 SIMPLE-IRA.

9.1 Summary of Contractual Terms

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

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

9.4 You do not have any ability to assign your rights in this SIMPLE-IRA.

9.5 We may charge fees as set forth in section 1.20 of Article VIII.

9.6 We may amend the terms of this SIMPLE-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.

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