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Collin W. Fritz and Associates, Inc.,
"The Pension Specialists"

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Will Congress Act in Time — IRAs and Charitable Distributions

The political season is in full swing. It appears 2008 will be very similar to 2007. Various tax provisions were reenacted into law during the fourth quarter of 2007. It appears that many of these same provisions will again be reenacted in the fourth quarter of 2008. However, it is possible these tax provisions will not be reenacted. At the present time, the proposal is only to extend them through December 31, 2008.

Many people are wondering about charitable IRA distributions. This provision and six others are set forth below. This article discusses provisions 1 and 3.

1. IRAs as They Relate to Charitable Distributions
2. Alternative Minimum Tax (AMT)
3. Sales-Tax Deduction
4. Tuition and Fees Deduction
5. Education Deduction
6. "Cost Basis" Reporting
7. Penalties for Nonfilers

IRAs—As They Relate to Charitable Distributions. Up until it expired on 12/31/07, a person age 70½ or older was able to direct his or her IRA custodian to withdraw an amount of up to $100,000 from his or her IRA and have such proceeds sent directly to a qualifying charitable organization. The distribution was tax free if certain rules were met. A revision to current legislation will extend the expiration date to 12/31/08.

What made this legislation so attractive? The majority of tax filers over age 70½ use the standard deduction when filing their taxes, making them unable to claim a deduction for the charitable contributions. In 2007, these individuals were allowed to withdraw funds from their IRA and contribute them to the eligible charity of their choice. These contributions were then excluded from their income. This exclusion, in effect, was the equivalent of claiming a tax deduction. Needless to say, this provision was also a great benefit for many charities. Since the maximum contribution/deduction amount was $100,000, this benefit was substantial. These contributions were also considered part of the taxpayer's required minimum distribution for the year 2007—another benefit.

While the potential for this legislation to be renewed is good, we advise caution to any donors. It is always wise to wait and see if passage occurs before making any such distributions in 2008.

Sales-Tax Deduction. In most states, the taxpayer is able to deduct, from their federal tax return, the amount of income tax paid to their state. In those states that do not withhold income tax, Congress has allowed taxpayers, who itemize, to deduct any state and local sales taxes paid. This legislation also expired at the end of 2007, however, the deduction is so popular that it will most certainly be revived—especially in an election year. An adverse reaction in Florida alone could have severe consequences for political hopefuls. A revision to current legislation will extend the expiration date to 12/31/08.

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What Will Congress Do With Estate Taxes?

Most likely there will be no change in the estate tax laws during 2008. As with many tax subjects, there is currently a political tussle going on in Congress with respect to estate taxes. In 2001 the estate tax laws were changed for a 10-year period (2001-2010). At one time, if a person had more than $600,000 of property, his or her estate would owe an estate tax. In this day and age, many individuals will have estates exceeding the $600,000 limit. A person must add all of their assets: home, farm, pension plan, IRAs, other real estate, other investments, etc. The estate tax can be substantial. For estates of decedents dying, and gifts made, after 2006, the maximum rate for the estate tax and the gift tax for 2007, 2008, and 2009 is 45%.

The 2001 law change revised the law so that estates would not need to file a return for a given year as long as the value of the estate was under $1,000,000, $1,500,000, $2,000,000 or $3,500,000 as set forth in the following tables. However, the current law states that there will be no estate tax owing for a person who dies in 2010 regardless of how large the estate is. Some strange laws result from political compromises. For example, if Bill Gates were to die in 2010, his estate would owe no estate tax. In 2011, the filing requirement decreases to $1,000,000 from $3,500,000. If the Democrats would realize a significantly large victory in November of 2008, it would be possible to revise the estate laws for 2008 and future years. That is, there could be an estate tax in 2010 and the filing limit of $3,500,000 for 2009 could be reduced. Set forth below is an IRS discussion of the estate tax topic.

According to the IRS: "The Estate Tax is a tax on your right to transfer property at your death. It consists of an accounting of everything you own or have certain interests in at the date of death. The fair market value of these items is used, not necessarily what you paid for them or what their values were when you acquired them. The total of all of these items is your "Gross Estate." The includable property may consist of cash and securities, real estate, insurance, trusts, annuities, business interests and other assets.

Once you have accounted for the Gross Estate, certain deductions (and in special circumstances, reductions to value) are allowed in arriving at your "Taxable Estate." These deductions may include mortgages and other debts, estate administration expenses, property that passes to surviving spouses and qualified charities. The value of some operating business interests or farms may be reduced for estates that qualify.

After the net amount is computed, the value of lifetime taxable gifts (beginning with gifts made in 1977) is added to this number and the tax is computed. The tax is then reduced by the available unified credit."

A credit is an amount that eliminates or reduces tax. A unified credit applies to both the gift tax and the estate tax. You must subtract the unified credit from any gift tax that you owe. Any unified credit you sue against your gift tax in 1 year reduces the amount of credit that you can use against your gift tax in a later year. The total amount used during the life against your gift tax reduces the credit available to use against your estate tax.

The unified credit against taxable gifts will remain at $345,000 (exempting $1 million from tax) through 2009, while the unified credit against estate tax increases during the same period. The following table shows the unified credit and applicable exclusion amount for the calendar years in which a gift is made or a descendent dies after 2001.

	For Gift Tax Purposes:		For Estate Tax Purposes:	
Year	Unified Credit	Applicable Exclusion Amount	Unified Credit	Applicable Exclusion Amount
2002 and 2003	$345,800	$1,000,000	$345,800	$1,000,000
2004 and 2005	$345,800	$1,000,000	$555,800	$1,500,000
2006, 2007, and 2008	$345,800	$1,000,000	$780,800	$2,000,000
2009	$345,800	$1,000,000	$1,455,800	$3,500,000

Filing requirement. The following table lists the filing requirement for the estate of the decedent dying after 2001. ◆

Year of Death:	Filing Requirement
2002 and 2003	$1,000,000
2004 and 2005	$1,500,000
2006, 2007 and 2008	$2,000,000
2009	$3,500,000
2010	None
2011	$1,000,00

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5498 Reporting for Hurricane Recontributions by IRA Custodians and IRA Accountholders

A qualified individual with respect to Hurricanes Katrina, Rita or Wilma is allowed to recontribute certain distributions from an IRA or certain employer sponsored plans at any time during the three year period beginning on the day after the date on which such distribution is received. See the very important definitions relating to the three hurricanes. Each hurricane has its own important dates. The deadline for taking a qualifying distribution was December 31, 2006. The 3-year recontribution deadline for any distribution taken on December 31, 2006 is December 31, 2009. The earliest date a qualifying distribution could have been taken was August 25, 2005. The 3-year recontribution deadline is then August 25, 2008. Some IRA custodians may wish to send out a reminder notice.

Individuals are starting to make these recontributions. An IRA custodian will want to have the individual certify that he or she is eligible to make the recontributions. IRS Publication 590 contains a very good discussion of how the individual is to handle this contribution on his or her tax return. The individual needs to complete Form 8915.

The IRS has NOT done a good job of explaining how the IRA custodian is to handle the recontribution(s) on the Form 5498. The Instructions for the Form 5498 have not discussed this topic in any depth. Therefore, we called the IRS to see what was to be done. The IRS representative did not have an immediate answer. She wanted time to research the situation. She called with the answer – such recontributions are not to be reported by the IRA custodian on the Form 5498 since Code section 1400Q provides that such recontributions are to treated as if they are transfers. The IRS instructions for the 5498/1099-R are clear that transfers are not to be reported.

We at CWF find this answer somewhat surprising because the individual took an actual distribution which has been reported on a Form 1099-R and one would expect the recontribution would also be reported. This is not the case – the recontribution is not to be reported by the IRA custodian. It is left up to the individual to explain the tax impact of his or her recontribution.

This is good news for IRA custodians. You will process the recontribution as a special non-reportable transfer.

From IRS Publication 590:

Hurricane-Related Relief

Introduction

Special rules applied to withdrawals, repayments, and loans from certain retirement plans (including IRAs) for taxpayers who suffered an economic loss as a result of Hurricane Katrina, Rita, or Wilma. While qualified hurricane distributions cannot be made after December 31, 2006, the special rules still apply to repayments of these distributions.

If you received a qualified hurricane distribution, it is taxable, but is not subject to the 10% additional tax on early distributions. The taxable amount is figured in the same manner as other IRA distributions. However, the distribution is included in income ratably over 3 years unless you elected to report the entire amount in the year of distribution. You can repay the distribution and not be taxed on the distribution. *See Qualified Hurricane Distributions, later.*

Form 8915, Qualified Hurricane Retirement Plan Distributions and Repayments, is used to report qualified hurricane distributions and repayments.

For information on other tax provisions related to these hurricanes, see Publication 4492, Information for Taxpayers Affected by Hurricanes Katrina, Rita, and Wilma.

Qualified Hurricane Distributions

A qualified hurricane distribution is any distribution you received in 2005 or 2006 from an eligible retirement plan (including IRAs) if all of the following conditions apply.

1. The distribution was made:
   a. After August 24, 2005, and before January 1, 2007, for Hurricane Katrina.
   b. After September 22, 2005, and before January 1, 2007, for Hurricane Rita.
   c. After October 22, 2005, and before January 1, 2007, for Hurricane Wilma.
2. Your main home was located in a qualified hurricane disaster area listed below on the date shown for that area.
   a. August 28, 2005, for the Hurricane Katrina disaster area. For this purpose, the Hurricane Katrina disaster area includes the states of Alabama, Florida, Louisiana, and Mississippi.
   b. September 23, 2005, for the Hurricane Rita disaster area. For this purpose, the Hurricane Rita disaster area includes the states of Louisiana and Texas.
   c. October 23, 2005, for the Hurricane Wilma disaster area. For this purpose, the Hurricane Wilma disaster area includes the state of Florida.
3. You sustained an economic loss because of Hurricane Katrina, Rita, or Wilma and your main home was in that hurricane disaster area on the date shown in item (2) for that hurricane. Examples of an economic loss include, but are not limited to (a) loss, damage to, or destruction of real or personal property from fire, flooding, looting, vandalism, theft, wind, or other cause; (b) loss related to displacement from your home; or (c) loss of livelihood due to temporary or permanent layoffs.

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Hurricane Recontributions, Continued from page 3

If you met all these conditions, you generally could have designated any distribution (including periodic payments and required minimum distributions) from an eligible retirement plan as a qualified hurricane distribution, regardless of whether the distribution was made on account of Hurricane Katrina, Rita, or Wilma. Qualified hurricane distributions were permitted without regard to your need or the actual amount of your economic loss.

Distribution limit. The total of your qualified hurricane distributions from all plans for 2005 and 2006 was limited $100,000. If you had distributions in excess of $100,000 from more than one type of plan, such as a 401(k) plan and an IRA, you could have allocated the $100,000 limit among the plans, any way you chose.

Example. In 2005, you received a distribution of $50,000. In 2006, you received a distribution of $125,000. Both distributions met the requirements for a qualified hurricane distribution. If you decided to treat the entire $50,000 received in 2005 as a qualified hurricane distribution, only $50,000 of the 2006 distribution could have been treated as a qualified hurricane distribution.

Main home. Generally, your main home is the home where you live most of the time. A temporary absence due to special circumstances, such as illness, education, business, military service, evacuation, or vacation will not change your main home.

Eligible retirement plan. An eligible retirement plan can be any of the following.

- A qualified pension, profit-sharing, or stock bonus plan (including a 401(k) plan).
- A qualified annuity plan.
- A tax-sheltered annuity contract.
- A governmental section 457 deferred compensation plan.
- A traditional, SEP, SIMPLE, or Roth IRA.

Additional 10% tax. Qualified hurricane distributions are subject to the 10% additional tax (including the 25% tax for certain distributions from SIMPLE IRAs) on early distributions from qualified retirement plans (including IRAs). However, any distributions you received in excess of the $100,000 qualified hurricane distribution limit may have been subject to the additional tax on early distributions.

Repayment of Qualified Hurricane Distributions

Most qualified hurricane distributions are eligible for repayment to an eligible retirement plan. Payments received as a beneficiary (other than a surviving spouse), periodic (other than from IRAs), and required minimum distributions are not eligible for repayment. Periodic payments, for this purpose, are payments that are for (a) a period of 10 years or more, (b) your life or life expectancy, or (c) the joint lives or joint life expectancies of you and your beneficiary. For distributions eligible for repayment, you have 3 years from the day after the date you received the distribution to repay all or part to any plan, annuity, or IRA to which a rollover can be made. Within the time allowed, you may make as many repayments as you choose. The total amount repaid cannot be more than the amount of your qualified hurricane distributions. Amounts repaid are treated as a qualified rollover and are not included in income. The way you report repayments depends on whether you reported the distributions under the 3-year method, or you elected to report the distributions in the year of distribution.

Repayment of distributions if reporting under the 1-year election. If you elected to include all of your qualified hurricane distributions received in a year in income for that year and then repay any portion of the distributions during the allowable 3-year period, the amount repaid will reduce the amount included in income for the year of distribution. If the repayment is made after the due date (including extensions) for your return for the year of distribution, you will need to file a revised Form 8915 with an amended return. See Amending Your Return, later.

Repayment of distributions if reporting under the 3-year method. If you are reporting the distribution in income over the 3-year period and you repay any portion of the distribution to an eligible retirement plan before filing your 2007 tax return by the due date (including extensions) for that return, the repayment will reduce the portion of the distribution that was included in income in 2007. If you repay a portion after the due date (including extensions) for filing your 2007 return, the repayment will reduce the portion of your distribution that is includible on your 2008 return. If, during a year in the 3-year period, you repay more than is otherwise includible in income for that year,the excess may be carried forward or (after 2005) back to reduce the amount included in income for that year.

Example. John received a $90,000 qualified hurricane distribution from his pension plan on November 15, 2006. He does not elect to include the entire distribution in his 2006 income. Without any repayments, he would include $30,000 of the distribution in income on each of his 2006, 2007, and 2008 returns. On November 10, 2007, John repays $45,000 to an IRA. He makes no other repayments during the allowable 3-year period. John may report the distribution and repayment in either of the following ways.

- Report $0 in income on his 2007 return, and carry $15,000 excess repayment ($45,000 – $30,000) forward to 2008 and reduce the amount reported in that year to $15,000, or
- Report $0 in income on his 2007 return, report $30,000 on his 2008 return, and file an amended return for 2006 to reduce the amount previously included in income to $15,000 ($30,000 – $15,000).

Repayment of qualified hurricane distribution to a Roth IRA. If you make a repayment of a qualified hurricane distribution to a Roth IRA, the repayment is first considered to be a repayment of earnings. Any repayment of a qualified hurricane distribution in excess of earnings will increase your basis in the Roth IRA by the amount of repayment in excess of earnings.

Example. In 2005, Ned takes a $30,000 qualified hurricane distribution from a Roth IRA. The $30,000 is the total value of the Roth IRA. He has $20,000 in basis (contributions) and $10,000 represents earnings. He elects to include the entire distribution in income for 2005. In 2005, he reports the distribution on Form 8606 and Form 8915 and determines that the taxable portion of the distribution is $10,000 ($30,000 – $20,000).

In 2007, Ned makes a $15,000 repayment of the 2005 hurricane distribution to his Roth IRA. He will file an amended return for 2005 for the $10,000 taxable portion of the distribution that was included in income. $5,000 of the $15,000 repayment will represent basis in his Roth IRA for future distributions. $10,000 will be included in income when distributed in the future.

Amending Your Return

If, after filing your original return, you make a repayment, the repayment may reduce the amount of your qualified hurricane distributions that were previously included in income. Depending on when a repayment is made, you may need to file an amended tax return to refigure your taxable income.

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Hurricane Recontributions, Continued from page 4

If you make a repayment by the due date of your original return (including extensions), include the repayment on your amended return.

If you make a repayment after the due date of your original return (including extensions), include it on your amended return only if either of the following apply.

- You elected to include all of your qualified hurricane distributions in income in the year of the distributions (not over 3 years) on your original return.
- The amount of the repayment exceeds the portion of the qualified hurricane distributions that are includible in income for 2007 and you choose to carry the excess back to your 2005 or 2006 tax return.

Example. You received a qualified hurricane distribution in the amount of $90,000 on October 15, 2006. You choose to spread the $90,000 over 3 years ($30,000 in income for 2006, 2007, and 2008). On November 19, 2007, you make a repayment of $45,000. For 2007, none of the qualified hurricane distribution is includible in income. The excess repayment of $15,000 can be carried back to 2006. Also, rather than carry the excess repayment back to 2006, you can carry it forward to 2008.

File Form 1040X, Amended U.S. Individual Income Tax Return, to amend a return you have already filed. Generally, Form 1040X must be filed within 3 years after the date the original return was filed, or within 2 years after the date tax was paid, whichever is later. ◆

Can an IRA Custodian Correct a Distribution it Made in Error?

The general answer is "NO". If any correcting action can be taken, it will need to be taken by the IRA accountholder. There is no authority in the federal income tax code for an IRA custodian to correct or undo a distribution it made in error.

An IRA custodian wants to have procedures in place so that it is impossible to make a distribution to a person who has not authorized such distribution in writing. The best administrative approach is – no distribution is made to an IRA accountholder or beneficiary unless he or she has expressly authorized such distribution in writing.

The general tax rule is – when funds are distributed, the recipient will have to include the amount in his or her income unless an exception exists. The exceptions are: the recipient is not required to include the distribution in income if it is rolled over and the recipient is not required to include the distribution in income if he or she is withdrawing certain excess contributions.

There is no exception to this tax rule because the distribution occurred because the IRA custodian made an error. The IRA custodian may well be liable to the recipient for its error. An IRA custodian may want to believe that it should have the right to correct its error with minimal costs, but the law and various IRS rules do not support this approach.

The IRS has created the concept or rule of mistaken HSA distributions. The IRS has not created a similar rule for IRAs and we don't believe the IRS ever will. HSAs have some unique features which IRAs do not have. Note that the special HSA rule applies when it is the HSA owner who makes the mistake and not the HSA custodian.

When are mistaken IRA distributions correctable?

Many times the individual will be able to use the roll over rules to return the funds to the IRA. The main rule being the funds must be rolled over within 60 days. But there will be times when the rollover rules will not be available. The recipient may have already used up their once per year roll over. The recipient may be an inheriting beneficiary and he or she has no roll over rights.

In some situations, the federal income tax laws authorize the IRS to waive the 60 day rules if equity would require it. If the IRA custodian is the party responsible for the mistaken distribution, one would like to think that the IRS would find it equitable to allow a rollover. However, the automatic waiver procedures as established by the IRS would not apply. There would need to be a special letter ruling request filed. This could be costly, especially for distributions of modest amounts as the IRS has set the filing fees as: $500 if the amount of the distribution is less than $50,000; $1,500 for rollover between $50,000– $99,999 and $3,000 for rollovers of $100,000 or greater.

Set forth below are two situations where the IRA custodian made unwanted distributions. The recipients were ineligible to roll over such distributions. The income tax consequences in the first situation are quite modest, but would be quite harsh in the second situation.

Situation #1. Jane Doe rolled over her IRA which had been at Custodian #1 into Custodian #2 on March 10, 2007. Her 2007 RMD of $900 was paid to her at the time prior to the roll over. In December of 2007, IRA Custodian #2 sent her a check for $900 because its records showed no distribution had yet been made to

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Distribution Made in Error, Continued from page 5

her. She must include the "second" $900 in income for 2007 also since she cannot do two rollovers within one year.

Situation #2. Molly Brown is the beneficiary of her mother's IRA with IRA Custodian #1. The balance of this IRA is $60,000. Molly instructs the personnel of IRA Custodian #1 that she wants to transfer her inherited IRA of $60,000 to her hometown IRA Custodian #2. The necessary paperwork is completed for the transfer. Due to a communication error among employees, IRA Custodian #1 issues a $60,000 check with the payee being Molly Brown and mails it to her house. She received the check. The law does not permit a nonspouse beneficiary to roll over inherited funds. She will have to pay taxes on the $60,000 for the year of receipt. She will not realize the benefit of being able to stretch-out distributions for many years.

Summary. An IRA custodian wants procedures in place so that it never makes an unwanted or unauthorized distribution. The federal tax laws should be amended to allow an IRA custodian to correct its distribution error. ◆

Withholding of Iowa Income Tax

Withholding of Iowa state income tax is mandatory when an Iowa resident is having federal income tax withheld from his or her traditional IRA distribution(s). However, some Iowa residents may claim an exemption of up to $6,000 or $12,000 so the mandatory withholding would apply only to the distribution amount in excess of $6,000 or $12,000 as explained below. To qualify for the exemption, a person must be receiving some type of taxable pension or IRA distribution, be 55 years of age or older, be disabled or be a surviving spouse of a person who would have qualified.

Iowa has a W-4P form (Withholding Certificate for Pension or Annuity Payments). See the insert. The most recent version on the Department of Iowa Revenue web site shows a revision date of 7/13/07. Note that traditional IRAs or Roth IRAs are not expressly mentioned. Even so, this withholding form is to be used for distributions from traditional IRAs. This Iowa Form W-4P is to be used in two situations.

First, it is to be used by an Iowa resident to instruct to the extent permissible that the or she does NOT want to have any Iowa income tax withheld from the taxable portion of any traditional IRA distribution. That is, the Iowa resident may use this form to specify the amount of exemption he or she is electing to use (maximum of $6,000 or $12,000, if married filing jointly). For example, a married person who is age 58 withdraws $10,000 from his traditional IRA and elects to have 10% withheld for federal income tax purposes. This means state withholding is mandatory. However, using the special exemption rules, he could instruct that he wished to have no withholding for Iowa income tax purposes. Another example, a married person who is age 58 withdraws $20,000 from his traditional IRA and elects to have 10% withheld for federal income tax purposes. Using the special exemption rules, he could instruct that he wished to use the $12,000 exemption so there would be withholding only on a distribution of $8,000. Note that the Iowa form handles very poorly this second example.

Second, it is to be used when a person voluntarily chooses to have Iowa income tax withheld. For example, a person could use this form to instruct that he or she wants 5% (plus an additional amount to be specified) withheld for state income tax purposes even thought he or she has instructed to not have any federal income tax withholding.

Unlike the federal laws which require the IRA custodian to furnish an IRS Form W-4P to the recipient, the IRA custodian is NOT required to furnish a copy of the Iowa Form W-4P to the recipient. If the individual wishes to take advantage of the provisions of the Iowa Form W-4P, he or she is responsible to obtain the form, complete it and deliver it to the IRA custodian. However, we at CWF believe, the IRA custodian should furnish a copy of the Iowa Form W-4P or a substitute form. CWF has had its own version for many years. We are biased, but it does a much better job of explaining the Iowa withholding rules and allowing the individual to furnish his or her withholding instructions. See page 7. ◆

State of Iowa Withholding Notice

Substitute Form Iowa W-4P
Iowa Withholding Certificate for Pension or Annuity Payments

Custodian/Trustee Information

Name ____
Address ____
City ____________________________ State ____ Zip ___________

Accountholder/Recipient Information

Accountholder/Recipient _____________________________________
Home Address ____
City ____________________________ State ____ Zip ___________
Social Security Number _______________________

Withholding Instruction for Nonresidents

○ A. You certify that you are not a resident of Iowa. Therefore, Iowa income tax cannot be withheld.

Withholding Instruction for Iowa Residents

○ A. You are not having federal income withheld from your distribution, and you do not want to have Iowa tax withheld.
○ B. You are not having federal income tax withheld from your distribution, but you instruct us that you want Iowa tax withheld as shown below.
○ C. You are having federal income tax withheld from your distribution so you must have Iowa tax withheld from your distribution unless your claimed exemption will negate this duty. Your instructions are shown below.

Purpose of Form

A separate IRA or QP distribution form has been completed setting forth the amount of your IRA or other type of pension distribution. This distribution may either be a nonperiodic distribution or may be part of a series of distributions, and it may be subject to Iowa income tax withholding. The primary purpose of this form is to set forth the state of Iowa withholding rules with respect to a distribution from an IRA or other pension plan.

The terms "you" and "your" refer to the accountholder/recipient, and the terms "we," "us" and "our" refer to the custodian/trustee.

Please furnish us your instruction as to withholding of Iowa tax. The reverse side of this form discusses the current Iowa withholding rules. You should read these rules before making your instruction.

Sample

Determination of Eligibility for Exemption and Amount to Be Withheld

Exemption & Eligibility Amount:
○ A. You are NOT eligible to claim the $6,000 or $12,000 exemption because you are not 55 years of age or older, disabled or a surviving spouse of a person who would have qualified for this exemption.
○ B. You are eligible to claim either the $6,000 or the $12,000 exemption. Note, if you do not complete the section below, then you are deemed to have elected an exemption of $6,000.
  ○ 1. You do not claim the $6,000 or $12,000 exemption for any portion of this distribution.
  ○ 2. You do claim the ○ $6,000,or the ○ $12,000 exemption, or the $ ___________ exemption.

(1) Gross Amount of Distribution $_______________

(2) Amount of Exemption Claimed — Cannot Exceed $6,000 (or $12,000 if filing a joint return). $_______________

(3) Nontaxable Portion of Distribution $_______________

(4) Taxable Amount Subject to Withholding (Line 1 Less Line 2 and 3). $_______________

(5) 5% Withholding Rate (5% X Line 4) $_______________
○ If this box is checked, then we have chosen to use the published formulas rather than the 5% rate.

(6) Additional amount, if any, you want withheld from this distribution (must be in whole dollars). $_______________

(7) Total Amount Withheld (Line 7 = Line 5 + Line 6) $_______________

Signature — *You hereby certify that you have instructed the custodian/trustee to withhold as indicated.*

Accountholder/Recipient's Signature: ____ Date: ________________________________

IRA/QP #39 (6/08) White — Custodian/Trustee Yellow — Accountholder © 2008 Collin W. Fritz & Associates, Ltd.

Explanation

The following rules will determine what amount, if any, is subject to Iowa income tax withholding.

- If you are a nonresident of Iowa, Iowa income tax cannot be withheld.
- If you are a resident of Iowa and federal income tax is withheld from your distribution(s), then Iowa tax must be withheld unless one of the following exceptions apply:

  ❶ Nondeductible IRA and/or qualified plan contributions are not subject to this withholding requirement.

  ❷ You are a person who qualifies to exempt a portion of your IRA or QP distribution. A person whose filing status* is 1, 5 or 6, who files a separate state income tax return may exempt up to $6,000 in benefits. A person who files a joint return with his or her spouse may exempt up to $12,000 in benefits. A person who is married but who elects to use filing status* 3 or 4 on Form IA 1040, may exempt up to $12,000. Special rules apply for allocating this $12,000 between the two spouses. Unless you instruct us otherwise, we will use the exemption amount of $6,000. To qualify for this partial exemption, you must be 55 years of age or older, disabled, or a surviving spouse of an individual who would have qualified for this exemption. A person is disabled for purposes of this partial exemption if the person is receiving retirement income on the basis of a documented disability or the person meets federal or state criteria for disability. Social Security benefits are not covered by this exemption.

  ❸ State income tax is not required to be withheld if the amount of the distribution is $500 per month or less or if the taxable amount is $500 or less and the person receiving the distribution is eligible for the partial exemption of retirement benefits. In instances where the distribution amount or the taxable amount is more than $500 per month but less than $6,000 for the year, no state income tax is required to be withheld if the person receiving the distribution is eligible for a partial exemption of retirement benefits. Reference 701–46.2(1)c Iowa Administrative Code.

Other Rules

- The custodian, trustee or other payor has the option of withholding at the rate of 5%, or using the published withholding formula.
- If the accountholder has not completed an Iowa W-4 form by the time payment is to be made by the custodian/trustee, the custodian/trustee will withhold state income tax on the basis that the accountholder has claimed one withholding allowance or exemption.
- If you have not elected to have federal income taxes withheld, the custodian/trustee will not withhold state income taxes unless instructed by you to do so. You may make this instruction on this form.
- Your election will remain in effect until you revoke it. You may revoke your election at any time by returning the signed and dated revocation to the address above. Any election or revocation will be effective no later than the January 1, May 1, July 1, or October 1 after it is received, whichever comes first.
- Even if you elect not to have state income tax withheld, you are liable for payment of state income tax on the taxable portion of your IRA. You may be subject to tax penalties under the estimated payment rules if your payments of estimated tax and state withholding tax are not adequate.
- In the case of lump-sum distributions, the Iowa income tax imposed on the taxable amount of the distribution is 25% of the federal income tax on that distribution.
- **MARRIED SEPARATE FILERS:** Effective for tax years beginning January 1, 1998, the exemption of up to $12,000 is allocated between spouses in the ratio that each spouse's pension relates to the total pension received by both spouses. To take this exemption you must meet one of the conditions stated above. Following is an example of how a husband and wife would prorate their pension exemption—

  Step one: Find the percent of taxable pension income belonging to one of the spouses. In this example, the husband has a taxable pension of $45,000 and the wife has a taxable pension of $5,000.

  Husband/Total of Husband & Wife = 45,000/(45,000 + $5,000) = 45,000/50,000 = 90%

  Step two: Multiply $12,000 (the maximum exclusion) by 90% = $10,800. This is the husband's portion of the exemption. The wife's portion is $12,000 - $10,800 = $1,200.

  For married separate filers when only one spouse has pension income, that spouse would take an exclusion equal to the lesser of $12,000 or the taxable amount of the pension. The spouse who has no pension income would receive no exclusion.

- *Explanation of Filing Status — IA 1040 Form
  1. Single
  2. Married Filing a Joint Return
  3. Married Filing Separately on this combined form
  4. Married Filing Separate returns
  5. Head of Household with qualifying person
  6. Qualifying widow(er) with dependent child

Sample

IRA/QP #39 (6/08)

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Iowa W-4P Instructions

Eligibility Requirements:

A partial exemption is provided to qualified Iowa residents receiving pensions, annuities, self-employed retirement benefits, deferred compensation, and other retirement benefits. To qualify you must be 55 years of age or older, disabled or a surviving spouse or other survivor of an individual who would have qualified for the partial exemption in the tax year. To be considered disabled you must be receiving the retirement income on the basis of a documented disability or you must meet Federal or State criteria for disability. **Social Security benefits are not covered by this exemption.** Federal Civil Service annuitants who want Iowa tax withheld from Federal pensions should call the Office of Personnel Management, Annuitant Express Hot-Line 1-800-409-6528.

Withholding Choices:

An Iowa resident may choose to have Iowa tax withheld on the annual taxable amount, exempting $6,000. Married taxpayers may exclude up to $12,000 from the annual taxable amount. If no choice is made, you will automatically be given a $6,000 exemption. If you are receiving retirement income from more than one source, you are still entitled to claim only a maximum $6,000/$12,000 exemption.

Claiming No Exemption:

If this box is checked, Iowa income tax will be withheld on the entire amount of taxable benefits received.

Withholding Rates:

Payers have the option of withholding at the rate of 5% or using the published withholding formulas or withholding tables.

Where To Send The Iowa W-4P:

Return the completed form to the person who handles your pension/retirement check, or, if planning to retire, your current payroll officer. If you are a Federal employee, return it to OPM. Your choice will remain in effect until you complete a new W-4P. Withholding agents will retain the completed W-4P as required under Iowa rule 701-38.3(1).

Iowa Department of Revenue
www.state.ia.us/tax

Reset Form   Print Form

Iowa W-4P 2008

Withholding Certificate for Pension or Annuity Payments

Name ______________________ SS # ______________

Address ______________________

City ______________ State ______________ Zip ______________

Signature ______________________ Date ______________

Are you an Iowa resident? .... ☐ Yes ☐ No

Iowa income tax can be withheld only for Iowa residents.

I choose **not to have** income tax withheld from my pension/annuity .... ☐

NOTE: If you are an Iowa resident and the taxable portion of your annual distribution is greater than $6,000 ($12,000 married Iowa filers), Iowa tax must be withheld if Federal tax is being withheld.

I choose **to have** Iowa income tax withheld from my pension/annuity at a rate of 5% (or based on the published withholding formulas if the payer so chooses). Select one of the following:

- claiming no exemption (see instructions) .... ☐
- exempting $6,000 in benefits each year .... ☐
- exempting $12,000 in benefits each year (married – status 2, 3 or 4 – Iowa filers only) .... ☐

Additional amount, if any, to be withheld from each benefit payment (whole dollars): $ ______________ .00

See instructions for eligibility requirements.

44-020 (7/13/07)

$250,000 Limit For 2007 Form 5500-EZ Filings

One of the changes made by the Pension Protection Act of 2006 was to change the dollar filing limit. Previously, a filing was required if total plan assets exceeded $100,000 at the end of the year. For 2007, the limit changes to $250,000. In some cases, plans are required to be added together in applying the $250,000 limit.

This change should mean a substantial number of one person plans will not be required to file the 2007 Form 5500-EZ even though they were required to file the 2006 Form.

Final Plan Year. All one-participant plans should file the Form 5500-EZ for their final plan year indicating that all assets have been distributed. The final plan year is the year in which distribution of all plan assets is completed. Check the "final return" box at the top of Form 5500-EZ if all assets were distributed.

The deadline for filing the 2007 Form 5500-EZ for a calendar year taxpayer is July 31, 2008.

A taxpayer may receive a 2 1/2 month extension to file the 2007 Form 5500-EZ. In some cases the extension is automatic and in other cases a filing must be made. See the IRS instructions for Form 5500-EZ.

Set forth below are the requirements for who may file Form 5500-EZ. Note that a small business with employees can file the Form 5500-EZ as long as these employees have not met the plan's age and service requirements, are union employees where the pension plan topic has been negotiated, or are nonresident aliens.

Who May File Form 5500-EZ

You may file Form 5500-EZ instead of Form 5500 if you meet all of the following conditions:

1. The plan is a one-participant plan. This means either:
   a. The plan only covers you (or you and your spouse) and you (or you and your spouse) own the entire business. (The business may be incorporated or unincorporated); or
   b. The plan only covers one or more partners (or partner(s) and spouse(s)) in a business partnership.

2. The plan meets the minimum coverage requirements of section 410(b) without being combined with any other plan you may have that covers other employees of your business. See the instructions for line 14c for more information.

3. The plan does not provide benefits for anyone except you, or you and your spouse, or one or more partners and their spouses.

4. The plan does not cover a business that is a member of:
   a. An affiliated service group,
   b. A controlled group of corporations, or
   c. A group of businesses under common control,

5. The plan does not cover individuals of a business that uses leased employees.

If you do not meet all five of the conditions listed above, file Form 5500 instead of Form 5500-EZ. If you meet all five of the conditions, read *Who May Not Have to File.*