

# THE Pension Digest

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



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## IRA Limit Changes in 2023

On October 21, 2022, the IRS announced the 2023 IRA limits.

The rate of inflation for the fiscal year ending September 30, 2022, has been substantially larger than it has been in many of the preceding years. Consequently, various IRA limits will be increasing more than has been the case in the prior years. These changes for 2023 IRA limits are set forth on pages two and three.

The IRA contribution limit (traditional and Roth) for 2023 increases to \$6,500. So, the maximum contribution limit is \$6,500 for an individual under age 50 and \$7,500 for an individual 50 or older.

The income limits applying to making a deductible contribution are also increasing as are the Roth IRA eligibility limits. More individuals who are active participants will be eligible to claim a tax deduction for their traditional IRA contribution and more individuals will be eli-

gible to make a Roth IRA contribution.

The limits for SEP-IRAs, and SIMPLE-IRAs plans are also increasing. The maximum SEP-IRA limit will be \$66,000 up from \$61,000. The deferral limits for SIMPLE-IRAs will be \$15,500 (under age 50) and \$19,000 (age 50 or older) up from \$14,000 (under age 50) and \$17,000 (age 50 or older).

### IRA Contribution limits for a person who is not age 50 or older.

Tax Year	Amount
2008-12	\$5,000
2013-18	\$5,500
2019-22	\$6,000
2023	\$6,500

### IRA Contribution Limits for a person who is age 50 or older.

Tax Year	Amount
2008-12	\$6,000
2013-18	\$6,500
2019-22	\$7,000
2023	\$7,500

## IRS Issues 2023 IRA/Pension Limits

### IRS Announces Cost-of-Living Adjustments for 2023

The IRS in Notice 2021-61 Released its 2021 Adjustments as follows:

	2021	2022	2023
Taxable Wage Base — OASDI Only	\$142,800	\$147,000	\$160,200
SEP and Qualified Plan			
Maximum Compensation Cap – 401(a)(17) & 404(e)	\$290,000	\$305,000	\$330,000
Elective (Salary) Deferral Limit – 401(k) & SAR-SEP	\$19,500	\$20,500	\$22,500
Elective Deferral Catch-up Limit for 401(k)	\$6,500	\$6,500	\$7,500
SIMPLE Deferral Limit – 408(p)(2)(A)	\$13,500	\$14,000	\$15,500
SIMPLE Catch-up Limit	\$3,000	\$3,000	\$3,500
Highly-Compensated Employees (Compensation as Indexed)	\$130,000	\$135,000	\$150,000
Defined Benefit Limit – Section 415(b)(1)(A)	\$230,000	\$245,000	\$265,000
Defined Contribution Limit – Section 415(c)(1)(A)	\$58,000	\$61,000	\$66,000
SEP Minimum Compensation Threshold – 408(k)(2)(c)	\$650	\$650	\$750
Key Employee Top Heavy — 41(i)(ii)(a)(i)	\$185,000	\$200,000	\$215,000

## IRA Contribution Deductibility Chart for 2022

(for participants and/or spouses in employer-sponsored retirement plans.)

### Amount of Modified AGI - (Combined modified AGI if married)

#### Single or Head of Household

Below \$68,000 or less	Entitled to full deduction
\$68,001-\$77,999.99	Entitled to prorated deduction amount - use special formula**
\$78,000 or more	No deduction permissible

\*\*Explanation of special formula. Multiply the permissible contribution by the following ratio: amount of adjusted gross income in excess of \$68,000/\$10,000. This will give you a ratio that determines the amount you cannot deduct.\*

#### Married - joint return, both are covered or qualifying widower

Below \$109,000 or less	Entitled to full deduction
\$109,001 - \$128,999.99	Entitled to prorated deduction amount - use special formula**
\$129,000 or more	No deduction permissible

\*\*Explanation of special formula. Multiply the permissible contribution by the following ratio: amount of adjusted gross income in excess of \$109,000/\$20,000. This will give you a ratio that determines the amount you cannot deduct.\*

#### Married - joint return, but only you are covered or qualifying widower

Below \$109,000 or less	Fully Deductible
\$109,001-\$128,999.99	Entitled to prorated deduction amount - use special formula**
\$129,000 or more	No deduction permissible

\*\*Explanation of special formula. Multiply the permissible contribution by the following ratio: amount of adjusted gross income in excess of \$109,000/\$20,000. This will give you a ratio that determines the amount you cannot deduct.\*

#### Married - joint return, but only your spouse is covered

Below \$204,000 or less	Fully Deductible
\$204,001-\$213,999.99	Entitled to prorated deduction amount - use special formula**
\$214,000 or more	No deduction permissible

\*\*Explanation of special formula. Multiply the permissible contribution by the following ratio: amount of adjusted gross income in excess of \$204,000/\$10,000. This will give you a ratio that determines the amount you cannot deduct.\*

#### Married Filing Separately

Below \$10,000	Entitled to prorated deduction amount - use special formula**
\$10,000 or more	No deduction permissible

\*\*Explanation of special formula. Multiply the permissible contribution by the following ratio: amount of adjusted gross income in excess of \$0/\$10,000. This will give you a ratio that determines the amount you cannot deduct.\* A special rule provides that a married individual is not considered Married for IRA purposes for any year in which the individual and the individual's spouse file separate returns and did not live together at any time during the tax year.

\*Any amount determined under this formula which is not a multiple of \$10 shall be rounded to the next lowest \$10.

However, an IRA accountholder will be able to deduct a minimum of \$200 as long as his or her AGI is not above the phase-out range (base amount plus \$10,000).

## IRA Contribution Deductibility Chart for 2023

(for participants and/or spouses in employer-sponsored retirement plans.)

### Amount of Modified AGI - (Combined modified AGI if married)

#### Single or Head of Household

Below \$73,000 or less	Entitled to full deduction
\$73,001-\$82,999.99	Entitled to prorated deduction amount - use special formula**
\$83,000 or more	No deduction permissible

\*\*Explanation of special formula. Multiply the permissible contribution by the following ratio: amount of adjusted gross income in excess of \$73,000/\$10,000. This will give you a ratio that determines the amount you cannot deduct.\*

#### Married - joint return, both are covered or qualifying widower

Below \$116,000 or less	Entitled to full deduction
\$116,001 - \$135,999.99	Entitled to prorated deduction amount - use special formula**
\$136,000 or more	No deduction permissible

\*\*Explanation of special formula. Multiply the permissible contribution by the following ratio: amount of adjusted gross income in excess of \$116,000/\$20,000. This will give you a ratio that determines the amount you cannot deduct.\*

#### Married - joint return, but only you are covered or qualifying widower

Below \$116,000 or less	Fully Deductible
\$116,001-\$135,999.99	Entitled to prorated deduction amount - use special formula**
\$136,000 or more	No deduction permissible

\*\*Explanation of special formula. Multiply the permissible contribution by the following ratio: amount of adjusted gross income in excess of \$116,000/\$20,000. This will give you a ratio that determines the amount you cannot deduct.\*

#### Married - joint return, but only your spouse is covered

Below \$218,000 or less	Fully Deductible
\$218,001-\$227,999.99	Entitled to prorated deduction amount - use special formula**
\$228,000 or more	No deduction permissible

\*\*Explanation of special formula. Multiply the permissible contribution by the following ratio: amount of adjusted gross income in excess of \$218,000/\$10,000. This will give you a ratio that determines the amount you cannot deduct.\*

#### Married Filing Separately

Below \$10,000	Entitled to prorated deduction amount - use special formula**
\$10,000 or more	No deduction permissible

\*\*Explanation of special formula. Multiply the permissible contribution by the following ratio: amount of adjusted gross income in excess of \$0/\$10,000. This will give you a ratio that determines the amount you cannot deduct.\* A special rule provides that a married individual is not considered Married for IRA purposes for any year in which the individual and the individual's spouse file separate returns and did not live together at any time during the tax year.

\*Any amount determined under this formula which is not a multiple of \$10 shall be rounded to the next lowest \$10.

However, an IRA accountholder will be able to deduct a minimum of \$200 as long as his or her AGI is not above the phase-out range (base amount plus \$10,000).

**Roth IRA Contribution Chart for 2022**

Amount of AGI and Filing Status

**Single, Head of Household or Qualifying Widow(er)**

Below \$129,000	Entitled to full contribution amount
\$129,000-\$143,999.99	Entitled to prorated contribution amount - use special formula*
\$144,000 or more	No contribution permissible

\*Explanation of special formula. Multiply the permissible contribution by the following ratio: amount of adjusted gross income in excess of \$129,000/\$15,000. This will give you a ratio that determines the amount you cannot contribute. Round to the lowest \$10.00.

**Married Filing Jointly**

Below \$204,000	Entitled to full contribution amount.
\$204,000-213,999.99	Entitled to prorated contribution amount - use special formula*
\$214,000 or more	No contribution permissible.

\*Explanation of special formula. Multiply the permissible contribution by the following ratio: amount of adjusted gross income in excess of \$204,000/\$10,000. This will give you a ratio that determines the amount you cannot contribute. Round to the lowest \$10.00.

**Married Filing Separate Returns**

\$0-\$9,999.99	Entitled to prorated contribution amount - use special formula*
\$10,000 or more	No contribution permissible

\*Explanation of special formula. Multiply the permissible contribution by the following ratio: amount of adjusted gross income in excess of \$0/\$10,000. This will give you a ratio that determines the amount you cannot contribute. Round to the lowest \$10.00. If your filing status is Married Filing Separately, you are eligible to make a Roth IRA contribution as if your filing status was Single, as long as you did not live with your spouse at any time during the year.

**Roth IRA Contribution Chart for 2023**

Amount of AGI and Filing Status

**Single, Head of Household or Qualifying Widow(er)**

Below \$138,000	Entitled to full contribution amount
\$138,000-\$152,999.99	Entitled to prorated contribution amount - use special formula*
\$153,000 or more	No contribution permissible

\*Explanation of special formula. Multiply the permissible contribution by the following ratio: amount of adjusted gross income in excess of \$138,000/\$15,000. This will give you a ratio that determines the amount you cannot contribute. Round to the lowest \$10.00.

**Married Filing Jointly**

Below \$218,000	Entitled to full contribution amount.
\$218,000-227,999.99	Entitled to prorated contribution amount - use special formula*
\$228,000 or more	No contribution permissible.

\*Explanation of special formula. Multiply the permissible contribution by the following ratio: amount of adjusted gross income in excess of \$218,000/\$10,000. This will give you a ratio that determines the amount you cannot contribute. Round to the lowest \$10.00.

**Married Filing Separate Returns**

\$0-\$9,999.99	Entitled to prorated contribution amount - use special formula*
\$10,000 or more	No contribution permissible

\*Explanation of special formula. Multiply the permissible contribution by the following ratio: amount of adjusted gross income in excess of \$0/\$10,000. This will give you a ratio that determines the amount you cannot contribute. Round to the lowest \$10.00. If your filing status is Married Filing Separately, you are eligible to make a Roth IRA contribution as if your filing status was Single, as long as you did not live with your spouse at any time during the year.

**SEP and SIMPLE Limits**

	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023,</u>
Maximum SEP Contribution	\$57,000	\$58,000	\$61,000	\$66,000
Maximum SIMPLE Deferral (Under age 50)	\$13,500	\$13,500	\$14,000	\$15,500
Maximum SIMPLE Deferral (Age 50 & older)	\$16,500	\$16,500	\$17,000	\$19,000

**Saver's Credit Limits for 2022**

The applicable percentage for 2022 is based on modified adjusted gross income (AGI) and your tax-filing status, and is determined by the following table:

<u>Joint Return</u>		
<u>AGI Over</u>	<u>AGI Not Over</u>	<u>Percentage</u>
\$0	\$41,000	50%
\$41,000	\$44,000	20%
\$44,000	\$68,000	10%
\$68,000	N/A	0%

<u>Head of Household</u>		
<u>AGI Over</u>	<u>AGI Not Over</u>	<u>Percentage</u>
\$0	\$30,750	50%
\$30,750	\$33,000	20%
\$33,000	\$51,000	10%
\$51,000	N/A	0%

**Other Filers Single, Qualifying Widower & Married, Filing Separately**

<u>AGI Over</u>	<u>AGI Not Over</u>	<u>Percentage</u>
\$0	\$20,500	50%
\$20,500	\$22,000	20%
\$22,000	\$34,000	10%
\$34,000	N/A	0%

**Saver's Credit Limits for 2023**

The applicable percentage for 2023 is based on modified adjusted gross income (AGI) and your tax-filing status, and is determined by the following table:

<u>Joint Return</u>		
<u>AGI Over</u>	<u>AGI Not Over</u>	<u>Percentage</u>
\$0	\$43,500	50%
\$43,500	\$47,500	20%
\$47,500	\$73,000	10%
\$73,000	N/A	0%

<u>Head of Household</u>		
<u>AGI Over</u>	<u>AGI Not Over</u>	<u>Percentage</u>
\$0	\$32,625	50%
\$32,625	\$35,625	20%
\$35,625	\$54,750	10%
\$54,750	N/A	0%

**Other Filers Single, Qualifying Widower & Married, Filing Separately**

<u>AGI Over</u>	<u>AGI Not Over</u>	<u>Percentage</u>
\$0	\$21,750	50%
\$21,750	\$23,750	20%
\$23,750	\$36,500	10%
\$36,500	N/A	0%

## IRS Grants Welcome Relief For 2021 and 2022 For Certain IRA Beneficiaries

The IRS released Notice 2022-53 late on Friday, October 6, 2022.

There are 2 purposes to the Notice:

1. The IRS announces that the to-be-issued final RMD regulations will apply to 2023 and subsequent years.
2. The IRS has stated it won't assess the 50% tax for 2021 and 2022 for the beneficiaries of IRA owners who died in 2020 and 2021 and who had died after their required beginning date.

The IRS has adopted the position that a beneficiary of an IRA owner who dies after their required beginning date must use the applicable life distribution rule applying to the beneficiary and also comply with the 10-year rule, if applicable. That is, a beneficiary is unable to use just the 10-year rule when the IRA owner has died after their required beginning date.

Until Friday the IRS had stated this RMD rule applied for 2021 and 2022 and the 50% tax would be owed, if applicable, if a beneficiary missed their annual RMD. For example, Julia is 48 and the beneficiary of an IRA owner who died in 2021 at age 76. Julia is not an EDB. She must withdraw her first RMD in 2022, withdraw her RMD for subsequent years and she must close the IRA by 12/31/2031.

The IRS will be issuing additional RMD guidance and we will discuss it when available. There is no indication of what other changes, if any, will be made in the final regulations. The IRS did not discuss whether the IRA custodian/trustee has any duty to notify such beneficiaries. There is no discussion of RMDs for 2020 because RMDs were waived for 2020 by the CARES Act.

There is no indication that the IRS will be seeking additional public comments.

We at CWF, have revised our MINCAL software to perform these calculations as we were unsure if the IRS would be granting any relief for 2021 and 2022. Please contact us if you have any questions. Although we prefer an email, you may call us at 800-346-3961.

## IRS Discusses Distributions From Pension Plans and IRA

The IRS Discussion Should be Improved.

On October 24, 2022, the IRS furnished COVID Tax Tip 2022-162. It is good general information about individuals considering making an early withdrawal from retirement funds. The purpose of this article is - the IRS discussion should be improved by expanding the discussion.

The IRS wants a person to understand that "early withdrawals can come with heavy penalties and costly tax consequences". It is nice that the IRS wants to discourage someone from an early withdrawal because of the harsh tax consequences. However, the IRS should expressly state that the distribution amount must be included in income and there will be the additional 10% tax, if applicable, unless an exception applies.

The law has been relaxed regarding a participant of an employer sponsored plan being eligible for a hardship distribution. Often a hardship distribution is an early distribution.

The law has been relaxed regarding a participant of an employer sponsored plan being eligible for a loan from the plan. A loan will not be a distribution unless the person defaults on the repaying of the loan. The IRS should state more expressly, one who defaults on a loan will often have an early distribution.

RMDs apply to both employer sponsored plans and IRAs, but not Roth IRAs. IRS discussion of this topic in this tax topic is much too brief. The IRS fails to mention the 50% tax for failing to comply with the rules. The IRS fails to mention it is the individual and not the employer sponsored plan who owes this tax. The IRS fails to make clear that some participants of an employer sponsored plan who are still working past age 72 are exempt from the RMD rules until they are no longer employed.

Taking an early distribution from a traditional IRA, SEP-IRA or SIMPLE-IRA will generally result in the harsh tax consequences. The person must generally include the distribution in income and pay the 10% additional tax unless an exception applies. The IRS should expressly state that a "hardship" is not an exception to the 10%

additional tax unless the hardship qualifies as a disaster distribution.

Taking an early distribution from a Roth IRA will generally not result in any harsh tax consequences because the person is allowed to withdraw their own contributions tax free. And the 10% additional tax is not owed. The IRS chooses to not discuss Roth IRAs but should.

A person who has some unexpected event occur requiring additional funds should always look to their Roth IRA before taking a distribution from their traditional IRA, SEP-IRA or SIMPLE-IRA.

The IRS should at least discuss the possibility that a distribution may be taken and then if properly rolled over that the distribution will not need to be included income.

The IRS should improve its discussion of the effect of a “divorce” distribution. The IRS guidance is misleading. An early distribution from an IRA does result in the recipient having the harsh tax consequences. The IRS should make clear that a transfer incident to the divorce is not a tax event so there will not be any harsh tax consequences.

An early distribution on account of a divorce from an employer sponsored plan is exempt from the additional 10% tax.

The IRS does have a good brief summary of special tax rules applying to coronavirus related distributions and loans (2020). The IRS must improve this discussion by adding more discussion of the many disasters declared by FEMA.

In summary, the IRS has released Tax Tip 2022-162. See the adjacent reprinting. It has some helpful points, but the article should be improved as discussed above.

October 24, 2022

Issue Number: COVID Tax Tip 2022-162

**Important info for people considering making early withdraws from retirement funds**

No matter how much people plan, unexpected events occur. Often, those events result in unplanned expenses. To cover these costs sometimes people, withdraw funds from their retirement savings early. While this may seem like an easy way to get cash quick, early withdrawals can come with heavy penal-

ties and costly tax consequences. Here’s some important info for people to consider before they dip into their hard-earned retirement savings.

**Workplace retirement plans: 401(k), 403(b) and 457(b)**

These plans can distribute benefits only when certain events occur. The plan’s summary description should clearly state when a distribution can occur. It will also state if the plan allows hardship distributions early withdrawals or loans.

- Hardship distributions are withdrawals from a participant’s account made because of an immediate and heavy financial need and it’s limited to the amount necessary to satisfy that financial need. The need of the employee includes the need of the employee’s spouse or dependent.
- Hardship distributions are includible in gross income unless they consist of designated Roth contributions.
- Distributions before the participant turns 65, or the plan’s normal retirement age, if earlier, may result in an additional income tax of 10% of the amount withdrawn.
- Repaying hardship distributions back to the plan or rolling it over to another plan or IRA isn’t permitted. Borrowers repay loans from these plans back to the retirement account.

Borrowers should review the limits on loan amounts and other requirements. Taxes on this money don’t occur if the loan meets the rules and repayment

**Required minimum distributions**

Taxpayers must make required minimum distributions each year beginning with the year the taxpayer turns 72, 70½ if the taxpayer turned 70½ in 2019. People calculate the RMD by dividing the IRA account balance as of, December 31 of the prior year by the applicable distribution period or life expectancy. RMDs are waived for 2020 due to COVID-19 relief provisions. Required minimum distributions are not required for Roth IRA.

**IRAs and IRA-based plans**

Individuals can take distributions from their IRA, SEP-IRA or SIMPLE-IRA at any time. Taxpayers do not need to show a hardship to take a distribution -

they can just contact the financial institution managing the account.

Early distributions occur when individuals withdraw money from an Individual Retirement Account or retirement plan before age 59½. These retirement plan distributions are subject to income tax. Individuals must also pay an additional 10% early withdrawal tax unless an exception to the early distribution tax applies. Regardless of age, the account holder must file a Form 1040 Individual Income Tax Return showing the amount of the withdrawal and complete and attach a Form 5329. Additional Taxes on Qualified Plans, Including IRAs, and Other Tax Favored Accounts, to the tax return. These are requirements for early withdrawals and regular distributions.

### Coronavirus-related distributions and loans

The CARES Act made it easier to access savings in IRAs and workplace retirement plans for those affected by the coronavirus. Certain distributions made from Jan. 1, 2020, through Dec. 30, 2020, from IRAs or workplace retirement plans to qualified individuals may be treated as coronavirus-related distributions.

- These distributions aren't subject to the 10% additional tax on early distributions, including the 25% additional tax on certain SIMPLE-IRA distributions.
- Repayment to an IRA or workplace retirement plan can occur within three years.

Taxpayers can include Coronavirus-related distributions in income over 3 years, one-third each year, or if elected, in the year of the distribution.

### Divorce-related distributions

Early distributions taken from a traditional IRA to satisfy a divorce requirements or court order are subject to regular income tax requirements and the 10% additional tax unless there is a qualifying exception.

Share this tip on social media -- #IRSTaxTip: Important info for people

considering making early withdraws from retirement funds. <http://ow.ly/v6uu50Li2re>.

## EMAIL Guidance - Is An RMD Required For the Year of Death?

Yes, the RMD which has been calculated for person who is older than age 72 must be withdrawn by a beneficiary by December 31 or the beneficiary will technically owe the 50% tax for an excess accumulation. If the IRA accountholder had satisfied their RMD prior to dying then a beneficiary has no requirement for that year.

Special rules apply if the IRA accountholder dies in the year he or she attains age 72 or before their required beginning data. If the beneficiary is the spouse the IRS requires the spouse withdraw the RMD because it is assumed for RMD purposes that the IRA accountholder had lived. If the beneficiary is not the spouse the IRS has ruled that there is no RMD for the year of dying since the IRA accountholder dies before their required beginning dates. Yes, the two rules are inconsistent.

The IRS has proposed in its RMD regulation that for the year the IRA accountholder dies that the beneficiary will have a deadline of April 15 of the following year rather than a deadline of December 31. The IRS may be doing this to be nice, but the IRS also wants to simplify its life so it doesn't have to respond in writing to requests to waive the 50% tax for deaths occurring late in the year. See the email responses.

Q-1. I have a situation I need some assistance with. Our IRA customer Al Rogers died this year. I finally heard back from his beneficiary, his spouse Mary, that she has elected to do the "treat as her own" option. However Al had not yet taken his RMD for 2022 so we would need to do that first. So I believe I would do a CWF IRA #57 IRA distribution form for the RMD amount to Mary and then the rest of it to her new IRA, correct?

Also, Mary had a couple regarding that plan of action I just described.

1. She wanted to know if Al's RMD had to go to his estate or her? (I assume her).
2. She wanted to continue the Qualified Charitable Distributions that Al had been doing out of his RMD the

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Outstanding Loans,  
Continued from page 6

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past few years. Is it possible for me to do that somehow during the transaction for the RMD? Or should it be paid to her as beneficiary first and then paid to these charities?

How do we proceed with this situation and Mary's requests?

A-1. Al's duty to take an RMD ceases upon his death. Mary has the duty to take that portion of the 2022 RMD which Al had not taken prior to his death. She can transfer his entire IRA into her IRA, but she must withdraw the RMD by 12/21/22.

There are numerous forms which can be used by her to elect to treat his IRA as her own IRA.

The IRS position - making a QCD is personal and lapses upon his death. If she is eligible she can make her own QCDs, including making contributions to the same entities which had been Al's recipients.

Q-2. We had a client that did not take their RMD in 2021. This client passed away in 2022 and his beneficiaries have cashed out the IRA. They are now wondering if there could be any penalties for their father or them for not taking his RMD in 2021.

A-2. Has the 2021 tax return been filed for the client? Or will it be filed for him?

Technically, the estate of the client owes the 50% tax for 2021 unless the IRS waived its collection due to a request.

When did he die in 2022? If he was ill in 2021 that might be sufficient for the IRS to waive the 50% tax?

Q-3. We had an IRA account owner who passed away in March of 2022, he did not take his RMD before he passed. His wife was the beneficiary of the IRA, so she took the RMD and then she decided to treat this IRA as her own IRA. She turned 72 this month, does she have to take a RMD for the year 2022, by April 1 of 2023, and then take one for 2023 also?

A-3. She did need to take by 12/31/22 the remaining RMD for 2022 which he had not taken.

She has no other RMD for 2022. I understand she did not have her own IRA.

She will commence her own RMDs in 2023. I under-

stand the rule to be - she had no balance in an IRA on 12/31/21. Her election as own is effective as of 1/1/22 and not 12/31/21.

Q-4. I have another IRA account owner who passed away. She did take her RMD for 2022. Her balance on her IRA is 749.13 and her beneficiaries are her 10 kids. Can I just issue them each a cashier's check for their share since it is only around \$74 each, or what would be the best way to handle this?

A-4. There is no good way or best way. The bank will need to prepare 10 checks and will prepare 10 1099-R forms. Most banks will set up 10 inherited IRAs on its computer system so that the IRS will be sent the Form 1099-R information, but that is not necessary if the bank is permitted to send the IRS print versions. A bank should consider having a reasonable fee for this situation.

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## Email Guidance- Is an IRA Accountholder Permitted to Convert a Specific Investment/Asset?

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We believe so. The Roth conversion rules are based on the rollover rules. The rollover rules require a person who has withdrawn a specific asset to rollover that specific asset. The IRA recipient if distributed an asset other than cash must rollover that asset if he or she wishes to roll over the distribution. The IRA recipient cannot sell the asset and rollover the proceeds as can be the case if an asset is distributed from a qualified plan.

A person is entitled to withdraw a specific asset from an IRA and roll it over. Therefore, the person is entitled to withdraw a specific asset from an IRA and convert it.

Why do so? Save on taxes. This means, the IRS is not paid as much in federal income taxes. Example, Sondra has five traditional IRAs with a market value as of 12/21/2020 of \$450,000. In one of her IRAs she has 1000 shares of ABC, Inc. stock. On 12/31/21 it had a FMV of \$50,000. It currently has a value of \$30,000. In the next 12 months she expects it will again be worth \$50,000. Five years from now she expects it will have a value of \$200,000. She is in the 37% tax bracket. By

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converting when the value is \$30,000 her tax liability will be \$11,100 rather than \$18,500 (37% of \$50,000). Future qualified distributions will not be taxed. They will be tax-free. ,

See our email guidance on this subject. We have written the IRS for its guidance. We hope to hear shortly from the IRS, but we will not be surprised if we don't hear from the IRS because the IRS probably does not want traditional IRA accountholders to make such conversions.

Q-1. We have client wanting to convert a specific asset or investment. Can she?

A-1. I did research your client's situation.

I was reminded that I/we at CWF had written the attached newsletter article. It's purpose was to discuss the fact that a traditional IRA owner (including SEPs and SIMPLEs) is able under the current law to convert a specific investment. Most likely one which has decreased in value substantially.

I looked on-line and I saw and read quite a few conversion articles, but not CWF's. I could not find one which discussed this ability to convert a specific investment or asset. I did not expect that. So, I ask that your client and you receive a confirmation on this issue from another professional.

A conversion is based on the laws/concepts applying to rollovers. The rollover rules certainly allow a person to do an in-kind rollover. Therefore, a person is allowed to make an in-kind rollover/conversion.

From what I have read, the once per year rule does not apply to conversions.

I'm sure the IRS may not like the tax result in this situation and so the IRS may be working to get the law changed. The IRS may have reduced their on-line discussion of this subject. See the attached email I sent the IRS asking for a confirmation. I'm not sure how quickly the IRS will respond.

I know at one time I must have read something indicating a conversion could be done on a per investment basis and I will continue to try to find it.

Q-2. Asking IRS for Guidance

Dear IRS associate,

I would appreciate your help with the following situation.

Sara has two traditional IRAs with different investments as follows. Do current tax rules allow her to convert (to a Roth IRA) in 2022 just investment #3 which has decreased in value by 40% along with the current market. She wants to not convert the other three investments. She has no basis in her traditional IRAs.

Aggregate Balance of Two Traditional IRAs

	FMV as of 12/31/2021	FMV as of 10/12/2022
IRA#1 - Investment #1	\$35,000	\$36,000
IRA#1 - Investment #2	\$60,000	\$54,000
IRA#2 - Investment #3	\$70,000	\$35,000
IRA#2 - Investment #4	\$50,000	\$40,000
Total	\$215,000	\$165,000

Sara instructs to convert investment #3 which has a current value as of 10/12/2022 of \$35,000. She will include the \$35,000 in her 2022 income. Her conversion would be irrevocable.

I would like the IRS to confirm under existing law that Sara may convert a specific investment, investment #3, and that she is not required to use any pro-rate rule.