Roth IRA's

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Two Kinds of ROTH's

- Designated ROTH's/ Deemed Roth's/ in Plan Roth's/Back-door IRA's/Roth Option
- ROTH IRA

Designated ROTH Accounts

There is a Difference

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Deemed IRA's

- For plan years beginning after 2002, a qualified employer plan (retirement plan) can maintain a separate account or annuity under the plan (a deemed IRA) to receive voluntary employee contributions
- If the separate account or annuity otherwise meets the requirements of an IRA, it will be subject only to IRA rules
- An employee's account can be treated as a traditional IRA or a Roth IRA
- For this purpose, a "qualified employer plan" includes:
  - A qualified pension, profit-sharing, or stock bonus plan (§ 401(a) plan)
  - A qualified employee annuity plan (§ 403(a) plan)
  - A tax-sheltered annuity plan (§ 403(b) plan)
  - A deferred compensation plan (§ 457 plan) maintained by a state, a political subdivision of a state, or an agency or instrumentality of a state or political subdivision of a state

A SARSEP or SIMPLE IRA

- A SARSEP or SIMPLE IRA plan may not offer designated Roth accounts

Designated Roth Accounts

- Designated Roth accounts are separate accounts under 401(k), 403(b), or 457(b) plans that accept elective deferrals that are referred to as Roth contributions
- These elective deferrals are included in income, but qualified distributions from these accounts are not included in income
- Designated Roth accounts are not IRAs and should not be confused with Roth IRAs
- Contributions, up to their respective limits, can be made to Roth IRAs and designated Roth accounts according to eligibility to participate
- A contribution to one does not impact eligibility to contribute to the other

Designated Roth Accounts

- Designated Roth contributions are elective deferrals that the participant elects to include in gross income
- The plan must keep separate accounting records for all contributions, gains and losses in the designated Roth account

Designated Roth Accounts - Establishing a Designated Roth Contribution Program

- To have a designated Roth contribution program, the plan document must be amended to provide:
  - Separate accounts for designated Roth contributions
  - A choice of both pre-tax and Roth elective deferrals
  - That only Roth elective deferrals may be contributed to the designated Roth account (not profit-sharing or employer matching contributions or forfeitures)
- Plans offering designated Roth accounts may include:
  - Automatic enrollment of participants (including for designated Roth contributions)
  - Plan loans
  - Employer matching contributions (must be contributed to another account, not to the designated Roth account)
  - In-plan rollovers to designated Roth accounts

Employer Matching and Profit-Sharing Contributions

- Only employee elective deferrals may be contributed to a designated Roth account
- Matching contributions and profit-sharing contributions may not be made directly to the designated Roth account
- An employer may use designated Roth deferrals in calculating a matching contribution, but the match amount must be contributed to another account within the plan

Tax Treatment of Designated Roth Contributions

- Designated Roth contributions are treated the same as pre-tax elective deferrals for many purposes, including:
  - The annual contribution limits
  - Non-forfeitability and distribution restrictions
  - Nondiscrimination testing,
  - Required minimum distributions, and
  - Calculation of the plan's deduction limits under Internal Revenue Code § 404

Contributing to a Designated Roth Account

- Employers may offer employees an opportunity to make after-tax salary deferral contributions to a separate designated Roth account in the employer's 401(k), 403(b) or governmental 457(b) retirement plan
- Unlike pre-tax elective deferrals, the amount employees contribute to a designated Roth account is includible in gross income
- However, distributions from the account are generally tax-free, including previously untaxed earnings in the account

Benefits of Designated Roth Accounts

- Compared to a Roth IRA, designated Roth accounts:
  - Offer larger annual contribution limits than Roth IRAs
  - Are not subject to the modified gross income limitations that restrict some individuals from contributing to Roth IRAs, and
  - Allow participants to keep their Roth and pre-tax savings within a single plan

Contribution Limits

- The combined amount a participant may contribute as pre-tax elective deferrals and designated Roth contributions each taxable year is limited
- Total contributions to the plan are limited to $18,000 in 2015 and 2016 plus an additional $6,000 in 2015 and 2016 for employees age 50 or older
- For later years, the limits are subject to cost-of-living adjustments

Allocating Elective Deferrals Between Roth and Pre-tax Accounts

- Participants may contribute to both a designated Roth account and a traditional pre-tax elective deferral account in their plan in the same year
- They may allocate their contributions in any proportion they desire, as permitted under the terms of the plan
- Total contributions to the pre-tax elective deferral and Roth accounts cannot exceed the annual contribution limit

No Recharacterizations are Allowed

- Once a participant contributes to a designated Roth account, the participant cannot later change the contributions to pre-tax deferrals (no “recharacterizations” are allowed)

In-Plan Rollovers to Designated Roth Accounts

- Participants may be able to roll over an "eligible rollover distribution" to a designated Roth account from another account in the same plan

Required Minimum Distributions Start at Age 70½

- Designated Roth accounts are subject to the required minimum distribution rules that apply to 401(k), 403(b) and governmental 457(b) plans
- In general, if the participant is retired or an owner, the participant must start receiving distributions from the plan at age 70½, and annual withdrawals will be required based on his or her remaining life expectancy at the time of the withdrawal
- Roth IRAs, in comparison, do not require minimum distributions at age 70½

Matching Contributions and Forfeitures

- Matching contributions and forfeitures may not be allocated to a designated Roth account
- However, employers may take into account designated Roth contributions in calculating any matching contributions under the terms of the plan
- These amounts must be contributed to another account in the plan

Distributions

- A qualified distribution from a designated Roth account is excludable from gross income
- A qualified distribution is one that occurs at least five years after the year of the employee's first designated Roth contribution (counting the first year as part of the five) and is made:
  - On or after attainment of age 59½,
  - On account of the employee's disability, or
  - On or after the employee's death

Nonqualified Distributions

- A distribution that is not a qualified distribution will be partially included in gross income if there are earnings in the account
- The distribution will be treated as coming pro-rata from earnings and contributions (basis)
- The 10% tax on early withdrawals may apply to the part of the distribution that is includible in gross income

Required Minimum Distributions

- Designated Roth accounts are subject to the required minimum distribution rules
- A participant must begin taking annual distributions from the account by the later of age 70½ or retirement, except certain owners must begin distributions at age 70½

Date the Taxpayer Turns Age 70½

- The taxpayer reaches age 70½ on the date that is 6 calendar months after the 70th birthday
- Example:
  - The taxpayer retired and their 70th birthday was June 30, 2016. They reached age 70½ on December 30, 2016
  - They must take their first RMD (for 2016) by April 1, 2017
- Example:
- The taxpayer retired and their 70th birthday was July 1, 2016
  - They reached age 70½ on January 1, 2017
  - They do not have an RMD for 2016
  - They must take the first RMD (for 2016) by April 1, 2017

Terms of the Plan Govern

- The plan's terms may allow the taxpayer to wait until the year they actually retire to take the first RMD (unless they are a 5% owner)
- Alternatively, a plan may require the taxpayer to begin receiving distributions by April 1 of the year after they reach age 70½, even if they have not retired

5% owners

- If the taxpayer owns 5% or more of the business sponsoring the plan, then they must begin receiving distributions by April 1 of the year after the calendar year in which they reach age 70½

Date for Receiving Subsequent Required Minimum Distributions

- For each subsequent year after the required beginning date, the taxpayer must withdraw the RMD by December 31

Consequence for Failing to Take Required Minimum Distributions

- If the taxpayer does not take any distributions, or if the distributions are not large enough, they may have to pay a 50% excise tax on the amount not distributed as required
- To report the excise tax, they may have to file Form 5329, Additional Taxes on Qualified Plans (Including IRAs) and Other Tax-Favored Accounts

In-Plan Rollovers to Designated Roth Accounts

- A plan with a designated Roth program can allow rollovers to a designated Roth account from another account in the same plan (an "in-plan Roth rollover")
- Designated Roth accounts can't be set up solely to accept in-plan rollovers - they must also accept elective deferrals from participants

Amounts Eligible for In-plan Roth Rollovers

- Any vested plan balance, including earnings, can be rolled over to a designated Roth account
- The amount doesn't have to be eligible for distribution; however, the rollover must be direct (not a 60-day rollover) if the amount is not otherwise eligible for distribution
- A plan can allow in-plan Roth rollovers of:
  - Elective salary deferrals
  - Matching contributions
  - Non-elective contributions
  - After-tax employee contributions
  - Amounts rolled into the plan from another plan
  - Qualified matching contributions (QMACs)
  - Qualified non-elective contributions (QNECs)
- The plan can specify which of these amounts are eligible for in-plan Roth rollovers and how often these rollovers can be done

Who Can Elect an In-plan Roth Rollover?

- The plan participant (employee), surviving spouse beneficiary, or alternate payee who is a spouse or former spouse can elect an in-plan Roth rollover

Participant's Tax Consequences

- An in-plan Roth rollover usually results in taxable income to the participant
- A typical rollover from a pre-tax account will result in the entire amount of the rollover, including earnings, being included in gross income
- The amount includible in gross income for the year of the rollover is:
  - The amount rolled over, less
  - Any basis in the amount transferred
- Participants may want to increase their tax withholding amount or make an estimated tax payment for the period in which the in-plan Roth rollover is completed
- The additional 10% early withdrawal tax doesn't apply to the amount of an in-plan Roth rollover
- However, the distribution may be taxable and subject to the additional early withdrawal tax if the participant withdraws it from the designated Roth account within five years

In-plan Roth Rollover is Irreversible

- An in-plan Roth rollover cannot be reversed after the transfer is made
- The rolled over amounts can't later be returned to the transferring account
- This treatment is different from rollovers to a Roth IRA, which may be re-characterized within a certain time limit

In-plan Roth Rollovers as Distributions

- A direct rollover to a designated Roth account is generally treated as a distribution followed by a transfer to the Roth account
- But:
  - A plan loan transfer isn't treated as a new loan
  - Spousal consent isn't required
  - The rollover is counted in determining whether the accrued benefit exceeds $5,000
  - Rights to optional forms of distribution aren't eliminated
  - The plan sponsor doesn't have to give the participant a 402(f) notice (explaining the rollover options) for an in-plan Roth rollover of an otherwise non-distributable amount
- Notice 2010-84 explains the special rules for allocating distributions between rollover and regular Roth accounts

2014 Amendment Deadline Applied to Roth Provisions Effective in 2013 and 2014

- Plan sponsors may want to allow participants to make in-plan Roth rollovers of otherwise non-distributable amounts
- Sponsors generally had until the end of 2014 to add an amendment permitting in-plan Roth rollovers for 2013 and 2014

IN-Plan Rollovers

- In Notice 2013-74, the IRS extended the deadline to adopt a discretionary plan amendment to allow in-plan Roth rollovers in 2013 of amounts in a plan that could not be distributed to the participant:
  - 401(k) and governmental 457(b) plans – to the later of the last day of the first plan year in which the amendment is effective or December 31, 2014
  - Safe Harbor 401(k) plans have until December 31, 2014, to add the amendment effective for 2013 and 2014
  - 403(b) plans – to the later of the last day of the first plan year in which the amendment is effective or the end of the plan's remedial amendment period
  - The end date of the remedial amendment period has not been announced, but it will not be before 2015
- The amendment's effective date must be the date the plan first allows the designated Roth account transactions permitted by the amendment
- The extended amendment deadline also applies to related amendments that permit:
- In-plan Roth rollovers of some or all otherwise distributable amounts,
- Designated Roth accounts to accept rollovers, and
- Elective deferrals under the plan to be designated as Roth contributions.

Withholding on In-plan Roth Rollovers

- Plan sponsors shouldn't withhold taxes from direct rollovers to designated Roth accounts
- If the taxpayer received the distribution in cash, however, the plan sponsor must withhold 20% federal income tax even if the taxpayer later rolled over the distribution to a designated Roth account within 60 days

Penalty - Exceptions to Tax on Early Distributions

- Most retirement plan distributions are subject to income tax and may be subject to an additional 10% tax
- Generally, the amounts an individual withdraws from an IRA or retirement plan before reaching age 59½ are called "early" or "premature" distributions
- Individuals must pay an additional 10% early withdrawal tax unless an exception applies

Exceptions

The distribution will NOT be subject to the 10% additional early distribution tax in the following circumstances:	Exception to 10% Additional Tax		
	Qualified Plans (401(k), etc.)	IRA, SEP, SIMPLE IRA* and SARSEP Plans	Internal Revenue Code Section(s)
Age			
after participant/IRA owner reaches age 59½	yes	yes	72(t)(2)(A)(i)
Automatic Enrollment			
permissive withdrawals from a plan with auto enrollment features	yes	yes for SIMPLE IRAs and SARSEPs	414(w)(1)(B)
Corrective Distributions			
corrective distributions (and associated earnings) of excess contributions, excess aggregate contributions and excess deferrals, made timely	yes	n/a	401(k)(8)(D), 401(m)(7)(A), 402(g)(2)(C)
Death			
after death of the participant/IRA owner	yes	yes	72(t)(2)(A)(ii)
Disability			
total and permanent disability of the participant/IRA owner	yes	yes	72(t)(2)(A)(iii)
Domestic Relations			
to an alternate payee under a Qualified Domestic Relations Order	yes	n/a	72(t)(2)(C)
Education			
qualified higher education expenses	no	yes	72(t)(2)(E)
Equal Payments			
series of substantially equal payments	yes	yes	72(t)(2)(A)(iv)

Exceptions

The distribution will NOT be subject to the 10% additional early distribution tax in the following circumstances:	Exception to 10% Additional Tax		
	Qualified Plans (401(k), etc.)	IRA, SEP, SIMPLE IRA* and SARSEP Plans	Internal Revenue Code Section(s)
ESOP			
dividend pass through from an ESOP	yes	n/a	72(t)(2)(A)(vi)
Homebuyers			
qualified first-time homebuyers, up to $10,000	no	yes	72(t)(2)(F)
Levy			
because of an IRS levy of the plan	yes	yes	72(t)(2)(A)(vii)
Medical			
amount of unreimbursed medical expenses (>7.5% AGI; after 2012, 10% if under age 65)	yes	yes	72(t)(2)(B)
health insurance premiums paid while unemployed	no	yes	72(t)(2)(D)
Military			
certain distributions to qualified military reservists called to active duty	yes	yes	72(t)(2)(G)

Exceptions

The distribution will NOT be subject to the 10% additional early distribution tax in the following circumstances:	Exception to 10% Additional Tax		
	Qualified Plans (401(k), etc.)	IRA, SEP, SIMPLE IRA* and SARSEP Plans	Internal Revenue Code Section(s)
Returned IRA Contributions			
if withdrawn by extended due date of return	n/a	yes	408(d)(4)
earnings on these returned contributions	n/a	no	408(d)(4)
Rollovers			
in-plan Roth rollovers or eligible distributions contributed to another retirement plan or IRA within 60 days	yes	yes	402(c), 402A(d)(3), 403(a)(4), 403(b)(8), 408(d)(3), 408A(d)(3)
Separation from Service			
the employee separates from service during or after the year the employee reaches age 55 (age 50 for public safety employees of a state, or political subdivision of a state, in a governmental defined benefit plan)**	yes	no	72(t)(2)(A)(v), 72(t)(10)

Other Issues

- Nonqualified 457(b) plans:
  - Governmental 457(b) distributions are not subject to the 10% additional tax except for distributions attributable to rollovers from another type of plan or IRA.
- *SIMPLE IRA distributions incur a 25% additional tax instead of 10% if made within the first 2 years of participation
- **Qualified public safety employees
- Effective for distributions after December 31, 2015, the exception for pubic safety employees who are age 50 or over is expanded to include specified federal law enforcement officers, customs and border protection officers, federal firefighters and air traffic controllers
- Also, the restriction that only defined benefit plans qualify for the exemption is eliminated
  - Thus, an exemption is allowed for distributions from defined contribution plans or other types of governmental plans, such as the TSP
  - IRC § 72(t)(10), as amended by the Defending Public Safety Employees' Retirement Act, P.L. 114-26

Review

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Roth Comparison Chart

Roth 401(k), Roth IRA, and Pre-tax 401(k) Retirement Accounts

	Designated Roth 401(k)	Roth IRA	Pre-Tax 401(k)
Contributions	Designated Roth employee elective contributions are made with ***after-tax dollars***.	Roth IRA contributions are made with ***after-tax dollars***.	Traditional, pre-tax employee elective contributions are made with ***before-tax dollars***.
Income Limits	No income limitation to participate.	Income limits: • 2015- modified AGI married $193,000/single $131,000 • 2016- modified AGI married $194,000/single $132,000	No income limitation to participate.
Maximum Elective Contribution	*Aggregate** employee elective contributions limited to $18,000 in 2015 and 2016 (plus an additional $6,000 for employees age 50 or over).	Contribution limited to $5,500 plus an additional $1,000 for employees age 50 or over (in 2015 and 2016).	Same aggregate* limit as Designated Roth 401(k) Account
Taxation of Withdrawals	Withdrawals of contributions and earnings are **not** taxed provided it's a **qualified distribution** – the account is held for at least 5 years and made: • On account of disability, • On or after death, or • On or after attainment of age 59½.	Same as Designated Roth 401(k) Account and can have a qualified distribution for a first time home purchase.	Withdrawals of contributions and earnings **are** subject to Federal and most State income taxes.
Required Distributions	Distributions must begin no later than age 70½, unless still working and not a 5% owner.	No requirement to start taking distributions while owner is alive.	Same as Designated Roth 401(k) Account.

Roth IRAs

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The Roth IRA

- The Roth IRA is a retirement saving account to which individuals can make contributions with after-tax dollars
- If certain requirements are met, distributions from the Roth IRA will be tax-free

Introduction

- A Roth IRA is an IRA that, generally, is subject to the rules that apply to a traditional IRA with some exceptions
  - You cannot deduct contributions to a Roth IRA
  - If the taxpayer satisfies the requirements, qualified distributions are tax-free
  - The taxpayer can make contributions to the Roth IRA after they reach age 70 ½
  - The taxpayer can leave amounts in the Roth IRA as long as they live
  - The account or annuity must be designated as a Roth IRA when it is set up
  - The same combined contribution limit applies to all Roth and traditional IRAs

Facts

- You can withdraw money whenever you would like
- You can withdraw earnings penalty free under certain circumstances
- The government won't force you to take withdrawals

Saver's Credit

- The IRS offers a Saver's Credit, a tax credit on contributions of up to $4,000 to the Roth IRA if married filing jointly
- If the taxpayer and spouse your spouse make less than $37,000, they could receive a credit of 50% of the contributions in 2016
- If they make $40,001 to $61,500 they could receive a 10% credit
- People with other filing statuses would receive less
- This credit is also available for a traditional IRA and a number of workplace plans, such as a 401(k)

Limits

- Limits on Roth IRA contributions based on modified AGI
- The Roth IRA contribution might be limited based on the filing status and income

Table 2016

If your filing status is...	And your modified AGI is...	Then you can contribute...
married filing jointly or **qualifying widow(er)**	< $184,000	up to the limit
	≥ $184,000 but < $194,000	a reduced amount
	≥ $194,000	zero
married filing separately and you lived with your spouse at any time during the year	< $10,000	a reduced amount
	≥ $10,000	zero
single, **head of household**, or **married filing separately** and you did not live with your spouse at any time during the year	< $117,000	up to the limit
	≥ $117,000 but < $132,000	a reduced amount
	≥ $132,000	zero

Table 2015

If your filing status is...	And your modified AGI is...	Then you can contribute...
married filing jointly or **qualifying widow(er)**	< $183,000	up to the limit
	≥ $183,000 but < $193,000	a reduced amount
	≥ $193,000	zero
married filing separately and you lived with your spouse at any time during the year	< $10,000	a reduced amount
	≥ $10,000	zero
single, **head of household**, or **married filing separately** and you did not live with your spouse at any time during the year	< $116,000	up to the limit
	≥ $116,000 but < $131,000	a reduced amount
	≥ $131,000	zero

Contribution Limits

- For 2015 and 2016, the total contributions to all of the traditional and Roth IRAs cannot be more than:
- $5,500 ($6,500 if the taxpayer is age 50 or older), or
- The taxable compensation for the year, if the compensation was less than this dollar limit

Contribution Limits

- The IRA contribution limit does not apply to:
  - Rollover contributions
  - Qualified reservist repayments

Rollovers of Retirement Plan and IRA Distributions

- Most pre-retirement payments received from a retirement plan or IRA can be "rolled over" by depositing the payment in another retirement plan or IRA within 60 days
- The taxpayer can also have the financial institution or plan directly transfer the payment to another plan or IRA

Chart

ROLLOVER CHART

Roll From	Roll To: Roth IRA	Traditional IRA	SIMPLE IRA	SEP-IRA	Governmental 457(b)	Qualified Plan[1] (pre-tax)	403(b) (pre-tax)	Designated Roth Account (401(k), 403(b) or 457(b))
Roth IRA	Yes[2]	No	No	No	No	No	No	No
Traditional IRA	Yes[3]	Yes[2]	Yes[2, 7], after two years	Yes[2]	Yes[4]	Yes	Yes	No
SIMPLE IRA	Yes[3], after two years	Yes[2], after two years	Yes[2]	Yes[2], after two years	Yes[4], after two years	Yes, after two years	Yes, after two years	No
SEP-IRA	Yes[3]	Yes[2]	Yes[2, 7], after two years	Yes[2]	Yes[4]	Yes	Yes	No
Governmental 457(b)	Yes[3]	Yes	Yes[7], after two years	Yes	Yes	Yes	Yes	Yes[3,5]
Qualified Plan[1] (pre-tax)	Yes[3]	Yes	Yes[7], after two years[7]	Yes	Yes[4]	Yes	Yes	Yes[3,5]
403(b) (pre-tax)	Yes[3]	Yes	Yes[7], after two years	Yes	Yes[4]	Yes	Yes	Yes[3,5]
Designated Roth Account (401(k), 403(b) or 457(b))	Yes	No	No	No	No	No	No	Yes[6]

[1]Qualified plans include, for example, profit-sharing, 401(k), money purchase, and defined benefit plans.
[2] Only one rollover in any 12-month period.
[3]Must include in income.
[4]Must have separate accounts.
[5]Must be an in-plan rollover.
[6]Any nontaxable amounts distributed must be rolled over by direct trustee-to-trustee transfer.
[7]Applies to rollover contributions after December 18, 2015. For more information regarding retirement plans and rollovers, visit Tax Information for Retirement Plans.

Why Roll Over?

- When the taxpayer rolls over a retirement plan distribution, they generally don't pay tax on it until they withdraw it from the new plan
- By rolling over, they are saving for the future and the money continues to grow tax-deferred
- If the taxpayer does not roll over the payment, it will be taxable (other than qualified Roth distributions and any amounts already taxed) and they may also be subject to additional tax unless they are eligible for one of the exceptions to the 10% additional tax on early distributions

Completing the Rollover Direct Rollover

- If the taxpayer is getting a distribution from a retirement plan, they can ask the plan administrator to make the payment directly to another retirement plan or to an IRA
- The administrator may issue the distribution in the form of a check made payable to the new account
- No taxes will be withheld from the transfer amount

Completing the Rollover Trustee-to-Trustee Transfer

- If the taxpayer is getting a distribution from an IRA, they can ask the financial institution holding the IRA to make the payment directly from the IRA to another IRA or to a retirement plan
- No taxes will be withheld from the transfer amount

Completing the Rollover 60-day rollover

- If a distribution from an IRA or a retirement plan is paid directly to the taxpayer, they can deposit all or a portion of it in an IRA or a retirement plan within 60 days
- Taxes will be withheld from a distribution from a retirement plan
- Other funds will need to be used to roll over the full amount of the distribution

IRA One-Rollover-Per-Year Rule

- The taxpayer generally cannot make more than one rollover from the same IRA within a 1-year period
- They also cannot make a rollover during this 1-year period from the IRA to which the distribution was rolled over
- Beginning after January 1, 2015, they can make only one rollover from an IRA to another (or the same) IRA in any 12-month period, regardless of the number of IRAs owned

One Year Per Limit Rules Does Not Apply to:

- Rollovers from traditional IRAs to Roth IRAs (conversions)
- Trustee-to-trustee transfers to another IRA
- IRA-to-plan rollovers
- Plan-to-IRA rollovers
- Plan-to-plan rollovers

Retirement Plans

- The taxpayer can roll over all or part of any distribution of the retirement plan account except:
  - Required minimum distributions
  - Loans treated as a distribution
  - Hardship distributions
  - Distributions of excess contributions and related earnings
  - A distribution that is one of a series of substantially equal payments
  - Withdrawals electing out of automatic contribution arrangements
  - Distributions to pay for accident, health or life insurance
  - Dividends on employer securities or
  - S corporation allocations treated as deemed distributions
- Distributions that can be rolled over are called "eligible rollover distributions"
- Of course, to get a distribution from a retirement plan, you have to meet the plan's conditions for a distribution, such as termination of employment

Are Distributions Taxable?

- The taxpayer does not include in gross income qualified distributions or distributions that are a return of your regular contributions from the Roth IRA(s)
- They also do not include distributions from the Roth IRA that they roll over tax free into another Roth IRA
- They may have to include part of other distributions in income

Basis of Distributed Property

- The basis of property distributed from a Roth IRA is its fair market value (FMV) on the date of distribution, whether or not the distribution is a qualified distribution

Ordering Rules for Distributions

- If the taxpayer receives a distribution from the Roth IRA that is not a qualified distribution, part of it may be taxable
- There is a set order in which contributions (**including conversion contributions and rollover contributions from qualified retirement plans**) and earnings are considered to be distributed from the Roth IRA
- For these purposes, disregard the withdrawal of excess contributions and the earnings on them
- Order the distributions as follows:
  - Regular contributions
  - Conversion and rollover contributions, on a first-in, first-out basis (generally, total conversions and rollovers from the earliest year first)
- Take these conversion and rollover contributions into account as follows:
  - Taxable portion (the amount required to be included in gross income because of the conversion or rollover) first, and then the Nontaxable portion
  - Earnings on contributions
- **Disregard rollover contributions from other Roth IRAs for this purpose**

Withdrawals of Contributions by Due Date of the Tax Return

- If the taxpayer withdraws contributions (including any net earnings on the contributions) by the due date of the return for the year in which they made the contribution, the contributions are treated as if they never made
- If they have an extension of time to file your return, they can withdraw the contributions and earnings by the extended due date
- The withdrawal of contributions is tax free, but the taxpayer must include the earnings on the contributions in income for the year in which they made the contributions

What Are Qualified Distributions?

- A qualified distribution is any payment or distribution from the Roth IRA that meets the following requirements:
  - It is made after the 5-year period beginning with the first taxable year for which a contribution was made to a Roth IRA set up and
- The payment or distribution is:
  - Made on or after the date the taxpayer reaches age 59½
  - Made because the taxpayer is disabled
  - Made to a beneficiary or to the estate after the taxpayer's death
  - One that meets the requirements listed under First home (up to a $10,000 lifetime limit)

Additional Tax on Early Distributions

- If the taxpayer receives a distribution that is not a qualified distribution, they may have to pay the 10% additional tax on early distributions

Distributions of Conversion and Certain Rollover Contributions within 5-year Period

- If, within the 5-year period starting with the first day of the tax year in which the taxpayer converted an amount from a traditional IRA or rollover an amount from a qualified retirement plan to a Roth IRA, and they take a distribution from a Roth IRA, they may have to pay the 10% additional tax on early distributions
- They generally must pay the 10% additional tax on any amount attributable to the part of the amount converted or rolled over (the conversion or rollover contribution) that they had to include in income (recapture amount)
- A separate 5-year period applies to each conversion and rollover

5 Year Period

- The 5-year period used for determining whether the 10% early distribution tax applies to a distribution from a conversion or rollover contribution
- Each is separately determined and is not necessarily the same as the 5-year period used for determining whether a distribution is a qualified distribution

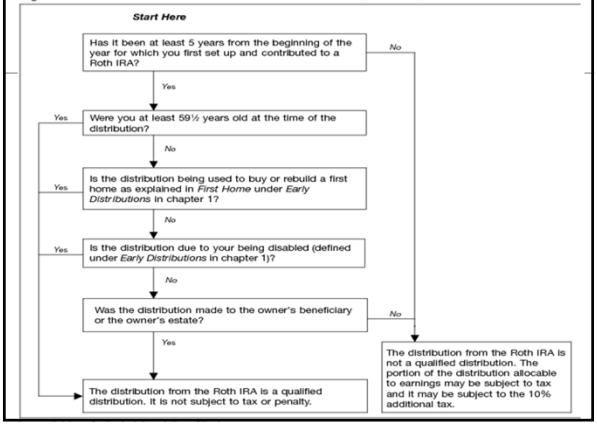
Example

- If a calendar-year taxpayer makes a conversion contribution on February 25, 2016, and makes a regular contribution for 2015 on the same date, the 5-year period for the conversion begins January 1, 2016, while the 5-year period for the regular contribution begins on January 1, 2015

Early Distributions Exceptions

- The taxpayer has:
  - Reached age 59½
  - Is totally and permanently disabled
  - Is the beneficiary of a deceased IRA owner
  - They use the distribution to buy, build, or rebuild a first home
  - The distributions are part of a series of substantially equal payments
  - They have unreimbursed medical expenses that are more than 10% (or 7.5% if you or your spouse was born before January 2, 1951) of your adjusted gross income for the year
  - They are paying medical insurance premiums during a period of unemployment
  - The distributions are not more than the qualified higher education expenses
  - The distribution is due to an IRS levy of the qualified plan
  - The distribution is a qualified reservist distribution – Notice 2006-152

Figure 2-1. **Is the Distribution From Your Roth IRA a Qualified Distribution?**



Example

- On October 15, 2014, Justin converted all $80,000 in his traditional IRA to his Roth IRA
- His Forms 8606 from prior years show that $20,000 of the amount converted is his basis
- Justin included $60,000 ($80,000 – $20,000) in his 2014 gross income
- On February 23, 2016, Justin made a regular contribution of $5,000 to a Roth IRA
- On November 8, 2016, at age 60, Justin took a $7,000 distribution from his Roth IRA
- The first $5,000 of the distribution is a return of Justin's regular contribution and is not includible in his income
- The next $2,000 of the distribution is not includible in income because it was included previously

Aggregation (Grouping and Adding) Rules

- Determine the taxable amounts distributed (withdrawn), distributions, and contributions by grouping and adding them together as follows:
  - Add all distributions from all the Roth IRAs during the year together
  - Add all regular contributions made for the year (including contributions made after the close of the year, but before the due date of your return) together

Aggregation (Grouping and Adding) Rules

- Add the previous total to the total undistributed regular contributions made in prior years
- Add all conversion and rollover contributions made during the year together

Aggregation (Grouping and Adding) Rules

- For purposes of the ordering rules, in the case of any conversion or rollover in which the conversion or rollover distribution is made in 2015 and the conversion or rollover contribution is made in 2016, treat the conversion or rollover contribution as contributed before any other conversion or rollover contributions made in 2016

Aggregation (Grouping and Adding) Rules

- Add any re-characterized contributions that end up in a Roth IRA to the appropriate contribution group for the year that the original contribution would have been taken into account if it had been made directly to the Roth IRA
- Disregard any re-characterized contribution that ends up in an IRA other than a Roth IRA for the purpose of grouping (aggregating) both contributions and distributions
- Also disregard any amount withdrawn to correct an excess contribution (including the earnings withdrawn) for this purpose

Thomas, age 32, opened a Roth IRA in 2000

- He made the following transactions into his Roth IRA:
  - Thomas placed $50,000 of contributions into the ROTH from 2000-2004
  - In 2005, he converted $10,000 from his traditional IRA into his Roth IRA
  - He filled out a 2005 Form 8606 and attached it with his 2005 Form 1040
  - He entered $0 on line 17 of Form 8606 because he took a deduction for all the contributions to the traditional IRA, therefore he has no basis
  - He entered $10,000 on line 18 of Form 8606

Form 8606 (2005) Page 2

Part II **2005 Conversions From Traditional, SEP, or SIMPLE IRAs to Roth IRAs**

Complete this part if you converted part or all of your traditional, SEP, and SIMPLE IRAs to a Roth IRA in 2005 (excluding any portion you recharacterized).

Caution: *If your modified adjusted gross income is over $100,000* ***or*** *you are married filing separately and you lived with your spouse at any time in 2005, you* ***cannot*** *convert any amount from traditional, SEP, or SIMPLE IRAs to Roth IRAs for 2005. If you erroneously made a conversion, you must recharacterize (correct) it (see page 7 of the instructions).*

16	If you completed Part I, enter the amount from line 8. Otherwise, enter the net amount you converted from traditional, SEP, and SIMPLE IRAs to Roth IRAs in 2005. **Do not** include amounts you later recharacterized back to traditional, SEP, or SIMPLE IRAs in 2005 or 2006 (see page 7 of the instructions)	16	
17	If you completed Part I, enter the amount from line 11. Otherwise, enter your basis in the amount on line 16 (see page 7 of the instructions)	17	
18	**Taxable amount.** Subtract line 17 from line 16. Also include this amount on Form 1040, line 15b; Form 1040A, line 11b; or Form 1040NR, line 16b	18	

Part III **Distributions From Roth IRAs**

Complete this part only if you took a distribution from a Roth IRA in 2005. For this purpose, a distribution does not include a rollover (other than a repayment of a qualified hurricane distribution), recharacterization, or return of certain contributions—see page 7 of the instructions.

19	Enter your total nonqualified distributions from Roth IRAs in 2005 including any qualified first-time homebuyer distributions (see page 7 of the instructions)	19	
20	Qualified first-time homebuyer expenses (see page 8 of the instructions). **Do not** enter more than $10,000	20	
21	Subtract line 20 from line 19. If zero or less, enter -0- and skip lines 22 through 25	21	
22	Enter your basis in Roth IRA contributions (see page 8 of the instructions)	22	
23	Subtract line 22 from line 21. If zero or less, enter -0- and skip lines 24 and 25. If more than zero, you may be subject to an additional tax (see page 8 of the instructions)	23	
24	Enter your basis in Roth IRA conversions (see page 8 of the instructions)	24	
25a	Subtract line 24 from line 23. If zero or less, enter -0- and skip lines 25b and 25c	25a	
b	Amount on line 25a attributable to qualified hurricane distributions (see page 8 of the instructions). Also enter this amount on Form 8915, line 14	25b	
c	**Taxable amount.** Subtract line 25b from line 25a. If more than zero, also include this amount on Form 1040, line 15b; Form 1040A, line 11b; or Form 1040NR, line 16b	25c	

Next – Rolled Over Retirement Plan Dollars

- In 2011, he rolled over the entire balance of his qualified retirement plan, $20,000, into a Roth IRA when he changed jobs
- He used a 2011 Form 1040 to file his taxes
- He entered $20,000 on line 16a of Form 1040 because that was the amount reported in box 1 of his 2011 Form 1099-R
- Box 5 of his 2011 Form 1099-R reported $0 since he did not make any after-tax contributions to the qualified retirement plan
- He entered $20,000 on line 16b of Form 1040 since that is the taxable amount that was rolled over in 2011 == Basis

Form 1040

Income

Attach Form(s) W-2 here. Also attach Forms W-2G and 1099-R if tax was withheld.

If you did not get a W-2, see instructions.

Enclose, but do not attach, any payment. Also, please use **Form 1040-V.**

7	Wages, salaries, tips, etc. Attach Form(s) W-2			7	
8a	**Taxable** interest. Attach Schedule B if required			8a	
b	**Tax-exempt** interest. **Do not** include on line 8a	8b			
9a	Ordinary dividends. Attach Schedule B if required			9a	
b	Qualified dividends	9b			
10	Taxable refunds, credits, or offsets of state and local income taxes			10	
11	Alimony received			11	
12	Business income or (loss). Attach Schedule C or C-EZ			12	
13	Capital gain or (loss). Attach Schedule D if required. If not required, check here ▶ ☐			13	
14	Other gains or (losses). Attach Form 4797			14	
15a	IRA distributions	15a	b Taxable amount	15b	
16a	Pensions and annuities	16a	b Taxable amount	16b	
17	Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E			17	
18	Farm income or (loss). Attach Schedule F			18	
19	Unemployment compensation			19	
20a	Social security benefits	20a	b Taxable amount	20b	
21	Other income. List type and amount			21	
22	Combine the amounts in the far right column for lines 7 through 21. This is your **total income** ▶			22	

Status

Tax Year	Contributions	Rollovers/ Conversions	Earnings thru January 1, 2015	Balance
2000-2004	$50,000			
2005		$10,000		
2011		$20,000		
2015	$ 5,500		$25,000	$105,000

First Time Home Distribution

- In August of 2015, he took a $85,500 early distribution from his Roth IRA to use as a down payment on the purchase of his first home

Recapture Chart

Recapture Amount—Allocation Chart

Enter the amount from your 2015 Form 8606, line 19 _____

Before you begin: You will need your prior year Form(s) 8606 and income tax return(s) if you entered an amount on any line(s) as indicated below.

You will now allocate the amount you entered above (2015 Form 8606, line 19) in the order shown, to the amounts on the lines listed below (to the extent a prior year distribution was not allocable to the amount). The maximum amount you can enter on each line below is the amount entered on the referenced lines of the form for that year. **Note.** Once you have allocated the full amount from your 2015 Form 8606, line 19, **STOP**. See the Example, earlier.

Tax Year	Your Form		
2015	Form 8606, line 20	Form 8606, line 22	
1998	Form 8606, line 16	Form 8606, line 15	
2000	Form 8606, line 16	Form 8606, line 15	
2000	Form 8606, line 16	Form 8606, line 15	
2001	Form 8606, line 18	Form 8606, line 17	
2002	Form 8606, line 18	Form 8606, line 17	
2003	Form 8606, line 18	Form 8606, line 17	
2004	Form 8606, line 18	Form 8606, line 17	
2005	Form 8606, line 18	Form 8606, line 17	
2006	Form 8606, line 18	Form 8606, line 17	
2007	Form 8606, line 18	Form 8606, line 17	
2008	Form 8606, line 18 and Form 1040, line 16b; Form 1040A, line 12b; or Form 1040NR, line 17b*	Form 8606, line 17 and Form 1040, line 16a; Form 1040A, line 12a; or Form 1040NR, line 17a**	
2009	Form 8606, line 18 and Form 1040, line 16b; Form 1040A, line 12b; or Form 1040NR, line 17b*	Form 8606, line 17 and Form 1040, line 16a; Form 1040A, line 12a; or Form 1040NR, line 17a**	
2010	Form 8606, lines 18 and 23*	Form 8606, lines 17 and 22**	
2011	Form 8606, line 18 and Form 1040, line 16b; Form 1040A, line 12b; or Form 1040NR, line 17b*	Form 8606, line 17 and Form 1040, line 16a; Form 1040A, line 12a; or Form 1040NR, line 17a**	
2012	Form 8606, line 18 and Form 1040, line 16b; Form 1040A, line 12b; or Form 1040NR, line 17b*	Form 8606, line 17 and Form 1040, line 16a; Form 1040A, line 12a; or Form 1040NR, line 17a**	
2013	Form 8606, line 18 and Form 1040, line 16b; Form 1040A, line 12b; or Form 1040NR, line 17b*	Form 8606, line 17 and Form 1040, line 16a; Form 1040A, line 12a; or Form 1040NR, line 17a**	
2014	Form 8606, line 18 and Form 1040, line 16b; Form 1040A, line 12b; or Form 1040NR, line 17b*	Form 8606, line 17 and Form 1040, line 16a; Form 1040A, line 12a; or Form 1040NR, line 17a**	
2015	Form 8606, line 18 and Form 1040, line 16b; Form 1040A, line 12b; or Form 1040NR, line 17b*	Form 8606, line 17 and Form 1040, line 16a; Form 1040A, line 12a; or Form 1040NR, line 17a**	
2015	Form 8606, line 25		

*Only include those amounts rolled over to a Roth IRA.

**Only include those amounts (usually Form 1099-R, box 5) that were taxable to you when made and rolled over to a Roth IRA.

Amount to include on Form 5329, line 7. Include on line 1 of your 2015 Form 5329 the following four amounts from the Recapture Amount—Allocation Chart that you filed out.

Things to Notice

- Form 8606 may have needed to be filed for previous years
- They will be needed in order to make a correct computation
- Form 1040's may be needed for previous years

Status of ROTH

Tax Year	Contributions	Rollovers/ Conversions	Earnings thru January 1, 2015	Balance January 1, 2015
2000-2004	$50,000			
2005		$10,000 (C)		
2011		$20,000 (R)		
2015	$ 5,500		$25,000	$105,000
Basis – August 15, 2015		$ 85,500		

Ordering Rules

- Distributions $85,500
- Contributions $55,500
- Add conversions and rollovers $30,000

Illustrated Recapture Amount—Allocation Chart

Enter the amount from your 2015 Form 8606, line 19 **$85,500**

Before you begin: You will need your prior year Form(s) 8606 and income tax return(s) if you entered an amount on any line(s) as indicated below.

You will now allocate the amount you entered above (2015 Form 8606, line 19) in the order shown, to the amounts on the lines listed below (to the extent a prior year distribution was not allocable to the amount). The maximum amount you can enter on each line below is the amount entered on the referenced lines of the form for that year. **Note.** Once you have allocated the full amount from your 2015 Form 8606, line 19, **STOP**. See the Example , earlier.

Tax Year	Your Form			
2015	Form 8606, line 20	$10,000	Form 8606, line 22	$55,500
1998	Form 8606, line 16		Form 8606, line 15	
1999	Form 8606, line 16		Form 8606, line 15	
2000	Form 8606, line 16		Form 8606, line 15	
2001	Form 8606, line 18		Form 8606, line 17	
2002	Form 8606, line 18		Form 8606, line 17	
2003	Form 8606, line 18		Form 8606, line 17	
2004	Form 8606, line 18		Form 8606, line 17	
2005	Form 8606, line 18	$10,000	Form 8606, line 17	$-0-
2005	Form 8606, line 18		Form 8606, line 17	
2007	Form 8606, line 18		Form 8606, line 17	
2008	Form 8606, line 18 and Form 1040, line 16b; Form 1040A, line 12b; or Form 1040NR, line 17b*		Form 8606, line 17 and Form 1040, line 16a; Form 1040A, line 12a; or Form 1040NR, line 17a**	
2009	Form 8606, line 18 and Form 1040, line 16b; Form 1040A, line 12b; or Form 1040NR, line 17b*		Form 8606, line 17 and Form 1040, line 16a; Form 1040A, line 12a; or Form 1040NR, line 17a**	
2010	Form 8606, lines 18 and 23*		Form 8606, lines 17 and 22**	
2011	Form 8606, line 18 and Form 1040, line 16b; Form 1040A, line 12b; or Form 1040NR, line 17b*	$20,000	Form 8606, line 17 and Form 1040, line 16a; Form 1040A, line 12a; or Form 1040NR, line 17a**	
2012	Form 8606, line 18 and Form 1040, line 16b; Form 1040A, line 12b; or Form 1040NR, line 17b*		Form 8606, line 17 and Form 1040, line 16a; Form 1040A, line 12a; or Form 1040NR, line 17a**	
2013	Form 8606, line 18 and Form 1040, line 16b; Form 1040A, line 12b; or Form 1040NR, line 17b*		Form 8606, line 17 and Form 1040, line 16a; Form 1040A, line 12a; or Form 1040NR, line 17a**	
2014	Form 8606, line 18 and Form 1040, line 16b; Form 1040A, line 12b; or Form 1040NR, line 17b*		Form 8606, line 17 and Form 1040, line 16a; Form 1040A, line 12a; or Form 1040NR, line 17a**	
2015	Form 8606, line 18 and Form 1040, line 16b; Form 1040A, line 12b; or Form 1040NR, line 17b*		Form 8606, line 17 and Form 1040, line 16a; Form 1040A, line 12a; or Form 1040NR, line 17a**	
2015	Form 8606, line 25			

*Only include those amounts rolled over to a Roth IRA.
**Only include any contributions (usually Form 1099-R, box 5) that were taxable to you when made and rolled over to a Roth IRA.

Distributions – Form 8606
Form 1040 Taxable Amount

Part III **Distributions From Roth IRAs**

Complete this part only if you took a distribution from a Roth IRA in 2015. For this purpose, a distribution does not include a rollover, one-time distribution to fund an HSA, recharacterization, or return of certain contributions (see instructions).

19	Enter your total nonqualified distributions from Roth IRAs in 2015, including any qualified first-time homebuyer distributions (see instructions)	19	55,500
20	Qualified first-time homebuyer expenses (see instructions). **Do not** enter more than $10,000	20	10,000
21	Subtract line 20 from line 19. If zero or less, enter -0-	21	45,500
22	Enter your basis in Roth IRA contributions (see instructions). If line 21 is zero, **stop here**	22	55,500
23	Subtract line 22 from line 21. If zero or less, enter -0- and skip lines 24 and 25. If more than zero, you may be subject to an additional tax (see instructions)	23	0
24	Enter your basis in conversions from traditional, SEP, and SIMPLE IRAs and rollovers from qualified retirement plans to a Roth IRA (see instructions)	24	20,000
25	**Taxable amount.** Subtract line 24 from line 23. If more than zero, also include this amount on Form 1040, line 15b; Form 1040A, line 11b; or Form 1040NR, line 16b	25	0

Contributions

- Tax free in /tax free out – FIFO
- An investor can take out the exact amount of his or her Roth IRA contributions at any time, for any reason without having to pay any tax or penalty – with one big caveat
- The earnings from the principal cannot normally be withdrawn prior to age 59½ without paying the 10% early withdrawal penalty
- Earnings can generally be withdrawn without penalties after age 59½, provided you meet the five-year rule

Age and Form 5329

- Based on his allocation, he would enter $30,000 on his 2015 Form 5329, line 1
- He should also report $10,000 on his 2015 Form 5329, line 2, and enter exception 09 since that amount is not subject to the 10% additional tax on early distributions

Form 5329 Line 1

- The amount allocated to line 20 of your 2015 Form 8606 = $10,000
- The amount(s) allocated to your 2011 through 2015 Forms 8606, line 18 (Conversions) = None
- The amount(s) allocated to your 2011, 2012, 2013, 2014, and 2015 Forms 1040, line 16b; Forms 1040A, line 12b; and Forms 1040NR, line 17b = $20,000
- The amount from your 2015 Form 8606, line 25 = 0

Form 5329

Form **5329**

Department of the Treasury
Internal Revenue Service (99)

Additional Taxes on Qualified Plans (Including IRAs) and Other Tax-Favored Accounts

► Attach to Form 1040 or Form 1040NR.
► Information about Form 5329 and its separate instructions is at *www.irs.gov/form5329*.

OMB No. 1545-0074
2015
Attachment Sequence No. **29**

Name of individual subject to additional tax. If married filing jointly, see instructions. | Your social security number

Fill in Your Address Only If You Are Filing This Form by Itself and Not With Your Tax Return

Home address (number and street), or P.O. box if mail is not delivered to your home | Apt. no.

City, town or post office, state, and ZIP code. If you have a foreign address, also complete the spaces below (see instructions). | If this is an amended return, check here ► ☐

Foreign country name | Foreign province/state/county | Foreign postal code

If you **only** owe the additional 10% tax on early distributions, you may be able to report this tax directly on Form 1040, line 59, or Form 1040NR, line 57, without filing Form 5329. See the instructions for Form 1040, line 59, or for Form 1040NR, line 57.

Part I **Additional Tax on Early Distributions.** Complete this part if you took a taxable distribution before you reached age 59½ from a qualified retirement plan (including an IRA) or modified endowment contract (unless you are reporting this tax directly on Form 1040 or Form 1040NR—see above). You may also have to complete this part to indicate that you qualify for an exception to the additional tax on early distributions or for certain Roth IRA distributions (see instructions).

1	Early distributions included in income. For Roth IRA distributions, see instructions	1	20,000
2	Early distributions included on line 1 that are not subject to the additional tax (see instructions). Enter the appropriate exception number from the instructions: 09	2	10,000
3	Amount subject to additional tax. Subtract line 2 from line 1	3	10,000
4	**Additional tax.** Enter 10% (.10) of line 3. Include this amount on Form 1040, line 59, or Form 1040NR, line 57. **Caution:** *If any part of the amount on line 3 was a distribution from a SIMPLE IRA, you may have to include 25% of that amount on line 4 instead of 10% (see instructions).*	4	1,000

Remember!!!!

- 5 year period
- Regular contributions first – no tax no penalty until used
- Rollovers and Conversions are figured separately – must meet 5 year rule or recapture issues
- Disregard re-characterizations
- If the IRA holder completes multiple Roth conversions, the five-year period for each Roth conversion is determined separately for each conversion
- For determining qualified distributions, there is only one five-year period, this never starts over
- If an excess contribution is made to a Roth IRA and later removed, this contribution cannot be used to determine the five-year period for qualified distributions

Penalty Exceptions

- The taxpayer is at least age 59.5 when the distribution occurs
- The taxpayer plans to use the distribution to buy or rebuild a first home, limited to $10,000 per lifetime
- The taxpayer becomes disabled before the distribution occurs
- The taxpayer's beneficiary distributes the assets after death
- The taxpayer uses the assets for eligible medical expenses for which they were not reimbursed
- The distribution is part of an SEPP program
- The taxpayer uses the assets for higher-education expenses
- The taxpayer uses the assets to pay for medical insurance after losing a job
- The taxpayer's assets are distributed as a result of an IRS levy
- The amount is rolled over within 60-days, if eligible

Summary

Summary

The following chart summarizes the tax treatment of all possible Roth IRA distributions:

Distributed Assets	Qualified Distributions	Nonqualified Distributions	Comment
Regular participant contributions	Tax free and penalty free	Tax free and penalty free	Income tax and early-distribution penalty are never applied to distributed assets for which no deduction was allowed when the assets were contributed to the IRA.
Taxable conversion	Tax free and penalty free	Tax free but penalty may apply	These are already taxed when converted. Penalty is waived if any one of the exceptions apply.
Nontaxable conversion	Tax free and penalty free	Tax free and penalty free	Income tax and penalty is never applied to distributed assets for which no deduction was allowed when the assets were initially contributed to the IRA.
Earnings	Tax free and penalty free	Taxes apply and penalty may apply	Penalty is waived if any one of the exceptions apply.

Must You Withdraw or Use Assets?

- The taxpayer is not required to take distributions from the Roth IRA at any age
- The minimum distribution rules that apply to traditional IRAs do not apply to Roth IRAs while the owner is alive
- However, after the death of a Roth IRA owner, certain minimum distribution rules that apply to traditional IRAs also apply to Roth IRAs

Distributions After Owner's Death

- If a Roth IRA owner dies, the minimum distribution rules that apply to traditional IRAs apply to Roth IRAs

Distributions to Beneficiaries

- Generally, the entire interest in the Roth IRA must be distributed by the end of the fifth calendar year after the year of the owner's death unless the interest is payable to a designated beneficiary over the life or life expectancy of the designated beneficiary
- If paid as an annuity, the entire interest must be payable over a period not greater than the designated beneficiary's life expectancy and distributions must begin before the end of the calendar year following the year of death
- Distributions from another Roth IRA cannot be substituted for these distributions unless the other Roth IRA was inherited from the same decedent
- If the sole beneficiary is the spouse, he or she can either delay distributions until the decedent would have reached age 70 ½ or treat the Roth IRA as his or her own

Distributions That are Not Qualified Distributions

- If a distribution to a beneficiary is not a qualified distribution, it is generally includible in the beneficiary's gross income in the same manner as it would have been included in the owner's income had it been distributed to the IRA owner when he or she was alive
- If the owner of a Roth IRA dies before the end of:
  - The 5-year period beginning with the first taxable year for which a contribution was made to a Roth IRA set up for the owner's benefit, or
  - The 5-year period starting with the year of a conversion contribution from a traditional IRA or a rollover from a qualified retirement plan to a Roth IRA, each type of contribution is divided among multiple beneficiaries according to the pro-rata share of each

Recognizing Losses on Investments

- If the taxpayer has a loss on the Roth IRA investment, they can recognize the loss on their income tax return, but only when all the amounts in all of the Roth IRA accounts have been distributed and the total distributions are less than your unrecovered basis
- The basis is the total amount of contributions in the Roth IRAs
- The taxpayer can claim the loss as a miscellaneous itemized deduction, subject to the 2%-of-adjusted-gross-income limit that applies to certain miscellaneous itemized deductions on Schedule A (Form 1040)
- Any such losses are added back to taxable income for purposes of calculating the alternative minimum tax

	Roth IRA	Designated Roth Account
Number of Investment Choices	Many as long as not prohibited	As offered by the plan
Participation	Anyone with earned income	Participant in a 401(k), 403(b) or 457 governmental plan that allows designated Roth contributions
Contribution limits	$5,500 (for 2015 and 2016*) $6,500* (if age 50 or older)	$18,000 (in 2015 and 2016*) $24,000* (if age 50 or older)
Recharacterization of rolled-over amounts	Allowed	Not allowed
Required minimum distributions	Only after the original IRA owner's death	Yes
Tax on nonqualified distributions	Nonqualified distributions are distributed in this order: 1. Nontaxable contributions 2. Taxable earnings	Nonqualified distributions are pro-rated between Roth contributions (nontaxable) and earnings (taxable)
Withdrawals	Anytime. May be subject to tax if not a qualified distribution	Only when allowed by the terms of the plan. Subject to tax if not a qualified distribution
Loans	No	Yes, if plan allows
5-year holding period for qualified distributions	Begins January 1 of the year a contribution is made to any Roth IRA	Separate for each Roth account and begins on January 1 of the year contributions made to that account. If one Roth account is rolled into another, the earlier start date applies.
Beneficiary	Anyone	Anyone but, if married, spouse must consent to nonspouse beneficiary

CALT Website

http://www.calt.iastate.edu/

Tour of the CALT Website

Please Welcome Phil Harris

- Professor, Agricultural and Applied Economics – University of Wisconsin- Madison
  - J.D., University of Chicago, 1977
  - M.A., Economics, University of Chicago, 1975
  - B.S., Economics, Iowa State University, 1973
- His research program focuses on business and tax planning for agricultural producers
- The program includes information on the choice of entity for organizing a farm business and for transferring a farm business to the next generation
- Income, estate and gift tax consequences as well as non-tax issues

Phil Harris

Phil Harris

CALT Speaker

- September 9, 2016 Farm Tax Seminar
- The session will also be available via webinar
- Instructor – Farm and Urban Tax School
- November 21 – 22 – Waterloo
- December 12 – 13 - Ames

Fall Tax Schools

- Though they are named the Farm and Urban Tax Schools the schools cover more than farm issues
- Common return issues for all kinds of returns are covered
- All kinds of business entities
- Problematic issues
- Sometimes we even get into to issues that you many encounter only once or twice a year or tax season
- The Tax Schools are a blend of diverse topics of interest to all tax professionals
- This year: New instructors with diverse backgrounds
- Your adventure awaits at Iowa State's Center for Agricultural Law and Taxation

Farm and Urban Tax Schools 2016

- November 2, 2016 to December 13, 2016
- 8 Locations in Iowa and Online Webinar
- Save the Date for the 2016 Annual Farm and Urban Income Tax Schools
- The program is intended for tax professionals and is designed to provide up-to-date training on current tax law and regulations
  - November 2-3: Maquoketa
  - November 7-8: Red Oak
  - November 9-10: Sheldon
  - November 14-15: Mason City
  - November 17-18: Ottumwa
  - November 21-22: Waterloo
  - December 5-6: Denison
  - December 12-13: Ames and Live Webinar

September Farm Tax School Navigating Changing Times

- September 8, 2016 to September 9, 2016, Ames, Iowa and Online
- Attend any one day or both days, either in-person or online! Company discount for 3 or more individuals from the same employer!
- **Ag Law Seminar, September 8**
- Our Thursday seminar will offer practical, interesting information you can immediately apply in your practice or ag-related business. You'll leave with forms and other tools to help you more efficiently serve your ag clients.
- **Farm Tax Workshop, September 9**
- Our Friday seminar will be a comprehensive one-day farm tax workshop designed to equip tax practitioners with the tools they need to prepare farm income tax returns, from the simple to the complex.
- Online Registration: https://goo.gl/pdJTK5

Registration Fees

- **Early Rate - Registered on/by August 31**
  - Attend in person or watch from your computer
  - Any one day: $200
  - Both days: $350
  - Company Discount: $10 discount per individual if 3 or more are registered from the same employer - this is available for either on-site or online attendance
- **Late Rate - Registered after August 31**
  - Attend in person or watch from your computer
  - Any one day: $220
  - Both days: $370
  - Company Discount: $10 discount per individual if 3 or more are registered from the same employer - this is available for either on-site or online attendance

Continuing Education

- **Ag Law Seminar (September 8)**
  - Continuing Legal Education (CLEs) - 7 hours (including one hour of ethics)
  - Others Professional Education (CPEs) - 7-8 hours (including one hour of ethics)
- Farm Tax Workshop (September 9)
  - Continuing Legal Education (CLEs) - 7 hours (including one hour of ethics)
  - Others Professional Education (CPEs) - 7-8 hours (including one hour of ethics)

Speakers

- Ag Law Seminar
  - Shannon Ferrell, Associate Professor, Agricultural Economics, Oklahoma State University
  - Eldon McAfee, Shareholder, Brick Gentry P.C.
  - Erin Herbold-Swalwell, Shareholder, Brick Gentry P.C.
  - Julia Vyskocil, Shareholder, Brick Gentry P.C.
  - Pat Dillon, Dillon Law P.C.
  - Professor Neil Hamilton, Director of Drake Law School Agricultural Law Center
  - John Baker, Iowa State's Beginning Farmer Center Administrator
  - Jennifer Zwagerman, Associate Director of Drake Law School Agricultural Law Center
  - Kristine Tidgren, Assistant Director for the Center for Agricultural Law & Taxation
- Farm Tax Workshop
  - Philip E. Harris, JD, University of Wisconsin professor
  - Kristy Maitre, Tax Specialist with the Center for Agricultural Law & Taxation

Farm Tax Seminar Topics

- Legislative Update: The Protecting Americans from Tax Hikes Act of 2015 (PATH Act) and the Consolidated Appropriations Act, 2016 (CAA of 2016)
- Income Issues
  - Constructive Receipt
  - Installment Sales of Livestock
  - Hedging and Other Marketing Transactions
  - Farm Income Averaging
  - Farm vs. Nonfarm Income
  - Easements
  - Sale vs. Lease of Equipment by a Retiring Farmer
  - Conservation Reserve Program Payments
  - Income in Respect of a Decedent
  - Reporting Property as Self-rental on Schedule E (Form 1040)
- Deduction Issues
  - Tangible Property Regulations
  - Lease vs. Purchase of Farm Equipment
  - Segregating Fertilizer Costs
  - Domestic Production Activity Deduction
  - Start Up Expenses

Farm Tax Seminar Topics

- Entity Issues
- Partnership Formation and Contributed Assets with Debt in Excess of Tax Basis
- Guaranteed Payments
- Qualified Joint Ventures
- Issues for Farmers with Multiple Entities
- Miscellaneous Farm Issues
- Material Participation
- Capitalization of Preproduction Expenses
- Farm Inventory
- Hobby Losses
- Gift of Commodities
- Valuation of growing crops
- Cases and Rulings: A summary of rulings and cases from the past year that affect farmers

Accommodations

- Quality Inn & Suites Starlite Village Conference Center
- 2601 East 13th Street, Ames, Iowa
- Discounted overnight rooms are available for $89.00 per night (for the dates of September 7, 8 and 9)
- Call the hotel at 515-232-9260 and mention you are attending the Iowa State University September Seminars

Summer Webinars

- Net Operating Losses
- The Portability Election
- IRS Return Preparer Penalties Overview
- Miscellaneous Income
- New Developments
- Tax Research with Limited Resources
- Injured Spouse
- IRS Representation
- Inventory Issues
- Preparing for an IRS Audit
- Appeals – How to Write Your Appeals Request
- Start Up Costs
- Hobby Losses

Beginning Tax Preparers Class

- CALT is working on offering a basic class for NEW tax preparers this fall in October
- The week long webinar will cover the basics an individual needs to know such as:
  - Requirement to file
  - Dependents
  - Filing Status
  - Itemized deductions
  - Education Credits
- Other issues a first or second year preparer needs to know as well as a refresher for others who need to brush up on issues
- The class will be a week long or more and will be offered at a special rate

The Scoop

- Throughout the filing season two Scoops will be held on Scoop Dates
  - 8:00 – 8:30 am Central time
  - 12:00 – 12:30 Central time
- This assists with accommodating our west coast practitioners
- The same information will be shared at both sessions
- You have the option of registering for whatever session suits your schedule
- https://www.calt.iastate.edu/calendar-node-field-seminar-date/month

Future Scoop Dates

- August 24, 2016
- September 7, 2016
- October 5, 2016
- October 19, 2016
- November 16, 2016
- December 14, 2016
- http://www.calt.iastate.edu/calendar-node-field-seminar-date/month

The CALT Staff

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