



## Roth IRAs: What You Need to Know



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## Learning Objectives

At the completion of this course you will be able to

- ✓ identify individuals that are eligible for Roth IRA contributions,
- ✓ discuss taxation on Roth IRA distributions,
- ✓ explain the “Roth IRA loophole,” and
- ✓ state the Roth IRA portability options.

## Icon Legend

 Individual Exercise	 Group Exercise	 Group Discussion
 Example	 Job Aid	 Additional Information

### Background

Created by TRA-97, Roth IRAs give taxpayers a tax-favored retirement savings option that is much different from Traditional IRAs. Congress created the Roth IRA—named after the late Senator William Roth (R-Del.), who spearheaded the campaign for this type of IRA—as a way for taxpayers to obtain tax-free retirement income. Governed under IRC Sec. 408A, Roth IRA contributions are not tax-deductible, but the earnings generated from these contributions can be distributed tax-free if certain requirements are met.

Beginning in 2002, the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA), greatly expanded the opportunity for individuals to move assets between eligible employer-sponsored retirement plans and IRAs. EGTRRA also introduced the designated Roth contribution program to certain salary deferral retirement plans. The Pension Protection Act of 2006 (PPA) further expanded the portability rules by adding employer-sponsored retirement plan-to-Roth IRA rollovers and by allowing nonspouse beneficiaries to roll over inherited retirement plan assets to inherited Traditional and Roth IRAs.

Eligible employer-sponsored retirement plans include

- qualified retirement plans under IRC Sec. 401(a) and 403(a),
- tax-sheltered annuity 403(b) plans,
- governmental 457(b) plans, and
- the federal Thrift Savings Plan (TSP).

### Tax Benefits

To make a well-informed decision on whether a Roth IRA is the right choice, an individual should recognize the primary characteristics of a Roth IRA, and have a basic understanding of tax law principles, such as marginal tax rates and the time-value of money. An individual also should understand the following three concepts.

**Tax-deferred earnings** – Earnings generated on Roth IRA contributions are tax-deferred. Financial organizations do not report Roth IRA earnings to the IRS (e.g., no Form 1099-INT, *Interest Income*, reporting).

**Tax credit** – Certain qualifying individuals may receive a nonrefundable tax credit (i.e., saver's credit) for contributions made to Roth IRAs. The Roth IRA owner should talk with a tax advisor or refer to IRS Form 8880, *Credit for Qualified Retirement Savings Contributions*, to see if she qualifies for the tax credit.

**Tax-free earnings** – Roth IRA earnings may be withdrawn tax-free if the Roth IRA owner meets the requirements for a qualified distribution (i.e., the Roth IRA owner has met the five-year period and has a qualified reason).

### Potential Roth IRA Owners

- Individuals with a low marginal tax rate
- Millennials (many years until retirement)
- Anyone looking to diversify nontaxable assets
- Individuals with a comparatively high-risk tolerance
- Individuals wishing to avoid RMDs

## Roth IRA Regular Contribution Eligibility

Anyone who meets both of the requirements is eligible to make regular contributions to a Roth IRA. The 2019 contribution limit is \$6,000, plus \$1,000 if age 50 or older before the end of 2019.



**Earned income** – The IRA owner must have received earned income during the year for which the regular contribution is made. Earned income includes amounts derived from or received for personal services actually rendered.



**Income limit** – The IRA owner’s modified adjusted gross income (MAGI) must not exceed the IRS limits.

### Modified Adjusted Gross Income (MAGI):

Adjusted gross income determined without taking into account certain deductions.

2019 MAGI Limits for Regular Roth IRA Contributions*			
Filing Status	MAGI for Full Contribution	MAGI for Partial Contribution	Ineligible for Roth Contribution
Single	Up to \$122,000	\$122,000–\$137,000	Over \$137,000
Married, filing jointly	Up to \$193,000	\$193,000–\$203,000	Over \$203,000
Married, filing separately**	\$0	\$0–\$10,000	Over \$10,000

\* The MAGI limits are subject to cost-of-living adjustments (COLAs), which generally are released in the fourth quarter for the following year.

\*\* IRA owners that do not live with a spouse at any time during the year are considered a single filer for purposes of determining Roth IRA eligibility.

IRA owners with MAGI within the phase-out range will calculate their maximum allowable regular contributions by using the *Maximum Roth IRA Contribution Worksheet* in the instructions for IRS Form 8606, *Nondeductible IRAs*.

Single:  $(\$137,000 - \text{MAGI}) / \$15,000 \times \$6,000$  (or \$7,000)

Married, filing jointly:  $(\$203,000 - \text{MAGI}) / \$10,000 \times \$6,000$  (or \$7,000)

Married, filing separately:  $(\$10,000 - \text{MAGI}) / \$10,000 \times \$6,000$  (or \$7,000)

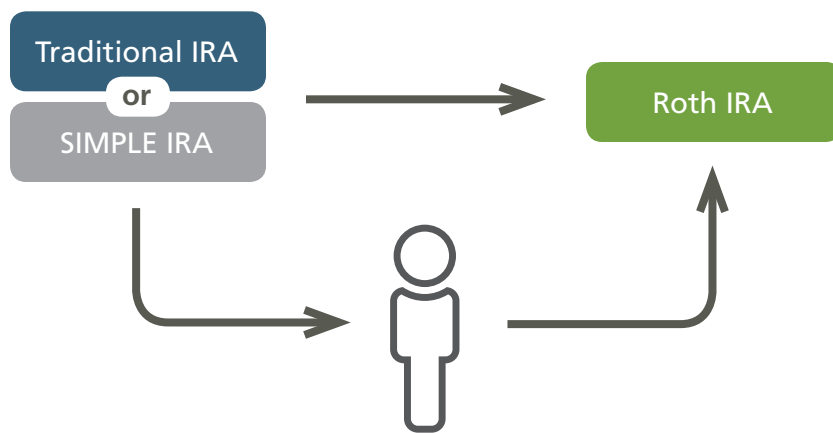


## Procedures

IRA owners may convert their assets to a Roth IRA through either a direct or indirect conversion.

### Direct Conversion

- No 60-day rule
- No one-per-12-month rule
- Reportable



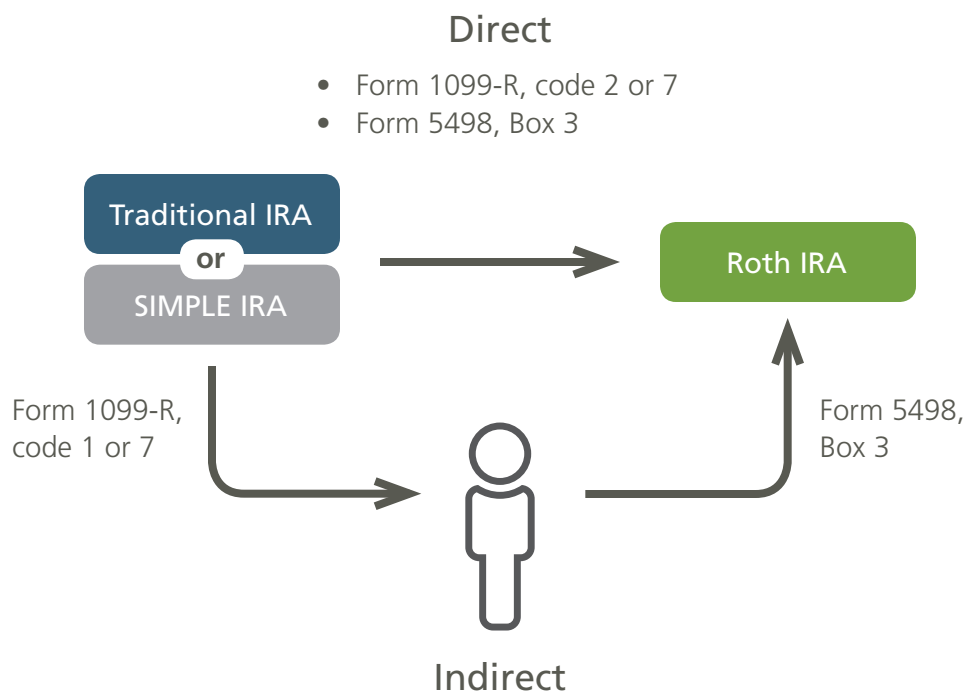
### Indirect Conversion

- 60-day rule applies
- No one-per-12-month rule
- Reportable

## Reporting Requirements

A conversion is a reportable transaction regardless of whether it is handled directly or indirectly. The financial organization reports the distribution on Form 1099-R, *Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance, Contracts, etc.*, and the conversion contribution on Form 5498, *IRA Contribution Information*.

### IRA-to-IRA Conversion Reporting



Individuals who convert assets from a Traditional or SIMPLE IRA to a Roth IRA must file Form 8606, *Nondeductible IRAs*, with their Form 1040, *U.S. Individual Income Tax Return*, to report the taxable amount to the IRS.

Form **8606**

## Nondeductible IRAs

OMB No. 1545-0074

Department of the Treasury  
Internal Revenue Service (99)

▶ Go to [www.irs.gov/Form8606](http://www.irs.gov/Form8606) for instructions and the latest information.

▶ Attach to 2018 Form 1040 or 2018 Form 1040NR.

**2018**  
Attachment  
Sequence No. **48**

Name. If married, file a separate form for each spouse required to file 2018 Form 8606. 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 <input type="checkbox"/>
Foreign country name	Foreign province/state/county	Foreign postal code

**Part I Nondeductible Contributions to Traditional IRAs and Distributions From Traditional, SEP, and SIMPLE IRAs**  
Complete this part only if one or more of the following apply.

- You made nondeductible contributions to a traditional IRA for 2018.
- You took distributions from a traditional, SEP, or SIMPLE IRA in 2018 **and** you made nondeductible contributions to a traditional IRA in 2018 or an earlier year. For this purpose, a distribution does not include a rollover (other than a repayment of a qualified 2017 disaster distribution (see 2018 Form 8915B)), qualified charitable distribution, one-time distribution to fund an HSA, conversion, recharacterization, or return of certain contributions.
- You converted part, but not all, of your traditional, SEP, and SIMPLE IRAs to Roth IRAs in 2018 **and** you made nondeductible contributions to a traditional IRA in 2018 or an earlier year.

<b>1</b>	Enter your nondeductible contributions to traditional IRAs for 2018, including those made for 2018 from January 1, 2019, through April 15, 2019. See instructions . . . . .			<b>1</b>
<b>2</b>	Enter your total basis in traditional IRAs. See instructions . . . . .			<b>2</b>
<b>3</b>	Add lines 1 and 2 . . . . .			<b>3</b>
	<b>In 2018, did you take a distribution from traditional, SEP, or SIMPLE IRAs, or make a Roth IRA conversion?</b>	<b>No</b> → Enter the amount from line 3 on line 14. Do not complete the rest of Part I.		
		<b>Yes</b> → Go to line 4.		
<b>4</b>	Enter those contributions included on line 1 that were made from January 1, 2019, through April 15, 2019 . . . . .			<b>4</b>
<b>5</b>	Subtract line 4 from line 3 . . . . .			<b>5</b>
<b>6</b>	Enter the value of all your traditional, SEP, and SIMPLE IRAs as of December 31, 2018, plus any outstanding rollovers. Subtract any repayments of qualified 2017 disaster distributions (see 2018 Form 8915B). If the result is zero or less, enter 0. See instructions . . . . .			<b>6</b>
<b>7</b>	Enter your distributions from traditional, SEP, and SIMPLE IRAs in 2018. <b>Do not</b> include rollovers (other than repayments of qualified 2017 disaster distributions (see 2018 Form 8915B)), qualified charitable distributions, a one-time distribution to fund an HSA, conversions to a Roth IRA, certain returned contributions, or recharacterizations of traditional IRA contributions (see instructions) . . . . .			<b>7</b>
<b>8</b>	Enter the net amount you converted from traditional, SEP, and SIMPLE IRAs to Roth IRAs in 2018. Also enter this amount on line 16 . . . . .			<b>8</b>
<b>9</b>	Add lines 6, 7, and 8 . . . . .			<b>9</b>
<b>10</b>	Divide line 5 by line 9. Enter the result as a decimal rounded to at least 3 places. If the result is 1.000 or more, enter "1.000" . . . . .		×	<b>10</b>
<b>11</b>	Multiply line 8 by line 10. This is the nontaxable portion of the amount you converted to Roth IRAs. Also enter this amount on line 17 . . . . .			<b>11</b>
<b>12</b>	Multiply line 7 by line 10. This is the nontaxable portion of your distributions that you did not convert to a Roth IRA . . . . .			<b>12</b>
<b>13</b>	Add lines 11 and 12. This is the nontaxable portion of all your distributions . . . . .			<b>13</b>
<b>14</b>	Subtract line 13 from line 3. This is <b>your total basis in traditional IRAs for 2018 and earlier years</b> . . . . .			<b>14</b>
<b>15a</b>	Subtract line 12 from line 7 . . . . .			<b>15a</b>
<b>b</b>	Enter the amount on line 15a attributable to qualified 2017 disaster distributions from 2018 Form 8915B (see instructions). Also, enter this amount on 2018 Form 8915B, line 22 . . . . .			<b>15b</b>
<b>c</b>	<b>Taxable amount.</b> Subtract line 15b from line 15a. If more than zero, also include this amount on 2018 Form 1040, line 4b; or 2018 Form 1040NR, line 17b . . . . .			<b>15c</b>
	<b>Note:</b> You may be subject to an additional 10% tax on the amount on line 15c if you were under age 59½ at the time of the distribution. See instructions.			

For Privacy Act and Paperwork Reduction Act Notice, see separate instructions.

Cat. No. 63966F

Form **8606** (2018)

**Part II 2018 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 2018.

<b>16</b>	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 2018. . . . .	<b>16</b>		
<b>17</b>	If you completed Part I, enter the amount from line 11. Otherwise, enter your basis in the amount on line 16 (see instructions) . . . . .	<b>17</b>		
<b>18</b>	<b>Taxable amount.</b> Subtract line 17 from line 16. If more than zero, also include this amount on 2018 Form 1040, line 4b; or 2018 Form 1040NR, line 17b . . . . .	<b>18</b>		

**Part III Distributions From Roth IRAs**

Complete this part only if you took a distribution from a Roth IRA in 2018. For this purpose, a distribution does not include a rollover (other than a repayment of a qualified 2017 disaster distribution (see 2018 Form 8915B)), qualified charitable distribution, one-time distribution to fund an HSA, recharacterization, or return of certain contributions (see instructions).

<b>19</b>	Enter your total nonqualified distributions from Roth IRAs in 2018, including any qualified first-time homebuyer distributions, and any qualified 2017 disaster distributions (see instructions). Also see 2018 Form 8915B . . . . .	<b>19</b>		
<b>20</b>	Qualified first-time homebuyer expenses (see instructions). <b>Do not</b> enter more than \$10,000 . . . . .	<b>20</b>		
<b>21</b>	Subtract line 20 from line 19. If zero or less, enter -0- . . . . .	<b>21</b>		
<b>22</b>	Enter your basis in Roth IRA contributions (see instructions). If line 21 is zero, <b>stop here</b> . . . . .	<b>22</b>		
<b>23</b>	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) . . . . .	<b>23</b>		
<b>24</b>	Enter your basis in conversions from traditional, SEP, and SIMPLE IRAs and rollovers from qualified retirement plans to a Roth IRA. See instructions . . . . .	<b>24</b>		
<b>25a</b>	Subtract line 24 from line 23. If zero or less, enter -0- and skip lines 25b and 25c . . . . .	<b>25a</b>		
<b>b</b>	Enter the amount on line 25a attributable to qualified 2017 disaster distributions from 2018 Form 8915B (see instructions). Also, enter this amount on 2018 Form 8915B, line 23 . . . . .	<b>25b</b>		
<b>c</b>	<b>Taxable amount.</b> Subtract line 25b from line 25a. If more than zero, also include this amount on 2018 Form 1040, line 4b; or 2018 Form 1040NR, line 17b . . . . .	<b>25c</b>		

**Sign Here Only if You Are Filing This Form by Itself and Not With Your Tax Return**

Under penalties of perjury, I declare that I have examined this form, including accompanying attachments, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.

Your signature
  Date

<b>Paid Preparer Use Only</b>	Print/Type preparer's name	Preparer's signature	Date	Check <input type="checkbox"/> if self-employed	PTIN
	Firm's name ▶				Firm's EIN ▶
	Firm's address ▶				Phone no.

## Roth IRA Loophole

### Backdoor Roth Scenario (Trick)

Individuals may make nondeductible contributions to a Traditional IRA and then convert the assets to a Roth IRA.

### Pro Rata Rules Out of Traditional, SEP, and SIMPLE IRAs (Trap)

IRA owners cannot avoid taxation by converting only their nondeductible assets. Distributions from IRAs that contain pretax and after-tax assets are taxed pro rata, as described below.

### Converting Nondeductible Traditional IRA Assets

When converting nondeductible assets, the individual must treat all of her Traditional and SIMPLE IRAs as one IRA.

If an IRA owner makes nondeductible Traditional IRA contributions, or rolls over after-tax employer-sponsored retirement plan contributions to a Traditional IRA, the IRA owner does not have to pay tax on the portion of a conversion that represents a return of those nondeductible assets (basis). These assets have already been taxed because a tax deduction or tax deferral was not allowed at the time of the contribution. An IRA owner cannot convert only basis. When an individual converts a portion of an IRA, the amount that comes out of the IRA represents a portion of assets subject to taxation (deductible contributions, rollovers of pretax assets, and all earnings) and a portion of assets not subject to taxation (basis).

Assuming that an individual converts the entire distribution amount, he may use the following formula to determine the amount to exclude from income.

$$\frac{\text{Aggregate Basis}}{\text{Aggregate IRA Balance}} \times \text{Distribution} = \text{Amount Excluded From Income}$$

**Aggregate basis** includes all nondeductible contributions and after-tax employer-sponsored retirement plan rollover contributions made to an IRA owner's Traditional IRAs that the IRA owner has not previously distributed and excluded from income.

**Aggregate IRA balance** includes the total balance of all the IRA owner's IRAs (Traditional and SIMPLE) as of the end of the year of distribution, plus any distributions that occurred during the year.

**NOTE:** *Although individuals may use this simplified formula to determine the taxable conversion amount, IRA owners who convert Traditional or SIMPLE IRA assets to Roth IRAs must complete IRS Form 8606 to formally calculate and report the taxable conversion amount.*

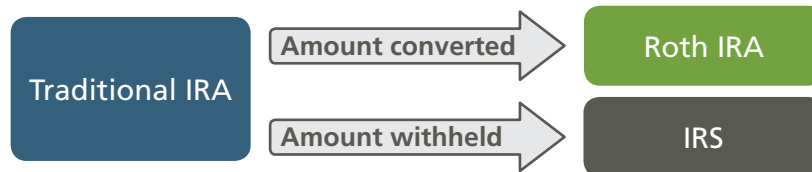
## Consequences of Withholding on a Conversion

If an IRA owner withholds assets during the conversion, then an amount less than the entire IRA balance will be converted to a Roth IRA. If the IRA owner does not replace the withheld amount with other assets within 60 calendar days, then

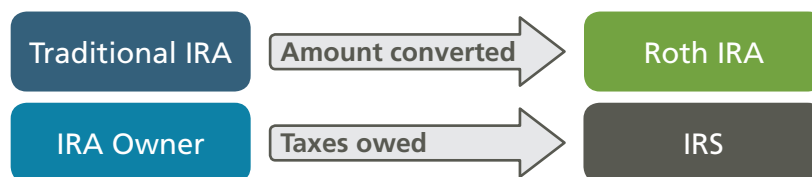
- there is a lower balance in the Roth IRA, which reduces the potential for tax-free earnings, and
- the taxable portion of the amount withheld is subject to income tax and the 10 percent penalty tax on early distributions if the IRA owner is under age 59½.

Because of these factors, IRA owners who are converting IRA assets may want to avoid having assets withheld from the Traditional IRA distribution, and use other assets to pay the taxes resulting from the conversion.

### IRA Owner Has Taxes Withheld



### IRA Owner Does Not Have Taxes Withheld



## Recharacterizations

Recharacterizations allow IRA owners to move their current-year IRA contribution to another type of IRA, treating the contribution as if it originally were made to that IRA. The net income attributable (NIA) to the contribution also must be moved with the original contribution to the other type of IRA.

The following examples help illustrate why an IRA owner would choose to recharacterize a contribution.

- After making a Roth IRA contribution, an individual discovers that his MAGI makes him ineligible to contribute to a Roth IRA. He is, however, eligible to make a nondeductible Traditional IRA contribution.
- After making a Traditional IRA contribution, an individual discovers that she cannot deduct the contribution. She determines that she may benefit more from contributing to a Roth IRA.



Effective January 1, 2018, the Tax Cuts and Jobs Act of 2017 eliminated recharacterizations of Traditional IRA conversions and employer-sponsored retirement plan-to-Roth IRA rollovers. The IRS verified that individuals were still able to recharacterize 2017 conversions and employer-sponsored retirement plan-to-Roth IRA rollovers, as long as they complete the recharacterization by October 15, 2018.

### Qualified Distributions

A Roth IRA distribution is deemed a qualified distribution and not subject to taxation if **both** of the following requirements are met.

#### Five-Year Period

The five-year period begins on the earlier of

- January 1 of the first year **for which** regular Roth IRA contributions are made, or
- January 1 of the first year **in which** an IRA conversion contribution is made.

#### Qualified Reasons

- Age 59½
- Death
- Disability
- First-time homebuyer expenses



#### *Example*

Arthur, age 63, opened his Roth IRA with a regular Roth IRA contribution on April 12, 2011, for 2010. Arthur's five-year period began January 1, 2010, and was satisfied on January 1, 2015. Arthur decides to close his Roth IRA in March 2019. Because Arthur met his five-year period and has a qualified reason (age 59½ or older), he may distribute his entire Roth IRA balance tax- and penalty-free.



### Nonqualified Distributions

A Roth IRA distribution that does not meet both of the qualification requirements is a nonqualified distribution. Nonqualified distributions may be subject to taxation and the 10 percent early distribution penalty tax. The same exceptions to the early distribution penalty tax that apply to Traditional IRA distributions also apply to Roth IRA distributions (i.e., age 59½, death, disability, series of substantially equal periodic payments, medical expenses, health insurance premiums following unemployment, higher education expenses, first-time homebuyer expenses, IRS levy, qualified reservist distributions, and qualified disaster distributions).

IRA owners are responsible for tracking the amount and type of contributions in their Roth IRAs.

## Ordering Rules

All Roth IRA assets must be distributed in the following order.

### *Regular Contributions*

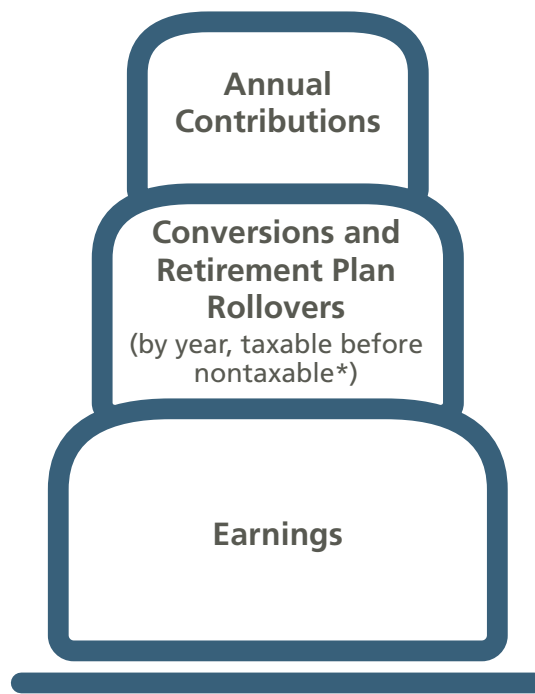
Roth IRA owners can withdraw their regular contributions tax- and penalty-free at any time. Regular contributions are made with after-tax assets, so no taxes are due upon withdrawal. And because the assets are not taxable, the early distribution penalty tax does not apply.

### *Conversions and Retirement Plan Rollovers*

Any conversion or retirement plan rollover assets are removed after all of the regular contributions have been withdrawn. Conversion and retirement plan rollover assets are taxed at the time of the conversion or rollover, so no taxes are due upon withdrawal. But if an individual takes a nonqualified distribution, the assets are subject to the 10 percent early distribution penalty tax unless a penalty tax exception applies or five years have passed since January 1 of the conversion or rollover year.

### *Earnings*

Once all conversion and retirement plan rollover assets have been withdrawn, distributions from the Roth IRA are deemed to consist of pretax earnings. Any earnings distributed in a nonqualified distribution are taxable and subject to the 10 percent early distribution penalty tax (unless an exception applies).



\*Not including retirement plan Roth account rollovers



*Roth Distribution*

**For each scenario, determine whether the distribution is qualified or nonqualified, and determine the tax and penalty implications for removing each type of contribution. Assume each scenario is a total distribution.**

Name: Mike Andros  
Age: 52  
Contribution history: \$3,500 regular – 2013  
\$2,000 regular – 2015  
\$115 Roth IRA earnings  
Date of distribution: April 22, 2019  
Reason for distribution: Disability

Is the distribution qualified or nonqualified? Why?

---

What are the tax and early distribution penalty tax implications for removing each type of contribution? Why?

Regular contributions:

---

---

Earnings:

---

---

Name: Sandi Farrell  
Age: 68  
Contribution history: \$4,500 regular – 2015  
\$6,500 regular – 2016  
\$450 Roth IRA earnings  
Date of distribution: July 22, 2019  
Reason for distribution: Vacation

Is the distribution qualified or nonqualified? Why?

---

What are the tax and early distribution penalty tax implications for removing each type of contribution? Why?

Regular contributions:

---

---

Earnings:

---

---

Name: Phil Lombardi  
Age: 39  
Contribution history: \$2,000 regular – 2014  
\$32,000 taxable conversion – 2015  
\$4,150 Roth IRA earnings  
Date of distribution: May 17, 2019  
Reason for distribution: Purchase a new car

Is the distribution qualified or nonqualified? Why?

---

What are the tax and early distribution penalty tax implications for removing each type of contribution? Why?

Regular contributions:

---

---

2015 conversion:

---

---

Earnings:

---

---

## No Required Minimum Distributions

A Roth IRA owner is never forced to take required minimum distributions (RMDs).



## Employer-Sponsored Retirement Plan and IRA Portability

### Pretax Assets

Pretax amounts rolled over from employer-sponsored retirement plans to Roth IRAs are included in the IRA owner's gross income in the year of the rollover, but the 10 percent early distribution penalty tax does not apply. If, however, the amount rolled over is later distributed in a nonqualified distribution from the Roth IRA within five years of the rollover, the pretax portion that was rolled over is not taxed, but is subject to the 10 percent early distribution penalty tax.

### Designated Roth Account Assets

Individuals may roll over designated Roth account assets in a 401(k), 403(b), or governmental 457(b) plan to a Roth IRA, but not to a Traditional IRA. Unlike pretax assets that are rolled over to Roth IRAs, designated Roth account assets are not taxed when rolled over.

### Treatment Within Roth IRA

The ordering rules associated with Roth IRA distributions are applied to the employer-sponsored retirement plan assets once they are rolled over to a Roth IRA.

Distributions of designated Roth account assets from an employer-sponsored retirement plan represent a pro rata portion of designated Roth contributions and allocable earnings.

Depending on whether the distribution from the designated Roth account is qualified or nonqualified, designated Roth account assets, when rolled over to Roth IRAs, fall within the contributory and earnings categories. It is the Roth IRA owner's responsibility to track these assets on Form 8606.

### *Qualified Roth Account Distribution*

If the designated Roth account distribution is a qualified distribution from the plan, the entire amount rolled over to the Roth IRA is treated as contributory assets in the Roth IRA.

### *Nonqualified Roth Account Distribution*

If the designated Roth account distribution from the plan is not qualified, the contributory assets that were rolled over are treated as contributory assets in the Roth IRA, and the earnings are treated as earnings in the Roth IRA. If an individual rolls over only a portion of a nonqualified distribution, the taxable portion (earnings) is deemed to be rolled over first.

### *Distributions After a Designated Roth Account Rollover*

For purposes of determining the five-year waiting period for a Roth IRA qualified distribution after a designated Roth account rollover, the following rules apply.

- If an individual already has a Roth IRA, the original Roth IRA five-year waiting period applies to the rolled over designated Roth assets.
- If an individual did not have a Roth IRA before the rollover, the five-year waiting period begins January 1 of the year the individual established the IRA with the rollover contribution. The plan's five-year period does not carry over.

**NOTE:** *Roth IRA owners are prohibited from rolling over Roth IRA assets (including those that originated in 401(k), 403(b), and governmental 457(b) plans) to employer-sponsored retirement plans.*



## Roth IRA Beneficiary Options

Roth IRA		
Spouse	Nonspouse	Nonperson
<ul style="list-style-type: none"> <li>• Five-year rule</li> <li>• Life expectancy payments</li> <li>• Lump sum</li> <li>• Transfer</li> <li>• Distribution and rollover</li> </ul>	<ul style="list-style-type: none"> <li>• Five-year rule</li> <li>• Life expectancy payments</li> <li>• Lump sum</li> </ul>	<ul style="list-style-type: none"> <li>• Five-year rule</li> <li>• Lump sum</li> </ul>

Roth IRA Beneficiary Distribution Options Summary	
<b>Spouse is Sole Designated Beneficiary</b>	<ul style="list-style-type: none"> <li>• Five-year rule</li> <li>• Life expectancy payments                             <ul style="list-style-type: none"> <li>– <b>Payments must begin</b> by the later of 12/31 of the year following the year of the IRA owner’s death or 12/31 of the year the IRA owner would have attained age 70½.</li> <li>– <b>The life expectancy for the first distribution year and for subsequent years’ payments</b> is determined using the spouse beneficiary’s single life expectancy, recalculated.</li> </ul> </li> <li>• Transfer decedent’s IRA to own IRA.</li> <li>• Distribute and roll over decedent’s IRA or to own IRA.</li> <li>• Lump sum</li> </ul>
<b>Spouse is Not Sole Designated Beneficiary</b>	<ul style="list-style-type: none"> <li>• Five-year rule</li> <li>• Life expectancy payments                             <ul style="list-style-type: none"> <li>– <b>Payments must begin</b> by 12/31 of the year following the year of the IRA owner’s death.</li> <li>– <b>The life expectancy used in the first distribution year</b> is the single life expectancy of each designated beneficiary (or oldest designated beneficiary if separate accounting does not apply) in the year following the year of the IRA owner’s death.</li> <li>– <b>Subsequent years’ payments</b> are determined using nonrecalculation.</li> </ul> </li> <li>• Spouse beneficiary may distribute and roll over decedent’s IRA or to own IRA.</li> <li>• Lump sum</li> </ul>
<b>Nonspouse Beneficiary</b>	<ul style="list-style-type: none"> <li>• Five-year rule</li> <li>• Life expectancy payments                             <ul style="list-style-type: none"> <li>– <b>Payments must begin</b> by 12/31 of the year following the year of the IRA owner’s death.</li> <li>– <b>The life expectancy used in the first distribution year</b> is the single life expectancy of each designated beneficiary (or oldest designated beneficiary if separate accounting does not apply) in the year following the year of the IRA owner’s death.</li> <li>– <b>Subsequent years’ payments</b> are determined using nonrecalculation.</li> </ul> </li> <li>• Lump sum</li> </ul>
<b>Nonperson Beneficiary (e.g., estates, entities, certain trusts)</b>	<ul style="list-style-type: none"> <li>• Five-year rule</li> <li>• Lump sum</li> </ul>

NOTE: Plan agreement language may modify distribution options available.

## Beneficiaries and the Five-Year Period

Roth IRA beneficiaries are awarded the acquired years in the five-year period from the deceased Roth IRA owner for purposes of the inherited Roth IRA assets. The five-year period is not redetermined when the Roth IRA owner dies. The Roth IRA beneficiary determines the applicable five-year period for her inherited Roth IRA separately from her own Roth IRAs. If, however, the beneficiary is a spouse who treats the Roth IRA as her own, the five-year period is satisfied at the earlier of

- the end of the five-year period for the decedent or
- the five-year period of the spouse's own Roth IRAs.



### *Example*

Rebecca Tomkins established her Roth IRA with a \$6,000 regular contribution in February 2010. Rebecca, age 57, died on July 9, 2019. Her son Francis, age 32, and her grandson, Jason, age 9, are the only Roth IRA beneficiaries.

Francis decides he and Jason will both take total distributions in September 2019. Because Rebecca satisfied the five-year waiting period and has a qualifying event (death), both Francis' and Jason's distributions are considered qualified. Consequently, Francis' and Jason's entire distribution is tax- and penalty-free.

### Form 1099-R

Financial organizations generally must enter the following distribution codes on Form 1099-R.

9898 <input type="checkbox"/> VOID <input type="checkbox"/> CORRECTED		PAYER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and phone no.		<b>1</b> Gross distribution \$ _____	OMB No. 1545-0119  <b>2019</b>  Form <b>1099-R</b>	<b>Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.</b>	
<b>2a</b> Taxable amount \$ _____		<b>2b</b> Taxable amount not determined <input type="checkbox"/>		Total distribution <input type="checkbox"/>		<b>Copy A For Internal Revenue Service Center</b>  <b>File with Form 1096.</b>	
PAYER'S TIN	RECIPIENT'S TIN	<b>3</b> Capital gain (included in box 2a) \$ _____	<b>4</b> Federal income tax withheld \$ _____	<b>For Privacy Act and Paperwork Reduction Act Notice, see the 2019 General Instructions for Certain Information Returns.</b>			
RECIPIENT'S name		<b>5</b> Employee contributions/ Designated Roth contributions or insurance premiums \$ _____	<b>6</b> Net unrealized appreciation in employer's securities \$ _____	For Privacy Act and Paperwork Reduction Act Notice, see the 2019 General Instructions for Certain Information Returns.			
Street address (including apt. no.)		<b>7</b> Distribution code(s)	IRA/SEP/SIMPLE <input type="checkbox"/>	<b>8</b> Other \$ _____ %	Total employee contributions		
City or town, state or province, country, and ZIP or foreign postal code		<b>9a</b> Your percentage of total distribution %	<b>9b</b> Total employee contributions \$ _____	Total employee contributions			
<b>10</b> Amount allocable to IRR within 5 years \$ _____	<b>11</b> 1st year of desig. Roth contrib.	FATCA filing requirement <input type="checkbox"/>	<b>12</b> State tax withheld \$ _____	<b>13</b> State/Payer's state no.	<b>14</b> State distribution \$ _____		
Account number (see instructions)		Date of payment	<b>15</b> Local tax withheld \$ _____	<b>16</b> Name of locality	<b>17</b> Local distribution \$ _____		
Form <b>1099-R</b> Cat. No. 14436Q <a href="http://www.irs.gov/Form1099R">www.irs.gov/Form1099R</a> Department of the Treasury - Internal Revenue Service							
<b>Do Not Cut or Separate Forms on This Page — Do Not Cut or Separate Forms on This Page</b>							

Roth IRA Distribution Codes	
<b>Code Q</b>	Use code Q for a Roth IRA distribution when the IRA administrator knows that the five-year waiting period for qualified distributions has been satisfied and the IRA owner has attained age 59½, has died, or is disabled.
<b>Code T</b>	Use code T for a Roth IRA distribution when the IRA administrator is uncertain whether the five-year waiting period has been satisfied but the IRA owner has attained age 59½, has died, or is disabled.
<b>Code J</b>	Use code J for a Roth IRA distribution if code Q or code T do not apply.

## Form 5498

Financial organizations must report the following information on Form 5498.

2019		OMB No. 1545-0747		IRA Contribution Information	
TRUSTEE'S or ISSUER'S name, street address, city or town, state or province, country, and ZIP or foreign postal code		1 IRA contributions (other than amounts in boxes 2-4, 8-10, 13a, and 14a)	\$	2 Rollover contributions	\$
TRUSTEE'S or ISSUER'S TIN		3 Roth IRA conversion amount	\$	4 Recharacterized contributions	\$
PARTICIPANT'S TIN		5 FMV of account	\$	6 Life insurance cost included in box 1	\$
PARTICIPANT'S name		7 IRA <input type="checkbox"/> SEP <input type="checkbox"/> SIMPLE <input type="checkbox"/> Roth IRA <input type="checkbox"/>		8 SEP contributions	\$
Street address (including apt. no.)		9 SIMPLE contributions	\$	10 Roth IRA contributions	\$
or town, state, province, country, and ZIP or foreign postal code		11 Check if RMD for 2020	<input type="checkbox"/>	12a RMD date	
Account number (see instructions)		12b RMD amount	\$	12c Code	
		13a Postponed/late contrib.	\$	13b Year	13c Code
		14a Repayments	\$	14b Code	
		15a FMV of certain specified assets	\$	15b Code(s)	

Form 5498 Cat. No. 500100 www.irs.gov/Form5498 Department of the Treasury - Internal Revenue Service

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**Copy A For Internal Revenue Service Center File with Form 1096.**

For Privacy Act and Paperwork Reduction Act Notice, see the 2019 General Instructions for Certain Information Returns.

## Exercise Answers

### *Roth Distribution*

Name: Mike Andros  
Age: 52  
Contribution history: \$3,500 regular – 2013  
\$2,000 regular – 2015  
\$115 Roth IRA earnings  
Date of distribution: April 22, 2019  
Reason for distribution: Disability

Is the distribution qualified or nonqualified? Why?

**Qualified – the five-year period is met and he has a qualified reason (disability).**

What are the tax and early distribution penalty tax implications for removing each type of contribution? Why?

Regular contributions:

**Regular contributions are tax- and penalty-free at any time, for any reason.**

Earnings:

**The earnings are tax- and penalty-free because Mike has a qualified distribution.**

Name: Sandi Farrell  
Age: 68  
Contribution history: \$4,500 regular – 2015  
\$6,500 regular – 2016  
\$450 Roth IRA earnings  
Date of distribution: July 22, 2019  
Reason for distribution: Vacation

Is the distribution qualified or nonqualified? Why?

**Nonqualified – Sandi has a penalty exception (age 59½ or older) but had not met the five-year period.**

What are the tax and early distribution penalty tax implications for removing each type of contribution? Why?

Regular contributions:

**Regular contributions are tax- and penalty-free at any time, for any reason.**

Earnings:

**The earnings are not subject to the early distribution penalty tax because Sandi has a penalty exception. They are subject to income taxes because Sandi has not met the five-year period.**

Name: Phil Lombardi  
Age: 39  
Contribution history: \$2,000 regular – 2014  
\$32,000 taxable conversion – 2015  
\$4,150 Roth IRA earnings  
Date of distribution: May 17, 2019  
Reason for distribution: Purchase a new car

Is the distribution qualified or nonqualified? Why?

**Nonqualified – Phil has met the five-year period, but does not have a qualified reason.**

What are the tax and early distribution penalty tax implications for removing each type of contribution? Why?

Regular contributions:

**Regular contributions are tax- and penalty-free at any time, for any reason.**

2015 conversion:

**The conversion assets are tax-free because the assets were taxed for the year of the conversion (2015). They are subject to a special application of the early distribution penalty tax because the assets were removed within five years of having been converted, and Phil does not have a penalty exception.**

Earnings:

**The earnings are subject to income tax and the early distribution penalty tax. Phil does not have a penalty exception, even though he has met the five-year period.**