



# 2023 Individual Retirement Accounts

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## Course Learning Objectives

- Discuss the rules governing eligibility and permitted contribution levels for traditional and Roth IRAs.
- Explain the tax treatment of contributions to and distributions from traditional and Roth IRAs.
- Describe the benefits of tax-deferred accumulation.
- Explain the rules concerning permitted IRA investments.

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## Course Learning Objectives

- Discuss traditional and Roth IRA distribution rules.
- Explain Coverdell Education Savings Account contribution and distribution rules and their tax implications.
- Discuss the contribution and distribution rules that apply to SEP IRAs and SIMPLE IRAs.

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## Chapter 1 – Traditional Individual Retirement Accounts

Individual retirement accounts were authorized by Congress as part of ERISA (1974) to allow workers who were not covered under employer-sponsored retirement plans to make tax-deductible contributions to their own retirement plan. Since the passage of ERISA, IRAs have been expanded.

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## Traditional Individual Retirement Accounts (cont.)

Although the modest eligibility requirements that must be met to contribute to a traditional IRA make the vast majority of individuals eligible, the tax deductibility of contributions made by active participants in an employer-sponsored retirement plan may be reduced or eliminated depending upon their federal tax filing status and adjusted gross income.

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## Learning Objectives

- Describe the general provisions and limits applicable to IRAs at the time of their introduction;
- Identify the enhancements made to the early IRA program that currently permit:
  - Spousal IRAs for unemployed spouses.
  - Active participants in employer-sponsored qualified plans to participate in IRAs.
  - Eligible individuals to participate in Roth IRAs that offer tax-free qualified distributions, and
  - Contributions to be made to Coverdell Education Savings Accounts.

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• **Background, Definition & Eligibility** Individual retirement accounts, initially authorized by Congress to enable individuals to make tax-deductible contributions to their personal retirement plan, have expanded to provide for:

- spousal benefits
- qualified plan participants
- non-deductible contributions to Roth IRAs
- education

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• **Secure Act (and SECURE Act 2.0) Distribution Changes**

- RMD age now 73 (75 in 2035)
- Qualified birth/adoption distributions of \$5k
- Inherited IRA before RMD—10 year distribution rule
- \$200k QLAC investment
- QLAC contribution limit of 25% eliminated

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• **Secure Act (and SECURE Act 2.0) Distribution Changes**

- Federally Declared Disaster Affected Persons**
- exempt from premature distribution tax penalty
- may be recognized over three year period
- may be repaid

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•Secure Act (and SECURE Act 2.0) Distribution Changes

**Additional exceptions to 72t Penalty**

- terminally ill
- federally declared disaster emergencies
- correcting excess contributions

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•Secure Act (and SECURE Act 2.0) Distribution Changes

- Affects charitable distributions from IRA Accounts
- Established statute of limitations for RMD distribution insufficiency
- Clarification of IRA disqualification for involvement in prohibited transactions

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•Minimum Distribution Age

- Traditional IRA age 72
- Further pushed back to age 73  
age 72 must not have been reached in 2022 or earlier
- 1<sup>st</sup> distribution may be delayed until 4/1 of year following.

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● Qualified Birth/Adoption Distributions (QBAD)

New exception to 10% penalty

Up to \$5k within 1 year of event occurrence

Adoption of child, (not yours or spouse's), under age 18 and incapable of self-support must be finalized

May be repaid at any time within 3 years of distribution

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● Balance Distribution within 10 Years

Option to *stretch* has ended for all except:

Eligible designated beneficiaries

spousal beneficiaries

disabled beneficiaries

chronically-ill beneficiaries

designated beneficiaries not more than 10 years younger than decedent

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● Qualifying Longevity Annuity Contract Rules Change

% allocation replaced by \$200k (indexed) limit

look back period of up to 90 days allowed

may be sold with spousal survival rights

may continue to make joint lifetime payments post divorce

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•Disaster Act IRA Distribution Changes

principal residence in qualified area

sustain economic loss due to disaster

includes distributions during certain period

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•Disaster Act IRA Distribution Changes-cont.

100k limit, less prior disaster distributions

exempt from 10% early distribution penalty

income spread over 3 years unless t.p. choses to include in 1 year.

Maybe repaid within 3 years, considered rollover

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•Premature Distribution Penalty for Emergency Distributions

penalty applies prior to age 59.5 unless-

unforeseeable or immediate financial needs

related to personal or family emergency expenses

one distribution per year of \$1k

maybe repaid within 3 years-no additional distributions allowed during 3 year period unless repayment has been made.

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●Premature Distribution Penalty for Terminally Ill Individuals

The SECURE Act 2.0 provides an exception to the 72t penalty for a terminally ill individual, as of date of enactment.

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●Premature Distribution Penalty-Correcting Excess Contributions

corrective distribution of contributions and earnings required

corrective distribution and earnings not subject to 10% penalty

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●Charitable Distributions from Individual Retirement Accounts

expanded to provide 1-time \$50k through CGAs, CRUTs and CRATs

\$100k distribution now indexed for inflation

CWA rules apply

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•Statute of Limitations on RMD Insufficiency and Excess Contribution Penalties

begins on date Form 5329 is filed

failure to file Form 5329-indefinite statute of limitations

now generally 3 years from filing of Form 1040 for insufficiency

now generally 6 years from filing of Form 1040 for excess contributions

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•Expansion of Employee Plans Compliance Resolution System

Employee Plans Compliance Resolution System (EPCRS)

allows more errors to be self-corrected

applies to inadvertent IRA errors

exempts certain failures to make RMD from excise tax

effective 1-1-2022

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•Traditional IRA Rules

personal retirement savings plan

permits tax deductible contributions

permits tax deferral of earnings

contribution may not be deductible

must begin distributions by certain age

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• **Earned Income**

Except for spousal IRAs, the only eligibility requirement to establish a traditional IRA is having earned income:

- Stipends and non-tuition fellowships
- Alimony – pre 2019
- Salary
- Fees
- Tips
- Bonus
- Commission

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• **Limits on Contributions**

The maximum annual IRA contribution applies to the aggregate contribution to both traditional and Roth IRAs and have been increased by the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA)

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• **Maximum Annual Contributions**

2023- \$6500 (2024- \$7,000)

2023-\$1000 for catch-up IRA contributions for individuals age 50 and over

limited to 100% of income

\*amounts indexed for inflation in \$500 increments

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• **Traditional IRA Tax Considerations—Contributions**

there is broad eligibility to make a traditional IRA contribution  
deductibility of a traditional IRA contribution may be reduced or eliminated for active participants in an employer-sponsored retirement plan, depending on their adjusted gross income and income tax filing status

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• **Tax Treatment of Contributions by Active Participants**

depends on Modified adjusted gross income (MAGI)—  
IRA deduction  
Student loan interest deduction  
DPAD deduction  
Foreign earned income and housing exclusions  
Excluded savings bond interest  
Exclusion of employer provided adoption benefits

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• **Saver's Credit**

additional incentive for lower-income individuals  
nonrefundable  
based on up to \$2k retirement contribution  
amount depends on AGI and filing status

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• Repeal of the Saver's Credit 1-1-27

replaced with REFUNDABLE match credit  
placed directly into a retirement plan  
other than Roth  
maximum match credit \$1000

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**Traditional IRA Tax Considerations—Accumulations**

value is based on:  
Contribution level  
Duration of accumulation  
Rate of return  
Tax-deductibility of contributions  
Tax deferral of earnings

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• Traditional IRA Tax Considerations—Rollovers

**Eligible Rollover Distributions**

qualified plan  
§ 403b plan  
IRA, SIMPLE, SEP  
§ 457 plan

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- Rollovers of Coronavirus-Related Distributions
  - allowed by Cares Act
  - redeposits treated as trustee-to-trustee transfers
  - redeposits may be one or more deposit within 3 years of distribution
  - avoids 1 rollover rule

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- Distributions Ineligible for Rollover
  - part of a series of substantially equal payments made for a specified period of 10 years or more
  - RMD
  - hardship distributions

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- Direct and Indirect Rollovers
  - Trustee to participant to trustee—indirect
  - Trustee-to-trustee--direct

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●Mandatory Withholding

20% from § 401(k), §457 or §403(b) other than RMD  
withholding considered early distribution  
subject to taxation and early withdrawal penalties

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●Avoiding Rollover Withholding

trustee-to-trustee  
no early distribution  
no penalty

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●Indirect Rollovers Subject to Timing and Frequency Limitations

Rollover may be done once in one-year period  
Must be completed within 60 days of distribution

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●EGTRRA Permits Rollover of After-Tax Contributions

made from qualified plan to:

Traditional IRA

Defined contribution plan—if after-tax contributions accounted for and done trustee to trustee

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●Distribution laws designed to encourage retirement savings

discourage early distributions

require that distribution begin by a certain age

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●Premature Distributions—Avoiding Tax Penalty

Made at death

Attributable to disability

Medical care to the current medical expense deduction

Payment of health insurance premiums by unemployed

Payment of qualified higher education expenses

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●Premature Distributions—Avoiding Tax Penalty-cont.

"First-time homebuyer distributions" up to \$10k  
Series of substantially equal periodic payments  
Qualified birth/adoption distributions  
Coronavirus related made in 2020

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●Required Distributions during Owner's Lifetime--IRA

must be taken by age 73 (75 starting in 2035)  
may be delayed until 4-1 of year following

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●Required Distributions during Owner's Lifetime—Employer Plan

must be taken by age 73 (75) or  
may be delayed until 4-1 of year following age 73 (75) or  
retirement—whichever, is later  
Plan document governs

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•Required Minimum Distribution Amount

value over life expectancy

failure to take distribution penalty now 25%

10% if corrected within 2 years

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•Required Distributions at Owner's Death

Death **before** an Owner's RMD date-pre 2020

beneficiary's life expectancy, or

5 year rule

spouse option to treat as own  
Or create inherited IRA

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•Required Distributions at Owner's Death

Death **after** an Owner's RMD date-pre 2020

beneficiary's life expectancy  
RMDs required

spouse option to treat as own  
Or create inherited IRA

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•Required Distributions at Owner's Death

Death *before* an Owner's RMD date-post 2019

5 year rule replaced by 10 year rule

Account fully liquidated by end of 10<sup>th</sup> year following death

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•Required Distributions at Owner's Death

Death *after* an Owner's RMD date-post 2019

IRS Proposed Regulations -February 2022

clarify 10 year rule

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•Required Distributions at Owner's Death

Death *after* an Owner's RMD date-post 2019

10 year rule

RMDs required

created confusion

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●Required Distributions at Owner's Death

IRS Notice 2022-53

proposed regs would take effect for 2023

lack of distributions in 2021 and 2022 not "insufficient"

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●Eligible Designated Beneficiaries Not Limited to 10 Year Rule

Spousal beneficiaries

Beneficiaries not more than 10 years younger than decedent

Disabled and chronically-ill beneficiaries

Minor children of the deceased *during their minority*

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●Eligible Designated Beneficiaries Not Limited to 10 Year Rule

Spousal beneficiaries

treat as own or

over lifetime beginning immediately following year of IRA owner's death or

over lifetime beginning in year decedent would be required to take RMD

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●SECURE Act 2.0-Surviving Spouse Beneficiaries

1-1-24 new option

treat themselves as if decedent for RMD rules

uniform life tables would be used

beneficiary of 2<sup>nd</sup> to die could "stretch"

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●Revised Life Expectancy—Beneficiaries RMD Transition Rules

Beneficiaries receiving distributions under life expectancy prior to 2022

allowed 1 time reset to allow for smaller RMDs

non-spousal beneficiaries

no beneficiary, RMDs over decedent's life

IRA owner younger than beneficiary died after RMD

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●CHAPTER 2—Roth IRAs

TRA 1997 created Roth

fundamental provisions and requirements identical to traditional IRAs

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**•Definition & Eligibility**

- No deductibility of Roth IRA Contributions
- Possible tax-free earnings distribution of accumulations
- Eligibility is limited based on MAGI
- No required minimum distribution

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**•Limits on Contributions**

- \$6500 (\$7000 - 2024)
- \$1000 catch up over age 50
- 100% of compensation
- based on filing status and MAGI

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**•Roth IRA Tax Considerations**

- not deductible
- earnings grow deferred

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● **Qualified Distributions Tax-Free**

- 5 taxable year rule
- age 59.5
- qualified homebuyer
- disability
- beneficiary after death

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● **Non-Qualified Distributions Receive FIFO Tax Treatment**

- contributions are distributed first
- all contributions could be distributed
- penalty applies to earnings only
- penalty exemptions same as traditional IRA

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● **Roth IRA Conversions & Transfers**

- conversion from traditional to Roth allowed regardless of AGI
- subject to taxes, but not penalties

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•Section 529 Rollovers to Roth IRAs

Secure Act 2.0 authorizes rollover from §529  
tax and penalty free  
§529 must be maintained 15 years  
limited to lesser of \$35k or amount contributed in prior 5 years  
subject to Roth limits

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•Roth IRA Death Benefit Distributions—Death Before 2020

Life expectancy rule  
5 year rule

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•Roth IRA Owner's Death Occurring After 2019

10 year rule  
same as traditional IRA rules when decedent passed prior to RMD age  
SECURE 2.0 rules for spouse same as traditional

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•Chapter 3-Individual Retirement Account Funding

Trust or Custodial Account IRA Funding

- Mutual funds
- Certificates of deposit & other savings vehicles
- Stocks
- Bonds
- Certain gold and silver coins

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•Prohibited Investments

- Life insurance
- Collectibles, antiques, artwork

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•Using Annuities to Fund IRAs

advised when *non-tax benefits* desired

- #1: Annuity Death Benefit
- #2: Annuity Life Income

Secure Act 2.0 annuities can be offered without breaking RMD rules

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•Variable Annuity Suitability Requirements

consider specific customer  
inform customer of variable annuity rules  
customer should benefit  
customer is suitable  
deferred annuity exchange costs information

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•SEC Rules

Regulation Best Interest  
Effect of Regulation Best Interest  
Annuity Sales & Best Interest Obligation

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•Chapter 4-Education IRA's (Coverdell ESAs)

Definition and Eligibility  
Limits on Contributions  
Tax Considerations

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•Chapter 5-Simplified Employee Pension IRAs

New Plan Startup Cost Tax Credit

Contributions

Distributions

SEP Rollovers

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•Chapter 6- Simple IRAs

Definition and Eligibility

Contributions

Distributions

Rollovers

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**Questions**

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