7 Things Your IRA Custodian Won't Tell You

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It is important to know what your IRA custodian will tell you and what they will not or cannot tell you. The I in IRA stands for individual and many times it is up to the individual to know things or keep track of them.

1. 60-Day Rollovers – An IRA custodian will not remind you that an individual can only do one 60-day IRA-to-IRA or Roth IRA-to-Roth IRA rollover in a 12-month period. They may not even tell you that you have 60 days to complete a rollover. IRS has ruled that while a custodian might be held liable for erroneous information, they have no obligation to give the individual any information on rollovers. A distribution that is eligible for rollover is one where the check from the IRA or Roth IRA custodian is made payable to the account owner who then has 60 days to recontribute the funds to either the same or a different IRA/Roth IRA. This type of transaction can only be done once in a 12-month period. IRAs and Roth IRAs are aggregated for the once-per-year rule.

2. Non-Spouse Beneficiary Cannot Roll Over – An IRA custodian is not required to tell a beneficiary that a check made payable to that beneficiary is a totally taxable distribution from the inherited IRA. A non-spouse beneficiary cannot do a 60-day rollover. That is the way Congress wrote the law and IRS does not have the authority to allow a non-spouse beneficiary to undo this transaction. While a distribution from an inherited Roth IRA may not be taxable, it also cannot be rolled over to another inherited Roth IRA. In either case, the IRA/Roth IRA is gone.

3. Inherited RMDs – IRA custodians are not required to notify beneficiaries of their required minimum distribution (RMD) or to calculate the RMD for a beneficiary. Beneficiaries – you are on your own! All non-spouse beneficiaries have an RMD beginning the year after the death of the account owner, regardless of their age. The RMD requirements are the same for inherited Roth IRAs. (The rules are different for spouse beneficiaries.)

4. QCD – A qualified charitable distribution is an option available to IRA owners age 70 ½ or older. They can have funds sent directly from their IRA to a qualifying charity. The distribution can satisfy their RMD and a QCD is capped at $100,000 per person, per year. The QCD does not count in the IRA owner's

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income. But, the IRA custodian is required to report the QCD as a normal distribution. The IRA owner must remember to tell their tax preparer of the QCD so they can report it correctly on the tax return. The amount of the 1099-R gets included on line 15a of Form 1040. On line 15b only taxable amounts are reported and the notation QCD goes on that line to tell IRS of the QCD transfer.

5. Early Distribution Penalty Exception – You took an early distribution from your IRA but you will qualify for one of the 10% early distribution penalty exceptions. You tell your IRA custodian this before you take the distribution. The IRA custodian is not responsible for determining whether or not you qualify for an exception to the penalty. They are going to code the 1099-R as an early distribution, no known exception. You tell IRS about your exception by filing Form 5329 with your tax return.

6. 5-Year Holding Periods for Roth IRAs – It is up to the Roth IRA owner to track their 5-year holding periods. There is a simple reason behind this. An individual can have multiple Roth accounts with multiple Roth custodians. There is no way one custodian could know about accounts with another custodian.

It is up to the Roth IRA owner to know when they established their first Roth IRA and thus when the 5-year holding period requirement is satisfied for a qualified Roth IRA distribution. It is also up to individuals under age 59 ½ to know when the 5-year holding period for each Roth conversion that they have done is up which enables them to take penalty-free distributions from their Roth accounts. This tracking can be done by tax preparers if the Roth IRA owner gives the necessary information to the preparer and he or she inputs this information into their tax software.

7. After-Tax Amounts in an IRA – For the same reasons noted above, an IRA owner is responsible for tracking after-tax amounts in their IRAs. The tracking is done on Form 8606 which is filed with the IRA owner's tax return. It is required to be filed in any year that the IRA owner makes an after-tax contribution and in any year when a distribution is taken from any IRA. The form will do the pro-rata calculation for the IRA distributions.

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