

MEMO# 13421

April 17, 2001

INSTITUTE COMMENT LETTER ON IRS PROPOSED REGULATIONS ON REQUIRED MINIMUM DISTRIBUTIONS

[13421] April 17, 2001 TO: PENSION MEMBERS No. 19-01 PENSION OPERATIONS ADVISORY COMMITTEE No. 31-01 AD HOC COMMITTEE ON RMD REFORM RE: INSTITUTE COMMENT LETTER ON IRS PROPOSED REGULATIONS ON REQUIRED MINIMUM DISTRIBUTIONS Attached is a copy of the Institute's comment letter on the Internal Revenue Service's proposed regulations on required minimum distributions.¹ The letter is divided into three sections – IRA reporting requirements, transition issues and additional issues needing clarification. In the IRA reporting requirements section, we recommend that the Service adopt an alternative approach to the new reporting requirement contained in the proposed regulations. The letter discusses the problems that IRA trustees would face in reporting annual RMD amounts to their shareholders. We included a discussion of seven scenarios where an IRA trustee would lack the information necessary to report an accurate RMD amount in Appendix A. In particular, the letter expresses concern that a reporting requirement that results in the reporting of inaccurate tax information could severely undermine taxpayer confidence in the tax reporting system and the trust that mutual fund shareholders place in the financial institutions managing their retirement assets. We recommend that the Service consider two alternative reporting approaches. Under the first alternative, IRA trustees would be required to provide taxpayers aged 70 ½ and older and beneficiaries with information designed to notify them of the RMD rules and how to calculate RMD amounts. We also recommend that IRA trustees be required to provide the Service with date of birth information for all of their IRA owners to enable the Service to determine who is subject to the RMD rules. We suggest that the IRS develop RMD “calculators” or worksheets to help taxpayers subject to the RMD rules calculate their annual RMDs. Appendix B of the letter includes a sample RMD worksheet. Under the second alternative to the proposed reporting requirement, the Service would add date of birth information to the Form 1040, and include a worksheet to help the taxpayer calculate his RMD for the year. ¹ See Institute Memoranda to Pension Members No. 2-01 and Pension Operations Advisory Committee No. 3-01, dated January 17, 2001. ² The letter also addresses several “transition issues” that concern the operation of the regulations during the period of time between the effective date of the proposed regulations and when the rules are finalized. We request that the Service issue guidance on these issues as soon as practicable. These transition issues include (1) how beneficiaries currently in pay status elect into the new rules; (2) the effect of the model amendment on distributions made prior to the date of adoption; (3) the effect of the model amendment on prototype plans; and, (4) the effect of section 411(d)(6) on the proposed regulations. Finally, the letter addresses additional issues needing clarification including questions regarding (1) individuals currently

taking distributions under the 1987 proposed regulations; (2) RMD calculations; (3) rollovers and transfers; and (4) other miscellaneous issues. For each, we identify the issue and make a specific recommendation. Kathryn A. Ricard Associate Counsel Attachment Note: Not all recipients receive the attachment. To obtain a copy of the attachment to which this memo refers, please call the ICI Library at (202) 326-8304 and request the attachment for memo 13421. ICI Members may retrieve this memo and its attachment from ICINet (<http://members.ici.org>). Attachment (in .pdf format)

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