

MEMO# 9675

February 12, 1998

IRS RELEASES FORM 1099-R AND FORM 5498 FOR 1998

[9675] February 12, 1998 TO: PENSION MEMBERS No. 11-98 PENSION OPERATIONS ADVISORY COMMITTEE No. 4-98 OPERATIONS MEMBERS No. 5-98 TRANSFER AGENT ADVISORY COMMITTEE No. 7-98 RE: IRS RELEASES FORM 1099-R AND FORM 5498 FOR 1998 _____ The

Internal Revenue Service recently released Form 1099-R, Distributions from Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc. and Form 5498, IRA Contribution Information, for 1998. These IRS forms have been updated to include information applicable to Roth IRAs and Education IRAs. The instructions for Form 1099-R state that for distributions from Roth IRAs and Education IRAs, the financial institution is not required to compute the taxable amount. The taxpayer is responsible for computing the taxable amount on such a distribution. The instructions refer the taxpayer to the instructions accompanying Form 1040 or 1040A regarding computing any applicable taxable amount on a distribution from a Roth or Education IRA. In addition, the instructions state that taxpayers who convert a traditional IRA into a Roth IRA in 1998 must include one-fourth of the taxable amount in income for a period of four years (1998 through 2001). Taxpayers are referred to Form 8606 in order to calculate the taxable amount on such a conversion. Form 1099-R includes new distribution codes with respect to Roth and Education IRAs. Code J represents a distribution from a Roth IRA in the first 5 years. Code K represents a distribution from a 1998 Roth conversion IRA during the first 5 years. Code M represents a distribution from an Education IRA. Form 5498 includes new boxes specifically for the Roth IRA and Education IRA. Box 3 indicates the amount converted from a traditional IRA or SEP to a Roth IRA in 1998. The instructions remind taxpayers that they must include one-fourth of the taxable amount in income each year for four years (1998 through 2001). Box 6 includes separate check-off boxes for the Roth IRA, Roth conversion and Education IRA. Box 9 indicates the amount of Roth IRA contributions made in 1998 and through April 15, 1999 for the 1998 calendar year. Box 10 indicates the amount of Education IRA contributions made in 1998 on the taxpayer's behalf. The instructions state that if the total amount of contributions made to all of the taxpayer's Education IRAs exceed \$500 for 1998, the taxpayer should withdraw the excess plus earnings generally by April 15, 1999. If the excess is not withdrawn in a timely manner, the instructions indicate that the taxpayer may owe a penalty. - 2 - Financial institutions must furnish Copy B of Form 5498 to the participant who has an Education IRA by February 1, 1999. Financial institutions must furnish participants in all other types of accounts with Copy B of Form 5498 by June 1, 1999. Copies of Form 1099-R and Form 5498, with applicable instructions, are attached. Kathryn A. Ricard Assistant Counsel Attachment

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