



Tax Treatment of Individual Retirement Arrangements

Course Instructions

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Instructions to Participants

To assist the participant with navigating the learning process through to successful completion, this course has been produced with the following elements:

Overview of Topics / Table of Contents: In this electronic format you'll find a slide menu on the left side of the screen. This serves as your overview of topics for the program. You may navigate to any topic by clicking on the slide name.

Definition of Key Terms / Glossary: You'll find key terms defined for this program in the course information on the following page(s).

Index / Key Word Search: You can find information quickly in the PDF materials (slide handout plus any additional handouts) by using the search function built into your Adobe Reader.

Review Questions: Questions that test your understanding of the material are placed throughout the course. You'll see explanatory feedback pop up for each incorrect answer, and reinforcement feedback for the correct answer for every review question.

Final Exam: The final exam measures if you have gained the knowledge, skills, or abilities outlined in the learning objectives. You may submit your final exam at the end of the course. Exams are graded instantly. A minimum score of 70% is required to receive the certificate of completion. **You have one year from date of purchase to complete the course.**

Course Evaluation: Once you have successfully passed your online exam, please complete our online course evaluation. Your feedback helps Wolters Kluwer maintain its high quality standards!

About This Course

This section provides information that is important for understanding the course, such as course level and prerequisites. Please consider this information when filling out your evaluation after completing the course.

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Course Description

Find out what you need to know about the tax treatment rules concerning contributions to and distributions from traditional and Roth IRAs and how to apply them.

Learning Objectives

Upon successful completion of this course, participants should be able to:

- Differentiate between the types of qualified employee plans
- Recognize the limits imposed on qualified employee plan contributions and benefits
- Describe and list the requirements applicable to qualified employee plan loans
- Recognize and apply the federal tax laws to qualified employee plan contributions and distributions
- Recognize the tax treatment of nonqualified annuity distributions
- Identify the tax treatment of annuity contributions and distributions

NASBA Field of Study

Taxes. Some state boards may count credits under different categories—check with your state board for more information.

Course Level

Basic. Program knowledge level most beneficial to CPAs new to a skill or an attribute. These individuals are often at the staff or entry level in organizations, although such programs may also benefit a seasoned professional with limited exposure to the area.

Prerequisites

None

Advance Preparation

None

Course Expiration

AICPA and NASBA Standards require all Self-Study courses to be completed and the final exam submitted within 1 year from the date of purchase as shown on your invoice. No extensions are allowed under AICPA/NASBA rules.

Key Terms

- **Accumulation period:** The period between the time that a deferred annuity is purchased and the annuity starting date is the accumulation period.
- **Age-based profit sharing plan:** Age-based profit sharing plan An age-based profit sharing plan is a profit sharing plan that uses age and compensation as a basis for allocating employer contributions among plan participants.
- **Annuitization period:** The annuitization period in a deferred annuity is the period beginning on the annuity starting date during which periodic payments are received.
- **Annuity starting date:** The future date on which periodic income payments are scheduled to begin under a deferred annuity is known as the annuity starting date.
- **Catch-up provisions:** Catch-up provisions permit increased contributions by age 50 and older participants in 401(k) and 403(b) plan in addition to the otherwise applicable dollar limit on elective deferrals.
- **Deferred annuity:** A deferred annuity is an annuity under which periodic income payments are deferred to, i.e. delayed until, some date in the future. That future date on which periodic income payments are scheduled to begin is known as the annuity starting date.
- **Defined benefit plan:** A qualified employee plan that is designed to provide participants with a definite benefit at retirement.
- **Defined benefit/401(k) hybrid pl:** Under a defined benefit/401(k) hybrid plan, the sponsoring employer guarantees the benefit at retirement under the defined benefit portion of the plan. In addition to the defined benefit, however, the plan participant may increase his or her retirement savings through elective deferrals made to the 401(k) part of the plan.
- **Defined contribution plan:** Defined contribution plan A defined contribution plan is a retirement plan that provides for an individual account for each participant and for benefits based solely on the amount contributed to the participant's account and any other gains and losses allocated to the account.
- **Designated Roth account:** An account to which 401(k) and 403(b) plan participants may allocate elective deferrals. Amounts allocated to a designated Roth account are made with after-tax funds, and qualified distributions from such funds are tax-free.
- **Direct rollover:** A direct rollover is a transfer of a distribution from a qualified plan, IRA, 403(b) plan or §457 governmental plan made from the trustee of the distributing plan to the trustee of the recipient plan.
- **Early distribution:** An early distribution is a distribution from a qualified plan or annuity before age 59 ½ which is subject to a premature distribution tax penalty equal to 10% of the amount of the distribution the participant must include in income unless an exception applies.
- **401(k) plan:** A 401(k) plan is a qualified profit sharing or stock bonus plan that offers participants an election to receive company contributions in cash or to have these amounts contributed to the plan.
- **Immediate annuity:** Immediate annuity An immediate annuity is an annuity in which the first periodic income payment is due one income payment interval after the date that the annuity was purchased.
- **Indirect rollover:** An indirect rollover is a transfer of a distribution from a qualified plan, IRA, 403(b) plan or §457 governmental plan under which the plan participant

receives the distribution and rolls the distribution over to a recipient plan within 60 days of receipt.

- **Life annuity:** A life annuity is an annuity under which periodic payments continue for the life of an annuitant or annuitants.
- **Lump-sum plan distributions:** Lump-sum plan distributions A distribution from a qualified employee plan is a lump sum distribution if it meets all of the following conditions: 1. It is made in one taxable year; 2. It consists of the entire plan balance to the credit of an employee; and 3. It is payable on account of the employee's death, after the employee attained age 59 ½, or on account of the employee's separation from service.
- **Nonqualified annuity:** A nonqualified annuity is an annuity that is purchased outside of a qualified plan or individual retirement account.
- **Periodic payments:** Recurring payments received as a pension or annuity.
- **Profit sharing plan:** A profit sharing plan is a defined contribution plan to which the sponsoring employer agrees to make substantial and recurring contributions.
- **Qualified annuity:** A qualified annuity is an annuity that is included in a qualified plan or individual retirement account.
- **Qualified retirement plan:** The term "qualified retirement plan" generally encompasses a range of qualified employee plans that include an employer's stock bonus, pension and profit sharing plan that meet specific Internal Revenue Code requirements. Among other requirements, such a plan must:
 - Be established by an employer for the exclusive benefit of employees or beneficiaries;
 - Be nondiscriminatory in terms of contributions or benefits;
 - Meet minimum age, service standard, vesting and minimum coverage requirements; and
 - Contain various other provisions designed to provide fairness and a certain measure of safety for plan participants.
- **Qualified Roth account distribut:** A qualified distribution from a Roth account is a distribution that is made after a five taxable-year period beginning with the first taxable year for which the individual made a contribution to a Roth account and which is:
 - Made on or after the participant's age 59½;
 - Attributable to the participant's disability; or
 - Made following the participant's death.
- **Required minimum distributions:** Distributions from tax-advantaged plans, such as IRAs and 401(k) plans, generally required when the participant reaches age 72. (In some cases, RMDs may be deferred until the participant retires.)
- **Rollover:** A rollover is a transfer of a distribution from a qualified plan, IRA, 403(b) plan or §457 governmental plan pursuant to which the transferred funds avoid inclusion in income until subsequently distributed.
- **SIMPLE plan:** A savings incentive match plan for employees (SIMPLE) is a simplified retirement plan for small businesses that allows employees to make elective contributions and requires employers to make matching or nonelective contributions.
- **Simplified employee pension: (SEP)-** A simplified employee pension is an individual retirement account established for an employee to which the employer makes direct tax-deductible contributions.
- **Target benefit plan:** A target benefit plan is a hybrid between a defined benefit plan and a money purchase pension plan in which the plan is established similar to a defined benefit plan and funded like a defined contribution plan.
- **Tax sheltered annuity plan – 4:** A tax sheltered annuity is a special type of deferred

compensation arrangement, similar to a 401(k) plan, available only to employees of tax-exempt organizations and public educational systems.