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TAX REPORT

JULY 2025 VOLUME 38, ISSUE 6

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EXECUTIVE SUMMARY

PART 1. INDIVIDUALS

Individual Retirement Accounts (IRAs) are one of the tools for tax-advantaged retirement savings, but their rules are complex and frequently updated. From understanding the distinction between rollovers and trustee-to-trustee transfers to navigating contribution deadlines, RMD requirements, and strategic planning opportunities like Qualified Charitable Distributions (QCDs) and 529-to-Roth conversions—advisors and tax professionals must be equipped with both foundational knowledge and current regulatory guidance. *[Running time: 1:32:08]*

Learning Objective:

Upon completion of this segment, the user should be able to:

- Understand the rules governing IRA contributions, transfers, and deadlines.
- Apply tax rules and compliance requirements to IRA distributions and reporting.
- Analyze special IRA planning strategies, including 529 conversions, QCDs, and self-directed investments.

PART 2. PARTNERSHIPS

In this video, Ian Redpath explores the tax treatment of partnership distributions and the impact of a Section 754 election. He clarifies the difference between guaranteed payments and true distributions, explains the basis ordering rules, and breaks down the adjustments required under Section 734(b). You'll also gain insight into how "hot assets" affect disproportionate distributions and what practitioners need to know about compliance and reporting. *[Running time: 52:56]*

Learning Objective:

Upon completion of this segment, the user should be able to:

- Distinguish the tax treatment of various partnership distributions, including when they result in ordinary income, capital gain, or deductible loss.
- Apply the ordering rules and basis limitations that govern how distributions affect a partner's outside basis.
- Explain the impact of a Section 754 election, including required basis adjustments under Section 734(b), and recognize the role of hot assets and pre-contribution property.

ABOUT THE SPEAKERS

Rick E. Oelerich, LPA, EA, is the principal of a firm serving over 3,500 individual and business clients. As a specialist in IRS disputes, he has testified before the IRS Oversight Board and House Ways and Means Committee. Rick also served three years each on (IRSAC) IRS Advisory Committee, (ETAAC) Electronic Tax Administration Advisory Committee and served as a subject matter expert for (ACAT) Accreditation Council for Accounting and Taxation. 2024 will be his 21st year as a presenter for Gear Up seminars and 13th year as a webinar presenter for Checkpoint Learning. Rick has been a licensed LPA in Iowa since 1983 and has been an Enrolled Agent since 1975.

Ian J. Redpath, JD, LLM, is a nationally recognized tax attorney and consultant from Buffalo, New York, and is a principal in the Redpath Law Office. Mr. Redpath has published numerous articles on contemporary tax issues and co-authored several books on tax topics. He has extensive national and international experience developing, writing, and presenting professional CPE programs. In addition to his active tax practice, he serves as Chairman of the Department of Accounting, Director of Graduate Accounting Programs, and Professor of Taxation and Forensic Accounting at Canisius College in Buffalo.

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Learning Objectives (Refer to executive summary)	
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Instructional delivery method	Group Live
Recommended CPE credit	3.0 Credits
Recommended field of study(ies) (Refer to executive summary)	
Program Level	Update
Prerequisites (Circle One)	• Basic Accounting and Auditing professional experience
	• Basic Tax professional experience
	• Basic Governmental professional experience
Advance preparation	None required
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EXPERT ANALYSIS AND COMMENTARY

PART 1. INDIVIDUALS

IRAs: The Complexities and Benefits

IRAs offer powerful retirement savings opportunities—but with complex rules that require careful attention. In this video, Rick Oelerich, covers key topics such as contribution limits, transfer methods, RMD rules, and planning strategies like QCDs and 529-to-Roth conversions.

Let's join Rick.

Mr. Rick Oelerich

Welcome everybody. I'm glad you could join us today for this particular presentation. It's one of my favorite subjects, actually, because Congress created the Individual Retirement Account to make things easy for individual taxpayers, and unfortunately, it really hasn't quite turned out that way.

Okay. The basics, you know, the components, the trust or custodial agreement. Everyone has one. If you've got a client who doesn't have one, and we're going to talk a little bit later about self-directed IRAs, and for some reason taxpayers think that self-directed means that I get to do anything that I want, and that's certainly not the truth. And what we're really looking at is a taxpayer who gets to make some investment decisions in concert with the custodian or the trustee of that particular situation. They have to be qualified. Okay, that's a corporate trustee. That's one of the requirements here as well. And just the one real watchword is it's never going to be an individual, if you hear that.

A good friend of mine, she talked to me one time about some warning signs that she saw from her client and the individual who was in fact the custodian and they really weren't qualified and the whole thing blew up and really was a scam to steal the taxpayer's money from this particular account as well.

Sometimes you'll run into older accounts that may have some issues associated with them such as the naming of successor beneficiary moving the IRA around, limitations on the 5-year, 10-year distribution options of what might happen there. You know, elections and multiple beneficiaries if we divided, split trust agreements, you don't see those quite as much anymore but certainly be cautious. If you've got a client who's got an older IRA agreement of one kind or another, it certainly would behoove them to get that updated.

Most, most custodians, trustees do in fact update the agreement when new rules come out, but not all of them. So, I'm just cautioning you to be somewhat careful and observant and turn on your Spidey sense in that regards to paying attention to exactly what's going on here, you know, one way or the other.

Okay. Working with qualified trustees, you know, of one kind or another, that's really what we're looking for. You know, that's really what we're looking for. You know, and certainly when we're dealing with rollovers, that's an important part of the situation, also, that we got that one rollover between, in a 365-day period; however, please remember that doesn't necessarily mean that you're stuck with that particular account because what am I saying? Yeah, is that a trustee-to-trustee transfer is not a rollover.

So, again, a rollover means that the taxpayer kind of got the check or something of that nature, and there was, my client presented with me the other day, is that it just plain simply didn't work to go trustee-to-trustee. So, the IRA sent her a check, made out to her. And what did she do? She promptly took and wrote another check to the new account, and that was, in fact, a rollover. So, it's important that we do, in fact, understand exactly what we have here, one way or the other.

The funding date issues. That always comes up a little bit, and people think somehow because I extended my tax return, I extended the date and that really doesn't happen. Code Section 408 is the determinant statutory wrapper around the operation of an IRA, but included in Section 408 are such things as SEP IRAs. You'll hear them oftentimes called that and where that extension of the tax return does in fact extend the due date for making contributions, but the regular and the Roth IRAs just plain simply must be funded by the due date of the return without extension.

However, the other part that gets confusing for some folks, take a look if you would please at my second bullet, “Corrections.” It's not infrequent that we do in fact pick up a client's work and we're looking at situations, and where they put the money initially is not where they really can have it, should have it or would want to have it for the particular tax year in question.

We'll take a look at that. The corrections can occur, when” All the way up to the extended due date. In most cases, that's going to be October 15th. So, I can change without penalty, without problem, moving money from Point A to Point B including the earnings are in fact can happen from my regular to my Roth. I thought I wasn't going to be eligible but there I go. Oops, I put it in the Roth, and I changed my mind I want the tax deduction I'm eligible for, it or just plain simply I wasn't eligible for a Roth IRA I can move it into the regular IRA or I've got an issue of excess contributions. All those can in fact happen up to the extended due date of the tax return. So, that's an important concept to keep here in mind, also.

Okay. The amount is $7,000/$1,000. That's a, that’s a newer number at this point in time because we actually had an inflation adjustment. So, keep your eyes peeled for that this year. We got to have earned income, but the nice thing about IRAs, and that was one of the intents of Congress, to allow a couple to use each other's income. So, always remember that we have spousal exceptions, and we'll kind of discuss that just a little bit as well.

The Roth IRA, to make a contribution to a Roth IRA means that the taxpayer must, what? They must meet certain MAGI thresholds to be eligible to fund the Roth IRA; however, they can in fact make conversions, and that's why you see the use of the backdoor Roth IRA that we'll talk about a little bit here, you know, as well.

Now, for many years, for those of you that may have been around or understood some things about IRAs in general, one of the things that we would oftentimes talk about is that the regular IRA was, what? A dead horse. It was a dead horse after what? Yeah. I got to a particular age. That's been completely removed. That was removed by the Secure Act of 2019, and of course, we're going to look at a unified limit as we look at regular IRAs and Roth IRAs because they're all underneath that $7,000/$1,000 restriction here, you know, one way or the other.

One of the other things that I see is taxpayers hear this number, and I'm going to show you some MAGI numbers and some restrictions in regards to some things here, and then they get confused. They think that they can't fund a regular IRA. Well, that means they can't make a tax-deductible contribution, but somebody who's below the threshold can still make the decision to make a non-deductible contribution simply by completing Form 8606. And we'll look at that also here to try to bring some understanding and some completeness to that situation here as well.

You know, all earnings are tax deferred until withdrawal. That's the beauty of this situation. And then we got this magical age for the most part. There's some exceptions that are contained in 72(t), but mostly distributions are going to be subject to some kind of penalty if they do in fact occur before age 59½. You know, so there's some of the basic ideas that you might want to face yourself around, okay.

The Roth IRA, and there's a lot of interest today, a lot of conversation. You know, many, many, many years ago, and I'm an old guy. You take a look at my bio and you're going to see, I've been doing this for 50 years-plus at this particular juncture, and almost everybody, investment advisors, accountants, were all speaking the drumbeat of tax deferral and getting the tax deduction for this, and therefore, the regular IRA was the big winner and we wanted to get as much in there on a tax-deferred basis as possible.

In today's world, that's much less so the case. I think we understand a little bit better is that the Roth IRA, the deduction is the lower value of the entire process of a retirement contribution for many people. And what really is the answer is about is that ability to earn money on perhaps a future completely non-taxable situation, and that's going to be the advantage of that particular situation.

And then understanding in the Roth IRA world, we got qualified distribution. To be a qualified distribution and that the distribution to be completely tax free and not a lot of head scratching about, just take a look. After age 59½ and the taxpayers had a Roth plan in place for a period of 5 years. There's that 5-year rule.

Now, I'm going to caution you a little bit because we're going to talk about a multitude of 5-year rules today, and that's one of the other problems that taxpayers, you know, oftentimes will run into is they just plain simply don't understand how to apply these differing 5-year rules of one kind or another and for those of us who are tax professionals, that's one of those things that we need to have a solid grasp about that as well, okay.

But if my distribution doesn't qualify, isn't a qualified distribution, you know, then it's a non-qualified distribution, non-qualified, and I'm going to be dealing with the bits and pieces of that particular distribution because I'm going to have return of principal. I'm going to have earnings, you know, of one kind or another, and to what extent, you know, obviously contributions to a Roth IRA are never taxable because we never got a tax deduction and we get to take them out first if we want to. So that's one of the other advantages of the Roth IRA that we might see situations here as well.

Okay. To understand the components of a non-qualified distribution. A, I've made the recognition. I've made the recognition that it's a non-qualified. Why? Well, we just looked at that. What? It was either after age 59½ or the taxpayer didn't have a Roth plan in place for 5 years or more.

And always remember, please, the Roth plan in place doesn't mean that account. My, an example, I started Roth accounts for my children the first time that they got a job and I put 500 bucks in each one of them, for each one of them in a Roth account. Well, what does that mean? It means that age 15, both of them started their jobs at age 15, they had a Roth account. So, by the time they hit age 20, they'd already qualified for the second bullet. And the only thing, other thing is they had to get to, to get to a qualified distribution is get to that age 59½.

For most individuals that's not a big deal, but if I have a non-qualified, then I'm going to have the return of contributions for every Roth I've ever done. And that means that there's a certain level of bookkeeping that should be done by the taxpayer. And of course, they think the fund company did it. And the fund company thinks the taxpayer did it. And then maybe the taxpayer thinks that you did it as a tax preparer, if that's who in fact you are.

And then you're going to see a Roth distribution that's going to have a T Code on it and that's because the fund company has no idea of what's going on here, you know, whether they had the account for 5 years or whether they did in fact are getting a return of their principal. And that's going to be on the tax preparer to make that determination, and so, keeping the spreadsheets and understanding that stuff here as well. Maintain the record of the Roth amounts.

Then you have conversion amounts. That's that second stage, you know. Conversion amounts, of course, are what? I convert something from a non-Roth account. That means to the extent that I have after-tax dollars, they can be earnings and they may be contributions, they're going to be taxable in the year of distribution, I mean, I'm sorry, conversion, but for a period of 5 years or age 59½ -- here we go again, one of those 5-year rules -- whichever occurs first is the complication that you're going to work in there. So, remember the conversion rule, you know, and there's an ordering sequence associated with that situation here.

Also, earnings. You know, there's a non-qualified distribution. No, that's the bad news. You know, all those earnings are going to be subject to tax, and they're going to be subject to the premature distribution penalty that we're all, unfortunately, incredibly aware of, which is that 10% under Code Section 72(t).

So, there's kind of some of the basics and we're going to deal with some more details of that based on time and what we're going to talk about here as well.

Okay. It's been a long time ago now, you know, December 2019 was, you know, holy cow. That's been over 5 years ago at this particular point in time. And we had some significant changes as a result of Congress, A, concerned that they wanted to make it easier for individuals to have these, you know, these retirement accounts, and B, recognizing that people will in fact be retiring, you know, older and older and older.

Now, the RBD at that point in time by Secure 1.0 was pushed back to age 72 starting in the year 2020. As a result of Secure 2.0, the RBD was actually pushed back to age 73. So, that happens to be the law of the land at this particular point in time. Starting in 2023, that was our RBD age, so we kind of had that year gap that we did. And that's really to a large extent what created a lot of the confusion associated with RMDs that we're going to talk about and the rules that we're working with in this particular environment.

And if you're young enough and, unlike me, you know, you got 2033, it's actually going to go up to age 75, if you can. I'm going to ask, I'm going to try to plant a little seed in your head at this point in time, and we'll go through some of these things in regards to, a lot of people have a lot of money in these accounts. And they really are tax adverse, tax deferred. Again, that's what my father taught me who was my first mentor, so to speak, in regards to my tax practice. And he said, "Son, you're going to work with the client and you're going to have them defer everything they can."

Oh boy. You know, that's not necessarily the best advice in this particular world because these accounts have gone up to tremendous amounts of money. Give you a good example. My son got his first job at age 22 and dad gave him the advice about saving in his 403(b). He worked for a hospital at that particular point in time and he saved more than I ever told him.

He came to me with a recent job change, and he'd saved a tremendous amount of money that he's going to have a real problem down the road someday because it was, what, all pre-tax money. And I got him to switch over to the Roth account because why? Because he got to put the money in, he doesn't get taxed, but it keeps earning and earning and earning. And theoretically based on current law at this point in time is that when he takes it out, it's not going to be a taxable event and create some of the other problems associated with all this deferred taxation that many of us are facing, including myself, who learned from my father that I want to defer everything as far as that's concerned.

Because the real issue gets to be it wasn't such a big deal. Why? Well, see, my big plan was this. I would take enough money out of my IRA to live and that closely reasonably for an extended period of time coincided with the RMD. And then I was going to die. And then I was going to help fund my children's retirement. And what was going to happen? They were the named beneficiaries. They were going to be able to stretch it out over their lifetime.

That's pretty much gone. That's pretty much gone. The only person who gets to quote/unquote, stretch the IRA might be a spouse or a disabled individual or some of those things, you know, as well. But that's kind of a big thing here as well. Secure 1.0 added some other things here that I'm mentioning of one kind, you know, or another that you might want to be very aware of.

In regards to my children, my son and his wife adopted a child and there were lot of expenses associated with that. They didn't have a lot of cash at this particular, at that particular point of their life. It would have been nice if they could have dipped into a retirement account for purposes of getting a couple bucks. So, both my son and my daughter could have dipped into their account, $5,000 each. They could have gotten $10,000 to help defray the cost associated with that also. There was also some expansions of what was qualifying earned income. I have a table here. I'll show with you also, here.

Now, I mentioned just a couple moments ago about the inherited accounts where we used to primarily, if we had larger accounts, we would stretch them out over a long period of time. And again, we would use them to help fund our children's or our beneficiary's retirement, and that just plain simply only doesn't work anymore because we have this 10-year rule that's going to get in the way most of the time.

There are some exceptions to those rules, and you'll see those here in my bullets: the spouses, children who are less than age 21 who haven't reached majority. For those of you that are suddenly alarmed, "My goodness. The age of majority in our state is 18." That doesn't matter. The IRS says the age of majority based on the law is 21 for every person in the United States of America.

And then we got, and you'll see the proposed, the Reg, I shouldn't say "proposed" anymore because it's been finalized. Let me cross that out there for you. I forgot to get rid of that, disabled individuals, and then the individual who's a beneficiary, who's no, no younger than the deceased by the 10 years gets to use their age.

Okay. So, one of the most confusing, difficult parts of this elimination of the stretch out has been for a significant period of time exactly what is the RMD requirements associated with this 10-year rule? Well, the IRS had several failed attempts, you know, of one kind or another, and we finally have ourselves in a final regulation place, and Regulation 2024-14542.

Take a look, you know, about six months ago is when it was affected. And really what we have is we got a beneficiary, and we got two branches of the tree. Did the deceased account owner reach RBD? And if the answer is no, then the 10-year rule says based on the final regulations that there will be no annual distribution requirements, that the individual can push it all back to the 10th year.

That sounds pretty darn good because if I, if I inherited a Roth IRA, what does that mean? It means I can leave that in there very nicely until the 10th year, let it continue to earn in a tax-free environment and not take it out to the last minute before I have to do whatever I'm going to do with it as well; however, when my owner of the account has reached RBD, RBD stands for Required Beginning Date, and once they get to that 73, 73, I shared that with you a few minutes ago, well, that individual beneficiary is going to have to take an annual RMD.

Now, the IRS pushed that back and pushed that back and pushed that back. We didn't have that rule. We didn't have that requirement until 2025. 2025 is going to be the first time, the first year that this is going to happen. So, pay attention to this because if you remember the whole set of scenarios, you know, the IRS said this, then they said that. They said, "Oops, we made a mistake." And they put another proposed regulation up, you know, and they said, "Yes, this is what's got to happen. Non-eligible beneficiaries have to take it, you know, in years one through nine," you know. And then they came up with notice 2022-53 that gave relief for '21 and '22. And it said it wasn't going to be effective. And to 2023, my goodness, you needed a scorecard.

And then we got Notice 2023-54, and that further kind of muddied the water for everybody. And people were just plain simply, "What do I do? What are we supposed to do?" Well, here's the good news is that individuals who did, what, died after 2019, who were the beneficiaries were subject to what? These new rules.

Well, the first year that somebody could have died subject to the new rules was in 2020. So, the distribution rules would have normally kicked in in 2021. Well, because of the IRS confusion, they really have pushed those down the road. So, '21, '22, '23 and '24 did not have an R -- a distribution requirement.

So, I mean, I'm still hearing, I heard from an attendee who took this very course here last fall, and they wanted to discuss this with me because they were really greatly concerned. They didn't hear that part. So, please remember that part from that particular perspective because here's where we're at now. This is where we landed. Highlight this for me if you would. Reg 2024-14542, it was effective on September 17th of 2024, and it said what? No RMD is required for 2021, 2022, 2023 and 2024. Plan owners who died prior to their RBD, there is no RMD requirement until the last day of the 10th year following the date of death.

Okay, year of death 2024. First year of distribution requirement 2025, if they had reached RBD but by the end of 2034, 2035, 2036, 2037, 2038, 2039, 2030, 2031, 2032, 2033, 2034 is 10 years, is that it's going to have to take everything. And the problem gets to be, is that a lot of folks heard this. A lot of this folks heard this, and they say, "You know what? Hey, the owner of the account didn't die until we -- died before their RBD; therefore, I got to get out of jail free card. can completely ignore this."

But think about the associated problems. See, the rule of thumb is pretty much, is that if it's invested in equity markets every 10 years, roughly speaking, and actually for the last several years it's being better than that, that account's going to double. Well, if you inherited a, let's say a half a million-dollar account and it doubles over a 10-year period, you have a distribution requirement of emptying the thing in the 10th year. And if it did in fact double, you could have a million bucks in my example here, you know. Now, obviously not everybody has that situation, but that certainly is part of the planning issues that we're going to have to pay attention here.

So, let's look, let's read ourselves through this year. I got Mary. She was the beneficiary of her mother's IRA. So, in 2020, for Mary, who's age 50, her mother was age 75, she died. So, what do we know? We know that Mary's mother died after reaching her RBD. Since the owner of the inherited account had reached RBD prior to her passing, then an RMD is required by the beneficial owner, Mary, of the inherited account in 2025, the first year following the year of death.

So, what's going to happen? Mary's going to look at that 2020 -- December 31st, 2024, balance. She's going to go to the single life tables. There's the site for you, Table 1, you know, 36.2 to determine what her RMD divisor is for their particular year. And then each year subsequent, Mary is going to do what? Reduce that number by one. You'll remember that that's the old way the stretch out rules worked. Okay. If we didn't have a named beneficiary, that's what we got here as well.

So, let's look at the math. Okay. Pursuant to Reg 2024-14542. So, the value of the inherited count on December 31st of 2024, the year that mother's – that Mary's mother died was for a simple math, a half a million dollars. Mary's Table 1 Factor, went and looked at that Table, and it turns out that Mary's divisor is 36.2. So, Mary's RMD is $13,815 for 2025.

Okay. Let's spin forward. Not only did Mary take out $13,800, but the account made some more money, and now the account has grown to $515,000. Remember how this works, okay? So, what are we doing? We take 36.2 minus 1, her divisor, her Factor for 2026 is 35.2. Mary has to take what? $14,630.

Mary is nowhere close to taking enough money out of this account to make it smaller. And, and most investment advisors will sit there and look you in the face and say, "You know what? This account is going to grow and continue to grow during this time frame." And so, what happens here is that there should be a certain level of review and determination of what's going to do, because this is a ticking time bomb, you know.

The RMD is 3% of the annual. If the annual rate of return is 6%, the plan grows at the rate of 15,000 bucks a year after the distributions. In year 10, the beneficiary $500,000 account is going to have grown to what? $650,000. And these are very conservative numbers at this particular junction time. So, these accounts are in fact a ticking time bomb and create horrific issues. Because what I'm starting to see is people whose plans in working with their investment advisor is to take it out over the last two years of the 10 years.

So, what's going to happen? IRMAA charges, perhaps, if they've made in fact age 65, that they're subject to Medicare. You know, so those are the kind of planning issues that you need to be cognizant of, you know, in one way or the other. So, there's the big gotcha in Secure 1.0.

Well, Congress gave us the gift signed by the President December of 2022, of Secure 2.0. What happened there? Well, we got age 73. I mentioned that a little bit earlier. 72 turned into 73. 75 is going to be the new RMD, you know, the RBD age starting in 2033. Holy cow, that's a long ways away. Oh, that's only eight years away, okay.

The catch-up provisions for the IRA, IRAs have been indexed, so they're going to start to grow a little bit, you know. There's been a reduction in the penalty for the failure because that's really what I've seen is a lot of taxpayers who are completely, totally 100% freaked out because they realized that they had an RMD after these rules were finally published, the financial press is talking about it and people are a little bit freaked out, you know.

We got some other things going on. The 529 accounts can be converted to a Roth IRA. A lot of buzz about that one.

QCDs, that's becoming more prevalent. I have more and more taxpayers coming to my office who have finally, after me talking to them for years, have finally got their investment advisor talking to them, and they have donated intent and they're trying to starting to make these QCDs; however, you know, what I do know is that some practitioners don't understand how to handle that.

I picked up a return a week, last week, and sure enough, the practitioner didn't make the QCD reduction of the taxable amount on Page 1 the way they should have. So, always keep that in the back of your mind, the taxpayers may be doing this.

And then we have the QLAC, which is that ability to take a piece of the retirement puzzle, stick it into a separate account and basically ignore the associated required minimum distribution until age 80.

And this works really well in regards to you might have a client who's trying to self-fund, say, and they have a concern about nursing home. And so, they want to push back this because really what their savings about in this retirement account was really about funding healthcare in their later years. And so, that might be a way to keep and continue the deferral because so many times individuals who use these accounts to fund long-term healthcare, for example, I have huge deductions, and they just plain simply don't have enough income, you know, to consume those deductions, and so, lots of mistakes made in that particular area here, also.

One of the most onerous parts of the failure to take the required minimum distribution was the Excise Tax penalty for the failure. And what that Excise Tax penalty was, was 50%. Yeah. You failed to take $10,000 and the penalty was what? $5,000. $5,000. Okay. So, starting in 2023, that penalty has been reduced to 10%, I mean 25%, and if the corrective distributions are made within two years, then it goes down to 10%.

And always remember, please, is that there's still on the books the ability to request reasonable cause. I had a client, her mother was in the nursing home. It was a very chaotic period. She had, she always took her RMD toward the end of the year. The paperwork didn't get done. And here she was in the nursing home, and she had failed to take a $50,000 RMD. And so, the daughter got involved and she says, "Holy cow, Rick, my mom's facing a $25,000 penalty; is that correct?" That was correct at that point.

Of course, now it's what? $12,500 and I can do what? I can reduce it to 10% by self-reporting and cleaning it up. "Oops. I got it down to $10,000 -- $5,000." I can get it to zero because on the 5329 there's the ability to do what? "Dear IRS, I have reasonable cause for failing to take the RMD. Please forgive me." Okay. And in my long career, I've never once had the IRS push back on that particular situation whatsoever.

But this is what it looks like. Part IX, Form 5329, minimum required distribution, whatever it happens to be, you know, actual amount distributed. "Oh, didn't happen." On the line, your tax software will probably do this for you. You're just going to tell it, "RC 25,000." So, they did the distribution required was 25%, and of course, now this says 25% on the current Form, but I copied this from a client at that point in time here as well.

One of the other things that has become incredibly popular, and a lot of taxpayers are curious about, is this ability to turn a 529 Plan into a Roth IRA. So, let's take a look at some of the requirements associated with that.

Well, the 529 Plan has to be what? 15 years old. Okay. That can be a challenge sometimes, but you know what? One of the first things I did when my grandson was born is I started funding his 529 Plan. He's going to be a star of something and going to get a free ride to college and that money is going to be available, I wish, to convert to a, you know, to a Roth IRA.

Well, let's take a look at that. I can't exceed the annual amount. Right now, that's $7,000 or $8,000 depending if I reached age 50, the geezer pleaser. Take a look at this. This was the confusion we weren't sure about. Not subject to the MAGI limitation for Roth account contributions.

So, let's go back. My grandson or age 25, okay, I've got $30,000 in his 529 plan. By then it's 15 years old. Okay. And the kid lands a great job. And he makes $250,000, which at that point in time is in fact in excess of the MAGI limitation of funding a Roth IRA. Don't care. Don't care. What we do care is that we're limited to 35,000 bucks.

So, based on the current amount, I'm going to be able to do what? Somebody who's less than age 50, I'm going to be able to take, what? $7,000 a year from the 529 Plan to the Roth IRA. It's going to be a qualified, so I don't have to worry about any taxation issues. So, after 5 years, I'm theoretically going to have the ability to move out $35,000, you know, out of the 529 Plan, you know, into the Roth IRA.

And this is great. I mean, I wish I'd had this several years ago, because I had some doctors who were very aggressive in regards to their 529 Plan. And by the time the kids got done, each one of them had somewhere in the neighborhood of 75 to 80,000 bucks sitting in the account. And they just plain simply liquidated it and paid the tax. And I really would have loved it if we had been able to go this direction instead, and so now you have an opportunity to help your client out here as well.

I mentioned to you earlier about the Qualified Longevity Annuity Contract called a QLAC, and basically what it says, I can take a special type of annuity inside a IRA, you know, IRA, and then I can in fact, do what? Create this QLAC. I can go all the way up to 200,000 bucks. The capping rule has been eliminated, don't have to worry about that, and every year that $200,000 number is adjusted for inflation. So, it keeps going up and up. So, it basically means that a taxpayer who's say age 70 decided to fund this with a concern because the earlier you fund it, the more income is inside this annuity, which reduces the RMD when we get to age 73. So, that might be an important planning concept here also, and I just want you to be aware of that.

Some of the other things going on, the emergency personal expense distribution. Now that started in 2024, but penalty free distributions of a thousand bucks are allowed personal expenses, unforeseen immediate financial needs for personal or family or emergency expenses; however, one distribution be made every three years. So, you can't do it, you, you can't keep going to the well, know, month after month, day after day, year after year. You only can do it once. So, certainly make sure that it is in fact an important and well thought out process as well.

Another thing is cases of domestic abuse. I've actually used this already for a client who was in fact in that situation. It was in fact a divorce and they'd split up the IRA accounts, but she needed some money in regards to dealing with her situation. And so, we got this penalty because she'd already rolled it over from her husband to her IRA account. Once she did that, there was nothing that she could do. She was kind of stuck with where she had it at that particular point in time.

There's also a terminal illness exception. And we kind of had the disability thing going already from that perspective, but that's available as of December 29th, 2022. That was the date that Secure 2.0 was signed. This one takes a little more paperwork. We got to get a certification from the physician, and this is the requirement that the physician is in fact swearing to.

Now, understand physicians don't know everything. I had a friend he was told he had two years to live. He could have taken advantage of the situation if he had needed the money. Well, he lived, well, right now it's 12 years, you know, and obviously that's much more than 84 months. That doesn't change as long as you get the physician certification that we do in fact have that life expectancy issue. It's all going to be good here from that particular perspective.

The qualified disaster recovery, there's that information for you here also, but you do have the ability. So many people have been subject to so much, so much pain and horrific things happening to them. Three-year rate rule, you'll go back to the days of COVID, you remember that, and they could in fact repay that, also.

I think, you know, this thing was kind of thought of from the standpoint of somebody need to take the money out because they didn't have enough money to deal with the house. You know, the insurance wasn't paying fast enough or something of that particular nature. So, remember, you got that planning technique here as well. So, there you go. That kind of sums up, you know, what's going on, what has happened as a result of 1.0 and 2.0.

Otherwise, just kind of a reminder, we're going to be going through some of this next material for a little while, just a little bit faster because it's important stuff. You know, one of the interests today I see, invest in gold, you know, invest in gold and people want to invest in gold. I remember this taxpayer who came to me many, several years ago. I want to say it's, it's a long time in years. I mean, long time ago, 10, 15 years ago. And he says, “You know, I invested in silver in my IRA account. I said, “Where's it at?” He says, “Oh, it's sitting in my lock box at the bank.”

Uh-uh, you know. An IRA is a tax wrapper. Collectibles and precious metals are limited; however, I can use an ETF or a fund to make the thing happen. So, the taxpayer who wants to invest in gold, something in that particular, you know, precious metals collectibles, they got to use some kind of fund or ETF or something like that to make this happen in that situation.

The spousal IRA. You may or may not be familiar with that, but an example of exactly how that works, you know, and what's going to happen in this particular situation. But as I said, in this situation, the beauty is that I don't have to have earned income.

Just trying to give you a real-life example of this, because sometimes people don't completely understand this. My wife retired when she was 62. We're both 70 years old. I continue to work, obviously, and I make enough money so that we can fund both of our IRAs. And so, she can put $8,000 in her IRA, even though she has no earned income at all, because what? She's going to use mine. That's basically, you know, how that rule works at this particular juncture.

Also, some of the other things that happen, funding initially cash only, however, sometimes investment advisors push back in regards to taking assets from, say, a regular IRA to a Roth IRA and a conversion or a rollover. I want to go from Custodian A to Custodian B. Remember I can do that, what's called “in kind.” And so, if that makes sense for your taxpayer, don't be afraid to tell them or talk to them about that in that situation.

Remember about excess contributions, 6%, not just the year that it didn't happen. It's 6% every year until it's removed. No contributions could be made after the taxpayer’s deceased. Every month I take money out of my account and put it in my IRA. So, $8,000 divided by 12. Here’s what happens. I die on March 1st, over work from tax season. Okay. And so that's it. Two months is it for me. However, my wife, Diane, can still put in her $8,000 that she was based on my income, and that's what this rule says, and that's what I'm trying to explain to you here.

There's some other things going on that it's always important to be somewhat aware of. Bankruptcy protection gets adjusted every three years, and right now it's at $1.5 million for an IRA, you know, traditional IRA Roth accounts in that combined environment.

Employer plans rolled over have unlimited based on ERISA is whether that's the running B Miller case where a trustee tried to invade monies that were transferred from an employer to an IRA. One of the things that I always suggest that people do is consider segregating employer versus non-employer rollovers; however, please remember, protection from creditors is not the same thing as bankruptcy where the trustee can invade the assets. Not all states, it's a state-by-state issue. So, take a look there. I gave you the URL associated with it and tells you what the rules are of the individual states that you need to be subject to those rules here also.

Also remember that inherited IRAs are not retirement accounts. That was the Clark v. Rameker case where she inherited some money. She had a business that went bad a couple of years later and she tried to say, “Oops, I'm protected based on the bankruptcy rules,” and the court, the Supreme Court said, “Uh-uh. Nope. Inherited IRAs are not retirement accounts.”

Please remember, what would be the exception of that? That would be a spouse who inherited an account from their spouse and then took the account and did what? Rolled it into their own. In that case, I could in fact convert that into an account that would in fact have some level of protection. Another planning avenue that you want to remember in this situation here as well.

Otherwise, we got some extensions for taxpayers in combat zone. That's the time they were gone plus 180 days. A tax refund can be direct deposited. Oops. It still has to arrive at the trustee by April 15. It doesn't work that I did in fact tell the IRS to send the money. It's got to actually get there, and self-employed losses do not reduce eligible wages is another thing.

We got the trustee fee thing going on. Some people like to say this is the way I can fund my IRA to a greater degree by paying the fees outside. You know, trustee fees are good, RAP fees are good, transactional fees are considered to be contributions.

What is compensation? There's that on Page 39 of your handout.

What is the MAGI phase out limits for purposes of making deductible, deductible contributions? And so, there's the 2024, the year we're working on right now, and there's 2025. And boy, we work our way all the way up to 230-some thousand if the participant doesn't have a plan that we're going to have available to. That's what my wife would be eligible for. She can choose not to make it deductible and we're not because we're using it to fund a backdoor Roth IRA, is the way that's working at this particular juncture.

If the taxpayer does in fact choose to make a non-deductible IRA, Form 8606 is incredibly important because that's where you're going to claim the basis. You're going to make some, excuse me, you're going to make some decisions in regards to, or statements in regards to the eligibility for that. The taxpayer is required to keep the books associated.

Understand that the Form 8606 can be filed independently, but remember, I've got the right to change my mind. Contribution made that the taxpayer intended to be deductible becomes non-deductible, there's that whole list, you know, there's that whole list of things that I can, in fact, make the determination that I want to change my mind. There's some compliance costs. There's some examples of that associated with the 8606 and you can file it separately. I discover a taxpayer who in past years didn't file the 8606 to claim basis. The IRS says the only way you can claim basis is by filing of the form 8606. Fix it, file it, go forward. Don't mess with this, but this can be filed independently and that's usually the recommendation I make.

You know, in 2024, for 2024 tax return I determine that the taxpayer should have been filing at 8606. I'll go back to 2023, make the determination of exactly how much they put in that was not, that they didn't deduct, file the 8606, pick up that number for 2024, and then move forward. That's the best way that I found to handle this through the years.

The Roth IRA provisions, the back-ended retirement accounts, you know, we talked a little bit about that. There's some background information for you. What are the, what are the contribution limits? There's that information. There's 2024 for you and 2025, and look at our married couple has made itself all the way up to $236,000. And in Iowa, that's a great number. In California and New York or something like that, that number kind of stinks as far as that's concerned, because it's just not the same, but unfortunately, it's a national limit, not a state-by-state.

Always a reminder, you know, what's the great things about Roth? We know that no RMD for plan owners, qualified distributions are tax free, no HDI restrictions for conversions. That's great stuff, you know. The bad stuff, you know, trade current tax deductions for non-qualified, then basis comes out tax free. Growth will be retaxed like the regular IRA if I take it out in a non-qualified environment. If my Roth loses money, I'm just right now out of luck. There's just absolutely nothing I can do, at least based on the current rules of TCJA.

Always remember you got those special rules, which called the military death gratuity. An individual is a recipient of life insurance from a military individual. The Heroes Act allows them to roll those proceeds into a Roth IRA, and you got one year to make that all happen after the receipt of the last benefit payment here as well.

So, just kind of for you to create a checklist, you know, about this, distributions made after the 5-year period of the taxpayer having a Roth IRA, you know, 59½ paid to the beneficiary after death, owner is disabled or we also got that lovely first time home buyer, just a reminder of that as well.

Counting the period. Please remember I've run into a few people that's gotten confusion about this, and there's the example. My taxpayer on April 15th of 2025 funds their 2024 Roth IRA for the very first time. They are considered to be a participant starting on January 1st of 2024. So, understand every time you're making that 5-year count, it's going to start on January 1st, dependent upon the year that the Roth contribution was in fact made for. And so, the example we have here, you know, starting in 2029, this particular taxpayer is in fact, you know, going to be eligible.

For those that are non-qualified, then we get to, well, we're going to have to make sure we keep track. And that's one of the things I'm finding out is, you know, difficult. My son, who doesn't have a lot of immediate cash, doesn't make a lot of money. I bought a car the other day. Well, he's got a Roth IRA sitting out there. So, what did we do? We took some money out of the Roth IRA to act as a down payment to get his payment down a little bit. Well, what's the issue? He's going to get a 1099-R. It's going to have Code, you know, it's going to have a Code 1 on there, you know, and it's going to say taxable and have a (t). Well, we're going to have to show the IRS that we have basis. So, let's make sure that we keep track of all that stuff here.

The 1099-R is a real problematic document that the IRS is, under reporter program, is very, very active with here as well. But remember, I don't have to look at account-by-account. I got three Roth IRA accounts. I got $10,000 worth of basis scattered amongst those three accounts. What do I do? I just plain simply, I can take 10,000 bucks out of any or all the accounts total and still be a return of my contributions that I don't have to pay tax on here as well.

Self-directed IRAs, and all self-directed IRAs, yeah, are, are, are very popular. I had a attendee contact me here a couple of weeks ago and he has a client who did some really bad things, and not intentionally. He just didn't understand because he said, "Okay, I got a self-directed IRA." He gets himself, makes himself an LLC, forms that then starts investing in some land. And quite frankly, he screwed it up, in my opinion, very badly that he's going to have some problems of one kind or another, you know.

Think about all this stuff, unqualified trustees, disqualified persons, prohibited transactions. Okay. And the current world says the following. If my taxpayer invests in digital assets, it's going to be a self-directed account, but remember that even if the self-directed account, what does it need? It needs a trustee. Oops. I should have right there. It needs a trustee. You got to have a trustee even in a self-directed account, otherwise you might run afoul of such things, read the Dabney case if you do in fact run into that particular situation.

The disqualified people, there they are. A friend of mine who used to teach for Gear Up used to say, “It's all the people you know and love.” And I think that was an excellent statement by Gary and I always enjoyed that for that statement here as well.

The prohibited transactions, the things I can't do. People came to me and said, “I want to rent. I want to buy my office building and rent it to my tax preparation firm.” Uh-uh. Transfer of sales between that debt guarantees going to have to be non-recourse. That's going to be the big issue associated with that. I can't do anything. I got Jerry, my client, loves farmland, buys farmland, wants to go out to the farmer and talk to them and collect the rent check. Uh-uh, nope. That’s our use or transfer of assets by this qualified person. All those problems there, that's kind of the beginning and the end, the alpha and omega of that situation as well. So, when your taxpayer has real estate in their IRA, here's the beginning of the problems. Non-recourse financing, IRA is going to pay all the expenses. No services. Don't be Jerry.

Some income can cause IRA to pay taxes, such as debt that was used to purchase the rental real estate. Even though I got it non-recourse, then I'm going to create something called UBIT. And there's other types of income, such as oil and gas that could create UBIT, too. You might have seen that on that paper schedule of a K-1 who might talk about UBIT one way or the other. But the trouble is, when I have UBIT in a retirement account and it's called an “Exempt Trust,” you'll hear those words said oftentimes, and if I got more than a thousand dollars in income, I got to file a 990-T.

The big discussion these days is who's responsible for this? Well, it's been pretty much determined by the courts based on some liability and some assessments of one kind or another that the trustee needs to take care of this. Okay, fair enough. The next question I get, “What kind of things are never UBIT?” Well, it’s all the traditional stuff we see? Because what is UBIT? Unrelated Business Income. UBI, is actually a statutory thing of one kind or another. The problems start when the taxpayer, you know, has rental income that's debt financed.

Rental income that is debt financed, yes, in proportion to the debt. Sale of real estate. No problems. Debt finance. Yep. I got tax. Regular carried on trader business enterprises, you know. So, those are the big three to think about that can in fact, could create a problem, you know, for your taxpayer who has these types of investments.

And it doesn't always take a self-directed IRA, you know. Your taxpayer might've invested in an IRA retirement account of an oil and gas interest that's throwing off some UBI, you know, then they're going to have to file the UBI tax returns, the 990-T and it's not cheap. It's due April 15th. Got to come from the assets of the retirement account. Got to pay estimated taxes if I expect to owe more than 500 bucks. All the retirement accounts are aggregated and the failure to file penalties are, yep, like so many other things. Take a look at this. It can be incredibly expensive to miss this one. And the IRS loves this stuff. They rub their hands together and glee. Why? Because when they come after these retirement accounts, they usually have what? Assets. So, they can collect the tax. You get it.

And the IRS has been auditing these things, particularly the master limited partnership and the publicly traded partnership, you know. So, you know, when your client comes in, you tax jockeys and you see the K1s and it says IRA, IRA 401k and you say, “Great. Don't have to worry about those.” Yeah, you do, because you have got to make the determination. If you got a thousand bucks or more, and then you got to do what? File that tax return. Oops.

I want to say one more thing about this, is that what's happening now is the investment advisory companies have become painfully aware of the liability associated with these particular types of stuff. And so, what'll happen is led to be an example of what happened to one of my clients. They got some of these at Merrill Lynch. They got some of this stuff at Dane Bosworth. They got some of this at Charles Schwab.

All three of those companies asked the taxpayer, my client, whether they did in fact have this particular type of investments. And he said, yes. And he says, we want you to send us the information. So, he sent it off to Schwab. He sent it off to Merrill-Lynch. He sent it off to Dane Bosworth. And what did they do? Each one of them prepared a 990-T with the same income. They were essentially going to have him do what? Pay it three times.

Thank goodness he's a very cautious man. He comes to me, asked me what I thought. And I says, “Well, unless you enjoy paying your taxes three times, one, two of these got to go in the trash and these people need to be informed that these aren't to be filed.” But that's the, that's the other side of this conversation at this particular point in time.

Be very careful of the 1099-R. Pay attention to Box 7. Read the codes. Understand what you got. Okay. I wish I could tell you that the code is going to include this year a code for QCDs. We still have the same problem. We'll talk about that in just a few minutes here as well, but there's helpful information inside the instructions that you may, in fact, you don't want to pay attention to and they're going to be important in your process. There's the URL into that, and that is in fact the page number for the current set of instructions for the 1099-R.

And some other helpful things for you if you get stuck on one of these. One of the things I will tell you I've oftentimes picked up a tax return and somebody didn't recognize that you had an exception under the 72(t) set of rules. So, that's why I've kind of shared this with you here in this situation, and you can certainly refer back to this stuff, you know, one way or the other.

I mentioned to you longer ago about some new abilities underneath some of the plans to do things, you know. Here's kind of the details for you associated with the birth or adoption of a child, you know, what you can do and how that's going to happen.

And understand that a lot of these types of abilities are associated with extended rollover rules. So, don't forget that if you're taxpayer, yeah, because that's exactly what it was for my son and daughter-in-law. If it had been available is that they were going to -- they had some money, but they weren't going to have it available until what? After they had to pay some of these expenses. And they could have rolled it back at, back in over the three-year period if they had in fact been, you know, been eligible at that point in time.

There's also a thing called the “deemed distribution,” and you've all seen those. Your taxpayers got a 1099-R and what does it say? Well, they left the company, they had a loan, they didn't repay it according to the terms, and so, what? The balance was considered to be what? Yeah, a premature distribution taxable, all that other kind of stuff here as well.

As a result of Secure 2019, there's a solution to that particular problem, is that they can in fact do what? A taxpayer who receives a deemed distribution has until the extended due date of the return to make a rollover deposit to a qualified account to fix this.

I'm going to tell you, so far since this has happened, I ran into it once. “Oh, yeah, yeah, yeah, yeah. If I’d only know when I would have put the money back.” I says, “Okay, great.” “Well, I can't put the money back today, but I can get it done before October 15th.” I said, “Great. Let's go ahead and extend the return. And you give me a contact when you've got the job done.” Never heard from them. Never heard from them. It’s getting time to prepare the return. “Oh, I never did have the money, and I didn't want to call and tell you.” “Okay. Thank you,” you know. Those are the kinds of things we have. It's great to have these for free, provisions, but they don't get used.

I want to clarify some things associated with distributions of IRA accounts versus qualified plan. And most generally speaking, these have a tendency to get buried in one big pile called QDRO, Qualified Domestic Relations Order. What happens? Well, you've all seen these probably. It says what? The court says, “Okay, we're going to divide the marital assets and Spouse One has more money than Spouse Two,” and so the judge determines the equitable division of the assets is that Spouse Two is going to get some money.

Okay. What does all this mean? Well, it means a lot of different things, you know. It depends on whether it's a, what? IRA or it's a qualified amount, okay. QDRO distributions are not subject to premature distribution penalty, but they are once they're rolled over. Many a taxpayer has gone back to the IRS, gone back to the courts, and said, “Oh, my goodness, if I'd only known,” but they said, This is money.” No, no. Once the money goes from the Spouse One to Spouse Two's account, is that this is all over and we're not going to be able to deal with that exemption for premature distribution penalty.

Now, that's available, excuse me, from qualified plans, but please understand it's not available in the same way with IRAs. So, be very careful how you treat these particular types of things, you know, in that particular environment.

Let's see here. Rollovers from IRAs. I guess the long and the short of the situation is that Congress has attempted to make it -- I'm sorry, IRS has attempted to make it easier. Rollovers, there's that 60 days. We got some certain rules associated with that 60-day rule. We don't have to do a hundred percent. I can put it anywhere I want as long as it's a qualified receiving account.

We have some special rules associated with the first-time home buyers. We actually have 120 days. You know, remember that here as well.

There's some of the rollover things. Don't get too stressed out about the rollover issues. The biggest rule is that 60-day, that 60--day rule of getting that one rollover per 365 days, and that's the thing that we got to remember there here as well.

A growing problem that I'm seeing on my desk has to do with IRA retirement accounts that are considered to be, what? “Abandoned.” Now, I put that in air quotes, for obvious reasons, but certainly what's happened is states have taken different approaches to these particular problems, you know, of one kind or another.

Well, really what happens is that based on the operational rules of the fund company, because that's most generally who has the money, they make a determination that the account has been abandoned. Now, “abandoned” isn't exactly what you and I think, you know, it's called as “escheatment” in these, in these world, but what happens is the fund company says that the taxpayer hasn’t accessed the account, hasn't contacted them. Those are the two primary issues, and it's considered to be abandoned.

What do they do? Well, they take the money, and they turn it over to generally the Secretary of State of the required state. Depending on where it's at, it could be the last known residence of the taxpayer. You know, it also could be the home state. Pennsylvania, for example, it's my understanding that Pennsylvania believes that if it comes out of, oh, my goodness, Vanguard, which is headquartered in Pennsylvania, that Pennsylvania gets it. And you got to go look. There's a national database associated with this, and I certainly would consider that if you got a taxpayer who gets what? A 1099-R, and they say, “Well, I didn't take anything out,” and this is the rest of the story.

Notice 2018-90 was effective in 2020. It says, “Hey, IRS says you got to withhold 10%.” So, a client, a taxpayer who had 10,000 bucks in this account. Only 9,000 is going to be shipped over in the Secretary of State's account, for example, in the abandoned assets.

The good news when the taxpayer determines or discovers that this happened, it will allow the taxpayer an extended period of rollover, which essentially is from the date of discovery, you know, from the date of receipt of the money from the state. In other words, Iowa, I discover a IRA account. The State of Iowa sends it to me. It was 10,000. They send me a $9,000 check, based on the withholding rules associated here at this point in time. I've got, and they send it to me on March 1st. Then I have 60 days from March 1st to do what? Roll it back over into another account. In other words, give a check. It's separate from this one rollover a year rule. Um, that's this, that's the important thing, and I've just seen more and more clients and more and more taxpayers that have gotten embroiled in this mess at this particular point in time.

Rollovers in general have a reasonably easy, you know, forgiveness. We talked about that a little bit on Slide 72. There that is for you as well, but essentially remember, you got to get this thing fixed in one year. Don't let it sit on it. And if your client says, "I got a problem with a rollover. What happened to the money? It didn't go to the right place." Really encourage them because you can get out of the one-year rule, but then it takes the permission from the Internal Revenue Service where if you get it fixed within the one year, it's all self-determinant from that particular perspective as far as that's concerned.

And the rollovers, forgiveness parameters, are pretty extensive, you know. The residence was severely damaged. Oh, my goodness, we have a lot of people suffering through that, right. A member of the family died, illness, postal error, you know, all of those qualify as far as it's concerned.

And the Rev. Proc. isn't brand new, but it does have a self-certification program. What I'm going to say to you is if you do in fact have a taxpayer who is having a problem with a rollover, get Rev. Proc. 2016-47 out and figure out what you should be concerned about, you know, one way or the other.

Conversions to Roth IRAs, just a little conversation about that. I'm going to try to get to some of your questions here. We're getting down to the back end of the time we have available here one way or another. Oftentimes, people get a little nervous about the back door Roth strategy, okay? Absolutely. And we have clients that use it all the time. And it's wonderful today because we took off the age limits, but here we go.

I might not be eligible to make a Roth contribution directly because I'm over the $236,000. So, I use the backdoor strategy. I put the money in a non-deductible basis in my regular IRA, and I convert it immediately to my Roth IRA. Is that valid? Absolutely. The IRS has actually said that in public comments on more than one situation. So, you shouldn't be concerned about this.

Here's the trap and this is what I've seen way too often. You know, a taxpayer sitting out here and they got the IRA account, and they put the 8,000 bucks in it. Okay. But what happened at some point in their life or currently is that their employer has a SEP or a Simple that's being operated for them. No go, or it's partly going to be taxable because -- well, remember what you got to do to make the termination of the taxable part of a conversion. You got to add up all the Code Section 408 accounts. That's what we talk about right there. And then how much I rolled over and do the division.

Remember, in the past, less so today, SEPs and Simples were what? All pre-tax. All of it is pre-tax. So, this is kind of an interesting ball to juggle, and if your taxpayer is doing that, I would in fact ask the question, you know. Advisors, tax professionals, please remember that possibility. There are Code Section 408 accounts that traditionally are in fact zero basis accounts, and they make this backdoor strategy a little bit more complicated.

However, there's a situation where it's actually a little bit easier because I got a qualified account. What do I mean by that? Let's take a look at the example here. I've been using this for years, but I love this thing. Taxpayer has an IRA. They put $100,000 in it of deductible contributions. $30,000 of non-deductible contribution. It's earned $20,000. So, what do I got? I got $30,000 of basis. So, what do I do? I take $120,000. I send it to a qualified plan, such as a 401k, something other than a 408 plan. And so I had $150,000 to start. I get rid of $120,000. I got $30,000 left. What do I get? $30,000 of basis money. I take the $30,000. I put it in the Roth IRA. The taxable event is zero, is zero. Works very cool. Just remember, it doesn't apply to a lot of situation, but I've actually seen taxpayers who have formed solo 401ks and then use that to move this in to make this work. Of course, you have got to have a business to make that happen, but please remember, you've got some situations here also.

If a client talks to me about converting a Roth IRA, do I say yes? Do I say no? Do I say maybe? And the answer is it depends. I love my buddy, Abe Carnell. He always said that "It depends," you know, but, uh, here's a little calculator for you to try to help make the decision of what happens and what you should do. But again, this is art as much as it's science.

We got an example there for you. I could go through the details. Every one of your situations is going to be different, but quite frankly, find this calculator. It's a great little tool. It'll help you step through the basis. What do I get? Where am I going? What do I think it's going to earn? What do I expect my tax bracket to be? When I take it out, and that's going to help you make the decision of what the right answer here is in this particular situation here as well.

QCD, I love these things, you know. I don't think it should be this hard, but it is. But let's take a look at it just a little bit. I have a taxpayer who has some donative intent. And this is actually one of my taxpayers. They've been giving $15,000 to three organizations, $5,000 each for several years. And they have to take about $25,000 to $30,000 of IRA RMD every year. So, I say, “Why don't you do the QCD thing? And we talked about this.” And they said, “Oh, I like this. That's a great idea,” because they don't have enough money to what? They don't have enough deductions to itemize in today's world. It's basically, you know, $33,100. Here's my example, you know, of that situation. Well, what did I do? You know, I took $8 -- $96,900 of taxable income, turned it into $81,900, and I saved them $2,372 of what? Just every day, ordinary taxpayers.

Nothing special about them. You know, and again, it doesn't have to be $15,000. could be 5 or whatever it happens to be, you know. But again, I mentioned to you earlier that I had a new client come in on Saturday and they presented me with a tax return and their prior practitioner didn't reduce by their QCD. And it was about $3,000 is what it was for two years, for two years.

And so, she thinks I'm the smartest guy in the world because I saved her $6,000 and the other guy now is dirt. Well, well, such a thing. But you know what? That's a problem. And I mean, it's significant to Lucy, that was my client that just came in, but boy, let's think about somebody else.

We all have clients who have IRMAA problems, and they have donative intent because remember what happens. The trouble with IRMAA, it's a cliff. “Boo, boo, boo, boo, boo, boo! Boom!” As soon as I exceed the number, whatever the number happens to be, and of course, it's inflation adjusted every year.

Without the QCD, my Medicare annual charge is approximately 6,200 bucks. By doing this with the QCD, my Medicare annual charge is about $4,400, okay. Bracket is $212,000. So, what was I able to do? With doing the QCD, I got it below the $212,000, paid it that they did what they weren't paying up or a surcharge. The first bracket is 50% and the darn Medicare premium is over 200 bucks now I think it is, somewhere in that territory. I don't remember, but the point of the matter is, what? It cost $100 for a couple, it costs, what? $200 times 12, $2,400.

So, there's a lot of clients, you know, both sides, you know, the normal everyday average client who just can't itemize and the client who's facing a IRMAA cliff, and if their donative intent can in fact take them off the cliff. I got one client who's donative intents, not big enough on an annual basis to fix this, but what are we doing? Yep. We do it on the first day of the year. We do it on the last day of year for year one, year two. It takes care of that. So, they're only paying IRMAA, that 50% IRMAA charge every other year.

There's lots of different ways of inventive ways to take care of this, and certainly QCD is one of those things that needs to stay in your quiver. It's a growing number. It's now inflation adjusted. Just wanted to point that out to you.

Just to kind of share with you what those IRMAA charts, you know, look like. Now that's the problem, you know, that you're dealing with at this particular juncture, you know. There's the 2025. I guess it's 185 bucks, you know, what it is at this point in time. But there you go that first bracket 1.4 is 74 bucks and that's kind of the way the same works. It works the same thing for B. It's got the same thing for D that you're going to have those additional charges here, also. But some examples and how you might deal with this situation here in whatever way, but there you go. Think about that. Talk about it. The good news is that more investment advisors are talking to their clients today about QCD, and there seems to be less hesitance on their portion to deal with this.

Otherwise, you know, some of the calculations of dealing with the calculation, I got basis, I got non-basis dealing with that, you know.

The RMD rules, I got two sets of rules just pointing that out to you. The IRS changed the tables in 2022. So, you're going to see the differences here when it's all said and done, that we actually got a little bit out that was kind of confusing in 2023.

Clients call me when they inherit an account and say, “Do I need to be concerned about this?” And oftentimes I've heard them say, “No, no, no. You know, I was told by my investment advisor, I was told by my accountant, but geez, I was told, you know, you're a smart guy and I just want to double check it.”

Well, absolutely. Let's look at this just a little bit. You know, my taxpayer, Tim, he died at age 60. He bifurcated his IRA, half of it goes to his wife, 30% of it goes to his son. 20% goes to his church. What's the problem? Well, does, does -- who wants to be subject to the 5-year rule and who wants to be subject to the 10-year rule and who wants to have the ability to do what? Take over the husband's rule and use the stretch out, i.e., wife Vicky.

So, that September 30th and that December 31st date is still incredibly important. Let's get this thing split up when you have this situation, you know. Let's get the church with its part of the account. Let's get the spouse with this part of account and let's get the others with their part of the account because as you remember correctly, son Sam, too bad, so sad. What happened? Tim was 60. He doesn't have to do anything, but at the end of 10 years, Sam's going to have to do what? Take it out. Vicki, age 55, well, she can ignore it for what? 20 years. Get this moved into her account. Church doesn't care. It's a non-taxable event.

It's much more complicated than it used to be.

The Basics

What are the required components of an IRA?

- A trust or custodial account organized in the United States executed on the behalf of an individual.
- The account is held by a qualified trustee (corporate) who administers the account. However, not all trustees are created equal.
- To be a trustee they must be a bank/financial institution or an organization that has demonstrated their ability to act as a trustee BUT a trustee can NEVER be an individual.

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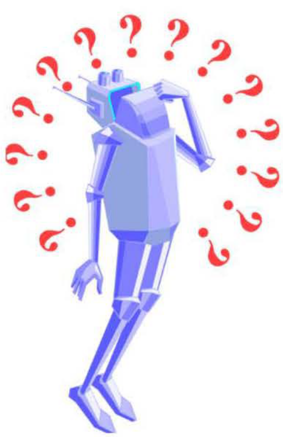
The Basics



While most IRA trusts are similar, some trusts can and do limit certain features.

1. Allow naming of successor beneficiary.
2. Can a beneficial owner move the IRA?
3. What limitations might exist for a five/ten-year distribution option.
4. If a lifetime election is made, can it be amended.
5. Can an account with multiple beneficiaries be divided?
6. Can a trust use a split trust agreement to divide the account?

2

2

The Basics

CAUTION – Work with qualified trustees. Fraudulent activity most often starts with unauthorized trustees.

- Most trustees/custodians of traditional financial products have passed muster.
  - Trustee issues more often occur with "specialty" products such as real estate.
- The trustee or custodian can be changed as frequently as the holder of the IRA wishes, there is NO limitation on this change.
- Due to the 365-day limitation on rollovers, they should be a trustee-to-trustee transfer: i.e., taxpayer never touches the assets of the plan.

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The Basics

Required due dates of funding and correction of IRAs

- Regular and/or ROTH IRAs must be funded by the due date of return without extension
- **Corrections** can occur without penalty up to the extended due date.
  - Regular IRA to ROTH IRA
  - ROTH IRA to Regular IRA
  - Excess contributions removed without penalty

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The Basics

To open and make contributions to an IRA ($7,000/$1,000) the taxpayer MUST—

- Have earned income equal to the IRA contribution (spousal exceptions apply).
- If a ROTH IRA, income must not exceed prescribed thresholds, but conversions are not so limited.
- For tax years beginning 2020 and later there are no age limitations for both the regular IRA and ROTH IRA. **(Secure Act of 2019)**
- Regular and ROTH IRAs have a single unified limit.

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The Basics

Regular IRAs:

- Can be pre-tax (tax deductible) subject to income and pension plan participation limits or after tax.
- Can be after-tax per taxpayer choice.
- All earnings are tax deferred until withdrawal.
- Distributions of taxable amounts before age 59½ are subject to a 10% penalty unless there is an exception provided by IRC Sec. 72(t).

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The Basics

ROTH IRAs:

Contributions are always after tax and non-taxable when distributed (FIFO)

- Distributions
  - **If a Qualified distribution,** the distribution is tax free if,
    - After age 59½ <u>and</u>
    - The taxpayer has had a ROTH plan in place five years or more

    All distributions that do not meet the requirements of a Qualified Distribution will be non-Qualified

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The Basics

ROTH IRAs:

Contributions are always after tax and non-taxable when distributed (FIFO)

- Distributions
  - **If a Non-Qualified Distribution,** there will multiple components

Components of a Non-Qualified ROTH IRA distribution:

1. **Return of contributions:** Always tax and penalty free no matter when they occur.
   - Practice Pointer – Maintain a record of ROTH contributions to assist if non-qualified distributions are made.

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The Basics

ROTH IRAs:

Contributions are always after tax and non-taxable when distributed (FIFO)

- Distributions
  - **If a Non-Qualified Distribution,** there will multiple components

Components of a Non-Qualified ROTH IRA distribution:

2. **Conversion amounts:** Subject to premature distribution penalty for a period of 5 years from date of contribution or age 59½ whichever occurs first.

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The Basics

ROTH IRAs:

Contributions are always after tax and non-taxable when distributed (FIFO)

- Distributions
  - **If a Non-Qualified Distribution,** there will multiple components

Components of a Non-Qualified ROTH IRA distribution:

3. **Earnings:** If there is non-qualified distribution these earnings will be subject to a 10% premature distribution penalty and income tax.

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What's Been Happening Secure 1.0

Secure 1.0 (Dec 2019) Key Provisions

- RBD was pushed back to Age 72 starting in 2020
  - RBD is now Age 73 starting in 2023
  - RBD will be Age 75 starting in 2033
- Accelerated RMDs for most beneficiaries when owner dies prior to 01/01/2020
  - Eliminated the "Stretch IRA" for those inheriting an account after 12/31/2019.
- Removed age restrictions for regular IRAs
- Penalty free distributions of up to $5,000 for child-birth or adoption expenses
- Expanded definition of qualifying earned income

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What's Been Happening Secure 1.0

The outcome of the elimination of the "Stretch IRA" after 12/31/2019

Most who inherit retirement accounts will be required to "completely withdraw" the account in total by the last day of the 10th year following the date of death.

- Exceptions
  - Spouses
  - Children who have not reached "majority" age 21 or less
    - Validated in Proposed Reg. 105954-20
  - Disabled Individuals
  - Individuals who are no younger than the deceased by 10 years

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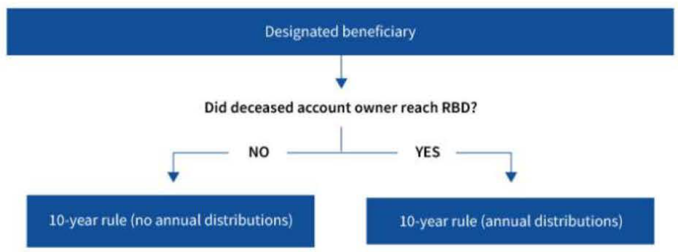
What's Been Happening Secure 1.0

Most who inherit retirement accounts will be required to "withdraw" the account in total by the last day of the 10th year following the date of death.

- **Regulation 2024-14542** (published 07/19/2024 – Effective 09/17/2024) (275 pages)
- The rules of the Regulations indicate how distributions are to occur.



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What’s Been Happening Secure 1.0

What were the rules for 2023?

Notice 2023-54 granted distribution relief for 2023:

1. Extended rollover period for distributions that were not required.
   - ✓ Those born in 1951 and received an RMD in error prior to 08/31/2023 had until 09/30/2023 to rollover the distribution.
   - ✓ Allowed even if another rollover had occurred in the one-year period.
2. Delay of RMD rules in Prop. Reg. 105954-20.
   - ✓ No RMD required from inherited accounts for 2023.

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What’s Been Happening Secure 1.0

Where are we now?

Regulation 2024-14542 effective 09/17/2024:

1. No RMD distributions were required for 2021-2024.
2. For plan owners who died prior to their RBD there is no RMD requirements until last day of the 10^{th} year following DOD of plan owner.
3. For plan owners who died after reaching their RBD the beneficiaries are required to take an annual distribution starting in 2025.

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What's Been Happening Secure 1.0 – Example of Distribution Requirements of Final Regulation 2024-14542

Mary is the designated beneficiary of her mother's IRA.

- In 2024, when Mary was age 50, her mother died at age 75.
  - Since the owner of the inherited account (Mary's mother) had reached RBD prior to her passing, then an RMD is required by the beneficial owner (Mary) of the inherited account in 2025.
- Mary will determine her life expectancy based on the single life tables (Table I: 36.2) to determine her RMD for 2025.
- Each year thereafter, Mary will reduce her life expectancy by one year.

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What's Been Happening Secure 1.0 – Example of Distribution Requirements of Final Regulation 2024-14542

The Math

Value of inherited account on 12/31/2024	$500,000
Mary's Table I Factor	36.2
RMD for 2025	$ 13,815
Value of inherited account on 12/31/2025	$515,000
Mary's Table I Factor in Initial Year – 1 Year	35.2
RMD for 2026	$ 14,630

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What's Been Happening Secure 1.0 – Example of Distribution Requirements of Final Regulation 2024-14542

Consider the following issue in this example:

- The RMD rate is approximately 3% annual.
- If the annual rate of return is 6% the plan grows at the rate of $15,000 per year.
- In year ten the beneficiary has the potential of having $650,000 in income.
- WARNING: These accounts are time bombs and can create horrific tax issues in future years if ignored.

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What's Been Happening Secure 2.0

Secure 2.0 (Dec. 2022)

- RBD was pushed back to Age 73 starting in 2023
  - Age 75 in 2033
- Catch up provision for IRAs indexed starting in 2024
- Reduction in penalty for failure to take an RMD
- 529 accounts can be converted to ROTH IRA
- QCD limits indexed to inflation
- Qualified Longevity Annuity Contract (QLAC) increased from $125,000 to $200,000

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What's Been Happening Secure 2.0

Reduction in penalty for failure to take an RMD

If required minimum distributions are not taken, the excise tax penalty is reduced from 50% to:

- 25% for taxable years beginning in 2023.
  - Reduced to 10% if correction is made within two years after the end of the taxable year in which the distribution was missed before IRS notification.
- Request for reasonable cause is still available.

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What's Been Happening Secure 2.0

To make the requested waiver, enter "RC" on line 54 of Form 5329, subtracting the amount of the waiver request from the amount due.

Part IX **Additional Tax on Excess Accumulation in Qualified Retirement Plans (Including IRAs).** Complete this part if you did not receive the minimum required distribution from your qualified retirement plan.

52	Minimum required distribution for 2022 (see instructions)	52	25,000
53	Amount actually distributed to you in 2022	53	0
54	Subtract line 53 from line 52. If zero or less, enter -0- RC 25,000	54	0
55	**Additional tax.** Enter 50% (0.50) of line 54. Include this amount on Schedule 2 (Form 1040), line 8	55	0

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What's Been Happening Secure 2.0

529 account amounts can be converted to ROTH IRA starting in 2024

- 529 plan must have been in effect for 15 years
- Annual amount cannot exceed ROTH contribution limits ($7,000/$8,000)
  - Not subject to MAGI limitation for ROTH account contributions
- Total amount of 529 conversions cannot exceed $35,000

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What's Been Happening Secure 2.0

Qualified Longevity Annuity Contract (QLAC) increased from $125,000 to $200,000

- Effective on 12/29/2022.
- Capping rule of 25% of account values has been eliminated.
- $200,000 ceiling is adjusted annually.

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What's Been Happening Secure 2.0

Emergency personal expense distributions:

- Beginning in 2024, penalty-free distributions of up to $1,000 are allowed as "emergency personal expense distributions" for "unforeseeable or immediate financial needs relating to necessary personal or family emergency expenses."
- Only one distribution may be made every three calendar years, or
- One per year if any previous emergency personal expense distribution within the three-year period has been repaid.

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What's Been Happening Secure 2.0

Distribution in Case of Domestic Abuse:

- Penalty-free withdrawals are also allowed beginning in 2024, for certain amounts for individuals who need the funds in cases of domestic abuse.
- Victims of domestic abuse may receive the lesser of
  1) $10,000 (adjusted for inflation after 2024) or
  2) 50% of their account value without penalty.
- Domestic abuse is defined to include physical, psychological, sexual, emotional, or economic abuse by a spouse or domestic partner and includes efforts to control, isolate, humiliate, or intimidate the victim by means of abuse of others — the victim's child or other family members — living in the household.
- The participant may repay withdrawn amounts over a three-year period and recoup income taxes paid on distributions that are repaid.

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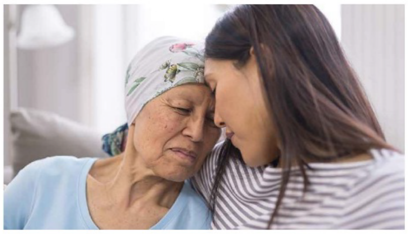
What's Been Happening Secure 2.0

Individuals with a Terminal Illness:

- Allows an exception for terminal illness (effective for distributions made after Dec. 29, 2022).
- Physician's certification is required, and
- Death must be reasonably expected within 84 months of the date of certification.



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What's Been Happening Secure 2.0

Qualified Disaster Recovery:

- Exempts from penalties distributions of up to $22,000 made due to qualified disasters.
- A 180-day window for receiving such qualified disaster distributions is specified, and
- These distributions are to be included in taxable income ratably over a three-year period.
- The participant may repay withdrawn amounts over a three-year period.

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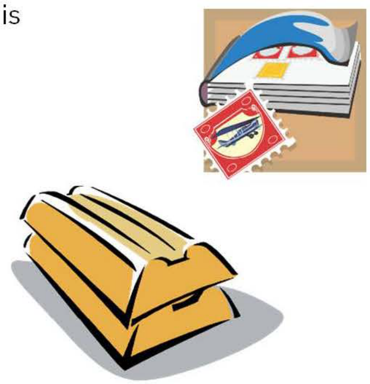
Who Where and What

An IRA is a tax wrapper: Almost any type of asset is allowed in an IRA including digital assets.

EXCEPTIONS:

- Collectibles and
- Precious Metals

However, ETFs and Funds can hold such assets which IRAs may invest in.



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Who Where and What

Spousal IRAs: Only IRAs allow an individual to use the income of their spouse for qualified earnings.

- Example: T/P 1 and T/P 2, a married couple, file joint income tax returns. Both T/P 1 and T/P 2 are under age 50 in 2024. T/P 1 received $115,000 in salary in 2024. T/P 2 did not work outside the home and had no income in 2024. T/P 1 and T/P 2 each contributed $7,000 to an IRA for 2024.
  - T/P 1 and T/P 2 can contribute $7,000 IRA for 2024, because the limit on the contribution to a spousal IRA is computed based on the compensation of both spouses,
  - T/P 1 and T/P 2 can also deduct, on their joint 2024 return, the full $7,000 for each of their contributions.
    - Either or both taxpayer's can elect not to deduct part or all their contribution for 2024.

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Who Where and What

1. Cash only; rollovers and conversions are excepted.
2. Excess contributions are subject to 6% excise tax ***every*** year until removed.
3. No contributions can be made after the taxpayer is deceased.
4. However, a taxpayer can use the earnings of a deceased spouse.

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Who Where and What

Commonality of ROTH and Traditional IRAs

Protection from bankruptcy up to $1,512,350

- Those accounts that were employer plans rolled over to IRAs have unlimited bankruptcy protection; affirmed by *Running v. Miller* (CA 8 02/13/2015, 115 AFTR 2d ¶ 2015-446)
- Consider segregating employer vs. non-employer rollovers
- Protection from creditors is not the same thing as bankruptcy. To determine your state, look for the table at **https://www.irafinancialgroup.com/learn-more/self-directed-ira/ira-asset-and-creditor-protection/.**

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Who Where and What

However—

Amounts from an inherited IRA are not retirement accounts and are not eligible for the bankruptcy exemption. (*Clark v. Rameker,* Sup Ct 06/12/2014, 113 AFTR 2d ¶ 2014-889)

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Who Where and What

Armed forces personnel in combat zones have 180 days after exiting the Combat Zone plus the number of days remaining when entering to make the contribution after leaving the zone.

A tax refund can be direct deposited into an IRA using Form 8888

Self-employed losses do not reduce eligible wages

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Who Where and What

What about costs?

- Trustee fees okay: When paid by non-IRA assets if they are not specific transactional costs.
  - Any transaction costs paid outside IRA are considered contributions.
- IRA wrap fees: Like trustee fees are for maintenance or advice and can be paid with non-IRA assets.

Who Where and What

What constitutes income for an IRA contribution?

Compensation Chart for IRA Purposes	
Includes	Does Not Include
Wages and Salaries (W-2, Box 1, Less any amount in Box 11 for Non-Qualified Plans	Earnings and Profits from a Property such as Rental Income
Net Self-Employment Income-Self Employment Losses only offset other self-employment income, not wages [Rev. Rule79-286]	Any amounts (other than combat pay and difficulty of care payments) excluded from income such as foreign earned income and housing costs.
Taxable Alimony and Separate Maintenance Payments	Interest and dividend income
Nontaxable Combat Pay (W-2, Box 12, Code Q) and military differential pay	Pension or annuity income
Partners' distributive share of earned income if the partner is active in providing services (PLR 7933069)	Income from a partnership for which no services were provided.
Minister's earned income that is exempt from self-employment tax because the minister opted out of social security	Deferred compensation or social security benefits
Taxable Scholarship and Fellowship Payments which includes certain fellowship, stipends and grants that includable in income as modified by SECURE Act	S corporation distributions other than salary
Payments made that are "difficulty of care payments" (IRC 219(b).	

Who Where and What

The limits placed on traditional IRAs only apply to deductibility.

MAGI Phase-out Limits for Traditional IRA Contributions for Plan Participants			
Deductible IRA Phase-out	**2023**	**2024**	**2025**
Joint filer—plan participant	$116,000–$136,000	$123,000–$143,000	**$126,000–$146,000**
Joint filer—not a plan participant married to a plan participant	$218,000–$228,000	$230,000–$240,000	**$236,000–$246,000**
Single/HOH plan participant	$73,000–$83,000	$77,000–$87,000	**$79,000–$89,000**
MFS—lived with spouse during the year	$0–$10,000	$0–$10,000	**$0–$10,000**

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Who Where and What

A taxpayer is always eligible to choose to contribute a non-deductible amount

- To claim basis in a traditional IRA Form 8606 must be filed, i.e., contributions that are not deducted

Form **8606**
Department of the Treasury
Internal Revenue Service

Nondeductible IRAs

Attach to 2024 Form 1040, 1040-SR, or 1040-NR.
Go to *www.irs.gov/Form8606* for instructions and the latest information.

OMB No. 1545-0074
2024
Attachment Sequence No. 48

Name. If married, file a separate form for each spouse required to file 2024 Form 8606. See instructions. | **Your social security number**

Fill in Your Address Only If You Are Filing This Form by Itself and Not With Your Tax Return

Home address (number and street, or P.O. box if mail is not delivered to your home) | Apt. no.

City, town or post office, state, and ZIP code. If you have a foreign address, also complete the spaces below (see instructions).

Foreign country name | Foreign province/state/county | Foreign postal code

Part I **Nondeductible Contributions to Traditional IRAs and Distributions From Traditional, Traditional SEP, and Traditional SIMPLE IRAs**

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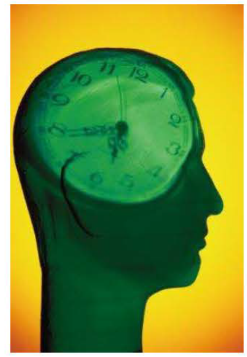
Who Where and What

The Right to Change Your Mind

- A contribution made that the T/P intended to be deductible becomes non-deductible
- Withdraw the non-deductible by the extended due date of the return
- Designate the contribution to a ROTH IRA (by due date)
  - The change can occur after filing by filing a Form 1040X
  - Mix and match deductible and non-deductible contributions in the same account, BUT
    - The taxpayer has the responsibility to keep adequate records to demonstrate the account basis



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Who Where and What

Compliance issues connected with Form 8606

- Overstated basis is a $100 penalty
- A $50 penalty for failure to include Form 8606 when required

Part I **Nondeductible Contributions to Traditional IRAs and Distributions From Traditional, Traditional SEP, and Traditional SIMPLE IRAs**

Complete this part only if one or more of the following apply.

- You made nondeductible contributions to a traditional IRA for 2024.
- You took distributions from a traditional, traditional SEP, or traditional SIMPLE IRA in 2024 **and** you made nondeductible contributions to a traditional IRA in 2024 or an earlier year. For this purpose, "distributions" **does not** include rollovers (but does include certain 2024 retirement plan distribution repayments treated as rollovers (see instructions)). Also, it **does not** include qualified charitable distributions, one-time distributions to fund an HSA, conversions, recharacterizations, or returns of certain contributions.
- You converted part, but not all, of your traditional, traditional SEP, and traditional SIMPLE IRAs to Roth, Roth SEP, or Roth SIMPLE IRAs in 2024 **and** you made nondeductible contributions to a traditional IRA in 2024 or an earlier year.

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Who Where and What

Filing an updated/correct Form 8606

- Form can be filed independently of a tax return

Sign Here Only If You Are Filing This Form by Itself and Not With Your Tax Return

Under penalties of perjury, I declare that I have examined this form, including accompanying attachments, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.

Your signature | Date

Paid Preparer Use Only	Print/Type preparer's name	Preparer's signature	Date	Check ☐ if self-employed	PTIN
	Firm's name			Firm's EIN	
	Firm's address			Phone no.	

Form **8606** (2023)

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ROTH IRA Provisions

The designers of the ROTH IRA account called them "back-ended" retirement accounts. Why?

- Money going in is after taxes; HOWEVER,
- Qualified money coming out would be tax free for everybody

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ROTH IRA Provisions

The ROTH IRA limits what taxpayers can make contributions to a ROTH IRA based on their MAGI

MAGI Phase-out Limits for Roth IRA Contributions			
	2023 Notice 2022-65	2024 Notice 2023-75	2025 Notice 2024-80
Married Joint	\$204,000–\$214,000	\$230,000–\$240,000	**\$236,000–\$246,000**
Single/HOH	\$125,000–\$140,000	\$146,000–\$161,000	**\$150,000–\$165,000**
Married Separate	\$0–\$10,000	\$0–\$10,000	**\$0–\$10,000**

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ROTH IRA Provisions

Some of the other cool features of the ROTH:

THE GOOD—

- NO RMD for plan owners
  - Inherited accounts are subject to the beneficiary distribution rules based on when the owner died
- Qualified distributions are TAX FREE
- No AGI restrictions for conversions from non-ROTH accounts to ROTH IRA

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ROTH IRA Provisions

Some of The Bad restrictions of the ROTH:

- You trade current tax deductions for:
  - If a non-qualified distribution, then only basis comes out tax free.
    - Growth will be taxed the same as a regular IRA.
- If a ROTH loses money below taxpayer basis:
  - Those losses are currently not deductible because of the elimination of 2% deductions by TCJA

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ROTH IRA Provisions

A gift to a military death gratuity recipient by the HEROs Act.

- Any person who is the beneficiary of a military death gratuity or service members life insurance benefit can “roll” the entire proceeds into a ROTH IRA.
- Must be done within one year from the receipt of the last benefit amount.

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ROTH IRA Provisions

Distributions made AFTER a five-year period of the taxpayer having a ROTH IRA in place and at least one of the following:

- Owner is 59½ or older
- Paid to a beneficiary after death
- Owner is disabled or
- Used for first-time home purchase ($10,000 limit)

Five-year period begins on first day of tax year contribution was made.

- Example – For 2024 taxpayer makes an initial ROTH IRA contribution on 04/15/2025, the five-year clock starts to run on 01/01/2024.
  - For this taxpayer, any distributions made in 2029 or later can be Qualified Distributions.

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ROTH IRA Provisions

When a non-qualified distribution is made from a ROTH IRA (prior to age 59½).

1. Any contributions will first be withdrawn free from any tax,
2. Distributions of conversion dollars (up to five years) may be subject to 10% premature distribution penalty and earnings will be subject to same,
3. There shall be an order of conversion dollar distributions,
   - Taxable conversion dollars
   - Non-taxable conversion dollars
4. Earnings are subject to income tax and perhaps early distribution penalties under IRC 72(t)

All ROTH IRAs are aggregated for the purposes of these rules.

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ROTH IRA Provisions

Distributions NOT taxable if—

- Return of contributions
- A "qualified distribution"
- Rolled over to another ROTH IRA
  - Ordering rule allows non-taxable first-return of contributions
  - Accounts are aggregated

Example: Two accounts with contributions of $10,000 each, worth $15,000 each. If one of the accounts is closed, the entire amount is considered to have been derived from contributions.

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Self-Directed IRAs

There are many kinds of self-directed IRAs, and most have no significant exposure attached to them

- However, those with self-directed IRAs often trip against
  - Unqualified Trustees
  - Disqualified Persons
  - Prohibited Transactions

Those taxpayers who want to invest in digital assets MUST use a self-directed IRA for that purpose.

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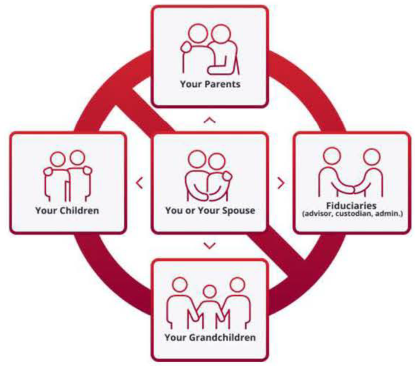
Self-Directed IRAs

Who is a *Disqualified Person* (DP)?

- IRA owner
- Spouse of IRA owner
- Ascendants or descendants of the IRA owner
- A 50%+ entity of a DP
- Fiduciary



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Self-Directed IRAs

Prohibited Transactions

- Sales between IRA and DP
- Lending or debt guarantees by the DP
- Goods or services to the IRA by the DP
- Use or transfer of assets by DP to IRA

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Self-Directed IRAs

Real Estate in your IRA

- PROBLEMS
  - Non-recourse financing only
  - IRA must pay ALL expenses
  - NO services can be provided by IRA owner
- ***Certain income can cause an IRA to pay taxes***
  - When debt is used to purchase rental real estate UBIT
  - An unrelated business activity is conducted UBIT
- **When there is UBIT and income is more than $1,000, Form 990T must be filed.**

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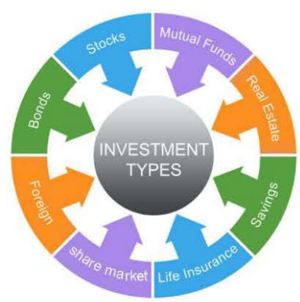
Self-Directed IRAs

When income earned by a tax-exempt trust is not directly related to its exempt purpose that income will be subject to UBIT rules.

- Not ever UBIT
  - Interest – No
  - Dividends – No
  - Royalties – No



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Self-Directed IRAs

When income earned by a tax-exempt trust is not directly related to its exempt purpose that income will be subject to UBIT rules.

- The problems start with:
  - Rental income that is NOT DEBT FINANCED – No
  - Rental Income that is debt financed – Yes (In proportion to the debt)
  - Sale of Real Estate that is NOT DEBT FINANCED – No
  - Sale of Real Estate that is DEBT FINANCED – Yes (In proportion to the debt)
  - Regularly carried on trade or business enterprises

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Self-Directed IRAs

When UBTI in a taxpayer's IRAs exceeds $1,000, Form 990-T is required to be filed:

- Form 990-T is due on or before April 15.
- Payment of tax must come from assets of the retirement account.
- Filers of Form 990-T are required to submit estimated payments if the expected liability is greater than $500.
- All IRAs/Retirement accounts of a taxpayer are aggregated for purposes of filing Form 990-T.
- The minimum penalty for late filing (greater than 60 days) is the smaller of the tax due or $435; otherwise, the late-filing penalty will be 5% of unpaid tax for each month up to a maximum of 25%.

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Self-Directed IRAs

IRS began auditing retirement plans with master limited partnership (MLP) and publicly-traded partnership (PTP) holdings at an increasing rate to determine compliance with the filing requirements of Form 990-T. The word has gotten out in the industry as fiduciaries are requesting information and preparing these returns for the retirement trust as required by statute more frequently.

It should be noted that there are several issues associated with this filing.

- First, the taxpayer may have multiple plans, with multiple trustees, which must be aggregated.
- Second, the trustee is the party responsible for the Form 990-T filing, i.e., reviewing and signing, a return that can be very complicated.
- Third, owners/beneficiaries need to be aware of the associated complications of these types of investments in their retirement accounts. Carefully review the Schedule K-1s received by the client for proper inclusion by the retirement trusts.

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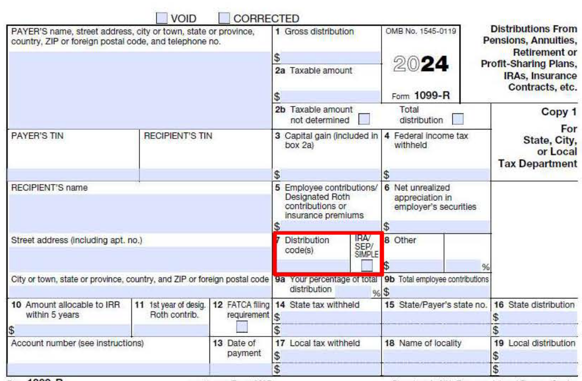
Filing Compliance – Distribution Codes on Form 1099-R

The back of Form 1099-R has Box 7 distribution codes


VOID CORRECTED

PAYER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone no.	1 Gross distribution $	OMB No. 1545-0119	2024 Form 1099-R	Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.
	2a Taxable amount $			
	2b Taxable amount not determined	Total distribution		Copy 1 For State, City, or Local Tax Department
PAYER'S TIN / RECIPIENT'S TIN	3 Capital gain (included in box 2a) $	4 Federal income tax withheld $		
RECIPIENT'S name	5 Employee contributions/ Designated Roth contributions or insurance premiums $	6 Net unrealized appreciation in employer's securities $		
Street address (including apt. no.)	7 Distribution code(s) / IRA/ SEP/ SIMPLE	8 Other $ %		
City or town, state or province, country, and ZIP or foreign postal code	9a Your percentage of total distribution %	9b Total employee contributions $		
10 Amount allocable to IRR within 5 years $ / 11 1st year of desig. Roth contrib. / 12 FATCA filing requirement	14 State tax withheld $ $	15 State/Payer's state no.	16 State distribution $ $	
Account number (see instructions) / 13 Date of payment	17 Local tax withheld $ $	18 Name of locality	19 Local distribution $ $	

Form 1099-R www.irs.gov/Form1099R Department of the Treasury - Internal Revenue Service

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Filing Compliance – Distribution Codes on Form 1099-R

These codes will indicate the distribution type and whether a Form 5329 will be required to indicate an exception to a Code Section 72-T penalty:

1. Early distribution – No known exception
2. Early distribution – Exception Applies
3. Disability
4. Death
5. Prohibited Transaction
6. Section 1035 Exchange
7. Normal Distribution
8. Excess Contributions Plus Earnings
9. Cost of current Life Insurance

A. May be eligible for 10-year tax option.

B. Designated Roth Account Distribution

C. Reportable Death Benefits

D. Annuity payments from non-qualified plan

E. Dist. Pursuant to Employee Plans Compliance Resolution

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Filing Compliance – Distribution Codes on Form 1099-R

Some helpful tables to understand Box 7 – See Instructions for Form 1099-R – Page 16-18

https://www.irs.gov/pub/irs-pdf/i1099r.pdf

Guide to Distribution Codes

Distribution Codes	Explanations	*Used with code ...(if applicable)
1—Early distribution, no known exception.	Use Code 1 only if the participant has not reached age 59½, and you do not know if any of the exceptions under Code 2, 3, or 4 apply. However, use Code 1 even if the distribution is made for medical expenses, health insurance premiums, qualified higher education expenses, a first-time home purchase, or a qualified reservist distribution under section 72(t)(2)(B), (D), (E), (F), or (G). Code 1 also must be used even if a taxpayer is 59½ or older and he or she modifies a series of substantially equal periodic payments under section 72(q), (t), or (v) prior to the end of the 5-year period which began with the first payment.	8, B, D, K, L, M, or P
2—Early distribution, exception applies.	Use Code 2 **only if** the participant has not reached age 59½ **and you know** the distribution is the following. • A Roth IRA conversion (an IRA converted to a Roth IRA). • A distribution made from a qualified retirement plan or IRA because of an IRS levy under section 6331. • A governmental section 457(b) plan distribution that is not subject to the additional 10% tax. But see *Governmental section 457(b) plans*, earlier, for information on distributions that may be subject to the 10% additional tax. • A distribution from a qualified retirement plan after separation from service in or after the year the participant has reached age 55. • A distribution from a governmental defined benefit plan to a public safety employee (as defined in section 72(t)(10)(B)) after separation from service, in or after the year the employee has reached age 50. • A distribution that is part of a series of substantially equal periodic payments as described in section 72(q), (t), (u), or (v). • A distribution that is a permissible withdrawal under an eligible automatic contribution arrangement (EACA). • Any other distribution subject to an exception under section 72(q), (t), (u), or (v) that is not required to be reported using Code 1, 3, or 4.	8, B, D, K, L, M, or P
3—Disability.	For these purposes, see section 72(m)(7).	D
4—Death.	Use Code 4 regardless of the age of the participant to indicate payment to a decedent's beneficiary, including an estate or trust. Also use it for death benefit payments made by an employer but not made as part of a pension, profit-sharing, or retirement plan. Also use it for payments of reportable death benefits.	8, A, B, D, G, H, K, L, M, or P
5—Prohibited transaction.	Use Code 5 if there was a prohibited transaction involving the IRA account. Code 5 means the account is no longer an IRA.	None
6—Section 1035 exchange.	Use Code 6 to indicate the tax-free exchange of life insurance, annuity, long-term care insurance, or endowment contracts under section 1035.	W

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Filing Compliance – Distribution Codes on Form 1099-R

Some helpful tables to understand Box 7 to assist with exceptions to IRC 72(t) Penalty

Distribution Reason	Traditional IRA (includes SEP)	SIMPLE IRA	Roth IRA
Age 59½ (Normal)	7	7	T or Q
Younger than Age 59½	1 or 2	1, 2, or S	J
First-Time Home Purchase	1	1 or S	J
Higher Education Expenses	1	1 or S	J
Medical Expenses	1	1 or S	J
Health Insurance Premiums	1	1 or S	J
Substantially Equal Periodic Payments (however, use Code 1 if traditional or SIMPLE IRA payments are modified, even after age 59½)	2	2	J
Conversion by Transfer (prior to age 59½)	2	2	N/A
IRS Levy (prior to age 59½)	2	2	2
Disability (prior to age 59½)	3	3	T or Q
Death	4	4	T or Q
Qualified Reservist Distribution	1 or 7	1 or 7	J, T, or Q
IRA to IRA Transfer	N/A	N/A	N/A
Direct Rollover to Employer Plan	G	G	N/A
Prohibited Transaction	5	5	5
Qualified HSA Funding Distribution	1 or 7	N/A	J, T, or Q
Qualified Charitable Distribution	7 or 4	7 or 4	T
Disaster Recovery Assistance Distribution	1 or 7	1, S, or 7	J, T, or Q
Distribution of IRA assets not having a readily available FMV	K	K	N/A

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Filing Compliance – Distribution Codes on Form 1099-R

Form 1099-R IRS Distribution Codes Returned and Excess IRA Contributions

When Correction Occurs	IRA Type	IRS Code	Tax Treatment	Report in Box 1	Report in Box 2a
Excess contribution made and removed within the same year	Traditional	8; 81 if younger than age 59½, 84 if removed by beneficiary; if age 59½ or older and hard to value assets are included use 8K or K8	NIA is taxable and subject to penalty tax in distribution year	Excess or returned contribution plus NIA	NIA only
Returned contribution made and removed within the same year					
Excess contribution made and removed within the same year	Roth	J8			
Returned contribution made and removed within the same year					
Excess contribution removed in year following contribution year (by applicable tax return due date)	Traditional	P; P1 if younger than age 59½; P4 if removed by beneficiary	NIA is taxable and subject to penalty tax in contribution year	Excess or returned contribution plus NIA	NIA only
Returned contribution removed in year following contribution year (by applicable tax return due date)					

When Correction Occurs	IRA Type	IRS Code	Tax Treatment	Report in Box 1	Report in Box 2a
Excess	Traditional	8; 81 if	NIA is taxable	Excess or	NIA only
Excess contribution removed after applicable tax return due date	Traditional	1, 4, or 7; if hard to value assets are included use 1K or K1 if younger than age 59½, K7 or 7K if age 59½ or older, or 4K or K4 if removed by a beneficiary	NIA remains in IRA; excess amount subject to 6 percent penalty tax annually until removed or applied	Excess contribution	Leave blank; check taxable amount not determined in Box 2b
Excess contribution removed after applicable tax return due date	Roth	J, T, or Q	NIA remains in IRA; excess amount subject to 6 percent penalty tax annually until removed or applied; excess amount is applied as regular contribution, if eligible	Excess contribution	Leave blank; may check taxable amount not determined in Box 2b

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SECURE Act 2019 – Penalty-free Plan Withdrawals for Births or Adoptions

An individual may take a penalty free withdrawal from retirement plans for a 12-month period upon the birth or adoption of a child:

- Eligible Individual:
  - The child must be no more than age 17 or
  - The child must be incapable of self care.
- The maximum penalty free amount is $5,000 per taxpayer (couples would be eligible for up to $10,000).
- These distributions are eligible under the rollover rules.

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Extended Rollovers – Deemed Distribution

TCJA expanded the ability of a taxpayer to solve the problem of a "deemed distribution" from a plan loan default. An employer plan loan is in default if:

1. The loan is not repaid within 5 years (limited exception to home loans), or
2. Level payments are not made at least quarterly, or
3. The loan does not exceed the allowed balance, or
4. The loan fails to adhere to a legally enforceable agreement or
5. When the employee separates from service there is normally a failure of Item 2, but notice is given to employee allowing a repayment within a specified period.

Any failure of the loan will be deemed to be distribution of the loan balance.

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Extended Rollovers – Deemed Distribution

Solution:

An employee who receives a "deemed distribution" is allowed until the extended due date of the return for the year of the distribution to make a "rollover" deposit to a qualified account.

Tax years 2018 and beyond.

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Qualified Domestic Relations Order (QDRO)

The QDRO: A transfer of property rights from spouses or ex-spouses

- Any type of IRA or qualified plan can be subject to a QDRO or divorce agreement
- All amounts received pursuant to a QDRO are eligible for rollover
  - IRAs are not eligible for penalty free withdrawal by the receiving spouse
- **QDRO distributions are not subject to a premature distribution penalty but are once they are rolled to another plan.**

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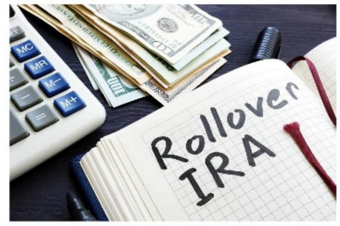
Rollovers from IRAs

A rollover from an IRA to an IRA is easy but has a few issues:

- Must be done within 60 days, some exceptions:
  - Certain Deemed Distributions
  - Elected CARES Act Distributions
  - Disaster Area Distributions
- 100% need not be rolled over.
- The rollover can go to the originating account, an existing account or a new account.
- If the funds were distributed to a first-time homebuyer the T/P has 120 days.



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Rollovers from IRAs – Unclaimed Property

A problem of IRAs that are liquidated because of unclaimed property rules.

- Several states have shortened the period before an IRA is subject to unclaimed property rules.
- Accounts are liquidated by fund company and turned over to state:
  - State of residency or
  - State where fund company primarily does business
- Most often discovered when taxpayer receives 1099-R
  - IRS requires withholding at 10% rate – Notice 2018-90 (Effective 2020)
  - Taxpayer may be eligible for extended rollover period
    - PLR 201611028 – Allowed taxpayer to rollover amount subject to unclaimed property rules within 60 days of receipt from state.

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Rollovers from IRAs

Forgiveness of late rollover is automatic when ALL apply:

- Financial Institution's (FI) error
- Followed all procedures of FI
- Only reason it did not work was because of FI
  - **It was all fixed within one year**
  - If only the FI did what they were told it would have been okay

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Rollovers from IRAs

The IRS has added some additional "forgiveness parameters" to failed rollovers, such as:

- Taxpayer's residence was severely damaged.
- A member of the family died.
- A serious illness of the taxpayer or member of family.
- A postal error.

These were part of Rev. Proc. 2016-47, which provided a "self-certification" program for taxpayers who have rollover failures.

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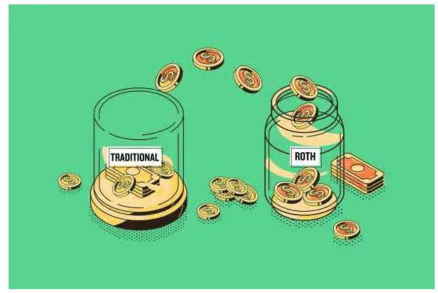
Conversions to ROTH IRAs

ROTH IRAs convert taxable retirement account(s) to a tax-free vehicle

- The equation is whether tax today worth the price of no tax tomorrow
- Each decision dependent on taxpayer



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Conversions to ROTH IRAs

There is a "back door" Roth strategy.

- Taxpayer who has income more than ROTH IRA thresholds makes non-deductible contribution to regular IRA.
- Taxpayer immediately converts contributed amount to ROTH IRA (assumes that there are no other funds in other non-ROTH IRA accounts), (Code Sec. 408 accounts) including:
  - SEP IRA
  - Simple IRA
  - Regular IRA
  - Any IRC 408 account

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Conversions to ROTH IRAs

The current "back door" Roth strategy, but there are complications.

- A taxpayer who has regular IRAs (any IRC 408 account) with basis.
  - Convert the taxable portion to an employer account.
  - Convert the basis portion to the Roth IRA.
  - The conversion will have virtually ZERO tax associated with it

EXAMPLE: T/P has an IRA in which the following has occurred: 1) $100,000 of deductible contributions 2) $30,000 of non-deductible contributions, and 3) $20,000 of earnings; total amount in the account is $150,000. By using the special rule above, T/P could take a distribution of $120,000 rolling it all into a qualified plan. This leaves $30,000 in the IRA with a basis of $30,000. Now he converts the $30,000 into a Roth IRA with **no** tax consequences.

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Conversions to ROTH IRAs

There is no formula—Look at conversion valuation software (avoid mutual fund company calculators)

- Example: Your client, Dave Geezer, comes to you with the question "Should I convert my traditional IRA to a ROTH IRA or not? He tells you that he has $10,000 that can earn 8% over time. He is 53 and in the 35% tax bracket. He expects to retire at 66 and will be in the 12% tax bracket. Assume he would have invested the $3,500 ($10,000 x 35%) funds to pay the tax. He has $4,152 less at the age 66 with a conversion.
  - Variation 1: If he earned 5% not 8%, he would still have $3,184 less at age 66 with a conversion.
  - Variation 2: If he was 29 and in a 12% tax bracket with an 8% return, he will have $9,675 more at age 66 with a conversion.

https://www.calcxml.com/calculators/roth-ira-conversion-calculator

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Qualified Charitable Distribution

	Normal	Direct
IRA Distribution	$25,000	$10,000
Other Income	65,000	65,000
Taxable Social Security	40,000	40,000
Adjusted Gross Income	130,000	115,000
Taxes	(10,000)	(10,000)
Charity	(15,000)	0
Standard Deduction	(33,100)	(33,100)
Taxable Income	$96,900	$81,900
Tax Savings of $2,372	$11,736	$ 9,364

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Qualified Charitable Distribution

A MFJ T/P who has donative intent, and an IRMAA problem saves $3,300.00 (FIT) + $1,776.00 (Part B) + $328.80 (Part D) = $5,404.80

	Without QCD	With QCD
Income		
Interest and Dividends	$ 15,000	$ 15,000
Pensions, IRAs and Annuities	$160,000	$145,000
Taxable Social Security	$ 40,000	$ 40,000
MAGI	$225,000	$210,000
Taxable Income	$181,900	$166,900
Medicare Annual Charge	$6,216.00	$4,440.00

2025 Medicare IRMAA Bracket Change $212,000

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Qualified Charitable Distribution

A couple of twists added by Secure 2.0:

- IRA charitable distribution provision to allow for a one-time $50,000 distribution to charities through charitable gift annuities, charitable remainder unitrusts, and charitable remainder annuity trusts.
- Indexes for inflation the annual IRA charitable distribution limit of $100,000 (SECURE 2.0 Act § 307) starting in 2024.
  - Notice 2023-75 – Amount is increased to $105,000

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Income Related Monthly Adjustment Amounts (IRMAA) – Part B

IRMAA Brackets	2024 – Based on 2022 MAGI	2025 – Based on 2023 MAGI	Income Related Monthly Adj Amt.	Total Monthly Prem. Amt. Each
1. Standard	Single ≤ $103,000 MFJ ≤ $206,000	Single ≤ $106,000 MFJ ≤ $212,000	$ 0.00	$185.00
2. Standard x 1.4	Single ≤ $129,000 MFJ ≤ $258,000	Single ≤ $133,000 MFJ ≤ $266,000	$ 74.00	$259.00
3. Standard x 2.0	Single ≤ $161,000 MFJ ≤ $322,000	Single ≤ $167,000 MFJ ≤ $334,000	$185.00	$370.00
4. Standard x 2.6	Single ≤ $193,000 MFJ ≤ $386,000	Single ≤ $200,000 MFJ ≤ $400,000	$295.90	$480.90
5. Standard x 3.2	Single ≤ $500,000 MFJ ≤ $750,000	Single ≤ $500,000 MFJ ≤ $750,000	$406.90	$591.90
6. Standard x 3.4	Single >$500,000 MFJ > $750,000	Single > $500,000 MFJ > $750,000	$443.90	$628.90

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Income Related Monthly Adjustment Amounts (IRMAA) – Part D

IRMAA for 2025

Single	Married filing jointly	Part D Income-Related Monthly Adjustment Amount
Less than or equal to $106,000	Less than or equal to $212,000	$0.00
Greater than $106,000 and less than or equal to $133,000	Greater than $212,000 and less than or equal to $266,000	$13.70
Greater than $133,000 and less than or equal to $167,000	Greater than $266,000 and less than or equal to $334,00	$35.30
Greater than $167,000 and less than or equal to $200,000	Greater than $334,00 and less than or equal to $400,000	$57.00
Greater than $200,000 and less than $500,000	Greater than $400,000 and less than $750,000	$78.60
Greater than or equal to $500,000	Greater than or equal to $750,000	$85.80

Qualified Charitable Distribution

	Normal	Direct
IRA Distribution	$40,000	$36,000
Social Security ($30,000)	15,350	11,950
Adjusted Gross Income	55,350	47,950
Charity ($4,000)	0	0
Standard Deduction	(33,100)	(33,100)
Taxable Income	$22,250	$14,850
Tax Savings of $740	$ 2,225	$ 1,485

SECURES Act + Qualified Charitable Distribution

As a result of the ability to make contributions to a Regular IRA after age 70 ½ the rules of QCD have been coordinated with pre-tax amounts contributed:

The Act limits the amount of a taxpayer s QCDs that are not includible in gross income for a tax year is *reduced* (but not below zero) by the excess of:

1) The total amount of IRA deductions allowed to the taxpayer for all tax years ending on or after the date the taxpayer attains age 70½, over
2) The total amount of reductions for all tax years preceding the current tax year. (Code Sec. 408(d)(8)(A), as amended by Act Sec. 107(b))

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SECURES Act + Qualified Charitable Distribution

As a result of the ability to make contributions to a Regular IRA after age 70 ½ the rules of QCD have been coordinated with pre-tax amounts contributed:

EXAMPLE:

In 2024 taxpayer (after obtaining age 70 ½):

1. Makes a <u>deductible</u> IRA contribution in the amount of $7,000.
2. Instructs the trustee (in the current or later year) to distribute a QCD in the amount of $5,000.

The $5,000 QCD will not be excludable from income and an additional $2,000 ($7,000 – $5,000) will be carried forward to reduce any future QCD excludable amounts.

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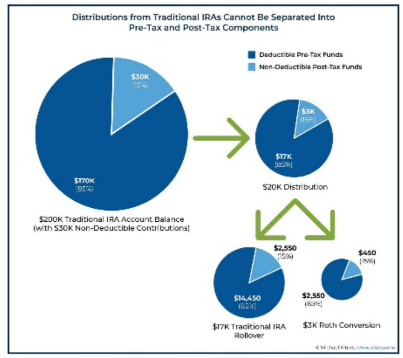
Traditional IRA Distributions

Traditional IRAs include all IRAs (deductible and non-deductible)

- Distributions taxable except for portion attributed to nondeductible
- Allocate nondeductible to "ALL IRAs"
- Numerator is nondeductible and denominator is "ALL IRAs" (including SEP, SIMPLE (Section 408 plans)



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Required Minimum Distribution (RMD)

Two sets of RMD Rules:

- Lifetime distributions except ROTH IRAs (participant)
- Inherited account distributions including ROTH IRAs (beneficiary)
  - Lifetime begin at 70½, starting in 2020/2023 RMD age will become age 72/73 because of the SECURE Act
  - Inherited for 2020 and beyond most non-spouse beneficiaries must take 100% of account within 10 years after the year of death.

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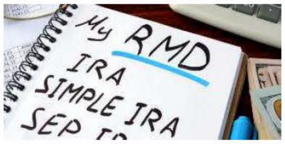
Plan Participant – IRS Publishes New Life Expectancy Table



- IRS released Reg. 1.401(a)(9)-9 which modified the life expectancy tables for 2022 and beyond. (federalregister.gov/d/2020-24723)

Age	Uniform Lifetime Table		Single Lifetime Table	
	Current	Final	Current	Final
70	27.4	NA	17.0	18.8
71	26.5	NA	16.3	18.0
72	25.6	27.4	15.5	17.2
73	24.7	26.5	14.8	16.4
74	23.8	25.5	14.1	15.6

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Is September 30th Still an Important Date

What exactly does the September 30th date mean from an administration perspective with the new rules of the SECURE Act?

Example: Tim died in 2024 at age 60. He left his IRA 50% to his wife, Vicki (age 55), 30% to his son Sam (age 30), and 20% to his church.

- How are post-death RMDs calculated if the IRA is not divided and none of the beneficiaries are paid before September 30, 2025?
  - The current distribution rules mean that the account will be required to be distributed based on the most restrictive rule.
  - As a result, all the amounts left by Tim will be required to be distributed by 12/31/2029. Vicki will not be able to use the more generous distribution rules available to a spouse.

86 CPEdge

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Is September 30th Still an Important Date

What exactly does the September 30th date mean from an administration perspective with the new rules of the SECURE Act?

Example: Tim died in 2024 at age 60. He left his IRA 50% to his wife, Vicki (age 55), 30% to his son Sam (age 30), and 20% to his church.

- The church receives its 20% of Tim's IRA
- Vicki (50%) and Sam (30%) will be required to use the most restrictive rule
  - As Tim had not reached RBD by the DOD all amounts must be distributed by 12/31/2034

87 CERIFI CPEdge

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Is September 30th Still an Important Date

What exactly does the September 30th date mean from an administration perspective with the new rules of the SECURE Act?

Example: Tim died in 2024 at age 60. He left his IRA 50% to his wife, Vicki (age 55), 30% to his son Sam (age 30), and 20% to his church.

- The church receives its 20% of Tim's IRA by 09/30/2025
- Sam receives his 30% of Tim's IRA by 09/30/2025
- Vicki (50%) RBD will be based on either
  - Tim's RBD or
  - Vicki's RBD

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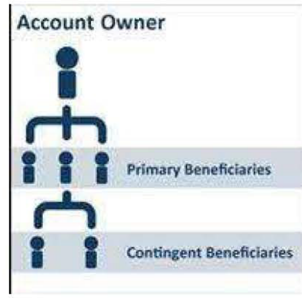
Tax Considerations in Selecting a Beneficiary

Factors to be considered when choosing a beneficiary:

- Payment options available
- Health of participant and beneficiary
- Spouse's dependence on distributions
- Desire to pass assets on to heirs



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Tax Considerations in Selecting a Beneficiary

Considerations:

- Ability to control various post-mortem deferral opportunities
- Monitor life events:
  - Death of spouse
  - Death of beneficiary
  - Divorce
- Maintain copies of beneficiary designations in safe location.
- Name contingent beneficiaries—One of the most important things we can encourage our clients to do.

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A. Discussion Questions

1. How does a trustee-to-trustee transfer differ from a rollover when moving funds between IRA accounts, and why might one option be preferred over the other?

2. What is the deadline for making IRA contributions, and how could misunderstanding this deadline affect a taxpayer's financial or tax situation?

3. How do age-related rules influence the maximum contribution limits to a traditional IRA, and what is the significance of the catch-up contribution?

4. What are the main rules associated with inherited IRAs under the 10-year rule, and how do these rules change based on whether the original account holder had reached their Required Beginning Date (RBD)?

5. How does the Spousal IRA expand retirement savings opportunities for households with one income earner, and what are some misconceptions people might have about this provision?

6. How is the five-year holding period for Roth IRAs calculated, and why is understanding the start date critical for determining whether a distribution is qualified?

B. Suggested Answers to Discussion Questions

1. **How does a trustee-to-trustee transfer differ from a rollover when moving funds between IRA accounts, and why might one option be preferred over the other?**

   - A **trustee-to-trustee transfer** involves moving funds directly between custodians; the account holder never touches the funds.
   - A **rollover** involves the account holder receiving the funds (typically by check) and redepositing them within **60 days**.
   - **Key distinctions:**
     - Transfers **do not count** against the one-rollover-per-365-day rule.
     - Transfers **avoid the 20% mandatory withholding**.
     - Transfers are generally **safer and cleaner** for tax compliance.

2. **What is the deadline for making IRA contributions, and how could misunderstanding this deadline affect a taxpayer's financial or tax situation?**

   - The deadline for contributing to a traditional or Roth IRA is the **original tax return due date**, typically **April 15**.
   - **Extensions do not apply** to these contributions.
   - If missed, the taxpayer loses the deduction or opportunity to fund for that year.
   - **SEP IRAs** can follow extended deadlines, October 15.

3. **How do age-related rules influence the maximum contribution limits to a traditional IRA, and what is the significance of the catch-up contribution?**

   - For 2025, the base limit is **$7,000**.
   - Individuals **age 50 and older** can make a **$1,000 catch-up** contribution, for a total of **$8,000**.
   - Catch-up contributions allow older taxpayers to **boost retirement savings** as they near retirement age.
   - Important for planning around tax deductions, MAGI thresholds, and long-term growth potential.

4. **What are the main rules associated with inherited IRAs under the 10-year rule, and how do these rules change based on whether the original account holder had reached their Required Beginning Date (RBD)?**

   - If the **original owner died after 2019**, non-spouse beneficiaries generally must **empty the IRA within 10 years**.
   - If the decedent had **not reached RBD**, **no annual RMDs** are required—just full distribution by year 10.
   - If the decedent **had reached RBD**, **annual RMDs** must be taken in years 1–9 in addition to clearing the account by year 10.
   - Spouses, minors, and certain others may still qualify for **"stretch" options**.

5. **How does the Spousal IRA expand retirement savings opportunities for households with one income earner, and what are some misconceptions people might have about this provision?**
   - A non-working or low-earning spouse can contribute to an IRA **based on the working spouse's earned income**.
   - Contribution limits are the same as for any other eligible individual ($7,000 or $8,000 with catch-up).
   - **Misconceptions:**
     - **Both spouses need earned income**, which is false.
     - The IRA must be a **joint account**, but IRAs are **always individually owned**.
6. **How is the five-year holding period for Roth IRAs calculated, and why is understanding the start date critical for determining whether a distribution is qualified?**
   - The clock **starts on January 1 of the tax year** for which the **first Roth contribution** was made.
   - It applies **once per taxpayer**, not per account or per contribution.
   - To be a **qualified distribution**, the taxpayer must meet:
     1. **5-year rule**
     2. Be **age 59½ or older**, disabled, deceased, or using up to $10,000 for a first-time home purchase.
   - Understanding the clock prevents **unintentional taxation or penalties** on earnings.

PART 2. PARTNERSHIPS

Partnership Distributions, Sec. 754 Election, and Sec. 734(b) Adjustments

In this video, Ian Redpath explores the tax treatment of partnership distributions and the impact of a Section 754 election. He clarifies the difference between guaranteed payments and true distributions, explains the basis ordering rules, and breaks down the adjustments required under Section 734(b). He provides insight into how "hot assets" affect disproportionate distributions and what practitioners need to know about compliance and reporting.

Let's join Ian.

Mr. Ian Redpath

Hi everybody, welcome to the program. I'm Ian Redpath. Today we're going to be talking about one topic and that is distributions from a partnership, and we're going to then go into the Section 754 election and how that affects distributions.

Now, with Section 754, we normally think of 754 in the context of a, not a distribution, but a sale because that's normally where we see it, is when there has been a sale, but it's very common because if you have a 754 election in effect you have to make the adjustments under both 743 for a transfer and under 734 for distributions. There's no such thing as an election for 743 adjustments only or 734 adjustments only.

So, once you make the 754 election, you have to apply both. So, you have to think of that when you're making that decision. Are we going to do a 754 election is to say, "Okay, I know, but I have to do both. I've got to make both adjustments. I can't just make one of the adjustments."

So, 754 is just the election. It's election under 754. The adjustments are on a transfer of an interest, A transfers their interest in a partnership to B. That is under 743(b). On distributions, when a partner receives a distribution, usually it's a liquidating distribution where one or more partners are being liquidated out, but the other partners are remaining and the partnership is going to continue.

In that type of situation, 734(b), I know, it's crazy; right, 743(b), 734(b), but 734(b) covers those. And now, and we'll talk about this in a bit, but in Schedule B now, you, you have to come right out and they ask you very specific questions, both on 743(b) adjustments transfers and 734(b) distributions very specific questions about those, and you have to attach a statement giving detail as to exactly, you know what the property is and the adjustments that are being made,

So, you know, this is very, it can become a very important thing. Again, always make sure, you know, if you get it a new client find out if they made a 754 election. You might find that a 754 election was made, and these weren't even the partners when it was made. It's an old election. And again, if the partnership doesn't know or can't give you with certainty that, "No, it never was done," then you should contact the IRS and ask whether there's a 754 election in effect because the only way you can get rid of a 754 election is with approval of the IRS. And they're not very willing to give it out. We'll talk about some of the reasons they will allow you to, but they're not very forthcoming with granting any type of just, you know, "Okay, we're going to let you out of it," relief from 754.

So, again, once it's elected, every distribution, every transfer of an interest, 754 has to be accounted for and has to be, the transaction has to be attributed to 754, so, 743 and 734(b) adjustments.

So, let's look at a distribution from a partnership. So, when we get distributions, a payment from the partnership, now that payment doesn't have to be in cash. It can be a distribution of property. A payment from or a distribution from the partnership to a partner. Now, that's not always going to be treated as a distribution. So, for example, you know, an arm's-length transaction, a partnership may borrow money and be paying interest to a partner.

Well, that's interest. That's not a distribution. They could be paying rent. The partnership could be renting property from a partner. That's rent. It's like anything else; it's going to be treated as rent. They could be purchasing property from a partner. Well, that's just the purchase price, and it could be a guaranteed payment. Now, a guaranteed payment is ordinary income.

Remember, the IRS is very clear, Rev. Rul. 69-184. A partner is not an employee for purposes of FICA, FUTA, or withholding. IRS can't be any clearer. Partners do not get W-2s. They are not employees. Partners don't get salaries. They're not employees.

Now, you could have a circumstance where you say, "You know what? Partner A spends all their time. Partner B doesn't spend much time and Partner B put up most of the money." Well, a decision could be made. You can't give A a salary, but you could say, "Okay, A gets a guaranteed payment. A will get $100,000 and then share whatever their share is in the rest."

That additional, the rest, anything they get out of that would be a distribution, but the guarantee of $100,000 that's a guaranteed payment, and that guaranteed payment means that the partnership, if they can't come up with it, then there has to be a contribution from the partners or the partnership has to borrow the money, but that partner A gets that $100,000 first before there's any distribution of profit.

They're going to pick up at his ordinary income, subject to self-employment tax. It's going to be on the K and Schedule K-1 again, not a W-2, not a 1099. It's going to show up on the K and the K-1. They're going to pay self-employment tax on it, and the partnership is going to take an ordinary deduction for that payment, just as they would other compensation. Now, they don't include it with the other compensation to any employees they might have. There's a separate line for reporting that on the 1065. So, the guaranteed payments have to be separated.

Now, you could also have a guaranteed payment by saying, "You know what? You get a guaranteed payment on your capital contribution," and that can be created a number of different ways. And again, that is not a salary. It is more in the nature of interest. It's a guaranteed payment on the use of your capital, which pretty much by definition is an interest payment.

So, keep in mind, when you're thinking of a partnership, you're going to have really two different things you're looking at. You know, one is the flow through. And that flow through is just the numbers; right? It's the numbers coming off of the K-1 that are going to be picked up on the partners' return.

So, the partnership files the 1065. They report on K-1, the gross amounts, then on -- excuse me, on Schedule K -- the gross amounts, and then on the K-1, they allocate it to each of their partners, their proportionate shares, and then the partners pick it up and pay tax on it. And the character of it, the timing, that's all determined at the partnership level, and then it flows through, but those are numbers on the K-1.

It's not real. It's what you're paying tax on. It doesn't mean you're, anything to what you take up. You know, I'm sure you've had situations where, you know, a partner says, "What do mean? I got to pay tax on $100,000. I only took out $25,000." Well, yeah, but your share.

I had a situation once where they contacted me because they were sure that their CPA had really screwed them over. “Did a horrible job. Oh, my god. He's a really, really, you know Doesn't know what he's doing.” Well, what happened was they got a very large payment, so, what did they do? They went out. They paid down all their debt, cleared all their debt. They then went and bought some new equipment. “Yeah, you got to depreciate that.” Then they went and bought a building.

Well, guess what? You’ve got to pay tax on your share of the income. Your share of the reduction in liabilities is deemed cash distributed to you and the reduction of debt created that, but you have assets now. With those assets, you're writing off the building over 39 years. You're depreciating some of the assets. They couldn't figure out, “Why am I paying on $100,000?” Well, because that was your share of the income of the partnership, “But I only took out $20,000.” Well, that $20,000 you took out, that's a distribution. So, that's the other side of it. The distributions are the amounts that you actually or are deemed to have taken out, whether it's property or cash or the reduction in liabilities. The reduction in liabilities is considered to be cash.

Now, you get a basis in your share of the liabilities. That is considered to be a deemed contribution of cash. So, I've contributed cash equal to my share of the liabilities, recourse or non-recourse. Now, in another course, we covered that, you know, how they're done is done differently, your share, but once you've determined what your share is of the recourse and the non-recourse, that is a basis because you have been deemed to contribute cash into, think of it as an escrow account out there to cover all the debt. Well, when the debts are being paid down, that's a distribution of cash. They don't need your cash anymore, so, they distribute it to you. That is considered the same as a cash distribution. So, it's what you actually or are deemed to have gotten that is a distribution, again not a guaranteed payment.

So, basically, we break distributions up into two categories liquidating or current at a non-liquidating. So, liquidating or current or non-liquidating distributions. How do you know the difference? Well, if there's no partners left, that's a liquidating distribution, but if a partner is leaving the partnership, then they'll have no longer any interest in it. You know, you can have a liquidating distribution to them. So, it's a liquidating distribution to that partner.

So, it could be a liquidating distribution because the partnerships going out of business, everybody's leaving, or you could be one or more partners, but the partnership is continuing whatever partners remaining and they're going to continue the business. So, those are both liquidating. Any other distribution is considered to be a non-liquidating, or current distribution.

Now, even within those, we're going to break it down to proportionate and disproportionate distributions; a proportionate distribution or a disproportionate. So, with current distribution, you know, you're going to have essentially, it's any non-liquidating distribution but they can be proportionate or disproportionate.

What does proportionality mean? And this is a confusion all the time. Proportionality does not mean that you got your proportionate share of your interest. So, let's say 50/30/20. Proportionate doesn't mean you got 50/30/20. You would think, “Well, wait a second, I had a 30% interest, I had a 50%, I had a 20% and that's what the distribution was.” Or a liquidating distribution. “Well, I got my 30%. Therefore, that's a proportionate liquidating distribution.” No. Proportionality or disproportionate, so, I could get my 30% interest, and it can still be disproportionate. Proportionality is based on the so-called “751 hot assets,” and that's the term, “hot assets.”

751 assets are assets that would create ordinary income if the partnership disposed of them. So, what are they? Well, some of them make, obviously they make sense. An unrealized receivable, an unrealized receivable, that is considered a hot asset. When disposed of, it will create ordinary income.

Inventory, when disposed of it creates ordinary income; however, however, and this is a big “however,” the proportionality looks at the hot assets. It's assets that would create ordinary income. So, it is unrealized receivables in the context of what we would ordinarily think of as unrealized receivables, but it also includes any, for example, depreciation, recapture that creates ordinary income, bond amortization premiums, ordinary income.

In a distribution, inventory will be hot if it, and you have to think about this, for purposes of a sale the seller, because normally they would get capital gain when they sell their interest, the seller gets ordinary income to the extent of their share of the 751 assets. All inventory is hot for that purpose, but for purposes of a distribution, the rule is slightly different.

Substantially appreciated inventory, not all inventory, substantially appreciated. Substantially appreciated inventory means the fair market value exceeds 120% of the partnership's adjusted basis in that inventory.

In a transfer, all inventory is hot. In a distribution, it has to be substantially appreciated. Fair market value is in excess of 120% of basis. Well, what's inventory? Well, for this purpose, inventory includes all assets other than cash, capital, and 1231 assets, other than the receivables, but the receivables we know are already hot. But that inventory includes, so, for purposes of the 120% test, you include all assets, which would include the unrealized receivables, the depreciation recapture, you include those as inventory in the 120% test. So, what are you doing? You're bringing value in, but usually no basis, especially cash basis taxpayer, you'll be bringing in value with no basis making it more probable that the inventory will be considered hot. The receivables are always hot. They are always hot.

So, to be a proportionate distribution, you have to get your proportionate share. So, you test what was your interest in the hot assets before and your interest in the hot assets after. "I got cashed out." Very common; right? "Okay. I'm leaving. Cash me out. Before, I had 30% of the hot assets. After, I had 20% of the hot assets." That's a disproportionate distribution. So, you have to be careful with these distributions.

So, what then happens when you have a disproportionate distribution? "Well, you didn't." "What? What do you mean I didn't?" Hypothetically, you got a proportionate distribution. So, you got 30% of the receivables, 30% of all of the assets, the inventory. So, all the hot assets, you got 30% of. No, you didn't. You got cash.

So, now you got to get back to reality, right, because I didn't get that. I got cash. So, how do you get back to reality? You sell back to the partnership the assets that you hypothetically got for the assets you really got. "Well, I really got cash. Okay, so I sold back my 30% share of the hot assets for cash."

Well, what happens when you sell a receivable? Ordinary income, the inventory, ordinary income. These are all generating ordinary income for you; right? The deemed receivables, the unrealized receivables, the inventory, it's all generating ordinary income that you're going to pick up in the year of the distribution.

The partnership gets a step-up because they bought those at fair market value. So, they're going to, for example, get a basis. Let's say it's a cash basis partnership. They're going to get a basis now in part of the receivables. They're going to increase the inventory basis. They're going to get a basis now in the ordinary income assets that I picked up on the distribution.

So, I hypothetically got a proportionate distribution. I sold back for what I really got. Maybe I got back land. No, I got back a proportionate distribution. I now sell back for what I really got, which was the additional basis in the land; right? I already was entitled to 30% of that, but what was the, what did I, what portion of my 30% was the land?

So, I'm going to get my basis in that, but I get fair market value because in essence, I'm buying back, I'm buying that land; right? So, part of that land gets carryover basis, a distribution, but part of that land I'm buying back. Well, what's happening to the partnership? It's selling part of that to me; recognize gain.

So, a proportionate or disproportionate distribution makes a big difference with those hot assets. As I said, most distributions end up being disproportionate distributions because, you know, let's say you're liquidating the partnership in total. You take the receivables. You take the building. You're taking the equipment and cash. That's normally how you're going to, to get rid of it.

So, again, that’s how you're going to treat it. The partnership distributed a proportionate distribution, and you transferred back and you're going to recognize ordinary income on those hot assets, and the partnership is going to get a step-up in basis.

So, in the distributions, there is a general ordering rule, and this ordering rule has to be followed. It doesn't matter if it's a liquidating or a non-liquidating distribution. The ordering rule is going to apply.

So, what is the ordering rule? The ordering rule says that when there's a distribution from the partnership, you start with your basis. Now, which basis? My outside basis. “What is my basis in my interest in the partnership?“ I then reduce my basis first for cash. If I have enough basis, great. Then I got the cash tax free. It's just a return of capital. Remember, I'm reducing my outside basis or my basis in the interest. I reduce it first for the cash.

Now, what if that cash exceeds my basis? I've got a gain. I've got a gain. It doesn't matter what type of distribution it is. What’s my -- once I've gotten back my basis, I have a gain. Now that gain is generally a capital gain. Then keep in mind, we talked about this before, it's cash, but it also includes that deemed cash, the reduction in liabilities. So, I get, I'm deemed to have gotten back.

Remember, I put, hypothetically put money into this escrow account called debt, and now I'm taking back from it. The partnership doesn't need my money to cover the debt, so therefore, that's a deemed distribution of cash. It's considered like actual cash. I could have my share of the reduction in basis, get no actual cash and I could have a gain. If that exceeds my basis, I've got a gain. It's a hypothetical, but it's a deemed distribution of cash.

Then we go to unrealized receivables and inventory. Unrealized receivables and inventory, there's a limitation here. The law says that you reduce your basis after cash for the unrealized receivables and inventory, but only up to the partnership’s basis in those assets. If it's a cash-basis partnership, the unrealized receivables have a zero basis, and then all other assets, cash, unrealized receivables and inventory, but only up to their basis through the partnership and then all other assets.

So, again, you are determining what basis you have left because first you increase your basis annually, you know, for the income, for additional contributions to capital, for additional debt. After you've determined your basis, now you take distributions. Distributions come out next.

Now, a good thing, you can cash out and have it all return a capital, but you could end up getting all of your basis back, all of its return of capital, but I have zero basis because I cashed out all of my basis. I have a zero basis. Problem is, and it may not be a problem, it depends on the facts, but now you take your deductions, and so your deductions could be suspended because you don't have enough basis. So, you increase items first, but then you take out the distributions first. That's your first reduction in your basis, are the distributions: cash, unrealized receivables and inventory and then all other assets next.

So, what you're really doing here, and you have to kind of think of it this way, is that you're kind of shifting basis. You're shifting basis from your interest to the assets that you get in the distribution. So, when I get cash, I shift my basis over to my cash. Return to capital, but I'm shifting basis over to the cash.

Now we don't think of it that way because you don't have a gain or loss on the cash, right, but you're shifting basis to it. Then you shift basis over to the other assets that you get, starting with unrealized receivables and inventory. Well, you can't shift any more basis to that than what you have in the partnership. Reduce first for cash, whatever basis is left over, well, let's say you've got just unrealized receivables. That's a zero basis and a cash basis partnership, and so you can't take any basis. That's what you have. So, whatever your basis that's left, that's the basis now that you could start taking your deductions against. If you get other property, then you can shift basis over to that.

One of the confusing things, you cannot have a loss in a current distribution. Doesn't matter if it's proportionate or not, you cannot have a loss in a proportionate distribution. Whatever basis you have left, well, that's your basis because you're continuing with the partnership. So, you can't have a loss on a current distribution.

The same rules apply to a liquidating distribution, the same priority, but if we take that example where you have cash, let's say $20,000 after you've reduced your basis for the cash. You have receivables, but that's zero. Now what do you have? You got a basis of $20,000 left. All right. Well, you're leaving the partnership. That's a loss.

But always keep in mind, I love to keep this because it's a true story. Sell the piano. This partnership, they had a liquidation. They got audited and the agent says, “Well, you know, what is this piano?” We said, “Well, it's just a piece of junk that was in the warehouse and, you know, when the partner left, he said, ‘I'll just take that with me.’” So, he took it. And they reported it, nominal value. And nobody argued, even the IRS, that it had any value. $50 maybe. So, it had some value. It had junk value. They kept saying it's junk. Maybe it was $25 or $50, if anybody'd pay anything for it, but the IRS assumes there's value, unless you can prove otherwise.

You had the distribution it’s why I didn't take anything else out. Okay, so he had a $300,000, nothing, nothing. Got the piano, but nothing. I got a $300,000 loss because it's a liquidating distribution I was leaving the partnership. The IRS came in and said, “That piano, that's not cash; right?” No. “Is it a receivable?” No. “Is it inventory?” No. “It's worth $300,000 to you.” Why? Because you shift the basis over to other property. “But it's only –" it doesn't matter what it's worth. You shift the basis over. That piano is worth $300.000.

Sell the piano. Take your $299,950 loss, but until you sell the piano, you're not getting that loss. But that piano now has a basis because you're shifting the remaining basis over to the other property. It has a basis of $300,000. So, you're shifting basis so, therefore, don't take the piano.

So, if the only thing you get is cash and unrealized receivables in a liquidating distribution, you can take a loss. Okay, never can take a loss in a current distribution. In a liquidating distribution, you can only take a loss if the only thing you get is cash, unrealized receivables, and inventory. If you get any other property, you shift the basis over, and you're not able to take that loss until you sell the assets that you got in the distribution.

So, you know, this is something that's quite often missed and really just takes some planning to make sure that you get that loss. Don't get other property. So, again, gain is recognized when the cash exceeds the basis, but there also is the potential of a pre-contribution gain. So, under 704(c), when an individual sells property, or I should say transfers property into a partnership and that partnership has a pre-contribution gain or loss, that gain or loss is going to be allocated to the contributing partner. If it is sold, that gain or loss gets allocated to the contributing partner.

Now, we don't worry about that. It's not a distribution. It's just an allocation, but if that property is distributed to another partner, then the partner who contributed it has to pick up any remaining built-in gain, and the partner who got the distribution, you're going to step-up the basis to reflect that gain that was recognized by the partner. So, they get the property, but they're going to step it up. Well, they don't step it up.

Hypothetically, just before it's distributed to them, the partnership increases the basis to reflect the gain. A contributes property. It has a built-in gain on the property. Its fair market value is greater than basis at the time of the contribution. Two years later, that's distributed to Partner B. Partner A is going to pick up the gain.

So, just before the distribution to B, you're going to adjust that property's basis for the gain, and then it's distributed. That's the basis of the property now, this higher basis. Why? Otherwise, that gain would be recognized twice; right? It would be recognized by the contributing partner, and then when B sold it, their basis would still be low. They'd recognize that gain again. So, to avoid that, there's a step-up in basis, and it's considered hypothetically just before the distribution of the property.

All right, so, some property gets some special treatment, you know, disguised sales. If property is, and this is under Section 707, the idea is that property, there's a contribution of appreciated property to a partnership, followed generally by a cash distribution to the contributing partner in approximately the same value, approximately the fair market value of that property.

Now, if that partner is able to make adjustments to their basis, they're going to be able to reduce any gain that they would have ordinarily recognized. If that happens within two years of the contribution, the IRS looks at it and says, “You know what? This is a disguised sale.” Now you can rebut it. It's a rebuttable presumption, but they're saying under 707, “It's a disguised sale. You really sold that to the partnership.” So, that distribution, really what you're going to say is that going back, that property was sold by that partner to the partnership.

As a sale, now they're still a partner, so what's their basis? Well, they didn't contribute anything, so their basis is zero. So, now they get this distribution, they don't have any basis to offset it, so they have a large capital gain here. So, it becomes an issue under Section 707.

The 734, so if you have a 754 election in effect, you must make the adjustments under 743(b) if there's a transfer of an interest and 734(b) on a distribution. So, the idea is to avoid possible double taxation or a duplication of loss, either one. And when the partnership makes a distribution of property where the partner who receives it may have a current gain or a postponed gain or loss. How would they have a postponed gain or loss? We shifted basis over. When they sell it in the future, there's a gain or a loss. So, essentially, if the fair market value was greater than the basis at the time of the shift, that would be the built-in gain or loss if it was the opposite.

And so, what happens is you have a basis in your inside basis called the common basis. That's the basis applies to everybody. So, under 734, you can recognize gain. I'm going to put a slide up here that when the distributed partner recognizes gain under 731(a)(1), that they recognize loss under 731(a)(2), or as I said, when they postpone a gain or a loss where the basis, the adjusted basis is greater than the fair market value immediately preceding the distribution or the opposite, the gain or loss. So, the partnership, you could end up having a situation where the gain or loss will be duplicated.

So, what's going to happen is the partnership, now note the partnership. So, this adjustment applies to all partners. A 743 adjustment applies only to that partner, the incoming partner. This applies to the partnership, all of their assets. So, all of the partners take advantage of it. So, to make the adjustment, you allocate the adjustment to the partnership's assets. You divide the partnership assets into two categories, ordinary, and capital.

So, next you allocate to the various assets within each group, although usually the allocation is only made to one class, the class that created it. So, again, once we've allocated to the class, we're going to allocate it to the assets. So, an upward adjustment is allocated.

First allocate to the properties with unrealized appreciation in proportion to their unrealized appreciation in each item to all of the items in that class, but that may not exceed the property's unrealized appreciated appreciation. Then any adjustment remaining is allocated among the items of property within that class in proportion to the fair market value.

Now, if there are no items of property in a class to which an upward adjustment has been allocated, then the adjustment is made when the partnership later requires it. In other words, you hold it in a suspense.

A downward adjustment is first allocated to properties with unrealized depreciation in proportion to the unrealized depreciation in each item of property in that class before the adjustment is taken into account. So, the amount of the adjustment allocated to an item of property cannot exceed the amount of unrealized depreciation in that property.

So, the increase or decrease to the property, if you have an increase to recovery property, then you're going to establish it as a new asset. It's going to be recovered under the same number of years as the underlying asset, but you can use a different method. So, for example, the underlying method, you could be using ADS. And for this, you could use MACRS. You could use MACRS straight-line for one and regular MACRS for another. So, it's the same number of years, but it doesn't have to be the same number of, or same method that you're using. You have to use the same number of years, however.

So, you have to remember for your software, it's one asset. You've got two basis that you're recovering, but it's one asset. So, if you dispose of it, you're disposing of both of those. Those adjustments for the one asset decreases in the basis. You recover those, you account by reducing the amount of any recovery over the remaining life.

If there's more decrease than there is remaining recovery, then you do other assets in that category, and if you don't have any more, you hold it in suspense until you get some and then you reduce those assets by that amount.

So, the substantial built-in loss, if there is a basis adjustment, and I've got an example here for you, Peter, Carla, and Sven each contribute $1.5 million to equal partnership, PCS. PCS purchases two parcels of land, Parcel A for $3.6 million and parcel B for $900,000. Parcel A declines in value to $1.2 million and Parcel B declines to $600,000. Assume there's no 754 in effect, the partnership redeems Peter's interest by distributing Parcel B. The basis of Parcel B in the hands of the partnership immediately before was $900,000. Under 732, Peter takes a basis in the land equal to his basis in the partnership interest immediately before the distribution. Remember shifting basis of $1.5 million.

So, if 754 were in effect, PCS would be required to make a reduction in basis of Parcel A by the difference $600,000. Because the basis reduction exceeds $250,000 there is a substantial basis reduction and this basis reduction now is required just like there was a 754 election in effect, even though there isn't.

Now, on distributions that are made essentially within two years of a contribution, 732 kicks in, and it provides that basically the, if there would have been an adjustment and that adjustment under 750 -- if 754 had been in effect, then you're going to be able to, be able to make that adjustment, but it becomes mandatory if there is a, on any sale or amounts in distribution within two years after the transfer.

So, you can elect, unless it becomes mandatory. Now, it's only going to be mandatory if the fair market value of the property other than money exceeds 110% of the adjusted basis and the distribution is within two years. The idea here is you're going to, even though a 754 election is not in effect, you can treat it as if there was a 754 adjustment in effect.

So, Schedule B Line A asks you if you have a 754 election in effect or did you make one this year? If so, enter the date. Then Line B has to do with the 743 adjustment. Line C asks you if there's a 734 adjustment on a distribution, and if so, what is the aggregate amount of positive adjustment and the aggregate amount of negative adjustment? And then you have to attach a statement showing the computation and the allocation of basis to each asset. And then D asks you if there has been a substantial basis reduction or a substantial loss. If so, you know, what is the amount? And again, attach a statement. The statement, the computation of the adjustment, the class of property, ordinary and capital, and the properties that the adjustment was made and allocated to.

So, what about the 754 election? The election under 754, and I have a slide up here with a copy of an election under 754. Note that you have to elect both. You have to elect the adjustments under 743 and 734. You can't elect one without the other. Even if you didn't put them both in there, you're electing both, okay, so, doesn't matter whether you put it in or not, and then once you do the election. It's mandatory. You cannot, you have to get the permission of the service.

Now, in revoking it, again, it's very difficult, but there is a form, Form 15254, and that has to state the reasonable grounds for requesting, and that has to be filed no later than 30 days after the close of the partnership year for which you intend that to be effective, you know, when you intend your revocation to be effective.

Now, generally, the IRS is going to say, you know, a change in the nature of your business, a change in the, substantial change in the nature of your assets, a change in the character of the assets or business and, you know, administrative, multiple, multiple changes.

I did one. We got in addition to this where we said, “These aren't even the partners that elected it. Those partners have been gone for a long time.” And another one is like, “This isn't the business.” It started off and they were realtors just selling real estate. Now they do all real estate investments. They do a lot of different businesses. It's totally, essentially a totally different business. Those are the ways that you're going to be able to revoke it. So again, that's Form 15254.

So, I want to thank you for joining me on this partnership distribution segment. Please, as always, join me on another segment and be safe.

SUPPLEMENTAL MATERIALS

There are no supplemental materials for this segment.

GROUP STUDY MATERIALS

A. Discussion Questions

1. In what situations might a partner receiving a distribution be required to recognize ordinary income instead of capital gain or no gain at all?

2. Why is it important to follow the ordering rules when applying a distribution to a partner's outside basis?

3. What are the tax consequences when a partnership distributes property with a built-in gain to a partner other than the one who originally contributed it?

B. Suggested Answers to Discussion Questions

1. **In what situations might a partner receiving a distribution be required to recognize ordinary income instead of capital gain or no gain at all?**

   A partner must recognize **ordinary income** when they receive a **disproportionate share of "hot assets"**, such as **unrealized receivables** or **substantially appreciated inventory**. These assets, under **IRC Section 751**, retain their ordinary character even when distributed. If the distribution is disproportionate relative to the partner's share of hot assets, it triggers ordinary income recognition to the extent of the imbalance.

2. **Why is it important to follow the ordering rules when applying a distribution to a partner's outside basis?**

   The **ordering rules** determine how a partner's outside basis is reduced when they receive a distribution. The order is: **(1) cash (actual and deemed), (2) unrealized receivables and inventory ("hot assets"), and (3) all other property**. This order matters because it impacts whether the partner recognizes gain (if cash exceeds basis) or has remaining basis to allocate to distributed property. It also ensures that losses are not improperly recognized in current (non-liquidating) distributions.

3. **What are the tax consequences when a partnership distributes property with a built-in gain to a partner other than the one who originally contributed it?**

   If a partnership distributes **pre-contribution gain property** to a **non-contributing partner** within **seven years** of contribution, the **contributing partner must recognize the built-in gain** under **IRC Section 704(c)**. This prevents the contributing partner from avoiding recognition of gain through strategic distributions. The recipient partner takes the property with a stepped-up basis, reflecting the gain that was recognized by the contributor to avoid double taxation.

GLOSSARY

Backdoor Roth IRA—A backdoor Roth IRA is a two-step transaction that is done by those taxpayers that are not permitted to make a direct contribution to a Roth IRA because of their income level. The transaction begins with a taxpayer making a nondeductible contribution to a newly created traditional IRA. Next, the funds are transferred to a Roth IRA. Although some would question whether this two-step transaction violates the economic substance doctrine, the IRS has not challenged such transactions. Interestingly, Congress has not, yet, removed the threshold rules but they have indirectly given their blessing to the backdoor Roth. Footnotes 268 and 269, appearing in the joint explanatory statement of the committee of conference for TCJA state "Although an individual with AGI exceeding certain limits is not permitted to make a contribution directly to a Roth IRA, the individual can make a contribution to a traditional IRA and convert the traditional IRA to a Roth IRA."

Disproportionate Distributions—IRC §751(b) provides a separate set of rules for disproportionate distributions—those where a partner receives either more or less than a proportionate share of any partnership unrealized receivables or substantially appreciated inventory. These assets are generically defined as "hot assets." When a partnership makes a disproportionate distribution of these assets, the recipient partner will recognize more or less than her/his share of ordinary income when the property is sold. IRC §751(b) provides a separate set of rules when these assets are distributed disproportionately. The effect of these rules is to ensure that partners are not able to circumvent the general rules and avoid recognition of ordinary income when it is appropriate to do so.

Guaranteed Payments—A partner cannot be both an employee and a partner of the same partnership. A partnership has two ways to compensate partners: income distributions and guaranteed payments. The distinguishing mark of the guaranteed payment is that it is independent of partnership income or any other activities and is distributed regardless of profits. [IRC §707(c)] Otherwise, if it is dependent on profit, it will be considered a distribution and treated under those rules. The partner must record the payment as ordinary income on her/his personal return. The partnership deducts the guaranteed payment from its total income.

Hot Assets—*Hot assets* are any property that has ordinary income potential, such as unrealized receivables, substantially appreciated inventory, and depreciation recapture. When *hot assets* are present, the sale of a partnership interest or a disproportionate distribution of such assets can cause ordinary income to be recognized under IRC Section 751. The rules pertaining to *hot assets* often override the nonrecognition provisions found throughout the partnership provisions of the IRC.

IRC Section 754 Election—A partnership may make an election under IRC §754 to adjust the basis of the partnership's assets under IRC §743(b) as they relate to a particular partner(s) to reflect the fair market value of partnership property at the time of a purchase/sale of a partnership interest or the death of a partner. Pursuant to an election under IRC §754, a basis adjustment may also be made under IRC §734(b) when a partnership makes certain property distributions to one or more of its partners.

Liquidating Distributions—A liquidating distribution terminates the recipient partner's entire equity interest in the partnership. A partnership may make a liquidating distribution to one or more of its partners without going out of existence. If a partnership terminates, it will then make a final liquidating distribution to all of the partners.

Required Beginning Date (RBD)—The date on which minimum distributions from individual retirement accounts and certain employer-provided retirement plans are required to begin. The RBD is April 1 following the calendar year in which the owner attains age 73.

Required Minimum Distribution (RMD)—An RMD is the amount that traditional, SEP, or SIMPLE IRA owners and qualified plan participants must begin distributing from their retirement accounts by April 1 following the year they turn 73 (previously 72). The amount of the RMD for any year is the account balance as of the end of the immediately preceding calendar year divided by a distribution period from the applicable IRS table.

Roth IRA—A type of individual retirement arrangement in which contributions are not tax deductible, earnings grow tax deferred, and qualified withdrawals are tax free.

Traditional IRA—An individual retirement arrangement, contributions to which may or may not be deductible depending on the taxpayer's AGI and whether or not they are covered under an employer-sponsored retirement plan. Earnings within a traditional IRA grow tax-deferred. Distributions from a traditional IRA are taxable, except to the extent they represent nondeductible contributions and earnings.

Choose the best response and record your answer in the space provided on the answer sheet.

1. What are the two requirements for a Roth IRA distribution to be qualified and fully tax-free?

   A. The Roth IRA must have been converted from a traditional IRA, and the taxpayer must be over 59½.
   B. The taxpayer must be over 59½, and the Roth must have existed for 5 years.
   C. The taxpayer must be under 50, and the Roth must have existed for at least two years.
   D. The taxpayer must have earned income and be over 59.

2. What document must be filed when making a non-deductible contribution to a traditional IRA?

   A. Form 1040 Schedule C
   B. Form 1099-R
   C. Form 8606
   D. Form W-2

3. What was the Required Beginning Date (RBD) age change implemented by SECURE 2.0?

   A. Eliminated for all IRAs regardless of owner age
   B. Increased from 72 to 75 beginning in 2023
   C. Increased to 73 beginning in 2023
   D. Lowered to 70½ from 72

4. What penalty may apply to excess IRA contributions ***not*** corrected?

   A. 6% annually until corrected
   B. 10% one-time penalty
   C. 20% on both contribution and earnings
   D. 25% if not corrected within a year

5. What happens if a taxpayer fails to take a Required Minimum Distribution (RMD) by the deadline?

   A. A 25% excise tax applies, reduced to 10% if corrected timely
   B. The IRA is automatically closed
   C. The RMD can be delayed for up to three years without penalty
   D. The taxpayer loses all tax deferral benefits

Continued on next page

6. What is a key requirement for converting a 529 Plan to a Roth IRA?

   A. The 529 plan must have existed for at least 15 years
   B. The beneficiary must be under age 18
   C. The beneficiary must have earned less than $100,000
   D. The Roth IRA must already be fully funded

7. Why is it important to track basis in a traditional IRA?

   A. Basis increases future contribution limits
   B. It determines MAGI limits for contributions
   C. It ensures non-taxable distributions are properly reported
   D. It guarantees eligibility for Roth conversion

8. Which action qualifies as a prohibited transaction in a self-directed IRA?

   A. Investing in an S&P 500 ETF
   B. Purchasing publicly traded mutual funds
   C. Receiving rental income from personally managed IRA property
   D. Rolling over assets between custodians

9. Which investment ***may*** create UBIT (Unrelated Business Income Tax) in an IRA?

   A. Debt-financed real estate
   B. Publicly traded index funds
   C. Tax-exempt municipal bonds
   D. U.S. Treasury bonds

10. Which rule applies to Qualified Charitable Distributions (QCDs) from IRAs?

   A. QCDs are capped at $10,000 per taxpayer annually
   B. QCDs are deductible as itemized deductions
   C. QCDs can be made from employer-sponsored retirement plans
   D. QCDs reduce Adjusted Gross Income directly

Continued on next page

11. Which of the following statements accurately describes the effect of a Section 754 election?

    A. It applies only to adjustments under Section 743(b) and not Section 734(b).
    B. It eliminates the need to track a partner's outside basis.
    C. It permits partners to opt out of gain recognition upon transfer of interest.
    D. It triggers basis adjustments on both transfers of interest and certain distributions.

12. In a partnership, what type of payment to a partner is always treated as ordinary income and subject to self-employment tax?

    A. Distributive share of passive investment income
    B. Guaranteed payments
    C. Rent payments to a partner for use of their property
    D. Return of capital

13. What is considered a “hot asset” for purposes of IRC Section 751 in a disproportionate distribution?

    A. Cash
    B. Notes receivable from the sale of Section 1231 assets
    C. Section 1231 assets
    D. Substantially appreciated inventory

14. What occurs when a partner receives a distribution of cash that exceeds their outside basis?

    A. The distribution is reclassified as a guaranteed payment.
    B. The partner has a gain which is generally a capital gain.
    C. The partner is required to make a capital contribution.
    D. The partnership must recognize income.

15. Under which circumstances can a partner recognize a loss as a result of a partnership distribution?

    A. When the partner receives a current distribution of cash and capital assets with a basis lower than fair market value
    B. When the partner receives a current distribution that includes only cash, unrealized receivables, and inventory
    C. When the partner receives a liquidating distribution consisting solely of cash, unrealized receivables, and inventory
    D. When the partner receives a liquidating distribution that includes cash, inventory, and equipment

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Evaluation Form

Please take a few minutes to complete this survey related to the **CPE Network® Tax Report** and return with your quizzer or group attendance sheet to CeriFi, LLC. All responses will be kept confidential. Comments in addition to the answers to these questions are also welcome. Please send comments to **CPLgrading@cerifi.com**.

How would you rate the topics covered in the July 2025 issue of **CPE Network® Tax Report**? Rate each topic on a scale of 1–5 (5=highest):

	Topic Relevance	Topic Content/ Coverage	Topic Timeliness	Video Quality	Audio Quality	Written Material
Segment 1	|_______|	|_______|	|_______|	|_______|	|_______|	|_______|
Segment 2	|_______|	|_______|	|_______|	|_______|	|_______|	|_______|

Which segment of this issue of **CPE Network® Tax Report** did you like the most, and why?

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What would you like to see included or changed in future issues of **CPE Network® Tax Report**?

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	Overall	**Knowledge of Topic**	**Presentation Skills**
Speaker 1	|______|	|______|	|______|
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Were the stated learning objectives met? Yes ☐ No ☐ ______________________

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Once Again, Thank You…
Your Input Can Have a Direct Influence on Future Issues!

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Firm/Company Name: ______________________________

Account #: ______________________________

Location: ______________________________

Program Title: CPE Network Tax Report, July 2025 Date: __________

Name	Email	Total Hrs	IRS PTIN ID (if applicable Tax only)	Sign In	Sign Out

I certify that the above individuals viewed and were participants in the group discussion with this issue/segment of the CPE Network® newsletter, and earned the number of hours shown.

Instructor Name: ______________________________ Date: __________

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CPE Network/Webinar Delivery Tracking Report

Course Title	
Course Date:	
Start Time:	
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Moderator Name, Credentials, and Signature Attestation of Attendance:	
Delivery Method:	Group Internet Based
Total CPE Credit:	3.0
Instructions:	During the webinar, the moderator must verify student presence a minimum of 3 times per CPE hour. This is achieved via polling questions. Sponsors must have a report which documents the responses from each student. The timing of the polling questions should be random and not made known to students prior to delivery of the course. Record the polling question responses below. Refer to the CPL Network User Guide for more instructions. Partial credit will not be issued for students who do not respond to at least 3 polling questions per CPE hour.
Brief Description of Method of Polling	Example: Zoom: During this webinar, moderator asked students to raise their hands 3 times per CPE hour. The instructor then noted the hands that were raised in the columns below.

			First CPE Hour			CPE Hour 2			CPE Hour 3			CERIFI USE ONLY
First Name	**Last Name**	**Student Email**	**Poll 1**	**Poll 2**	**Poll 3**	**Poll 1**	**Poll 2**	**Poll 3**	**Poll 1**	**Poll 2**	**Poll 3**	**Certificate Issued?**

CHECKPOINT LEARNING NETWORK

CPE NETWORK®
USER GUIDE

REVISED June 1, 2025

Welcome to CPE Network!

CPE Network programs enable you to deliver training programs to those in your firm in a manageable way. You can choose how you want to deliver the training in a way that suits your firm's needs: in the classroom, virtual, or self-study. You must review and understand the requirements of each of these delivery methods before conducting your training to ensure you meet (and document) all the requirements.

This User Guide has the following sections:

- **"Group Live" Format:** The instructor and all the participants are gathered into a common area, such as a conference room or training room at a location of your choice.
- **"Group Internet Based" Format:** Deliver your training over the internet via Zoom, Teams, Webex, or other application that allows the instructor to present materials that all the participants can view at the same time.
- **"Self-Study" Format:** Each participant can take the self-study version of the CPE Network program on their own computers at a time and place of their convenience. No instructor is required for self-study.
- **What Does It Mean to Be a CPE Sponsor?:** Should you decide to vary from any of the requirements in the 3 methods noted above (for example, provide less than 3 full CPE credits, alter subject areas, offer hybrid or variations to the methods described above), Checkpoint Learning Network will not be the sponsor and will not issue certificates. In this scenario, your firm will become the sponsor and must issue its own certificates of completion. This section outlines the sponsor's responsibilities that you must adhere to if you choose not to follow the requirements for the delivery methods.
- **Getting Help:** Refer to this section to get your questions answered.

IMPORTANT: This User Guide outlines in detail what is required for the formats above. Additionally, because you will be delivering the training within your firm, you should review the Sponsor Responsibilities section as well. To get certificates of completion for your participants following your training, you must submit all the required documentation. (This is noted at the end of each section.) Checkpoint Learning Network will review your training documentation for completeness and adherence to all requirements. If all your materials are received and complete, certificates of completion will be issued for the participants attending your training. Failure to submit the required completed documentation will result in delays and/or denial of certificates.

IMPORTANT: If you vary from the instructions noted above, your firm will become the sponsor of the training event and you will have to create your own certificates of completions for your participants. In this case, you do not need to submit any documentation back to CeriFi, LLC.

If you have any questions on this documentation or requirements, refer to the "Getting Help" section at the end of this User Guide **BEFORE** you conduct your training.

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“Group Live” Format

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All CPE Network products are developed and intended to be delivered as 3 CPE credits. You should allocate sufficient time in your delivery so that there is no less than 2.5 clock hours:

50 minutes per CPE credit TIMES 3 credits = 150 minutes = 2.5 clock hours

If you wish to have a break during your training session, you should increase the length of the training beyond 2.5 hours as necessary. For example, you may wish to schedule your training from 9 AM to 12 PM and provide a ½ hour break from 10:15 to 10:45.

***Effective November 1, 2018:** Checkpoint Learning CPE Network products ‘group live’ sessions must be delivered as 3 CPE credits and accredited to the field(s) of study as designated by Checkpoint Learning Network. Checkpoint Learning Network will not issue certificates for “group live” deliveries of less than 3 CPE credits (unless the course was delivered as 3 credits and there are partial credit exceptions (such as late arrivals and early departures). Therefore, if you decide to deliver the “group live” session with less than 3 CPE credits, your firm will be the sponsor as Checkpoint Learning Network will not issue certificates to your participants.

Advertising / Promotional Page

Create a promotion page (use the template after the executive summary of the transcript). You should circulate (e.g., email) to potential participants prior to training day. You will need to submit a copy of this page when you request certificates.

Monitoring Attendance

You must monitor individual participant attendance at “group live” programs to assign the correct number of CPE credits. A participant’s self-certification of attendance alone is not sufficient.

Use the **attendance sheet.** This lists the instructor(s) name and credentials, as well as the first and last name of each participant attending the seminar. The participant is expected to initial the sheet for their morning attendance and provide their signature for their afternoon attendance. If a participant arrives late, leaves early, or is a “no show,” the actual hours they attended should be documented on the sign-in sheet and will be reflected on the participant’s CPE certificate.

Real Time Instructor During Program Presentation

"Group live" programs must have a **qualified, real time instructor while the program is being presented.** Program participants must be able to interact with the instructor while the course is in progress (including the opportunity to ask questions and receive answers during the presentation).

Elements of Engagement

A "group live" program must include at least one element of engagement related to course content during each credit of CPE (for example, group discussion, polling questions, instructor-posed question with time for participant reflection, or use of a case study with different engagement elements throughout the program).

Make-Up Sessions

Individuals who are unable to attend the group study session may use the program materials for self-study online.

- If the emailed materials are used, the user should read the materials, watch the video, and answer the quizzer questions on the CPE Quizzer Answer Sheet. Send the answer sheet and course evaluation to the email address listed on the answer sheet and the CPE certificate will be mailed or emailed to the user. Detailed instructions are provided on Network Program Self-Study Options.
- If the online materials are used, the user should log on to her/his individual Checkpoint Learning account to read the materials, watch the interviews, and answer the quizzer questions. The user will be able to print her/his/their CPE certificate upon completion of the quizzer. (If you need help setting up individual user accounts, please contact your firm administrator or customer service.)

Awarding CPE Certificates

The CPE certificate is the participant's record of attendance and is awarded by Checkpoint Learning Network after the "group live" documentation is received (and providing the course is delivered as 3 CPE credits). The certificate of completion will reflect the credit hours earned by the individual, with special calculation of credits for those who arrived late or left early.

Subscriber Survey Evaluation Forms

Use the evaluation form. You must include a means for evaluating quality. At the conclusion of the "group live" session, evaluations should be distributed and any that are completed are collected from participants. Those evaluations that are completed by participants should be returned to Checkpoint Learning Network along with the other course materials. While it is required that you circulate the evaluation form to all participants, it is NOT required that the participants fill it out. A preprinted evaluation form is included in the transcript each month for your convenience.

Retention of Records

Regardless of whether Checkpoint Learning Network is the sponsor for the "group live" session, it is required that the firm hosting the "group live" session retain the following information for a period of five years from the date the program is completed unless state law dictates otherwise:

- Record of participation (Group Study Attendance sheets; indicating any late arrivals and/or early departures)
- Copy of the program materials
- Timed agenda with topics covered and elements of engagement used
- Date and location of course presentation
- Number of CPE credits and field of study breakdown earned by participants
- Instructor name and credentials
- Results of program evaluations.

Finding the Transcript

The entire transcript is available as a pdf via the link in the email sent to administrators.

Requesting Participant CPE Certificates

When delivered as 3 CPE credits, documentation of your "group live" session should be sent to Checkpoint Learning Network by the following means:

Email: CPLgrading@cerifi.com

When sending your package to CeriFi, you must include ALL of the following items:

Form Name	**Included?**	**Notes**
Advertising / Promotional Page		Complete this form and circulate to your audience before the training event.
Attendance Sheet		Use this form to track attendance during your training session.
Subscriber Survey Evaluation Form		Circulate the evaluation form at the end of your training session so that participants can review and comment on the training. Return to CeriFi any evaluations that were completed. You do not have to return an evaluation for every participant.

Incomplete submissions will be returned to you.

“Group Internet Based” Format

CPE Credit

All CPE Network products are developed and intended to be delivered as 3 CPE credits. You should allocate sufficient time in your delivery so that there is no less than 2.5 clock hours:

50 minutes per CPE credit TIMES 3 credits = 150 minutes = 2.5 clock hours

If you wish to have a break during your training session, you should increase the length of the training beyond 2.5 hours as necessary. For example, you may wish to schedule your training from 9 AM to 12 PM and provide a ½ hour break from 10:15 to 10:45.

***Effective November 1, 2018:** Checkpoint Learning CPE Network products ‘group live’ sessions must be delivered as 3 CPE credits and accredited to the field(s) of study as designated by Checkpoint Learning Network. Checkpoint Learning Network will not issue certificates for “group live” deliveries of less than 3 CPE credits (unless the course was delivered as 3 credits and there are partial credit exceptions (such as late arrivals and early departures). Therefore, if you decide to deliver the “group live” session with less than 3 CPE credits, your firm will be the sponsor as Checkpoint Learning Network will not issue certificates to your participants.

Advertising / Promotional Page

Create a promotion page (use the template following the executive summary in the transcript). You should circulate (e.g., email) to potential participants prior to training day. You will need to submit a copy of this page when you request certificates.

Monitoring Attendance in a Webinar

You must monitor individual participant attendance at “group internet based” programs to assign the correct number of CPE credits. A participant’s self-certification of attendance alone is not sufficient.

Use the **Webinar Delivery Tracking Report.** This form lists the moderator(s) name and credentials, as well as the first and last name of each participant attending the seminar. During a webinar you must set up a monitoring mechanism (or polling mechanism) to periodically check the participants’ engagement throughout the delivery of the program. Participants’ two-way video should remain on during the entire presentation.

In order for CPE credit to be granted, you must confirm the presence of each participant **3 times per CPE hour and the participant must reply to the polling question**. Participants that respond to less than 3 polling questions in a CPE hour will not be granted CPE credit. For example, if a participant only replies to 2 of the 3 polling questions in the first CPE hour, credit for the first CPE hour will not be granted. (Refer to the Webinar Delivery Tracking Report for examples.)

Examples of polling questions:

1. You are using **Zoom** for your webinar. The moderator pauses approximately every 15 minutes and asks that participants confirm their attendance by using the "raise hands" feature. Once the participants raise their hands, the moderator records the participants who have their hands up in the **webinar delivery tracking report** by putting a YES in the webinar delivery tracking report. After documenting in the spreadsheet, the instructor (or moderator) drops everyone's hands and continues the training.
2. You are using **Teams** for your webinar. The moderator will pause approximately every 15 minutes and ask that participants confirm their attendance by typing "Present" into the Teams chat box. The moderator records the participants who have entered "Present" into the chat box into the **webinar delivery tracking report**. After documenting in the spreadsheet, the instructor (or moderator) continues the training.
3. If you are using an application that has a way to automatically send out polling questions to the participants, you can use that application/mechanism. However, following the event, you should create a **webinar delivery tracking report** from your app's report.

Additional Notes on Monitoring Mechanisms:

1. The monitoring mechanism does not have to be "content specific." Rather, the intention is to ensure that the remote participants are present and paying attention to the training.
2. You should only give a minute or so for each participant to reply to the prompt. If, after a minute, a participant does not reply to the prompt, you should put a NO in the webinar delivery tracking report.
3. While this process may seem unwieldy at first, it is a required element that sponsors must adhere to. And after some practice, it should not cause any significant disruption to the training session.
4. **You must include the Webinar Delivery Tracking report with your course submission if you are requesting certificates of completion for a "group internet based" delivery format.**

Real Time Moderator During Program Presentation

"Group internet based" programs must have a **qualified, real time moderator while the program is being presented.** Program participants must be able to interact with the moderator while the course is in progress (including the opportunity to ask questions and receive answers during the presentation). This can be achieved via the webinar chat box, and/or by unmuting participants and allowing them to speak directly to the moderator.

Where individual participants log into a group live program they are required to enable two-way video to participate in a virtual face-to-face setting (with cameras on), elements of engagement are required (such as group discussion, polling questions, instructor posed questions with time for reflection, or a case study with engagement throughout the presentation) in order to award CPE credits to the participants. Participation in the two-way video conference must be monitored and documented by the instructor or attendance monitor in order to authenticate attendance for program duration. The participant-to-attendance monitor ratio must not exceed 25:1, unless there is a dedicated attendance monitor in which case the participant-to-attendance monitor ratio must not exceed 100:1.

Make-Up Sessions

Individuals who are unable to attend the "group internet based" session may use the program materials for self-study either in print or online.

- If emailed materials are used, the user should read the materials, watch the video, and answer the quizzer questions on the CPE Quizzer Answer Sheet. Send the answer sheet and course evaluation to the email address listed on the answer sheet and the CPE certificate will be mailed or emailed to the user. Detailed instructions are provided on Network Program Self-Study Options.
- If the online materials are used, the user should log on to her/his individual Checkpoint Learning account to read the materials, watch the interviews, and answer the quizzer questions. The user will be able to print her/his CPE certificate upon completion of the quizzer. (If you need help setting up individual user accounts, please contact your firm administrator or customer service.)

Awarding CPE Certificates

The CPE certificate is the participant's record of attendance and is awarded by Checkpoint Learning Network after the "group internet based" documentation is received (and providing the course is delivered as 3 CPE credits). The certificate of completion will reflect the credit hours earned by the individual, with special calculation of credits for those who may not have answered the required amount of polling questions.

Subscriber Survey Evaluation Forms

Use the evaluation form. You must include a means for evaluating quality. At the conclusion of the "group live" session, evaluations should be distributed and any that are completed are collected from participants. Those evaluations that are completed by participants should be returned to Checkpoint Learning Network along with the other course materials. While it is required that you circulate the evaluation form to all participants, it is NOT required that the participants fill it out. A preprinted evaluation form is included in the transcript each month for your convenience.

Retention of Records

Regardless of whether Checkpoint Learning Network is the sponsor for the "group internet based" session, it is required that the firm hosting the session retain the following information for a period of five years from the date the program is completed unless state law dictates otherwise:

- Record of participation (Webinar Delivery Tracking Report)
- Copy of the program materials
- Timed agenda with topics covered
- Date and location (which would be "virtual") of course presentation
- Number of CPE credits and field of study breakdown earned by participants
- Instructor name and credentials
- Results of program evaluations

Finding the Transcript

The email sent to administrators each month has a link to the pdf for the newsletter. The email may be forwarded to participants who may download the materials or print them as needed.

Requesting Participant CPE Certificates

When delivered as 3 CPE credits, documentation of your "group internet based" session should be sent to Checkpoint Learning Network by the following means:

Email: CPLgrading@CeriFi.com

When sending your package to CeriFi, you must include ALL the following items:

Form Name	**Included?**	**Notes**
Advertising / Promotional Page		Complete this form and circulate to your audience before the training event.
Webinar Delivery Tracking Report		Use this form to track the attendance (i.e., polling questions) during your training webinar.
Evaluation Form		Circulate the evaluation form at the end of your training session so that participants can review and comment on the training. Return to CeriFi any evaluations that were completed. You do not have to return an evaluation for every participant.

Incomplete submissions will be returned to you.

“Self-Study” Format

If you are unable to attend the live group study session, we offer two options for you to complete your Network Report program.

Self-Study—Email

Follow these simple steps to use the printed transcript and video:

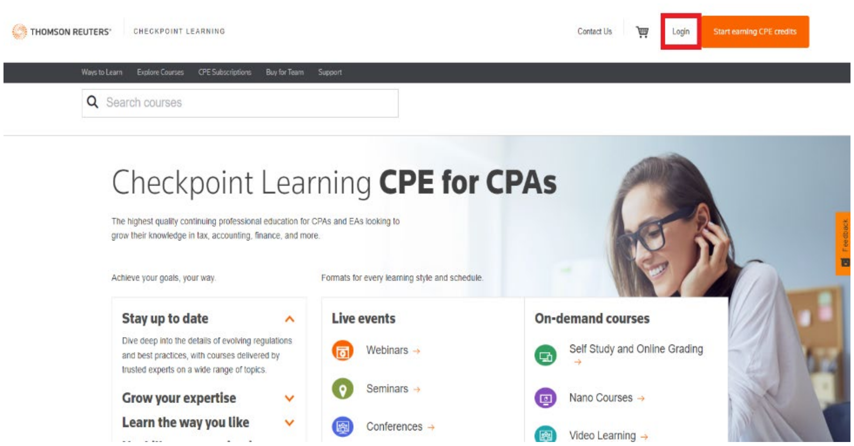
- Watch the video.
- Review the supplemental materials.
- Read the discussion problems and the suggested answers.
- Complete the quizzer by filling out the bubble sheet enclosed with the transcript package.
- Complete the survey. We welcome your feedback and suggestions for topics of interest to you.
- E-mail your completed quizzer and survey to:

CPLgrading@cerifi.com

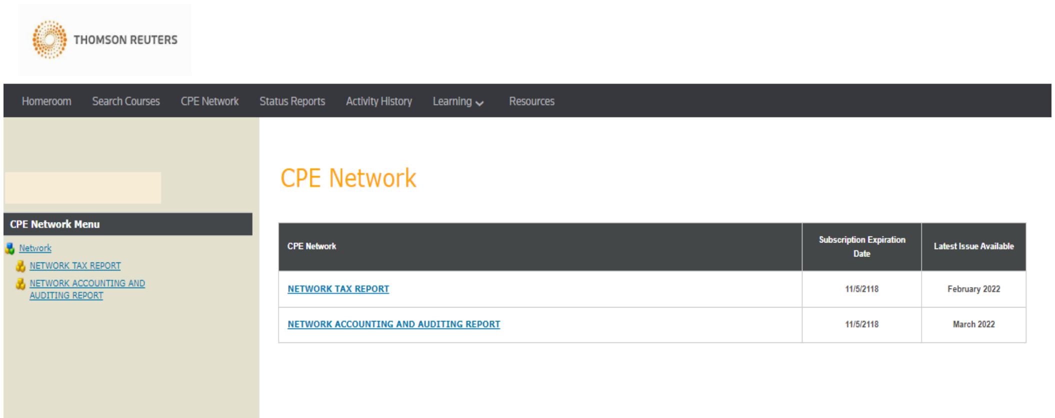
Self-Study—Online

Follow these simple steps to use the online program:

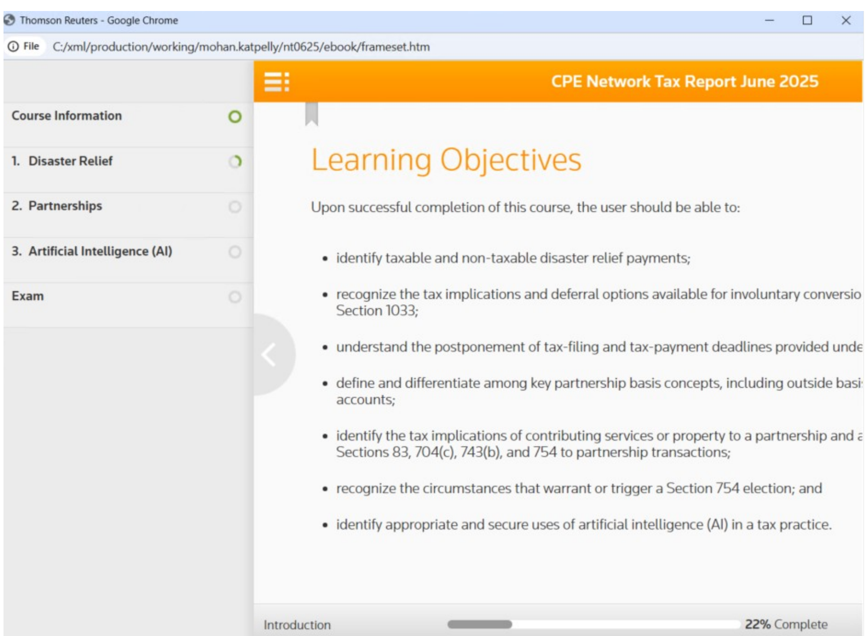
- Go to **https://checkpointlearning.com/**.
- Log in using your username and password assigned by your firm’s administrator in the upper right-hand margin (“Login or Register”).



- In the **CPE Network** tab, select the desired Network Report and then the appropriate edition.

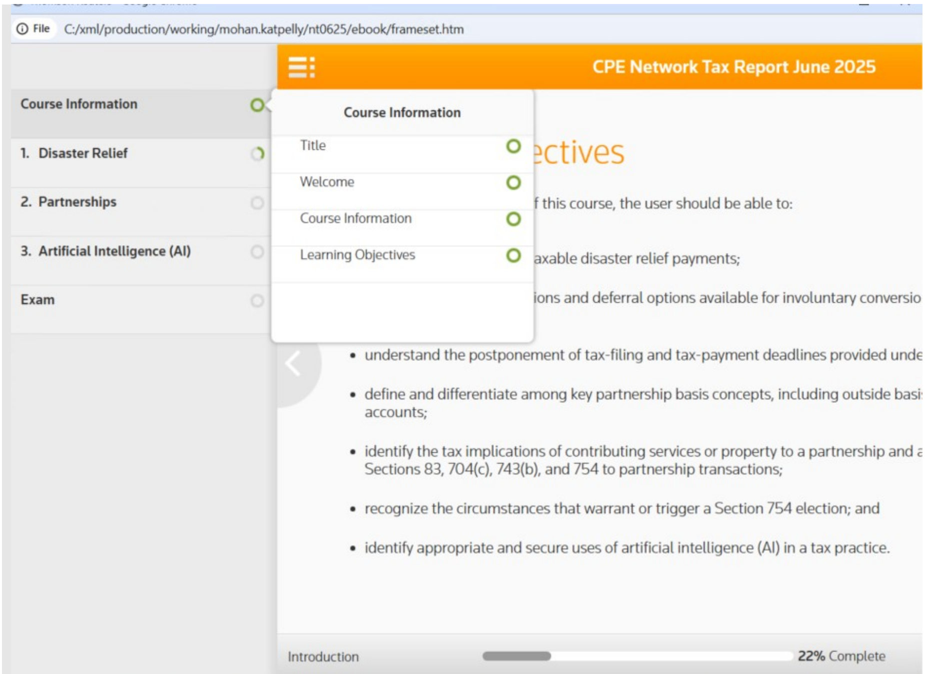


The Chapter Menu is in the gray bar at the left of your screen:

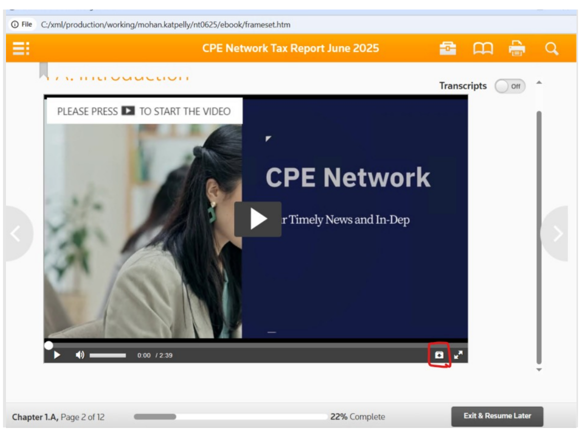


Click down to access the dropdown menu and move between the program Chapters.

- **Course Information** is the course Overview, including information about the authors and the program learning objectives



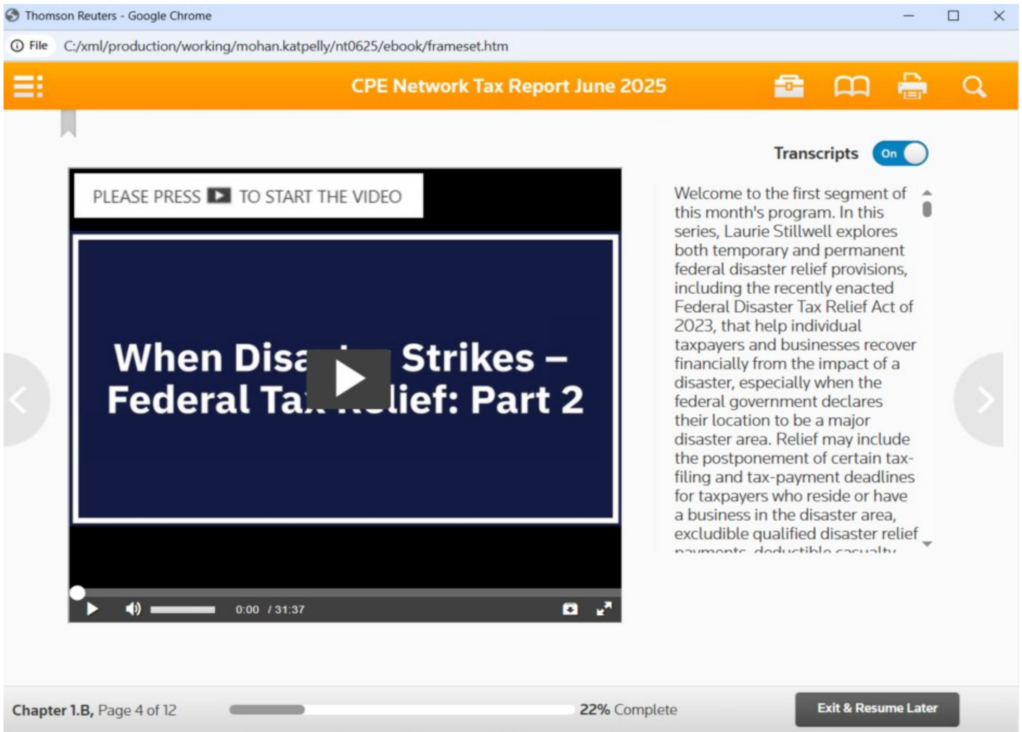
- **Each Chapter is self-contained.** Each chapter contains the executive summary and learning objectives for that segment, followed by the interview, the related supplemental materials, and then the self-study questions. This streamlined approach allows administrators and users to more easily access the related materials.



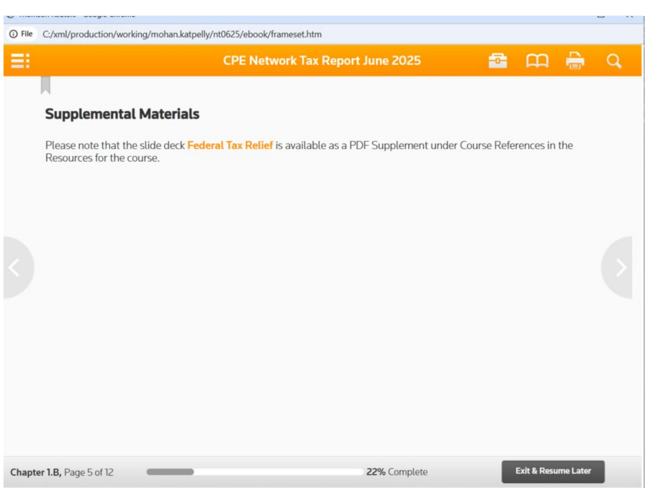
Video segments may be downloaded from the CPL player by clicking on the download button. Tip: you may need to scroll down to see the download button.

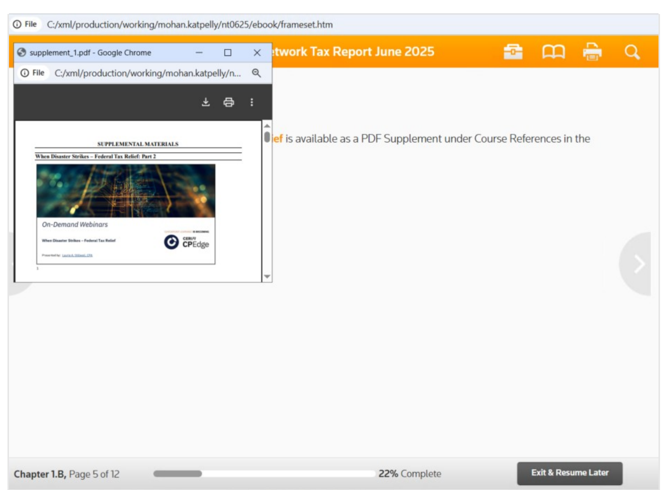
Transcripts for the interview segments can be viewed at the right side of the screen via a toggle button at the top labeled **Transcripts**

Click the arrow at the bottom of the video to play it, or click the arrow to the right side of the screen to advance to the supplemental material.

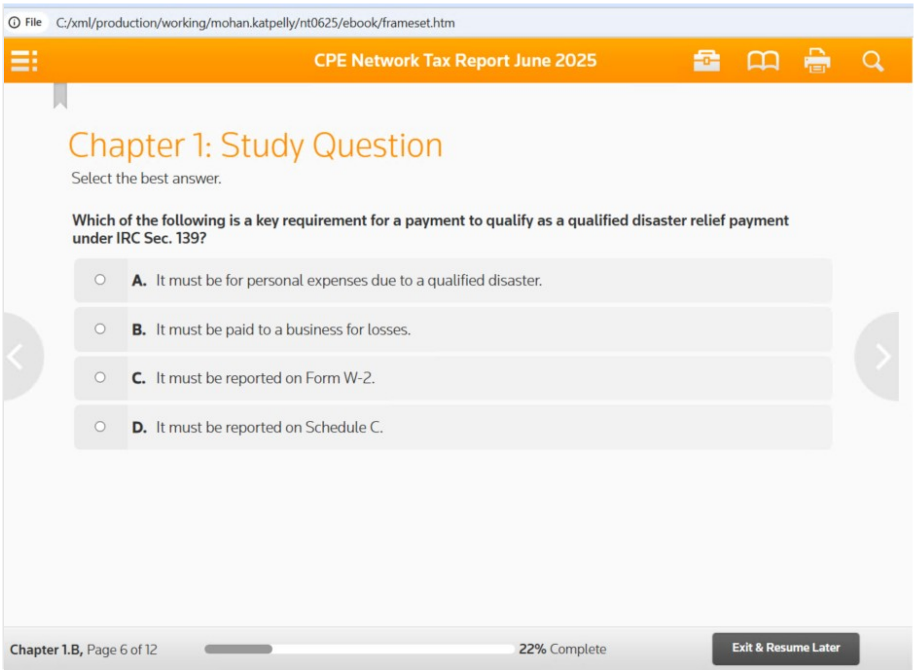


The supplemental materials are available via the toolbox and the link will pop up the pdf version in a separate window.



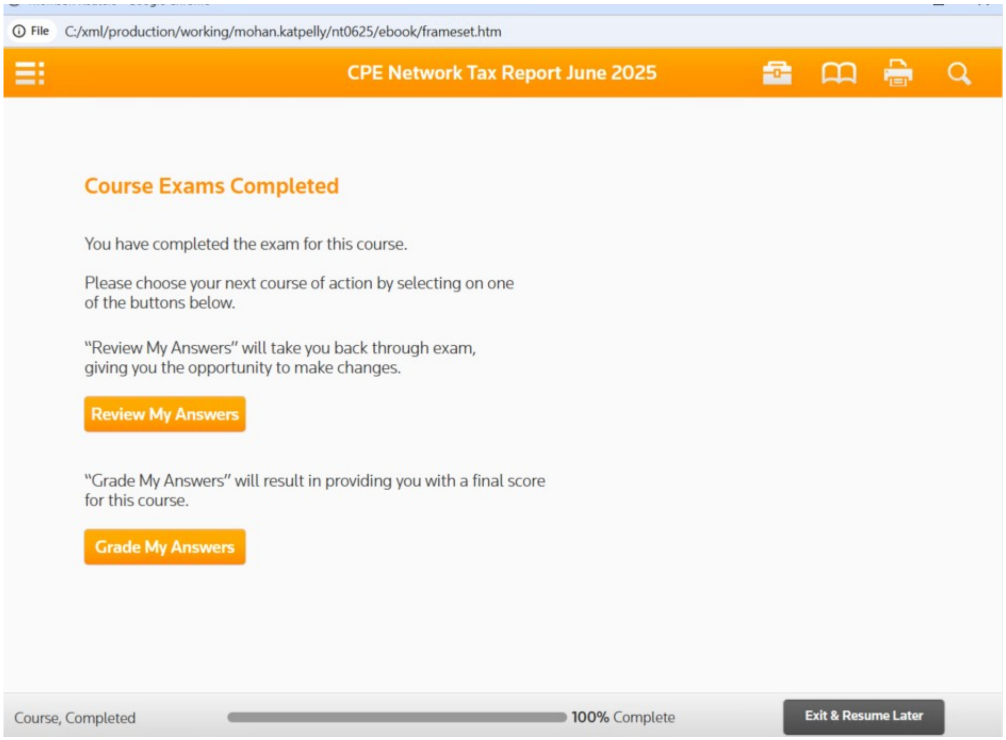


Continuing to click the arrow to the right side of the screen will bring the user to the self-study questions related to the segment.



The **Exam** is accessed by clicking the last gray bar on the menu at the left of the screen or clicking through to it. Click the orange button to begin.

When you have completed the quizzer, click the button labeled **Grade or the Review button**.



- Click the button labeled **Certificate** to print your CPE certificate.
- The final quizzer grade is displayed and you may view the graded answers by clicking the button labeled **view graded answer**.

Additional Features Search

Checkpoint Learning offers powerful search options. Click the **magnifying glass** at the upper right of the screen to begin your search. Enter your choice in the **Search For:** box.

Search Results are displayed with the number of hits.

Print

To display the print menu, click the printer icon in the upper bar of your screen. You can print the entire course, the transcript, the glossary, all resources, or selected portions of the course. Click your choice and click the orange **Print**.

What Does It Mean to Be a CPE Sponsor?

If your organization chooses to vary from the instructions outlined in this User Guide, your firm will become the CPE Sponsor for this monthly series. The sponsor rules and requirements noted below are only highlights and reflect those of NASBA, the national body that sets guidance for development, presentation, and documentation for CPE programs. **For any specific questions about state sponsor requirements, please contact your state board. They are the final authority regarding CPE Sponsor requirements.** Generally, the following responsibilities are required of the sponsor:

- Arrange for a location for the presentation
- Advertise the course to your anticipated participants and disclose significant features of the program in advance
- Set the start time
- Establish participant sign-in procedures
- Coordinate audio-visual requirements with the facilitator
- Arrange appropriate breaks
- Have a real-time instructor during program presentation
- Ensure that the instructor delivers and documents elements of engagement
- Monitor participant attendance (make notations of late arrivals, early departures, and "no shows")
- Solicit course evaluations from participants
- Award CPE credit and issue certificates of completion
- Retain records for five years

The following information includes instructions and generic forms to assist you in fulfilling your responsibilities as program sponsor.

CPE Sponsor Requirements

Determining CPE Credit Increments

Sponsored seminars are measured by program length, with one 50-minute period equal to one CPE credit. One-half CPE credit increments (equal to 25 minutes) are permitted after the first credit has been earned. Sponsors must monitor the program length and the participants' attendance in order to award the appropriate number of CPE credits.

Program Presentation

CPE program sponsors must provide descriptive materials that enable CPAs to assess the appropriateness of learning activities. CPE program sponsors must make the following information available in advance:

- Learning objectives.
- Instructional delivery methods.
- Recommended CPE credit and recommended field of study.
- Prerequisites.
- Program level.
- Advance preparation.
- Program description.
- Course registration and, where applicable, attendance requirements.
- Refund policy for courses sold for a fee/cancellation policy.
- Complaint resolution policy.
- Official NASBA sponsor statement, if an approved NASBA sponsor (explaining final authority of acceptance of CPE credits**).**

Disclose Significant Features of Program in Advance

For potential participants to effectively plan their CPE, the program sponsor must disclose the significant features of the program in advance (e.g., through the use of brochures, website, electronic notices, invitations, direct mail, or other announcements). When CPE programs are offered in conjunction with non-educational activities, or when several CPE programs are offered concurrently, participants must receive an appropriate schedule of events indicating those components that are recommended for CPE credit. The CPE program sponsor's registration and attendance policies and procedures must be formalized, published, and made available to participants and include refund/cancellation policies as well as complaint resolution policies.

Monitor Attendance

While it is the participant's responsibility to report the appropriate number of credits earned, CPE program sponsors must maintain a process to monitor individual attendance at group programs to assign the correct number of CPE credits. A participant's self-certification of attendance alone is not sufficient. The sign-in sheet should list the names of each instructor and her/his credentials, as well as the name of each participant attending the seminar. The participant is expected to initial the sheet for their morning attendance and provide their signature for their afternoon attendance. If a participant leaves early, the hours they attended should be documented on the sign-in sheet and on the participant's CPE certificate.

Real Time Instructor During Program Presentation

“Group live” programs must have a qualified, real-time instructor while the program is being presented. Program participants must be able to interact with the real time instructor while the course is in progress (including the opportunity to ask questions and receive answers during the presentation).

Elements of Engagement

A “group live” program must include at least one element of engagement related to course content during each credit of CPE (for example, group discussion, polling questions, instructor-posed question with time for participant reflection, or use of a case study with different engagement elements throughout the program).

Awarding CPE Certificates

The CPE certificate is the participant’s record of attendance and is awarded at the conclusion of the seminar. It should reflect the credit hours earned by the individual, with special calculation of credits for those who arrived late or left early.

CFP credit is available if the firm registers with the CFP board as a sponsor and meets the CFP board requirements. IRS credit is available only if the firm registers with the IRS as a sponsor and satisfies their requirements.

Seminar Quality Evaluations for Firm Sponsor

NASBA requires the seminar to include a means for evaluating quality. At the seminar conclusion, evaluations should be solicited from participants and retained by the sponsor for five years. The following statements are required on the evaluation and are used to determine whether:

1. Stated learning objectives were met.
2. Prerequisite requirements were appropriate (if any).
3. Program materials were accurate.
4. Program materials were relevant and contributed to the achievement of the learning objectives.
5. Time allotted to the learning activity was appropriate.
6. Individual instructors were effective.
7. Facilities and/or technological equipment were appropriate.
8. Handout or advance preparation materials were satisfactory.
9. Audio and video materials were effective.

You may use the enclosed preprinted evaluation forms for your convenience.

Retention of Records

The seminar sponsor is required to retain the following information for a period of five years from the date the program is completed unless state law dictates otherwise:

- Record of participation (the original sign-in sheets, now in an editable, electronic signable format)
- Copy of the program materials
- Timed agenda with topics covered and elements of engagement used
- Date and location of course presentation
- Number of CPE credits and field of study breakdown earned by participants
- Instructor name(s) and credentials
- Results of program evaluations

Appendix: Forms

Here are the forms noted above and how to get access to them.

Delivery Method	**Form Name**	**Location**	**Notes**
“Group Live” / “Group Internet Based”	Advertising / Promotional Page	Transcript	Complete this form and circulate to your audience before the training event.
“Group Live”	Attendance Sheet	Transcript	Use this form to track attendance during your training session.
“Group Internet Based”	Webinar Delivery Tracking Report	Transcript	Use this form to track the ‘polling questions’ which are required to monitor attendance during your webinar.
“Group Live” / “Group Internet Based”	Evaluation Form	Transcript	Circulate the evaluation form at the end of your training session so that participants can review and comment on the training.
Self Study	CPE Quizzer Answer Sheet	Transcript	Use this form to record your answers to the quiz.

Getting Help

Should you need support or assistance with your account, please see below:

Support Group	Phone Number	Email Address	Typical Issues/Questions
Technical Support	844.245.5970	cpedgesupport@cerifi.com	• Browser-based • Certificate discrepancies • Accessing courses • Migration questions • Feed issues
Product Support	844.245.5970	cpedgesupport@cerifi.com	• Functionality (how to use, where to find) • Content questions • Login Assistance
Customer Support	844.245.5970	cpedgesupport@cerifi.com	• Billing • Existing orders • Cancellations • Webinars • Certificates