A Guide To The

IRA/Pension Distribution Planner

By Denver Tax Software, Inc.

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Overview

Why Use This Program?

Purpose

The purpose of the DTS IRA/Pension Distribution Planner is to automate the calculation of the required annual IRA Minimum Distribution for your clients who are over 70½ years old, or to automate the calculation of distributions for IRA owners who are under 59½ and want to avoid the 10% excise tax.

Requirements

There are many complex scenarios that result in different variations in the calculation of the IRA Minimum Distribution. The program has been designed to cover most of the situations that may occur with respect to this calculation. According to our analysis of a phone survey of many of our customers, this program should be limited to the following scenarios:

- The IRA owner turns 70½ years old after 1987

- If a spouse is a beneficiary, that person is 45 years old or older.

The following limitations also apply:

- If there is no spouse beneficiary, the Owner(employee) should be between 5 and 105 years old.

- If there is a spouse beneficiary, the older of the two should be between 70 and 99 years old, and the younger of the two should be between 45 and 99 years old.

- Persons over 70½ that are still employed can extend there Required Beginning Date past the usual Required Beginning Date. This applies to a very small group. For that reason, this situation is not accommodated with this program. Please contact us, if you feel that this is an important feature to add.

Getting The Most Out Of The IRA/Pension Distribution Planner

To better prepare inputs and understand the reports produced by this program, you should know how IRA distributions are calculated. The chapter "Penalty Free IRA

(Pension) Distribution" explains some of the terms, as well as how to calculate a distribution. Reading the chapter will allow you to examine reports produced, understand them, and explain the results to your clients.

Installing and Running

System Requirements:

Operating System: Microsoft® Windows® versions 95, 98, NT 4, 2000 or XP. Please refer to the readme.txt file to see what service packs might be required.

Installation

All commands you need to enter will be typed in **bold** type.

Installing To A Single Machine

For the purpose of these instructions, we are assuming that your CD drive is drive D, if it is not, please make the appropriate changes. To install the program to a single machine, use the following steps:

1. Click on the **Start** button.

2. Click on the **Run** menu item.

3. Type **D:SETUP** and press the **ENTER** key.

4. Follow the instructions in the installation program.

Network Installation

Network installations instructions are provided in a separate document to customers that have purchased rights to use this program on additional desktops. The Single Machine will install on drives with designations of C:, D:, or E:.

Starting the DTS IRA/Pension Distribution Planner

The Installation program will create a "Denver Tax Software" Program Manager Group, if it doesn't already exist. The DTS IRA/Pension Distribution Planner will be placed within this group.

To start the IRA/Pension Distribution Planner, **click** on the **Start** button, click on **Programs**, **click** on **Denver Tax Software Group**, then **double-click** on the

IRA/Pension Distribution Planner icon. This will load the IRA/Pension Distribution Planner and you can begin work!

Penalty Free IRA (Pension) Distribution

Overview

Although this program is meant to help IRA owners, it can also be used for pension distributions. The law pertaining to IRA distributions, §408(a)(6), indicates that pension law for distributions, §401(a)(9), should determine for the most part how IRA distributions should be made.

For most situations, with important exceptions, IRA distributions made before the IRA owner is 59½ are subject to a 10% penalty, and IRA distributions on or after the Required Beginning Date that don't meet the minimum requirements are subject to a 50% penalty. The Required Beginning Date is associated with the IRA owner turning 70½. The Required Beginning Date will be discussed in depth later. Thus, in most cases, the risk for penalties is high for IRA distributions before the ages of 59½ and after the Required Beginning Date.

An IRA owner who is not 59½ may still be able to avoid the 10% penalty for premature distributions if the distribution is part of "substantially equal periodic payments" (§72(t)(2)(A)(iv)). This manual will refer to these "substantially equal periodic payments" as Maximum Distributions, since the IRA owner typically wants to know what the *maximum* that can be distributed without incurring the §72(t) penalty is.

Post 70½ distributions will be referred to as Minimum Distribution.

Pre 59½ distributions will be referred to as Maximum Distribution.

Minimum Distributions

2002 Final Regulations

On April 17, 2002, final regulations were published. In general, those regs decrease Minimum Required Distributions.

The effective date for using these new regs is for 2003 distributions. However, these new regs may be used for 2002 distributions. Those with Required Beginning Dates of April 1, 2002, must use the 2001 proposed regulations.

For 2002 distributions, this program will compute Minimum Required Distributions using the 2002 final regulations.

This program follows the 2002 final regulations. If you need to use the 1987 or 2001 proposed regulations, run file wira_old.exe. File wira_old.exe can be found on folder C:\WIRA if you chose the installation default settings.

Background

If a post 70½ IRA owner does not make the Minimum Required Distribution for a given Distribution Calendar Year there will be a 50% penalty imposed on the difference between what should have been distributed and what was distributed.

If there are multiple IRAs, the Minimum Required Distribution for one IRA may be satisfied out of the balance of another IRA. To minimize taxes over the long run consider satisfying the Minimum Required Distribution for the best performing IRAs by taking those distributions from the worst performing IRAs.

When Do Minimum Distributions Start?

General Rule

Minimum Distributions start on the Required Beginning Date. The **Required Beginning Date** is April 1 of the year *following* the year in which the IRA owner turns 70½. The year that the IRA owner turns 70½ is the first Distribution Calendar Year. Thus, if an IRA owner is 70 on February 5, 1996 (70½ on August 5, 1996), the Required Beginning Date would be April 1, 1997.

A **Distribution Calendar Year** is a year for which a Minimum Distribution is due. In the previous example, 1996 would be the first Distribution Calendar Year, and 1997 would be the second Distribution Calendar Year.

Distributions for a Distribution Calendar Year are due on December 31st of the Distribution Calendar Year except for the first Distribution Calendar Year. Distributions for the first Distribution Calendar Year are due on the April 1st after that year. In the above example, the distribution would be due on April 1, 1997 for 1996, December 31, 1997 for 1997 and December 31, 1998 for 1998.

When The IRA Owner Dies

Based on 2002 final regulations.

One option is to distribute the account no later than the year that contains the 5th anniversary of the death. Thus, if employee died on 1/1/03, the distributions may be satisfied if made by 12/31/08.

Another option for nonspouse beneficiaries would be to commence distributions "…on or before the end of the calendar year immediately following the calendar year in which the employee died. This rule also applies to the distribution of the entire remaining benefit if another individual is a designated beneficiary in addition to the employee's surviving spouse." Thus, if the employee died in 2002, distributions must begin in 2003.

For spousal beneficiaries. The first distribution should be the later of:

1. On or before the end of the calendar year immediately following the calendar year in which the employee died; and
2. "The end of the calendar year in which the employee would have attained age 70½." Thus, if the employee died in 2003, but would have turned 70½ in 2006, the spouse must make the first distribution from the employee's account no later than December 31, 2006. However, if the employee had lived, the RBD (and first required distribution) would have been April 1, 2007. [§1.401(a)(9)-3 A-3(a)].

The surviving spouse dies before distributions have begun. Use the above rules, but use the surviving spouse's date of death instead of the employee's date of death.

How Is The Minimum Required Distribution Determined?

The **Minimum Required Distribution** or Minimum Distribution is the Benefit for the Distribution Calendar Year divided by the Life Expectancy.

What Is The Benefit?

The Benefit, in general, for a Distribution Calendar Year is the IRA account balance on the day before the Distribution Calendar Year. Thus, if the Distribution Calendar Year is 2004, the Benefit for an IRA would be it's balance on December 31, 2003.

Life Expectancies When There Are Beneficiaries (2002 Final Regulations)

During The IRA Owner's Lifetime:

If the spouse is not the sole beneficiary, use the "Distribution Period Table" [§1.405(a)(9)-5 A-4 (2)(I)].

If the spouse is the sole designated beneficiary, use the longer of the distribution period determined in accordance with the old MDIB rules or the joint life expectancy of the employee and spouse using the employee's and spouse's attained ages as of the employee's and the spouse's birthdays in the distribution calendar year. [§1.401(a)(9)-5 A-4(b)].

When the IRA Owner has died (Some of this gets complicated. The IRA/Pension Distribution Planner doe most of the "heavy lifting" for you.):

If the IRA Owner dies on or after the Required Beginning Date, the life expectancy could be either –

1. Use the life expectancy of the designated beneficiary. For nonspouse beneficiaries, use that beneficiary's life expectancy in the year of the employee's death and subtract 1 from that for each subsequent year [§1.401(a)(9)-5 A-5(c)(1)]. For spousal beneficiaries, during the spouse's life time, look up the life expectancy for the spouse each year. After the spouse has died, use the life expectancy in the year of the spouse's death, and subtract 1 from that for each subsequent year [§1.401(a)(9)-5 A-5(c)(2)]. or
2. If there is no designated beneficiary, use the employee's remaining life expectancy determined as if the employee were still alive for the year of death, and subtract by one for each subsequent year. [§1.401(a)(9)-5 A-5(c)(3)].

If the IRA Owner dies before the Required Beginning Date, the life expectancy could be either –

Use the life expectancy of the designated beneficiary. For nonspouse beneficiaries, use that beneficiary's life expectancy in the year of the employee's death and subtract 1 from that for each subsequent year [§1.401(a)(9)-5 A-5(c)(1)]. For spousal beneficiaries, during the spouse's life time, look up the life expectancy for the spouse each year. After the spouse has died, use the life expectancy in the year of the spouse's death, and subtract 1 from that for each subsequent year. [§1.401(a)(9)-5 A-5(c)(2)].

Maximum Distributions

If someone wants to avoid the 10% penalty (§72(t)) for pre 59½ distributions, one can follow the instructions on how to have "substantially equal periodic payments" pursuant to IRS Notice 89-25. Those periodic payments are termed Maximum Distributions in this manual and program. According to Notice 89-25, one can either use the Minimum Distribution calculation, Amortization or Annuity methods to determine to appropriate distribution.

The Minimum Distribution calculation has been already discussed at length. Since there are no subjective terms, such as "reasonable interest rate", in Notice 89-25 used to describe how this calculation is to be made, this method might be considered, the "safe harbor" method. Since one wants to take out the largest Maximum Distribution, the goal is to use the smallest life expectancy. Thus, there is no point

considering a beneficiary. This amount can fluctuate from year to year based on the life expectancy method used and the annual account balances.

The Amortization method, as described in Notice 89-25, calculates an annual payment using the life expectancy that would be used for the Minimum Distribution calculation and a "reasonable interest rate." For guidance on what a "reasonable interest rate" might be, consider reviewing Private Letter Rulings 8946045, 9047043, 8924093, 8919052 and 9604026. The distribution amount determined using this method in the first year of the series of "substantially equal periodic payments" is used for the entire series of payments. Thus, all of the annual payment distribution amounts are determined based on the account balances and interest rate for the **first year** of distributions.

The Annuity method, as described in Notice 89-25, calculates an annual payment using a factor determined from the UP-1984 Mortality Table using a "reasonable interest rate." The distribution amount determined using this method in the first year of the series of "substantially equal periodic payments" is used for the entire series of payments. Thus, all of the annual payment distribution amounts are determined based on the account balances and interest rate for the first year of distributions. After May 1, 1999 Table 90CM may be used to determine the annuity factor. The program uses the 90CM annuity factor, unless the user chooses to use another factor.

For determining life expectancies for the §72(t) computation, "These new tables also may be used…" [Final 2002 regulations Suplemental – Explanation of Provisions]. From this reading of the regulations, the IRA owner has a choice to use the tables used with the 2001 proposed regulations or the tables used with the 2002 final regulations. The program will let you choose. However, the old tables will result in the largest annual distribution.

Using the IRA/Pension Distribution Planner

Getting Started

The first thing you will see when loading the program is the About box. This screen lets you know that you have loaded the Denver Tax Software - IRA/Pension Distribution Planner. It also provides information on the program's version number and gives you information on Denver Tax Software, Inc. If you ever need to know any of this information you can always get it here. The About box should look similar to this:
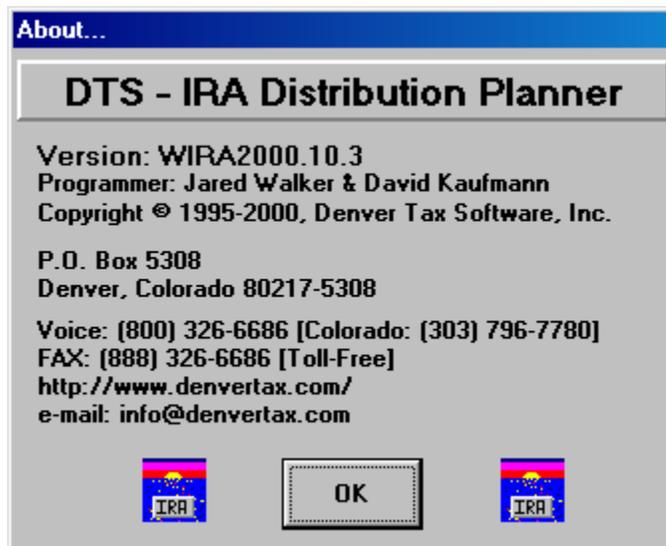
To close the About box and start your work, click on the **OK** button or press **ENTER**.

Entering Information

The IRA/Pension Distribution Planner uses the normal input procedures that most Windows programs use. To move from one input to another you can either use the mouse to select the input item you want, or press the **TAB** key to move through

them. To exit an input screen you can press the **ENTER** key or use the mouse to click on the appropriate button.

When working with an input form, the **OK** button or **ENTER** key will exit the form and preserve the information you entered. **Cancel** buttons are used to exit the form without preserving the information you entered.

You may find it easier to enter numeric information using the numeric keypad. If so, make sure the **Num Lock** key is on.

The Main Screen
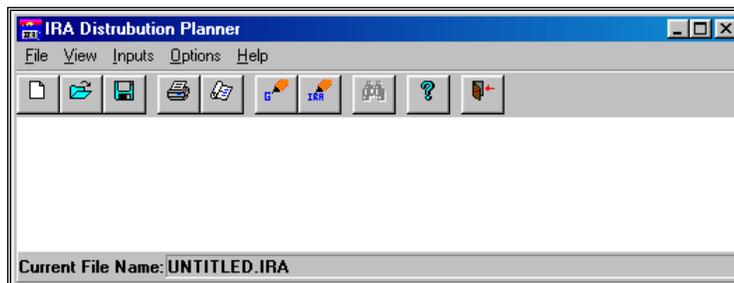
The Main Screen is similar to your desktop. From here you can select the different actions you want to perform. The Main Screen contains the various menus that you will use to do your work. Each menu is listed below with a description of the actions performed by the menu items.

<u>F</u>ile:

<u>N</u>ew:

The **<u>N</u>ew** menu item will prepare a new file for you to work with. Whenever you start a new file you should also use the **Save <u>A</u>s...** menu item to name it.

<u>O</u>pen...:

The **<u>O</u>pen...** menu item allows you to load an old file from disk. If you have previously used the DOS IRA Distribution Calculator you can load those files and the program will convert them to the new format.

<u>S</u>ave:

The **<u>S</u>ave** menu item allows you to save your current work to a file. If you are saving a new file, you should first use the **Save <u>A</u>s...** menu item to give the file a name (unless you have already named it). If the file doesn't have a name it will be saved as UNTITLED.IRA.

Save <u>A</u>s...:

The **Save <u>A</u>s...** menu item allows you to enter a file name and directory to save your file in. It is a good idea to name the file in a way that will allow you to easily identify it later. For example, if the client's name is John Holland, you might want to name the file JHOLL01.IRA. Remember names must be no longer than eight(8) characters, followed by .IRA.

Print...:

The **Print...** menu item allows you to select and print reports generated from the file you are working on.

Exit:

The **Exit** menu item quits the IRA/Pension Distribution Planner. But why would you want to do that?

View:

Display Reports...:

The **Display Reports...** menu item is similar to the **File,Print...** menu item except that the reports are displayed on screen. We suggest you go over your reports on screen before printing to make sure your work is correct.

Inputs:

General...:

The **General...** menu item will load the **IRA Owner's Information** screen. This screen allows you to enter information about the Owner(employee). Further discussion of this screen can be found in the section, "IRA Owner's Information (General Inputs)".

IRAs...:

The **IRAs...** menu item will load the **IRAs...** screen. This screen allows you to add, edit, and delete IRA accounts for the owner. Further discussion of this form can be found in the section, "IRAs... (Input Screen)".

Options:

Projection Mode:

The **Projection Mode** menu item allows you to switch between **Projection Mode** and no Projection Mode. When Projection Mode is turned on, a checkmark will appear before the menu item.

Tool Bar:

The **Tool Bar** menu item allows you to turn the Tool Bar on and off. When it is turned on there is a checkmark in front of the menu item and the Tool Bar will be visible on the Main Screen. See the chapter " The Tool Bar " on page 14.

Help

Contents...:

The **Contents...** menu item will load the IRA/Pension Distribution Planner's on-line help system. The on-line help system provides you with a

quick way to view this manual and get help while working with the program.

Help on Help...:

The **Help on Help...** menu item loads an on-line tutorial that will explain how to use the IRA/Pension Distribution Planner's on-line help system.

About...:

The **About...** menu item loads the program's About box, providing you with information on this program, and on Denver Tax Software, Inc.

The Tool Bar

What is the Tool Bar?

The Tool Bar is a panel that appears on the Main Screen and provides a quick way to access menu items. Each button on the Tool Bar represents a frequently used menu item. To use a button on the Tool Bar you only need to click on the button, and the same actions will be performed that would be if you used the menu item.

The Tool Bar can be turned on and off by using the **Options,Tool Bar** menu item.

Tool Bar Buttons

, New:

The New button performs the same action as the **File,New** menu item (see page 11).

, Open:

The Open button performs the same action as the **File,Open...** menu item (see page 11).

, Save:

The Save button performs the same action as the **File, Save** menu item (see page 11).

, Print:

The Print button performs the same action as the **File, Print...** menu item (see page 12).

, Display:

The Display button performs the same action as the **View, Display Reports...** menu item (see page 12).

, General Inputs:

The General Inputs button performs the same action as the **Inputs, General...** menu item (see page 12).

, IRA Inputs:

The IRA Inputs button performs the same action as the **Inputs, IRAs...** menu item (see page 12).

, Help:

The Help button performs the same action as the **Help,Contents...** menu item (see page 12).

Inputs

IRA Owner's Information (General Inputs)

Name of IRA Owner (employee):

Enter the name of the owner or employee here.

Optional Second Line:

Enter any additional information here. You may want to enter anything that will help you better identify the account, or the date you last worked on this account. This information will also be shown in report headings.

IRA Owner's Birthday:

The date the IRA owner was born.

Type of Distribution:

If you are running a Minimum Distribution calculation for someone who is 70½ years old, or older, select the **Post 70 and 1/2** button. If you are running a maximum

distribution calculation for someone who is younger than 59½ years old then you should select **Pre 59 and 1/2**. If you are running a for someone who is older than 59½ and younger than 70½ then you should select **59 and 1/2 to 70 and 1/2**.

Distribution Calendar Year:

This is the year that you are performing the calculation for. For a Minimum Distribution the first Distribution Calendar Year is the year in which the owner turns 70½. If you enter a year that is before the first Distribution Calendar Year, the program will change it to the first Distribution Calendar Year, and warn you accordingly.

For more information see Treasury Reg. §1.401(a)(9)-1 question F-1(b).

Changing from the 1st to the 2nd Distribution Calendar Year:

If the Distribution Calendar Year is equal to the first Distribution Calendar Year and you change it to the second Distribution Calendar Year, the program will ask if you want the owner's IRAs updated. If you select **Yes**, it will run calculations for the first Distribution Calendar Year and transfer the results into the owner's IRAs.

NOTE: Each IRA account's **Balance or Benefit:** will be set to zero. Before doing any calculations you should enter the correct amount for each IRA account.

Date of Death:

Enter the date of death if the IRA Owner died. If the IRA Owner did not die, leave the date blank. Enter year with four digits. Thus, enter 4/7/02 as 04/07/2002.

Is Spouse a Beneficiary?

(Not available if **Pre 59 and 1/2** distribution)

If the owner's spouse is a beneficiary on any or all of the owner's IRA accounts you should select **Yes**, otherwise select **No**. If you select **Yes**, you will need to enter the spouse's birthday in the **Spouse's Birthday:** input.

Spouse's Birthday:

(Not available if **Is Spouse a Beneficiary?** is **No**)

(Not available if **Pre 59 and 1/2** distribution)

If the owner's spouse is a beneficiary on any or all of the owner's IRA accounts you will need to enter the spouse's date of birth here.

Early Distribution Method

(Not available unless **Pre 59 and 1/2** is selected for **Type of Distribution**.)

Choose Minimum Distribution Calculation, Amortization or Annuity. For more information refer to Notice 89-25.

Amort. Interest Rate(10%=10):

(Not available unless **Pre 59 and 1/2** is selected for **Type of Distribution** and **Amortization** is chosen for **Early Distribution Method**.)
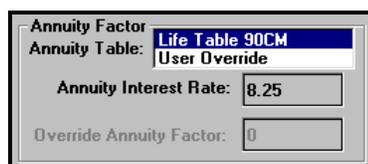
Amort. Interest Rate(10%=10): 8.25

Enter the interest rate to be used with the Amortization method in determining the pre 59½ distribution. According to Notice 89-25, this should be a reasonable interest rate.

Annuity Factor:

(Not available unless **Pre 59 and 1/2** is selected for **Type of Distribution** and **Annuity** is chosen for **Early Distribution Method**.)

Annuity Factor
Annuity Table: Life Table 90CM / User Override
Annuity Interest Rate: 8.25
Override Annuity Factor: 0

Enter the annuity factor. In Notice 89-25, the UP-1984 Mortality Table was used with a "reasonable interest rate." However, the program uses Table 90CM which has been in use since May 1, 1999.

Annuity Table

Click on one of the choices for annuity table. If you choose "User Override", you will need to supply the annuity factor in the **Override Annuity Factor** input, if you choose an annuity table, such as Life Table 90CM, the program will need an input for **Annuity Interest Rate**.

Annuity Interest Rate

Choose a "reasonable interest rate." The program uses this when it looks up an annuity factor from a table. When you enter this amount, do not divide the percent by 100. For example, if you are entering an interest rate of 8.25%, enter it as 8.25, not .0825. This input is not available if you chose "User Override" for the **Annuity Table** input.

Override Annuity Factor

This input is only available if you chose "User Override" for the **Annuity Table** input. Enter the annuity factor that you want the program to use.

IRAs... (Input Screen)

The **IRAs...** screen allows you to view all of the owner's IRA accounts. It also allows you to **Add**, **Edit**, and **Delete** accounts.
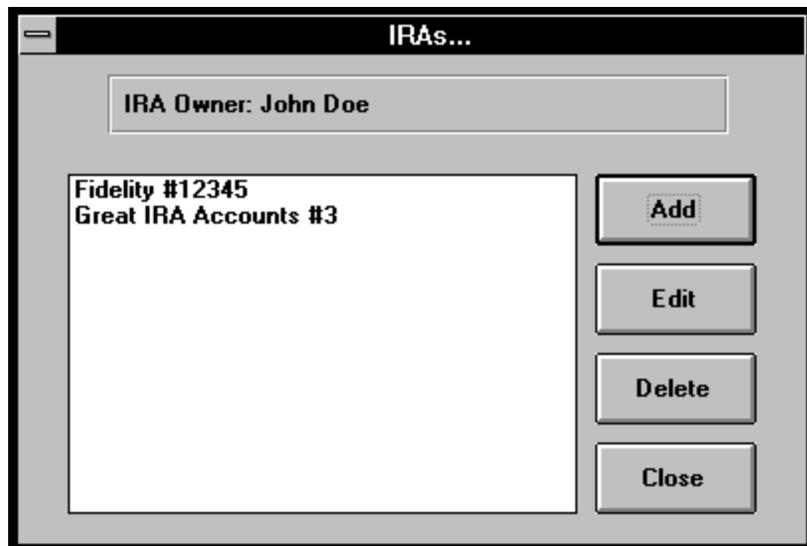
Add:

Click on the **Add** button if you want to add a new IRA account to the list of IRAs for this person. You will be presented with an **IRA Description/Account** screen, with blank entries, to enter the data for the new account.

Edit:

The **Edit** button allows you to edit an IRA account that already exists. To edit an IRA you should first select the IRA account you want to edit, by clicking on the name of the IRA in the list, and then clicking on the **Edit** button. This will bring up the **IRA Description/Account** screen for you to edit the IRA.

Delete:

The **Delete** button allows you to delete an IRA that already exists. BE CAREFUL when using this button! To delete an IRA, first select the IRA by clicking on the name of the IRA in the list, and then clicking on the **Delete** button. You will be asked if you really want to delete it, and if you click **Yes** it will delete the IRA. Once an IRA is deleted you will no longer have access to it.

Close:

The **Close** button will close the **IRAs...** input screen, and return you to the prior screen (either the **Main Screen**, or the **IRA Owner's Information** screen).

IRA Description/Account (Input Screen)

IRA Description/Account:

Because the IRA owner may have more than one IRA account, you should label each IRA. It is a good idea to use the Institution name and/or account number.

Use 2002 Life Expectancy Tables

 This input will only appear for Maximum [§72(t)] distributions. Check this box to use the 2002 Life Expectancy tables. Uncheck the box to use the 1987 Life Expectancy Tables.

Is Spouse a Beneficiary?

(Not available if **Is Spouse a Beneficiary?** (**IRA Owner Information** Screen) is **No**)

(Not available if **Pre 59 and 1/2** distribution)

If the IRA owner's spouse is a beneficiary on *this* account select **Yes**, otherwise select **No**. The payout period of the IRA can be spread over the life expectancy of the owner and spouse, and in general, this will produce a lower Minimum Distribution.

Recalculate Life Expectancy?

This input does not apply for the 2002 final regulations. The only purpose in leaving this reference to an old input is so the users of prior versions know why the input is no longer available.

Is there a Non-Spouse Beneficiary?

(Not available if **Pre 59 and 1/2** distribution)

If there is a non-spouse beneficiary, or a spouse and non-spouse beneficiary select **Yes**, otherwise select **No**. If necessary the program will calculate the non-spouse MDIB life expectancy.

Non-Spouse Beneficiary's Name:

(Not available if **Pre 59 and 1/2** distribution)

(Not available if **Is there a Non-Spouse Beneficiary?** is **No**)

Enter the name of the non-spouse beneficiary. If there is more than one non-spouse beneficiary, enter the name of the oldest non-spouse beneficiary.

Non-Spouse Beneficiary's Birthday:

(Not available if **Pre 59 and 1/2** distribution)

(Not available if **Is there a Non-Spouse Beneficiary?** is **No**)

Enter the date the non-spouse beneficiary was born. If there is more than one non-spouse beneficiary, enter the date the oldest non-spouse beneficiary was born.

Balance or Benefit:

The IRA benefit is the IRA balance on December 31st of the year prior to the Distribution Calendar Year for which the calculation is being made. *Do not* adjust this amount for any first Distribution Calendar Year payments. This adjustment will be made by the program.

1st Year Minimum Distribution:

This input has been removed. The 2002 final regulations do not provide for reducing the second Distribution Calendar Year Benefit by the first Distribution Calendar Year's January 1 – April 1 distribution made during the second year. Using the 1987 and 2001 proposed regulations, such second year benefit could be reduced by the first year's distribution to the extent that the distribution was made in the second year.

Amount Distributed this Dist.Cal.Year:

Enter any amount which has already been distributed *this* Distribution Calendar Year for *this* IRA account.

For example: the IRA owner is 72 and the Distribution Calendar Year is 1991. Although the owner is not required to make a distribution until 12/31/1991 he or she may make a distribution before then. The program must be made aware of these amounts as they may reduce the amount that must be distributed on 12/31/1991.

Rate of Return:

(Not available unless the **Options,Projection Mode** menu item is checked)

The **Rate of Return** is the *estimated* expected return on *this* IRA account. You should enter the percentage amount, *not* the decimal amount. For example, if the **Rate of Return** is expected to be 7.5% you should enter 7.5, *not* .075.

Please note that this is your best *estimate* of the return on the account, and as such any projection reports are also an *estimate*.

Understanding the IRA/Pension Distribution Planner Reports

Deciding Which Reports To View Or Print

When you select the **View,Display Reports** or **File,Print** menu items you will be presented with a screen allowing you to decide which reports you want to view or print. The screen looks like the following:
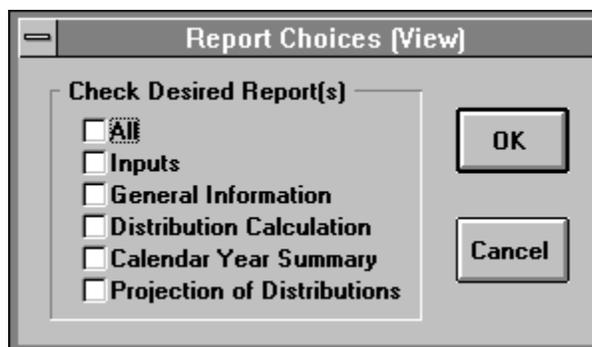
If you select the **All** option you will get all of the reports listed, otherwise you will only get those that you select. To select an option, click on the box next to the name and an X will appear in it indicating you have made that selection. If you select **All** and then decide you do not want all of the reports, you must click on **All** again, and then remove the reports you don't want by clicking on them so that the X disappears.

Inputs Report

This report provides you with the inputs you entered. It is a good way to verify all of your inputs.

General Information Report

The General Information Report provides a quick glimpse at some of the important dates, ages, and beginning life expectancies. It also provides some terminology that may be useful to both yourself and the client. Some of the information provided is the Required Beginning Date, the first Distribution Calendar Year, the IRA owner's and spouse's birthdates and their life expectancies in the first Distribution Calendar Year.

Distribution Calculation Report

The Distribution Calculation Report provides one report for each of the owner's IRA accounts.

If there is a spouse and non-spouse beneficiary for an account, the life expectancies for the Required Beginning Date will be shown. These are used to determine which life expectancy will be used to calculate distributions. In all other cases these life expectancies will not be shown as they are not necessary.

The report will also show the applicable life expectancy on the Distribution Calendar Year, and in the case where a non-spouse life expectancy is used it will determine whether **MDIB** or the **General Rule** should be used.

The last section of the report shows the calculation of the Required Minimum Distribution or Maximum Distribution, and the amount due.

Calendar Year Summary Report

The Calendar Year Summary report provides an overview of all the owner's IRA accounts and the totals for the year. This report does not show how the calculations were made. If you want to see that information you should view or print the **Distribution Calculation Report**. It does however show each account's Adjusted Benefit, Total Required Distribution, Amount Already Distributed, Net Required Distributions and the totals for each over all accounts.

Projection of Distributions Report

(Not available unless the **Options,Projection Mode** menu item is checked)

The Projection of Distributions Report is the most complex report provided. As such it requires the user to clearly understand what it does. You *should read* this section before using this report.

This report will project the performance of the owner's IRA accounts and the Minimum required distributions to be made for each Distribution Calendar Year. It also provides the total of all distributions for each year, allowing you to determine if any penalties may be incurred. You can use this report to determine how to avoid these penalties.

Making The Projection Of Distributions Report Available

The first thing you must do in order to use this report is set the **Options, Projection Mode** menu item so that a checkmark appears before it. To do this, click on the **Options** menu, and then (if the checkmark isn't already there) click on the **Projection Mode** menu item. This informs the program that you want to be able to do Projection of Distributions reports.

Simplifying Assumption

The distribution <u>for</u> the first Distribution Calendar Year will appear as a distribution <u>in</u> that year. The first Distribution Calendar Year is the year in which the IRA Owner turns 70½. In reality, that distribution will probably be made on April 1 of the next year.

Entering The Rate Of Return

The **Rate of Return** must be entered for each IRA account the owner has. You will need to use the **IRA Description/Account** Screen to enter this amount. Remember this *must be entered separately for each account.*

Selecting The Projection Of Distributions Report

When you select the **Projection of Distributions** report you will be presented with the **Projection Options** screen:

Percentage over Required Minimum Distribution

This is the percentage over the required Minimum Distribution that you want to increase IRA distributions by each year. Usually this should be 0, however there are some circumstances where you might want to increase the distribution amount. You should enter the percentage amount, *not* the decimal amount. For example, if you want 7.5% you should enter 7.5, *not* .075.

NOTE: This increase is applied to the Gross Distribution, not Net Of Amounts Already Distributed.

Number of Years to Project

This is the number of years you want the projection to cover. If the owner or a beneficiary that is used to determine the life expectancy reaches an age that is not supported by this system, the program will inform you, and the related account(s) will not be included in the totals from that year on.

Calculate Income for Current Dist. Cal. Year?

This option provides you the ability to have the program either calculate or not calculate Income for the Distribution Calendar Year that is entered in the **IRA Owner's Information** Screen. Because you will often be doing these calculations at the end of the year, you may want to start with the second year. To bypass the current year you should select **No**; otherwise, you should select **Yes**. If you select **No**, Income will not be added to the account for the current Distribution Calendar Year, but it will be added for years after that.

Percent Balance Reduction 1997-1999:

The Excess Distribution Tax was repealed for distributions after December 31, 1996 with the Taxpayer's Relief Act of 1997 Act §1073. This input is not used.

No Excess Distribution Tax is due from 1997 - 1999. Many professionals want to look at the consequences of making large distributions over this period to avoid future Excess Distribution Tax and Excess Accumulation Tax. This report lets you examine the consequences of such large distributions. With this input you can specify how much you want to reduce the account balances by.

For this input, if you enter 100 for 100%, the program will distribute 1/3rd of the beginning 1997 balance(33.33% of the beginning 1997 balance) in 1997, 1/2 of the beginning 1998 balance(50% of the beginning 1998 balance) in 1998 and all of the 1999 beginning balance(100% of the beginning 1999 balance) in 1999. Even at 100% there will be a small balance left for the reason that income will be figured on the beginning balance before the distribution.

For this input, if you enter 60 for 60%, the program will distribute 1/3rd of 60% of the beginning 1997 balance(20% of the beginning 1997 balance) in 1997, 1/2 of 60% of the beginning 1998 balance(30% of the beginning 1998 balance) in 1998 and all 60% of the 1999 beginning balance(60% of the beginning 1999 balance) in 1999.

Understanding The Projection Of Distributions Report

To use the results calculated by this report, it is important to understand how they were made. It is also important to remember that this report is a projection of the *estimated* distributions for the IRA accounts. The following explains how the Beginning Balance (Beg.Bal.), Income, and Ending Balance (End.Bal.) are calculated. The calculation of the required distribution is the same as it is in the **Distribution Calculation Report**.

1st Distribution Calendar Year:

Beg.Bal. : Balance on 12/31 of the prior year.

Income : Beg.Bal. × Rate of Return

End.Bal. : Beg.Bal. - Amounts Already Distributed† + Income

2nd Distribution Calendar Year:

Beg.Bal. : End.Bal. from 1st Distribution Calendar Year.

Income : (Beg.Bal. - 1st Distribution Calendar Year's April 1st distribution) × Rate of Return

End.Bal. : Beg.Bal. - Amounts Already Distributed† - 1st Distribution Calendar Year's April 1st distribution + Income

3rd Distribution Calendar Year +:

Beg.Bal. : End.Bal. from prior Distribution Calendar Year.

Income : Beg.Bal. × Rate of Return

End.Bal. : Beg.Bal. - Amounts Already Distributed† + Income

† Amounts Already Distributed only apply if it is the first year of the Projection of Distributions Report.

Tutorial - Example

Overview

This chapter provides an opportunity to learn how the IRA/Pension Distribution Planner works without having to stumble through it on your own. We suggest you go through this example so that you can learn how to properly enter your clients' IRAs.

This example will demonstrate how to enter the IRA owner's information, and the IRA accounts. It also demonstrates how to use the **Projection Mode** option and view **Projection of Distribution** Reports.

Try This!

In this example, when you are asked to 'click' an item you should either click on that item with your mouse or use the equivalent keyboard commands to activate it. If you are unfamiliar with using the Windows operating environment we suggest you either read your Windows manual, use Windows Help, or have someone teach you.

One of the "features" of Windows that has irked many is the convention that the **TAB** key rather than the **ENTER** key is to be pressed when an input is completed. This program has been configured, in most cases, to use either the **ENTER** key or **TAB** key after an input has been completed. In the below tutorial, you are welcome to use the **ENTER** key rather than the **TAB** key, if you prefer.

- Double-click on the "Denver Tax Software" Program Manager Group

- Double-click on the "IRA/Pension Distribution Planner" icon.

You should now see the IRA/Pension Distribution Planner's About box.

- Click the **OK** button.

- Click on **File**.

- Click on **Save As...**

- Type the name **IRATEST.IRA** and click on the **OK** button, or press the **ENTER** key.

You have now opened a new file and named it IRATEST.IRA, now continue:

- Click on **Inputs**.

- Click on **General**.

The **IRA Owner's Information** screen should appear,

- Type in a name.

- Press the **TAB** key (on the keyboard).

- Type in any information you would like here.

- Press the **TAB** key.

- Type in the numbers **06221931**, notice how the program formats them into the date box. (We always recommend entering the year as four digits.)

- Press the **TAB** key.

- Click on the circle next to **P̲ost 70 and 1/2** (We will do a Minimum Distribution).

- Press the **TAB** key.

- For this example we will say the client has a spouse. Click on the circle next to **Yes**, in the **Is Spouse a Beneficiary?** box. Notice that the date section in the **Spouse's Birthday:** box changed. This indicates that you are allowed to enter a date there.

- Press the **TAB** key again.

- Enter the date **11051935**.

- Press the **TAB** key.

- Type in the year **2003**. (We will use the first Distribution Calendar Year)

- Press the **TAB** key at the **Date of Death** entry.

- Press the **TAB** key.

You have now finished entering the owner's information. From here we could click on the **OK** button and return to the **Main Screen** (without losing the information we entered), click on the **Cancel** button returning us to the **Main Screen** (in this case we would lose the information we just entered) or we can click on the **IRAs...** button and start entering IRA accounts.

- Click on the **IRAs...** button.

The **IRAs...** screen should appear,

- Click on the **Add** button.

An **IRA Description/Account** screen, with blank inputs, should appear,

- Type in a name for the account.

- Press the **TAB** key.

- The **Is Spouse a Beneficiary?** box should already have the **Yes** circle selected (if it doesn't, click on it).

- Press the **TAB** key.

- Click on the circle next to the **Yes,** in the **Is there a Non-Spouse Beneficiary?** box. (We will have a non-spouse beneficiary).

- Press the **TAB** key.

- Enter any name you would like.

- Press the **TAB** key.

- We have entered dates before, however, this time we will do it differently, but don't worry! Enter the date **07291946**.

- Now press the **TAB** key and watch what happens to the date you entered.

Notice how the program properly formats the date so the year matches the current century.

- Next, enter the amount **250000**.

- Press the **TAB** key.

- Enter the amount **100.**

- Press the **TAB** key.

Let's say the account has an expected return of 5.5%.

- Enter **5.5**.

- Press the **TAB** key.

- Press the **OK** button. This will exit the IRA Input screen.

- Click on the **Close** button.

- If the IRA Owner's Information screen is still open, click on the **OK** button.

- Click on **View**.

- Click on **Display Reports...**

You should now see the **Report Choices** (**View**) screen. We want to look at all the reports so,

- Click on the box next to **All**. Xs should appear in all the boxes indicating all the reports are selected.

- Click on the **OK** button.

You should now see the **Projection Options** screen.

- Press the **TAB** key. (We won't increase our distributions).

We will do this projection for 15 years, so

- Enter **15**.

- Click on the **No** circle in the **Calculate Income for Current Year** box.

- Click on the **OK** button.

You can now examine all the reports generated. When you are finished looking at a report you can Click on the **Close** button to remove it. The reports often contain a lot of information, and it won't always fit on the screen. Scroll bars are provided to allow you to scroll through the reports to see all of the information you need. When you have returned to the Main Screen you can do the following to save this file with all the information you added.

- Click on **File**.

- Click on **Save**.

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Glossary of Terms

Benefit

The Benefit is the IRA account balance on December 31 immediately before the Distribution Calendar Year. If this is the second Distribution Calendar Year, the account balance may be reduced by a Minimum Distribution made IN the second Distribution Calendar Year FOR first Distribution Calendar Year. If you have provided that information to this program, this program will do that calculation for you. further information refer to Treas. Reg. Section 1.401(a)(9)-1(F-5).

Distribution Calendar Year

A Distribution Calendar Year is a calendar year for which an IRA distribution is required. For further information refer to Treas. Reg. Section 1.401(a)(9)-1(F-1)(b).

Maximum Distribution

A Maximum Distribution is an annual distribution(s) made before the IRA owner turns 59½ that avoids incurring a penalty for premature distributions. See IRC §72(t).

Minimum Distribution

The Minimum Distribution is the annual distribution(s) made to avoid penalties for insufficient distributions after age 70½.

Minimum Distribution Incidental Benefit(MDIB)

Refer to Treas. Reg. Section 1.401(a)(9)-2. Among other things, MDIB requires that life expectancy used for the IRA owner and a non-spouse beneficiary be calculated using a difference in ages not exceeding 10 years.

Recalculate Life Expectancy

Life expectancies are recalculated if the life expectancy is looked up each year from the life expectancy table using the owner's (and beneficiary's) age(s) at the end of the distribution calendar year.

Required Beginning Date

The Required Beginning Date is April 1st of the year after the owner turns 70½.

For further information see Treasury Reg. §1.401(a)(9)-1(B-2).

Term-Certain Life Expectancy

If life expectancies are not Recalculated each year, then the Term-Certain method for calculating life expectancies is used. For the Term Certain method the life expectancy for the first distribution calendar year is determined and reduce by one each subsequent year.

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