2026 NATIONAL INCOME TAX WORKBOOK

Chapter 10: Retirement Tax Issues

Land Grant University
Tax Education Foundation

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MAJOR TOPICS

- Catch-Up contributions
- Retirement Plans for Small Business
- I.R.C. §457 Plans
- Roth Conversions & Backdoor Roth IRA's
- Social Security Survivor & Death Benefits
- Trump Accounts

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LEARNING OBJECTIVES

- ✓ Know when persons age 50 and over can make catch-up contributions
- ✓ Know the additional catch-up contributions rules that apply for ages 60, 61, 62, and 63
- ✓ Understand the Roth requirement for certain catch-up contributions
- ✓ Discuss the different retirement plans for small businesses

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LEARNING OBJECTIVES

- ✓ Understand the I.R.C. § 457(b) plan rules
- ✓ Understand Roth IRA conversions
- ✓ Explain the tax consequences of a backdoor Roth IRA conversion
- ✓ Determine who is eligible for social security survivor benefits

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LEARNING OBJECTIVES

✓ Know who is eligible for a Trump account and how to apply for a Trump account

✓ Understand the Trump account contribution and distribution rules

✓ Know who qualifies for the Trump account pilot contribution program and how to make the election

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CATCH-UP CONTRIBUTIONS

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CATCH-UP CONTRIBUTIONS: OVERVIEW

I.R.C. § 414(v) allows individuals age 50+ to make annual catch-up contributions (indexed for inflation)

Max catch-up to a traditional or Roth IRA: **$1,100** (2026), due by the tax return due date (no extensions)

Plans allowing catch-up up to **$8,000** (2026), due by end of plan year: 401(k) (non-SIMPLE), 403(b), SARSEP, governmental 457(b) plans

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HIGHER LIMIT FOR AGES 60-63

SECURE 2.0 Act provides a higher catch-up limit for participants turning 60, 61, 62, or 63 starting in 2025

Applies to most 401(k), 403(b), governmental 457 plans, and the federal thrift savings plan

2026 limit: $11,250 (instead of $8,000)

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403(B) PLANS – 15-YEAR CATCH-UP

Employees with **15+ years of service** may make additional contributions beyond the regular age-50 catch-up

Elective deferral limit increased by the **least of**:

- *$3,000;*
- *$15,000 minus prior years' additional deferrals; or*
- *$5,000 × years of service minus prior deferrals*

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CORRECTING EXCESS DEFERRALS

If an employee lacks the required 15 years of service, a timely withdrawal by **April 15** of the following year avoids the 10% early distribution tax

Earnings through the correction date remain taxable

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ROTH REQUIREMENT FOR CERTAIN CATCH-UP CONTRIBUTIONS

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Beginning 2026

- *Mandatory ROTH contribution for contributions*
- *Prior-year FICA wages exceeded $150,000 (2025 wages)*

Threshold rises to $155,000 for 2027 contributions; adjusted for inflation

Applies to 401(a)/401(k), 403(b), and governmental 457(b) plans

Does **not** apply to SEP or SIMPLE IRA

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FICA WAGES DEFINED

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Based on FICA taxes under I.R.C. §§ 3101(a)/3111(a) (OASDI), not Medicare

Individuals **not** subject to the Roth catch-up requirement:

- *Partners with only self-employment income*
- *Railroad Retirement Tax Act wage earners*
- *State/local government employees excluded from "employment" definition*

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EXAMPLE 10.2: WAGES EXCEED THE THRESHOLD

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- Kailee Anderson (age 50) had $156,000 FICA wages Jan–Oct 2026, became a partner in Nov 2026
- $30,000 in distributive share of partnership income → self-employment income
- Kailee is subject to the Roth catch-up requirement for **2027** despite having self-employment income for part of that period

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EXAMPLE 10.3: WAGES DO NOT EXCEED THRESHOLD

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- Same facts, except Kailee had only $60,000 FICA wages before becoming partner in May 2026
- Since FICA wages didn't exceed $155,000, 2027 catch-up contributions are **not** required to be Roth

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AVAILABILITY OF ROTH CONTRIBUTION PLAN

Employer plans aren't required to offer a Roth program

If a plan doesn't have a Roth option

- No catch-up contributions for those subject to it

Plans without a Roth program may still allow catch-up for participants *not* subject to the requirement

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PRACTITIONER NOTE: FINAL REGULATIONS

The final regulations take effect for contributions made after **December 31, 2026** (later date for certain governmental plans and collectively bargained plans)

For years before 2027, plans can comply with the Roth catch-up requirement using a reasonable good-faith interpretation of the statute

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DEEMED ROTH ELECTION

For tax years after 12/31/2023, plans may deem a subject participant to have irrevocably designated catch-up contributions as Roth

Deemed election must cease within a reasonable time after the employee is no longer subject, or after a corrected Form W-2 is issued

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CORRECTING A ROTH CATCH-UP FAILURE

Form W-2 Correction Method: transfer the deferral to the Roth account and report it on Form W-2 (not available if W-2 already filed)

In-Plan Roth Rollover Method: roll the deferral into the Roth account via I.R.C. § 402A(c)(4)(E); correction not required if under $250; deadline is the last day of the following tax year

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RETIREMENT PLANS FOR SMALL BUSINESSES

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TYPES OF PLANS

- SEP IRA
- SIMPLE Plan
- Profit-Sharing Plans – 401(k)

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SEP IRA

Employer-funded written plan

- *Established via Form 5305-SEP or a custom/prototype plan*

Eligible employees: age 21+, worked 3 of last 5 years (employer may reduce to 0–2 years)

May exclude collective bargaining employees, nonresident noncitizens, employees earning under $800 (2026)

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SEP IRA CONTRIBUTIONS

Employer-only contributions; must be uniform across employees (social security integration allowed)

Max: lesser of **25% of compensation** (20% of self-employment income after ½ SE tax deduction) or **$72,000** (2026)

Max compensation considered: **$360,000** (2026)

Contributions **must be made** by the due date (including extensions of employer's income tax return)

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PLANNING POINTER: EMPLOYEE CONTRIBUTIONS

If the SEP IRA permits non-SEP contributions, the employee can make regular IRA contributions to the SEP IRA

- *Includes IRA catch-up contributions for ages 50+*
- *Subject to the maximum annual limit for IRA contributions*

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PLANNING POINTER: EMPLOYEE CONTRIBUTIONS

Deduction limits:

- *The deductible amount of the regular IRA contribution may be reduced or eliminated*
- *Based on modified AGI limits for individuals who participate in a retirement plan*

Employer contributions made under the SEP plan do not affect the amount the employee can contribute

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EXAMPLE 10.4: 25% LIMITATION

Olivia Ryan, age 35

Earned $50,000

→ max SEP contributions: **$12,500**

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EXAMPLE 10.5: ANNUAL COMPENSATION LIMITATION

Estavon Sanchez earned $370,000

Employer committed to contribute 15%

Max contribution: **$54,000** (15% x $360,000 maximum compensation)

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SEP IRA – INVESTMENT, DISTRIBUTIONS, & REPORTING

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- Employee controls investments/distribution timing; 10% penalty for early withdrawal (before 59½)
- RMDs required by April 1 after the year the owner turns 73 (75 if born after 1959)
- No Form 5500 required – financial institution reports via Form 5498/1099-R

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SELF-EMPLOYED SEP CONTRIBUTIONS

Same contribution limits apply → Deduction calculated using the Rate Table/Worksheet for Self-Employed (IRS Pub. 560) → SEP IRAs do **not** allow catch-up contributions

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EXAMPLE 10.6: SELF-EMPLOYED DEDUCTION – NO EMPLOYEES

- Emma Brewer, sole proprietor, 10% SEP contribution rate, $150,000 net profit
- SE tax deduction: $10,597; final SEP deduction: **$12,673** (reported on Schedule 1, line 16)
- **Figure 10.2** shows Emma's completed Deduction Worksheet for Self-Employed

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KEY PROVISIONS OF A SEP PLAN

- Any employer; easy to set up (Form 5305-SEP)
- Employer-only contributions, no catch-up
- Coverage: age 21+, 3-of-5-year employees, $800+ compensation
- Withdrawals anytime (taxable); RMDs at 73/75; no loans
- Contributions immediately 100% vested

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SIMPLE PLANS

- Available to employers with **100 or fewer employees** earning $5,000+ in the prior year
- Cannot be offered alongside other qualified plans (except collective bargaining coverage)
- Form 5305-SIMPLE or 5304-SIMPLE by **October 1** of the prior year (60 days' notice required)

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SIMPLE PLANS – PARTICIPATION

- Eligible: employees with $5,000+ compensation in any 2 prior years, anticipated $5,000+ in current year
- Employer may lower the threshold; may require up to 2 years of prior service; **no minimum age** allowed
- **Only exclusions**: collective bargaining employees and nonresident noncitizens

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SIMPLE PLAN CONTRIBUTIONS

Employee contribution limit: lesser of **$17,000** (2026) or 100% of compensation

Catch-up: **$4,000** (age 50+); **$5,250** (ages 60–63)

Employers with ≤25 employees:

- higher limits of **$18,100** basic
- **$3,850** catch-up ($5,250 for ages 60–63)

Employer must choose one of two contribution methods annually:

- 2–3% nonelective
- Up to 3–4% matching

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EXAMPLE 10.7: 3% MATCHING CONTRIBUTION

Jamison Lockwood earned $100,000, contributed $10,000;

Employer offered 3% matching

Employer match = **$3,000** [the lesser of Jamison's $10,000 contribution or 3% of $100,000 salary]

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EXAMPLE 10.8: ANNUAL COMPENSATION LIMITATION

Claudia Anders earned $380,000

Claudia's employer offered 2% nonelective contribution capped at **$7,200** (2% × $360,000)

Claudia may still contribute up to $21,000 ($17,000 + $4,000 catch-up)

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SIMPLE IRA – INVESTMENT, DISTRIBUTIONS,

- Each employee controls their own account investments
- Withdrawals taxable anytime; 10% early withdrawal penalty (25% if within 2 years of participation)
- Annual summary/election notices required; Form 5498 provides IRS and participants with annual statement containing contributions and FMV information

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SELF-EMPLOYED SIMPLE CONTRIBUTIONS

- Sole proprietors contribute net earnings from self-employment, up to $17,000 + $4,000 catch-up ($5,250 for ages 60–63)
- Self-employed taxpayers can also contribute either the 2% nonelective contribution or 3% matching contribution
- Contributions are deducted together on Schedule 1, line 16

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KEY PROVISIONS OF A SIMPLE PLAN

- Employers with ≤100 employees, no other plan
- Salary deferrals + mandatory match/nonelective contribution
- Coverage: $5,000 of compensation in any prior 2 years; no minimum age requirement
- Rollovers to non-SIMPLE IRA tax-free only after 2 years of participation

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PROFIT-SHARING PLANS

- Requires a predetermined allocation formula and defined distribution triggers (fixed years, stated age, or event like retirement/death)
- Often includes a 401(k) feature; solo 401(k) available for self-employed individuals
- Employer contributes 0–25% of compensation annually (flexible, but should be recurring and substantial)

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ESTABLISHING A PROFIT-SHARING PLAN

- Adopt a written plan document,
- Arrange a trust/account,
- Develop recordkeeping,
- Provide plan information to employees
- Established by the **last day of the plan year** (may be retroactive to the first day)

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PARTICIPATION IN THE PLAN

All Employees

May exclude:

- Under Age 21
- Less than 1 year of service (some plans 2 years)
- Collective Bargaining
- Non-resident/Non-Citizens
- Employees working fewer than 1,000 in a year

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PROFIT-SHARING – EMPLOYEE CONTRIBUTIONS

Employees may be able to make nondeductible contributions if the employer adds a 401(k) feature

Elective deferral limit: **$24,500** (2026)

Catch-up: **$8,000** (age 50+); additional **$3,250** for ages 60–63

Employee deferrals immediately 100% vested; tax-free until distributed (but included in SS/Medicare/FUTA wages)

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EXAMPLE 10.9: 401(K) CONTRIBUTIONS

- Profit Sharing Plan with 401(k) for JKL, Inc.
  - *Employees may contribute 10% of annual earnings*
  - *Company matches the first 5% of employee contributions*
- Jonah earns $180,000
  - *Contributed 10%; JKL matches with 5%*
  - *Total contribution: **$27,000** [$180,000 x (10% + 5%)]*

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EXAMPLE 10.9: 401(K) CONTRIBUTIONS

- Jonah earns $280,000
  - *Jonah's contribution capped at $24,500 (2026 elective deferral limit)*
  - *JKL's contribution: $14,000 ($280,000 x 5% match)*
  - *Total contribution: **$38,500***

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VESTING

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- Contributions can be **fully vested (nonforfeitable)** when made, or vest **over time** under a vesting schedule
- If the plan requires **2 years of service** to participate, all contributions are **immediately vested**
- An employee **forfeits** contributions made on their behalf if they leave **before vesting**
- Vesting may require **up to 6 years** of service

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PROFIT-SHARING – INVESTMENTS & DISTRIBUTIONS

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- Held in a separate trust; participants may choose from available investment options
- Options at distribution: lump sum, rollover to IRA/other plan, or periodic distributions
- 10% additional tax applies to distributions before 59½ (hardship withdrawals allowed for immediate or heavy financial need)

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NONDISCRIMINATION

To preserve tax benefits, a profit-sharing plan must provide **substantive benefits for all employees**, not just **owners and managers**

The rules compare both **participation** and **contributions** of employees against owners and managers

Traditional plans face **annual testing** to ensure employee contributions are **proportional** to those for owners and managers

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TESTS FOR PROFIT-SHARING PLANS

Any plan allowing **elective contributions** must pass two tests:

- *The **actual deferral percentage** test*
- *The **actual contribution percentage** test*

Under a traditional **401(k)**, **highly compensated employees (HCEs)** face an **added limit**

- **$ 24,500** cap (2026),
- Their deferrals are limited by amounts deferred by **non-highly compensated employees (NHCEs)**

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SAFE HARBOR 401(K) PLANS

A **safe harbor** **401(k)** avoids **nondiscrimination testing**

In exchange, employees must receive a **certain level of employer contributions**, meeting one of two formulas (next slide)

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SAFE HARBOR CONTRIBUTION FORMULAS

Nonelective: a **100% vested** contribution of **3% of compensation** to **all NHCEs**, or

Matching: a **100% vested match** for all NHCEs who defer:

- ***100% of the first 3%*** *deferred,* ***plus 50% of the next 2%***
- ***Alternative formula: 100% of the first 4%*** *deferred*

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SAFE HARBOR: NO ADDED RESTRICTIONS

The plan may **not** restrict receipt of the safe harbor 3% or matching contributions,

- except for the **minimum age and service** requirements for participation

It **cannot** impose a **1,000-hour** work requirement or require **employment at year-end**

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NEW COMPARABILITY PLANS

An **alternative testing method** for profit-sharing and money purchase pension plans,

- *Letting the employer define **different participant groups** receiving **different contribution levels***

Also called **cross-tested, tiered, or super-integrated** plans

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HOW NEW COMPARABILITY TESTING WORKS

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Employees are divided into **groups**,

- each tested **first within the group**,
- then **against the other groups** to determine whether the plan **qualifies in total**

These plans are typically designed to **maximize contributions** for the **most highly compensated** participants

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SELF-EMPLOYED

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Solo 401(k): A **401(k) with one participant**, usually structured as a **profit-sharing plan with a 401(k) feature**

Covers a **business owner with no employees**, and may also cover the owner's **spouse**

Generally, follows the **same rules** as other 401(k) plans

The owner makes **both** the **elective deferral** (employee) and the **nonelective or matching** (employer) contribution

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SOLO 401(K): CONTRIBUTION SOURCE

Contributions must come from **net earnings from self-employment** in the business for which the plan was established

Earnings must be from **personal services**, not **investments**

With a **net loss** from self-employment, the owner **cannot contribute** for the year

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EXAMPLE 10.10: SOLO 401(K) PLAN

• Ben Williams, **age 48**, earned **$120,000** in W-2 wages from his **S corporation** in 2026

• He deferred **$24,500** in elective deferrals; the corporation contributed **$30,000** (25% × $120,000)

• **Total: $54,500**, the **maximum** he and his S corporation can contribute for 2026

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SOLO 401(K): TESTING AND FILING

No nondiscrimination testing is required, since there are **no employees** who could receive disparate benefits

If the employer **hires eligible employees**, they must be **included**, and deferrals become **subject to testing** unless the plan is a **safe harbor** or otherwise exempt

Must file **Form 5500-SF** annually if assets are **$250,000 or more** at year-end; smaller plans are usually **exempt**

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DEPOSIT OF 401(K) SALARY DEFERRALS

The **employer** must contribute participants' deferrals to the **plan trust**

The **DOL** requires deposit **as soon as practical**, but no later than **15 business days** after the close of the month in which deferrals were made

7-business-day safe harbor for plans with **fewer than 100 participants**: deposits within **7 business days** of receipt or withholding are deemed compliant

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PRACTITIONER NOTE: TIMING OF OTHER CONTRIBUTIONS

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Timing rules for **matching and other employer contributions** differ from those for **elective deferrals**

Matching contributions may be made at the time of the deferral **or later**, but no later than the **employer's return filing deadline, including extensions**

Employer contributions **not tied to deferrals** must also be made by the **filing deadline, including extensions**

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OBSERVATION: DEPOSITING CONTRIBUTIONS

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SIMPLE plan withholdings must be remitted within **30 days** of withholding

Other plans with **fewer than 100 participants** may use the **7-business-day safe harbor**

For **all other plans**, the DOL applies the **"as soon as possible"** rule, so contribute on **payroll day** or within a **few days**

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HARDSHIP DISTRIBUTIONS

401(k) plans **may**, but need not, allow **hardship distributions** for an **immediate and heavy financial need**

The need may be that of the employee's **spouse or dependent**

Whether a need is immediate and heavy depends on **facts and circumstances**, but certain expenses are **deemed** to qualify (next slides)

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DEEMED IMMEDIATE AND HEAVY NEEDS

Certain **medical expenses**

Costs of **purchasing a principal residence**

Tuition and related educational fees and expenses

Payments to prevent **eviction or foreclosure** on a principal residence

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DEEMED IMMEDIATE AND HEAVY NEEDS

Burial or funeral expenses

Repair of casualty damage to a principal residence qualifying under **I.R.C. § 165** (disregarding the § 165(h)(5) federal/state disaster requirement)

Expenses and losses (including lost income) from a **federal disaster declaration**, if the employee's **principal residence or workplace** was in the **designated disaster zone**

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KEY PROVISIONS OF A PROFIT-SHARING PLAN WITH 401(K) COMPONENT

FIGURE 10.5
Key Provisions of a Profit-Sharing Plan with 401(k) Component

Sponsor/eligible employer	■ Any employer with one or more employees
Key advantage	■ Permits high level of salary deferrals by employees ■ Can include a designated Roth program
Employer's role	■ No model form to establish the plan ■ Arranges for employees to make elective deferral contributions ■ Transmits contributions ■ May be annual filing requirements
Contributors to the plan	■ Employee elective deferral contributions ($24,500 maximum for 2026) ■ Catch-up contributions ($8,000 for ages 50 and over for 2026; $11,250 for ages 60, 61, 62, or 63 for 2026) ■ Employer/employee combined up to the lesser of 100% of compensation or $72,000 (for 2026) ■ Employer can deduct amounts that do not exceed 25% of aggregated compensation (maximum $360,000 for each employee for 2026) for all participants and all salary reduction contributions ■ May require annual nondiscrimination testing
Minimum employee coverage requirement	■ Generally, must be offered to all employees at least 21 years old who worked at least 1,000 hours in a previous year
Withdrawals, loans, and distributions	■ Withdrawals permitted after a specified event occurs (e.g., retirement or termination), subject to federal income taxes ■ Must start receiving distributions by April 1 following the later of year of retirement of attainment of age 73 (or age 75 if born after 1959) ■ Subject to 10% additional tax for withdrawals before age 59½ ■ Loans and hardship withdrawals may be allowed
Rollover/transfers	■ Rollovers permitted to an eligible retirement plan or IRA
Self-employed taxpayers	■ Can establish, contribute, and deduct contributions
Vesting	■ Employee salary reduction contributions are immediately 100% vested ■ Employer contributions may vest over time according to the plan terms

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I.R.C. § 457(B) PLANS

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§ 457(B) DEFERRED COMPENSATION PLANS

States, political subdivisions and agencies,

§ 501 tax-exempt organizations may adopt a **§457(b)** deferred compensation plan

Only **individuals** performing services as **employees or independent contractors** may participate; **corporations cannot**

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PRACTITIONER NOTE: NONGOVERNMENTAL 457(B) PLANS

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Requirements **differ** from governmental plans: participation must be **limited** to **HCEs** or groups of **executives, managers, directors, or officers**

Not subject to nondiscrimination rules, and the plan must remain **unfunded**

This section covers governmental 457(b) plans

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CONTRIBUTION LIMITS

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Employers or employees (by salary reduction) may contribute

- up to **$24,500** in 2026,
- or **100% of includible compensation** if less

Age 50+ catch-up of up to **$8,000**, raising the 2026 limit to **$32,500**

Under **SECURE 2.0**, if the plan permits,

- **Age 60 through 63** may contribute up to **$11,250**

Deferrals and attributable income are **not includible in gross income** until **paid** to the participant or beneficiary

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THE ROTH CATCH-UP REQUIREMENT

SECURE 2.0 requires participants with **prior-year wages over $150,000** (2025 wages for 2026 contributions) to designate catch-up contributions as **Roth after-tax**

If the plan offers **no Roth option**, these participants **cannot** make catch-up contributions

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THE SPECIAL 457(B) CATCH-UP

Available in the **3 years before normal retirement age** [§ 457(b)(3)] and may still be made **pre-tax**

If the plan permits, the participant contributes the **lesser of**:

- *The **elective deferral limit** (an additional **$24,500** in 2026), or*
- *The **basic annual limit plus unused basic limit** from prior years (only if **not** using the age-50 catch-up)*

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PLAN DISTRIBUTIONS: TIMING

A 457(b) plan **cannot** distribute before the **earlier of separation from service or age 70½**

A plan **may** permit **in-service distributions** if the total benefit is **under $5,000**; these may be **voluntary or involuntary** and are subject to **strict conditions**

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UNFORESEEABLE EMERGENCY DISTRIBUTIONS

Plans may allow distributions for:

- ***Illness or accident*** *of the participant, beneficiary, spouse, or dependents*
- ***Property loss from casualty*** *(e.g., natural disaster damage not covered by insurance)*
- ***Funeral expenses*** *of the participant's or beneficiary's spouse or dependent*
- ***Medical expenses***
- *Other* ***extraordinary, unforeseeable*** *events beyond the participant's control (e.g.,* ***imminent foreclosure or eviction****)*

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THE EMERGENCY STANDARD

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• The participant must show the expenses **cannot otherwise be covered** by **insurance**, **liquidation of assets**, or **ceasing deferrals** under the plan

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REV. RUL. 2010-27 EXAMPLES

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Allowed: repairing significant **water damage** to a principal residence not covered by insurance (an extraordinary and unforeseeable circumstance, similar to natural disaster damage)

Allowed: funeral expenses of the participant's **nondependent adult son** (similar to a dependent's funeral expenses)

Not allowed: paying **accumulated credit card debt**, which is not extraordinary or unforeseeable

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OBSERVATION: ROTH OPTION

- An employer may offer a **Roth 457(b)**; if requirements are met, distributions are **not taxable**
- 457(b) plans **need not file Form 5500** (not subject to **Title I of ERISA**)
- Deferrals are **not subject to withholding** at deferral, but are reported on **Form W-2**
- **Distributions** from a governmental plan are reported on **Form 1099-R**

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KEY PROVISIONS OF A SECTION 457 PLAN

- **Sponsors**: state/local governments, certain nonprofits
- **Max annual contribution**: $24,500 (2026); catch-up options up to $49,000 in special cases
- **Coverage**: common-law employees and independent contractors; no minimum coverage test
- Withdrawals after severance
- RMDs by April 1 after age 73/75

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ROTH CONVERSIONS AND BACKDOOR ROTH IRA

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ROTH IRA: TWO MAJOR ADVANTAGES

*Distributions returning **regular contributions** and **qualified distributions** are **tax-free and penalty-free** after **age 59½***

*There are **no required minimum distributions** during the owner's lifetime*

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NO INCOME LIMIT ON CONVERSION

There is no income limit on converting a traditional IRA to a Roth IRA

A taxpayer earning **too much** to contribute directly can contribute to a **nondeductible traditional IRA** and **convert** it, bypassing the income limit

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2026 CONTRIBUTION PHASEOUT RANGES

For **MAGI**, Roth IRA contributions phase out between:

- ***$153,000 and $168,000*** *(single)*
- ***$242,000 and $252,000*** *(MFJ)*
- ***$0 and $10,000*** *(MFS)*

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QUALIFIED DISTRIBUTIONS

A **qualified distribution** is **not included in gross income**. It is a payment or distribution:

- *Made on or after **age 59½***
- *Made to a **beneficiary or estate** after the individual's **death***
- *Attributable to the individual's being **disabled**, or*
- *A **qualified special purpose** distribution*

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THE 5-YEAR RULE

A distribution is **not qualified** if made within the **5-tax-year period** beginning with the **first tax year** a contribution was made to a Roth IRA established for that individual

Includes a contribution made by the individual's **spouse** to such an account

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PRACTITIONER NOTE: MAGI DEFINED

MAGI for Roth IRA purposes is **AGI**, first **subtracting**:

- *Income from **converting** a traditional IRA to a Roth, and from **rollovers** of qualified employer plans to a Roth*

Add back the traditional IRA deduction,

- student loan interest, tuition and fees,
- foreign earned income exclusion, foreign housing exclusion or deduction,
- excludable savings bond interest, and
- excluded employer-provided adoption benefits

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GENERAL CONVERSION RULES

Converting lets the taxpayer **pay tax now** and take distributions later **without tax on future earnings**

Withdraw from the traditional IRA and **reinvest within 60 days** in a Roth (a **conversion contribution)**

May also be done as a **trustee-to-trustee** or **same-trustee** transfer

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CONVERSION: TAX CONSEQUENCES

- The **§ 72(t) 10% early distribution tax** does **not apply**, unless the amount is **withdrawn from the Roth within 5 years** of conversion
- If the traditional IRA was **deductible**, part or all of the distribution is **included in gross income** and taxed at **ordinary rates**
- A taxpayer **cannot convert** an amount that must be distributed as a **required minimum distribution**

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BACKDOOR ROTH IRA

- The taxpayer contributes to a **traditional nondeductible IRA**, then **converts** it to a **Roth IRA**
- Only the **earnings** are taxable, because the taxpayer has **basis** in the contributions
- **Practitioner note:** the **TCJA** conference report expressly acknowledges that an individual over the AGI limit **may contribute to a traditional IRA and convert** it to a Roth

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BASIS ALLOCATION WITH MULTIPLE IRAS

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The **exclusion ratio** for any traditional IRA distribution, including a backdoor conversion, is based on **all** of the taxpayer's traditional IRAs

If the taxpayer holds a traditional IRA with **deductible** contributions, basis in the new IRA is **allocated across all** accounts, **increasing the tax** on conversion

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EXAMPLE 10.14: BACKDOOR ROTH, MULTIPLE IRAS

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- Hernando Ramirez, **age 45** and single, participates in his employer's **SEP plan**; all contributions were **excluded from income**
- His SEP was valued at **$223,300** at the start of 2026; his marginal rate is **24%** and his MAGI is **too high** for a direct Roth contribution
- In 2026 he established a **nondeductible IRA** with a **$7,500** contribution and converted it when it held **$120 in earnings**

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EXAMPLE 10.14: THE COST OF ALLOCATION

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- **Tax-free portion: 3.3%** [$7,620 ÷ ($223,300 + $7,620)], or **$251**
- **Tax on the conversion: $1,769** [($7,620 − $251) × 24%]
- By contrast, if **all $7,500 of basis** had been allocated to the new account, tax would have been only **$29** ($120 × 24%)
- **Figure 10.8** shows a completed Form 8606 for Hernando

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SOCIAL SECURITY SURVIVOR BENEFITS

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SOCIAL SECURITY SURVIVOR BENEFITS

A spouse, ex-spouse, child, or dependent parent may be eligible for survivor benefits

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ELIGIBILITY: SPOUSES AND EX-SPOUSES

A surviving spouse may be eligible if he or she:

- *Is **age 60 or older**, or **50 to 59** with a disability*
- *Was **married at least 9 months** before the death*
- *Did **not remarry before age 60** (age 50 if disabled)*

Ex-spouses married at least **10 years** may qualify, as may some **non-marital legal relationships** recognized under state law

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ELIGIBILITY REGARDLESS OF AGE

A spouse or **former spouse** may be eligible **regardless of age or length of marriage** in certain cases

A common example: the spouse is **caring for a child** of the individual who died

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ELIGIBILITY: CHILDREN

Unmarried children may be eligible if the child is:

- ***Age 17 or younger***
- ***Ages 18 to 19*** *and in* ***school (K-12) full time***
- ***Any age*** *if a disability developed at* ***age 21 or younger***

A child turning 18 who is still in school files **Form SSA-1372** to keep benefits.

- Benefits may also go to **married children, stepchildren, adopted children, grandchildren, and step-grandchildren** in certain circumstances

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ELIGIBILITY: DEPENDENT PARENTS

Dependent parents may be eligible if they are **age 62 or older** and were **financially supported** by the child who died

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BENEFITS: SPOUSES AND EX-SPOUSES

At **full retirement age (FRA)** or older, the survivor generally receives the **greater of** their **own benefit** or the **deceased spouse's benefit**

But if the deceased started **reduced** benefits **before FRA**, the **retirement insurance benefit limit** may apply

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PP. 376-377

THE RETIREMENT BENEFIT LIMIT

Generally, the **higher of**:

- *The **reduced monthly benefit** the deceased would have received had they lived, or*
- ***82.5%** of the deceased's **unreduced** monthly benefit at FRA*

A survivor may let their **own benefit grow until age 70** while collecting **survivor benefits**, suspending their own benefit until FRA or later

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BENEFITS: CHILDREN AND DEPENDENT PARENTS

Children generally receive **75%** of the parent's benefit,

- subject to the **family maximum** (the SSA may lower everyone's payments to stay under it);
- **ex-spouses do not count** toward the maximum

One dependent parent may receive up to **82.5%** of the deceased child's retirement benefit;

- **two parents** may each receive up to **75%**

Parent benefits may **cease** on entitlement to a **higher benefit** or on **remarriage**

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LUMP-SUM DEATH PAYMENT

- A **one-time $255 payment** to help cover costs when a spouse or parent dies
- A **spouse** may receive it; if there is **no spouse**, eligible **children** may, including those **17 or younger**, **18 to 19 in school (K-12) full time**, or **any age** if disabled before **22**
- A spouse **not living in the same home** may still be eligible if they can receive benefits on the deceased's record
- The spouse or child must **apply within 2 years** of the death

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TRUMP ACCOUNTS

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TRUMP ACCOUNTS

OBBBA § 70204 added new **I.R.C. §§ 530A, 128, and 6434**

§ 530A: establishes the tax-deferred **Trump account** for eligible individuals **under age 18**

§ 128: governs **employer contributions** to an employee's or dependent's Trump account

§ 6434: provides a one-time **$1,000 contribution** for an eligible child who **elects into** the program (born **2025 through 2028**)

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ELIGIBLE INDIVIDUAL

An **eligible individual** is any individual:

- *For whom an **election** is made to establish a Trump account*
- *Who has **not attained age 18** before the end of the calendar year of the election*
- *Who has a **Social Security number** before the election date*

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RESPONSIBLE PARTY AND TRUSTEE SELECTION

Responsible party manages the initial account while the beneficiary lacks legal capacity;

- **unless the agreement says otherwise, it is the individual who made the election**

Anyone approved by the IRS as a **nonbank IRA trustee** as of **December 31, 2025,** is **automatically approved**;

- later approvals must **request** it in the application

Treasury considers the trustee's **reliability and regulatory compliance**, **customer service experience**, and **costs imposed** on the account

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FIVE TYPES OF CONTRIBUTIONS

During the **growth period** (from establishment through **December 31 of the year the beneficiary turns 17**):

- A ***$1,000 pilot program*** *contribution from Treasury*
- ***Qualified general funding*** *contributions*
- ***§ 128 employer*** *contributions (excluded from the employee's income)*
- ***Qualified rollover*** *contributions*
- ***Contributions from other sources*** *(the beneficiary, parents, or anyone else)*

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PILOT PROGRAM CONTRIBUTIONS

Treasury contributes **$1,000** for an **eligible child**, meaning a **§ 152(c) qualifying child** who:

- *Was **born after December 31, 2024, and before January 1, 2029***
- *Is a **U.S. citizen***
- *Has had **no prior** pilot program election made*
- *Has an **SSN issued before** the election*

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PILOT PROGRAM: MECHANICS AND PENALTIES

The child is treated as making a **$1,000 federal income tax payment**, which is **refunded and deposited** into the account

The credit is **not limited** by tax liability and is **protected from offset** (unpaid taxes, child support)

§ 6434(g) prevents **overpayment interest** from accruing before **January 1, 2028**

Improper elections carry a **$500 penalty** ($1,000 if fraudulent)

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QUALIFIED GENERAL CONTRIBUTIONS

Made by **Treasury**,

- funded by a **general funding contribution** from a **state or political subdivision**, the **United States**, the **District of Columbia**, an **Indian tribal government**, or a **§ 501(c)(3)** organization

Distributed to the accounts of beneficiaries in a **qualified class**

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PRACTITIONER NOTE: DELL PLEDGED CONTRIBUTIONS

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The **Dell Foundation** has pledged **$6.25 billion** to fund Trump accounts

The plan adds **$250** to accounts of children **age 10 and under** born **before January 1, 2025** (the pilot program cutoff)

Available for qualified children in **ZIP codes** with **median household income below $150,000**

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EMPLOYER CONTRIBUTIONS

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- Amounts an employer contributes to the Trump account of an **employee or the employee's dependent** under a **Trump account contribution program** are **excluded from the employee's income**
- The maximum **annual excludible** amount is **$2,500** (inflation-adjusted after 2027)
- The limit is **per employee, not per dependent**

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SALARY REDUCTION OPTION

A program **may** be funded by **salary reduction** under **§ 125** (cafeteria plan) for a contribution to the account of the employee's **dependent**

It may **not** be used for a contribution to the **employee's own** account

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QUALIFIED ROLLOVER CONTRIBUTIONS

- A **trustee-to-trustee transfer** of a Trump account's **entire balance** to another Trump account for the **same beneficiary**
- A **rollover account** may be established only **after** the initial account exists and only **during the growth period**
- After the rollover, the transferring account may **accept no new contributions** and must be **closed** within a reasonable time
- An individual may have **only one Trump account containing funds**

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CONTRIBUTIONS FROM OTHER SOURCES

- Amounts contributed by **individuals** are generally treated as **gifts** for federal gift tax purposes
- Subject to gift tax if the donor's total annual gifts to **one donee** exceed **$19,000** (2026)

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AGGREGATE ANNUAL CONTRIBUTION LIMIT

Not subject to an annual limit: **pilot program**, **qualified general**, and **qualified rollover** contributions

All other contributions **(§ 128 employer** contributions and **other sources)** are subject to an **aggregate annual limit of $5,000** (indexed starting 2028)

Excess contributions face the **§ 4973** annual **6% penalty** until removed

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THE GROWTH PERIOD DEFINED

Begins when the initial account is established and ends December 31 of the calendar year the beneficiary turns 17

Example: a child born **October 1, 2025,** turns 17 on **October 1, 2042**, so the growth period ends **December 31, 2042**

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SPECIAL RULES DURING THE GROWTH PERIOD

- **Funds may be invested only in eligible investments**
- The account has a **separate contribution limit** from other IRAs
- The account **generally cannot make distributions**

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SPECIAL RULES DURING THE GROWTH PERIOD

- Individual taxpayer contributions are **not deductible**
- Trustees have **similar but distinct reporting** requirements from other IRA trustees
- *After the growth period, most of these rules **cease to apply** and **§ 408** traditional IRA rules generally govern*

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ELIGIBLE INVESTMENTS

Generally, a **mutual fund or ETF** that:

- ***Tracks an index*** *of primarily* ***U.S. companies*** *(such as the S&P 500)*
- *Does* ***not use leverage***
- *Has annual* ***fees and expenses no greater than 0.1%*** *of the fund balance*
- *Meets* ***other criteria*** *Treasury establishes*

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DISTRIBUTIONS

During the growth period, **no distributions** may be made **except** for:

- ***Qualified rollover*** *contributions*
- ***Qualified ABLE rollover*** *contributions*
- *Distributions of* ***excess contributions***
- *Distributions on the* ***death*** *of the account beneficiary*

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DISTRIBUTIONS AFTER THE GROWTH PERIOD

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Beginning **January 1 of the year the beneficiary turns 18**, distributions generally follow **traditional IRA rules**

Including possible **§ 72(t) 10% additional tax** on early distributions, unless an **exception** applies (**qualified higher education expenses, first home purchase**, or distributions **after age 59½**)

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DEATH OF ACCOUNT BENEFICIARY

If the beneficiary **dies during the growth period**, the account **ceases to be a Trump account** on the **date of death**

The account's **FMV (reduced by basis)** is included in the **gross income of the person who acquires** the interest

If that person is the **estate**, it is included in the **account beneficiary's** income

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ACCOUNT BASIS

- The beneficiary does **not include contributions in income** during the growth period
- **No basis** is created by: **pilot program**, **qualified general**, and **§ 128 employer** contributions
- **Basis carries over** on a **qualified rollover** contribution
- **All contributions from other sources** during the growth period **create basis**

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REPORTING REQUIREMENTS

- Similar to **§ 408(i)** reporting, but with **additional** requirements
- A trustee accepting a **qualified rollover contribution** must report to Treasury within **30 days**
- Failure to provide a required report: a **$50 per-failure penalty** under **§ 6693(a)** unless due to **reasonable cause**

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AFTER THE GROWTH PERIOD

§ 408 traditional IRA rules generally apply

- (contributions, distributions, **RMDs**, rollovers, **Roth conversions**, ordinary income taxation, reporting)

The account **remains a Trump account**

It can **never** receive **§ 408(k) SEP** or **§ 408(p) SIMPLE** contributions

It can **never be aggregated** with other IRAs when **allocating basis** on a distribution from either account

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MAKING THE ELECTION

An **authorized individual** makes the election **before December 31** of the year the eligible individual **turns 17**

The regulations set who may open the account and in what **order of priority**: **parent, legal guardian, adult sibling, or grandparent**

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HOW TO ELECT

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Use **Form 4547, Trump Election(s)**, which is **independent of filing a tax return**

trumpaccounts.gov

Form 4547 is also used to elect the **$1,000 pilot program** contribution:

- **Part II** provides the child's information, and **Part III** is the pilot program election

The **Treasury secretary** creates or organizes the **initial account** for each eligible individual

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QUESTIONS??????

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