2005 YEAREND PROCESSING GUIDE

Governance Department | FIDELITY Integrated Financial Solutions

FIDELITY
INTEGRATED FINANCIAL SOLUTIONS
A DIVISION OF FIDELITY NATIONAL FINANCIAL

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5498 & IRA PROCESSING

2005 Form 5498 Box-by-Box Instructions

Box 1. IRA Contributions: Report any contributions made to a Traditional IRA in 2005 and through April 17, 2006, designated for 2005 (April 18, 2006 for those who file their federal income tax return at the Andover, MA IRS Center). Include any excess contributions even if the excess contribution was later removed. Also, include any contributions originally made to a Traditional IRA that were later recharacterized to a Roth IRA. Do not report excess contributions made in previous years which are being treated as contributions for 2005 by the IRA owner (i.e., do not report carry-forwards).

Box 2. Rollover Contributions: Report any rollover contributions made to a Traditional, Roth, SEP, or SIMPLE IRA, that were received in 2005. This includes rollovers and direct rollovers from workplace retirement plans. It does not include conversions of Traditional, SEP, or SIMPLE IRAs to Roth IRAs. Report the rollover of property using the fair market value (FMV) of the property on the date you receive it.

Box 3. Roth BRA Conversion Amount: Report amounts converted (or reconverted) from Traditional, SEP, or SIMPLE IRAs to Roth IRAs during 2005. Do not include amounts rolled over from one Roth IRA to another Roth IRA. Report such rollover amounts in Box 2.

Box 4. Recharacterized Contributions: Enter any amounts recharacterized from one type of IRA to another.

Box 5. Fair Market Value of Account: Generally, enter the FMV of the account on December 31, 2005.

Box 6. Life Insurance Cost Included in Box 1: For endowment contracts only, report the amount included in Box 1 allocable to the cost of life insurance.

Box 7. Checkboxes: If you did **not** enter an amount in Box 1, 3, 8, 9, or 10, even if you entered an amount in Box 2 or 4, you must mark the appropriate box. If you entered an amount in Box 1, 3, 8, 9, or 10, you may check the appropriate box, but it is not required.

SIMPLE. Check this box if you are reporting information about a SIMPLE IRA account.

Roth IRA. Check this box if you are reporting information about a Roth IRA account.

Box 8. SEP Contributions: Report all employer contributions (including employee salary deferrals to a SAR-SEP) made to a SEP during 2005, including contributions made in 2005 for 2004. Do not include SEP contributions made in 2006 even if it is indicated to you that the contribution is designated for 2005. Do not include Traditional IRA contributions in Box 8, even if made to an account that holds SEP contributions. Also include SEP contributions made by a self-employed person to his own IRA.

Box 9. SIMPLE Contributions: Report any contributions made to a SIMPLE IRA during 2005. This includes employee salary deferral contributions, employer matching contributions, and employer non-elective contributions.

Box 10. Roth IRA Contributions: Report all contributions made to a Roth IRA in 2005 and through April 17, 2006, designated for 2005 (April 18, 2006 for those who file their federal income tax return at the Andover, MA IRS Center). Include any excess contributions even if the excess contribution was later removed. Also, include any contributions originally made to a Roth IRA that were later recharacterized to a Traditional IRA. Do not report any rollovers or conversions in this box.

Box 11. Check if RMD for 2006: Check this box if the IRA owner must take a required minimum distribution (RMD) for 2006. This box must be checked for the year in which the IRA owner reaches age 70 1/2 even though the RMD for that year need not be taken until April 1 of the following year. Then check this box for each subsequent year an RMD is required to be made.

Fair Market Value after Death

If the IRA owner died, a Form 5498 must be filed with respect to the decedent, reflecting the fair market value of the account, as well as any contributions made by the decedent for the year of death. The IRA Financial Institution can reflect the fair market value as of the date of death, or, as an alternative, the fair market value as of the end of the year (generally zero).

Paper or Magnetic Media

For filers with less than 250 Forms 5498 for the year, Form 5498 may be filed with the IRS on paper forms. However, when filing 250 or more, the information must be submitted to the IRS on magnetic media.

Electronic Reporting

For filers required to file on magnetic media, you may choose to file electronically instead. Electronic submissions are filed using the Filing Information Returns Electronically System (FIRE System 304-262-2400).

Filing Deadline

The 2005 filing deadline to the IRS is May 31, 2006; Form 8809, Application for Extension of Time to File Information Returns, is used by the Financial Institution to request an automatic 30-day extension. The extension request must be filed by the due date of the return. After the first 30-day extension, you may request an additional 30-day extension by filing another Form 8809.

Combined Federal & State Filing

Through the Combined Federal/State Filing Program, for states that participate, the IRS will automatically forward original and corrected Forms 1099-R and 5498 filed electronically or magnetically to the appropriate state agency.

Filing Corrected Forms 5498

If a Form 5498 is filed with incorrect information, a corrected Form 5498 should be filed with the IRS "as soon as possible." The three-tier penalty structure for correcting Form 1099-R does not apply to Form 5498 corrections. However, the failure to timely furnish or correct Form 5498 is $50 per failure, with no maximum, unless the failure was due to reasonable cause and "promptly" corrected.

If a Form 5498 that should have been filed was omitted from the original submission, do not file the form as a correction. File the omitted form as an original submission. A corrected return is only filed to correct information previously submitted to the IRS. Corrected forms must be provided to the IRS on magnetic media if 250 or more corrected Forms 5498 are being submitted.

Reporting to the IRA Holder

The December 31, 2005 fair market value (FMV) must be reported to the IRA holder (i.e., IRA owner or beneficiary) by January 31, 2006, in any format, even if no contributions were made. [2005 Instructions to Forms 1099-R and 5498, p. R-13] IRA contributions that are made for 2005 must be reported to the IRA owner on Form 5498, or a substitute form, by May 31, 2006. "Annual account statements" are sometimes used as substitute forms.

If the IRA Financial Institution furnished the FMV statement and no contributions, rollovers, recharacterizations, or Roth IRA conversions were made for 2005, no Form 5498, or substitute, is required to be sent if the FMV statement contains the legend, "This information is being furnished to the Internal Revenue Service." In addition, the FMV statement must designate which information is being furnished to the IRS.

If contributions, rollovers, recharacterizations or Roth IRA conversions were made in 2005, for 2005, and no contributions are made in 2006, for 2005, the FMV statement may be used as a substitute Form 5498 if:

1. The statement contains the tax year, form number and form name prominently displayed together in one area of the statement. For example, they could be shown in the upper right part of the statement.

2. All applicable money amounts and information (including box numbers) required to be reported are titled on the substitute in substantially the same manner as the official IRS form,

3. The statement contains a legend designating what information is being furnished to the IRS, and

4. Appropriate instructions to the recipient, similar to those on the back of the recipient's copy of Form 5498, are provided.

Failure to file Form 5498 (or substitute) to the IRA holder will result in a $50 penalty for each failure unless it is shown that the failure was due to reasonable cause.

Reporting for Required Minimum Distribution Information

Traditional, SEP and SIMPLE IRA Financial Institutions need to identify to the IRS (on IRS Form 5498) for the immediately preceding year (i.e., on 2005 Form 5498 (Box 11) for a 2006 RMD) each IRA owner who is required to take a RMD. Also, the IRA Financial Institution must also provide the IRA owner a statement by January 31 of the calendar year of the RMD that either informs the IRA owner that a RMD is required for the year or specifies the RMD amount.

Electronic Delivery of IRS IRA Forms to Recipients

IRA Financial Institutions are allowed to deliver Forms 1099-R and 5498 to the recipient electronically (e.g., on a website or via e-mail) for 2003 and later years. Recipients must specifically consent to receiving statements electronically. The financial organization must also satisfy the format, posting, and notification rules described in part H of the 2004 General Instructions for Forms 1099,1098, 5498, and W-2G.

General Form Changes

1098-T Tuition Payments
The caption for Box 6 has been modified to now read "The amount in Box 1 or 2 includes amounts for an academic period beginning January-March 2006 (if checked)."

1099-B Proceeds From Broker and Barter
The caption for Box 12 has been modified to now read: "If the box is checked, the recipient cannot take a loss on their tax return based on the amount in Box 2." Also, the "2nd TIN Not." checkbox has been deleted.

1099-DIV Dividends & Distributions
The caption for Box 3 has been modified to now read: "Nondividend distributions".

1099-MISC Miscellaneous Income
Box 15 has been divided into the following two boxes: Box 15a (Section 409A deferrals) and Box 15b (Section 409A income).

1099-S Proceeds from Real Estate
The caption for the "Account Number" box has been modified to now read: "Account or escrow number".

1099-SA Distributions from HSA
In the title section, the phrase "Medicare+Choice" has been replaced by the phrase "Medicare Advantage". The caption for Box 2 has been modified to now read: "Earnings on excess cont." In Box 5, the "M+C MSA" checkbox has been relabeled "MA MSA".

5498-SA
In the title section, the phrase "Medicare+Choice" has been replaced by the phrase "Medicare Advantage". The caption for Box has been modified to now read: "Fair market value of HSA, Archer MSA, or MA MSA". In Box 6, the "M+C MSA" checkbox has been relabeled "MA MSA".

1099-R CHANGES

The 2005 reporting for Form 1099-R is basically the same for 2004. With respect to the distribution codes used in Box 7, Code 2, Early distribution, exceptions can be used only for a Roth IRA conversion, a distribution paid to satisfy an IRS levy, and a distribution that is part of a series of substantially equal periodic payments. Distributions that satisfy the other exceptions to the 10% early distribution penalty, such as first-home purchase, health insurance for the unemployed, higher education expenses, etc., will be reported using Code 1.

Account Number is Now Required for Forms 5498 and 1099-R in Some Situations

For 2004, when filing more than one information return of the same type for a recipient who has multiple accounts with your organization, you are required to use an account number. In addition, the IRS encourages, but does not require, you to include the recipient's account number on paper forms, if your system uses the account number rather than the name or taxpayer identification number (generally the Social Security number) for identification purposes. The account number must not appear anywhere else on the form, and the account-number box may not be used for any other item unless the separate instructions indicate otherwise.

If you are filing two forms of the same type for the same individual, you must include the account number on each form. For example, if an individual has both a Traditional IRA and a Roth IRA, and you are, therefore, filing two Forms 5498, one for each IRA, the account number must be included on each form. According to the 2004 general instructions, the purpose of the inclusion of the account number is to ensure that corrected information returns will be processed accurately.

An apparent error in the 2004 instructions is the statement that when reporting a revoked Roth IRA that was established with a rollover or transfer, to report the full amount in Boxes 1 and 2a. Actually, the amount should not be reported in Box 2a.

2005 Form 1099-R Box-by-Box Instructions

Box 1. Gross Distribution: Report the total amount of the distribution. The total amount of the distribution includes income taxes that were withheld, but it does not include a CD penalty. If property other than cash is distributed (e.g., an in-kind distribution of stock) report the fair market value of the property on the date of distribution.

Box 2a. Taxable Amount: For Traditional IRAs (including SEPs) or SIMPLE IRAs, generally, report the same amount as in Box 1, because the IRA trustee or custodian is not required to compute the taxable amount. However, if this is corrective distribution plus net income attributable, report only the earnings in this box. If this is a distribution rolled over to an accepting workplace retirement plan using Code G, report "0" in this box. If this is a recharacterization using Code R or Code N report zero in this box. For distributions from a Roth IRA, generally leave this box blank.

Box 2b. Taxable Amount Not Determined: Generally, enter an "X" in this box for distributions from Traditional, SEP, or SIMPLE IRAs. For Roth IRAs, this box should be marked unless reporting a corrective distribution of a contribution, plus net income attributable, by the applicable deadline.

Box 2b. Total Distribution: Enter an "X" in this box for a total distribution (i.e., one or more distributions within one year in which the entire IRA balance is distributed).

Box 4. Federal Income Tax Withheld: Report any federal income tax withheld.

Box 7. Distribution Code(s): Enter the appropriate code to show the type of distribution being made, as shown on the back of the form. Check the IRA/SEP/SIMPLE box if the distribution is from a Traditional, SEP, or SIMPLE IRA. Reporting distributions from revoked IRAs depends on how the IRA was first established.

Paper or Magnetic Media

Form 1099-R is prepared by the IRA Financial Institution (e.g., trustee/custodian). If you are filing less than 250 Forms 1099-R for the year, Form 1099-R may be filed with the IRS on paper forms with

transmittal Form 1096. However, when filing 250 or more, the information must be submitted to the IRS on magnetic media.

Filing Deadline

The information is reported to the recipient by January 31, 2006 for distributions received in 2005. The filing deadline to the IRS, for either paper or magnetic media, is February 28, 2006 (March 31, 2006 if filed electronically).

For paper or magnetic media filing, you may request an automatic extension of 30 days to file by sending Form 8809, Request for Extension of Tune to File Information Returns, to the IRS. You may request an additional extension.

Transmittal Form

When filing Forms 1099-R to the IRS, the forms must be submitted with a transmittal form unless filing electronically. If you are filing on paper, Form 1096 is used. If you are filing on magnetic media, Form 4804 is used.

Filing Corrected Forms 1099-R

If a Form 1099-R is filed with incorrect information a corrected Form 1099-R should be filed as soon as possible. If you are filing less than 250 corrections, the corrections may be filed on paper, even though the original Forms 1099-R may have been filed on magnetic media. However, if you are submitting 250 or more corrections for 1998, magnetic media reporting is required. A copy of the corrected Form 1099-R should also be sent to the recipient.

Penalties for Late or Incorrect 1099-R Filing to the IRS

Form 1099-R is subject to a three-tier penalty structure for corrective reporting. The three-tier penalty structure is intended to encourage timely corrections.

Three-Tier Penalty

The three-tier structure for filing a late or incorrect Form 1099-R to the IRS is as follows:

Tier 1. Corrected or late forms filed no later than 30 days after the filing deadline will be subject to a $15 IRS penalty, per form with a maximum penalty of $75,000 per year.

Tier 2. Corrected or late forms filed more than 30 days after the filing deadline, but by August 1, will be subject to a $30 IRS penalty, per form with a maximum of $150,000 per year.

Tier 3. Corrected or late forms filed after August 1 will be subject to a $50 IRS penalty, per form with a maximum of $250,000 per year.

Waiver for Reasonable Cause

No penalty is imposed if the failure is shown to be due to reasonable cause and not willful neglect.

Waiver for Prompt Corrections

If filers of late or incorrect Forms 1099-R (and Form 5498) "promptly" correct the return, the penalties will be waived (assuming the error was due to reasonable cause and not willful neglect).

Waiver for Inconsequential Errors

Also an inconsequential error or omission is not considered a failure to file correct information and is thus exempt from penalties. An inconsequential error or omission is any failure that does not hinder the IRS from processing the 1099-R or from correlating the 1099-R information with information on recipient's federal income tax return. The following types of errors are not considered inconsequential:

- Incorrect taxpayer identification numbers,
- Incorrect surname of payee, and
- Incorrect dollar amount

Penalties for intentionally disregarding the IRS filing requirements are $100 per form with no maximum annual penalty.

Penalties for Failure to Furnish Payee Statements

Besides penalties for failing to timely or correctly file Form 1099-R to the IRS, penalties also apply when failing to furnish a timely or correct 1099-R to payees (i.e., IRA owners or their beneficiaries). The penalty is $50 per failure with a maximum penalty of $100,000 per year. Exceptions exist for inconsequential errors or omissions. An inconsequential error or omission is any failure that cannot reasonably be expected to hinder or prevent the payee from timely receiving correct information and reporting such information on their federal income tax return. No penalty is imposed if the failure is shown to be due to reasonable cause and not willful neglect.

Combined Information Reporting after Merger & Acquisition

The IRS allows a successor financial organization, after a merger or acquisition, to combine information reporting. These information returns include Form 5498 used to report IRA contributions, and IRS Form 1099-R, used to report IRA distributions. Under the standard procedure, each financial organization is responsible for reporting the transactions that occurred. Thus, unless the alternative procedure is used, both the predecessor and successor financial organization must file Forms 1099-R and 5498 for transactions that occurred in the acquisition year.

IRA Reporting Penalties Table

Violation	Penalty
Failure to furnish copy of IRA plan agreement or disclosure statement	$50 per failure
Failure to furnish amended IRA plan or disclosure statement when required	$50 per failure
Failure to furnish a correct disclosure statement	$50 per failure
Failure to timely furnish Form 5498 (or substitute)	$50 per failure
Failure to furnish a fair market value statement to the recipient	$50 per failure
Failure to furnish Form 1099-R to recipient	$50 per day ($100,000 maximum per year)
Filing a corrected Form 1099-R to IRS	Corrections filed no later than 30 days after the filing deadline will be subject to a $15 penalty, per form; after 30 days, but by August 1 $30; and $50 after August 1 .
Failure to timely furnish withholding notice to recipients	$10 per failure ($5,000 maximum per year)

Responsibility for Withholding

For IRA distributions, the payer (the financial organization acting as trustee, custodian, or issuer) must withhold, and is liable for, the taxes required to be withheld under the IRA distribution withholding rules. Withholding is not required if the total annual distribution amount is $200 or less.

SIMPLE IRA PROCESSING

Employer Contributions

In addition to allowing eligible employees to make voluntary elective deferrals to the SIMPLE IRA Plan, the employer must make contributions. Employer contributions must be fully vested. The employer must choose either a matching or non-elective contribution formula for each year:

Employer Matching Contributions

Match, dollar for dollar, up to 3% of the employee's compensation, for only those employees who elected to defer. Compensation for this purpose includes the employee deferral. No cap on compensation applies to matching contributions under a SIMPLE IRA Plan.

In no more than two of any five-year period, the employer could choose to match, dollar for dollar a percentage lower than 3% of compensation (but not lower than 1%) for employees. The employer must notify the employee within a reasonable time before the 60-day period before the beginning of the year of the lesser contribution amount.

Compensation

SIMPLE contributions and deductions are based on the compensation received from the employer by the employee during the calendar year. For an employee, compensation is the Form W-2 wages plus elective deferrals.

Eligible Employees

After the employer determines that it is an eligible employer, and establishes a SIMPLE IRA Plan, it must then determine which employees are eligible to participate. Employees who receive at least $5,000 in compensation from their employer during any two previous years (whether or not consecutive years), and are reasonably expected to receive at least $5,000 in compensation during the current year, are considered "eligible employees" and must be permitted to make pretax deferrals to the SIMPLE and receive employer contributions (i.e., matching or non-elective).

NEW BANKRUPTCY RULES

On April 20, 2005, President Bush signed the Bankruptcy Abuse Prevention and Consumer Protection Act of 2005 into law. The main result of the Act is to make filing for Chapter 7 bankruptcy, which allows debtors to discharge their debt more difficult and, instead, forces more people into Chapter 13 bankruptcy, which requires debtors to pay some of their debt. The Act is generally effective October 17, 2005 (180 days after enactment).

The Act provides that all SEP and SIMPLE IRA assets are excluded from the debtor's bankruptcy estate. In addition, the first $1 million of Traditional and Roth IRA assets are excluded from the debtor's bankruptcy estate. This limit will be adjusted for inflation, and the bankruptcy court may waive the limit "if the interests of justice so require." The $1 million limit does not apply to assets that were rolled over from a workplace retirement plan (and their earnings).

The Act also resolves the differences in the protection afforded IRAs by different courts. On April 4, 2005, the Supreme Court partially solved this problem when it ruled that Traditional IRA assets were exempt from a couple's bankruptcy estate in Rousey v. Jacoway. This ruling protects only Traditional IRAs in states where the federal bankruptcy exemptions apply and in situations where the IRA is reasonably necessary for the debtor's support, but the Act protects Traditional, Roth, SEP, and SIMPLE IRAs, for everyone nationwide. The Act does not require the debtor to show that the IRA is reasonably necessary to support the accountholder or his dependents.

Impact on ESAs

The Act also exempts certain ESA assets from the debtor's bankruptcy estate. Most funds that were contributed to an ESA for the debtor's child, step-child, grandchild, or step-grandchild more than 365 days before the date the debtor files for bankruptcy are exempt from the bankruptcy estate.

Not Protection from All Creditors

Although the Act will bring certainty to the treatment of IRAs in bankruptcy cases nationwide, it is an overstatement to say that the Act protects IRAs from all claims and attachments by creditors. The IRS still has the right to levy IRAs and some states allow creditors to attach IRAs in domestic relations court cases regarding unpaid child support or in cases of civil judgments. Also, the Act will not prevent an ex-spouse from being awarded all or a portion of an individual's IRA in a divorce or legal separation.

Right of Setoff Against an IRA

The right of setoff (or offset) is the right of a financial organization to deduct (or setoff) a depositor's account balance when the depositor owes the financial organization a debt, such as an unpaid personal loan or overdrawn checking account. Although an IRA may be subject to attachment by judgment creditors (unless the funds are protected by state law), many courts have ruled that IRA funds cannot automatically offset unpaid loans.

A Financial Institution has a fiduciary duty as trustee or custodian of an IRA. Fiduciaries must act in the best interest of that person or account and cannot breach that duty. Financial organizations may use certain deposits to pay off debts, if the deposits are property of the debtor, and the account is not restricted. One court ruled that IRAs are established for the restricted purpose of providing IRA owners with retirement income and were not general deposits that could be used to offset a loan.

IRA Fees

IRA Financial Institution's (especially for self-directed IRAs (SDIRAs)) may assess fees. IRA Financial Institutions must look to the language of their IRA agreement to determine whether the IRA holder is given the option to pay these fees out-of-pocket or have the fees deducted from the IRA balance.

RECHARACTERIZATION REPORTING 2005

For recharacterizations that occur in 2005, financial organizations are instructed to continue to report the contribution that was recharacterized (the contribution to the first IRA) on Form 5498 for the year for which it was designated.

However, the financial organization will report the recharacterization transfer out of the first IRA on a 2005 Form 1099-R, showing the contribution amount, and the attributable earnings, in Box 1, Gross distribution, 0 (zero) in Box 2a, Taxable amount, and in Box 7, Distribution code, either Code R or Code N will be used.

Code R is used only to report the recharacterization of a contribution that was made in, or designated for, the prior year ("Recharacterized IRA contribution made for 2004"). Code N is used to report the recharacterization of a contribution that was made in, and designated for, the current year ("Recharacterized IRA contribution made for 2005").

Example: If a Traditional IRA contribution that was made in 2004, or 2005 and designated for 2004, is recharacterized to a Roth IRA in 2005, Code R will be used on the 2005 Form 1099-R. However, if a Traditional IRA contribution that was made in 2005 and designated for 2005, is recharacterized to a Roth IRA in 2005, Code N will be used on the 2005 Form 1099-R.

The IRA that receives the recharacterized contribution will still report the recharacterization on Form 5498. However, the 2005 Form 5498 includes a box titled "Recharacterized contributions" (Box 4). All recharacterized contributions received by an IRA in the same year must be totaled and reported on one Form 5498 in Box 4. A single Form 5498 covering all recharacterizations, contributions, and rollovers is permitted.

Recharacterization is Irrevocable

An individual may make an election to recharacterize an IRA contribution by notifying, on or before the date of the transfer, the Financial Institution of the IRA to which the contribution was first made and the Financial Institution of the IRA to which the contribution will be treated as being made.

Other Recharacterization Rules

When recharacterizing contributions, any rollovers and tax-free transfers between the same type of IRA are disregarded. The trustee-to-trustee transfer would be done from the last IRA to which the assets were transferred. Recharacterizing is never treated as a rollover for purposes of the one-rollover-per-year rule.

For IRA owners who have died, executors or anyone charged with the responsibility for filing the decedent's final Federal income tax return may elect to recharacterize an IRA contribution.

If a Roth IRA has multiple primary beneficiaries as of December 31 of the year following the year of death, and separate accounting is being used for each beneficiary's share of the Roth IRA, the designated beneficiary will be determined separately for each beneficiary's share of the Roth IRA.

If separate accounting is not used, the oldest primary is the designated beneficiary whose single life expectancy is used to calculate the death distribution period.

ROTH CONTRIBUTIONS FOR 2005

A contribution to a Roth IRA may be made by making regular or spousal contributions of up to $4,000 ($4,500 if age 50 or older), by converting a Traditional IRA to a Roth IRA, or by rolling over a Roth IRA to another Roth IRA. For Roth IRA Financial Institution s, Roth IRA contributions will be reported separately from Traditional IRA contributions (i.e., in a separate box on Form 5498 and on a separate Form 5498).

Example: Kim has a Traditional IRA and a Roth IRA with ABC Financial Institution. ABC Financial Institution will report each IRA separately (i.e., two separate Forms 5498) to Kim and to the IRS.

Roth IRA contributions and the fair market value (FMV) of the account are reported to the IRS on Form 5498. Rollover contributions made in 2005 from other Roth IRAs, are reported in Box 2. Amounts converted from a Traditional ERA should be reported in Box 3 (Roth IRA conversion amount).

Recharacterized contributions are reported in Box 4 "Recharacterized contributions."

The fair market value of the account, generally as of December 31, is reported in Box 5. A deceased Roth IRA owner's FMV may be reported as either zero (0) or the date-of-death value.

Box 7 (check for IRA, SEP, SIMPLE, Roth IRA,), if an amount was not entered in Box 1 (IRA contributions), 3 (Roth conversions), 8 (SEP contributions), 9 (SIMPLE), or 10 (Roth contributions), you must mark the appropriate box in Box 6. If you entered an amount in Box 1, 3, 8, 9, or 10, you may, but are not required to, mark the appropriate box in Box 7.

Regular and spousal Roth contributions (including catch-up contributions) made for 2005, including those made in 2006 through April 17, (April 18, 2006 for those who file their federal income tax return at the Andover, MA IRS Center) are reported in Box 10.

The 2005 Form 5498 is sent to the IRS by May 31, 2006. The financial organization must file on magnetic media if filing 250 or more reports.

The December 31, 2005 fair market value must be reported to the IRA holder (i.e., IRA owner or beneficiary) by January 31, 2006, in any format, even if no contributions were made.

Reporting Roth IRA Distributions that Occurred in 2005

Form 1099-R is used to report distributions from Roth IRAs. The boxes to be completed for a 2005 Roth IRA distribution are as follows:

Box 1 - Report the total amount of the Roth IRA distribution. The total amount of the distribution includes income taxes that were withheld, but it does not include a CD penalty.

Box 2a - Generally leave this box blank. However, if this is a corrective distribution of a contribution plus net income attributable, report the net income attributable in this box.

Box 2b "Taxable amount not determined" - This box should be marked unless reporting a corrective distribution of a contribution, plus net income attributable, by the applicable deadline.

Box 7 - Enter the appropriate code to show the type of distribution being made, as shown on the back of the form. (See Chart below) Do not check the IRA/SEP/SIMPLE box.

The 2005 Explanations for Codes J, Q, and T shown in the Guide to Distribution Codes for Roth IRA distributions

Distribution Codes	Explanations	Used with Code if Applicable
J- Early Distribution from Roth IRA	Use Code J for a distribution from a Roth IRA when Code Q or Code T does not apply. But use Code 2 for an IRS levy and Code 5 for a prohibited transaction.	8 or P
Q-Qualified Distribution from a Roth IRA	Use Code Q for a distribution from a Roth IRA if you know that the participant meets the 5-year holding period and: • The participant has reached age 59 1/2, or • The participant died, or • The participant is disabled. Note: If any other code, such as 8 or P applies, use Code J.	None
T-Roth IRA Distribution, exception applies	Use Code T for a distribution from a Roth IRA if you do not know if the 5-year holding period has been met but: • The participant has reached age 59 1/2, or • The participant died, or • The participant is disabled. Note: If any other code, such as 8 or P applies, use Code J.	None

The instructions for code 2 (Early distribution, exception applies) state to use code 2 for a Roth IRA conversion if the participant is under age 59/2, for an early distribution from an IRA (Roth IRA) because of an IRS levy, and a distribution that is part of a series of substantially equal periodic payments.

Reporting Revoked Roth IRAs

Roth IRA revocations should be reported hi the same manner as Traditional IRA revocations.

Reporting Roth Conversions

A conversion (or reconversion) of a Traditional, SEP or SIMPLE IRA to a Roth IRA is reported as a Traditional IRA distribution and a Roth IRA conversion contribution even if the conversion is accomplished by means of a trustee-to-trustee transfer.

The entire amount converted from a Traditional, SEP, or SIMPLE IRA is reported on Form 1099-R as a distribution from the Traditional, SEP, or SIMPLE IRA. For the 2005 Form 1099-R:

- In Box 1 and Box 2a, report the total amount distributed.

- In Box 7, use the appropriate distribution code. Use Code 2 if the individual was under age 59 1/2 and you know the funds were converted to a Roth IRA, otherwise use Code 1. Code 7, Normal distribution, will be used if the individual is age 59 1/2 or older on the date of the conversion.

The instructions to the 2005 Form 5498 indicate that an amount that is converted (or reconverted) to a Roth IRA should be reported in Box 3, Roth IRA conversions. It is not reported in Box 2.

ESA PROCESSING FOR 2005

An ESA contribution, including an excess ESA contribution, may be removed before the first day of the sixth month of the tax year following the year for which the contribution was made (i.e., May 31) without the additional 10% penalty. Contributions, plus attributable earnings can be withdrawn up to the May 31 deadline. The earnings will be taxable for the year in which the contribution was made. No 6% excess contribution penalty applies if the excess (and any attributable earnings) is removed by the deadline.

The May 31 correction deadline allows some time after the April 15 contribution deadline for the responsible individual to fix an excess contribution and avoid the IRS 6% excess contribution penalty. Excess contributions not timely removed are subject to a 6% excess contribution penalty.

The financial organization is required to send statements (which would alert the responsible individual to the problem) by April 30 of the following year.

Excess Contributions

An excess contribution occurs when the total contribution for the year exceeds $2,000 ($500 for 2001 and earlier), when a contributor whose MAGI exceeds the applicable limit makes a contribution, or when any amount was contributed for a year prior to 2002 in which a contribution was also made to a qualified tuition program for such beneficiary.

Example: Mike and Kim are married, file jointly, and have MAGI of $51,000. Kim makes a $2,000 ESA contribution for her seven-year-old daughter Taylor for this year. However, her husband also makes a $1,000 contribution for Taylor for this year. An excess contribution of $1,000 has occurred for the year. The $1,000 may be timely removed plus attributable earnings. The earnings on the $1,000 will be taxable for the year in which the contribution was made. Generally, a contribution that is made when the designated beneficiary attains age 18 or afterwards is an excess contribution, unless the beneficiary is a special needs beneficiary.

Distribution Rules

Distributions from ESAs that do not exceed "qualified education expenses" are tax-free (i.e., excluded from gross income).

Qualified Education Expenses

Qualified education expenses include expenses of an individual regardless of whether the beneficiary is enrolled at an eligible educational institution on a full-time, half-time, or part-time basis. Such expenses include post-secondary tuition, fees, books, supplies, and equipment reduced (adjusted) by certain scholarships and educational assistance.

Changing the Designated Beneficiary

In Article VI of Form 5305-E or 5305-EA (March 2002), the contributor may check a box to either allow or not allow the responsible individual to change the designated beneficiary to another family member. Changing the designated beneficiary (i.e., the person for whom the account was established) is not treated as a distribution, and thus is not taxable, if the new designated beneficiary is a member of the family of the old designated beneficiary.

Reporting ESA Distributions

For 2005, ESA distributions are reported on Form 1099-Q, Payments from Qualified Education Programs (Under Sections 529 and 530).

For 2005, an ESA Financial Institution does not have to report the earnings and basis portion of a distribution, unless the distribution includes a distribution of earnings on excess contributions.

The boxes to be completed for a 2005 ESA distribution are as follows:

Box 1, Gross distribution - Enter the gross distribution amount, whether in cash or in-kind, including a refund, a payment upon death or disability, or a withdrawal of excess contributions plus earnings in this box.

Boxes 2, Earnings and 3, Basis - If you are not reporting earnings and basis, leave Boxes 2 and 3 blank (i.e., do not enter zero) unless the gross distribution includes a distribution of earnings on excess contributions. If so, you should file two Forms 1099-Q one to report the returned contribution plus earnings, and the other to report the distribution of the other part of the account. When calculating the earnings on a returned contribution, use the same formula for calculating net income attributable for returned IRA contributions.

Box 4, Trustee-to-trustee transfer - Check this box if the distribution was made directly to another ESA or a qualified tuition program. If you do not have records of whether a gross distribution from an ESA made in 2005 was a trustee-to-trustee transfer, leave Box 4 blank.

Box 5, Check One - Check the Coverdell ESA box.

Box 6 - Check this box if the recipient is not the designated beneficiary.

Box below Boxes 5 and 6 - If earnings and basis are not reported in Boxes 2 and 3, enter the Fair Market Value of the ESA as of the end of the year (labeled "FMV") in the box below Boxes 5 and 6. In addition, use this space to indicate that the amount in Box 2 includes earnings on excess contributions by entering distribution code 2 or 3 (as applicable). Otherwise, you may, but are not required to, include a distribution code hi this space.

For 2005, the distribution codes are: code 1 - Distributions (including transfers), code 2 - Excess contribution plus earnings taxable in 2005, code 3 - Excess contribution plus earnings taxable in 2004, code 4 - Disability, code 5 - Death, and code 6 — prohibited transaction. You may abbreviate as needed. For example, for distribution code 1, you may enter "distr. code 1."

The 2005 Form 1099-Q or a substitute form must be provided to the designated beneficiary by January 31, 2006 and to the IRS by February 28, 2006 (unless filing electronically in which case the deadline is March 31, 2006).

Reporting ESA Contributions

Form 5498-ESA, Coverdell ESA Contribution Information, is used for reporting ESA contribution information. The boxes to be completed for 2005 ESA contributions are as follows:

Box 1, Coverdell ESA contributions — Enter contributions to a Coverdell ESA made in 2005 and through April 17, 2006 (April 18, 2006 for those who file their federal income tax return at the Andover, MA IRS Center), designated for 2005. Rollovers should not be included in Box 1 (report rollovers in Box 2).

Box 2, Rollover contributions - Report any rollover (or transfer) contributions between ESAs, and rollovers from certain U.S. Savings Bonds.

The deadline for filing the 2005 Form 5498-ESA with the IRS is May 31, 2006. If Form 5498-ESA must be filed with the IRS, the instructions state that the ESA Financial Institution must provide a statement to the beneficiary (participant) by May 1, 2006. For more information about the requirement to furnish statements to participants, ESA Financial Institution s should follow the rules in Part H of the General Instructions for Forms 1099, 5498 and W-2G.

Electronic Delivery of Form 1099-Q and 5498-ESA to Recipients

IRS Forms 1099-Q and 5498-ESA can be delivered to the recipient electronically (e.g., on a website or via e-mail). Recipients must specifically consent to receiving statements electronically. Presumably, for an ESA, the responsible individual would need to consent on behalf of the designated beneficiary. The financial organization must also satisfy the format, posting, and notification rules described in part H of the General Instructions for forms 1099, 1098, 5498, and W-2G.

HEALTH SAVING ACCOUNTS PROCESSING FOR 2005

Health Savings Accounts (HSAs) under IRS Code section 223 were created by the Medicare Prescription Drug and Modernization Act of 2003 signed into law by President Bush on December 8, 2003, effective January 1, 2004. HSAs provide a new option for health insurance coverage, consisting of two parts:

1. A high deductible health plan (HDHP) to cover large medical expenses; and

2. The HSA, a tax-sheltered savings account (like an IRA), from which amounts can be withdrawn to pay for or reimburse medical expenses until the deductible (out-of-pocket amount) is met and the insurance plan begins to pay.

Benefits of an HSA

The HSA is established for the benefit of an individual, is owned by the individual, and is portable. The advantages of an HSA are tax-deductible contributions and tax-free distributions for future qualified medical and retiree health expenses.

Who May Establish an HSA

Beginning January 1, 2004, an eligible individual (HSA owner) may establish an HSA with any qualified trustee or custodian in much the same way one would establish an IRA. No permission or authorization is necessary from the IRS. An employee can establish one with or without the involvement of an employer.

The HSA owner does not have to be working or have taxable compensation (earned income) to establish or contribute to an HSA. There are no income limits to establish or contribute to an HSA. The money for the contribution can be from the individual's personal savings, income from dividends, unemployment or welfare benefits, etc.

High Deductible Health Plan (HDHP)

An individual is eligible to establish and contribute to an HSA if, with respect to any month, the individual is covered under a high deductible health plan (HDHP) on the 1st day of such month. Generally, a plan qualifies as an HDHP if it has:

1. A minimum $1,000 annual deductible (maximum $5,000) for self-only coverage and maximum annual out-of-pocket expenses (including deductibles and co-pays, but not premiums) that do not exceed $5,000 for 2004 or $5,100 for 2005.

2. A minimum $2,000 annual deductible (maximum $10,000) for family coverage and maximum annual out-of-pocket expenses (including deductibles and co-pays, but not premiums) that do not exceed $10,000 for 2004 or $10,200 for 2005. [Notice 2004-2, Q&A-3; Notice 2004-50, Q&A-12, Rev. Proc. 2004-71, §3.22(2)] A family HDHP is a plan covering an eligible individual and at least one other person (whether or not the other individual is an eligible individual).

The annual out-of-pocket expenses above are adjusted for cost of living adjustments (COLAs) in multiples of $50.

Except for preventive care, an HDHP may not provide benefits for the year until the deductible is met. Generally, if an individual's insurance pays for part of incurred expenses before he reaches his deductible amount, the plan is not an HDHP. However, an exception applies for prescription drug coverage until 1/1/06 if the drug coverage is a separate plan or a rider to the HDHP.

A health plan that does not have any limit on out-of-pocket expenses, either by design or by its express terms, does not qualify as an HDHP.

Prescription Drug Plans

Normally, a separate prescription drug plan that provides benefits before the deductible is met will prevent the individual from making HSA contributions. However, for calendar years 2004 and 2005, the IRS

provided transition relief so that an individual can qualify as an eligible individual (and thus make HSA contributions) even though he or she receives prescription drug benefits before the minimum annual deductible of his HDHP.

Preventive Care

An HDHP can provide preventive care benefits without a deductible or with a deductible below the minimum annual deductible (e.g., preventive care can have first dollar coverage). Preventive care includes:

- Periodic health evaluations, including tests and diagnostic procedures ordered in connection with routine examinations (e.g., annual physicals)
- Routine prenatal and well-child care, and child and adult immunizations
- Smoking cessation and obesity weight-loss programs
- Screening for services such as for cancer (e.g., mammograms), heart and cardio vascular diseases, infectious diseases, mental health conditions, and obstetric and gynecological conditions.

State Law Requirements

The underlying required type of high deductible health insurance may not be available in all states because of state law requirements. Several states (HI, MA, ME, NJ, NY, RI, VT, and WA) currently require that health plans provide certain benefits without regard to a deductible or with a deductible below the minimum required under the HSA rules. The health plans in those states are not HDHPs and individuals covered under these plans would normally not be eligible to contribute to HSAs. Transition relief has been provided for HDHPs disqualified by state laws because the time period between the enactment of HSAs and the effective date of IRS code Section 223 regulating HSAs was so short that the affected states did not have sufficient time to modify their laws to conform to the standards of section 223. During the transition period, otherwise-eligible individuals covered under these plans will be treated as eligible to contribute to an HSA. The transition relief covers months before January 1, 2006, for state law requirements in effect on January 1, 2004.

Other Limits on Eligibility

- The individual may not be covered by another health insurance plan (excluding "permitted insurance" or coverage by certain other plans.
- The individual must not be enrolled in Medicare.
- The individual must not have actually received any medical benefits through the Department of Veterans Affairs at any time during the previous three months.
- The individual must not be covered under TRICARE (the health care program for active duty and retired members of the uniformed services, their families, and survivors) because currently TRICARE does not offer an HDHP. If TRICARE later offers an HDHP and someone selects it, they will be eligible for an HSA.
- The individual may not be claimed as a dependent on someone else's tax return.

Establishing the HSA

The HDHP must be in place before the HSA can be established. Generally, any financial organization that offers IRAs is permitted to offer HSAs. The HSA Financial Institution is not required to determine or verify an individual's eligibility to contribute to an HSA.

Individuals who opened an HSA on or before 04.15.2005 can be reimbursed by the HSA for expenses incurred in 2004, even though, normally, only qualified expenses incurred after the HSA is established may be covered.

IRS Model HSA Documents

The IRS issued model agreements Forms 5305-B, Health Savings Trust Account, and 5305-C, Health Savings Custodial Account, (dated August 2004) which an individual may use to establish an HSA at any financial organization. The appropriate form to use depends on whether the financial organization will be acting as a trustee or custodian of the HSA. They are written and pre-approved by the IRS. A copy must be given to the HSA owner

Disclosure Statement

The HSA rules do not require the use of a disclosure statement.

HSA Investment Options

The HSA Financial Institution may decide (restrict) what type of investments to offer for the account. HSA funds may be invested in investments approved for IRAs, such as mutual funds, certificates of deposit, annuities, and stocks and bonds. HSA assets may not be invested in life insurance or collectibles such as antiques, precious gems and metals, rugs, stamps or coins, works of art, and alcoholic beverages or other tangible personal property specified in IRS guidance under IRS code §408(m)).

Prohibited Transactions

Rules similar to the prohibited transaction rules for IRAs apply to HSAs. The prohibited transaction rules are designed to ensure that the assets of a HSA are invested to benefit only the HSA plan itself (i.e., not the HSA holder personally), and to discourage an HSA holder from using the assets of the HSA plan in a self-serving or self-dealing manner. The entire HSA balance is treated as if it were distributed and may be subject to the IRS 10% early distribution penalty if the HSA owner is under age 65. The HSA holder will receive an IRS Form 1099-SA showing distribution reason code 5 (Prohibited transaction) in Box 3, Distribution code.

Pledging the HSA as Security for a Loan is Prohibited

Pledging the HSA as security for a loan for the HSA holder is prohibited. The consequence of pledging the HSA as security (i.e., collateral) for a loan is that only the fair market value of the assets that were pledged is treated as distributed.

Fees

The HSA Financial Institution may assess fees. Administration and account maintenance fees that are deducted from the HSA balance are not taxable distributions. Also administration and account maintenance fees deduced from the HSA balance do not increase the maximum annual HSA contribution limit.

Some financial organizations will allow the HSA holder to pay administration and maintenance fees out-of-pocket rather than have them deducted from the HSA balance. Administration and account maintenance fees paid directly by the HSA owner or employer (outside the HSA) are not considered contributions.

Contribution Rules

Contributions to the HSA can be made by the HSA owner, the employer, or both or a family member or any other person.

Contribution Limits

For each month an eligible individual is covered under an HDHP, he or she may contribute up to 1/12 of the lesser of:

1. 100% of the annual deductible, or

2. The maximum specified by law, indexed annually. The amount for family coverage is $5,150 for 2004 and

$5,250 for 2005. The amount for self-only coverage is $2,600 for 2004 and $2,650 for 2005.

Example: Mike, 58, established a self-only HDHP as of 06.01.2005, and is covered through the end of the year. His annual deductible is $4,000. The lesser of the deductible ($4,000) or the maximum contribution limit for the year ($2,650) is $2,650. The monthly contribution limit is ($2,650 - 12), or $220.83, so Mike's maximum contribution for 2005 is ($220.83 x 7 months), or $1,545.81. Although the annual contribution limits are determined each month, the annual contribution can be made in a single (lump-sum) payment.

Catch-up Contributions

Individuals age 55 and older who are also not enrolled in Medicare can make additional "catch-up" contributions to the HSA, in addition to the maximum annual contribution (also pro-rated for the months of eligibility).

Married Individuals

For a married couple, if each spouse has self-only HDHP coverage (i.e., neither spouse has family coverage) then each spouse can contribute to an HSA in their own name, up to the lesser of the amount of their deductible under their respective policies or $2,650 for 2005 (or $3,250 for age 55 or older).

If either spouse has family coverage, then both spouses are treated as having family coverage. If each spouse has family coverage under a separate family HDHP, both are treated as having family coverage under the plan with the lowest annual deductible. The contribution limit, after reduction for any Archer MSA contributions, is split equally between both spouses unless they agree on a different division.

If either spouse is age 55 or older and not enrolled in Medicare, each spouse's contribution limit is increased by the catch-up contribution amount.

Contribution Deadline

Contributions for the previous tax year can be made to a new or existing HSA up to the deadline (not including extensions) for filing the eligible individual's federal income tax return. The deadline for calendar year taxpayers is April 15.

Other Contribution Rules

Although the maximum contribution is determined on a monthly basis, the payment(s) may be made in one or more payments.

Contributions must be made in cash. Contributions may not be made in the form of stock or other property.

An individual may establish and maintain HSAs at more than one financial organization; however, the annual contribution limit applies to all plans in the aggregate.

A married couple can both potentially contribute to an HSA; however, no joint HSA is permitted (each eligible spouse would need to open a separate HSA).

Rollovers

A rollover between HSAs (or between an Archer MSA and an HSA) is a tax-free movement of money or other assets. The rollover process begins when the HSA owner requests a distribution from the Financial Institution of his HSA plan. All or any portion of the HSA may be withdrawn, subject to any fees or investment penalties of the financial organization. The distribution is issued in the name of the HSA owner. All distributions from HSAs, including those that are rolled over, must be reported on Form 1099-SA.

The second step in a rollover occurs when the HSA owner redeposits or reinvests some or all of the distribution that was received earlier. The HSA owner generally has 60 days after the day he received the distribution to complete the rollover. Rollovers are reported on IRS Form 5498-SA.

Rollovers may be made from Archer MSAs and other HSAs (once per year and within 60 days after the date of receipt). An exception to the 60-day rollover rule applies for HSA distributions not used to pay for qualified medical expenses, but were the result of a mistake of fact.

HSAs may not accept rollovers from an IRA, FSA (Flexible Spending Arrangement) or HRA (Health Reimbursement Account).

One Rollover Per Year

The HSA owner may roll over only one distribution from an HSA (or Archer MSA) within a one-year period. The one-year period begins when the HSA distribution was received, not when it is rolled over.

Rollovers Reported to the IRS

The financial organization that distributed the funds will report the HSA distribution on IRS Form 1099-SA. The financial organization that received the rollover contribution will report the rollover on IRS Form 5498-SA. The HSA owner will report the rollover transaction (including the amount taxable, if any) on the appropriate lines of IRS Form 8889 and line 21 of the 2004 IRS Form 1040.

Who Can Roll Over an HSA Distribution

The HSA owner and the surviving spouse beneficiary of a deceased HSA owner can roll over an HSA distribution to another HSA.

Transfers

HSA-to-HSA transfers occur when HSA funds or assets are moved from one financial organization to another without the HSA owner having control or custody of the funds. Also, Archer MSA funds may be transferred to an HSA. The transfer process usually begins when the HSA owner requests that the current Financial Institution of his HSA transfer the funds (or property) directly to a new Financial Institution. Usually, a transfer request form that is provided by the new HSA Financial Institution is completed and mailed to the current HSA Financial Institution.

Generally, all or any portion of the HSA assets may be transferred, subject to any fees or investment penalties that may apply.

Rollover Rules Do Not Apply to Transfers

Transfers between HSAs do not have to follow the rollover rules and are, accordingly, less problematic than rollovers. The frequency of transfers is not restricted; that is, the one-rollover-per-year rule does not apply. The ability to complete an unlimited amount of transfers from the same HSA plan within a year is an advantage transfers have over rollovers. Transfers do not have to be completed within 60 days because a transfer is not a distribution.

Transfers Not Reported to the IRS

A transfer between HSAs or from an Archer MSA to an HSA is a nonreportable transaction. Unlike rollovers between HSAs, the IRS does not require reporting for incoming or outgoing transfers. A Form 1099-SA should not be prepared by the transferring financial organization and the receiving organization should not report the transfer on IRS Form 5498-SA.

Who Can Transfer HSAs

HSA-to-HSA transfers can be initiated either by the HSA owner or the surviving spouse beneficiary of a deceased HSA owner. HSA assets can be transferred from the deceased spouse's HSA to the surviving spouse beneficiary's own HSA.

Transfers Due to Divorce or Legal Separation

As part of a divorce or legal separation, all or a portion of an individual's HSA may be awarded to a spouse

or former spouse (receiving spouse). Such a transfer to the receiving spouse's HSA is not taxable to either party.

Excess Contributions

Similar to an IRA, there is a 6% penalty for amounts contributed to an HSA in excess of the allowable contribution limit. The penalty applies each year until the excess is corrected. The penalty does not apply if the excess amount and net income attributable (NIA) are timely withdrawn. Although the statutory deadline for withdrawal is the HSA owner's tax-filing deadline, including extensions, the IRS has indicated that the applicable deadline for taxpayers who file a timely return is October 15 of the year following the year for which the contribution is made.

An excess HSA contribution is any HSA contribution that exceeds the maximum contribution limits permitted by law. If the excess is not corrected by the applicable deadline, a 6% excess contribution penalty applies.

Distribution Rules

The accountholder is permitted to receive distributions from an HSA at any time for any purpose. The financial organization or employer cannot restrict HSA distributions to qualified medical expenses. The financial institution is not responsible to verify whether the distribution is for a qualified medical expense.

Method of Distribution

The method of distribution could be by check, debit card, or check card. The financial organization may place reasonable restrictions on both the frequency and the minimum amount of distributions. For example, the organization could have a policy that prohibits distributions of less than $50 or only allows 10 distributions per month.

Reimbursing the HSA Owner

Instead of paying for qualified medical expenses directly from the HSA, the individual could first pay for the expenses with his own (non-HSA) money and then reimburse himself from the HSA.

Timing of Distribution or Reimbursement

The HSA owner would likely take an HSA distribution or reimburse himself in the same year that the medical expense was incurred; however, that is not necessary. The HSA owner can defer to a later year distributions from HSAs to pay or reimburse expenses incurred in the current year as long as the expenses were incurred after the HSA was established. Also, an HSA distribution in the current year can be used to pay or reimburse expenses incurred in any prior year as long as the expenses were incurred after the HSA was established.

Treatment of the HSA after Death

The HSA owner can name a beneficiary to inherit HSA assets after the owner's death. Upon the death of the individual, the funds in the account are payable to the named beneficiary.

Spouse Beneficiary

If an individual is married, and the spouse is the named beneficiary, the spouse is treated as the owner of the account after the death of the individual. The spouse can continue to access the HSA tax-free. The spouse would pay income tax on any non-medical expense for which a withdrawal is made.

Nonspouse Beneficiary

If the beneficiary is not the spouse, the account will no longer be treated as an HSA after the individual's death. The fair market value of the account will become taxable to the recipient (including the estate of the decedent) in the year the HSA owner died, but no penalty will apply. The taxable amount to a beneficiary other than the estate will be reduced by any qualified medical expenses incurred by the deceased individual

before death and paid by the recipient of the HSA within one year after the date of death.

Because the HSA ceases to be treated as an HSA when the owner dies with a nonspouse beneficiary, several issues need to be addressed by the financial organization's legal counsel. Presumably, Form 1099-INT or 1099-DIV would need to be filed for any interest or dividend income after the date of the owner's death because the account is no longer tax-deferred. Also, it is unclear what type of account the HSA becomes after death.

Reporting HSA Contributions for 2005

Form 5498-SA is used to report contributions to HSAs. The boxes to be completed for HSAs are as follows:

Box 2 — Shows the total employer and employee/self-employed contributions made in 2005 to an HSA.

Box 3 - Shows the total HSA contributions made in 2006 for 2005.

Box 4 — Shows any rollover contributions made to the HSA from another HSA or Archer MS A received during 2005.

Box 5 - Shows the fair market value of the HSA at the end of 2005. Box 6 - The HSA box should be checked.

Reporting HSA Distributions for 2005

The HSA Financial Institution is responsible for tracking the owner's age and for reporting the distribution from the HSA to both the HSA holder and the IRS. The financial institution is not responsible for verifying whether the distribution is for a qualified medical expense. Form 1099-SA is used to report distributions from HSAs. The boxes to be completed for an HSA distribution are as follows:

Box 1, Gross distribution — Enter the gross distribution amount received. The amount may have been a direct payment to the medical service provider or distributed to the HSA holder.

Box 2, Earnings on excess contributions — Shows the earnings on any excess contributions withdrawn by the due date of the individual's tax return.

Box 3, Distribution code — Identifies the distribution received: 1 - Normal distribution; 2 — Excess contributions; 3 - Disability; 4 — Death distribution other than code 6; 5 — Prohibited Transaction; 6 - Death distribution after year of death to a nonspouse beneficiary.

Box 4, FMV on date of death - If account holder died, shows FMV of the account on the date of death.

Box 5 - Check the HSA box.

The 2005 Form 1099-SA or a substitute form must be provided to the HSA holder by January 31, 2006. The 2005 Form 1099-SA must be provided to the IRS by February 28, 2006, unless filing electronically in which case the deadline is March 31, 2006.

HSA Holder Reporting and Recordkeeping

The accountholder is responsible for keeping adequate records to prove that the deductible was met or that the distribution was a qualified expense. IRS Form 8889, Health Savings Accounts (HSAs) is filed by the individual with his federal income tax return to report contributions and distributions and compute the HSA deduction.

1220 MEDIA PROGRAMMING CHANGES

1. The Martinsburg Computing Center was renamed the Enterprise Computing Center — Martinsburg (ECC-MTB).

2. Corrections involving only the payee name are now a one step correction. See Part A, Sec. 11 for more information.

3. The titles of Form 1099–SA and 5498–SA were changed to Distributions from an HSA, Archer MSA, or Medicare Advantage MSA and HSA, Archer MSA, or Medicare Advantage MSA Information respectively. Name of corresponding indicators in the Payee "B" Record have also been changed.

B. Programming Changes — Transmitter "T" Record

(1) For all forms, Payment Year, Field Positions 2–5, must be incremented to update the four-digit report year (2004 to 2005), unless reporting prior year data.

C. Programming Changes — Payer "A" Record

(1) For all forms, Payment Year, Field Positions 2–5, must be incremented to update the four-digit report year (2004 to 2005), unless reporting prior year data.

(2) New Form 1098–C, Contributions of Motor Vehicles, Boats, and Airplanes, was added. The Type of Return in position 27 is X. Amount Code 4 in position 28 is for reporting Gross Proceeds From Sales. See Instructions for Form 1098–C for details on how to report information.

(3) For Form 1099–G, Certain Government Payments, Amount Code 5, ATAA Payments was added.

(4) For Form 1099–MISC, Miscellaneous Income, Amount Codes D, Section 409A Deferrals and E, Section 409A Income, were added.

(5) For Form 1099–PATR, Taxable Distributions Received From Cooperatives, Amount Code 6 was changed to Deduction for Qualified Production Activities Income. Amount Code A is for reporting For Filer's Use for Pass-Through Credits.

D. Programming Changes — Payee "B" Record

(1) For all forms, Payment Year, Field Positions 2–5, must be incremented to update the four-digit report year (2004 to 2005), unless reporting prior year data.

(2) For Form 1098–C, Contributions of Motor Vehicles, Boats, and Airplanes, the following fields were added:

- **(a)** Field position 546, Transaction Indicator
- **(b)** Field position 547, Transfer After Improvements Indicator
- **(c)** Field position 548, Transfer Below Fair Market Value Indicator
- **(d)** Field positions 549–587, Make, Model and Year
- **(e)** Field positions 588–612, Vehicle or Other Identification Number
- **(f)** Field positions 613–651, Vehicle Description
- **(g)** Field positions 652–659, Date of Contribution
- **(h)** Field positions 663–722, Special Data Entries
- **(i)** Field positions 723–730, Date of Sale

PROCESSING DATES

Form 1098: Furnish Copy B of this form to the borrower by January 31, 2006. File Copy A of this form with the IRS by February 28, 2006. (March 31, 2006, if filed electronically.)

Form 1098E: Furnish Copy B of this form to the borrower by January 31, 2006. File Copy A of this form with the IRS by February 28, 2006. (March 31, 2006, if filed electronically.)

Form 1098T: Furnish Copy B of this form to the borrower by January 31, 2006. File Copy A of this form with the IRS by February 28, 2006. (March 31, 2006, if filed electronically.)

Form 1099A: Furnish Copy B of this form to the borrower by January 31, 2006. File Copy A of this form with the IRS by February 28, 2006. (March 31, 2006, if filed electronically.)

Form 1099A: Furnish Copy B of this form to the borrower by January 31, 2006. File Copy A of this form with the IRS by February 28, 2006. (March 31, 2006, if filed electronically.)

Form 1099B: Furnish Copy B of this form to the recipient by January 31, 2006. File Copy A of this form with the IRS by February 28, 2006. If you file electronically, the due date is March 31, 2006.

Form 1099C: Furnish Copy B of this form to the recipient by January 31, 2006. File Copy A of this form with the IRS by February 28, 2006. If you file electronically, the due date is March 31, 2006.

Form 1099DIV: Furnish Copy B of this form to the recipient by January 31, 2006. File Copy A of this form with the IRS by February 28, 2006. If you file electronically, the due date is March 31, 2006.

Form 1099G: Furnish Copy B of this form to the recipient by January 31, 2006. File Copy A of this form with the IRS by February 28, 2006. If you file electronically, the due date is March 31, 2006.

Form 1099INT: Furnish Copy B of this form to the recipient by January 31, 2006. File Copy A of this form with the IRS by February 28, 2006. If you file electronically, the due date is March 31, 2006.

Form 1099LTC: Furnish Copy B of this form to the recipient by January 31, 2006. File Copy A of this form with the IRS by February 28, 2006. If you file electronically, the due date is March 31, 2006.

Form 1099MISC: Furnish Copy B of this form to the recipient by January 31, 2006. File Copy A of this form with the IRS by February 28, 2006. If you file electronically, the due date is March 31, 2006.

Form 1099OID: Furnish Copy B of this form to the recipient by January 31, 2006. File Copy A of this form with the IRS by February 28, 2006. If you file electronically, the due date is March 31, 2006.

Form 1099Q: Furnish Copy B of this form to the recipient by January 31, 2006. File Copy A of this form with the IRS by February 28, 2006. If you file electronically, the due date is March 31, 2006.

Form 1099R: Furnish Copy B of this form to the recipient by January 31, 2006. File Copy A of this form with the IRS by February 28, 2006. If you file electronically, the due date is March 31, 2006.

Form 1099S: Furnish Copy B of this form to the recipient by January 31, 2006. File Copy A of this form with the IRS by February 28, 2006. If you file electronically, the due date is March 31, 2006.

Form 1099SA: Furnish Copy B of this form to the recipient by January 31, 2006. File Copy A of this form with the IRS by February 28, 2006. If you file electronically, the due date is March 31, 2006.

Form 5498: Furnish Copy B of this form to the participant by May 31, 2006, but furnish fair market value information and RMD if applicable by January 31, 2006. File Copy A of this form with the IRS by May 31, 2006.

Form 5498ESA: Furnish Copy B of this form to the participant by May 31, 2006, but furnish fair market value information and RMD if applicable by January 31, 2006. File Copy A of this form with the IRS by May 31, 2006.

Form 5498SA: Furnish Copy B of this form to the participant by May 31, 2006, but furnish fair market value information and RMD if applicable by January 31, 2006. File Copy A of this form with the IRS by May 31, 2006.

FUTURE CONSIDRATION

IRS YEAREND CHANGES FOR 2006:

1. The maximum 401(k) and 403(b) employee contribution increases to $15,000.

2. Taxpayers who are at least age 50 before the end of 2006 can increase their contribution limits by the following amounts for the following plans (called the catch-up contribution limit):

An additional $5,000 for 401(k), 403(b), salary reduction SEP plans, and 457 plans

An additional $2,500 for SIMPLE plans

An additional $1,000 for IRAs (both traditional and Roth IRAs)

Higher Income Limits for Deductible IRAs
If an individual is covered by a retirement plan at work, they can take an IRA deduction if your modified adjusted gross income is less than $85,000 (married filing jointly) or $60,000 (single or head of household).

College Tuition Deduction
This deduction expires for tax years after 2005.

Itemized Deduction Limits for High-Income
Currently, itemized deductions are phased out (reduced) as your income rises. Starting in 2006, the deduction phase-out will be reduced by one third. In 2008, it will be reduced by two thirds, and in 2010, the phase-out will disappear entirely.

Educators' Deduction
This deduction expires after 2005 and therefore is no longer available in 2006.

IRS YEAREND CHANGES FOR 2007:

Retirement Contribution Credit
This credit, which first came into effect in 2002, expires after 2006 and therefore is no longer available.

Higher Income Limits for Deductible IRAs
If an individual is covered by a retirement plan at work, you can take an IRA deduction if your modified adjusted gross income is less than $100,000 (married filing joint) or $60,000 (single or head of household).

IRS YEAREND CHANGES FOR 2008:

Reduction in Capital Gain Tax Rates
Capital gains are income from sales of capital assets (stocks, mutual funds, and so forth). Before 2003, the maximum long-term (held longer than one year) capital gains tax rate was 20 percent. A lower 10 percent tax rate was used by individuals in the 10 and 15 percent tax brackets. For tax years 2003 through 2007, the 2003 tax legislation replaces the 20 percent maximum tax rate with 15 percent, and replaces the 10 percent maximum rate with five percent. In 2008, the five percent maximum rate drops to zero percent. The 15 percent tax rate stays the same.

Increased Retirement Contribution Limits
The only change to retirement contribution limits for 2008 is that the maximum IRA (traditional or Roth) contribution increases from $4,000 to $5,000.