# New IRS Reporting Requirements for IRAs

By William E. Sigler

Each year, IRA providers file two returns with the IRS:

1. Form 5498 reporting the account's value as of the preceding year-end and whether there has been a distribution from the account; and
2. Form 1099-R reporting the distributions made during the preceding year.

In the 2014 edition of these forms, the IRS added some new boxes and codes pertaining to hard-to-value assets (or, as the IRS calls them, assets without a readily available fair market value).

The reporting regarding such assets was optional for the 2014 reports, but beginning with reports for the 2015 year it will become mandatory. It has always been the case that Form 5498 required the IRA provider to report the "fair market value" of the IRA as of the preceding year-end. However, except for a rule dealing with certain deferred annuities, the IRS has never provided any specific valuation rules for IRAs. Whatever may have been the case in the past, IRA owners and providers will need to take the annual valuation requirement more seriously in the future. The IRS's interest in valuation relates to calculating the tax on non-cash distributions and determining the amount of the required minimum distributions.

**Form 5498**.
Form 5498 must be filed each year for every IRA and Roth IRA. In general, it provides the IRS with the following information:

- The name, address and federal employer identification number of the taxpayer and IRA provider;
- The fair market value of the account as of the prior year-end;
- What contributions were received in the account in the prior year; and
- Whether a distribution was required for the prior year (i.e., whether the IRA owner was over age 70½).

Beginning with calendar year 2015, an IRA provider must now report in new box

15a the fair market value of “assets held in an IRA that are not readily tradable on an established securities market or option exchange, or that do not have a readily available FMV.” In Box 15b, the IRA provider must place a code to indicate the type of non-tradable assets held in the account. A maximum of two codes can be entered in box 15b. If more than two codes apply, the then IRA provider must enter code H. The letter-code choices are:

- A — Stock or other ownership interest in a corporation that is not readily tradable on an established securities market.
- B — Short or long-term debt obligation that is not traded on an established securities market.
- C — Ownership interest in a limited liability company or similar entity (unless the interest is traded on an established securities market).
- D — Real estate.
- E — Ownership interest in a partnership, trust, or similar entity (unless the interest is traded on an established securities market).
- F — Option contract or similar product that is not offered for trade on an established option exchange.
- G — Other asset that does not have a readily available FMV.
- H — More than two types of assets (listed in A through G) are held in this IRA.

Form 5498 has always required the IRA provider to report the “fair market value” of the IRA as of the preceding year-end. However, except for a rule dealing with certain deferred annuities, the IRS has never provided any specific valuation rules for IRAs. This may have encouraged IRA owners and providers to be less than diligent in updating the account valuations of non-publicly traded assets.

IRA owners and providers must take now take the annual valuation requirement more seriously. It is relevant in three situations:

- Whenever there is a noncash distribution, the distributed assets must be valued so that the recipient pays income tax on the correct amount. The same is true for any “deemed” distribution, such as in the case of a Roth conversion or prohibited transaction.
- If the account holder is taking required minimum distributions (RMDs), then the total account value must be determined correctly in order to compute the required distribution.
- If the owner of the account dies, then the account must be correctly valued

for estate tax purposes.

The IRS has not provided any specific guidance on the valuation of IRA accounts. However, the IRS does have extensive regulations pertaining to how to determine fair market value in certain situations, such as for estate tax purposes.

**Form 1099-R**.

Unlike Form 5498, which must be filed every year, Form 1099-R is filed only for years in which a distribution or deemed distribution is made from an IRA. On Form 1099-R, the IRA provider fills in various boxes such as Box 1 (total distribution) and Box 2a (taxable amount). Box 7 of Form 1099-R is for the “distribution codes” the IRA provider must use to give the IRS information about the distribution. For example, this box is used to report whether it is a normal or early distribution, whether it is on account of disability or death, etc.

A new distribution code “K” has now been added for use with Box 7 whenever there is a “distribution of IRA assets not having a readily available FMV.” The instructions for the new code refer back to Form 5498, which presumably means that code “K” is required in the case of a distribution of any of the kinds of assets described by codes A-G of Form 5498.

**What the IRS can now police via Form 5498**.

It is clear that the IRS will be looking more closely at taxpayers whose Form 5498 shows hard-to-value assets and indicates that a deemed or required distribution was made. If the hard-to-value assets were undervalued, then the participant may owe a 50 percent penalty.

The IRS also may use Form 5498 as the basis for an audit to determine whether a prohibited transaction has occurred, particularly where it appears that the IRA owns an operating business.

**Questions and/or Comments**

If you have any questions or comments, or if we may be of any assistance, please do not hesitate to call. We would be pleased to assist you any way we can.