Preferred Trust Company Disclosure Statement | Traditional IRA

You have the right to revoke your IRA within seven (7) days of the receipt of the disclosure statement. If revoked, you are entitled to a full return of the contribution you made to your IRA. The amounts returned to you will not be inclusive of any adjustments for commissions, administrative fees, or any change in market value. You may make this revocation only by mailing or delivering a written notice to Preferred Trust Company LLC ("Preferred Trust") at the address listed on the Application or by other electronic means mutually agreed upon and allowed by law.

If you send your notice by first class mail, your revocation will be deemed mailed as of the postmark date. If notice is received by fax or other electronic means, your revocation will be deemed delivered as of the date submitted.

If you have any questions about the procedure for revoking your IRA, please call Preferred Trust at the telephone number listed on the Application.

REQUIREMENTS OF AN IRA

A. CASH CONTRIBUTIONS – Your contribution must be in cash, unless it is a rollover contribution.

B. MAXIMUM CONTRIBUTION – The total amount you may contribute to an IRA for any taxable year cannot exceed the lesser of 100 percent of your compensation or $6,500 for year 2023, $6,000 for year 2022, with possible cost-of-living adjustments thereafter. If you also maintain a Roth IRA, (i.e., an IRA subject to the limits of Internal Revenue Code Section (IRC Sec.) 408A), the maximum contribution to your Traditional IRAs is reduced by any contributions you make to your Roth IRA. Your total annual contribution to all Traditional IRAs and Roth IRAs cannot exceed the lesser of the dollar amounts described above or your taxable compensation for the year.

C. CONTRIBUTION ELIGIBILITY – For 2020 and later, there is no age limit on making regular contributions to traditional or Roth IRAs. For 2019, if you are 70 ½ or older, you cannot make regular contributions to a traditional IRA. However, you can still contribute to a Roth IRA and make rollover contributions to a Roth or traditional IRA regardless of your age.

D. CATCH-UP CONTRIBUTIONS – If you are age 50 or older by the close of the taxable year, you can make catch-up contributions to your traditional or Roth IRA up to $1,000 in 2023 and 2022.

E. NONFORFEITABILITY – Your interest in your IRA is non-forfeitable.

F. ELIGIBLE CUSTODIANS – The Custodian of your IRA must be a bank, savings and loan association, credit union, or a person or entity approved by the Secretary of the Treasury.

G. COMMINGLING ASSETS – The assets of your IRA cannot be commingled with other property except in a common trust fund or common investment fund.

H. LIFE INSURANCE – No portion of your IRA may be invested in life insurance contracts.

I. COLLECTIBLES – You may not invest the assets of your IRA in collectibles (within the meaning of IRC Sec. 408(m)). A collectible is defined as any work of art, rug or antique, metal or gem, stamp or coin, alcoholic beverage, or other tangible personal property specified by the Internal Revenue Service (IRS). However, specially minted United States gold and silver coins, and certain state-issued coins are permissible investments. Platinum coins and certain gold, silver, platinum or palladium bullion (as described in IRC Sec 408(m)(3)) are also permitted as IRA investments.

J. REQUIRED MINIMUM DISTRIBUTIONS ("RMD") - Generally, you must begin taking withdrawals from your IRA, SIMPLE IRA, SEP IRA, or retirement plan account when you reach age 70 ½ however, changes were made by the SECURE (Setting Every Community Up for Retirement Enhancement) Act which was effective on December 20, 2019. If you reached the age 70 ½ in 2019 the prior rule applies, and you must take your first RMD by April 1, 2020. If you reach 70 ½ in 2020, or later you must take your RMD by April 1st of the year after you reach 72.

For defined contribution plan participants, or Individual Retirement Account (IRA) owners, who die after December 31, 2019, (with a delayed effective date for certain collectively bargained plans), the SECURE Act requires the entire balance of the participant's account be distributed within ten years. There is an exception for a surviving spouse, a child who has not reached the age of majority, a disabled or chronically ill person or a person not more than ten years younger that the employee or IRA account owner. The new 10-year rule applies regardless of whether the participant dies before, on, or after, the required beginning date, now age 72. Roth IRA's do not require withdrawals until after the death of the owner.

Your required minimum distribution is the minimum amount you must withdraw from your account each year. You can withdraw more than the minimum required amount. Your withdrawals will be included in your taxable income except for any part that was taxed before (your basis) or that can be received tax-free (such as qualified distributions from designated Roth accounts).

The required minimum distribution for any year is the account balance as of the end of the immediately preceding calendar year divided by a distribution period from the IRS's "Uniform Lifetime Table." A separate table is used if the sole beneficiary is the owner's spouse who is ten or more years younger than the owner.

Uniform Lifetime Table. Used for all unmarried IRA owners calculating their own withdrawals, married owners whose spouses are not more than 10 years younger, and married owners whose spouses are not the sole beneficiaries of their IRAs. Single Life Expectancy (Table I) is used for beneficiaries who are not the spouse of the IRA owner. Joint Life and Last Survivor Expectancy (Table II) is used for owners whose spouses are more than 10 years younger and are the IRA's sole beneficiaries.

Beginning date for your first required minimum distribution.

- IRAs (including SEPs and SIMPLE IRAs)
  - April 1 of the year following the calendar year in which you reach age 70½ if you were born before July 1, 1949.
  - April 1 of the year following the calendar year in which you reach age 72 if you were born after Jun 30, 1949.
- 401(k), profit-sharing, 403(b), or other defined contribution plan
  - Generally, April 1 following the later of the calendar year in which you reach age 72 (age 70½ if born before July 1, 1949), or
  - retire (if your plan allows this).

A plan may require that you begin to receive distributions by April 1 of the year after you reach age 70 ½ (age 72 if born after June 30, 1949), even if you have not retired.

If you own more than 5% of the business sponsoring the plan, then you must begin receiving distributions by April 1 of the year after the calendar year in which you reach age 70 ½ (age 72 if born after June 30, 1949), even if you have not retired.

Date for receiving subsequent required minimum distributions.
For each year after your required beginning date, you must withdraw your RMD by December 31.

For the first year following the year you reach age 70½ (age 72 if born after June 30, 1949), you will generally have two required distribution dates: an April 1 withdrawal (for the year you turn 70½ (or 72 if born after June 30, 1949)) and an additional withdrawal by December 31 (for the year following the year you turn 70½ (or 72 if born after June 30, 1949)). You can make your first withdrawal by December 31 of the year you turn 70½ (or 72 if born after June 30, 1949) instead of waiting until April 1 of the following year which would allow the distributions to be included in your income in separate tax years.

Required minimum distributions after the account owner dies.
For the year of the account owner's death, use the RMD the account owner would have received. For the year following the owner's death, the RMD will depend on the identity of the designated beneficiary.

Calculating required minimum distributions for designated beneficiaries.
Generally, for individuals or employees with accounts who die prior to January 1, 2020, designated beneficiaries of retirement accounts and IRAs calculate RMDs using the Single Life Table (Table I, Appendix B, Publication 590-B, Distributions from Individual Retirement Arrangements (IRAs)). The table provides a life expectancy factor based on the beneficiary's age. The account balance is divided by this life expectancy factor to determine the first RMD. The life expectancy is reduced by one for each subsequent year.

If the distribution is from a qualified retirement plan, the plan document will establish the RMD rules, and the plan administrator should provide the beneficiary with his or her options. The options for the RMD pay-out period may be as short as 5 years, or if the life expectancy of the beneficiary. (If the beneficiary is the spouse of the owner, the spouse can also choose to treat the IRA as his or her own.) Therefore, if the distribution is from a qualified plan, the beneficiary should contact the plan administrator. For IRA distributions, see 590-B, Distributions from Individual Retirement Arrangements (IRAs), or this chart of required minimum distributions to help calculate the required minimum distributions.

Generally, for individuals or employees with accounts who die after December 31, 2019, the SECURE Act distinguishes between an "eligible designated beneficiary" and other beneficiaries who inherit an account or IRA. An eligible designated beneficiary includes a surviving spouse, a disabled individual, a chronically ill individual, a minor child, or an individual who is not more than 10 years younger than the account owner. Certain trusts created for the exclusive benefit of disabled or chronically ill beneficiaries are included. These eligible designated beneficiaries may take their distributions over the beneficiary's life expectancy. However, minor children must still take remaining distributions within 10 years of reaching age 18. Additionally, a surviving spouse beneficiary my delay commencement of distributions until the later of the end of the year that the employee or IRA owner would have attained age 72, or the surviving spouse's required beginning date.

Designated beneficiaries, who are not an eligible designated beneficiary, must withdraw the entire account by the 10th calendar year following the year of the employee or IRA owner's post-2019 death. Non-designated beneficiaries must withdraw the entire account within 5 years of the employee or IRA owner's death if distributions have not begun prior to death. For IRA distributions, see 590-B, Distributions from Individual Retirement Arrangements (IRAs), or the required minimum distributions chart to help calculate the required minimum distributions.

Consequence for failing to take required minimum distribution.
If you do not take any required minimum distribution, or if the distribution is not large enough, you may have to pay a 50% excise tax on the amount not distributed as required. To report the excise tax, you may have to file Form 5329, Additional Taxes on Qualified Plans (including IRAs) and Other Tax-Favored Accounts. See Form 5329 instructions for additional information about this tax.

INCOME TAX CONSEQUENCES OF ESTABLISHING AN IRA

A. IRA DEDUCTIBILITY – If you are eligible to contribute to your IRA, the amount of the contribution for which you may take a tax deduction will depend upon whether you (or, in some cases, your spouse) are an active participant in an employer-maintained retirement plan. If you (and your spouse, if married) are not an active participant, your entire IRA contribution will be deductible. If you are an active participant (or are married to an active participant), the deductibility of your contribution will depend on your modified adjusted gross income (MAGI) and your tax filing status for the tax year for which the contribution was made. MAGI is determined on your income tax return using your adjusted gross income but disregarding any deductible IRA contribution.

Definition of Active Participant – Generally, you will be an active participant if you are covered by one or more of the following employer-maintained retirement plans:

1. Qualified pension, profit sharing, 401(k), or stock bonus plan;
2. Qualified annuity plan of an employer;
3. Simplified Employee Pension (SEP) plan;
4. Retirement plan established by the federal government, a state, or a political subdivision (except certain unfunded deferred compensation plans under IRC Sec. 457);
5. Tax-sheltered annuity for employees of certain tax-exempt organizations or public schools;
6. Plan meeting the requirements of IRC Sec. 501 (c)(18); and
7. Savings Incentive Match Plan for employees of small employers (SIMPLE) IRA plan or a SIMPLE 401(k) plan.

If you do not know whether your employer maintains one of these plans or whether you are an active participant in a plan, check with your employer or your tax advisor. The IRS Form W-2, Wage and Tax Statement, which you receive at the end of the year from your employer will indicate whether you are an active participant.

If you are an active participant, are single, and have MAGI within the applicable phase-out range listed below, the deductible amount of your contribution is determined as follows: (1) begin with the appropriate phase-out range maximum for the applicable year (specified below), and subtract your MAGI; (2) divide this total by the difference between the phase-out maximum and minimum; (3) multiply this number by the maximum allowable contribution for the applicable year, including catch-up contributions if you are age 50 or older. The resulting figure will be the maximum IRA deduction you may take.

If you are an active participant, are married and you file a joint income tax return, and have MAGI within the applicable phase-out range listed below, the deductible amount of your contribution is determined as follows: (1) begin with the appropriate phase-out maximum for the applicable year (specified below), and subtract your MAGI range; (2) divide this total by the difference between the phase-out range maximum and minimum; (3) multiply this number by the maximum allowable contribution for the applicable year, including catch-up contributions if you are age 50 or older. The resulting figure will be the maximum IRA deduction you may take.

If you are an active participant, are married and you file a separate income tax return, your MAGI phase-out range is generally $0 – $10,000. However, if you lived apart for the entire tax year, you are treated as a single filer.

	Joint Filers	**Single Taxpayers**
	Phase-Out Range*	Phase-Out Range*
2021	$105,000 - $125,000	$66,000 - $76,000
2022	$109,000 - $129,000	$68,000 - $78,000
2023	$116,000 - $136,000	$73,000 - $83,000

*MAGI limits are subject to cost-of-living adjustments each year.

If you are not an active participant, but your spouse is, the phase-out range for you is $218,000-$228,000 (2023). This limit is also subject to cost-of-living increases for tax years beginning after 2012. If you are not an active participant in an employer-maintained retirement plan, are married to someone who is an active participant, and you file a joint income tax return with MAGI between the applicable phase-out range for the year, your maximum deductible contribution is determined as follows: (1) begin with the appropriate MAGI phase-out maximum for the year and subtract your MAGI from it; (2) divide this total by the difference between the phase-out range maximum and minimum; (3) multiply this number by the maximum allowable contribution for the applicable year, including catch-up contributions if you are age 50 or older. The resulting figure will be the maximum IRA deduction you may take.

You must round the resulting deduction to the next highest $10 if the number is not a multiple of 10. If your resulting deduction is between $0 and $200 you may round up to $200.

B. CONTRIBUTION DEADLINE – The deadline for making an IRA contribution is your tax return due date (not including extensions). You may designate a contribution as contributions for the preceding taxable year in a manner acceptable for us. For example, if you are a calendar-year taxpayer and you make your IRA contribution on or before your tax filing deadline, your contribution is considered to have been made for the previous tax year if you designate it as such.

C. TAX CREDIT FOR CONTRIBUTIONS – You may be eligible to receive a tax credit for your Traditional IRA contributions. This credit will be allowed in addition to any tax deduction that may apply, and may not exceed $1,000 in a given year. You may be eligible for this tax credit if you are:

1. age 18 or older as of the close of the taxable year;
2. not a dependent of another taxpayer; and/or
3. not a full-time student.

D. EXCESS CONTRIBUTIONS – An excess IRA contribution occurs if you; contribute more than the contribution limit, make a regular IRA contribution for 2019, or earlier, to a traditional IRA at age 70 ½ or older, or make an improper rollover contribution to an IRA.

Excess contributions are taxed at 6% per year for each year the excess amounts remain in the IRA. The tax cannot be more than 6% of the combined value of all your IRAs as of the end of tax year.

To avoid the 6% tax on excess contributions, you must withdraw the excess contributions from your IRA by the due date of your individual income tax return (including extensions); and any income earned on the excess contributions.

E. TAX-DEFERRED EARNINGS – The investment earnings of your IRA are not subject to federal income tax until distributions are made (or, in certain instances, when distributions are deemed to be made).

F. NON-DEDUCTIBLE CONTRIBUTIONS – You may make nondeductible contributions to your IRA to the extent that deductible contributions are not allowed. The sum of your deductible and nondeductible IRA contributions cannot exceed your contribution limit (the lesser of the allowable contribution limit described previously, or 100 percent of compensation). You may elect to treat deductible IRA contributions as nondeductible contributions.

If you make nondeductible contributions for a particular tax year, you must report the amount of the nondeductible contribution along with your income tax return using IRS Form 8606. Failure to file IRS Form 8606 will result in a $50 per failure penalty.

If you overstate the amount of designated nondeductible contributions for any taxable year, you are subject to a $100 penalty unless reasonable cause for the overstatement can be shown.

G. TAXATION OF DISTRIBUTONS - The taxation of IRA distributions depends on whether or not you have ever made nondeductible IRA contributions. If you have only made deductible contributions, any IRA distribution will be fully included in income.

If you have ever made nondeductible contributions to any IRA, the following formula must be used to determine the amount of any IRA distribution excluded from income.

(Aggregate Nondeductible Contributions)
X (Amount Withdrawn) = Amount Excluded from Income
Aggregate IRA Balance

H. INCOME TAX WITHHOLDING – Any withdrawal from your IRA is subject to federal income tax withholding. You may, however, elect not to have withholding apply to your IRA withdrawal. If withholding is applied to your withdrawal, not less than 10% of the amount withdrawn must be withheld. **Reference the 2020 CARES Act for additional information regarding income tax withholding.**

I. EARLY DISTRIBUTION PENALTY TAX – To discourage the use of retirement funds for purposes other than retirement, the law imposes at 10% additional tax on certain early distributions from certain retirement plans. The additional tax is equal to 10% of the portion of the distribution that is includible in income. Generally, early distributions are those you receive from a qualified retirement plan or deferred annuity contract before reaching age 59 ½. There are certain exceptions to this 10% additional tax. The following seven exceptions apply to distributions from any qualified retirement plan:

1. Distributions made to your beneficiary or estate on or after your death;
2. Distributions made because you are totally or permanently disabled;
3. Distributions made as part of a series of substantially equal periodic payments over your life expectancy or the life expectancies of you and your designated beneficiary. If these distributions are from a qualified plan other than an IRA, you must separate from service with this employer before the payments begin for this exception to apply;
4. Distributions to the extent you have deductible medical expenses that exceed 10% of your AGI (7.5% if you or your spouse is 65 or older) whether or not you itemize your deductions for the year. The 7.5% limitation is a temporary exemption from January 1, 2013 to December 31, 2015 for individuals 65 and older and their spouses;
5. Distributions made due to an IRS levy of the plan under section 6331;
6. Distributions made to buy, build, or rebuild a first home; and
7. Distributions that are qualified reservist distributions. Generally, these are distributions made to individuals that are called to active duty for at least 180 days after September 11, 2001.

You must file IRS Form 5329 along with your income tax return to the IRS to report and remit any additional taxes or to claim a penalty tax exception.

J. ROLLOVERS AND CONVERSIONS - Your IRA may be rolled over to an IRA of yours, may receive rollover contributions, and may be converted to a Roth IRA, provided that all of the applicable rollover and conversion rules are followed. Rollover is a term used to describe a tax-free movement of cash or other property to your IRA from another IRA, or from your employer's qualified retirement plan, 403(a) annuity plan, 403(b) tax-sheltered annuity, or 457(b) eligible governmental deferred compensation plan. Conversion is a term used to describe the movement of Traditional IRA assets to a Roth IRA. A conversion is generally a taxable event. The rollover and conversion rules are generally summarized below. These transactions are often complex. Beginning as early as January 1, 2015, you can make only one rollover from an IRA to another (or the same) IRA in any 12-month period, regardless of the number of IRAs you own. You can, however, continue to make as many trustee-to-trustee transfers between IRAs as you want. You can also make as many rollovers from Traditional IRAs to Roth IRAs ("conversions") as you want. If you have any questions regarding a rollover or conversion, please see a certified tax specialist.

1. **Traditional IRA to Traditional IRA Rollovers.** Funds distributed from your IRA may be rolled over to an IRA of yours if the requirements of Code section 408(d)(3) are met. A proper IRA to IRA rollover is completed if all or part of the distribution is rolled over not later than 60 days after the distribution is received. You may not have completed another IRA to IRA rollover from the distributing IRA during the 12 months preceding the date you receive the distribution. Further, you may roll over the same dollars or assets only once every 12 months. Please note that your rollover, from one IRA or to another IRA, must consist of the same property; otherwise the distribution will be taxable as ordinary income. For example, you cannot take cash distributions from your IRA, purchase other assets with the cash and then roll those assets over into a new (or the same) IRA.
2. **SIMPLE IRA to Traditional IRA Rollovers.** Funds may be distributed from your SIMPLE IRA and rolled over to your IRA without IRS penalty provided, two years have passed since you first participated in a SIMPLE IRA plan sponsored by your employer. As with Traditional IRA to Traditional IRA rollovers, the requirements of Code section 408(d)(3) must be met. A proper SIMPLE IRA to IRA rollover is completed if all or part of the distribution is rolled over not later than 60 days after the distribution is received. You may not have completed another SIMPLE IRA to IRA or SIMPLE IRA to SIMPLE IRA rollover from the distributing SIMPLE IRA during the 12 months preceding the date you receive the distribution. Further, you may roll over the same dollars or assets only once every 12 months.
3. **Employer-Sponsored Retirement Plan to Traditional IRA Rollovers.** You can rollover into a Traditional IRA all or part of an eligible rollover distribution you receive from your (or your deceased spouse's): Employer's qualified pension, profit-sharing, or stock bonus plan; annuity plan; Tax-sheltered annuity plan (Section 403 (b) plan); or Governmental deferred compensation plan (Section 547plan). A qualified plan is one that meets the requirements of the Internal Revenue Code. Generally, an eligible rollover distribution is any distribution of all or part of the balance of your credit in a qualified retirement plan except the following:

   a. A required minimum distribution
   b. A hardship distribution
   c. Any of a series of substantially equal periodic distributions paid at least once a year over:
      (1) Your lifetime or life expectancy
      (2) The lifetimes or life expectancies of you and your beneficiary, or
      (3) A period of 10 years or more.
   d. Corrective distributions of excess contributions or excess deferrals, and any income allocable to the excess, or excess annual additions and any allocable gains.
   e. A loan treated as a distribution because it does not satisfy certain requirements either when made or later (such as upon default), unless the participant's accrued benefits are reduced to repay the loan.
   f. Dividends on employer securities
   g. The cost of life insurance

Your rollover into a traditional IRA may include both amounts that would be taxable and amounts that would not be taxable if they were distributed to you, but not rolled over. To the extent the distribution is rolled over into a Traditional IRA, it is not includable in your income.

4. **Beneficiary Rollovers from Employer-Sponsored Retirement Plans.** If you are a spouse, non-spouse, or qualified trust beneficiary of a deceased employer plan participant, you may directly roll over inherited assets from a qualified retirement plan, 403(a) annuity, 403(b) tax-sheltered annuity, or 457(b) governmental deferred compensation plan to an inherited IRA. The IRA must be maintained as an inherited IRA, subject to the beneficiary distribution requirements.
5. **Traditional IRA to Employer-Sponsored Retirement Plans.** You may roll over, directly or indirectly, any eligible rollover distribution from an IRA to an employer's qualified retirement plan, 403(a) annuity, 403(b) tax-sheltered annuity, or 457(b) eligible governmental deferred compensation plan so long as the employer-sponsored retirement plan accepts such rollover contributions. An eligible rollover distribution is defined as any taxable distribution from an IRA that is not a part of a required minimum distribution.
6. **Traditional IRA to Roth IRA Conversions.** If your modified adjusted gross income is not more than $100,000 and you are not married filing a separate income tax return, you are eligible to convert all or any portion of your existing Traditional IRA(s) into your Roth IRA(s). Beginning in 2010, the $100,000 MAGI limit and the married filing separate tax filing restriction will be eliminated for conversion eligibility. If you are age 70½ or older you must remove your required minimum distribution prior to converting your Traditional IRA. The amount of the conversion from your Traditional IRA to your Roth IRA shall be treated as a distribution for income tax purposes, and is includible in your gross income (except for any nondeductible contributions). Although the conversion amount is generally included in income, the 10 percent early distribution penalty shall not apply to conversions from a Traditional IRA to a Roth IRA, regardless of whether you qualify for any exceptions to the 10 percent penalty.
7. **Qualified HSA Funding Distribution.** An HSA is generally exempt from tax. You are permitted to take a distribution from your HSA at any time; however, only those amounts used exclusively to pay for qualified medical expenses are tax free. Amounts that remain at the end of the year are generally carried over to the next year. Earnings on amounts in an HSA are not included in your income while held in the HSA.
8. **Rollover of Exxon Valdez Settlement Payments.** If you are a qualified taxpayer and you received qualified settlement income, you can contribute all or part of the amount received to an eligible retirement plan which includes a traditional IRA. The amount contributed cannot exceed $100,000 (reduced by the amount of qualified settlement income contributed to an eligible retirement plan in prior tax years) or the amount of qualified
   Settlement income received during the tax year. Contributions for the year can be made until the due date for filing your return, not including extensions. To obtain more information on this type of rollover, you may wish to visit the IRS website at www.irs.gov.
9. **Rollovers of Settlement Payments from Bankrupt Airlines.** Certain qualified airline employees may be able to rollover amounts received as a result of an airline bankruptcy settlement into an IRA. To obtain more information on this type of rollover, you may wish to visit the IRS website at www.irs.gov.
10. **Written Election.** At the time you make a rollover to an IRA, you must designate in writing to the custodian your election to treat that contribution as a rollover. Once made, the rollover election is irrevocable.

K. TRANSFER DUE TO DIVORCE – If an interest in a traditional IRA is transferred from your spouse or former spouse to you by a divorce or separate maintenance decree or a written document related to such a decree, the interest in the IRA, starting from the date of the transfer, is treated as your IRA. The transfer is tax free. There are two commonly used methods of transferring IRA assets to a spouse or former spouse. The methods are changing the name on the IRA, and making a direct transfer of IRA assets.

L. RECHARACTERIZATIONS – You may be able to treat a contribution made to one type of IRA as having been made to a different type of IRA. This is call re-characterizing the contribution.

To re-characterize a contribution, you generally must have the contribution transferred from the first IRA (the one to which it was made) to the second IRA in a trustee-to-trustee transfer. If the transfer is made by the due date (including extensions) for your tax return for the tax year during which the contribution was made, you can elect to treat the contribution as having been originally made to the second IRA instead of the first IRA. If you re-characterize you contribution, you must do all three of the following:

1. Include in the transfer any net income allocable to the contribution. If there was a loss, the net income you must transfer may be a negative amount.
2. Report the re-characterization on your tax return for the year during which the contribution was made.
3. Treat the contribution as having been made to the second IRA on the date that it was actually made to the first IRA.

LIMITATIONS AND RESTRICTIONS

A. SEP PLANS - Simplified employee pension (SEP) is a written arrangement that allows your employer to make deductible contributions to a traditional IRA (a SEP IRA) set up for you to receive such contributions. Generally, distributions from SEP IRAs are subject to the withdrawal and tax rules that apply to traditional IRAs. See Publication 560 for more in-formation about SEPs.
B. SPOUSAL IRA – If you are married and have compensation, you may contribute to an IRA established for the benefit of your spouse for any year prior to the year your spouse turns 70 ½, regardless of whether or not your spouse has compensation. You may make these spousal contributions even if you are age 70 ½ or older. You must file a joint income tax return for the year for which the contribution is made. The amount you may contribute to your IRA and your spouse's IRA is the lesser of 100% of your combined compensation or $6,500 to the IRA in your name and spouse's IRA, bringing the total annual retirement contribution to $13,000. For those over the age of 50, the numbers are $7,500 per account, for a total of $15,000. However, you may not contribute more than the individual contribution limit to each IRA.
C. DEDUCTION OF ROLLOVERS AND TRANSFERS – You cannot deduct a rollover contribution or a transfer.
D. GIFT TAX – Transfers of your IRA assets to a beneficiary made during your life and at your request may be subject to federal gift tax under IRC Sec. 2501.
E. SPECIAL TAX TREATMENT – Capital gains treatment and 10-year forward income averaging authorized by IRC Sec. 402 do not apply to IRA distributions.
F. FEDERAL INCOME TAX TREATMENT – Any withdrawal from your IRA is subject to federal income tax withholding. You may elect not to have withholding apply to your withdrawal. If withholding is applied to your withdrawal, not less than 10 percent of the amount withdrawn must be withheld.
G. PROHIBITED TRANSACTIONS – If you or your beneficiary engages in a prohibited transaction in connection with your IRA account at any time during the year, the account stops being an IRA as of the first day of that year. The account is treated as distributing all its assets to you at their fair market value. If the total of those values is more than your basis in the IRA, you will have taxable gain that is includible in your income. A prohibited transaction is any improper use of your IRA account or annuity by you, your beneficiary, or any disqualified person. Disqualified persons include your fiduciary and members of your family (spouse, ancestor, lineal descendent, and any spouse of a lineal descendant). Examples of prohibited transactions with an IRA include, borrowing money from it, selling property to it, using it as security for a loan, buying property for personal use (present or future).
H. PLEDGING – If you use a part of your IRA account as security for a loan, that part is treated as a distribution and is included in your gross income.

FEDERAL TAX PENALTIES
Reference the 2020 CARES Act for additional information about federal tax penalties.

A. EARLY DISTRIBUTIONS – Early distributions generally are amounts distributed from your Traditional IRA account or annuity before you are age 59 ½. You must include early distributions of taxable amounts from your Traditional IRA in your gross income. Early distributions are also subject to an additional 10 percent tax. There are several exceptions to the age 59 ½ rule. If you receive a distribution before you are age 59 ½, you may not have to pay the 10 percent additional tax if you are in one of the following situations:
   - You have unreimbursed medical expenses that are more than 10% (or 7.5% if you or your spouse was born before January 2, 1949) of your adjusted gross income;
   - The distributions are not more than the cost of your medical insurance due to a period of unemployment;
   - You are totally and permanently disabled;
   - You are the beneficiary of a deceased IRA owner;
   - You are receiving distributions in the form of an annuity;
   - The distributions are not more than your qualified higher education expenses;
   - You use the distributions to buy, build, or rebuild a first home;
   - The distribution is due to an IRS levy of the qualified plan; or
   - The distribution is a qualified reservist distribution.

B. EXCESS CONTRIBUTION PENALTY – An excess contribution is subject to an additional tax of 6 percent. An excess contribution is any amount that is contributed to your IRA that exceeds the amount that you are eligible to contribute.

C. EXCESS ACCUMULATION PENALTY – You cannot keep amounts in your Traditional IRA indefinitely. Generally, you must begin receiving distributions by April 1 of the year following the year in which you reach age 70 ½. The required minimum distribution for any year after the year in which you reach age 70 ½ must be made by December 31 of that later year. If distributions are less than the required minimum distribution for the year, you may have to pay a 50 percent excise tax for that year on the amount not distributed as required.

D. REPORTING ADDITIONAL TAX – Use Form 5329 to report the tax on excess accumulations.

OTHER

A. IRS PLAN APPROVAL – The Agreement used to establish this IRA has been approved by the IRS. The IRS approval is a determination only as to form. It is not an endorsement of the plan in operation or of the investments offered.

B. ADDITIONAL INFORMATION – For additional information related to Individual Retirement Arrangements, please contact your local IRS Office, call 1-800-TAX-FORM, or visit the IRS website at www.irs.gov. Additional information can be found in IRS Publication 590 and IRS Publication 560 – Retirement Plans for Small Business.

C. PROCEDURES FOR OPENING A NEW ACCOUNT – To help the government fight the funding of terrorism and money laundering activities, federal law requires all financial institutions to obtain, verify, and record information that identifies each person who opens an account. When you open an account, you are required to provide your name, residential address, date of birth, and social security number or appropriate tax identification number. We may require additional information that will allow us to identify you.

D. QUALIFIED RESERVIST DISTRIBUTIONS - A qualified reservist distribution is not subject to the additional tax on early distributions. Please refer to IRS Publication 590 for further detailed information.

E. CHARITABLE DISTRIBUTIONS – A qualified charitable distribution (QCD) is generally a nontaxable distribution made directly by the trustee of your IRA to an organization eligible to receive tax-deductible contributions. You must be at least age 70 ½ when the distribution was made. The maximum annual exclusion for QCDs is $100,000. Any QCD is excess of the $100,000 exclusion limit is included in income as any other distribution. For further information you may wish to obtain IRS Publication 590.

F. HEARTLAND DISASTER RELATED TAX RELIEF – If you are an individual who has sustained an economic loss due to, or are otherwise considered affected by, the severe storms, tornadoes, and flooding that occurred in the Midwestern disaster area, you may be eligible for favorable tax treatment on distributions and rollovers from your IRA. Qualified disaster recovery assistance distributions include IRA distributions made on or after specified dates for each disaster, and before January 1, 2010 to a qualified individual. For additional information on this tax relief, refer to IRS Publication 4492-B, Information for Affected Taxpayers in the Midwestern Disaster Area.