

New 2022 Rules For Determination Of A Beginning Account Balance

Revenue Ruling 2002-62 said: “The account balance that is used to determine payments must be determined in a reasonable manner based on the facts & circumstances...”. We can think of lots of ways to be reasonable where the authorities might think otherwise.

Now comes Notice 2022-6 with new language in two parts:

- (A) “the account balance must be determined in a reasonable manner based on the facts and circumstances.” Same language as previous.
- (B) “The account balanced will be treated as determined in a reasonable manner if it is the account balance on any date within the period that begins on December 31st of the year prior to the date of the first distribution and ends on the date of the first distribution.”. The new safe harbor language!

(A) above has been around over 20 years. This author is unaware of any circumstances where there was a difference in opinion between a taxpayer and the IRS as to what constituted “reasonable” for an account balance measurement date. That does not mean they didn’t occur; it just means no client called us for help on this issue.

(B) above creates an absolute safe harbor. It creates an expanding / collapsing time window that always starts with the immediately previous 12/31 and ends the morning of the first distribution date. The results: (a) you plan your 1st distribution to be on January 2, 2023; therefore you can measure your account balance on 12/31/2022 or 1/2/2022 — a 48 hour window with one day as a holiday; (b) you plan your 1st distribution for 7/1/2023; now you have a 182 day measurement window — pick any day (maybe the largest of the 182) and make sure to print out the account statement¹ as external evidence.

The IRS does not write rules for fun nor for the advantage of taxpayers. We are therefore somewhat baffled by this expansion of language; they must have a reason, we just don’t know what it is. On the other hand, we like safe harbors and don’t look at (B) above as being onerous in any particular way.

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How many of you remember lamination machines at Woolworths? I do. They were pretty important in their time. If there is ever a piece paper in the 21st century worth laminating, it is your account statement establishing your beginning balance for your SEPP plan.