Janney

UBTI/UBIT & RETIREMENT ACCOUNTS: FREQUENTLY ASKED QUESTIONS

This FAQ document covers holdings in Partnerships ("PTPs") within Janney custodian IRAs. There are various types of PTPs, including but not limited to MLPs (Master Limited Partnerships), private LPs (Limited Partnerships), and NTIs (Non-Traditional Investments). Holding these types of investments in your IRA may have special tax consequences, which these FAQs address.

GENERAL QUESTIONS

What is UBTI/UBIT?

"UBTI" stands for unrelated business taxable income. UBTI is the income generated by a tax-exempt entity, such as an IRA, when it invests in a trade or business unrelated to its tax exempt purpose and/or uses debt to generate income. "UBIT" stands for unrelated business income tax, or the tax itself.

Why is UBTI reportable in Tax Deferred Retirement Plans/IRAs?

An IRA or other type of qualified retirement account has a tax-exempt purpose. Due to the master limited partnership (MLP) and limited partnership (LP) structure, when these accounts invest in MLPs or LPs, the accounts are treated as direct partners in the business, and therefore some of the income does not fit the tax exclusion that traditional investments meet under IRS Publication 598.

Is all the income generated from these partnership investments considered UBTI?

No. There are many exceptions to UBTI including most types of passive income (i.e., interest, dividends, royalties etc.). Generally, income that is classified as being generated from a trade or business and/or from debt will be treated as UBTI. Additionally, sale of MLP units could generate UBTI.

How do I know if my investment generates UBTI?

IRAs investing in MLPs/LPs will receive Schedule K-1s which will report the UBTI generated, if any. In determining whether UBTI has been generated, the following should be reviewed:

- Box 20V, Unrelated business taxable income: This box indicates the amount of UBTI for the IRA.
- The footnotes to the K-1: Some limited partnerships will disclose percentages to apply to income reported elsewhere in the K-1 to determine the amount of UBTI for the IRA or the actual UBTI amount.
- Section 751 Property Disclosure: This provides the federal income tax consequences of a sale of the PTP units.

TAX RETURN PROCESS QUESTIONS

What is Janney's process for Form 990-T filing?

Acting in its capacity as custodian, Janney is responsible for filing IRS Form 990-T (Exempt Organization Business Income Tax Return) on behalf of Janney's custodial retirement accounts. Janney has engaged a national accounting firm ("our partner firm") to complete applicable 990-T Forms and assist with the filing process. Once those Janney custodian retirement accounts with a filing obligation are determined, 990-T Forms will be completed and filed with the IRS. Account holders who have a filing for their account will be contacted to discuss what action, if any, is necessary.

Why am I being asked for my IRA's EIN?

If you or your tax advisor has filed Form 990-T for your IRA account, you will already have an EIN. The IRS requires that payment of any applicable tax liability be made by the IRA account itself, as a separate taxpayer under an EIN, not your personal tax identification number (such as a social security number, or "SSN"). Each IRA account which files Form 990-T must file for and retain a unique EIN.

If a Form 990-T has not been filed for the IRA account in previous tax years, Janney will acquire an EIN on behalf of the IRA.

If an IRA owes UBIT, how is that paid?

The IRS Regulations require that the payment be made by the IRA account itself, as a separate taxpayer under an EIN. If the tax liability is paid by the client directly (not through the IRA), the IRA could potentially lose its tax sheltered status. To ensure the preservation of the IRA account's status, Janney will arrange the payment directly from the IRA account where funds are available.

What if the IRA owes tax in a given tax year, but does not have the available cash funds?

If there is not enough available cash in the account to pay the tax liability, the Form 990-T will be submitted without payment. It is then the client's responsibility to make further arrangements with Janney to settle payment. Please note, if you decide to fund the IRA with outside funds in order to make the tax payment, this is considered a "contribution" to your IRA. Please consult with your tax advisor with questions regarding tax year applicability and annual contribution limits.

Should the 990-T be included in the taxpayer's regular tax filing in April?

No, clients should NOT include Form 990-T with their 1040 filing. This is a separate filing done for the IRA account. Clients should inform their CPA or tax advisor that Janney is completing this filing for their applicable Janney custodian IRA account(s) so that the CPA or tax advisor does not double report the income.

Is paying required taxes on UBTI via 990-T considered a distribution?

No, payment of the tax liability from the IRA account is not a reportable distribution on Form 1099-R.

Can an account holder elect not to file Form 990-T or pay the tax owed?

No, filing Form 990-T on a Janney custodian retirement account is the responsibility of Janney and is not an election.

TAX CALCULATION QUESTIONS

Which tax rates apply to IRA holders?

IRAs are subject to tax at Trust rates. Please see the Instructions for IRS Form 990-T for the current tax rate schedule accessible via www.IRS.gov.

How was my UBTI calculated?

Each Form 990-T has supporting schedules that show how the UBTI was calculated for each investment.

Why do I only see two out of my three PTP K-1s showing up in my return?

An IRA may have partnership investments that did not generate UBTI and therefore would not be included when calculating UBTI and filing the return.

Why did I not sign the return before it was filed?

Janney is responsible for the filing of the returns and is therefore required to sign the returns on behalf of its IRA holders.

Why was there interest and/or penalties calculated on my return?

If the tax is not paid by the original due date (April 15th) of return, interest and penalties were calculated. Janney will try to abate any penalties imposed.

Why was the tax paid late?

The information required to determine UBTI and resulting UBIT was not available by the April 15th due date of the return. LPs have until September 15th to provide the UBTI, so there are instances where the UBTI was not available as of April 15th.

How are interest and penalties calculated?

- **Interest:** Interest is charged at the underpayment rate as determined by the IRS.
- **Late filing penalty:** 5% of unpaid tax for each month or part of a month the return is late, up to 25% maximum. The minimum penalty for return more than 60 days late is the lesser of the tax due or $210.
- **Late payment penalty:** ½ of 1% of unpaid tax each month or part of a month the tax is unpaid, up to 25% maximum.

Each Taxpayer's situation is different and tax-related information provided herein is general in nature. Clients should consult with a professional tax advisor with questions specific to their personal tax situation. These FAQs are provided for informational purposes to explain a Janney process which is not applicable to IRAs for which Janney is not custodian. Please consult your IRA custodian or professional tax advisor for further information related to your tax situation.