United States Senate

COMMITTEE ON FINANCE

WASHINGTON, DC 20510–6200

November 19, 2014

The Honorable Jacob Lew
Secretary of Treasury
U.S. Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington, DC 20220

The Honorable John Koskinen
Commissioner
1111 Constitution Avenue, NW
Washington, DC 20224

Dear Secretary Lew and Commissioner Koskinen:

At my request, the Government Accountability Office (GAO) examined data on the large and growing balances accumulated in individual retirement arrangements (IRAs). At a recent hearing I held in the Finance Committee on the retirement savings crisis in this country, GAO released their preliminary findings – and today GAO will release their final report.

GAO's findings are troubling. For tax year 2011, roughly 600,000 taxpayers had IRA accounts worth more than $1 million – and about 9,000 taxpayers had IRAs worth more than $5 million. Yet contrast that with the account balances of most Americans. In 2012, the median IRA account balance was about $21,000.

Therefore, some people can shelter millions while according to the Federal Reserve, nearly a third of workers have no pension and nothing set aside for retirement. This is clearly another example of how the tax code needs to be reformed.

According to GAO, taxpayers are able to achieve very large IRA account balances through alternative investment strategies. For example, some taxpayers have invested in nonpublicly traded stock that is initially valued very low but offers disproportionately high potential investment returns if successful. Another theme throughout GAO's report is concern that some taxpayers may be undervaluing the nonpublicly traded assets in their IRAs.

I commend the IRS for the efforts it has already taken to better enforce the IRA rules when it comes to hard-to-value assets. For example, starting in tax year 2014, IRS Form 5498, IRA Contribution Information, will require custodians to include the fair market value of nonpublicly traded assets and information on the type of asset.

However, more can be done and I encourage the IRS Commissioner to adopt the common sense recommendations in GAO's report. These recommendations include:

- Approving plans to fully compile and digitize the new data from electronic and paper-filed Forms 5498 to ensure the efficient use of the information on nonpublicly traded IRA assets.
- Conducting research using the new Form 5498 data to identify the types of nonpublicly traded assets in IRAs and using that information for an IRS-wide strategy to target compliance efforts.
- Identifying options to provide outreach to taxpayers with nonpublicly traded IRA assets and their custodians, such as reminder notices that engaging in prohibited transactions can result in loss of the IRA's tax-favored status.
- Adding an explicit caution in *Publication 590 Individual Retirement Arrangements (IRAs)* about the potential risk of committing a prohibited transaction when investing in nonpublicly traded assets or directly controlling IRA assets.

I also request the assistance of IRS and the Treasury Department in developing legislation to address valuation and compliance concerns. For example, GAO recommends expanding the statute of limitations on IRA noncompliance to help IRS pursue valuation-related misreporting and prohibited transactions that may have originated outside the current statute's 3-year window.

Thank you for your attention to this matter. If you have any questions or need additional information, please contact Kara Getz, Senior Tax Counsel (kara_getz@finance.senate.gov) on my staff.

Sincerely,

Ron Wyden

Ron Wyden
Chairman