

Publications

IRS Maintains Favorable Position on IRA Owner's Direct Payment of "Wrap Fees"

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The IRS recently released long-awaited guidance on the tax treatment of a broker-dealer's "wrap fee" program in private letter ruling 201104061, Nov. 4, 2010. A "wrap fee" is a fee that provides IRA account holders with investment advice, custody and trade execution services, where the fee is a percentage of assets under management and typically is not related to the number of trades executed in any account. Although the ruling does not provide the much needed general guidance in this area, it does reconfirm the IRS' position first issued in 2005 that an IRA owner's payment of wrap fees from non-IRA assets (e.g., the owner's "retail" account) would not be treated as additional IRA contributions (which avoids a 6% annual excise tax on excess contributions as a result of the fee payment). Please see the attached memo for a full summary of the ruling.

If you have any questions to be covered by an upcoming IRS Reporting Corner newsletter or wish to stay connected with various reporting and withholding updates related to employee benefits, please visit the IRS Reporting Corner.

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