Publication 575

Pension and Annuity Income

For use in preparing

2023 Returns

Volume 2 of 4

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Guaranteed payments. Your annuity contract provides guaranteed payments if a minimum number of payments or a minimum amount (for example, the amount of your investment) is payable even if you and any survivor annuitant don't live to receive the minimum. If the minimum amount is less than the total amount of the payments you are to receive, barring death, during the first 5 years after payments begin (figured by ignoring any payment increases), you are entitled to less than 5 years of guaranteed payments.

Annuity starting before November 19, 1996. If your annuity starting date is after July 1, 1986, and before November 19, 1996, and you chose to use the Simplified Method, you must continue to use it each year that you recover part of your cost. You could have chosen to use the Simplified Method if your annuity is payable for your life (or the lives of you and your survivor annuitant) and you met both of the conditions listed earlier under *Who must use the Simplified Method*.

Who can't use the Simplified Method. You can't use the Simplified Method if you receive your pension or annuity from a nonqualified plan or otherwise don't meet the conditions described in the preceding discussion. See *General Rule*, later.

How to use the Simplified Method. Complete Worksheet A near the end of this publication to figure your taxable annuity for 2023. Be sure to keep the completed worksheet; it will help you figure your taxable annuity next year.

To complete line 3 of the worksheet, you must determine the total number of expected monthly payments for your annuity. How you do this depends on whether the annuity is for a single life, multiple lives, or a fixed period. For this purpose, treat an annuity that is payable over the life of an annuitant as payable for that annuitant's life even if the annuity has a fixed-period feature or also provides a temporary annuity payable to the annuitant's child under age 25.

TIP *You don't need to complete line 3 of the worksheet or make the computation on line 4 if you received annuity payments last year and used last year's worksheet to figure your taxable annuity. Instead, enter the amount from line 4 of last year's worksheet on line 4 of this year's worksheet.*

Single-life annuity. If your annuity is payable for your life alone, use Table 1 at the bottom of the worksheet to determine the total number of expected monthly payments. Enter on line 3 the number shown for your age on your annuity starting date. This number will differ depending on whether your annuity starting date is before November 19, 1996, or after November 18, 1996.

Multiple-lives annuity. If your annuity is payable for the lives of more than one annuitant, use Table 2 at the bottom of the worksheet to determine the total number of expected monthly payments. Enter on line 3 the number shown for the annuitants' combined ages on the annuity starting date. For an annuity payable to you as the primary annuitant and to more than one survivor annuitant, combine your age and the age of the youngest survivor annuitant. For an annuity that has no primary annuitant and is payable to you and others as survivor annuitants, combine the ages of the oldest and youngest annuitants. Don't treat as a survivor annuitant anyone whose entitlement to payments depends on an event other than the primary annuitant's death.

However, if your annuity starting date is before 1998, don't use Table 2 and don't combine the annuitants' ages. Instead, you must use Table 1 at the bottom of the worksheet and enter on line 3 the number shown for the primary annuitant's age on the annuity starting date. This number will differ depending on whether your annuity starting date is before November 19, 1996, or after November 18, 1996.

Fixed-period annuity. If your annuity doesn't depend in whole or in part on anyone's life expectancy, the total number of expected monthly payments to enter on line 3 of the worksheet is the number of monthly annuity payments under the contract.

Line 6. The amount on line 6 should include all amounts that could have been recovered in prior years. If you didn't recover an amount in a prior year, you may be able to amend your returns for the affected years.

Example. Bill Smith, age 65, began receiving retirement benefits in 2023 under a joint and survivor annuity. Bill's annuity starting date is January 1, 2023. The benefits are to be paid for the joint lives of Bill and his spouse, age

65. Bill had contributed $31,000 to a qualified plan and had received no distributions before the annuity starting date. Bill is to receive a retirement benefit of $1,200 a month, and his spouse is to receive a monthly survivor benefit of $600 upon Bill's death.

Bill must use the Simplified Method to figure his taxable annuity because his payments are from a qualified plan and he is under age 75. Because his annuity is payable over the lives of more than one annuitant, he uses his and his spouse's combined ages and Table 2 at the bottom of Worksheet A in completing line 3 of the worksheet. His completed worksheet is shown later.

Bill's tax-free monthly amount is $100 ($31,000 ÷ 310) as shown on line 4 of the worksheet. Upon Bill's death, if Bill hasn't recovered the full $31,000 investment, his spouse will also exclude $100 from her $600 monthly payment. The full amount of any annuity payments received after 310 payments are paid must be included in gross income.

If Bill and his spouse die before 310 payments are made, an itemized deduction will be allowed for the unrecovered cost on the final income tax return of the last to die.

Multiple annuitants. If you and one or more other annuitants receive payments at the same time, you exclude from each annuity payment a pro rata share of the monthly tax-free amount. Figure your share by taking the following steps.

1. Complete your worksheet through line 4 to figure the monthly tax-free amount.

2. Divide the amount of your monthly payment by the total amount of the monthly payments to all annuitants.

3. Multiply the amount on line 4 of your worksheet by the amount figured in

(2) above. The result is your share of the monthly tax-free amount.

Replace the amount on line 4 of the worksheet with the result in (3) above. Enter that amount on line 4 of your worksheet each year.

General Rule

Under the General Rule, you determine the tax-free part of each annuity payment based on the ratio of the cost of the contract to the total expected return. Expected return is the total amount you and other eligible annuitants can expect to receive under the contract. To figure it, you must use life expectancy (actuarial) tables prescribed by the IRS.

Who must use the General Rule. You must use the General Rule if you receive pension or annuity payments from a:

- Nonqualified plan (such as a private annuity, a purchased commercial annuity, or a nonqualified employee plan), or
- Qualified plan if you are age 75 or older on your annuity starting date and your annuity payments are guaranteed for at least 5 years.

Annuity starting before November 19, 1996. If your annuity starting date is after July 1, 1986, and before November 19, 1996, you had to use the General Rule for either circumstance just described. You also had to use it for any fixed-period annuity. If you didn't have to use the General Rule, you could have chosen to use it. If your annuity starting date is before July 2, 1986, you had to use the General Rule unless you could use the 3-year Rule.

If you had to use the General Rule (or chose to use it), you must continue to use it each year that you recover your cost.

Who can't use the General Rule. You can't use the General Rule if you receive your pension or annuity from a qualified plan and none of the circumstances described in the preceding discussions apply to you. See *Simplified Method*, earlier.

More information. For complete information on using the General Rule, including the actuarial tables you need, see Pub. 939.

Taxation of Nonperiodic Payments

This section of the publication explains how any nonperiodic distributions you receive under a pension or annuity plan are taxed. Nonperiodic distributions are also known as amounts not received as an annuity. They include all payments other than periodic payments and corrective distributions.

For example, the following items are treated as nonperiodic distributions.

- Cash withdrawals.
- Distributions of current earnings (dividends) on your investment. However, don't include these distributions in your income to the extent the insurer keeps them to pay premiums or other consideration for the contract.
- Certain loans. See *Loans Treated as Distributions*, later.
- The value of annuity contracts transferred without full and adequate consideration. See *Transfers of Annuity Contracts*, later.

Corrective distributions of excess plan contributions. Generally, if the contributions made for you during the year to certain retirement plans exceed certain limits, the excess is taxable to you. To correct an excess, your plan may distribute it to you (along with any income earned on the excess). Although the plan reports the corrective distributions on Form 1099-R, the distribution isn't treated as a nonperiodic distribution from the plan. It isn't subject to the allocation rules explained in the following discussion, it can't be rolled over into another plan, and it isn't subject to the additional tax on early distributions.

TIP *If your retirement plan made a corrective distribution of excess amounts (excess deferrals, excess contributions, or excess annual additions), your Form 1099-R should have the code "8," "B," "P," or "E" in box 7.*

For information on plan contribution limits and how to report corrective distributions of excess contributions, see *Retirement Plan Contributions* under *Employee Compensation* in Pub. 525.

Worksheet A. **Simplified Method Worksheet for Bill Smith**

Keep for Your Records

1. Enter the total pension or annuity payments received this year. Also, add this amount to the total for Form 1040, 1040-SR, or 1040-NR, line 5a	**1.**	$ 14,400
2. Enter your cost in the plan (contract) at the annuity starting date plus any death benefit exclusion.* See *Cost (Investment in the Contract)*, earlier	**2.**	31,000
Note: If your annuity starting date was before this year and you completed this worksheet last year, skip line 3 and enter the amount from line 4 of last year's worksheet on line 4 below (even if the amount of your pension or annuity has changed). Otherwise, go to line 3.		
3. Enter the appropriate number from Table 1 below. But if your annuity starting date was after 1997 and the payments are for your life and that of your beneficiary, enter the appropriate number from Table 2 below	**3.**	310
4. Divide line 2 by the number on line 3	**4.**	100
5. Multiply line 4 by the number of months for which this year's payments were made. If your annuity starting date was before 1987, enter this amount on line 8 below and skip lines 6, 7, 10, and 11. Otherwise, go to line 6	**5.**	1,200
6. Enter any amount previously recovered tax free in years after 1986. This is the amount shown on line 10 of your worksheet for last year	**6.**	-0-
7. Subtract line 6 from line 2	**7.**	31,000
8. Enter the smaller of line 5 or line 7	**8.**	1,200
9. Taxable amount for year. Subtract line 8 from line 1. Enter the result, but not less than zero. Also, add this amount to the total for Form 1040, 1040-SR, or 1040-NR, line 5b. **Note:** If your Form 1099-R shows a larger taxable amount, use the amount figured on this line instead. If you are a retired public safety officer, see *Insurance Premiums for Retired Public Safety Officers* before entering an amount on your tax return	**9.**	$ 13,200
10. Was your annuity starting date before 1987? ☐ Yes. **STOP.** Don't complete the rest of this worksheet. ☑ No. Add lines 6 and 8. This is the amount you have recovered tax free through 2023. You will need this number if you need to fill out this worksheet next year	**10.**	1,200
11. Balance of cost to be recovered. Subtract line 10 from line 2. If zero, you won't have to complete this worksheet next year. The payments you receive next year will generally be fully taxable	**11.**	$ 29,800

* A death benefit exclusion (up to $5,000) applied to certain benefits received by employees who died before August 21, 1996.

Table 1 for Line 3 Above

IF the age at annuity starting date was...	AND your annuity starting date was— BEFORE November 19, 1996, enter on line 3...	AFTER November 18, 1996, enter on line 3...
55 or under	300	360
56–60	260	310
61–65	240	260
66–70	170	210
71 or older	120	160

Table 2 for Line 3 Above

IF the combined ages at annuity starting date were...	THEN enter on line 3...
110 or under	410
111–120	360
121–130	310
131–140	260
141 or older	210

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Figuring the Taxable Amount

How you figure the taxable amount of a nonperiodic distribution depends on whether it is made before the annuity starting date, or on or after the annuity starting date. If it is made before the annuity starting date, its tax treatment also depends on whether it is made under a qualified or nonqualified plan. If it is made under a nonqualified plan, its tax treatment depends on whether it fully discharges the contract, is received under certain life insurance or endowment contracts, or is allocable to an investment you made before August 14, 1982.

TIP *You may be able to roll over the taxable amount of a nonperiodic distribution from a qualified retirement plan into another qualified retirement plan or a traditional IRA tax free. See* Rollovers*, later. If you don't make a tax-free rollover and the distribution qualifies as a lump-sum distribution, you may be able to elect an* *optional method of figuring the tax on the taxable amount. See* Lump-Sum Distributions*, later.*

Annuity starting date. The annuity starting date is either the first day of the first period for which you receive an annuity payment under the contract or the date on which the obligation under the contract becomes fixed, whichever is later.

Distributions of employer securities. If you receive a distribution of employer securities from a qualified retirement plan, you may be able to defer the tax on the net unrealized appreciation (NUA) in the securities. The NUA is the net increase in the securities' value while they were in the trust. This tax deferral applies to distributions of the employer corporation's stocks, bonds, registered debentures, and debentures with interest coupons attached.

If the distribution is a lump-sum distribution, tax is deferred on all of the NUA unless you choose to include it in your income for the year of the distribution.

A lump-sum distribution for this purpose is the distribution or payment of a plan participant's entire balance (within a single tax year) from all of the employer's qualified plans of one kind (pension, profit-sharing, or stock bonus plans), but only if paid:

- Because of the plan participant's death;
  After the participant reaches age 59^{1}/2;
- Because the participant, if an employee, separates from service; or
- After the participant, if a self-employed individual, becomes totally and permanently disabled.

TIP *If you choose to include NUA in your income for the year of the distribution and the participant was born before January 2, 1936, you may be able to* *figure the tax on the NUA using the optional methods described under* Lump-Sum Distributions*, later.*

If the distribution isn't a lump-sum distribution, tax is deferred only on the NUA resulting from employee contributions other than deductible voluntary employee contributions.

The NUA on which tax is deferred should be shown in box 6 of the Form 1099-R you receive from the payer of the distribution.

When you sell or exchange employer securities with tax-deferred NUA, any gain is long-term capital gain up to the amount of the NUA that isn’t included in your basis in the employer securities. Any gain that is more than the NUA is long-term or short-term gain, depending on how long you held the securities after the distribution.

Your basis in the employer securities is the total of the following amounts.

- Your contributions to the plan that are attributable to the securities.
- Your employer's contributions that were taxed as ordinary income in the year the securities were distributed.
- Your NUA in the securities that is attributable to employer contributions and taxed as ordinary income in the year the securities were distributed.

How to report. Enter the total amount of a nonperiodic distribution on Form 1040, 1040-SR, or 1040-NR, line 5a. Enter the taxable amount of the distribution on Form 1040, 1040-SR, or 1040-NR, line 5b. However, if you make a tax-free rollover or elect an optional method of figuring the tax on a lump-sum distribution, see *How to report* in the discussions of those tax treatments, later.

Distribution On or After Annuity Starting Date

If you receive a nonperiodic payment from your annuity contract on or after the annuity starting date, you must generally include all of the payment in gross income. For example, a cost-of-living increase in your pension after the annuity starting date is an amount not received as an annuity and, as such, is fully taxable.

Reduction in subsequent payments. If the annuity payments you receive are reduced because you received a nonperiodic distribution, you can exclude part of the nonperiodic distribution from gross income. The part you can exclude is equal to your cost in the contract reduced by any tax-free amounts you previously received under the contract, multiplied by a fraction. The numerator is the reduction in each annuity payment because of the nonperiodic distribution. The denominator is the full unreduced amount of each annuity payment originally provided for.

Single-sum in connection with the start of annuity payments. If you receive a single-sum payment on or after your annuity starting date in connection with the start of annuity payments for which you must use the Simplified Method, treat the single-sum payment as if it were received before your annuity starting date. (See *Simplified Method* under *Taxation of Periodic Payments*, earlier, for information on its required use.) Follow the rules discussed under *Distribution Before Annuity Starting Date From a Qualified Plan*, later.

Distribution in full discharge of contract. You may receive an amount on or after the annuity starting date that fully satisfies the payer's obligation under the contract. The amount may be a refund of what you paid for the contract or for the complete surrender, redemption, or maturity of the contract.

Include the amount in gross income only to the extent that it exceeds the remaining cost of the contract.

Distribution Before Annuity Starting Date From a Qualified Plan

If you receive a nonperiodic distribution before the annuity starting date from a qualified retirement plan, you can generally allocate only part of it to the cost of the contract. You exclude from your gross income the part that you allocate to the cost. You include the remainder in your gross income.

For this purpose, a qualified retirement plan is a:

- Qualified employee plan (or annuity contract purchased by such a plan),
- Qualified employee annuity plan, or
- Tax-sheltered annuity plan (403(b) plan).

Use the following formula to figure the tax-free amount of the distribution.

$$\text{Amount received} \times \frac{\text{Cost of contract}}{\text{Account balance}} = \text{Tax-free amount}$$

For this purpose, your account balance includes only amounts to which you have a nonforfeitable right (a right that can't be taken away).

Example. Ann Brown received a $50,000 distribution from her retirement plan before her annuity starting date. She had $10,000 invested (cost) in the plan. Her account balance was $100,000. She can exclude $5,000 of the $50,000 distribution, figured as follows.

$$\$50{,}000 \times \frac{\$10{,}000}{\$100{,}000} = \$5{,}000$$

Defined contribution plan. A defined contribution plan is a plan in which you have an individual account. Your benefits are based only on the amount contributed to the account and the income, gains or losses, etc., which may be allocated to that account. Under a defined contribution plan, your contributions (and income allocable to those contributions) may be treated as a separate contract for figuring the taxable part of any distribution. The employer contributions (and income allocable to those contributions) wouldn't be considered part of that separate contract.

Example. Ryan participates in a defined contribution plan that treats employee contributions and earnings allocable to them as a separate contract. He received a non-annuity distribution of $5,000 before his annuity starting date. He had made after-tax contributions of $10,000. The earnings allocable to his contributions were $2,500. His employer also contributed $10,000. The earnings allocable to the employer contributions were $2,500.

To determine the tax-free amount of Ryan's distribution, use the same formula shown earlier. However, because employee contributions are treated as a separate contract, the account balance would be the total of Ryan's contributions and allocable earnings.

Thus, the tax-free amount would be $5,000 × ($10,000 ÷ $12,500) = $4,000. The taxable amount would be $1,000 ($5,000 − $4,000).

If the employee contributions weren't treated as a separate contract, the tax-free amount would be $2,000 ($5,000 × ($10,000 ÷ $25,000)) and the taxable amount would be $3,000 ($5,000 − $2,000).

Plans that permitted withdrawal of employee contributions. If you contributed before 1987 to a pension plan that, as of May

5, 1986, permitted you to withdraw your contributions before your separation from service, any distribution before your annuity starting date is tax free to the extent that it, when added to earlier distributions received after 1986, doesn't exceed your cost as of December 31, 1986. Apply the allocation described in the preceding discussion only to any excess distribution.

Distribution Before Annuity Starting Date From a Nonqualified Plan

If you receive a nonperiodic distribution before the annuity starting date from a plan other than a qualified retirement plan (nonqualified plan), it is allocated first to earnings (the taxable part) and then to the cost of the contract (the tax-free part). This allocation rule applies, for example, to a commercial annuity contract you bought directly from the issuer. You include in your gross income the smaller of:

- The nonperiodic distribution, or

- The amount by which the cash value of the contract (figured without considering any surrender charge) immediately before you receive the distribution exceeds your investment in the contract at that time.

Example. You bought an annuity from an insurance company. Before the annuity starting date under your annuity contract, you received a $7,000 distribution. At the time of the distribution, the annuity had a cash value of $16,000 and your investment in the contract was $10,000. The distribution is allocated first to earnings, so you must include $6,000 ($16,000 − $10,000) in your gross income. The remaining $1,000 ($7,000 − $6,000) is a tax-free return of part of your investment.

Exception to allocation rule. Certain nonperiodic distributions received before the annuity starting date aren't subject to the allocation rule in the preceding discussion. Instead, you include the amount of the payment in gross income only to the extent that it exceeds the cost of the contract.

This exception applies to the following distributions.

- Distributions in full discharge of a contract that you receive as a refund of what you paid for the contract or for the complete surrender, redemption, or maturity of the contract.
- Distributions from life insurance or endowment contracts (other than modified endowment contracts, as defined in section 7702A of the Internal Revenue Code) that aren't received as an annuity under the contracts.
- Distributions under contracts entered into before August 14, 1982, to the extent that they are allocable to your investment before August 14, 1982.

If you bought an annuity contract before August 14, 1982, and made investments both before and after August 14, 1982, the distributed amounts are allocated to your investment or to earnings in the following order.

1. The part of your investment that was made before August 14, 1982. This part of the distribution is tax free.
2. The earnings on the part of your investment that was made before August 14, 1982. This part of the distribution is taxable.
3. The earnings on the part of your investment that was made after August 13, 1982. This part of the distribution is taxable.
4. The part of your investment that was made after August 13, 1982. This part of the distribution is tax free.
5.

CAUTION *The taxable portion of distributions from nonqualified plans is subject to the NIIT. See the Instructions for Form 8960.*

Distribution of U.S. savings bonds. If you receive U.S. savings bonds in a taxable distribution from a retirement or profit-sharing plan, report the value of the bonds at the time of distribution as income. The value of the bonds includes accrued interest. When you cash the bonds, your Form 1099-INT will show the total interest accrued, including the part you reported when the bonds were distributed to you. For information on how to adjust your interest income for U.S. savings bond interest you previously reported, see *How To Report Interest Income* in chapter 1 of Pub. 550, Investment Income and Expenses.

Loans Treated as Distributions

If you borrow money from your retirement plan, you must treat the loan as a nonperiodic distribution from the plan unless it qualifies for the exception to this loan-as-distribution rule explained later. This treatment also applies to any loan under a contract purchased under your retirement plan, and to the value of any part of your interest in the plan or contract that you pledge or assign (or agree to pledge or assign). It applies to loans from both qualified and nonqualified plans, including commercial annuity contracts you purchase directly from the issuer. Further, it applies if you renegotiate, extend, renew, or revise a loan that qualified for the exception below if the altered loan doesn't qualify. In that situation, you must treat the outstanding balance of the loan as a distribution on the date of the transaction.

You determine how much of the loan is taxable using the allocation rules for nonperiodic distributions discussed under *Figuring the Taxable Amount*, earlier. The taxable part may be subject to the additional tax on early distributions. It isn't an eligible rollover distribution and doesn't qualify for the 10-year tax option.

Exception for qualified plan, 403(b) plan, and governmental plan loans. At least part of certain loans under a qualified employee plan, qualified employee annuity, tax-sheltered annuity (403(b) plan), or governmental plan isn't treated as a distribution from the plan. This exception to the loan-as-distribution rule applies only to a loan that either:

- Is used to acquire your main home, or
- Must be repaid within 5 years.

If a loan qualifies for this exception, you must treat it as a nonperiodic distribution only to the extent that the loan, when added to the outstanding balances of all your loans from all plans of your employer (and certain related employers, defined later), exceeds the lesser of:

- $50,000; or
- Half the present value (but not less than $10,000) of your nonforfeitable accrued benefit under the plan, determined without regard to any accumulated deductible employee contributions.

You must reduce the $50,000 amount if you already had an outstanding loan from the plan during the 1-year period ending the day before you took out the loan. The amount of the reduction is your highest outstanding loan balance during that period minus the outstanding balance on the date you took out the new loan. If this amount is zero or less, ignore it.

Substantially level payments. To qualify for the exception to the loan-as-distribution rule, the loan must require substantially level payments at least quarterly over the life of the loan. If the loan is from a designated Roth account, the payments must be satisfied separately for that part of the loan and for the part of the loan from other accounts under the plan. This level payment requirement doesn't apply to the period in which you are on a leave of absence without pay or with a rate of pay that is less than the required installment. Generally, this leave of absence must not be longer than 1 year. You must repay the loan within 5 years from the date of the loan (unless the loan was used to acquire your main home). Your installment payments after the leave ends must not be less than your original payments.

However, if your plan suspends your loan payments for any part of the period during which you are in the uniformed services, you won't be treated as having received a distribution even if the suspension is for more than 1 year and the term of the loan is extended. The loan payments must resume upon completion of such period and the loan must be repaid in substantially level installments within 5 years from the date of the loan (unless the loan was used to acquire your main home) plus the period of suspension.

Example 1. On May 1, 2023, you borrowed $40,000 from your retirement plan. The loan was to be repaid in level monthly installments over 5 years. The loan wasn't used to acquire your main home. You make nine monthly payments and start an unpaid leave of absence that lasts for 12 months. You weren't in the uniformed services during this period. After the leave period ends and you resume active employment, you resume making repayments on the loan. You must repay this loan by April 30, 2028 (5 years from the date of this loan). You can increase your monthly installments or you can make the original monthly installments and on April 30, 2028, pay the balance.

Example 2. The facts are the same as in _Example 1_, except that you are on a leave of absence performing service in the uniformed services for 2 years. The loan payments were suspended for that period. You must resume making loan payments at the end of that period and the loan must be repaid by April 30, 2030 (5 years from the date of the loan plus the period of suspension, which is 2 years in this example).

Related employers and related plans. In determining loan balances for purposes of applying the exception to the loan-as-distribution rule, you must add the balances of all your loans from all plans of your employer and from all plans of your employers who are treated as a single employer. Treat separate employers' plans as plans of a single employer if they are treated that way under other qualified retirement plan rules because the employers are related.

Employers are related if they are:

- Members of a controlled group of corporations,
- Businesses under common control, or
- Members of an affiliated service group.

An affiliated service group is generally two or more service organizations whose relationship involves an ownership connection. Their relationship also includes the regular or significant performance of services by one organization for or in association with another.

Denial of interest deduction. If the loan from a qualified plan isn't treated as a distribution because the exception applies, you can't deduct any of the interest on the loan during any period that:

- The loan is secured by amounts from elective deferrals under a qualified cash or deferred arrangement (section 401(k) plan) or a salary reduction agreement to purchase a tax-sheltered annuity, or
- You are a key employee as defined in section 416(i) of the Internal Revenue Code.

Reporting by plan. If your loan is treated as a distribution (deemed distribution), you should receive a Form 1099-R showing code “L” in box 7. If your loan is treated as a qualified plan loan offset, you should receive a Form 1099-R showing code “M” in box 7. If your loan is not a qualified plan loan offset, no code will be reported on Form 1099-R for the offset.

Effect on investment in the contract. If your loan is treated as a distribution, you must reduce your investment in the contract to the extent that the distribution is tax free under the allocation rules for qualified plans, explained earlier. Repayments of the loan increase your investment in the contract to the extent that the distribution is taxable under those rules.

If you receive a loan under a nonqualified plan other than a 403(b) plan, including a commercial annuity contract that you purchase directly from the issuer, you increase your investment in the contract to the extent that the distribution is taxable under the general allocation rule for nonqualified plans, explained earlier. Repayments of the loan don't affect your investment in the contract. However, if the distribution is excepted from the general allocation rule (for example, because it is made under a contract entered into before August 14, 1982), you reduce your investment in the contract to the extent that the distribution is tax free and increase it for loan repayments to the extent that the distribution is taxable.

Transfers of Annuity Contracts

If you transfer without full and adequate consideration an annuity contract issued after April 22, 1987, you are treated as receiving a nonperiodic distribution. The distribution equals the excess of:

- The cash surrender value of the contract at the time of transfer, over
- Your investment in the contract at that time.

This rule doesn't apply to transfers between spouses or transfers between former spouses incident to a divorce.

Tax-free exchange. No gain or loss is recognized on an exchange of an annuity contract for another annuity contract if the insured or annuitant remains the same. However, if an annuity contract is exchanged for a life insurance or endowment contract, any gain due to interest accumulated on the contract is ordinary income.

If you transfer a full or partial interest in a tax-sheltered annuity that isn't subject to restrictions on early distributions to another tax-sheltered annuity, the transfer qualifies for nonrecognition of gain or loss.

If you exchange an annuity contract issued by a life insurance company that is subject to a rehabilitation, conservatorship, or similar state proceeding for an annuity contract issued by another life insurance company, the exchange qualifies for nonrecognition of gain or loss. The exchange is tax free even if the new contract is funded by two or more payments from the old annuity contract. This also applies to an exchange of a life insurance contract for a life insurance, endowment, annuity, or qualified long-term care insurance contract.

If you transfer part of the cash surrender value of an existing annuity contract for a new annuity contract issued by another insurance company, the transfer qualifies for nonrecognition of gain or loss. The funds must be transferred directly between the insurance companies. Your investment in the original contract immediately before the exchange is allocated between the contracts based on the percentage of the cash surrender value allocated to each contract.

Example. You own an annuity contract issued by ABC Insurance. You assign 60% of the cash surrender value of that contract to DEF Insurance to purchase an annuity contract. The funds are transferred directly between the insurance companies. You don't recognize any gain or loss on the transaction. After the exchange, your investment in the new contract is equal to 60% of your investment in the old contract immediately before the exchange. Your investment in the old contract is equal to 40% of your original investment in that contract.

Tax-free transfers for certain cash distributions. If you receive cash from the surrender of one contract and invest the cash in another contract, you generally don't have a tax-free transfer. However, you can elect to receive tax-free treatment for a cash distribution from an insurance company that is subject to a rehabilitation, conservatorship, insolvency, or similar state proceeding if all of the following conditions are met.

- You withdraw all the cash to which you are entitled.
- You reinvest the proceeds within 60 days in a single contract issued by another insurance company.
- You assign all rights to any future distributions to the new issuer if the cash distribution is restricted by the state proceeding to an amount that is less than required for full settlement.

- An exchange of these contracts would otherwise qualify as a tax-free transfer.
- You must give the new issuer a statement containing the following information.
- The amount of cash distributed under the old contract.
- The amount of cash reinvested in the new contract.
- Your investment in the old contract on the date of the initial distribution.

You must also attach the following items to your timely filed income tax return for the year of the initial distribution.

- A copy of the statement you gave to the new issuer.
- A statement that contains the words “ELECTION UNDER REV. PROC. 92-44,” the new issuer's name, and the policy number or similar identifying information for the new contract.

Tax-free exchange reported on Form 1099-R. If you make a tax-free exchange of an annuity contract for another annuity contract issued by a different company, the exchange will be shown on Form 1099-R with code “6” in box 7. You need not report this on your tax return.

Date of purchase of contract received in a tax-free exchange. If you acquire an annuity contract in a tax-free exchange for another annuity contract, its date of purchase is the date you purchased the annuity you exchanged. This rule applies for determining if the annuity qualifies for exemption from the tax on early distributions as an immediate annuity. See *Tax on Early Distributions*, later.

Lump-Sum Distributions

TIP *This section on lump-sum distributions only applies if the plan participant was born before January 2, 1936. If the plan participant was born after January 1,* *1936, the taxable amount of this nonperiodic payment is reported as discussed earlier.*

A lump-sum distribution is the distribution or payment in 1 tax year of a plan participant's entire balance from all of the employer's qualified plans of one kind (for example, pension, profit-sharing, or stock bonus plans). Additionally, a lump-sum distribution is a distribution that was paid:

- Because of the plan participant's death;
- After the participant reaches age $59^1/2$;
- Because the participant, if an employee, separates from service; or
- After the participant, if a self-employed individual, becomes totally and permanently disabled.

A distribution from a nonqualified plan (such as a privately purchased commercial annuity or a section 457 deferred compensation plan of a state or local government or tax-exempt organization) can't qualify as a lump-sum distribution.

The participant's entire balance from a plan doesn't include certain forfeited amounts. It also doesn't include any deductible voluntary employee contributions allowed by the plan after 1981 and before 1987.

If you receive a lump-sum distribution from a qualified employee plan or qualified employee annuity and the plan participant was born before January 2, 1936, you may be able to elect optional methods of figuring the tax on the distribution. The part from active participation in the plan before 1974 may qualify as capital gain subject to a 20% tax rate. The part from participation after 1973 (and any part from participation before 1974 that you don't report as capital gain) is ordinary income. You may be able to use the 10-year tax option, discussed later, to figure tax on the ordinary income part.

Each individual, estate, or trust who receives part of a lump-sum distribution on behalf of a plan participant who was born before January 2, 1936, can choose whether to elect the optional methods for the part each received. However, if two or more trusts receive the distribution, the plan participant or the personal representative of a deceased participant must make the choice.

Use Form 4972 to figure the separate tax on a lump-sum distribution using the optional methods. The tax figured on Form 4972 is added to the regular tax figured on your other income. This may result in a smaller tax than you would pay by including the taxable amount of the distribution as ordinary income in figuring your regular tax.

Alternate payee under qualified domestic relations order. If you receive a distribution as an alternate payee under a qualified domestic relations order (discussed earlier under *General Information*), you may be able to choose the optional tax computations for it. You can make this choice for a distribution that would be treated as a lump-sum distribution had it been received by your spouse or former spouse (the plan participant). However, for this purpose, the balance to your credit doesn't include any amount payable to the plan participant.

If you choose an optional tax computation for a distribution received as an alternate payee, this choice won't affect any election for distributions from your own plan.

More than one recipient. One or all of the recipients of a lump-sum distribution can use the optional tax computations. See *Multiple recipients of a lump-sum distribution* in the instructions for Form 4972.

Reemployment. A separated employee's vested percentage in their retirement benefit may increase if they are rehired by the employer within 5 years following separation from service. This possibility doesn't prevent a distribution made before reemployment from qualifying as a lump-sum distribution. However, if the employee elected an optional method of figuring the tax on the distribution and their vested percentage in the previous retirement benefit increases after reemployment, the employee must recapture the tax saved. This is done by increasing the tax for the year in which the increase in vesting first occurs.

Distributions that don't qualify. The following distributions don't qualify as lump-sum distributions for the capital gain treatment or 10-year tax option.

- The part of a distribution not rolled over if the distribution is partially rolled over to another qualified plan or an IRA.
- Any distribution if an earlier election to use either the 5- or 10-year tax option had been made after 1986 for the same plan participant.

- U.S. Retirement Plan Bonds distributed with a lump sum.
- Any distribution made during the first 5 tax years that the participant was in the plan, unless it was made because the participant died.
- The current actuarial value of any annuity contract included in the lump sum. (Box 8 of Form 1099-R should show this amount, which you use only to figure tax on the ordinary income part of the distribution.)
- Any distribution to a 5% owner that is subject to penalties under section 72(m)(5)(A) of the Internal Revenue Code.
- A distribution from an IRA.
- A distribution from a tax-sheltered annuity (section 403(b) plan).
- A distribution of the redemption proceeds of bonds rolled over tax free to a qualified

pension plan, etc., from a qualified bond purchase plan.

- A distribution from a qualified plan if the participant or their surviving spouse previously received an eligible rollover distribution from the same plan (or another plan of the employer that must be combined with that plan for the lump-sum distribution rules) and the previous distribution was rolled over tax free to another qualified plan or an IRA.
- A distribution from a qualified plan that received a rollover after 2001 from an IRA (other than a conduit IRA), a governmental section 457(b) plan, or a section 403(b) tax-sheltered annuity on behalf of the plan participant.
- A distribution from a qualified plan that received a rollover after 2001 from another qualified plan on behalf of that plan participant's surviving spouse.

- A corrective distribution of excess deferrals, excess contributions, excess aggregate contributions, or excess annual additions.

- A lump-sum credit or payment from the CSRS (or the FERS).

How to treat the distribution. If you receive a lump-sum distribution, you may have the following options for how to treat the taxable part.

- Report the part of the distribution from participation before 1974 as a capital gain (if you qualify) and the part from participation after 1973 as ordinary income.

- Report the part of the distribution from participation before 1974 as a capital gain (if you qualify) and use the 10-year tax option to figure the tax on the part from participation after 1973 (if you qualify).

- Use the 10-year tax option to figure the tax on the total taxable amount (if you qualify).
- Roll over all or part of the distribution. See *Rollovers*, later. No tax is currently due on the part rolled over. Report any part not rolled over as ordinary income.
- Report the entire taxable part of the distribution as ordinary income on your tax return.

The first three options are explained in the following discussions.

Electing optional lump-sum treatment. You can choose to use the 10-year tax option or capital gain treatment only once after 1986 for any plan participant. If you make this choice, you can't use either of these optional treatments for any future distributions for the participant.

Complete Form 4972 and attach it to your Form 1040 or 1040-SR if you choose to use one or both of the tax options. If you received more than one lump-sum distribution for a plan participant during the year, you must add them together in your computation. If you and your spouse are filing a joint return and you both have received a lump-sum distribution, each of you should complete a separate Form 4972.

Time for choosing. You must decide to use the tax options before the end of the time, including extensions, for making a claim for credit or refund of tax. This is usually 3 years after the date the return was filed or 2 years after the date the tax was paid, whichever is later. (Returns filed before their due dates are considered filed on their due dates.)

Changing your mind. You can change your mind and decide not to use the tax options within the time period just discussed. If you change your mind, file Form 1040-X, Amended U.S. Individual Income Tax Return, with a statement saying you don't want to use the optional lump-sum treatment. Generally, you must pay any additional tax due to the change with the Form 1040-X.

How to report. If you elect capital gain treatment (but not the 10-year tax option) for a lump-sum distribution, include the ordinary income part of the distribution on Form 1040, 1040-SR, or 1040-NR, lines 5a and 5b. Enter the capital gain part of the distribution in Part II of Form 4972. Include the tax from Form 4972, line 7, in the total on Form 1040, 1040-SR, or 1040-NR, line 16.

If you elect the 10-year tax option, don't include any part of the distribution on Form 1040, 1040-SR, or 1040-NR, lines 5a and 5b. Report the entire distribution in Part III of Form 4972 or, if you also elect capital gain treatment, report the capital gain part in Part II and the ordinary income part in Part III. Include the tax from Form 4972, line 30, in the total on Form 1040, 1040-SR, or 1040-NR, line 16.

Taxable and tax-free parts of the distribution. The taxable part of a lump-sum distribution is the employer's contributions and income earned on your account. You may recover your cost in the lump sum and any NUA in employer securities tax free.

Cost. In general, your cost is the total of:

- The plan participant's nondeductible contributions to the plan,
- The plan participant's taxable costs of any life insurance contract distributed,
- Any employer contributions that were taxable to the plan participant, and
- Repayments of any loans that were taxable to the plan participant.

You must reduce this cost by amounts previously distributed tax free.

Net unrealized appreciation (NUA). The NUA in employer securities (box 6 of Form 1099-R) received as part of a lump-sum distribution is generally tax free until you sell or exchange the securities. (See *Distributions of employer securities* under *Figuring the Taxable Amount*, earlier.) However, if you choose to include the NUA in your income for the year of the distribution and there is an amount in box 3 of Form 1099-R, part of the NUA will qualify for capital gain treatment. Use the NUA Worksheet in the Instructions for Form 4972 to find the part that qualifies.

Losses. You may be able to claim a loss on your return if you receive a lump-sum distribution that is less than the plan participant's cost. You must receive the distribution entirely in cash or worthless securities. The amount you can claim is the difference between the participant's cost and the amount of the cash distribution, if any.

However, for tax years 2018 through 2025, miscellaneous itemized deductions subject to the 2%-of-adjusted-gross-income limit are suspended and therefore not deductible on Schedule A (Form 1040).

TIP *A loss under a nonqualified plan, such as a commercial variable annuity, is deductible in the same manner as a lump-sum distribution.*

Capital Gain Treatment

Capital gain treatment applies only to the taxable part of a lump-sum distribution resulting from participation in the plan before 1974. The amount treated as capital gain is taxed at a 20% rate. You can elect this treatment only once for any plan participant, and only if the plan participant was born before January 2, 1936.

Complete Part II of Form 4972 to choose the 20% capital gain election.

Figuring the capital gain and ordinary income parts. Generally, figure the capital gain and ordinary income parts of a lump-sum distribution by using the following formulas.

Capital Gain:

$$\text{Total Taxable Amount} \times \frac{\text{Months of active participation before 1974}}{\text{Total months of active participation}}$$

Ordinary Income:

$$\text{Total Taxable Amount} \times \frac{\text{Months of active participation after 1973}}{\text{Total months of active participation}}$$

In figuring the months of active participation before 1974, count as 12 months any part of a calendar year in which the plan participant actively participated under the plan. For active participation after 1973, count as 1 month any part of a calendar month in which the participant actively participated in the plan.

The capital gain part should be shown in box 3 of Form 1099-R or other statement given to you by the payer of the distribution.

Reduction for federal estate tax. If any federal estate tax (discussed under *Survivors and Beneficiaries*, later) was paid on the lump-sum distribution, you must decrease the capital gain by the amount of estate tax applicable to it. Follow the Form 4972 instructions for Part II, line 6, to figure the part of the estate tax applicable to the capital gain that is used to reduce the capital gain. If you don't make the capital gain election, enter on line 18 of Part III the estate tax attributable to the total lump-sum distribution. For information on how to figure the estate tax attributable to the lump-sum distribution, see the Instructions for Form 706, United States Estate (and Generation-Skipping Transfer) Tax Return, or contact the administrator of the decedent's estate.

10-Year Tax Option

The 10-year tax option is a special formula used to figure a separate tax on the ordinary income part of a lump-sum distribution. You pay the tax only once, for the year in which you receive the distribution, not over the next 10 years. You can elect this treatment only once for any plan participant, and only if the plan participant was born before January 2, 1936.

The ordinary income part of the distribution is the amount shown in box 2a of the Form 1099-R given to you by the payer, minus the amount, if any, shown in box 3. You can also treat the capital gain part of the distribution (box 3 of Form 1099-R) as ordinary income for the 10-year tax option if you don't choose capital gain treatment for that part.

Complete Part III of Form 4972 to choose the 10-year tax option. You must use the special Tax Rate Schedule shown in the instructions for Part III to figure the tax.

Examples

The following examples show how to figure the separate tax on Form 4972.

Example 1. Robert C. Smith, who was born in 1935, retired from Crabtree Corporation in 2023. He withdrew the entire amount to his credit from the company's qualified pension plan. In December 2023, he received a total distribution of $175,000 (the $25,000 tax-free part of the distribution consisting of employee contributions plus the $150,000 taxable part of the distribution consisting of employer contributions and earnings on all contributions).

The payer gave Robert a Form 1099-R (shown below), which shows the capital gain part of the taxable distribution (the part attributable to participation before 1974) to be $10,000. Robert elects 20% capital gain treatment for this part. He enters $10,000 on Form 4972, line 6, and $2,000 ($10,000 × 20% (0.20)) on line 7.

The ordinary income part of the taxable distribution is $140,000 ($150,000 – $10,000). Robert elects to figure the tax on this part using the 10-year tax option. He enters $140,000 on Form 4972, line 8. Then, he completes the rest of Form 4972 and includes the tax of $24,270 in the total on Form 1040, 1040-SR, or 1040-NR, line 16. See Robert’s filled-in Form 4972, later.

☐ CORRECTED (if checked)

PAYER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone no. Crabtree Corporation Employees' Pension Plan 1111 Main Street Anytown, Texas 75000	1 Gross distribution $ 175000.00 2a Taxable amount $ 150000.00	OMB No. 1545-0119 2023 Form 1099-R	Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.	
	2b Taxable amount not determined ☐	Total distribution ☒	**Copy B**	
PAYER'S TIN 10-0000000	RECIPIENT'S TIN 002-00-XXXX	3 Capital gain (included in box 2a) $ 10000.00	4 Federal income tax withheld $ 30000.00	**Report this income on your federal tax return. If this form shows federal income tax withheld in box 4, attach this copy to your return.**
RECIPIENT'S name Robert C. Smith		5 Employee contributions/ Designated Roth contributions or insurance premiums $ 25000.00	6 Net unrealized appreciation in employer's securities $	
Street address (including apt. no.) 911 Mill Way		7 Distribution code(s) 7A ; IRA/ SEP/ SIMPLE ☐	8 Other $ %	This information is being furnished to the IRS.
City or town, state or province, country, and ZIP or foreign postal code Anytown, Texas 75000		9a Your percentage of total distribution %	9b Total employee contributions $	
10 Amount allocable to IRR within 5 years $	11 1st year of desig. Roth contrib. ; 12 FATCA filing requirement ☐	14 State tax withheld $ $	15 State/Payer's state no.	16 State distribution $ $
Account number (see instructions)	13 Date of payment	17 Local tax withheld $ $	18 Name of locality	19 Local distribution $ $

Form 1099-R   www.irs.gov/Form1099R   Department of the Treasury - Internal Revenue Service

Form **4972**

Department of the Treasury
Internal Revenue Service

Tax on Lump-Sum Distributions

(From Qualified Plans of Participants Born Before January 2, 1936)

Attach to Form 1040, 1040-SR, 1040-NR, or 1041.

Go to *www.irs.gov/Form4972* for the latest information.

OMB No. 1545-0193

2023

Attachment Sequence No. **28**

Name of recipient of distribution	Identifying number
Robert C. Smith	002-00-XXXX

Part I **Complete this part to see if you can use Form 4972**

			Yes	No
1	Was this a distribution of a plan participant's entire balance (excluding deductible voluntary employee contributions and certain forfeited amounts) from all of an employer's qualified plans of one kind (for example, pension, profit-sharing, or stock bonus)? If "No," **don't** use this form	1	√	
2	Did you roll over any part of the distribution? If "Yes," **don't** use this form	2		√
3	Was this distribution paid to you as a beneficiary of a plan participant who was born before January 2, 1936?	3		√
4	Were you (**a**) a plan participant who received this distribution, (**b**) born before January 2, 1936, **and** (**c**) a participant in the plan for at least 5 years before the year of the distribution?	4	√	
	If you answered "No" to both questions 3 **and** 4, **don't** use this form.			
5a	Did you use Form 4972 after 1986 for a previous distribution from your own plan? If "Yes," **don't** use this form for a 2023 distribution from your own plan	5a		√
b	If you are receiving this distribution as a beneficiary of a plan participant who died, did you use Form 4972 for a previous distribution received as a beneficiary of that participant after 1986? If "Yes," **don't** use this form for this distribution	5b		

Part II **Complete this part to choose the 20% capital gain elections** (see instructions)

6	Capital gain part from Form 1099-R, box 3	6	10,000
7	Multiply line 6 by 20% (0.20)	7	2,000
	If you also choose to use Part III, go to line 8. Otherwise, include the amount from line 7 in the total on Form 1040, 1040-SR, or 1040-NR, line 16, or Form 1041, Schedule G, line 1b. Be sure to check box **2** on Form 1040, 1040-SR, or 1040-NR, line 16.		

Part III **Complete this part to choose the 10-year tax option** (see instructions)

8	If you completed Part II, enter the amount from Form 1099-R, box 2a, minus box 3. If you didn't complete Part II, enter the amount from box 2a. Multiple recipients (and recipients who elect to include net unrealized appreciation (NUA) in taxable income), see instructions			8	140,000
9	Death benefit exclusion for a beneficiary of a plan participant who died before August 21, 1996			9	
10	Total taxable amount. Subtract line 9 from line 8			10	140,000
11	Current actuarial value of annuity from Form 1099-R, box 8. If none, enter -0-			11	-0-
12	Adjusted total taxable amount. Add lines 10 and 11. If this amount is $70,000 or more, **skip** lines 13 through 16, enter this amount on line 17, and go to line 18			12	140,000
13	Multiply line 12 by 50% (0.50), but **don't** enter more than $10,000	13			
14	Subtract $20,000 from line 12. If line 12 is $20,000 or less, enter -0-	14			
15	Multiply line 14 by 20% (0.20)	15			
16	Minimum distribution allowance. Subtract line 15 from line 13			16	
17	Subtract line 16 from line 12			17	140,000
18	Federal estate tax attributable to lump-sum distribution			18	
19	Subtract line 18 from line 17. If line 11 is zero, **skip** lines 20 through 22 and go to line 23			19	140,000
20	Divide line 11 by line 12 and enter the result as a decimal (rounded to at least three places)	20	.		
21	Multiply line 16 by the decimal on line 20	21			
22	Subtract line 21 from line 11	22			
23	Multiply line 19 by 10% (0.10)			23	14,000
24	Tax on amount on line 23. Use the Tax Rate Schedule in the instructions			24	2,227
25	Multiply line 24 by 10.0. If line 11 is zero, **skip** lines 26 through 28, enter this amount on line 29, and go to line 30			25	22,270
26	Multiply line 22 by 10% (0.10)	26			
27	Tax on amount on line 26. Use the Tax Rate Schedule in the instructions	27			
28	Multiply line 27 by 10.0			28	
29	Subtract line 28 from line 25. Multiple recipients, see instructions			29	22,270
30	**Tax on lump-sum distribution.** Add lines 7 and 29. Also, include this amount in the total on Form 1040, 1040-SR, or 1040-NR, line 16 (check box **2**), or Form 1041, Schedule G, line 1b			30	24,270

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Example 2. Mary Brown, who was born in 1935, sold her business in 2023. She withdrew her entire interest in the qualified profit-sharing plan she had set up as the sole proprietor.

The cash part of the distribution, $160,000, is all ordi-nary income and is shown on her Form 1099-R below. She chooses to figure the tax on this amount using the 10-year tax option. Mary also received an annuity contract as part of the distribution from the plan. Box 8 of Form 1099-R shows that the current actuarial value of the annu-ity is $10,000. She enters these figures on Form 4972(shown later).

After completing Form 4972, she includes the tax of $28,070 in the total on Form 1040, 1040-SR, or 1040-NR, line 16.

☐ CORRECTED (if checked)

PAYER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone no. Brown's Real Estate Profit-Sharing Plan 2101 Chelsea Court Anytown, Nevada 89300	1 Gross distribution $ 160000.00 2a Taxable amount $ 160000.00	OMB No. 1545-0119 2023 Form **1099-R**		**Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.**
	2b Taxable amount not determined ☐	Total distribution ☒		**Copy B**
PAYER'S TIN 10-0000000	RECIPIENT'S TIN 005-00-XXXX	3 Capital gain (included in box 2a) $	4 Federal income tax withheld $ 32000.00	**Report this income on your federal tax return. If this form shows federal income tax withheld in box 4, attach this copy to your return.**
RECIPIENT'S name Mary Brown		5 Employee contributions/ Designated Roth contributions or insurance premiums $ 25000.00	6 Net unrealized appreciation in employer's securities $	
Street address (including apt. no.) 12 Mill Avenue		7 Distribution code(s) 7A IRA/ SEP/ SIMPLE ☐	8 Other $ 10000.00 %	This information is being furnished to the IRS.
City or town, state or province, country, and ZIP or foreign postal code Anytown, Nevada 89300		9a Your percentage of total distribution %	9b Total employee contributions $	
10 Amount allocable to IRR within 5 years $	11 1st year of desig. Roth contrib.	12 FATCA filing requirement ☐	14 State tax withheld $ $	15 State/Payer's state no.	16 State distribution $ $
Account number (see instructions)	13 Date of payment	17 Local tax withheld $ $	18 Name of locality	19 Local distribution $ $

Form **1099-R** www.irs.gov/Form1099R Department of the Treasury - Internal Revenue Service

Form **4972**

Department of the Treasury
Internal Revenue Service

Tax on Lump-Sum Distributions

(From Qualified Plans of Participants Born Before January 2, 1936)

Attach to Form 1040, 1040-SR, 1040-NR, or 1041.

Go to *www.irs.gov/Form4972* for the latest information.

OMB No. 1545-0193

2023

Attachment Sequence No. **28**

Name of recipient of distribution: Mary Brown

Identifying number: 005-00-XXXX

Part I Complete this part to see if you can use Form 4972

			Yes	No
1	Was this a distribution of a plan participant's entire balance (excluding deductible voluntary employee contributions and certain forfeited amounts) from all of an employer's qualified plans of one kind (for example, pension, profit-sharing, or stock bonus)? If "No," **don't** use this form	1	√	
2	Did you roll over any part of the distribution? If "Yes," **don't** use this form	2		√
3	Was this distribution paid to you as a beneficiary of a plan participant who was born before January 2, 1936?	3		√
4	Were you (**a**) a plan participant who received this distribution, (**b**) born before January 2, 1936, **and** (**c**) a participant in the plan for at least 5 years before the year of the distribution?	4	√	
	If you answered "No" to both questions 3 **and** 4, **don't** use this form.			
5a	Did you use Form 4972 after 1986 for a previous distribution from your own plan? If "Yes," **don't** use this form for a 2023 distribution from your own plan	5a		√
b	If you are receiving this distribution as a beneficiary of a plan participant who died, did you use Form 4972 for a previous distribution received as a beneficiary of that participant after 1986? If "Yes," **don't** use this form for this distribution	5b		

Part II Complete this part to choose the 20% capital gain elections (see instructions)

6	Capital gain part from Form 1099-R, box 3	6	
7	Multiply line 6 by 20% (0.20)	7	
	If you also choose to use Part III, go to line 8. Otherwise, include the amount from line 7 in the total on Form 1040, 1040-SR, or 1040-NR, line 16, or Form 1041, Schedule G, line 1b. Be sure to check box **2** on Form 1040, 1040-SR, or 1040-NR, line 16.		

Part III Complete this part to choose the 10-year tax option (see instructions)

8	If you completed Part II, enter the amount from Form 1099-R, box 2a, minus box 3. If you didn't complete Part II, enter the amount from box 2a. Multiple recipients (and recipients who elect to include net unrealized appreciation (NUA) in taxable income), see instructions			8	160,000
9	Death benefit exclusion for a beneficiary of a plan participant who died before August 21, 1996			9	
10	Total taxable amount. Subtract line 9 from line 8			10	160,000
11	Current actuarial value of annuity from Form 1099-R, box 8. If none, enter -0-			11	10,000
12	Adjusted total taxable amount. Add lines 10 and 11. If this amount is $70,000 or more, **skip** lines 13 through 16, enter this amount on line 17, and go to line 18			12	170,000
13	Multiply line 12 by 50% (0.50), but **don't** enter more than $10,000	13			
14	Subtract $20,000 from line 12. If line 12 is $20,000 or less, enter -0-	14			
15	Multiply line 14 by 20% (0.20)	15			
16	Minimum distribution allowance. Subtract line 15 from line 13			16	
17	Subtract line 16 from line 12			17	170,000
18	Federal estate tax attributable to lump-sum distribution			18	
19	Subtract line 18 from line 17. If line 11 is zero, **skip** lines 20 through 22 and go to line 23			19	170,000
20	Divide line 11 by line 12 and enter the result as a decimal (rounded to at least three places)	20	. 0588		
21	Multiply line 16 by the decimal on line 20	21			
22	Subtract line 21 from line 11	22	10,000		
23	Multiply line 19 by 10% (0.10)			23	17,000
24	Tax on amount on line 23. Use the Tax Rate Schedule in the instructions			24	2,917
25	Multiply line 24 by 10.0. If line 11 is zero, **skip** lines 26 through 28, enter this amount on line 29, and go to line 30			25	29,170
26	Multiply line 22 by 10% (0.10)	26	1,000		
27	Tax on amount on line 26. Use the Tax Rate Schedule in the instructions	27	110		
28	Multiply line 27 by 10.0			28	1,100
29	Subtract line 28 from line 25. Multiple recipients, see instructions			29	28,070
30	**Tax on lump-sum distribution.** Add lines 7 and 29. Also, include this amount in the total on Form 1040, 1040-SR, or 1040-NR, line 16 (check box **2**), or Form 1041, Schedule G, line 1b			30	28,070

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Rollovers

If you withdraw cash or other assets from a qualified retirement plan in an eligible rollover distribution, you can generally defer tax on the distribution by rolling it over to another qualified retirement plan, a traditional IRA, or, after 2 years of participation in a SIMPLE IRA sponsored by your employer, a SIMPLE IRA under that plan. You don't include the amount rolled over in your income until you receive it in a distribution from the recipient plan or IRA without rolling over that distribution. (For information about rollovers from traditional IRAs, see chapter 1 of Pub. 590-A.)

If you roll over the distribution to a traditional IRA, you can't deduct the amount rolled over as an IRA contribution. When you later withdraw it from the IRA, you can't use the optional methods discussed earlier under *Lump-Sum Distributions* to figure the tax.

Self-employed individuals are generally treated as employees for the rules on the tax treatment of distributions, including the rules for rollovers.

See *Designated Roth accounts*, later, for information on rollovers (including in-plan Roth rollovers) related to those accounts. Also, see *Rollovers to Roth IRAs*, later, for information on rollovers from a qualified retirement plan to a Roth IRA.

Rollovers to SIMPLE retirement accounts. You can also roll over amounts from a qualified retirement plan (as described next) or an IRA into a SIMPLE retirement account as follows.

1. During the first 2 years of participation in a SIMPLE retirement account, you may roll over amounts from one SIMPLE retirement account into another SIMPLE retirement account.

2. After 2 years of participation in a SIMPLE retirement account, you may roll over amounts from a SIMPLE retirement account, a qualified retirement plan, or an IRA into a SIMPLE retirement account.

Qualified retirement plan. For this purpose, the following plans are qualified retirement plans.

- A qualified employee plan.
- A qualified employee annuity.
- A tax-sheltered annuity plan (403(b) plan).
- An eligible state or local governmental section 457 deferred compensation plan.

Eligible rollover distribution. An eligible rollover distribution is any distribution of all or any part of the balance to your credit in a qualified retirement plan except the following.

1. Any of a series of substantially equal distributions paid at least once a year over:

   a. Your lifetime or life expectancy,

   b. The joint lives or life expectancies of you and your beneficiary, or

   c. A period of 10 years or more.

2. A required minimum distribution (RMD) (discussed later under <ins>*Tax on Excess Accumulation*</ins>).

3. Hardship distributions.

4. Corrective distributions of excess contributions or excess deferrals, and any income allocable to these distributions, or of excess annual additions and any allocable gains (see <ins>*Corrective distributions of excess plan contributions*</ins> under *Taxation of Nonperiodic Payments*, earlier).

5. A loan treated as a distribution because it doesn’t satisfy certain requirements either when made or later (such as upon default), unless the participant's accrued benefits are reduced (offset) to repay the loan. See *Loans Treated as Distributions*, earlier, and the discussion of plan loan offsets, including qualified plan loan offsets, under *Time for making rollover*, later.
6. Dividends paid on employer securities.
7. The cost of life insurance coverage.

In addition, a distribution to the plan participant's beneficiary isn’t generally treated as an eligible rollover distribution. However, see *Qualified domestic relations order (QDRO)*, *Rollover by surviving spouse*, and *Rollovers by nonspouse beneficiary*, later.

Rollover of nontaxable amounts. You may be able to roll over the nontaxable part of a distribution (such as your after-tax contributions) made to another qualified retirement plan that is a qualified employee plan or a 403(b) plan, or to a traditional or Roth IRA. The transfer must be made either through a direct rollover to a qualified plan or 403(b) plan that separately accounts for the taxable and nontaxable parts of the rollover or through a rollover to a traditional or Roth IRA.

If you roll over only part of a distribution that includes both taxable and nontaxable amounts, the amount you roll over is treated as coming first from the taxable part of the distribution.

Any after-tax contributions that you roll over into your traditional IRA become part of your basis (cost) in your IRAs. To recover your basis when you take distributions from your IRA, you must complete Form 8606, Nondeductible IRAs, for the year of the distribution. For more information, see the Instructions for Form 8606.

Withholding requirements. If an eligible rollover distribution is paid to you, the payer must withhold 20% of it. This applies even if you plan to roll over the distribution to another qualified retirement plan or to an IRA. However, you can avoid withholding by choosing the direct rollover option, discussed later. Also, see *Choosing the right option* at the end of this discussion.

Exceptions. An eligible rollover distribution isn't subject to withholding to the extent it consists of NUA from employer securities that can be excluded from your gross income. (For a discussion of the tax treatment of a distribution of employer securities, see *Figuring the Taxable Amount* under *Taxation of Nonperiodic Payments*, earlier.)

In addition, withholding from an eligible rollover distribution paid to you isn't required if:

- The distribution and all previous eligible rollover distributions you received during the tax year from the same plan (or, at the payer's option, from all your employer's plans) total less than $200; or

- The distribution consists solely of employer securities, plus cash of $200 or less instead of fractional shares.

Direct rollover option. You can choose to have any part or all of an eligible rollover distribution paid directly to another qualified retirement plan that accepts rollover distributions or to a traditional or Roth IRA.

There is an automatic rollover requirement for mandatory distributions. A mandatory distribution is a distribution made without your consent and before you reach age 62 or normal retirement age, whichever is later. The automatic rollover requirement applies if the distribution is more than $1,000 and is an eligible rollover distribution. You can choose to have the distribution paid directly to you or rolled over directly to your traditional or Roth IRA or another qualified retirement plan. If you don't make this choice, the plan administrator will automatically roll over the distribution into an IRA of a designated trustee or issuer.

No tax withheld. If you choose the direct rollover option, or have an automatic rollover, no tax will be withheld from any part of the distribution that is directly paid to the trustee of the other plan. If any part of the eligible rollover distribution is paid to you, the payer must generally withhold 20% of it for income tax.

Payment-to-you option. If an eligible rollover distribution is paid to you, 20% will generally be withheld for income tax. However, the full amount is treated as distributed to you even though you actually receive only 80%. You must generally include in income any part (including the part withheld) that you don't roll over within 60 days to another qualified retirement plan or to a traditional or Roth IRA.

If you are under age 59 1/2 when a distribution is paid to you, you may have to pay a 10% tax (in addition to the regular income tax) on the taxable part (including any tax withheld) that you don't roll over. See *Tax on Early Distributions*, later.

Partial rollovers. If you receive a lump-sum distribution, it may qualify for special tax treatment. See *Lump-Sum Distributions*, earlier. However, if you roll over any part of the distribution, the part you keep doesn't qualify for special tax treatment.

Rolling over more than amount received. *If you decide to roll over an amount equal to the distribution before withholding, your contribution to the new plan or IRA must include other money (for example, from savings or amounts borrowed) to replace the amount withheld.*