2011
Instructions for Form 1099-R and 5498

Volume 1 of 2

IRS
Department of the Treasury
Internal Revenue Service
Instruction 1099-R&5498
(REV 2011)
Catalog Number **47762H**

Section references are to the Internal Revenue Code unless otherwise noted.

What’s New

Pilot program for truncating an individual’sidentifying number on paper payee statements has ended. Filers of Forms 1099-R and 5498 must show the recipient’s (Form 1099-R) and participant’s (Form 5498) complete identifying number on all copies of the forms.

Form 1099-R

Renumbering of boxes. Boxes 10 through 15 have been renumbered as boxes 12 through 17, respectively. The blank box formerly to the left of former box 10 has been numbered and labeled “**10** Amount allocable to IRR within 5 years” and a dollar sign ($) has been added. The box “1st year of desig. Roth contrib.” has been numbered **11**.

Prohibited transactions. Information regarding identifying and reporting prohibited transactions relating to an IRA has been added to *Specific Instructions for Form 1099-R*.

Reporting excess employer contributions returned to an employer. Instructions for reporting excess employer contributions (plus earnings on them) returned to an employer have been added to *Distributions under Employee Plans Compliance Resolution System (EPCRS)*.

Rollovers to designated Roth accounts within thesame plan (in-plan Roth rollovers). Instructions for reporting in-plan Roth rollovers that are direct rollovers have been added to *Designated Roth accounts* starting on page 4 and the instructions for boxes 1 and 2a. Also, for more information on in-plan Roth rollovers, see Notice 2010-84.

Distributions from designated Roth accounts allocable to in-plan Roth rollovers. Instructions for reporting distributions from a designated Roth account allocable to an in-plan Roth rollover have been added to *Designated Roth Account Distributions* on pages 2 and 8 and the instructions for new box 10. Also, for more information on in-plan Roth rollovers, see Notice 2010-84.

Guide to Distribution Chart

Code B. Distribution Code B has been reworded for reporting all distributions from designated Roth accounts.

Code D. Distribution Code D has been eliminated. See Distribution Codes 8 and P.

Form 5498

Successor beneficiary reporting. A new paragraph has been added to the instructions under *Inherited IRAs* for reporting successor beneficiary(ies).

Fair market valuation. A *Caution* has been added to the instructions for box 5, *Fair market value of account*.

Reminders

In addition, see the 2011 General Instructions for Certain Information Returns (Forms 1097, 1098, 1099, 3921, 3922, 5498, and W-2G) for information on the following topics.

- Backup withholding.
- Electronic reporting requirements.
- Penalties.
- Who must file (nominee/middleman).
- When and where to file.
- Taxpayer identification numbers.
- Statements to recipients.
- Corrected and void returns.
- Other general topics.

You can get the general instructions at IRS.gov or call 1-800-TAX-FORM (1-800-829-3676).

Specific Instructions for Form 1099-R

File Form 1099-R, Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc., for each person to whom you have made a designated distribution or are treated as having made a distribution of $10 or more from profit-sharing or retirement plans, any individual retirement arrangements (IRAs), annuities, pensions, insurance contracts, survivor income benefit plans, permanent and total disability payments under life insurance contracts, charitable gift annuities, etc.

Also, report on Form 1099-R death benefit payments made by employers that are not made as part of a pension, profit-sharing, or retirement plan. See *Box 1* on page 8.

Reportable disability payments made from a retirement plan must be reported on Form 1099-R.

Generally, do not report payments subject to withholding of social security and Medicare taxes on this form. Report such payments on Form W-2, Wage and Tax Statement.

Generally, do not report amounts totally exempt from tax, such as workers' compensation and Department of Veterans Affairs (VA) payments. However, if part of the distribution is taxable and part is nontaxable, report the entire distribution.

TIP *There is no special reporting for qualified charitable distributions under section 408(d)(8), qualified health saving account (HSA) funding distributions described in section 408(d)(9), or for the payment of qualified health and long-term care insurance premiums for retired public safety officers described in section 402(l).*

Military retirement annuities. Report payments to military retirees or payments of survivor benefit annuities on Form 1099-R. Report military retirement pay awarded as a property settlement to a former spouse under the name and taxpayer identification number (TIN) of the recipient, not that of the military retiree.

Governmental section 457(b) plans. Report on Form 1099-R, not Form W-2, income tax withholding and distributions from a governmental section 457(b) plan maintained by a state or local government employer.

Distributions from a governmental section 457(b) plan to a participant or beneficiary include all amounts that are paid from the plan. For more information, see Notice 2003-20 which is on page 894 of Internal Revenue Bulletin 2003-19, at *www.irs.gov/pub/irs-irbs/irb03-19.pdf*. Also see *Section 457(b) plan distributions* on page 12 for information on distribution codes.

Nonqualified plans. Report any reportable distributions from commercial annuities. Report distributions to employee plan participants from section 409A nonqualified deferred compensation plans including nongovernmental section 457(b) plans on Form W-2, not on Form 1099-R; for nonemployees, these payments are reportable on Form 1099-MISC. Also, report distributions to beneficiaries of deceased plan participants on Form 1099-MISC.

Section 404(k) dividends. Distributions of section 404(k) dividends from an employee stock ownership plan (ESOP), including a tax credit ESOP, are reported on Form 1099-R. Distributions other than section 404(k) dividends from the plan must be reported on a separate Form 1099-R.

Section 404(k) dividends paid directly from the corporation to participants or their beneficiaries are reported on Form 1099-DIV. See Announcement 2008-56, 2008-26 I.R.B. 1192, available at *www.irs.gov/ irb/2008-26_IRB/ar11.html*.

Charitable gift annuities. If cash or capital gain property is donated in exchange for a charitable gift annuity, report distributions from the annuity on Form 1099-R. See *Charitable gift annuities* on page 8.

Life insurance, annuity, and endowment contracts. Report payments of matured or redeemed annuity, endowment, and life insurance contracts. However, you do not need to file Form 1099-R to report the surrender of a life insurance contract if it is reasonable to believe that none of the payment is includible in the income of the recipient. If you are reporting the surrender of a life insurance contract, see *Code 7* on page 13.

Report premiums paid by a trustee or custodian for the cost of current life or other insurance protection. Costs of current life insurance protection are not subject to the 10% additional tax under section 72(t). See *Cost of current life insurance protection* on page 9.

Report charges or payments for a qualified long-term care insurance contract against the cash value of an annuity contract or the cash surrender value of a life insurance contract, which is excludible from gross income under section 72(e)(11). See *Code W* on page 15.

Section 1035 exchange. A tax-free section 1035 exchange is the exchange of (a) a life insurance contract for another life insurance contract, or for an endowment or annuity contract, or for a qualified long-term care insurance contract; or (b) a contract of endowment insurance for another contract of endowment insurance that provides for regular payments to begin no later than they would have begun under the old contract, or for an annuity contract, or for a qualified long-term care insurance contract; or (c) an annuity contract for an annuity contract or for a qualified long-term care insurance contract; or (d) a qualified long-term care insurance contract for a qualified long-term care insurance contract. A contract shall not fail to be treated as an annuity contract or as a life insurance contract solely because a qualified long-term care insurance contract is a part of or a rider on such contract. However, the distribution of other property or the cancellation of a contract loan at the time of the exchange may be taxable and reportable on a separate Form 1099-R.

These exchanges of contracts are generally reportable on Form 1099-R. However, reporting on Form 1099-R is not required if (a) the exchange occurs within the same company, (b) the exchange is solely a contract for contract exchange, as defined above, that does not result in a designated distribution, and (c) the company maintains adequate records of the policyholder's basis in the contracts. For example, a life insurance contract issued by Company X received in exchange solely for another life insurance contract previously issued by Company X does not have to be reported on Form 1099-R as long as the company maintains the required records. See Rev. Proc. 92-26, 1992-1 C.B. 744, for certain exchanges for which reporting is not required under section 6047(d). Also see Rev. Rul. 2007-24, 2007-21 I.R.B. 1282, available at *www.irs.gov/irb/2007-21_IRB/ar15.html* for certain transactions that do not qualify as tax-free exchanges. For more information on partial exchanges of annuity contracts, see Rev. Proc. 2008-24, 2008-13 I.R.B. 684, available at *www.irs.gov/ irb/2008-13_IRB/ar13.html*.

For more information on reporting taxable exchanges, see *Box 1* on page 8.

Prohibited transactions. If an IRA owner engages in a prohibited transaction with respect to an IRA, the assets of the IRA are treated as distributed on the first day of the tax year in which the prohibited transaction occurs. IRAs that include, or consist of, non-marketable securities and/ or closely held investments, in which the IRA owner effectively controls the underlying assets of such securities or investments, have a greater potential for resulting in a prohibited transaction. Report the distribution as you normally would for the type of IRA that has engaged in the prohibited transaction. Enter Code 5 in box 7.

Designated Roth Account Distributions

An employer offering a section 401(k), 403(b), or governmental section 457(b) plan may allow participants to contribute all or a portion of the elective deferrals they are otherwise eligible to make to a separate designated Roth account established under the plan. Contributions made under a section 401(k) plan must meet the requirements of Regulations section 1.401(k)-1(f) (Regulations section 1.403(b)-3(c) for a section 403(b) plan). Under the terms of the section 401(k) plan, section 403(b) plan, or governmental section 457(b) plan, the designated Roth account must meet the requirements of section 402A.

Distributions allocable to an in-plan Roth rollover(IRR). The distribution of an amount allocable to the taxable amount of an in-plan Roth rollover (IRR), made within the 5-year period beginning with the first day of the participant’s tax year in which the rollover was made, is treated as includible in gross income for purposes of applying section 72(t) to the distribution. The total amount allocable to such an IRR is reported in new box 10. See the instructions for *Box 10* on page 13.

CAUTION

A separate Form 1099-R must be used to report the total annual distribution from a designated Roth account.

IRA Distributions

TIP *For deemed IRAs under section 408(q), use the rules that apply to traditional IRAs or Roth IRAs as applicable. Simplified employee pension (SEP) IRAs and savings incentive match plan for employees (SIMPLE) IRAs, however, may not be used as deemed IRAs.*

Deemed IRAs. A qualified employer plan may allow employees to make voluntary employee contributions to a separate account or annuity established under the plan. Under the terms of the qualified employer plan, the account or annuity must meet the applicable requirements of section 408 or 408A for a traditional IRA or Roth IRA. Under section 408(q), the “deemed IRA” portion of the qualified employer plan is subject to the rules applicable to traditional and Roth IRAs, and not to those of the applicable plan under section 401(a), 403(a), 403(b), or 457.

Accordingly, the reporting and withholding rules on plan and IRA distributions apply separately depending on whether the distributions are made from the deemed IRA or the qualified employer plan. For example, the reporting rules for required minimum distributions (RMDs) apply separately for the two portions of the plan. A total distribution of amounts held in the qualified employer plan portion and the deemed IRA portion is reported on two separate Forms 1099-R — one for the distribution from the deemed IRA portion and one for the rest of the distribution. Also, the 20% withholding rules of section 3405(c) do not apply to a distribution from the deemed IRA portion but would apply to a distribution from the qualified employer plan portion, and section 72(t) applies separately to the two portions.

IRAs other than Roth IRAs. Unless otherwise instructed, distributions from any IRA, except a Roth IRA, must be reported in boxes 1 and 2a. Check the “Taxable amount not determined” box in box 2b. But see:

- *Traditional, SEP, or SIMPLE IRA* on page 10 for how to report the withdrawal of IRA contributions under section 408(d)(4),

- *Transfers* on page 5 for information on trustee-to-trustee transfers, including recharacterizations,
- Reporting a corrective distribution from an IRA under section 408(d)(5) on page 10,
- Reporting IRA revocations or account closures due to Customer Identification Program failures, below, and
- Reporting a transfer from a SIMPLE IRA to a non-SIMPLE IRA within the first 2 years of plan participation on page 5.

The direct rollover provisions beginning later do not apply to distributions from any IRA. However, taxable distributions from traditional IRAs and SEP IRAs may be rolled over into an eligible retirement plan. See section 408(d)(3). SIMPLE IRAs may also be rolled over into an eligible retirement plan, but only after the 2-year period described in section 72(t)(6).

An IRA includes all investments under one IRA plan or account. File only one Form 1099-R for distributions from all investments under one plan that are paid in 1 year to one recipient, unless you must enter different codes in box 7. You do not have to file a separate Form 1099-R for each distribution under the plan.

Roth IRAs. For distributions from a Roth IRA, report the gross distribution in box 1 but generally leave box 2a blank. Check the “Taxable amount not determined” box in box 2b. Enter Code J, Q, or T as appropriate in box 7. Do not use any other codes with Code Q or Code T. You may enter Code 8 or P with Code J. For the withdrawal of excess contributions, see *Roth IRA* on page 9. It is not necessary to mark the IRA/SEP/SIMPLE checkbox.

Roth IRA conversions. You must report a traditional, SEP, or SIMPLE IRA distribution that you know is converted or reconverted this year to a Roth IRA in boxes 1 and 2a (checking box 2b “taxable amount not determined” unless otherwise directed elsewhere in these instructions), even if the conversion is a trustee-to-trustee transfer or is with the same trustee. Enter Code 2 or 7 in box 7 depending on the participant’s age.

IRA Revocation or Account Closure

If a traditional or Roth IRA is revoked during its first 7 days (under Regulations section 1.408-6(d)(4)(ii)) or is closed at any time by the IRA trustee or custodian due to a failure of the taxpayer to satisfy the Customer Identification Program requirements described in section 326 of the USA PATRIOT Act, the distribution from the IRA must be reported. In addition, Form 5498, IRA Contribution Information, must be filed to report any regular, rollover, Roth IRA conversion, SEP IRA, or SIMPLE IRA contribution to an IRA that is subsequently revoked or closed by the trustee or custodian.

If a regular contribution is made to a traditional or Roth IRA that later is revoked or closed, and distribution is made to the taxpayer, enter the gross distribution in box

1. If no earnings are distributed, enter 0 (zero) in box 2a and Code 8 in box 7 for a traditional IRA and Code J for a Roth IRA. If earnings are distributed, enter the amount of earnings in box 2a. For a traditional IRA, enter Codes 1 and 8, if applicable, in box 7;

for a Roth IRA, enter Codes J and 8, if applicable. These earnings could be subject to the 10% early distribution tax under section 72(t). If a rollover contribution is made to a traditional or Roth IRA that later is revoked or closed, and distribution is made to the taxpayer, enter in boxes 1 and 2a of Form 1099-R the gross distribution and the appropriate code in box 7 (Code J for a Roth IRA). Follow this same procedure for a transfer from a traditional or Roth IRA to another IRA of the same type that later is revoked or closed. The distribution could be subject to the 10% early distribution tax under section 72(t).

If an IRA conversion contribution or a rollover from a qualified plan is made to a Roth IRA that later is revoked or closed, and a distribution is made to the taxpayer, enter the gross distribution in box 1 of Form 1099-R. If no earnings are distributed, enter 0 (zero) in box 2a and Code J in box 7. If earnings are distributed, enter the amount of the earnings in box 2a and Code J in box 7. These earnings could be subject to the 10% early distribution tax under section 72(t).

If an employer SEP IRA or SIMPLE IRA plan contribution is made and the SEP IRA or SIMPLE IRA is revoked by the employee or is closed by the trustee or custodian, report the distribution as fully taxable.

For more information on IRAs that have been revoked, see Rev. Proc. 91-70, 1991-2 C.B. 899.

Deductible Voluntary Employee Contributions (DVECs)

If you are reporting a total distribution from a plan that includes a distribution of DVECs, file a separate Form 1099-R to report the distribution of DVECs. Report the distribution of DVECs in boxes 1 and 2a on the separate Form 1099-R. However, for the direct rollover (explained later) of funds that include DVECs, a separate Form 1099-R is not required to report the direct rollover of the DVECs.

Direct Rollovers

You must report a direct rollover of an eligible rollover distribution. A direct rollover is the direct payment of the distribution from a qualified plan, section 403(b) plan, or a governmental section 457(b) plan to a traditional IRA, Roth IRA, or other eligible retirement plan. For additional rules regarding the treatment of direct rollovers from designated Roth accounts, see *Designated Roth accounts* on page 4. A direct rollover may be made for the employee, for the employee's surviving spouse, for the spouse or former spouse who is an alternate payee under a qualified domestic relations order (QDRO) or for a nonspouse designated beneficiary, in which case the direct rollover can only be made to an inherited IRA. If the distribution is paid to the surviving spouse, the distribution is treated in the same manner as if the spouse were the employee. See Part V of Notice 2007-7, 2007-5 I.R.B. 395, available at *www.irs.gov/irb/ 2007-05_IRB/ar11.html*, which has been modified by Notice 2009-82, 2009-41 I.R.B. 491, available at *www.irs. gov/irb/2009-41_IRB/ar12.html* for guidance on direct rollovers by nonspouse designated beneficiaries. See also Notice 2008-30, Part II, 2008-12 I.R.B. 638, available at *www.irs.gov/irb/2008-12_IRB/ar11.html*, which has been amplified and clarified by Notice 2009-75, 2009-39 I.R.B. 436, available at *www.irs.gov/ irb/2009-39_IRB/ar15.html*, for questions and answers covering rollover contributions to Roth IRAs.

CAUTION *Notice 2007-7 and Notice 2008-30 do not reflect changes made to section 402 by the Worker, Retiree, and Employer Recovery Act of 2008.*

An eligible rollover distribution is any distribution of all or any portion of the balance to the credit of the employee (including net unrealized appreciation (NUA)) from a qualified plan, a section 403(b) plan or a governmental section 457(b) plan except:

1. One of a series of substantially equal periodic payments made at least annually over:

    a. The life of the employee or the joint lives of the employee and the employee’s designated beneficiary,

b. The life expectancy of the employee or the joint life and last survivor expectancy of the employee and the employee's designated beneficiary, or

c. A specified period of 10 years or more.

2. An RMD (under section 401(a)(9)). A plan administrator is permitted to assume there is no designated beneficiary for purposes of determining the minimum distribution.

3. Elective deferrals (under section 402(g)(3)), employee contributions, and earnings on each returned because of the section 415 limits.

4. Corrective distributions of excess deferrals (under section 402(g)) and earnings.

5. Corrective distributions of excess contributions under a qualified cash or deferred arrangement (under section 401(k)) and excess aggregate

contributions (under section 401(m)) and earnings.

6. Loans treated as deemed distributions (under section 72(p)). But plan loan offset amounts can be eligible rollover distributions. See Regulations section 1.402(c)-2, Q/A-9.

7. Section 404(k) dividends.

8. Cost of current life insurance protection.

9. Distributions to a payee other than the employee, the employee's surviving spouse, a spouse or former spouse who is an alternate payee under a QDRO, or a nonspouse designated beneficiary.

10. Any hardship distribution.

11. A permissible withdrawal under section 414(w).

12. Prohibited allocations of securities in an S corporation that are treated as deemed distributions.

13. Distributions of premiums for accident or health insurance under Regulations section 1.402(a)-1(e).

Amounts paid under an annuity contract purchased for and distributed to a participant under a qualified plan can qualify as eligible rollover distributions. See Regulations section 1.402(c)-2, Q/A-10.

Automatic rollovers. Eligible rollover distributions may also include involuntary distributions that are more than $1,000 but $5,000 or less and are made from a qualified plan to an IRA on behalf of a plan participant. Involuntary distributions made on or after March 28, 2005, are generally subject to the automatic rollover provisions of section 401(a)(31)(B) and must be paid in a direct rollover to an IRA, unless the plan participant elects to receive the distribution directly.

For information on the notification requirements, see *Explanation to Recipients Before Eligible Rollover Distributions (Section 402(f) Notice)* on page 5. For additional information, also see Notice 2005-5, 2005-3

I.R.B. 337, available at *www.irs.gov/irb/2005-03_IRB/ ar10.html*.

Reporting a direct rollover. Report a direct rollover in box 1 and a 0 (zero) in box 2a, unless the rollover is a direct rollover of a qualified rollover contribution other than from a designated Roth account. See *Qualified rollover contributions as defined in section 408A(e)* on page 5. You do not have to report capital gain in box 3 or NUA in box 6. Enter Code G in box 7 unless the rollover is a direct rollover from a designated Roth account to a Roth IRA. See *Designated Roth accounts* below. If the direct rollover is made by a nonspouse designated beneficiary, also enter Code 4 in box 7.

Prepare the form using the name and social security number (SSN) of the person for whose benefit the funds were rolled over (generally the participant), not those of the trustee of the traditional IRA or other plan to which the funds were rolled.

If you receive a direct rollover to an IRA, you must prepare Form 5498. If you receive a direct rollover to a qualified plan, section

403(b) plan or a governmental section 457(b) plan, no report is required.

If part of the distribution is a direct rollover and part is distributed to the recipient, prepare two Forms 1099-R.

For more information on eligible rollover distributions, including substantially equal periodic payments, RMDs, and plan loan offset amounts, see Regulations sections 1.402(c)-2 and 1.403(b)-7(b). Also, see Rev. Rul. 2002-62 which is on page 710 of Internal Revenue Bulletin 2002-42 at *www.irs.gov/pub/irs-irbs/irb02-42.pdf* for guidance on substantially equal periodic payments that began after December 31, 2002.

TIP *For information on distributions of amounts attributable to rollover contributions separately accounted for by an eligible retirement plan and if permissible timing restrictions apply, see Rev. Rul. 2004-12, 2004-7 I.R.B. 478, available at* www.irs.gov/irb/ 2004-07_IRB/ar08.html.

Designated Roth accounts. A direct rollover from a designated Roth account may only be made to another designated Roth account or to a Roth IRA. A distribution from a Roth IRA, however, cannot be rolled over into a designated Roth account. In addition, a plan is permitted to treat the balance of the participant's designated Roth account and the participant's other accounts under the plan as accounts held under two separate plans for purposes of applying the automatic rollover rules of section 401(a)(31)(B) and Q/A-9 through Q/A-11 of Regulations section 1.401(a)(31)-1. Thus, if a participant's balance in the designated Roth account is less than $200, the plan is not required to offer a direct rollover election or to apply the automatic rollover provisions to such balance.

A distribution from a designated Roth account that is a qualified distribution is tax-free. A qualified distribution is a payment that is made both after age $59^1/_2$ (or after death or disabililty) and after the 5-taxable-year period that begins with the first day of the first taxable year in which the employee makes a designated Roth contribution. Certain amounts, including corrective distributions, cannot be qualified distributions. See Regulations section 1.402A-1. Qualified distributions can be made for the first time in 2011.

If any portion of a distribution from a designated Roth account that is not includible in gross income is to be rolled over into a designated Roth account under another plan, the rollover must be accomplished by a direct rollover. Any portion not includible in gross income that is distributed to the employee, however, cannot be rolled over to another designated Roth account, though it can be rolled over into a Roth IRA within the 60-day period described in section 402(c)(3). In the case of a direct rollover, the distributing plan is required to report to the recipient plan the amount of the investment (basis) in the contract and the first year of the 5-taxable-year period, or that the distribution is a qualified distribution.

For a direct rollover of a distribution from a designated Roth account to a Roth IRA, enter the amount rolled over in box 1 and 0 (zero) in box 2a. Use Code H in box 7. For all other distributions from a designated Roth account, use code B in box 7, unless code E applies. If the direct rollover is from one designated Roth account to another designated Roth account, also enter Code G in box 7.

For a direct rollover of a distribution from a section 401(k) plan, a section 403(b) plan, or a governmental section 457(b) plan to a designated Roth account in the same plan, enter the amount rolled over in box 1, the taxable amount in box 2a, and any basis recovery amount in box 5. Use Code G in box 7.

Qualified rollover contributions as defined in section 408A(e). A qualified rollover contribution as defined in section 408A(e) is:

- A rollover contribution to a Roth IRA from another IRA that meets the requirements of section 408(d)(3) or
- A rollover contribution to a Roth IRA from an eligible retirement plan (other than an

IRA) that meets the requirements of section 408A(e)(2)(B).

For reporting a rollover from an IRA other than a Roth IRA to a Roth IRA, see *Roth IRA conversions* on pages 3 and 9.

For a direct rollover of an eligible rollover distribution to a Roth IRA (other than from a designated Roth account), report the total amount rolled over in box 1, the taxable amount in box 2a, and any basis recovery amount in box 5. (See the instructions for *Box 5* on page 11.) Use Code G in box 7. If the direct rollover is made on behalf of a nonspouse designated beneficiary, also enter Code 4 in box 7.

For reporting instructions for a direct rollover from a designated Roth account, see *Designated Roth accounts,* on page 4.

Explanation to Recipients Before Eligible Rollover Distributions (Section 402(f) Notice)

For qualified plans, section 403(b) plans, and governmental section 457(b) plans, the plan administrator must provide to each recipient of an eligible rollover distribution an explanation using either a written paper document or an electronic medium (section 402(f) notice). The explanation must be provided no more than 90 days (as much as 180 days for plan years that begin after December 31, 2006) and no fewer than 30 days before making an eligible rollover distribution or before the annuity starting date. However, if the recipient who has received the section 402(f) notice affirmatively elects a distribution, you will not fail to satisfy the timing requirements merely because you make the distribution fewer than 30 days after you provided the notice as long as you meet the requirements of Regulations section 1.402(f)-1, Q/A-2. The electronic section 402(f) notice must meet the consumer consent requirements as provided in Regulations section 1.401(a)-21(b).

The notice must explain the rollover rules, the special tax treatment for lump-sum distributions, the direct rollover option (and any default procedures), the mandatory 20% withholding rules, and an explanation of how distributions from the plan to which the rollover is made may have different restrictions and tax consequences than the plan from which the rollover is made. The notice and summary are permitted to be sent either as a written paper document or through an electronic medium reasonably accessible to the recipient; see Regulations section 1.402(f)-1, Q/A-5.

For periodic payments that are eligible rollover distributions, you must provide the notice before the first payment and at least once a year as long as the payments continue. For section 403(b) plans, the payer must provide an explanation of the direct rollover option within the time period described earlier or some other reasonable period of time.

Notice 2009-68, 2009-39 I.R.B. 423, available at *www. irs.gov/irb/2009-39_IRB/ar14.html*, contains two safe harbor explanations that may be provided to recipients of eligible rollover distributions from an employer plan in order to satisfy section 402(f). See also Notice 2009-75, and, if the plan offers IRRs, Notice 2010-84, Q/A-5, 2010-51 I.R.B. 872, which is available at *www.irs.gov/irb/ 2010-51_IRB/ar11.html*.

Involuntary distributions. For involuntary distributions paid to an IRA in a direct rollover (automatic rollover) you may satisfy the notification requirements of section 401(a)(31)(B)(i) either separately or as a part of the section 402(f) notice. The notification must be in writing and may be sent using electronic media in accordance with Q/A-5 of Regulations section 1.402(f)-1. Also see Notice 2005-5, Q/A-15.

Transfers

Generally, do not report a transfer between trustees or issuers that involves no payment or distribution of funds to the participant, including a trustee-to-trustee transfer from one IRA to another IRA, valid transfers from one section 403(b) plan in accordance with paragraphs 1 through 3 of Regulations section 1.403(b)-10(b), or for the purchase of permissive service credit under section 403(b)(13) or section 457(e)(17) in accordance with paragraph 4 of Regulations section 1.403(b)-10(b) and Regulations section 1.457-10(b)(8). However, you must report:

- Recharacterized IRA contributions;
- Roth IRA conversions; and
- Direct rollovers from qualified plans, section 403(b) plans or governmental section 457(b) plans, including any direct rollovers from such plans that are qualified rollover contributions described in section 408A(e).

IRA recharacterizations. You must report each recharacterization of an IRA contribution. If a participant makes a contribution to an IRA (first IRA) for a year, the participant may choose to recharacterize the contribution by transferring, in a trustee-to-trustee transfer, any part of the contribution (plus earnings) to another IRA (second IRA). The contribution is treated as made to the second IRA (recharacterization). A recharacterization may be made with the same trustee or with another trustee. The trustee of the first IRA must report the recharacterization as a distribution on Form 1099-R and the contribution to the first IRA and its character on Form 5498.

Enter the fair market value (FMV) of the amount recharacterized in box 1, 0 (zero) in box 2a, and Code R in box 7 if reporting a recharacterization of a prior-year (2010) contribution or Code N if reporting a recharacterization of a contribution in the same year (2011). It is not necessary to check the IRA/SEP/SIMPLE checkbox. For more information on how to report, see Notice 2000-30 on page 1266 of Internal Revenue Bulletin 2000-25 at *www.irs.gov/pub/irs-irbs/irb00-25.pdf*.

Section 1035 exchange. You may have to report exchanges of insurance contracts, including an exchange under section 1035, under which any designated distribution may be made. For a section 1035 exchange that is in part taxable, file a separate Form 1099-R to report the taxable amount. See *Section 1035 exchange* on page 2.

SIMPLE IRAs. Do not report a trustee-to-trustee transfer from one SIMPLE IRA to another SIMPLE IRA. However, you must report as a taxable distribution in boxes 1 and 2a a trustee-to-trustee transfer from a SIMPLE IRA to an IRA that is not a SIMPLE IRA during the 2-year period beginning on the day contributions are first deposited in the individual's SIMPLE IRA by the employer. Use Code S in box 7 if appropriate.

Transfer of an IRA to spouse. If you transfer or re-designate an interest from one spouse's IRA to an IRA for the other spouse under a divorce or separation instrument, the transfer or re-designation as provided under section 408(d)(6) is tax free. Do not report such a transfer on Form 1099-R.

Corrective Distributions

You must report on Form 1099-R corrective distributions of excess deferrals, excess contributions and excess aggregate contributions under section 401(a) plans, section 401(k) cash or deferred arrangements, section 403(a) annuity plans, section 403(b) salary reduction agreements, and salary reduction simplified employee pensions (SARSEPs) under section 408(k)(6).

Excess contributions that are recharacterized under a section 401(k) plan are treated as distributed. Corrective distributions must include earnings through the end of the year in which the excess arose. These distributions are reportable on Form 1099-R and are generally taxable in the year of the distribution (except for excess deferrals under section 402(g)). Enter Code 8 or P in box 7 (with Code B if applicable) to designate the distribution and the year it is taxable.

Use a separate Form 1099-R to report a corrective distribution from a designated Roth account.

TIP *The total amount of the elective deferral is reported in box 12 of Form W-2. See the Instructions for Forms W-2 and W-3 for more information.*

For more information about reporting corrective distributions see: the *Guide to Distribution Codes* on pages 13 through 15; Notice 89-32, 1989-1 C.B. 671; Notice 88-33, 1988-1 C.B. 513; Notice 87-77, 1987-2 C.B. 385; and the Regulations under sections 401(k), 401(m), 402(g), and 457.

Excess deferrals. Excess deferrals under section 402(g) can occur in section 401(k) plans or section 403(b) plans or SARSEPs. If distributed by April 15 of the year following the year of deferral, the excess is taxable to the participant in the year of deferral (other than designated Roth contributions), but the earnings are taxable in the year distributed. Except for a SARSEP, if the distribution occurs after April 15, the excess is taxable in the year of deferral and the year distributed. The earnings are taxable in the year distributed. For a SARSEP, excess deferrals not withdrawn by April 15 are considered regular IRA contributions subject to the IRA contribution limits. Corrective distributions of excess deferrals are not subject to federal income tax withholding or social security and Medicare taxes. For losses on excess deferrals, see *Losses*, later. See the regulations under section 457 for special rules for excess deferrals under governmental section 457(b) plans.

Excess contributions. Excess contributions can occur in a section 401(k) plan or a SARSEP. All distributions of the excess contributions plus earnings (other than designated Roth contributions), including recharacterized excess contributions, are taxable to the participant in the year of distribution. Report the gross distribution in box 1 of Form 1099-R. In box 2a, enter the excess contribution and earnings distributed less any designated Roth contributions. For a SARSEP, the employer must notify the participant by March 15 of the year after the year the excess contribution was made that the participant must withdraw the excess and earnings. All distributions from a SARSEP are taxable in the year of distribution. An excess contribution not withdrawn by April 15 of the year after the year of notification is considered a regular IRA contribution subject to the IRA contribution limits.

CAUTION *Regulations have not been updated for SARSEPs.*

Excess aggregate contributions. Excess aggregate contributions under section 401(m) can occur in section 401(a), section 401(k), section 403(a), and section 403(b) plans. A corrective distribution of excess aggregate contributions plus earnings is taxable to the participant in the year the distribution was made. Report the gross distribution in box 1 of Form 1099-R. In box 2a, enter the excess and earnings distributed less any after-tax contributions.

Losses. If a corrective distribution of an excess deferral is made in a year after the year of deferral and a net loss has been allocated to the excess deferral, report the corrective distribution amount in boxes 1 and 2a of Form 1099-R for the year of the distribution with the appropriate distribution code in box 7. If the excess deferrals consist of designated Roth contributions, report the corrective distribution amount in box 1, 0 (zero) in box 2a, and the appropriate distribution code in box 7. However, taxpayers must include the total amount of the excess deferral (unadjusted for loss) in income in the year of deferral, and they may report a loss on the tax return for the year the corrective distribution is made.

Distributions under Employee Plans Compliance Resolution System (EPCRS)

The procedure for correcting excess annual additions under section 415 is explained in the latest EPCRS revenue procedure, Rev. Proc. 2008-50, 2008-35 I.R.B. 464, available at *www.irs.gov/irb/2008-35_IRB/ar10.html*.

CAUTION

At the time these instructions went to print, a new EPCRS revenue procedure, which supersedes Rev. Proc. 2008-50, had not been issued. Go to IRS.gov and type “EPCRS” in the search box to obtain updated information.

Distributions to correct a section 415 failure are not eligible rollover distributions although they are subject to federal income tax withholding under section 3405. They are not subject to social security, Medicare, or Federal Unemployment Tax Act (FUTA) taxes. In addition, such distributions are not subject to the 10% early distribution tax under section 72(t).

You may report the distribution of elective deferrals (other than designated Roth contributions) and employee contributions (and earnings attributable to such elective deferrals and employee contributions) on the same Form 1099-R. However, if you made other distributions during the year, report them on a separate Form 1099-R. Because the distribution of elective deferrals (other than designated Roth contributions) is fully taxable in the year distributed (no part of the distribution is a return of the investment in the contract), report the total amount of the distribution in boxes 1 and 2a. Leave box 5 blank, and enter Code E in box 7. For a return of employee contributions (or designated Roth contributions) plus earnings, enter the gross distribution in box 1, the earnings attributable to the employee contributions (or designated Roth contributions) being returned in box 2a, and the employee contributions (or designated Roth contributions) being returned in box 5. Enter Code E in box 7. For more information, see Rev. Proc. 92-93, 1992-2 C.B. 505.

Similar rules apply to other corrective distributions under EPCRS. Also, special Form 1099-R reporting is available for certain plan loan failures. See Rev. Proc. 2008-50 for details.

If excess employer contributions (other than elective deferrals), and the earnings on them, under SEP, SARSEP, or SIMPLE IRA plans are returned to an employer, enter the gross distribution (excess and earnings) in box 1 and 0 (zero) in box 2a. Enter Code E in box 7.

Failing the ADP or ACP Test After a Total Distribution

If you make a total distribution in 2011 and file a Form 1099-R with the IRS and then discover in 2012 that the plan failed either the section 401(k)(3) actual deferral percentage (ADP) test for 2011 and you compute excess contributions or the section 401(m)(2) actual contribution percentage (ACP) test and you compute excess aggregate contributions, you must recharacterize part of the total distribution as excess contributions or excess aggregate contributions. First, file a

CORRECTED Form 1099-R for 2011 for the correct amount of the total distribution (not including the amount recharacterized as excess contributions or excess aggregate contributions). Second, file a new Form 1099-R for 2011 for the excess contributions or excess aggregate contributions and allocable earnings.

To avoid a late filing penalty if the new Form 1099-R is filed after the due date, enter in the bottom margin of Form 1096, Annual Summary and Transmittal of U.S. Information Returns, the words “Filed To Correct Excess Contributions.”

You must also issue copies of the Forms 1099-R to the plan participant with an explanation of why these new forms are being issued. ADP and ACP test corrections are exempt from the 10% early distribution tax under section 72(t).

Loans Treated as Distributions

A loan from a qualified plan under sections 401(a) and 403(a) and (b), and a plan maintained by the United States, a state or political subdivision, or any of its subsidiary agencies made to a participant or beneficiary is not treated as a distribution from the plan if the loan satisfies the following requirements.

1. The loan is evidenced by an enforceable agreement,

2. The agreement specifies that the loan must be repaid within 5 years, except for a principal residence,

3. The loan must be repaid in substantially level installments (at least quarterly), and

4. The loan amount does not exceed the limits in section 72(p)(2)(A) (maximum limit is equal to the lesser of 50% of the vested account balance or $50,000).

Certain exceptions, cure periods, and suspension of the repayment schedule may apply.

The loan agreement must specify the amount of the loan, the term of the loan, and the repayment schedule. The agreement may include more than one document.

If a loan fails to satisfy 1, 2, or 3, the balance of the loan is a deemed distribution. The distribution may occur at the time the loan is made or later if the loan is not repaid in accordance with the repayment schedule.

If a loan fails to satisfy 4 at the time the loan is made, the amount that exceeds the amount permitted to be loaned is a deemed distribution.

Deemed distribution. If a loan is treated as a deemed distribution, it is reportable on Form 1099-R using the normal taxation rules of section 72, including tax basis rules. The distribution also may be subject to the 10% early distribution tax under section 72(t). It is not eligible to be rolled over to an eligible retirement plan nor is it eligible for the 10-year tax option. On Form 1099-R, complete the appropriate boxes, including boxes 1 and 2a, and enter Code L in box 7. Also, enter Code 1 or Code B, if applicable.

Interest that accrues after the deemed distribution of a loan is not an additional loan, and, therefore, is not reportable on Form 1099-R.

Loans that are treated as deemed distributions or that are actual distributions are subject to federal income tax withholding. If a distribution occurs after the loan is made, you must withhold only if you distributed cash or property (other than employer securities) at the time of the deemed or actual distribution. See section 72(p), section 72(e)(4)(A), and Regulations section 1.72(p)-1.

Subsequent repayments. If a participant makes any cash repayments on a loan that was reported on Form 1099-R as a deemed distribution, the repayments increase the participant’s tax basis in the plan as if the repayments were after-tax contributions. However, such repayments are not treated as after-tax contributions for purposes of section 401(m) or 415(c)(2)(B).

For a deemed distribution that was reported on Form 1099-R but was not repaid, the deemed distribution does not increase the participant’s basis.

If a participant’s accrued benefit is reduced (offset) to repay a loan, the amount of the account balance that is offset against the loan is an actual distribution. Report it as you would any other actual distribution. Do not enter Code L in box 7.

Permissible Withdrawals Under Section 414(w)

For permissible withdrawals from an eligible automatic contribution arrangement (EACA) under section 414(w):

- The distribution (except to the extent the distribution consists of designated Roth contributions) is included in the employee’s gross income in the year distributed;
- Report principal and earnings in boxes 1 and 2a except, in the case of a distribution from a designated Roth account, report only earnings in box 2a;

- The distribution is not subject to the 10% additional tax, indicated by reporting Distribution Code 2 in box 7; and
- The distribution must be elected by the employee no later than 90 days after the first default elective contribution under the EACA, as specified in Regulations section 1.414(w)-1(c)(2).

If the distribution is from a designated Roth account, enter Code B as well as Code 2 in box 7.

Missing Participants

The IRS administers a letter-forwarding program that could help plan administrators contact missing retirement plan participants (or possibly their beneficiaries). To inform individuals of their rights to benefits under a retirement plan, the IRS will forward letters from plan administrators to the missing individuals if the administrators provide the names and SSNs of the missing individuals. However, the IRS cannot disclose individuals' addresses or give confirmation of letter delivery. All undelivered letters will be destroyed. For further information, see Rev. Proc. 94-22, 1994-1 C.B. 608, or contact your IRS office.

Corrected Form 1099-R

If you filed a Form 1099-R with the IRS and later discover that there is an error on it, you must correct it as soon as possible. For example, if you transmit a direct rollover and file a Form 1099-R with the IRS reporting that none of the direct rollover is taxable by entering 0 (zero) in box 2a, and you then discover that part of the direct rollover consists of RMDs under section 401(a)(9), you must file a corrected Form 1099-R reporting the eligible rollover distribution as the direct rollover and file a new Form 1099-R reporting the RMD as if it had been distributed to the participant. See part H in the 2011 General Instructions for Certain Information Returns or Pub. 1220, if filing electronically.

Filer

The payer, trustee, or plan administrator must file Form 1099-R using the same name and employer identification number (EIN) used to deposit any tax withheld and to file Form 945, Annual Return of Withheld Federal Income Tax.

Beneficiaries

If you make a distribution to a beneficiary, trust, or estate, prepare Form 1099-R using the name and TIN of the beneficiary, trust, or estate, not that of the decedent. If there are multiple beneficiaries, report on each Form 1099-R only the amount paid to the beneficiary whose name appears on the Form 1099-R, and enter the percentage in box 9a, if applicable.

Disclaimers. A beneficiary may make a qualified disclaimer of all or some of an IRA account balance if the disclaimed amount and income are paid to a new beneficiary or segregated in a separate account. A qualified disclaimer may be made after the beneficiary has previously received the RMD for the year of the decedent's death. For more information, see Rev. Rul. 2005-36, 2005-26 I.R.B. 1368, available at *www.irs.gov/irb/2005-26_IRB/ar11.html*.

Alternate Payee under a Qualified Domestic Relations Order (QDRO)

Distributions to an alternate payee who is a spouse or former spouse of the employee under a QDRO are reportable on Form 1099-R using the name and TIN of the alternate payee. If the alternate payee under a QDRO is a nonspouse, enter the name and TIN of the employee. However, this rule does not apply to IRAs; see *Transfer of an IRA to spouse* on page 6.

Nonresident Aliens

If income tax is withheld under section 3405 on any distribution to a nonresident alien, report the distribution and withholding on Form 1099-R. Also file Form 945 to report the withholding. See the Presumption Rules in part S of the 2011 General Instructions for Certain Information Returns.

However, any payments to a nonresident alien from any trust under section 401(a), any annuity plan under section 403(a), any annuity, custodial account, or retirement income account under section 403(b), or any

IRA account under section 408(a) or (b) are subject to withholding under section 1441, unless there is an exception under a tax treaty. Report the distribution and withholding on Form 1042, Annual Withholding Tax Return for U.S. Source Income of Foreign Persons, and Form 1042-S, Foreign Person’s U.S. Source Income Subject to Withholding.

For guidance regarding covered expatriates, see Notice 2009-85, 2009-45 I.R.B. 598, available at *www.irs. gov/irb/2009-45_IRB/ar10.html*.

Statements to Recipients

If you are required to file Form 1099-R, you must furnish a statement to the recipient. For more information about the requirement to furnish a statement to each recipient, see part M in the 2011 General Instructions for Certain Information Returns.

TIP *Do not enter a negative amount in any box on Form 1099-R.*

Account Number

The account number is required if you have multiple accounts for a recipient for whom you are filing more than one Form 1099-R. Additionally, the IRS encourages you to designate an account number for all Forms 1099-R that you file. See part L in the 2011 General Instructions for Certain Information Returns.

Box 1. Gross distribution

Enter the total amount of the distribution before income tax or other deductions were withheld. Include direct rollovers, IRA rollovers to accepting employer plans, premiums paid by a trustee or custodian for the cost of current life or other insurance protection, including a recharacterization and a Roth IRA conversion. Also include in this box distributions to plan participants from governmental section 457(b) plans. However, in the case of a distribution by a trust representing certificates of deposit (CDs) redeemed early, report the net amount distributed. Also, see *Box 6* on page 12.

Include in this box the value of U.S. Savings Bonds distributed from a plan. Enter the appropriate taxable amount in box 2a. Furnish a statement to the plan participant showing the value of each bond at the time of distribution. This will provide him or her with the information necessary to figure the interest income on each bond when it is redeemed.

Include in box 1 amounts distributed from a qualified retirement plan for which the recipient elects to pay health insurance premiums under a cafeteria plan or that are paid directly to reimburse medical care expenses incurred by the recipient (see Rev. Rul. 2003-62 on page 1034 of Internal Revenue Bulletin 2003-25 at *www.irs.gov/pub/irs-irbs/irb03-25.pdf*). Also include this amount in box 2a.

Include in box 1 charges or payments for qualified long-term care insurance contracts under combined arrangements. Enter Code W in box 7.

In addition to reporting distributions to beneficiaries of deceased employees, report here any death benefit payments made by employers that are not made as part of a pension, profit-sharing, or retirement plan. Also enter these amounts in box 2a; enter Code 4 in box 7.

Do not report accelerated death benefits on Form 1099-R. Report them on Form 1099-LTC, Long-Term Care and Accelerated Death Benefits.

For section 1035 exchanges that are reportable on Form 1099-R, enter the total value of the contract in box 1, 0 (zero) in box 2a, the total premiums paid in box 5, and Code 6 in box 7.

Designated Roth account distributions. If you are making a distribution from a designated Roth account, enter the gross distribution in box 1, the taxable portion of the distribution in box 2a, the basis included in the distributed amount in box 5, any amount allocable to an IRR made within the previous 5 years in box 10, and the first year of the 5-taxable-year period for determining qualified distributions in box 11. Also, enter the applicable code(s) in box 7.

Employer securities and other property. If you distribute employer securities or other property, include in box 1 the FMV of the securities or other property on the date of distribution. If there is a loss, see *Losses* on page 9.

If you are distributing worthless property only, you are not required to file Form 1099-R. However, you may file and enter 0 (zero) in boxes 1 and 2a and any after-tax employee contributions or designated Roth contributions in box 5.

Charitable gift annuities. If cash or capital gain property is donated in exchange for a charitable gift annuity, report the total amount distributed during the year in box 1. See *Charitable gift annuities* under *Box 3* on page 10.

Box 2a. Taxable amount

When determining the taxable amount to be entered in box 2a, do not reduce the taxable amount by any portion of the $3,000 exclusion for which the participant may be eligible as a payment of *qualified health and long-term care insurance premiums for retired public safety officers under section 402(l).*

Generally, you must enter the taxable amount in box 2a. However, if you are unable to reasonably obtain the data needed to compute the taxable amount, leave this box blank. Do not enter excludable or tax-deferred amounts reportable in boxes 5, 6, and 8. Enter 0 (zero) in box 2a for:

- A direct rollover (other than a qualified rollover contribution under section 408A(e) or an IRR) from a qualified plan, section 403(b) plan, a governmental section 457(b) plan, or a rollover from a designated Roth account into a Roth IRA,
- A traditional, SEP, or SIMPLE IRA directly transferred to an accepting employer plan,
- An IRA recharacterization,
- A nontaxable section 1035 exchange of life insurance, annuity, endowment or long-term care insurance contracts, or

- A nontaxable charge or payment, for the purchase of a qualified long-term care insurance contract, against the cash value of an annuity contract or the cash surrender value of a life insurance contract.

For more information on qualified rollover contributions under section 408A(e), see *Qualified rollover contributions as defined in section 408A(e)* on page 5.

Annuity starting date in 1998 or later. If you made annuity payments from a qualified plan under section 401(a), 403(a), or 403(b) and the annuity starting date is in 1998 or later, you must use the simplified method under section 72(d)(1) to figure the taxable amount. Under this method, the expected number of payments you use to figure the taxable amount depends on whether the payments are based on the life of one or more than one person. See Notice 98-2, 1998-1 C.B. 266, and Pub. 575, Pension and Annuity Income, to help you figure the taxable amount to enter in box 2a.