Note: *The draft you are looking for begins on the next page.*

Caution: *DRAFT—NOT FOR FILING*

This is an early release draft of an IRS tax form, instructions, or publication, which the IRS is providing for your information. **Do not file draft forms** and do **not** rely on draft forms, instructions, and publications for filing. We do **not** release draft forms until we believe we have incorporated all changes (except when explicitly stated on this coversheet). However, unexpected issues occasionally arise, or legislation is passed—in this case, we will post a new draft of the form to alert users that changes were made to the previously posted draft. Thus, there are never any changes to the last posted draft of a form and the final revision of the form. Forms and instructions generally are subject to OMB approval before they can be officially released, so we post only drafts of them until they are approved. Drafts of instructions and publications usually have some changes before their final release.

Early release drafts are at IRS.gov/DraftForms and remain there after the final release is posted at IRS.gov/LatestForms. All information about all forms, instructions, and pubs is at IRS.gov/Forms.

Almost every form and publication has a page on IRS.gov with a friendly shortcut. For example, the Form 1040 page is at IRS.gov/Form1040; the Pub. 501 page is at IRS.gov/Pub501; the Form W-4 page is at IRS.gov/W4; and the Schedule A (Form 1040/SR) page is at IRS.gov/ScheduleA. If typing in a link above instead of clicking on it, be sure to type the link into the address bar of your browser, not a Search box.

If you wish, you can submit comments to the IRS about draft or final forms, instructions, or publications at IRS.gov/FormsComments. We cannot respond to all comments due to the high volume we receive and may not be able to consider many suggestions until the subsequent revision of the product.

If you have comments on reducing paperwork and respondent (filer) burden, with respect to draft or final forms, please respond to the relevant information collection through the Federal Register process; for more info, click here.

Department of the Treasury
Internal Revenue Service

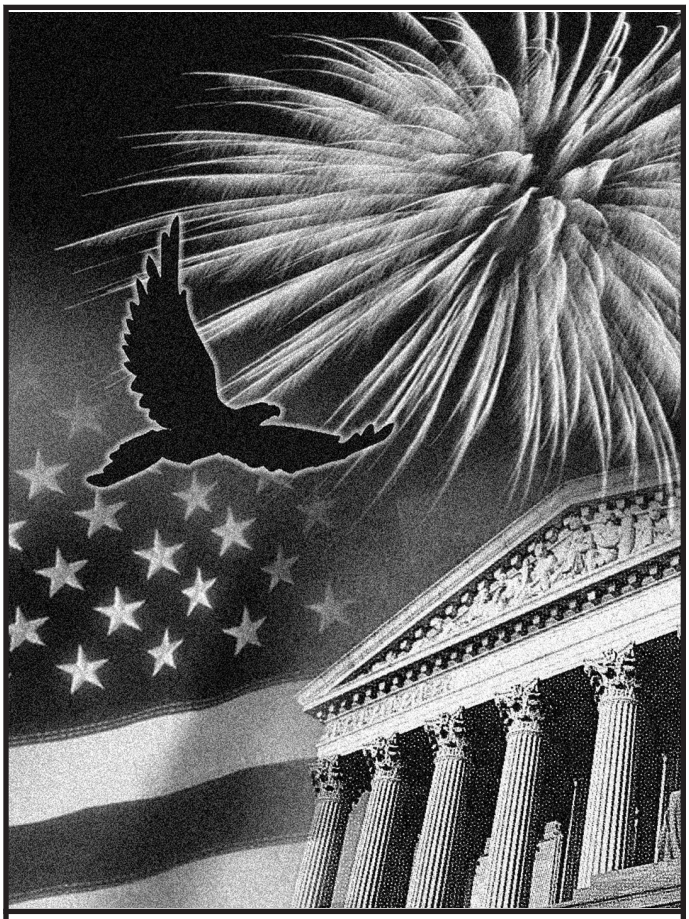
Publication 575
Cat. No. 15142B

Pension and Annuity Income

DRAFT AS OF February 10, 2020

For use in preparing

2019 Returns



Get forms and other information faster and easier at:

- *IRS.gov* (English)
- *IRS.gov/Spanish* (Español)
- *IRS.gov/Chinese* (中文)
- *IRS.gov/Korean* (한국어)
- *IRS.gov/Russian* (Русский)
- *IRS.gov/Vietnamese* (TiếngViệt)

Feb 10, 2020

Contents

What's New 1

Reminders 2

Introduction 2

General Information 4
- Variable Annuities 5
- Section 457 Deferred Compensation Plans 5
- Disability Pensions 6
- Insurance Premiums for Retired Public Safety Officers 6
- Railroad Retirement Benefits 6
- Withholding Tax and Estimated Tax 9

Cost (Investment in the Contract) 10

Taxation of Periodic Payments 11
- Fully Taxable Payments 12
- Partly Taxable Payments 12

Taxation of Nonperiodic Payments 14
- Figuring the Taxable Amount 16
- Loans Treated as Distributions 18
- Transfers of Annuity Contracts 19
- Lump-Sum Distributions 20

Rollovers 28

Special Additional Taxes 33
- Tax on Early Distributions 33
- Tax on Excess Accumulation 37

Survivors and Beneficiaries 39

Qualified Disaster Relief 39
- Qualified Disaster Distributions 40
- Taxation of Qualified Disaster Distributions 41
- Repayment of Qualified Disaster Distributions 41
- Repayment of Qualified 2018 and 2019 Distributions for the Purchase or Construction of a Main Home 42
- Loans From Qualified Plans 43
- Information for Eligible Retirement Plans 43

How To Get Tax Help 44

Worksheet A. Simplified Method 47

Index 48

What's New

Disaster tax relief. Recent legislation has enacted special rules that provide for tax-favored withdrawals, repayments, and loans from certain retirement plans (including IRAs) for taxpayers who suffered economic losses as a result of certain major disasters that occurred in 2018, 2019, and early 2020. See *Qualified Disaster Relief* for information on these special rules. Also see the Instructions

for Form 8915-C, Qualified 2018 Disaster Retirement Plan Distributions and Repayments, and the Instructions for Form 8915-D, Qualified 2019 Disaster Retirement Plan Distributions and Repayments, for more information on these special rules.

Reminders

DRAFT AS OF February 10, 2020

Future developments. For the latest information about developments related to Pub. 575, such as legislation enacted after it was published, go to *IRS.gov/Pub575*.

Extended rollover period for qualified plan loan offsets in 2018 or later. For distributions made in tax years beginning after 2017, you have until the due date (including extensions) for your tax return for the tax year in which the offset occurs to roll over a qualified plan loan offset amount. For more information, see *Time for making rollover*, later.

Disaster tax relief. Special rules provide for tax-favored withdrawals, repayments, and loans from certain retirement plans (including IRAs) for taxpayers who suffered economic losses as a result of Hurricane Harvey, Tropical Storm Harvey, Hurricane Irma, Hurricane Maria, or the 2017 California wildfires. See *Qualified Disaster Relief* for information on these special rules. Also see Pub. 976, Disaster Relief, and the Instructions for Form 8915-B, Qualified 2017 Disaster Retirement Plan Distributions and Repayments, for more information on these rules.

Disaster tax relief is also available for taxpayers who suffered economic losses as a result of disasters declared by the President under section 401 of the Robert T. Stafford Disaster Relief and Emergency Assistance Act during calendar year 2016. See *Qualified Disaster Relief* for information on these special rules. Also, see Pub. 976 and the Instructions for Form 8915-A, Qualified 2016 Disaster Retirement Plan Distributions and Repayments, for more information on this relief.

Net investment income tax. For purposes of the net investment income tax (NIIT), net investment income doesn't include distributions from a qualified retirement plan (for example, 401(a), 403(a), 403(b), 408, 408A, or 457(b) plans). However, these distributions are taken into account when determining the modified adjusted gross income threshold. Distributions from a nonqualified retirement plan are included in net investment income. See Form 8960, Net Investment Income Tax—Individuals, Estates, and Trusts, and its instructions for more information.

Qualified public safety employees and early distributions. For tax years beginning after 2015, the definition of qualified public safety employees has been expanded. Also, the exception for early distributions for public safety employees is expanded to include distributions from defined contribution plans. See *Qualified public safety employees* and *Additional exceptions for qualified retirement plans* for more information.

Photographs of missing children. The Internal Revenue Service is a proud partner with the *National Center for Missing & Exploited Children® (NCMEC)*. Photographs of missing children selected by the Center may appear in this publication on pages that would otherwise be blank. You can help bring these children home by looking at the photographs and calling 1-800-THE-LOST (1-800-843-5678) if you recognize a child.

Introduction

This publication discusses the tax treatment of distributions you receive from pension and annuity plans and also shows you how to report the income on your federal income tax return. How these distributions are taxed depends on whether they are periodic payments (amounts received as an annuity) that are paid at regular intervals over several years or nonperiodic payments (amounts not received as an annuity).

What is covered in this publication? This publication contains information that you need to understand the following topics.

- How to figure the tax-free part of periodic payments under a pension or annuity plan, including using a simple worksheet for payments under a qualified plan.
- How to figure the tax-free part of nonperiodic payments from qualified and nonqualified plans, and how to use the optional methods to figure the tax on lump-sum distributions from pension, stock bonus, and profit-sharing plans.
- How to roll over certain distributions from a retirement plan into another retirement plan or IRA.
- How to report disability payments, and how beneficiaries and survivors of employees and retirees must report benefits paid to them.
- How to report railroad retirement benefits.
- When additional taxes on certain distributions may apply (including the tax on early distributions and the tax on excess accumulation).

TIP *For additional information on how to report pension or annuity payments on your federal income tax return, be sure to review the instructions on the back of Copies B, C, and 2 of the Form 1099-R that you received and the Instructions for Forms 1040 and 1040-SR, lines 4c and 4d (or the Instructions for Form 1040-NR, lines 17a and 17b).*

CAUTION *A "corrected" Form 1099-R replaces the corresponding original Form 1099-R if the original Form 1099-R contained an error. Make sure you use the amounts shown on the corrected Form 1099-R when reporting information on your tax return.*

What isn't covered in this publication? The following topics aren't discussed in this publication.

The General Rule. This is the method generally used to determine the tax treatment of pension and annuity income from nonqualified plans (including commercial annuities). For a qualified plan, you can't generally use the General Rule unless your annuity starting date is before

November 19, 1996. Although this publication will help you determine whether you can use the General Rule, it won't help you use it to determine the tax treatment of your pension or annuity income. For that and other information on the General Rule, see Pub. 939, General Rule for Pensions and Annuities.

Individual retirement arrangements (IRAs). Information on the tax treatment of amounts you receive from an IRA is in Pub. 590-B, Distributions from Individual Retirement Arrangements (IRAs).

Civil service retirement benefits. If you are retired from the federal government (regular, phased, or disability retirement) or are the survivor or beneficiary of a federal employee or retiree who died, see Pub. 721, Tax Guide to U.S. Civil Service Retirement Benefits. Pub. 721 covers the tax treatment of federal retirement benefits, primarily those paid under the Civil Service Retirement System (CSRS) or the Federal Employees' Retirement System (FERS). It also covers benefits paid from the Thrift Savings Plan (TSP).

Social security and equivalent tier 1 railroad retirement benefits. For information about the tax treatment of these benefits, see Pub. 915, Social Security and Equivalent Railroad Retirement Benefits. However, this publication (575) covers the tax treatment of the non-social security equivalent benefit portion of tier 1 railroad retirement benefits, tier 2 benefits, vested dual benefits, and supplemental annuity benefits paid by the U.S. Railroad Retirement Board.

Tax-sheltered annuity plans (403(b) plans). If you work for a public school or certain tax-exempt organizations, you may be eligible to participate in a 403(b) retirement plan offered by your employer. Although this publication covers the treatment of benefits under 403(b) plans and discusses in-plan Roth rollovers from 403(b) plans to designated Roth accounts, it doesn't cover other tax provisions that apply to these plans. For that and other information on 403(b) plans, see Pub. 571, Tax-Sheltered Annuity Plans (403(b) Plans) For Employees of Public Schools and Certain Tax-Exempt Organizations.

Comments and suggestions. We welcome your comments about this publication and your suggestions for future editions.

You can send us comments through *IRS.gov/FormComments*. Or you can write to: Internal Revenue Service, Tax Forms and Publications, 1111 Constitution Ave. NW, IR-6526, Washington, DC 20224.

Although we can't respond individually to each comment received, we do appreciate your feedback and will consider your comments as we revise our tax forms, instructions, and publications. We can't answer tax questions sent to the above address.

Tax questions. If you have a tax question not answered by this publication or *How To Get Tax Help* section at the end of this publication, go to the IRS Interactive Tax Assistant page at *IRS.gov/Help/ITA* where you can find topics using the search feature or by viewing the categories listed.

Getting tax forms, instructions, and publications. Visit *IRS.gov/Forms* to download current and prior-year forms, instructions, and publications.

Ordering tax forms, instructions, and publications. Go to *IRS.gov/OrderForms* to order current forms, instructions, and publications; call 800-829-3676 to order prior-year forms and instructions. Your order should arrive within 10 business days.

DRAFT AS OF February 10, 2020

Useful Items

You may want to see:

Publication

- ❑ **524** Credit for the Elderly or the Disabled
- ❑ **525** Taxable and Nontaxable Income
- ❑ **560** Retirement Plans for Small Business (SEP, SIMPLE, and Qualified Plans)
- ❑ **571** Tax-Sheltered Annuity Plans (403(b) Plans) For Employees of Public Schools and Certain Tax-Exempt Organizations
- ❑ **590-A** Contributions to Individual Retirement Arrangements (IRAs)
- ❑ **590-B** Distributions from Individual Retirement Arrangements (IRAs)
- ❑ **721** Tax Guide to U.S. Civil Service Retirement Benefits
- ❑ **907** Tax Highlights for Persons with Disabilities
- ❑ **915** Social Security and Equivalent Railroad Retirement Benefits
- ❑ **939** General Rule for Pensions and Annuities
- ❑ **976** Disaster Relief

Form (and Instructions)

- ❑ **W-4P** Withholding Certificate for Pension or Annuity Payments
- ❑ **1099-R** Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.
- ❑ **4972** Tax on Lump-Sum Distributions
- ❑ **5329** Additional Taxes on Qualified Plans (Including IRAs) and Other Tax-Favored Accounts
- ❑ **8915-A** Qualified 2016 Disaster Retirement Plan Distributions and Repayments
- ❑ **8915-B** Qualified 2017 Disaster Retirement Plan Distributions and Repayments
- ❑ **8915-C** Qualified 2018 Disaster Retirement Plan Distributions and Repayments
- ❑ **8915-D** Qualified 2019 Disaster Retirement Plan Distributions and Repayments

See *How To Get Tax Help* near the end of this publication for information about getting publications and forms.

General Information

Definitions. Some of the terms used in this publication are defined in the following paragraphs.

Pension. A pension is generally a series of definitely determinable payments made to you after you retire from work. Pension payments are made regularly and are based on such factors as years of service and prior compensation.

Annuity. An annuity is a series of payments under a contract made at regular intervals over a period of more than 1 full year. They can be either fixed (under which you receive a definite amount) or variable (not fixed). You can buy the contract alone or with the help of your employer.

Qualified employee plan. A qualified employee plan is an employer's stock bonus, pension, or profit-sharing plan that is for the exclusive benefit of employees or their beneficiaries and that meets Internal Revenue Code requirements. It qualifies for special tax benefits, such as tax deferral for employer contributions and capital gain treatment or the 10-year tax option for lump-sum distributions (if participants qualify). To determine whether your plan is a qualified plan, check with your employer or the plan administrator.

Qualified employee annuity. A qualified employee annuity is a retirement annuity purchased by an employer for an employee under a plan that meets Internal Revenue Code requirements.

Designated Roth account. A designated Roth account is a separate account created under a qualified Roth contribution program to which participants may elect to have part or all of their elective deferrals to a 401(k), 403(b), or 457(b) plan designated as Roth contributions. Elective deferrals that are designated as Roth contributions are included in your income. However, qualified distributions (explained later) aren't included in your income. You should check with your plan administrator to determine if your plan will accept designated Roth contributions.

Tax-sheltered annuity plan. A tax-sheltered annuity plan (often referred to as a 403(b) plan or a tax-deferred annuity plan) is a retirement plan for employees of public schools and certain tax-exempt organizations. Generally, a tax-sheltered annuity plan provides retirement benefits by purchasing annuity contracts for its participants.

Types of pensions and annuities. Pensions and annuities include the following types.

Fixed-period annuities. You receive definite amounts at regular intervals for a specified length of time.

Annuities for a single life. You receive definite amounts at regular intervals for life. The payments end at death.

Joint and survivor annuities. The first annuitant receives a definite amount at regular intervals for life. After he or she dies, a second annuitant receives a definite amount at regular intervals for life. The amount paid to the second annuitant may or may not differ from the amount paid to the first annuitant.

Variable annuities. You receive payments that may vary in amount for a specified length of time or for life. The amounts you receive may depend upon such variables as profits earned by the pension or annuity funds, cost-of-living indexes, or earnings from a mutual fund.

Disability pensions. You receive disability payments because you retired on disability and haven't reached minimum retirement age.

More than one program. You may receive employee plan benefits from more than one program under a single trust or plan of your employer. If you participate in more than one program, you may have to treat each as a separate pension or annuity contract, depending upon the facts in each case. Also, you may be considered to have received more than one pension or annuity. Your former employer or the plan administrator should be able to tell you if you have more than one contract.

Example. Your employer set up a noncontributory profit-sharing plan for its employees. The plan provides that the amount held in the account of each participant will be paid when that participant retires. Your employer also set up a contributory defined benefit pension plan for its employees providing for the payment of a lifetime pension to each participant after retirement.

The amount of any distribution from the profit-sharing plan depends on the contributions (including allocated forfeitures) made for the participant and the earnings from those contributions. Under the pension plan, however, a formula determines the amount of the pension benefits. The amount of contributions is the amount necessary to provide that pension.

Each plan is a separate program and a separate contract. If you get benefits from these plans, you must account for each separately, even though the benefits from both may be included in the same check.

CAUTION *Distributions from a designated Roth account are treated separately from other distributions from the plan.*

Qualified domestic relations order (QDRO). A QDRO is a judgment, decree, or order relating to payment of child support, alimony, or marital property rights to a spouse, former spouse, child, or other dependent of a participant in a retirement plan. The QDRO must contain certain specific information, such as the name and last known mailing address of the participant and each alternate payee, and the amount or percentage of the participant's benefits to be paid to each alternate payee. A QDRO may not award an amount or form of benefit that isn't available under the plan.

A spouse or former spouse who receives part of the benefits from a retirement plan under a QDRO reports the payments received as if he or she were a plan participant. The spouse or former spouse is allocated a share of the

DRAFT AS OF February 10, 2020

participant's cost (investment in the contract) equal to the cost times a fraction. The numerator of the fraction is the present value of the benefits payable to the spouse or former spouse. The denominator is the present value of all benefits payable to the participant.

A distribution that is paid to a child or other dependent under a QDRO is taxed to the plan participant.

Variable Annuities

DRAFT AS OF February 10, 2020

The tax rules in this publication apply both to annuities that provide fixed payments and to annuities that provide payments that vary in amount based on investment results or other factors. For example, they apply to commercial variable annuity contracts, whether bought by an employee retirement plan for its participants or bought directly from the issuer by an individual investor. Under these contracts, the owner can generally allocate the purchase payments among several types of investment portfolios or mutual funds and the contract value is determined by the performance of those investments. The earnings aren't taxed until distributed either in a withdrawal or in annuity payments. The taxable part of a distribution is treated as ordinary income.

For information on the tax treatment of a transfer or exchange of a variable annuity contract, see *Transfers of Annuity Contracts* under *Taxation of Nonperiodic Payments* , later.

Net investment income tax. Annuities under a nonqualified plan are included in calculating your net investment income for the net investment income tax (NIIT). For information, see the Instructions for Form 8960, Net Investment Income Tax—Individuals, Estates, and Trusts.

Withdrawals. If you withdraw funds before your annuity starting date and your annuity is under a qualified retirement plan, a ratable part of the amount withdrawn is tax free. The tax-free part is based on the ratio of your cost (investment in the contract) to your account balance under the plan.

If your annuity is under a nonqualified plan (including a contract you bought directly from the issuer), the amount withdrawn is allocated first to earnings (the taxable part) and then to your cost (the tax-free part). However, if you bought your annuity contract before August 14, 1982, a different allocation applies to the investment before that date and the earnings on that investment. To the extent the amount withdrawn doesn't exceed that investment and earnings, it is allocated first to your cost (the tax-free part) and then to earnings (the taxable part).

If you withdraw funds (other than as an annuity) on or after your annuity starting date, the entire amount withdrawn is generally taxable.

The amount you receive in a full surrender of your annuity contract at any time is tax free to the extent of any cost that you haven't previously recovered tax free. The rest is taxable.

For more information on the tax treatment of withdrawals, see *Taxation of Nonperiodic Payments*, later. If you withdraw funds from your annuity before you reach age 59½, also see *Tax on Early Distributions* under *Special Additional Taxes*, later.

Annuity payments. If you receive annuity payments under a variable annuity plan or contract, you recover your cost tax free under either the Simplified Method or the General Rule, as explained under *Taxation of Periodic Payments*, later. For a variable annuity paid under a qualified plan, you must generally use the Simplified Method. For a variable annuity paid under a nonqualified plan (including a contract you bought directly from the issuer), you must use a special computation under the General Rule. For more information, see *Variable annuities* in Pub. 939 under *Computation Under the General Rule.*

Death benefits. If you receive a single-sum distribution from a variable annuity contract because of the death of the owner or annuitant, the distribution is generally taxable only to the extent it is more than the unrecovered cost of the contract. If you choose to receive an annuity, the payments are subject to tax as described above. If the contract provides a joint and survivor annuity and the primary annuitant had received annuity payments before death, you figure the tax-free part of annuity payments you receive as the survivor in the same way the primary annuitant did. See *Survivors and Beneficiaries*, later.

Section 457 Deferred Compensation Plans

If you work for a state or local government or for a tax-exempt organization, you may be able to participate in a section 457 deferred compensation plan. If your plan is an eligible plan, you aren't taxed currently on pay that is deferred under the plan or on any earnings from the plan's investment of the deferred pay. You are generally taxed on amounts deferred in an eligible state or local government plan only when they are distributed from the plan. You are taxed on amounts deferred in an eligible tax-exempt organization plan when they are distributed or otherwise made available to you.

Your 457(b) plan may have a designated Roth account option. If so, you may be able to roll over amounts to the designated Roth account or make contributions. Elective deferrals to a designated Roth account are included in your income. Qualified distributions (explained later) aren't included in your income. See the *Designated Roth accounts* discussion under *Taxation of Periodic Payments*, later.

This publication covers the tax treatment of benefits under eligible section 457 plans, but it doesn't cover the treatment of deferrals. For information on deferrals under section 457 plans, see *Retirement Plan Contributions* under *Employee Compensation* in Pub. 525.

Is your plan eligible? To find out if your plan is an eligible plan, check with your employer. Plans that aren't eligible section 457 plans include the following.

- Bona fide vacation leave, sick leave, compensatory time, severance pay, disability pay, or death benefit plans.
- Nonelective deferred compensation plans for nonemployees (independent contractors).
- Deferred compensation plans maintained by churches.
- Length of service award plans for bona fide volunteer firefighters and emergency medical personnel. An exception applies if the total amount paid to a volunteer exceeds $3,000 for any year of service.

DRAFT AS OF February 10, 2020

Disability Pensions

If you retired on disability, you must generally include in income any disability pension you receive under a plan that is paid for by your employer. You must report your taxable disability payments as wages on Form 1040 or 1040-SR, line 1; or Form 1040-NR, line 8, until you reach minimum retirement age. Minimum retirement age is generally the age at which you can first receive a pension or annuity if you aren't disabled.

TIP *You may be entitled to a tax credit if you were permanently and totally disabled when you retired. For information on this credit, see Pub. 524.*

Beginning on the day after you reach minimum retirement age, payments you receive are taxable as a pension or annuity. When you receive pension or annuity payments, you are able to recover your cost or investment. Your cost is generally your net investment in the plan as of your annuity starting date. It doesn't include pre-tax contributions. For more information, see *Cost (Investment in the Contract)* and *Taxation of Periodic Payments*, later.

Report the payments on Form 1040 or 1040-SR, lines 4c and 4d; or on Form 1040-NR, lines 17a and 17b.

TIP *Disability payments for injuries incurred as a direct result of a terrorist attack directed against the United States (or its allies) aren't included in income. For more information about payments to survivors of terrorist attacks, see Pub. 3920, Tax Relief for Victims of Terrorist Attacks, and Pub. 907, Tax Highlights for Persons with Disabilities.*

Military and government disability pensions. Certain military and government disability pensions aren't taxable.

Service-connected disability. You may be able to exclude from income amounts you receive as a pension, annuity, or similar allowance for personal injury or sickness resulting from active service in one of the following government services.

- The armed forces of any country,
- The National Oceanic and Atmospheric Administration,
- The Public Health Service, or
- The Foreign Service.

Insurance Premiums for Retired Public Safety Officers

If you are an eligible retired public safety officer (law enforcement officer, firefighter, chaplain, or member of a rescue squad or ambulance crew), you can elect to exclude from income distributions made from your eligible retirement plan that are used to pay the premiums for accident or health insurance or long-term care insurance. The premiums can be for coverage for you, your spouse, or dependents. The distribution must be made directly from the plan to the insurance provider. You can exclude from income the smaller of the amount of the insurance premiums or $3,000. You can only make this election for amounts that would otherwise be included in your income. The amount excluded from your income can't be used to claim a medical expense deduction.

An eligible retirement plan is a governmental plan that is:

- a qualified trust,
- a section 403(a) plan,
- a section 403(b) annuity, or
- a section 457(b) plan.

If you make this election, reduce the otherwise taxable amount of your pension or annuity by the amount excluded. The amount shown in box 2a of Form 1099-R doesn't reflect this exclusion. Report your total distributions on Form 1040 or 1040-SR, line 4c; or Form 1040-NR, line 17a. Report the taxable amount on Form 1040 or 1040-SR, line 4d; or Form 1040-NR, line 17b. Enter "PSO" next to the appropriate line on which you report the taxable amount.

If you are retired on disability and reporting your disability pension on Form 1040 or 1040-SR, line 1; or Form 1040-NR, line 8, include only the taxable amount on that line and enter "PSO" and the amount excluded on the dotted line next to the applicable line.

Railroad Retirement Benefits

Benefits paid under the Railroad Retirement Act fall into two categories. These categories are treated differently for income tax purposes.

The first category is the amount of tier 1 railroad retirement benefits that equals the social security benefit that a railroad employee or beneficiary would have been entitled to receive under the social security system. This part of the tier 1 benefit is the social security equivalent benefit (SSEB) and you treat it for tax purposes like social security benefits. If you received, repaid, or had tax withheld from the SSEB portion of tier 1 benefits during 2019, you will receive Form RRB-1099, Payments by the Railroad Retirement Board (or Form RRB-1042S, Statement for Nonresident Alien Recipients of Payments by the Railroad

Retirement Board, if you are a nonresident alien) from the U.S. Railroad Retirement Board (RRB).

For more information about the tax treatment of the SSEB portion of tier 1 benefits and Forms RRB-1099 and RRB-1042S, see Pub. 915.

The second category contains the rest of the tier 1 railroad retirement benefits called the non-social security equivalent benefit (NSSEB). It also contains any tier 2 benefit, vested dual benefit (VDB), and supplemental annuity benefit. Treat this category of benefits, shown on Form RRB-1099-R, as an amount received from a qualified employee plan. This allows for the tax-free (nontaxable) recovery of employee contributions from the tier 2 benefits and the NSSEB part of the tier 1 benefits. (The NSSEB and tier 2 benefits, less certain repayments, are combined into one amount called the Contributory Amount Paid on Form RRB-1099-R.) VDBs and supplemental annuity benefits are non-contributory pensions and are fully taxable. See *Taxation of Periodic Payments*, later, for information on how to report your benefits and how to recover the employee contributions tax free. Form RRB-1099-R is used for U.S. citizens, resident aliens, and nonresident aliens.

Nonresident aliens. A nonresident alien is an individual who isn't a citizen or a resident alien of the United States. If you are a nonresident alien, you are subject to U.S. tax on your SSEB portion of tier 1 benefits at a 30% rate, unless exempt or subject to a lower treaty rate. See Pub. 519, U.S. Tax Guide for Aliens, for more information.

If your rate of tax changed or your country of legal residence changed during the tax year, you may receive more than one Form RRB-1042S or Form RRB-1099-R. To determine your total benefits paid or repaid and total tax withheld for the year, you should add the amounts shown on all forms you received for that year.

Tax withholding. To request or change your income tax withholding from SSEB payments, U.S. citizens should contact the IRS for Form W-4V, Voluntary Withholding Request, and file it with the RRB. To elect, revoke, or change your income tax withholding from NSSEB, tier 2, VDB, and supplemental annuity payments received, use Form RRB W-4P, Withholding Certificate for Railroad Retirement Payments. If you are a nonresident alien or a U.S. citizen living abroad, you should provide Form RRB-1001, Nonresident Questionnaire, to the RRB to furnish citizenship and residency information and to claim any treaty exemption from U.S. tax withholding. Nonresident U.S. citizens can't elect to be exempt from withholding on payments delivered outside the United States.

Help from the RRB. To request an RRB form or to get help with questions about an RRB benefit, you should contact your nearest RRB field office if you reside in the United States (call 1-877-772-5772 for the nearest field office) or U.S. Consulate/Embassy if you reside outside the United States. You can visit the RRB on the Internet at *https://secure.rrb.gov/*.

Form RRB-1099-R. The following discussion explains the items shown on Form RRB-1099-R. The amounts shown on this form are before any deduction for:

- Federal income tax withholding;
- Medicare premiums;
- Legal process garnishment payments;
- Recovery of a prior-year overpayment of an NSSEB, tier 2 benefit, VDB, or supplemental annuity benefit; or
- Recovery of Railroad Unemployment Insurance Act benefits received while awaiting payment of your railroad retirement annuity.

The amounts shown on this form are after any offset for:

- Social security benefits;
- Age reduction;
- Public service pensions or public disability benefits;
- Dual railroad retirement entitlement under another RRB claim number;
- Work deductions;
- Legal process partition deductions;
- Actuarial adjustment;
- Annuity waiver; or
- Recovery of a current-year overpayment of NSSEB, tier 2, VDB, or supplemental annuity benefits.

The amounts shown on Form RRB-1099-R don't reflect any special rules, such as capital gain treatment or the special 10-year tax option for lump-sum payments, or tax-free rollovers. To determine if any of these rules apply to your benefits, see the discussions about them later.

Generally, amounts shown on your Form RRB-1099-R are considered a normal distribution. Use distribution code “7” if you are asked for a distribution code. Distribution codes aren't shown on Form RRB-1099-R.

There are three copies of this form. Copy B is to be included with your income tax return if federal income tax is withheld. Copy C is for your own records. Copy 2 is filed with your state, city, or local income tax return when required. See the illustrated Copy B (Form RRB-1099-R), later.

TIP *Each beneficiary will receive his or her own Form RRB-1099-R. If you receive benefits on more than one railroad retirement record, you may get more than one Form RRB-1099-R. So that you get your form timely, make sure the RRB always has your current mailing address.*

Box 1—Claim Number and Payee Code. Your claim number is a six- or nine-digit number preceded by an alphabetical prefix. This is the number under which the RRB paid your benefits. Your payee code follows your claim number and is the last number in this box. It is used by the RRB to identify you under your claim number. In all your

DRAFT AS OF February 10, 2020

PAYER'S NAME, STREET ADDRESS, CITY, STATE, AND ZIP CODE **UNITED STATES RAILROAD RETIREMENT BOARD** 844 N RUSH ST CHICAGO IL 60611-2092	**2019**		**ANNUITIES OR PENSIONS BY THE RAILROAD RETIREMENT BOARD**	
PAYER'S FEDERAL IDENTIFYING NO.	3. Employee Contributions			
1. Claim Number and Payee Code	4. Contributory Amount Paid		**COPY B -** **REPORT THIS INCOME ON YOUR FEDERAL TAX RETURN. IF THIS FORM SHOWS FEDERAL INCOME TAX WITHHELD IN BOX 9 ATTACH THIS COPY TO YOUR RETURN.** **THIS INFORMATION IS BEING FURNISHED TO THE INTERNAL REVENUE SERVICE.**	
2. Recipient's Identification Number	5. Vested Dual Benefit			
Recipient's Name, Street Address, City, State, and Zip Code	6. Supplemental Annuity			
	7. Total Gross Paid (Sum of boxes 4, 5, and 6)			
	8. Repayments			
	9. Federal Income Tax Withheld			
	10. Rate of Tax		11. Country	12. Medicare Premium Total

DRAFT AS February 10,

FORM RRB-1099-R

correspondence with the RRB, be sure to use the claim number and payee code shown in this box.

Box 2—Recipient's Identification Number. This is the recipient's U.S. taxpayer identification number. It is the social security number (SSN), individual taxpayer identification number (ITIN), or employer identification number (EIN), if known, for the person or estate listed as the recipient.

TIP *If you are a resident or nonresident alien who must furnish a taxpayer identification number to the IRS and aren't eligible to obtain an SSN, use Form W-7, Application for IRS Individual Taxpayer Identification Number, to apply for an ITIN. The Instructions for Form W-7 explain how and when to apply.*

Box 3—Employee Contributions. This is the amount of taxes withheld from the railroad employee's earnings that exceeds the amount of taxes that would have been withheld had the earnings been covered under the social security system. This amount is the employee's cost that you use to figure the tax-free part of the NSSEB and tier 2 benefit you received (the amount shown in box 4). (For information on how to figure the tax-free part, see *Partly Taxable Payments*, under *Taxation of Periodic Payments*, later.) The amount shown is the total employee contribution amount, not reduced by any amounts that the RRB calculated as previously recovered. It is the latest amount reported for 2019 and may have increased or decreased from a previous Form RRB-1099-R. If this amount has changed, the change is retroactive. You may need to refigure the tax-free part of your NSSEB/tier 2 benefit for 2019 and prior tax years. If this box is blank, it means that the amount of your NSSEB and tier 2 payments shown in box 4 is fully taxable.

CAUTION *If you had a previous annuity entitlement that ended and you are figuring the tax-free part of your NSSEB/tier 2 benefit for your current annuity entitlement, you should contact the RRB for confirmation of your correct employee contribution amount.*

Box 4—Contributory Amount Paid. This is the gross amount of the NSSEB and tier 2 benefit you received in 2019, less any 2019 benefits you repaid in 2019. (Any benefits you repaid in 2019 for an earlier year or for an unknown year are shown in box 8.) This amount is the total contributory pension paid in 2019. It may be partly taxable and partly tax free or fully taxable. If you determine you are eligible to compute a tax-free part as explained later in *Partly Taxable Payments* under *Taxation of Periodic Payments*, use the latest reported employee contribution amount shown in box 3 as the cost.

Box 5—Vested Dual Benefit. This is the gross amount of vested dual benefit (VDB) payments paid in 2019, less any 2019 VDB payments you repaid in 2019. It is fully taxable. VDB payments you repaid in 2019 for an earlier year or for an unknown year are shown in box 8.

Note. The amounts shown in boxes 4 and 5 may represent payments for 2019 and/or other years after 1983.

Box 6—Supplemental Annuity. This is the gross amount of supplemental annuity benefits paid in 2019, less any 2019 supplemental annuity benefits you repaid in 2019. It is fully taxable. Supplemental annuity benefits you repaid in 2019 for an earlier year or for an unknown year are shown in box 8.

Box 7—Total Gross Paid. This is the sum of boxes 4, 5, and 6. The amount represents the total pension paid in 2019. Include this amount on Form 1040 or 1040-SR, line 4c; or Form 1040-NR, line 17a.

Box 8—Repayments. This amount represents any NSSEB, tier 2 benefit, VDB, and supplemental annuity

benefit you repaid to the RRB in 2019 for years before 2019 or for unknown years. The amount shown in this box hasn't been deducted from the amounts shown in boxes 4, 5, and 6. It only includes repayments of benefits that were taxable to you. This means it only includes repayments in 2019 of NSSEB benefits paid after 1985, tier 2 and VDB benefits paid after 1983, and supplemental annuity benefits paid in any year. If you included the benefits in your income in the year you received them, you may be able to deduct the repaid amount. For more information about repayments, see *Repayment of benefits received in an earlier year*, later.

DRAFT AS OF February 10, 2020

TIP *You may have repaid an overpayment of benefits by returning a payment, by making a payment, or by having an amount withheld from your railroad retirement annuity payment.*

Box 9—Federal Income Tax Withheld. This is the total federal income tax withheld from your NSSEB, tier 2 benefit, VDB, and supplemental annuity benefit. Include this on your income tax return as tax withheld. If you are a nonresident alien and your tax withholding rate and/or country of legal residence changed during 2019, you will receive more than one Form RRB-1099-R for 2019. Determine the total amount of U.S. federal income tax withheld from your 2019 RRB NSSEB, tier 2, VDB, and supplemental annuity payments by adding the amounts in box 9 of all original 2019 Forms RRB-1099-R, or the latest corrected or duplicate Forms RRB-1099-R you receive.

Box 10—Rate of Tax. If you are a nonresident alien, an entry in this box indicates the rate at which tax was withheld on the NSSEB, tier 2, VDB, and supplemental annuity payments that were paid to you in 2019. If you are a nonresident alien whose tax was withheld at more than one rate during 2019, you will receive a separate Form RRB-1099-R for each rate change during 2019. If you are taxed as a U.S. citizen or resident alien, this box doesn't apply to you.

Box 11—Country. If you are a nonresident alien, an entry in this box indicates the country of which you were a resident for tax purposes at the time you received railroad retirement payments in 2019. If you are a nonresident alien who was a resident of more than one country during 2019, you will receive a separate Form RRB-1099-R for each country of residence during 2019. If you are taxed as a U.S. citizen or resident alien, this box doesn't apply to you.

Box 12—Medicare Premium Total. This is for information purposes only. The amount shown in this box represents the total amount of Part B Medicare premiums deducted from your railroad retirement annuity payments in 2019. Medicare premium refunds aren't included in the Medicare total. The Medicare total is normally shown on Form RRB-1099 (if you are a citizen or resident alien of the United States) or Form RRB-1042S (if you are a nonresident alien). However, if Form RRB-1099 or Form RRB-1042S isn't required for 2019, then this total will be shown on Form RRB-1099-R. If your Medicare premiums were deducted from your social security benefits, paid by a third party, refunded to you, and/or you paid the premiums by direct billing, your Medicare total won't be shown in this box.

Repayment of benefits received in an earlier year. If you had to repay any railroad retirement benefits that you had included in your income in an earlier year because at that time you thought you had an unrestricted right to it, you can deduct the amount you repaid in the year in which you repaid it.

However, if you repaid $3,000, or less, 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 or 1040-SR).

If you repaid more than $3,000 in 2019, you can either take a deduction for the amount repaid on Schedule A (Form 1040 or 1040-SR), line 16, or you can take a credit against your tax. For more information, see *Repayments* in Pub. 525.

Withholding Tax and Estimated Tax

Your retirement plan distributions are subject to federal income tax withholding. However, you can choose not to have tax withheld on payments you receive unless they are eligible rollover distributions. (These are distributions, described later under *Rollovers*, that are eligible for rollover treatment but aren't paid directly to another qualified retirement plan or to a traditional IRA.) If you choose not to have tax withheld or if you don't have enough tax withheld, you may have to make estimated tax payments. See *Estimated tax*, later.

The withholding rules apply to the taxable part of payments you receive from:

- An employer pension, annuity, profit-sharing, or stock bonus plan;
- Any other deferred compensation plan;
- A traditional individual retirement arrangement (IRA); or
- A commercial annuity.

For this purpose, a commercial annuity means an annuity, endowment, or life insurance contract issued by an insurance company.

TIP *There will be no withholding on any part of a distribution where it is reasonable to believe that it won't be includible in gross income.*

Choosing no withholding. You can choose not to have income tax withheld from retirement plan payments unless they are eligible rollover distributions. You can make this choice on Form W-4P for periodic and nonperiodic payments. This choice generally remains in effect until you revoke it.

The payer will ignore your choice not to have tax withheld if:

- You don't give the payer your social security number (in the required manner); or
- The IRS notifies the payer, before the payment is made, that you gave an incorrect social security number.

To choose not to have tax withheld, a U.S. citizen or resident alien must give the payer a home address in the United States or its possessions. Without that address, the payer must withhold tax. For example, the payer has to withhold tax if the recipient has provided a U.S. address for a nominee, trustee, or agent to whom the benefits are delivered, but hasn't provided his or her own U.S. home address.

If you don't give the payer a home address in the United States or its possessions, you can choose not to have tax withheld only if you certify to the payer that you aren't a U.S. citizen, a U.S. resident alien, or someone who is subject to section 877 because you expatriated before June 17, 2008. See Form 8854 and its instructions for details about section 877. But if you so certify, you may be subject to the 30% flat rate withholding that applies to nonresident aliens. This 30% rate won't apply if you are exempt or subject to a reduced rate by treaty. For details, see Pub. 519.

Periodic payments. Unless you choose no withholding, your annuity or similar periodic payments (other than eligible rollover distributions) will be treated as wages for withholding purposes. Periodic payments are amounts paid at regular intervals (such as weekly, monthly, or yearly) for a period of time greater than 1-year (such as for 15 years or for life). You should give the payer a completed withholding certificate (Form W-4P or a similar form provided by the payer). If you don't, tax will be withheld as if you were married and claiming three withholding allowances.

Tax will be withheld as if you were single and were claiming no withholding allowances if:

- You don't give the payer your social security number (in the required manner), or
- The IRS notifies the payer (before any payment is made) that you gave an incorrect social security number.

You must file a new withholding certificate to change the amount of withholding.

Nonperiodic distributions. Unless you choose no withholding, the withholding rate for a nonperiodic distribution (a payment other than a periodic payment) that isn't an eligible rollover distribution is 10% of the distribution. You can also ask the payer to withhold an additional amount using Form W-4P. The part of any loan treated as a distribution (except an offset amount to repay the loan), explained later, is subject to withholding under this rule.

Eligible rollover distribution. If you receive an eligible rollover distribution, 20% of it will generally be withheld for income tax. You can't choose not to have tax withheld from an eligible rollover distribution. However, tax won't be withheld if you have the plan administrator pay the eligible rollover distribution directly to another qualified plan or an IRA in a direct rollover. For more information about eligible rollover distributions, see *Rollovers*, later.

Estimated tax. Your estimated tax is the total of your expected income tax, self-employment tax, and certain other taxes for the year, minus your expected credits and withheld tax. Generally, you must make estimated tax payments for 2020 if you expect to owe at least $1,000 in tax (after subtracting your withholding and credits) and you expect your withholding and credits to be less than the smaller of:

1. 90% of the tax to be shown on your 2020 return, or
2. 100% of the tax shown on your 2019 return.

If your adjusted gross income for 2019 was more than $150,000 ($75,000 if your filing status for 2020 is married filing separately), substitute 110% for 100% in (2) above. For more information, get Pub. 505, Tax Withholding and Estimated Tax.

TIP *In figuring your withholding or estimated tax, remember that a part of your monthly social security or equivalent tier 1 railroad retirement benefits may be taxable. See Pub. 915. You can choose to have income tax withheld from those benefits. Use Form W-4V to make this choice.*

Cost (Investment in the Contract)

Distributions from your pension or annuity plan may include amounts treated as a recovery of your cost (investment in the contract). If any part of a distribution is treated as a recovery of your cost under the rules explained in this publication, that part is tax free. Therefore, the first step in figuring how much of a distribution is taxable is to determine the cost of your pension or annuity.

In general, your cost is your net investment in the contract as of the annuity starting date (or the date of the distribution if earlier). To find this amount, you must first figure the total premiums, contributions, or other amounts you paid. This includes the amounts your employer contributed that were taxable to you when paid. However, see *Foreign employment contributions*, later. It doesn't include amounts withheld from your pay on a tax-deferred basis (money that was taken out of your gross pay before taxes were deducted). It also doesn't include amounts you contributed for health and accident benefits (including any additional premiums paid for double indemnity or disability benefits).

From this total cost you must subtract the following amounts.

1. Any refunded premiums, rebates, dividends, or unrepaid loans that weren't included in your income and that you received by the later of the annuity starting

DRAFT AS OF February 10, 2020

date or the date on which you received your first payment.

2. Any other tax-free amounts you received under the contract or plan by the later of the dates in (1).
3. If you must use the Simplified Method for your annuity payments, the tax-free part of any single-sum payment received in connection with the start of the annuity payments, regardless of when you received it. (See *Simplified Method*, later, for information on its required use.)
4. If you use the General Rule for your annuity payments, the value of the refund feature in your annuity contract. (See *General Rule*, later, for information on its use.) Your annuity contract has a refund feature if the annuity payments are for your life (or the lives of you and your survivor) and payments in the nature of a refund of the annuity's cost will be made to your beneficiary or estate if all annuitants die before a stated amount or a stated number of payments are made. For more information, see Pub. 939.

The tax treatment of the items described in (1) through (3) is discussed later under *Taxation of Nonperiodic Payments*.

TIP ***Form 1099-R.*** *If you began receiving periodic payments of a life annuity in 2019, the payer should show your total contributions to the plan in box 9b of your 2019 Form 1099-R.*

Annuity starting date defined. Your annuity starting date is the later of the first day of the first period for which you received a payment or the date the plan's obligations became fixed.

Example. On January 1, you completed all your payments required under an annuity contract providing for monthly payments starting on August 1 for the period beginning July 1. The annuity starting date is July 1. This is the date you use in figuring the cost of the contract and selecting the appropriate number from Table 1 for line 3 of the Simplified Method Worksheet.

Designated Roth accounts. Your cost in these accounts is your designated Roth contributions that were included in your income as wages subject to applicable withholding requirements. Your cost will also include any in-plan Roth rollovers you included in income.

Foreign employment contributions. If you worked abroad, your cost may include contributions by your employer to the retirement plan, but only if those contributions would be excludible from your gross income had they been paid directly to you as compensation. The contributions that apply are:

1. Contributions before 1963 by your employer,
2. Contributions after 1962 by your employer if the contributions would be excludible from your gross income (not including the foreign earned income exclusion) had they been paid directly to you, or
3. Contributions after 1996 by your employer if you performed the services of a foreign missionary (a duly ordained, commissioned, or licensed minister of a church or a lay person) but only if the contributions would be excludible from your gross income had they been paid directly to you.

Foreign employment contributions while a nonresident alien. In determining your cost, special rules apply if you are a U.S. citizen or resident alien who received distributions in 2019 from a plan to which contributions were made while you were a nonresident alien. Your contributions and your employer's contributions aren't included in your cost if the contribution:

- Was made based on compensation which was for services performed outside the United States while you were a nonresident alien; and
- Wasn't subject to income tax under the laws of the United States or any foreign country, but only if the contribution would have been subject to income tax if paid as cash compensation when the services were performed.

DRAFT AS OF February 10, 2020

Taxation of Periodic Payments

This section explains how the periodic payments you receive from a pension or annuity plan are taxed. Periodic payments are amounts paid at regular intervals (such as weekly, monthly, or yearly) for a period of time greater than 1-year (such as for 15 years or for life). These payments are also known as amounts received as an annuity. If you receive an amount from your plan that isn't a periodic payment, see *Taxation of Nonperiodic Payments*, later.

In general, you can recover the cost of your pension or annuity tax free over the period you are to receive the payments. The amount of each payment that is more than the part that represents your cost is taxable. However, see *Insurance Premiums for Retired Public Safety Officers*, earlier.

Designated Roth accounts. If you receive a qualified distribution from a designated Roth account, the distribution isn't included in your gross income. This applies to both your cost in the account and income earned on that account. A **qualified distribution** is generally a distribution that is:

- Made after a 5-tax-year period of participation; and
- Made on or after the date you reach age 59½, made to a beneficiary or your estate on or after your death, or attributable to your being disabled.

If the distribution isn't a qualified distribution, the rules discussed in this section apply. The designated Roth account is treated as a separate contract.

Period of participation. The 5-tax-year period of participation is the 5-tax-year period beginning with the first

tax year for which the participant made a designated Roth contribution to the plan. Therefore, for designated Roth contributions made for 2019, the first year for which a qualified distribution can be made is 2024.

However, if a direct rollover is made to the plan from a designated Roth account under another plan, the 5-tax-year period for the recipient plan begins with the first tax year for which the participant first had designated Roth contributions made to the other plan.

Your 401(k), 403(b), or 457(b) plan may permit you to roll over amounts from those plans to a designated Roth account within the same plan. This is known as an in-plan Roth rollover. For more details, see *In-plan Roth rollovers*, later.

DRAFT AS OF February 10, 2020

Fully Taxable Payments

The pension or annuity payments that you receive are fully taxable if you have no cost in the contract because any of the following situations applies to you. However, see *Insurance Premiums for Retired Public Safety Officers*, earlier.

- You didn't pay anything or aren't considered to have paid anything for your pension or annuity. Amounts withheld from your pay on a tax-deferred basis aren't considered part of the cost of the pension or annuity payment.
- Your employer didn't withhold contributions from your salary.
- You got back all of your contributions tax free in prior-years. However, see *Exclusion not limited to cost* under *Partly Taxable Payments*, later.

Report the total amount you received on Form 1040 or 1040-SR, line 4d; or Form 1040-NR, line 17b. You should make no entry on Form 1040 or 1040-SR, line 4c; or Form 1040-NR, line 17a.

Deductible voluntary employee contributions. Distributions you receive that are based on your accumulated deductible voluntary employee contributions are generally fully taxable in the year distributed to you. Accumulated deductible voluntary employee contributions include net earnings on the contributions. If distributed as part of a lump sum, they don't qualify for the 10-year tax option or capital gain treatment, explained later.

Partly Taxable Payments

If you have a cost to recover from your pension or annuity plan (see *Cost (Investment in the Contract)*, earlier), you can exclude part of each annuity payment from income as a recovery of your cost. This tax-free part of the payment is figured when your annuity starts and remains the same each year even if the amount of the payment changes. The rest of each payment is taxable. However, see *Insurance Premiums for Retired Public Safety Officers*, earlier.

You figure the tax-free part of the payment using one of the following methods.

- ***Simplified Method.*** You must generally use this method if your annuity is paid under a qualified plan (a qualified employee plan, a qualified employee annuity, or a tax-sheltered annuity plan or contract). You can't use this method if your annuity is paid under a nonqualified plan.
- ***General Rule.*** You must use this method if your annuity is paid under a nonqualified plan. Generally, you can't use this method if your annuity is paid under a qualified plan. However, see *Qualified plan annuity starting before November 19, 1996*, later for exceptions to this rule.

You determine which method to use when you first begin receiving your annuity, and you continue using it each year that you recover part of your cost.

If you had more than one partly taxable pension or annuity, figure the tax-free part and the taxable part of each separately.

Qualified plan annuity starting before November 19, 1996. If your annuity is paid under a qualified plan and your annuity starting date (defined earlier under *Cost (Investment in the Contract)*) is after July 1, 1986, and before November 19, 1996, you could have chosen to use either the Simplified Method or the General Rule. If your annuity starting date is before July 2, 1986, you use the General Rule unless your annuity qualified for the Three-Year Rule. If you used the Three-Year Rule (which was repealed for annuities starting after July 1, 1986), your annuity payments are generally now fully taxable.

Exclusion limit. Your annuity starting date determines the total amount of annuity payments that you can exclude from income over the years. Once your annuity starting date is determined, it doesn't change. If you calculate the taxable portion of your annuity payments using the Simplified Method Worksheet, the annuity starting date determines the recovery period for your cost. That recovery period begins on your annuity starting date and isn't affected by the date you first complete the worksheet.

Exclusion limited to cost. If your annuity starting date is after 1986, the total amount of annuity income that you can exclude over the years as a recovery of the cost can't exceed your total cost. Any unrecovered cost at your (or the last annuitant's) death is allowed as an itemized deduction on the final return of the decedent.

Example 1. Your annuity starting date is after 1986, and you exclude $100 a month ($1,200 a year) under the Simplified Method. The total cost of your annuity is $12,000. Your exclusion ends when you have recovered your cost tax free, that is, after 10 years (120 months). After that, your annuity payments are generally fully taxable.

Example 2. The facts are the same as in *Example 1*, except you die (with no surviving annuitant) after the eighth year of retirement. You have recovered tax free only $9,600 (8 × $1,200) of your cost. An itemized

deduction for your unrecovered cost of $2,400 ($12,000 – $9,600) can be taken on your final return.

Exclusion not limited to cost. If your annuity starting date is before 1987, you can continue to take your monthly exclusion for as long as you receive your annuity. If you chose a joint and survivor annuity, your survivor can continue to take the survivor's exclusion figured as of the annuity starting date. The total exclusion may be more than your cost.

DRAFT AS OF February 10, 2020

Simplified Method

Under the Simplified Method, you figure the tax-free part of each annuity payment by dividing your cost by the total number of anticipated monthly payments. For an annuity that is payable for the lives of the annuitants, this number is based on the annuitants' ages on the annuity starting date and is determined from a table. For any other annuity, this number is the number of monthly annuity payments under the contract.

Who must use the Simplified Method. You must use the Simplified Method if your annuity starting date is after November 18, 1996, and you meet both of the following conditions.

1. You receive your pension or annuity payments from any of the following plans.
   a. A qualified employee plan.
   b. A qualified employee annuity.
   c. A tax-sheltered annuity plan (403(b) plan).
2. On your annuity starting date, at least one of the following conditions applies to you.
   a. You are under age 75.
   b. You are entitled to less than 5 years of guaranteed payments.

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 in the back of this publication to figure your taxable annuity for 2019. 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 2019 under a joint and survivor annuity. Bill's annuity starting date is January 1, 2019. The benefits are to be paid for the joint lives of Bill and his wife, Kathy, 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 Kathy 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 Kathy'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, Kathy 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 Kathy 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
- A 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 Three-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

DRAFT AS OF February 10, 2020

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 or 1040-SR, line 4c; or Form 1040-NR, line 17a	**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 or 1040-SR, line 4d; or Form 1040-NR, line 17b. **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*, earlier, 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 2019. 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.

DRAFT AS OF February 10, 20

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...	AND your annuity starting date was— 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

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.

DRAFT AS OF February 10, 2020

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 or 1040-SR, line 4c; or Form 1040-NR, line 17a. Enter the taxable amount of the distribution on Form 1040 or 1040-SR, line 4d; or Form 1040-NR, line 17b. 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.

DRAFT AS OF February 10, 2020

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 generally can 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),
- A qualified employee annuity plan, or
- A 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.

DRAFT AS OF February 10, 2020

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.

CAUTION *The taxable portion of distributions from nonqualified plans are subject to the net investment income tax. 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 government plan loans. At least part of certain loans under a qualified employee plan, qualified employee annuity, tax-sheltered annuity (403(b) plan), or government 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, 2019, 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 a uniformed service 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, 2024 (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, 2024, 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, 2026 (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, you should receive a Form 1099-R showing code “L” in box 7. If your loan is treated as a qualified loan offset, you should receive a Form 1099-R showing code “M”in box 7.

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.

DRAFT AS OF February 10, 2020

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

DRAFT AS OF February 10, 2020

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 his or her retirement benefit may increase if he or she is 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 his or her 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. (Form 1099-R, box 8, 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 his or her 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 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 Federal Civil Service Retirement System (or the Federal Employees' Retirement System).

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.

DRAFT AS OF February 10, 2020

- 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.

DRAFT AS OF February 10, 2020

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 date are considered filed on their due date.)

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 or 1040-SR, lines 4c and 4d; or Form 1040-NR, lines 17a and 17b. 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 or 1040-SR, line 12a; or on Form 1040-NR, line 42.

If you elect the 10-year tax option, don't include any part of the distribution on Form 1040 or 1040-SR, lines 4c and 4d; or Form 1040-NR, lines 17a and 17b. 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 or 1040-SR, line 12a; or on Form 1040-NR, line 42.

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 net unrealized appreciation (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 (Form 1099-R, box 6) 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 or 1040-SR).

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, get 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.

DRAFT AS OF February 10, 2020

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 2019. He withdrew the entire amount to his credit from the company's qualified pension plan. In December 2019, 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, Part II, line 6 and $2,000 ($10,000 × 20% (0.20)) on Part II, 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, Part III, line 8. Then, he completes the rest of Form 4972 and includes the tax of $24,270 in the total on Form 1040 or 1040-SR, line 12a. 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 phone no.		1 Gross distribution $ 175000.00	OMB No. 1545-0119 2019 Form 1099-R	Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.
Crabtree Corporation Employees' Pension Plan 1111 Main Street Anytown, Texas 75000		2a Taxable amount $ 150000.00		
		2b Taxable amount not determined ☐	Total distribution ☒	
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	Copy B 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.	FATCA filing requirement ☐	12 State tax withheld $ $	13 State/Payer's state no.	14 State distribution $ $
Account number (see instructions)		Date of payment	15 Local tax withheld $ $	16 Name of locality	17 Local distribution $ $

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

DRAFT AS OF February 10, 2020

Form **4972**

Department of the Treasury
Internal Revenue Service (99)

Tax on Lump-Sum Distributions

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

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

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

OMB No. 1545-0193

2019

Attachment Sequence No. **28**

Name of recipient of distribution: Robert C. Smith

Identifying number: 002-00-XXXX

DRAFT AS OF February 10, 2020

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 2019 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 election** (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 or 1040-SR, line 12a; Form 1040-NR, line 42; or Form 1041, Schedule G, line 1b. Be sure to check box **2** on Form 1040 or 1040-SR, line 12a, or check box **b** on Form 1040-NR, line 42.		

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 or 1040-SR, line 12a (check box **2**); Form 1040-NR, line 42 (check box **b**); or Form 1041, Schedule G, line 1b ▶	30	24,270

For Paperwork Reduction Act Notice, see instructions. Cat. No. 13187U Form **4972** (2019)

Example 2. Mary Brown, who was born in 1935, sold her business in 2019. 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 ordinary 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, Form 1099-R, shows that the current actuarial value of the annuity was $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 or 1040-SR, line 12a.

DRAFT AS OF February 10, 2020

☐ CORRECTED (if checked)

PAYER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and phone no. Brown's Real Estate Profit-Sharing Plan 2101 Chelsea Court Anytown, Nevada 89300		1 Gross distribution $ 160000.00 2a Taxable amount $ 160000.00 2b Taxable amount not determined ☐	OMB No. 1545-0119 2019 Form 1099-R Total distribution ☒	**Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.**
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	**Copy B 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.	FATCA filing requirement ☐	12 State tax withheld $ $	13 State/Payer's state no.	14 State distribution $ $
Account number (see instructions)		Date of payment	15 Local tax withheld $ $	16 Name of locality	17 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 (99)

Tax on Lump-Sum Distributions

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

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

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

OMB No. 1545-0193

2019

Attachment Sequence No. **28**

Name of recipient of distribution: Mary Brown

Identifying number: 005-00-XXXX

DRAFT AS OF February 10, 2020

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 2019 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 election (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 or 1040-SR, line 12a; Form 1040-NR, line 42; or Form 1041, Schedule G, line 1b. Be sure to check box **2** on Form 1040 or 1040-SR, line 12a, or check box **b** on Form 1040-NR, line 42.		

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 or 1040-SR, line 12a (check box **2**); Form 1040-NR, line 42 (check box **b**); or Form 1041, Schedule G, line 1b ▶			30	28,070

For Paperwork Reduction Act Notice, see instructions. Cat. No. 13187U Form **4972** (2019)

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; and
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 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 government 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:

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 (discussed later under *Tax on Excess Accumulation*).
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 *Corrective distributions of excess plan contributions* at the beginning of *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 the heading *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 generally isn't 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 Form 8606 instructions.

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 net

DRAFT AS OF February 10, 2020

unrealized appreciation (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.

DRAFT AS OF February 10, 2020

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 generally must 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 59½ 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.

CAUTION ***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.*

Example. You receive an eligible rollover distribution of $10,000 from your employer's qualified employee plan. The payer withholds $2,000, so you actually receive $8,000. If you want to roll over the entire $10,000 to postpone including that amount in your income, you will have to get $2,000 from some other source to add to the $8,000 you actually received.

If you roll over only $8,000, you must include the $2,000 not rolled over in your income for the distribution year. Also, you may be subject to the 10% additional tax on the $2,000 if it was distributed to you before you reached age 59½.

Time for making rollover. You must generally complete the rollover of an eligible rollover distribution paid to you by the 60th day following the day on which you receive the distribution from your employer's plan.

The IRS may waive the 60-day requirement where the failure to do so would be against equity or good conscience, such as in the event of a casualty, disaster, or other event beyond your reasonable control.

Example. In the previous example, you received the distribution on June 30. To postpone including it in your income, you must complete the rollover by August 29, the 60th day following June 30.

Plan loan offset. A plan loan offset is the amount your employer plan account balance is reduced, or offset, to repay a loan from the plan. How long you have to complete the rollover of a plan loan offset depends on what kind of plan loan offset you have. For tax years beginning after 2017, if you have a qualified plan loan offset, you will have until the due date (including extensions) for your tax return for the tax year in which the offset occurs to complete your rollover.

A **qualified plan loan offset** occurs when a plan loan in good standing is offset because your employer plan terminates, or because you have a severance from employment. If your plan loan offset occurs for any other reason, then you have 60 days from the date the offset occurs to complete your rollover.

Ways to get a waiver of the 60-day rollover requirement. There are three ways to obtain a waiver of the 60-day requirement.

- You qualify for an automatic waiver,
- You self-certify that you met the requirements of a waiver, or
- You request and receive a private letter ruling granting a waiver.

For more information about requesting a waiver of the 60-day rollover requirement, rollovers permitted between

the various types of retirement plans (including IRAs), and other topics regarding rollovers, see *Rollovers* in Pub. 590-A, Contributions to Individual Retirement Arrangements (IRAs).

Frozen deposits. If an amount distributed to you becomes a frozen deposit in a financial institution during the 60-day period after you receive it, the rollover period is extended. An amount is a frozen deposit if you can't withdraw it because of either:

- The bankruptcy or insolvency of the financial institution, or
- A restriction on withdrawals by the state in which the institution is located because of the bankruptcy or insolvency (or threat of it) of one or more financial institutions in the state.

The 60-day rollover period is extended by the period for which the amount is a frozen deposit and doesn't end earlier than 10 days after the amount is no longer a frozen deposit.

Retirement bonds. If you redeem retirement bonds purchased under a qualified bond purchase plan, you can roll over the proceeds that exceed your basis tax free into an IRA or qualified employer plan. Subsequent distributions of those proceeds, however, don't qualify for the 10-year tax option or capital gain treatment.

Annuity contracts. If an annuity contract was distributed to you by a qualified retirement plan, you can roll over an amount paid under the contract that is otherwise an eligible rollover distribution. For example, you can roll over a single sum payment you receive upon surrender of the contract to the extent it is taxable and isn't a required minimum distribution.

Rollovers of property. To roll over an eligible rollover distribution of property, you must either roll over the actual property distributed or sell it and roll over the proceeds. You can't keep the distributed property and roll over cash or other property.

If you sell the distributed property and roll over all the proceeds, no gain or loss is recognized on the sale. The sale proceeds (including any portion representing an increase in value) are treated as part of the distribution and aren't included in your gross income.

If you roll over only part of the proceeds, you are taxed on the part you keep. You must allocate the proceeds you keep between the part representing ordinary income from the distribution (its value upon distribution) and the part representing gain or loss from the sale (its change in value from its distribution to its sale).

Example 1. On September 4, 2019, Paul received an eligible rollover distribution from his employer's noncontributory qualified employee plan of $50,000 in nonemployer stock. On September 24, 2019, he sold the stock for $60,000. On October 2, 2019, he contributed $60,000 cash to a traditional IRA. Paul doesn't include either the $50,000 eligible rollover distribution or the $10,000 gain from the sale of the stock in his income. The entire $60,000 rolled over will be ordinary income when he withdraws it from his IRA.

Example 2. The facts are the same as in *Example 1*, except that Paul sold the stock for $40,000 and contributed $40,000 to the IRA. Paul doesn't include the $50,000 eligible rollover distribution in his income and doesn't deduct the $10,000 loss from the sale of the stock. The $40,000 rolled over will be ordinary income when he withdraws it from his IRA.

Example 3. The facts are the same as in *Example 1*, except that Paul rolled over only $45,000 of the $60,000 proceeds from the sale of the stock. The $15,000 proceeds he didn't roll over includes part of the gain from the stock sale. Paul reports $2,500 ($10,000 ÷ $60,000 × $15,000) as capital gain and $12,500 ($50,000 ÷ $60,000 × $15,000) as ordinary income.

Example 4. The facts are the same as in *Example 2*, except that Paul rolled over only $25,000 of the $40,000 proceeds from the sale of the stock. The $15,000 proceeds he didn’t roll over includes part of the loss from the stock sale. Paul reports $3,750 ($10,000 ÷ $40,000 × $15,000) capital loss and $18,750 ($50,000 ÷ $40,000 × $15,000) ordinary income.

Property and cash distributed. If both cash and property were distributed and you didn't roll over the entire distribution, you may designate what part of the rollover is allocable to the cash distribution and what part is allocable to the proceeds from the sale of the distributed property. If the distribution included an amount that isn’t taxable (other than the net unrealized appreciation in employer securities) as well as an eligible rollover distribution, you may also designate what part of the nontaxable amount is allocable to the cash distribution and what part is allocable to the property. Your designation must be made by the due date for filing your tax return, including extensions. You can't change your designation after that date. If you don't make a designation on time, the rollover amount or the nontaxable amount must be allocated on a ratable basis.

Qualified domestic relations order (QDRO). You may be able to roll over tax free all or part of a distribution from a qualified retirement plan that you receive under a QDRO. (See *Qualified domestic relations order (QDRO)* under *General Information*, earlier.) If you receive the distribution as an employee's spouse or former spouse (not as a nonspousal beneficiary), the rollover rules apply to you as if you were the employee.

Rollover by surviving spouse. You may be able to roll over tax free all or part of a distribution from a qualified retirement plan you receive as the surviving spouse of a deceased employee. The rollover rules apply to you as if you were the employee. You can roll over the distribution into a qualified retirement plan or a traditional or Roth IRA. For a rollover to a Roth IRA, see *Rollovers to Roth IRAs*, later.

A distribution paid to a beneficiary other than the employee's surviving spouse is generally not an eligible

DRAFT AS OF February 10, 2020

rollover distribution. However, see *Rollovers by nonspouse beneficiary* next.

Rollovers by nonspouse beneficiary. If you are a designated beneficiary (other than a surviving spouse) of a deceased employee, you may be able to roll over tax free all or a portion of a distribution you receive from an eligible retirement plan of the employee. The distribution must be a direct trustee-to-trustee transfer to your traditional or Roth IRA that was set up to receive the distribution. The transfer will be treated as an eligible rollover distribution and the receiving plan will be treated as an inherited IRA. For information on inherited IRAs, see *What if You Inherit an IRA?* in chapter 1 of Pub. 590-B.

How to report. Enter the total distribution (before income tax or other deductions were withheld) on Form 1040 or 1040-SR, line 4c; or Form 1040-NR, line 17a. This amount should be shown in box 1 of Form 1099-R. From this amount, subtract any contributions (usually shown in box 5 of Form 1099-R) that were taxable to you when made. From that result, subtract the amount that was rolled over either directly or within 60 days of receiving the distribution. Enter the remaining amount, even if zero, on Form 1040 or 1040-SR, line 4d; or Form 1040-NR, line 17b. Also, write "Rollover" next to the line.

Written explanation to recipients. The administrator of a qualified retirement plan must, within a reasonable period of time before making an eligible rollover distribution, provide you with a written explanation. It must tell you about all of the following.

- Your right to have the distribution paid tax free directly to another qualified retirement plan or to a traditional or Roth IRA.
- The requirement to withhold tax from the distribution if it isn't directly rolled over.
- The nontaxability of any part of the distribution that you roll over within 60 days after you receive the distribution.
- Other qualified retirement plan rules that apply, including those for lump-sum distributions, alternate payees, and cash or deferred arrangements.
- How the distribution rules of the plan to which you roll over the distribution may differ from the rules that apply to the plan making the distribution in their restrictions and tax consequences.

Reasonable period of time. The plan administrator must provide you with a written explanation no earlier than 90 days and no later than 30 days before the distribution is made. However, you can choose to have a distribution made less than 30 days after the explanation is provided as long as the following two requirements are met.

- You must have the opportunity to consider whether or not you want to make a direct rollover for at least 30 days after the explanation is provided.
- The information you receive must clearly state that you have the right to have 30 days to make a decision. Contact the plan administrator if you have any questions regarding this information.

Designated Roth accounts. You can roll over an eligible rollover distribution from a designated Roth account into another designated Roth account or a Roth IRA. If you want to roll over the part of the distribution that isn't included in income, you must make a direct rollover of the entire distribution (see *Direct rollover option*, earlier) or you can roll over the entire amount (or any portion) to a Roth IRA. Also, if you are a plan participant in a 401(k), 403(b), or 457(b) plan, your plan may permit you to roll over amounts in those plans to a designated Roth account within the same plan (in-plan Roth rollover). The rollover of any untaxed amounts are included in income. See *In-plan Roth rollovers* below.

A qualified distribution from a designated Roth account isn't includible in income. (A qualified distribution is defined earlier in the discussion of designated Roth accounts under *Taxation of Periodic Payments*). Generally, you can't have a qualified distribution within the 5-tax-year period beginning with the first tax year for which the participant made a designated Roth contribution to the plan. If a direct rollover is made from a designated Roth account under another plan or an in-plan Roth rollover is made, the 5-tax-year period of participation begins on the first day of your tax year for which you first had designated Roth contributions made to the account either making the distribution or receiving the distribution, whichever was earlier.

If you roll over only part of an eligible rollover distribution that isn't a qualified distribution and not paid as a direct rollover contribution, the part rolled over is considered to be first from the income portion of the distribution.

Example. You receive an eligible rollover distribution that isn't a qualified distribution from your designated Roth account. The distribution consists of $11,000 (investment) and $3,000 (income earned). Within 60 days of receipt, you roll over $7,000 into a Roth IRA. The $7,000 consists of $3,000 of income and $4,000 of investment. Since you rolled over the part of the distribution that could be included in gross income (income earned), none of the distribution is included in gross income.

In-plan Roth rollovers. If you are a participant in a 401(k), 403(b), or 457(b) plan, your plan may permit you to roll over any vested amounts from those plans to a designated Roth account within the same plan. The in-plan Roth rollover must be an eligible rollover distribution (defined earlier under *Eligible rollover distribution*). Any untaxed amounts included in the in-plan Roth rollover must be included in income in the year you receive the distribution.

You can make the in-plan Roth rollover by direct transfer of the amount from the non-Roth account to your designated Roth account within the same plan. The 20% mandatory withholding doesn't apply to in-plan Roth rollovers made by direct rollover. You can also effect the in-plan Roth rollover by receiving an eligible rollover distribution from your 401(k), 403(b), or 457(b) plan and within 60 days deposit it into a designated Roth account in the same plan.

DRAFT AS OF February 10, 2020

Your plan must provide a written explanation of the consequences of making an in-plan Roth rollover. In-plan Roth rollovers can't be undone. Unlike rollovers to Roth IRAs, you can't later recharacterize an in-plan Roth rollover.

TIP *If you received employer securities as a part of your in-plan Roth rollover distribution, the rollover is treated as a distribution for the purpose of net unrealized appreciation (NUA). See* Distributions of employer securities, *earlier.*

DRAFT AS OF February 10, 2020

Mandatory 20% withholding. A payor must normally withhold 20% when a rollover distribution is paid to you. However, some part of your distribution may not be subject to the mandatory 20% withholding. Otherwise nondistributable amounts aren't subject to the mandatory 20% withholding. An example of otherwise nondistributable amounts are employer matching contributions in a 401(k) plan. See *Payment to you option*, earlier.

CAUTION *You can't roll over amounts from your Traditional TSP to your Roth TSP. See Pub. 721 for more details.*

How to report. Enter the total amount of the distribution before income tax or deductions were withheld on Form 1040 or 1040-SR, line 4c; or Form 1040-NR, line 17a. This amount should be shown in box 1 of Form 1099-R. From this amount, subtract any contributions (usually shown in box 5 of Form 1099-R) that were taxable to you when made. Enter the remaining amount, even if zero, on Form 1040 or 1040-SR, line 4d; or Form 1040-NR, line 17b.

CAUTION *If you must include any amount in your gross income, you may have to increase your withholding or make estimated tax payments. See Pub. 505, Tax Withholding and Estimated Tax.*

Rollovers to Roth IRAs. You can roll over distributions directly from a qualified retirement plan (other than a designated Roth account) to a Roth IRA. You must include in your gross income distributions from a qualified retirement plan (other than a designated Roth account) that you would have had to include in income if you hadn't rolled them over into a Roth IRA. You don't include in gross income any part of a distribution from a qualified retirement plan that is a return of contributions to the plan that were taxable to you when paid. In addition, the 10% tax on early distributions doesn't apply.

Any amount rolled over into a Roth IRA is subject to the same rules for converting a traditional IRA into a Roth IRA. For more information, see *Converting From Any Traditional IRA Into a Roth IRA* in chapter 1 of Pub. 590-A.

How to report. Enter the total amount of the distribution before income tax or deductions were withheld on Form 1040 or 1040-SR, line 4c; or Form 1040-NR, line 17a. This amount should be shown in box 1 of Form 1099-R. From this amount, subtract any contributions (usually shown in box 5 of Form 1099-R) that were taxable to you when made. Enter the remaining amount, even if zero, on Form 1040 or 1040-SR, line 4d; or Form 1040-NR, line 17b.

CAUTION *If you must include any amount in your gross income, you may have to increase your withholding or make estimated tax payments. See Pub. 505, Tax Withholding and Estimated Tax.*

Choosing the right option. Table 1 may help you decide which distribution option to choose. Carefully compare the effects of each option.

Table 1. **Comparison of Payment to You Versus Direct Rollover**

Affected item	Result of a payment to you	Result of a direct rollover
Withholding	The payer must withhold 20% of the taxable part.	There is no withholding.
Additional tax	If you are under age 59½, a 10% additional tax may apply to the taxable part (including an amount equal to the tax withheld) that isn't rolled over.	There is no 10% additional tax. See *Tax on Early Distributions*, later.
When to report as income	Any taxable part (including the taxable part of any amount withheld) not rolled over is income to you in the year paid.	Any taxable part isn't income to you until later distributed to you from the new plan or IRA. However, see *Rollovers to Roth IRAs*, earlier, for an exception.

Qualified settlement income. If you are a qualified taxpayer and you received qualified settlement income in connection with the Exxon Valdez litigation, you can contribute all or part of it to an eligible retirement plan. This includes a qualified retirement plan. The amount contributed can't exceed $100,000 (reduced by the amount of qualified settlement income contributed to an eligible retirement plan in prior tax years) or the amount of qualified settlement income received during the tax year. Contributions for the year can be made until the due date for filing your tax return, not including extensions.

Qualified settlement income that you contribute to a qualified retirement plan will be treated as having been rolled over in a direct trustee-to-trustee transfer within 60 days of the distribution. The amount contributed isn't included in your taxable income and it isn't considered to be investment in the contract.

You are a qualified taxpayer if you are:

- A plaintiff in the civil action *In re Exxon Valdez*, No. 89-095-CV (HRH) (Consolidated) (D. Alaska), or
- The beneficiary of the estate of a plaintiff who acquired the right to receive qualified settlement income from that plaintiff and who is the spouse or immediate relative of that plaintiff.

Qualified settlement income is any interest or punitive damage awards which are:

- Otherwise includible in income, and
- Received in connection with the Exxon Valdez civil action described (whether pre- or post-judgment and whether related to a settlement or a judgment).

Qualified settlement income can be received as periodic payments or as a lump sum. See Pub. 525, Taxable and Nontaxable Income, for information on how to report Exxon Valdez settlement income.

Special rule for Roth IRAs and designated Roth accounts. Qualified settlement income that is contributed to a Roth IRA or a designated Roth account will be:

- Included in your taxable income for the year the qualified settlement income was received, and
- Treated as part of your cost basis (investment in the contract) that isn't taxable when distributed.

DRAFT AS OF February 10, 2020

Special Additional Taxes

To discourage the use of pension funds for purposes other than normal retirement, the law imposes additional taxes on early distributions of those funds and on failures to withdraw the funds timely. Ordinarily, you won't be subject to these taxes if you roll over all early distributions you receive, as explained earlier, and begin drawing out the funds at a normal retirement age in prorated amounts over your life expectancy. These special additional taxes are the taxes on:

- Early distributions, and
- Excess accumulation (not receiving minimum distributions).

These taxes are discussed in the following sections.

If you must pay either of these taxes, report them on Form 5329. However, you don't have to file Form 5329 if you owe only the tax on early distributions and your Form 1099-R correctly shows code "1" in box 7. Instead, enter 10% of the taxable part of the distribution on Schedule 2 (Form 1040 or 1040-SR), line 6, and enter "No" under the heading "Other Taxes" to the left of line 6. If you file Form 1040-NR, enter 10% of the taxable part of the distribution on line 57 and enter "No" under the heading "Other Taxes" to the left of line 57.

Even if you don't owe any of these taxes, you may have to complete Form 5329 and attach it to your Form 1040 or 1040-SR; or Form 1040-NR. This applies if you meet an exception to the tax on early distributions but box 7 of your Form 1099-R doesn't indicate an exception.

Tax on Early Distributions

Most distributions (both periodic and nonperiodic) from qualified retirement plans and nonqualified annuity contracts made to you before you reach age 59½ are subject to an additional tax of 10%. This tax applies to the part of the distribution that you must include in gross income. It doesn't apply to any part of a distribution that is tax free, such as amounts that represent a return of your cost or that were rolled over to another retirement plan. It also doesn't apply to corrective distributions of excess deferrals, excess contributions, or excess aggregate contributions (discussed earlier under *Taxation of Nonperiodic Payments*).

For this purpose, a qualified retirement plan is:

- A qualified employee plan (including a qualified cash or deferred arrangement (CODA) under Internal Revenue Code section 401(k)),
- A qualified employee annuity plan,
- A tax-sheltered annuity plan (403(b) plan), or
- An eligible state or local government section 457 deferred compensation plan (to the extent that any distribution is attributable to amounts the plan received in a direct transfer or rollover from one of the other plans listed here or an IRA).

5% rate on certain early distributions from deferred annuity contracts. If an early withdrawal from a deferred annuity is otherwise subject to the 10% additional tax, a 5% rate may apply instead. A 5% rate applies to distributions under a written election providing a specific schedule for the distribution of your interest in the contract if, as of March 1, 1986, you had begun receiving payments under the election. On line 4 of Form 5329, multiply the line 3 amount by 5% instead of 10%. Attach an explanation to your return.

Distributions from designated Roth accounts allocable to in-plan Roth rollovers within the 5-year period. If, within the 5-year period starting with the first day of your tax year in which you rolled over an amount from your 401(k), 403(b), or 457(b) plan to a designated Roth account, you take a distribution from the designated Roth account, you may have to pay the additional 10% tax on early distributions. You must generally pay the 10% additional tax on any amount attributable to the part of the in-plan Roth rollover that you had to include in income (recapture amount). A separate 5-year period applies to each in-plan Roth rollover. See *Figuring your recapture amount*, later, to determine the recapture amount, if any.

The 5-year period used for determining whether the 10% early distribution tax applies to a distribution allocable to an in-plan Roth rollover is separately determined for each in-plan Roth rollover, and isn't necessarily the same as the 5-year period used for determining whether a distribution is a qualified distribution.

Figuring your recapture amount. For any early distribution in 2019 from your designated Roth account that is allocable to an in-plan Roth rollover, you allocate the amount from your 2019 Form 1099-R, box 10, to the amounts, if any, you have rolled over into that designated Roth account.

If you haven't taken a distribution from your designated Roth account before 2019, then allocate the amount in box 10 of your 2019 Form 1099-R to the amounts you

Recapture Allocation Chart

Keep for Your Records

Taxable Year	Taxable		Nontaxable (Basis)	
2010	Form 8606, line 23		Form 8606, line 22	
2011	Form 1040, line 16b*; Form 1040A, line 12b*; or Form 1040-NR, line 17b*		Form 1040, line 16a**; Form 1040A, line 12a**; or Form 1040-NR, line 17a**	
2012	Form 1040, line 16b*; Form 1040A, line 12b*; or Form 1040-NR, line 17b*		Form 1040, line 16a**; Form 1040A, line 12a**; or Form 1040-NR, line 17a**	
2013	Form 1040, line 16b*; Form 1040A, line 12b*; or Form 1040-NR, line 17b*		Form 1040, line 16a**; Form 1040A, line 12a**; or Form 1040-NR, line 17a**	
2014	Form 1040, line 16b*; Form 1040A, line 12b*; or Form 1040-NR, line 17b*		Form 1040, line 16a**; Form 1040A, line 12a**; or Form 1040-NR, line 17a**	
2015	Form 1040, line 16b*; Form 1040A, line 12b*; or Form 1040-NR, line 17b*		Form 1040, line 16a**; Form 1040A, line 12a**; or Form 1040-NR, line 17a**	
2016	Form 1040, line 16b*; Form 1040A, line 12b*; or Form 1040-NR, line 17b*		Form 1040, line 16a**; Form 1040A, line 12a**; or Form 1040-NR, line 17a**	
2017	Form 1040, line 16b*; Form 1040A, line 12b*; or Form 1040-NR, line 17b*		Form 1040, line 16a**; Form 1040A, line 12a**; or Form 1040-NR, line 17a**	
2018	Form 1040, line 4b*; or Form 1040-NR, line 17b*		Form 1040, line 4a**; or Form 1040-NR, line 17a**	
2019	Form 1040 or 1040-SR, line 4d*; or 1040-NR, line 17b*		Form 1040 or 1040-SR, line 4c**; or Form 1040-NR, line 17a**	
	Total		**Total**	

Note. The sum of the totals for each column should equal the amount reported on your 2019 Form 1099-R, box 10.

* Only include those amounts attributable to an in-plan Roth rollover.

** Only include any contributions (usually Form 1099-R, box 5) that were taxable to you when made and attributable to an in-plan Roth rollover.

DRAFT AS OF February 10, 2020

reported on the lines listed in the Recapture Allocation Chart (filling in the Taxable column first, and then the Nontaxable column for each year) until you have covered the entire amount in box 10.

If you have taken a distribution from your designated Roth account prior to 2019, then allocate the amount in box 10 of your 2019 Form 1099-R to the amounts you reported on the lines listed in the Recapture Allocation Chart (filling in the Taxable column first, and then the Nontaxable column for each year). However, don't start at the beginning; instead, begin with the first line that hasn't been used fully for a previous distribution.

Your recapture amount is the sum of the amounts you allocated for 2011 through 2019 under the Taxable column in the Recapture Allocation Chart. You will also include this amount on Form 5329, line 1.

Example. You had an in-plan Roth rollover in 2019 of $50,000. This is your first in-plan Roth rollover. Your 2019 Form 1040 or 1040-SR includes $30,000 on line 4d, the taxable portion of the in-plan Roth rollover, and $50,000 on line 4c, the in-plan Roth rollover including $20,000 of basis.

In December 2019, at age 57, you took a distribution of $35,000 from your designated Roth account. The 2019 Form 1099-R shows the distribution of $35,000 reported in box 1, the taxable portion of the distribution of $3,500 reported in box 2a, and the amount of $31,500 allocable to the in-plan Roth rollover reported in box 10. Since you had no in-plan Roth rollovers in prior-years, you would allocate the $31,500 reported in box 10 of Form 1099-R as shown in the Example Recapture Allocation Chart.

The recapture amount, the amount subject to tax on early distributions allocable to the in-plan Roth rollover, is $30,000 ($31,500 – $1,500). Your amount subject to tax

on early distributions reported on Form 5329, line 1, for this distribution is $33,500 ($30,000 allocable to Form 1040 or 1040-SR, line 4d; and $3,500 from Form 1099-R, box 2a).

Exceptions to tax. Certain early distributions are excepted from the early distribution tax. If the payer knows that an exception applies to your early distribution, distribution code "2," "3," or "4" should be shown in box 7 of your Form 1099-R and you don't have to report the distribution on Form 5329. If an exception applies but distribution code "1" (early distribution, no known exception) is shown in box 7, you must file Form 5329. Enter the taxable amount of the distribution shown in box 2a of your Form 1099-R on line 1 of Form 5329. On line 2, enter the amount that can be excluded and the exception number shown in the Form 5329 instructions.

DRAFT AS OF February 10, 2020

TIP *If distribution code "1" is incorrectly shown on your Form 1099-R for a distribution received when you were age 59½ or older, include that distribution on Form 5329. Enter exception number "12" on line 2.*

General exceptions. The tax doesn't apply to distributions that are:

- Made as part of a series of substantially equal periodic payments (made at least annually) for your life (or life expectancy) or the joint lives (or joint life expectancies) of you and your designated beneficiary (if from a qualified retirement plan, the payments must begin after separation from service). See *Substantially equal periodic payments*, later;
- Made because you are totally and permanently disabled (see *Note*, later); or

Example Recapture Allocation Chart

Keep for Your Records

Taxable Year	Taxable		Nontaxable (Basis)	
2010	Form 8606, line 23		Form 8606, line 22	
2011	Form 1040, line 16b*; Form 1040A, line 12b*; or Form 1040-NR, line 17b*		Form 1040, line 16a**; Form 1040A, line 12a**; or Form 1040-NR, line 17a**	
2012	Form 1040, line 16b*; Form 1040A, line 12b*; or Form 1040-NR, line 17b*		Form 1040, line 16a**; Form 1040A, line 12a**; or Form 1040-NR, line 17a**	
2013	Form 1040, line 16b*; Form 1040A, line 12b*; or Form 1040-NR, line 17b*		Form 1040, line 16a**; Form 1040A, line 12a**; or Form 1040-NR, line 17a**	
2014	Form 1040, line 16b*; Form 1040A, line 12b*; or Form 1040-NR, line 17b*		Form 1040, line 16a**; Form 1040A, line 12a**; or Form 1040-NR, line 17a**	
2015	Form 1040, line 16b*; Form 1040A, line 12b*; or Form 1040-NR, line 17b*		Form 1040, line 16a**; Form 1040A, line 12a**; or Form 1040-NR, line 17a**	
2016	Form 1040, line 16b*; Form 1040A, line 12b*; or Form 1040-NR, line 17b*		Form 1040, line 16a**; Form 1040A, line 12a**; or Form 1040-NR, line 17a**	
2017	Form 1040, line 16b*; Form 1040A, line 12b*; or Form 1040-NR, line 17b*		Form 1040, line 16a**; Form 1040A, line 12a**; or Form 1040-NR, line 17a**	
2018	Form 1040, line 4b*; or Form 1040-NR, line 17b*		Form 1040, line 4a**; or Form 1040-NR, line 17a**	
2019	Form 1040 or 1040-SR, line 4d*; or Form 1040-NR, line 17b*	$30,000	Form 1040 or 1040-SR, line 4c**; or Form 1040-NR, line 17a**	$1,500
	Total	$30,000	**Total**	$1,500

Note. The sum of the totals for each column should equal the amount reported on your 2019 Form 1099-R, box 10.

* Only include those amounts attributable to an in-plan Roth rollover.

** Only include any contributions (usually Form 1099-R, box 5) that were taxable to you when made and attributable to an in-plan Roth rollover.

- Made on or after the death of the plan participant or contract holder.

Note. You are considered disabled if you can furnish proof that you can't do any substantial gainful activity because of your physical or mental condition. A physician must determine that your condition can be expected to result in death or be of a long, continued, or indefinite duration.

Additional exceptions for qualified retirement plans. The tax doesn't apply to distributions that are:

- From a qualified retirement plan (other than an IRA) after your separation from service in or after the year you reached age 55 (age 50 for qualified public safety employees) (see *Separation from service*, later);
- From a qualified retirement plan (other than an IRA) to an alternate payee under a qualified domestic relations order;
- From a qualified retirement plan to the extent you have deductible medical expenses that exceed 7.5% of your adjusted gross income, whether or not you itemize your deductions for the year;
- From an employer plan under a written election that provides a specific schedule for distribution of your entire interest if, as of March 1, 1986, you had separated from service and had begun receiving payments under the election;
- From an employee stock ownership plan for dividends on employer securities held by the plan;
- From a qualified retirement plan due to an IRS levy of the plan;
- From elective deferral accounts under 401(k) or 403(b) plans, or similar arrangements, that are qualified reservist distributions; or
- Phased retirement annuity payments made to federal employees. See Pub. 721 for more information on the phased retirement program.

Separation from service. In order to meet the requirements for the first exception in the list above, you must have separated from service in or after the year in which you reach age 55 (or age 50 for qualified public safety employees). You can't separate from service before that year, wait until you are age 55 (or age 50 for qualified public safety employees), and take a distribution.

Example. George separated from service from his employer at age 49. In the year he reached age 55 he took a distribution from his retirement plan. Because he separated from service before he reached age 55, he didn't meet the requirements for the exception for a distribution made from a qualified retirement plan (other than an IRA) after separating from service in or after reaching age 55 (age 50 for qualified public safety employees).

Qualified public safety employees. If you are a qualified public safety employee, distributions made from a governmental retirement plan aren't subject to the additional tax on early distributions. You are a qualified public safety employee if you provided police protection, firefighting services, or emergency medical services for a state or municipality, and you separated from service in or after the year you attained age 50.

For tax years beginning after 2015, the definition of qualified public safety employees is expanded to include the following.

- Federal law enforcement officers,
- Federal customs and border protection officers,
- Federal firefighters,
- Air traffic controllers,
- Nuclear materials couriers,
- Members of the United States Capitol Police,
- Members of the Supreme Court Police, and
- Diplomatic security special agents of the United States Department of State.

Qualified reservist distributions. A qualified reservist distribution isn't subject to the additional tax on early distributions. A qualified reservist distribution is a distribution (a) from elective deferrals under a section 401(k) or 403(b) plan, or a similar arrangement; (b) to an individual ordered or called to active duty (because he or she is a member of a reserve component) for a period of more than 179 days or for an indefinite period; and (c) made during the period beginning on the date of the order or call and ending at the close of the active duty period. You must be ordered or called to active duty after September 11, 2001.

TIP *You can choose to recontribute part or all of the distributions to an IRA. These additional contributions must be made within 2 years after your active-duty period ends. Any amount recontributed must be reported on Form 8606 as a nondeductible contribution. You can't take a deduction for these contributions. However, the normal dollar limitations for contributions to IRAs don't apply to these special contributions, and you can make regular contributions to your IRA, up to the amount otherwise allowable.*

Additional exceptions for nonqualified annuity contracts. The tax doesn't apply to distributions that are:

- From a deferred annuity contract to the extent allocable to investment in the contract before August 14, 1982;
- From a deferred annuity contract under a qualified personal injury settlement;
- From a deferred annuity contract purchased by your employer upon termination of a qualified employee plan or qualified employee annuity plan and held by your employer until your separation from service; or
- From an immediate annuity contract (a single premium contract providing substantially equal annuity payments that start within 1-year from the date of purchase and are paid at least annually).

DRAFT AS OF February 10, 2020

Substantially equal periodic payments. Payments are substantially equal periodic payments if they are made in accordance with one of the following methods.

1. ***Required minimum distribution method.*** Under this method, the resulting annual payment is redetermined for each year.
2. ***Fixed amortization method.*** Under this method, the resulting annual payment is determined once for the first distribution year and remains the same amount for each succeeding year.
3. ***Fixed annuitization method.*** Under this method, the resulting annual payment is determined once for the first distribution year and remains the same amount for each succeeding year.

For information on these methods, see Revenue Ruling 2002-62, which is on page 710 of Internal Revenue Bulletin 2002-42 at www.irs.gov/pub/irs-irbs/irb02-42.pdf.

TIP *A change from method (2) or (3) to method (1) isn't treated as a modification to which the recapture tax (discussed next) applies.*

Recapture tax for changes in distribution method under equal payment exception. An early distribution recapture tax may apply if, before you reach age 59½, the distribution method under the equal periodic payment exception changes (for reasons other than your death or disability). The tax applies if the method changes from the method requiring equal payments to a method that wouldn't have qualified for the exception to the tax. The recapture tax applies to the first tax year to which the change applies. The amount of tax is the amount that would have been imposed had the exception not applied, plus interest for the deferral period.

The recapture tax also applies after you reach age 59½ if your payments under a distribution method that qualifies for the exception are modified within 5 years of the date of the first payment. In that case, the tax applies only to payments distributed before you reach age 59½.

Report the recapture tax and interest on line 4 of Form 5329. Attach an explanation to the form. Don't write the explanation next to the line or enter any amount for the recapture on line 1 or 3 of the form.

Tax on Excess Accumulation

To make sure that most of your retirement benefits are paid to you during your lifetime, rather than to your beneficiaries after your death, the payments that you receive from qualified retirement plans must begin no later than your required beginning date (defined later). The payments each year can't be less than the minimum required distribution.

If the actual distributions to you in any year are less than the minimum required distribution (RMD) for that year, you are subject to an additional tax. The tax equals 50% of the part of the required minimum distribution that wasn't distributed.

For this purpose, a qualified retirement plan includes:

- A qualified employee plan,
- A qualified employee annuity plan,
- An eligible section 457 deferred compensation plan, or
- A tax-sheltered annuity plan (403(b) plan) (for benefits accruing after 1986).

Waiver. The tax may be waived if you establish that the shortfall in distributions was due to reasonable error and that reasonable steps are being taken to remedy the shortfall. If you believe you qualify for this relief, you must file Form 5329 and attach a letter of explanation. In Part VIII of that form, enter "RC" and the amount you want waived in parentheses on the dotted line next to line 52. Subtract this amount from the total shortfall you figured without regard to the waiver and enter the result on line 52.

State insurer delinquency proceedings. You might not receive the minimum distribution because assets are invested in a contract issued by an insurance company in state insurer delinquency proceedings. If your payments are reduced below the minimum because of these proceedings, you should contact your plan administrator. Under certain conditions, you won't have to pay the 50% excise tax.

Required beginning date. Unless the rule for 5% owners applies, you must generally begin to receive distributions from your qualified retirement plan by April 1 of the year that follows the later of:

- The calendar year in which you reach age 70½, or
- The calendar year in which you retire from employment with the employer maintaining the plan.

However, your plan may require you to begin to receive distributions by April 1 of the year that follows the year in which you reach age 70½ even if you haven't retired.

If you reach age 70½ in 2019, you may be required to receive your first distribution by April 1, 2020. Your required distribution then must be made for 2020 by December 31, 2020.

5% owners. If you are a 5% owner, you must begin to receive distributions from the plan by April 1 of the year that follows the calendar year in which you reach age 70½. This rule doesn't apply if your retirement plan is a government or church plan.

You are a 5% owner if, for the plan year ending in the calendar year in which you reach age 70½, you own (or are considered to own under section 318 of the Internal Revenue Code) more than 5% of the outstanding stock (or more than 5% of the total voting power of all stock) of the employer, or more than 5% of the capital or profits interest in the employer.

Age 70½. You reach age 70½ on the date that is 6 calendar months after the date of your 70th birthday. For example, if your 70th birthday was on June 30, 2019, you reached age 70½ on December 30, 2019. If your 70th

DRAFT AS OF February 10, 2020

birthday was on July 1, 2019, you reached age 70½ on January 1, 2020.

Required distributions. By the required beginning date, you must either:

- Receive your entire interest in the plan (for a tax-sheltered annuity, your entire benefit accruing after 1986), or
- Begin receiving periodic distributions in annual amounts calculated to distribute your entire interest (for a tax-sheltered annuity, your entire benefit accruing after 1986) over your life or life expectancy or over the joint lives or joint life expectancies of you and a designated beneficiary (or over a shorter period).

After the starting year for periodic distributions, you must receive at least the minimum required distribution for each year by December 31 of that year. (The starting year is the year in which you reach age 70½ or retire, whichever applies in determining your required beginning date.) If no distribution is made in your starting year, the minimum required distributions for 2 years must be made the following year (one by April 1 and one by December 31).

Example. You retired under a qualified employee plan in 2018. You reached age 70½ on August 20, 2019. For 2019 (your starting year), you must receive a minimum amount from your retirement plan by April 1, 2020. You must receive the minimum required distribution for 2020 by December 31, 2020.

Distributions after the employee's death. If the employee was receiving periodic distributions before his or her death, any payments not made as of the time of death must be distributed at least as rapidly as under the distribution method being used at the date of death.

If the employee dies before the required beginning date, the entire account must be distributed under one of the following rules.

- Rule 1. The distribution must be completed by December 31 of the fifth year following the year of the employee's death.
- Rule 2. The distribution must be made in annual amounts over the life or life expectancy of the designated beneficiary.

The terms of the plan may determine which of these two rules apply. If the plan permits the employee or the beneficiary to choose the rule that applies, this choice must be made by the earliest date a distribution would be required under either of the rules. Generally, this date is December 31 of the year following the year of the employee's death.

If the employee or the beneficiary didn't choose either rule and the plan doesn't specify the rule that applies, distribution must be made under Rule 2 if the employee has a designated beneficiary or under Rule 1 if the employee doesn't have a designated beneficiary.

Distributions under Rule 2 must generally begin by December 31 of the year following the year of the employee's death. However, if the surviving spouse is the beneficiary, distributions need not begin until December 31 of the year the employee would have reached age 70½, if later.

If the surviving spouse is the designated beneficiary and distributions are to be made under Rule 2, a special rule applies if the spouse dies after the employee but before distributions are required to begin. In this case, distributions may be made to the spouse's beneficiary under either Rule 1 or Rule 2, as though the beneficiary were the employee's beneficiary and the employee died on the spouse's date of death. However, if the surviving spouse remarries after the employee's death and the new spouse is designated as the spouse's beneficiary, this special rule applicable to surviving spouses doesn't apply to the new spouse.

Minimum distributions from an annuity plan. Special rules may apply if you receive distributions from your retirement plan in the form of an annuity. Your plan administrator should be able to give you information about these rules.

Minimum distributions from an individual account plan. Your plan administrator should be able to give you information about how the amount of your required distribution was figured.

If there is an account balance to be distributed from your plan (not as an annuity), your plan administrator must figure the minimum amount that must be distributed from the plan each year.

What types of installments are allowed? The minimum amount that must be distributed for any year may be made in a series of installments (for example, monthly or quarterly) as long as the total payments for the year made by the date required aren't less than the minimum amount required for the year.

More than minimum. Your plan can distribute more in any year than the minimum amount required for that year; but if it does, you won't receive credit for the additional amount in determining the minimum amount required for future years. However, any amount distributed in your starting year will be credited toward the amount required to be distributed by April 1 of the following year.

Combining multiple accounts to satisfy the minimum distribution requirements. Generally, the required minimum distribution must be figured separately for each account. Each qualified employee retirement plan and qualified annuity plan must be considered individually in satisfying its distribution requirements. However, if you have more than one tax-sheltered annuity account, you can total the required distributions and then satisfy the requirement by taking distributions from any one (or more) of the tax-sheltered annuities.

DRAFT AS OF February 10, 2020

Survivors and Beneficiaries

Generally, a survivor or beneficiary reports pension or annuity income in the same way the plan participant would have reported it. However, some special rules apply, and they are covered elsewhere in this publication as well as in this section.

DRAFT AS OF February 10, 2020

Estate tax deduction. You may be entitled to a deduction for estate tax if you receive amounts included in your income as income in respect of a decedent under a joint and survivor annuity that was included in the decedent's estate. You can deduct the part of the total estate tax that was based on the annuity, provided that the decedent died after his or her annuity starting date. (For details, see Regulations section 1.691(d)-1.) Deduct it in equal amounts over your remaining life expectancy.

If the decedent died before the annuity starting date of a deferred annuity contract and you receive a death benefit under that contract, the amount you receive (either in a lump sum or as periodic payments) in excess of the decedent's cost is included in your gross income as income in respect of a decedent for which you may be able to claim an estate tax deduction.

You can take the estate tax deduction as an itemized deduction on Schedule A (Form 1040 or 1040-SR). This deduction isn't subject to the 2%-of-adjusted-gross-income limit on miscellaneous deductions. See Pub. 559, Survivors, Executors, and Administrators, for more information on the estate tax deduction.

Survivors of employees. Distributions the beneficiary of a deceased employee gets may be accrued salary payments; distributions from employee profit-sharing, pension, annuity, or stock bonus plans; or other items. Some of these should be treated separately for tax purposes. The treatment of these distributions depends on what they represent.

Salary or wages paid after the death of the employee are usually the beneficiary's ordinary income. If you are a beneficiary of an employee who was covered by any of the retirement plans mentioned, you can exclude from income nonperiodic distributions received that totally relieve the payer from the obligation to pay an annuity. The amount that you can exclude is equal to the deceased employee's investment in the contract (cost).

If you are entitled to receive a survivor annuity on the death of an employee, you can exclude part of each annuity payment as a tax-free recovery of the employee's investment in the contract. You must figure the taxable and tax-free part of each payment using the method that applies as if you were the employee. For more information, see *Taxation of Periodic Payments*, earlier.

Survivors of retirees. Benefits paid to you as a survivor under a joint and survivor annuity must be included in your gross income. Include them in income in the same way the retiree would have included them in gross income. See *Partly Taxable Payments* under *Taxation of Periodic Payments*, earlier.

If the retiree reported the annuity under the Three-Year Rule and recovered all of the cost tax free, your survivor payments are fully taxable.

If the retiree was reporting the annuity under the General Rule, you must apply the same exclusion percentage to your initial survivor annuity payment called for in the contract. The resulting tax-free amount will then remain fixed for the initial and future payments. Increases in the survivor annuity are fully taxable. See Pub. 939 for more information on the General Rule.

If the retiree was reporting the annuity under the Simplified Method, the part of each payment that is tax free is the same as the tax-free amount figured by the retiree at the annuity starting date. This amount remains fixed even if the annuity payments are increased or decreased. See *Simplified Method* under *Taxation of Periodic Payments*, earlier.

Guaranteed payments. If you receive guaranteed payments as the decedent's beneficiary under a life annuity contract, don't include any amount in your gross income until your distributions plus the tax-free distributions received by the life annuitant equal the cost of the contract. All later distributions are fully taxable. This rule doesn't apply if it is possible for you to collect more than the guaranteed amount. For example, it doesn't apply to payments under a joint and survivor annuity.

Qualified Disaster Relief

Introduction

Recent legislation contains new rules that provide for tax-favored withdrawals, income inclusion, and repayments for individuals who suffered economic losses as a result of certain major disasters that occurred in 2018, 2019, and early 2020. See *Qualified 2018 and 2019 disaster distributions*, later, for more information.

Previously enacted legislation contains rules that provide for tax-favored withdrawals, income inclusion, and repayments for individuals who suffered economic losses as a result of disasters in 2016 and certain disasters in 2017.

The principles set forth in Notice 2005-92, 2005-51 I.R.B. 165, available at *IRS.gov/irb/2005-51_IRB*, which provides guidance on the tax-favored treatment of distributions and plan loans for victims of Hurricane Katrina, also generally apply to these rules.

If you received a qualified disaster distribution (defined later), it is taxable, but isn't subject to the 10% additional tax on early distributions. The taxable amount is figured in the same manner as other distributions. However, the distribution is included in income ratably over 3 years unless you elect to include the entire amount in the year of distribution. For example, if you received a $60,000 qualified disaster distribution in 2017, you can include $20,000 in your income in 2017, 2018, and 2019. However, you can elect to include the entire distribution in your income in the

year it was received. Also, you can repay the distribution and not be taxed on the distribution. See *Qualified Disaster Distributions*, later.

If you received a distribution from an eligible retirement plan to purchase or construct a main home but didn't purchase or construct a main home because of certain major disasters in 2018 or 2019, you may be able to repay the distribution and not pay income tax or the 10% additional tax on early distributions. See *Repayment of Qualified Distributions for the Purchase or Construction of a Main Home*, later.

Form 8915-C, Qualified 2018 Disaster Retirement Plan Distributions and Repayments, and Form 8915-D, Qualified 2019 Disaster Retirement Plan Distributions and Repayments, are used to report qualified disaster distributions and repayments. Also report qualified distributions for home purchases and construction that were canceled because of qualified 2018 or 2019 disasters on Form 8915-C or Form 8915-D, as applicable.

DRAFT AS OF February 10, 2020

Qualified Disaster Distributions

Qualified 2016 disaster distribution. A qualified 2016 disaster distribution is any distribution you received from an eligible retirement plan made on or after January 1, 2016, and before January 1, 2018, if at any time during the calendar year 2016 your main home was located in a major disaster area declared in 2016 by the President under section 401 of the Robert T. Stafford Disaster Relief and Emergency Assistance Act and you sustained an economic loss by reason of the events giving rise to such Presidential declaration. If the previous sentence applied to you, you could generally designate any distribution (including a periodic payment or a required minimum distribution) from an eligible retirement plan as a qualified 2016 disaster distribution, regardless of whether the distribution was made on account of a federally declared disaster in calendar year 2016. Qualified 2016 disaster distributions were permitted without regard to your need or the actual amount of your economic loss, described later.

See Qualified 2016 Disasters in Pub. 976 for a list of disasters declared by the President in 2016. Also, see Form 8915-A, Qualified 2016 Disaster Retirement Plan Distributions and Repayments, for more information on reporting qualified 2016 disaster distributions.

Qualified 2017 disaster distribution. A qualified 2017 disaster distribution is any distribution you received from an eligible retirement plan if all of the following conditions apply.

1. The distribution was made:
   a. After August 22, 2017, and before January 1, 2019, for Hurricane Harvey or Tropical Storm Harvey.
   b. After September 3, 2017, and before January 1, 2019, for Hurricane Irma.
   c. After September 15, 2017, and before January 1, 2019, for Hurricane Maria.
   d. After October 7, 2017, and before January 1, 2019, for the California wildfire disasters.
2. Your main home was located in a disaster area listed below on the date or any date in the period shown for that area.
   a. August 23, 2017, for the Hurricane Harvey and Tropical Storm Harvey disaster area. For this purpose, that area includes the states of Texas and Louisiana.
   b. September 4, 2017, for the Hurricane Irma disaster area. For this purpose, that area includes the states of Florida, Georgia, and South Carolina; the territories of Puerto Rico and the U.S. Virgin Islands; and the Seminole Tribe of Florida.
   c. September 16, 2017, for the Hurricane Maria disaster area. For this purpose, that area includes the territories of Puerto Rico and the U.S. Virgin Islands.
   d. October 8, 2017, to December 31, 2017, for the California wildfire disaster area. For this purpose, that area includes the state of California.
3. You sustained an economic loss because of the disaster(s) in (2) above.

If (1) through (3) above apply, you could generally designate any distribution (including a periodic payment or a required minimum distribution) from an eligible retirement plan as a qualified 2017 disaster distribution, regardless of whether the distribution was made on account of Hurricane Harvey, Tropical Storm Harvey, Hurricane Irma, Hurricane Maria, or the 2017 California wildfires. Qualified 2017 disaster distributions were permitted without regard to your need or the actual amount of your economic loss, described, later.

Qualified 2018 and 2019 disaster distributions. The definition of a qualified disaster distribution has been expanded to include distributions made from an eligible retirement plan to an individual whose main home was in a qualified disaster area (described next) at any time during that disaster's incident period and who sustained an economic loss because of the disaster.

Qualified disaster area. Any area with respect to which a major disaster was declared after 2017 by the President under section 401 of the Robert T. Stafford Disaster Relief and Emergency Assistance Act, except the California wildfire disaster area defined in the Bipartisan Budget Act of 2018.

Incident period. The period specified by the Federal Emergency Management Agency (FEMA) as the period during which the disaster occurred, but not including any dates before 2018.

Qualified disaster distribution. A qualified disaster distribution for 2018 and 2019 disasters are those distributions from an eligible retirement plan:

1. Made on or after the first day of the incident period of a qualified disaster and before June 17, 2020;

2. Made to an individual whose main home at any time during the incident period of such qualified disaster was in the qualified disaster area; and
3. That individual sustained an economic loss because of the disaster.

Economic loss. Qualified disaster distributions are permitted without regard to your need or the actual amount of your economic loss. Examples of an economic loss include, but aren't limited to:

1. Loss, damage to, or destruction of real or personal property from fire, flooding, looting, vandalism, theft, wind, or other cause;
2. Loss related to displacement from your home; or
3. Loss of livelihood due to temporary or permanent layoffs.

DRAFT AS OF February 10, 2020

Distribution limit for 2018 and 2019 disaster distributions. The total of your qualified disaster distributions from all plans is limited to $100,000 per disaster for certain major disasters that occurred in 2018, 2019, and early 2020. If you take distributions from more than one type of plan, such as a 401(k) plan and an IRA, and the total amount of your distributions exceeds $100,000 for a single disaster, you may allocate the $100,000 limit among the plans by any reasonable method you choose.

A reduction or offset of your account balance in an eligible retirement plan in order to repay a plan loan can also be designated as a qualified disaster distribution.

Example. In 2019, you received a distribution of $50,000. In 2020, you receive a distribution of $125,000 for the same disaster. Separately, each distribution meets the requirements for a qualified disaster distribution. If you decide to treat the entire $50,000 received in 2019 as a qualified disaster distribution, only $50,000 of the 2020 distribution can be treated as a qualified disaster distribution for the same disaster.

Eligible retirement plan. An eligible retirement plan can be any of the following.

- A qualified pension, profit-sharing, or stock bonus plan (including a 401(k) plan).
- A qualified annuity plan.
- A tax-sheltered annuity contract.
- A governmental section 457 deferred compensation plan.
- A traditional, SEP, SIMPLE, or Roth IRA.

Main home. Generally, your main home is the home where you live most of the time. A temporary absence due to special circumstances, such as illness, education, business, military service, evacuation, or vacation, won't change your main home.

Taxation of Qualified Disaster Distributions

Qualified disaster distributions are included in income in equal amounts over 3 years. However, if you elect, you can include the entire distribution in your income in the year it was received.

Qualified disaster distributions aren't subject to the 10% additional tax (or the additional 25% tax for certain distributions from SIMPLE IRAs) on early distributions from qualified retirement plans (including IRAs). Also, if you are receiving substantially equal periodic payments from a qualified retirement plan, the receipt of a qualified disaster distribution from that plan won't be treated as a change in those substantially equal payments merely because of the qualified disaster distribution. However, any distributions you received in excess of the $100,000 qualified disaster distribution limit may be subject to the additional tax on early distributions.

Repayment of Qualified Disaster Distributions

If you choose, you can generally repay any portion of a qualified disaster distribution that is eligible for tax-free rollover treatment to an eligible retirement plan. Also, you can repay a qualified disaster distribution made on account of a hardship from a retirement plan. However, see *Exceptions*, later, for qualified disaster distributions you can't repay.

You have 3 years from the day after the date you received the distribution to make a repayment. The amount of your repayment can't be more than the amount of the original distribution. Amounts that are repaid are treated as a trustee-to-trustee transfer and aren't included in income. Also, for purposes of the one-rollover-per-year limitation for IRAs, a repayment to an IRA isn't considered a rollover. For more information on how to report distributions and repayments, see the Instructions for Form 8915-A (in the case of 2016 disasters), the Instructions for Form 8915-B (in the case of certain 2017 disasters), the Instructions for Form 8915-C (in the case of qualified 2018 disasters), or the Instructions for Form 8915-D (in the case of qualified 2019 disasters).

Exceptions. You can't repay the following types of distributions.

1. Qualified disaster distributions received as a beneficiary (other than as a surviving spouse).
2. Required minimum distributions.
3. Periodic payments (other than from an IRA) that are for:
   a. A period of 10 years or more,
   b. Your life or life expectancy, or
   c. The joint lives or joint life expectancies of you and your beneficiary.

Repayment of distributions if reporting under the 1-year election. If you elect to include all of your 2017 or 2016 qualified disaster distributions received in a year in income for that year and then repay any portion of the distributions during the allowable 3-year period, the amount repaid will reduce the amount included in income for the year of distribution. If the repayment is made after the due date (including extensions) for your return for the year of distribution, you will need to file, with an amended return, a revised Form 8915-A (if the repayment is of a qualified 2016 disaster distribution), a revised Form 8915-B (if the repayment is of a qualified 2017 disaster distribution), or a revised Form 8915-C (if the repayment is of a qualified 2018 disaster distribution). See *Amending Your Return*, later.

DRAFT AS OF February 10, 2020

Example. Maria received a $45,000 qualified disaster distribution on November 1, 2019. After receiving reimbursement from her insurance company for a casualty loss, Maria repays $45,000 of the qualified distribution on March 31, 2020. She reports the distribution and the repayment on Form 8915-D, which she files with her timely filed 2019 tax return. As a result, no portion of the distribution is included in income on her return.

Repayment of distributions if reporting under the 3-year method. If you are reporting the qualified disaster distribution in income over a 3-year period and you repay any portion of the qualified disaster distribution to an eligible retirement plan before filing your 2019 tax return, the repayment will reduce the portion of the distribution that is included in income in 2019. If you repay a portion after the due date (including extensions) for filing your 2019 return, the repayment will reduce the portion of the distribution that is included in income on your 2020 return, unless you are eligible to amend your 2017, 2018, or 2019 return, as applicable. If, during a year in the 3-year period, you repay more than is otherwise includible in income for that year, the excess may be carried forward or back to reduce the amount included in income for the year.

Example. John received a $90,000 qualified disaster distribution from his pension plan on November 15, 2018. He doesn't elect to include the entire distribution in his 2018 income, but elects to include $30,000 in each of his 2018, 2019, and 2020 returns. On November 10, 2019, John repays $45,000. He makes no other repayments during the allowable 3-year period. John may report the distribution and repayment in either of the following ways.

- Report $0 in income on his 2019 return, and carry the $15,000 excess repayment ($45,000 – $30,000) forward to 2020 and reduce the amount reported in that year to $15,000; or
- Report $0 in income on his 2019 return, report $30,000 on his 2020 return, and file an amended return for 2018 to reduce the amount previously included in income to $15,000 ($30,000 – $15,000).

Amending Your Return

If, after filing your original return, you make a repayment, the repayment may reduce the amount of your qualified disaster distributions that were previously included in income. Depending on when a repayment is made, you may need to file an amended tax return to refigure your taxable income.

If you make a repayment by the due date of your original return (including extensions), include the repayment on your amended return.

If you make a repayment after the due date of your original return (including extensions), include it on your amended return only if either of the following apply.

- You elected to include all of your qualified disaster distributions in income in the year of the distributions (not over 3 years) on your original return.
- The amount of the repayment exceeds the portion of the qualified disaster distributions that are includible in income for 2020 and you choose to carry the excess back to your 2018 or 2019 tax return.

Example. You received a qualified disaster distribution in the amount of $90,000 on October 16, 2018. You choose to spread the $90,000 over 3 years ($30,000 in income for 2018, 2019, and 2020). On November 19, 2020, you make a repayment of $45,000. For 2020, none of the qualified disaster distribution is includible in income. The excess repayment of $15,000 can be carried back to 2019 or 2018, as applicable.

File Form 1040-X to amend a return you have already filed. Generally, Form 1040-X must be filed within 3 years after the date the original return was filed, or within 2 years after the date the tax was paid, whichever is later.

Repayment of Qualified 2018 and 2019 Distributions for the Purchase or Construction of a Main Home

If you received a qualified distribution to purchase or construct a main home in certain major disaster areas, you can repay all or any part of that distribution to an eligible retirement plan during the period beginning on the first day of the *incident period* of a qualified disaster and ending on June 17, 2020.

To be a qualified distribution, the distribution must meet all of the following requirements.

- The distribution is a hardship distribution from a 401(k) plan, a hardship distribution from a tax-sheltered annuity plan (403(b) plan), or a qualified first-time homebuyer distribution from an IRA.
- The distribution was received during the period beginning on the date which is 180 days before the first day of the incident period of the qualified disaster and ending on the date which is 30 days after the last day of such *incident period*.

- The distribution was to be used to purchase or construct a main home in the disaster area and was not purchased or constructed because of the disaster.

Any amount that is repaid during the period beginning on the first day of the incident period of such qualified disaster and ending on June 17, 2020, is treated as a trustee-to-trustee transfer and is not included in income. Also, for purposes of the one-rollover-per-year limitation for IRAs, a repayment to an IRA is not considered a rollover.

A qualified distribution not repaid before June 18, 2020, may be taxable for 2019 and subject to the additional 10% tax (or the additional 25% tax for certain SIMPLE IRAs) on early distributions.

You must file Form 8915-C (for qualified 2018 retirement plan disaster distributions) or Form 8915-D (for qualified 2019 retirement plan disaster distributions) if you received a qualified distribution that you repaid, in whole or in part, before June 18, 2020.

DRAFT AS OF February 10, 2020

Loans From Qualified Plans

As described further, next, the following special rules are available to qualified individuals.

- Increases to the limits for loans from employer retirement plans.
- A 1-year suspension for payments due on plan loans.

Qualified individual. You are a qualified individual if any of the following apply.

- Your main home on August 23, 2017, was located in the Hurricane Harvey disaster area and you had an economic loss because of Hurricane Harvey or Tropical Storm Harvey.
- Your main home on September 4, 2017, was located in the Hurricane Irma disaster area and you had an economic loss because of Hurricane Irma.
- Your main home on September 16, 2017, was located in the Hurricane Maria disaster area and you had an economic loss because of Hurricane Maria.
- Your main home was located in the California wildfire disaster area during any portion of the period from October 8, 2017, to December 31, 2017, and you had an economic loss because of the California wildfires.
- Your main home during any portion of the *incident period* of any qualified 2018 or 2019 disaster is located in the qualified 2018 or 2019 disaster area with respect to such qualified disaster, and you had an economic loss because of such qualified disaster.

Examples of an economic loss include, but aren't limited to:

- Loss, damage to, or destruction of real or personal property from fire, flooding, looting, vandalism, theft, wind, or other cause;
- Loss related to displacement from your home; or
- Loss of livelihood due to temporary or permanent layoffs.

Limits on plan loans. The general $50,000 limit on plan loans may be increased to $100,000 by the plan administrator. In addition, the general loan limit based on 50% of your vested accrued benefit may be increased to 100% of that benefit. The higher limits apply to loans made during the period beginning on September 29, 2017 (or February 9, 2018, if in the California wildfire disaster area), and ending on December 31, 2018. They also apply to loans made during the period beginning on December 20, 2019, and ending on June 17, 2020.

1-year suspension of plan loan payments. Payments on plan loans due during the period beginning on the qualified beginning date and ending on December 31, 2018, or for qualified 2018 and 2019 disasters, ending on the date which is 180 days after the last day of the *incident period*, may be suspended for 1-year (suspension period) by the plan administrator. The qualified beginning date is:

- August 23, 2017, if your main home was located in the Hurricane Harvey area.
- September 4, 2017, if your main home was located in the Hurricane Irma disaster area.
- September 16, 2017, if your main home was located in the Hurricane Maria disaster area.
- October 8, 2017, if your main home was located in the California wildfire disaster area.
- The first day of the *incident period* of a qualified 2018 or 2019 disaster.

If you are a qualified individual based on more than one disaster, use the suspension period with the earliest beginning date. If the suspension period related to a qualified 2018 or 2019 disaster would otherwise end before June 17, 2020, it is extended to such date.

Information for Eligible Retirement Plans

A plan administrator may choose whether to treat a distribution as a qualified 2016 disaster distribution, a qualified 2017 disaster distribution, a qualified 2018 and 2019 disaster distribution, or whether to accept a rollover of a qualified disaster distribution and may develop reasonable procedures for determining whether distributions are qualified disaster distributions. However, the treatment of qualified disaster distributions must be consistent under each plan. The payment of a qualified disaster distribution to an individual must be reported on Form 1099-R, Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc. This reporting is required even if the individual recontributes the qualified disaster distribution to the same plan in the same year. If a payer is treating the payment as a qualified disaster distribution and no other appropriate code applies, the payer is permitted to use distribution code “2” (early distribution, exception applies) in box 7 of Form

1099-R. However, a payer in this case is also permitted to use distribution code "1" (early distribution, no known exception) in box 7 of Form 1099-R.

How To Get Tax Help

If you have questions about a tax issue, need help preparing your tax return, or want to download free publications, forms, or instructions, go to IRS.gov and find resources that can help you right away.

Preparing and filing your tax return. After receiving your wage and earning statements (Form W-2, W-2G, 1099-R, 1099-MISC) from all employers and interest and dividend statements from banks (Forms 1099), you can find free options to prepare and file your return on IRS.gov or in your local community if you qualify.

The Volunteer Income Tax Assistance (VITA) program offers free tax help to people with low-to-moderate incomes, persons with disabilities, and limited-English-speaking taxpayers who need help preparing their own tax returns. The Tax Counseling for the Elderly (TCE) program offers free tax help for all taxpayers, particularly those who are 60 years of age and older. TCE volunteers specialize in answering questions about pensions and retirement-related issues unique to seniors.

You can go to IRS.gov to see your options for preparing and filing your return, which include the following.

- **Free File.** Go to *IRS.gov/FreeFile* to see if you qualify to use brand-name software to prepare and *e-file* your federal tax return for free.
- **VITA.** Go to *IRS.gov/VITA*, download the free IRS2Go app, or call 800-906-9887 to find the nearest VITA location for free tax return preparation.
- **TCE.** Go to *IRS.gov/TCE*, download the free IRS2Go app, or call 888-227-7669 to find the nearest TCE location for free tax return preparation.

Employers can register to use Business Services Online. The SSA offers online service for fast, free, and secure online W-2 filing options to CPAs, accountants, enrolled agents, and individuals who process W-2s (Wage and Tax Statement) and W-2Cs (Statement of Corrected Income and Tax Amounts). Employers can go to *SSA.gov/employer* for more information.

Getting answers to your tax questions. On IRS.gov, get answers to your tax questions anytime, anywhere.

- Go to *IRS.gov/Help* for a variety of tools that will help you get answers to some of the most common tax questions.
- Go to *IRS.gov/ITA* for the Interactive Tax Assistant, a tool that will ask you questions on a number of tax law topics and provide answers. You can print the entire interview and the final response for your records.
- Go to *IRS.gov/Forms* to search for our forms, instructions, and publications. You will find details on 2019 tax changes and hundreds of interactive links to help you find answers to your questions.
- You may also be able to access tax law information in your electronic filing software.

Tax reform. Tax reform legislation affects individuals, businesses, tax-exempt and government entities. Go to *IRS.gov/TaxReform* for information and updates on how this legislation affects your taxes.

IRS social media. Go to *IRS.gov/SocialMedia* to see the various social media tools the IRS uses to share the latest information on tax changes, scam alerts, initiatives, products, and services. At the IRS, privacy and security are paramount. We use these tools to share public information with you. **Don't** post your social security number or other confidential information on social media sites. Always protect your identity when using any social networking site.

The following IRS YouTube channels provide short, informative videos on various tax-related topics in English, Spanish, and ASL.

- *Youtube.com/irsvideos*.
- *Youtube.com/irsvideosmultilingual*.
- *Youtube.com/irsvideosASL*.

Watching IRS videos. The IRS Video portal (*IRSVideos.gov*) contains video and audio presentations for individuals, small businesses, and tax professionals.

Getting tax information in other languages. For taxpayers whose native language isn't English, we have the following resources available. Taxpayers can find information on IRS.gov in the following languages.

- *Spanish* (*IRS.gov/Spanish*).
- *Chinese* (*IRS.gov/Chinese*).
- *Korean* (*IRS.gov/Korean*).
- *Russian* (*IRS.gov/Russian*).
- *Vietnamese* (*IRS.gov/Vietnamese*).

The IRS Taxpayer Assistance Centers (TACs) provide over-the-phone interpreter service in over 170 languages, and the service is available free to taxpayers.

Getting tax forms and publications. Go to *IRS.gov/Forms* to view, download, or print all of the forms, instructions, and publications you may need. You can also download and view popular tax publications and instructions (including the 1040 and 1040-SR instructions) on mobile devices as an eBook at no charge at *IRS.gov/eBooks*. Or you can go to *IRS.gov/OrderForms* to place an order and have them mailed to you within 10 business days.

Access your online account (individual taxpayers only). Go to *IRS.gov/Account* to securely access information about your federal tax account.

- View the amount you owe, pay online, or set up an online payment agreement.

DRAFT AS OF February 10, 2020

- Access your tax records online.
- Review the past 24 months of your payment history.
- Go to *IRS.gov/SecureAccess* to review the required identity authentication process.

Using direct deposit. The fastest way to receive a tax refund is to combine direct deposit and IRS *e-file*. Direct deposit securely and electronically transfers your refund directly into your financial account. Eight in 10 taxpayers use direct deposit to receive their refund. The IRS issues more than 90% of refunds in less than 21 days.

Getting a transcript or copy of a return. The quickest way to get a copy of your tax transcript is to go to *IRS.gov/Transcripts*. Click on either "Get Transcript Online" or "Get Transcript by Mail" to order a copy of your transcript. If you prefer, you can order your transcript by calling 800-908-9946.

Using online tools to help prepare your return. Go to *IRS.gov/Tools* for the following.

- The *Earned Income Tax Credit Assistant* (*IRS.gov/EITCAssistant*) determines if you're eligible for the EIC.
- The *Online EIN Application* (*IRS.gov/EIN*) helps you get an employer identification number.
- The *Tax Withholding Estimator* (*IRS.gov/W4app*) makes it easier for everyone to pay the correct amount of tax during the year. The Estimator replaces the Withholding Calculator. The redesigned tool is a convenient, online way to check and tailor your withholding. It's more user-friendly for taxpayers, including retirees and self-employed individuals. The new and improved features include the following.
  - Easy to understand language.
  - The ability to switch between screens, correct previous entries, and skip screens that don't apply.
  - Tips and links to help you determine if you qualify for tax credits and deductions.
  - A progress tracker.
  - A self-employment tax feature.
  - Automatic calculation of taxable social security benefits.
- The *First Time Homebuyer Credit Account Look-up* (*IRS.gov/HomeBuyer*) tool provides information on your repayments and account balance.
- The *Sales Tax Deduction Calculator* (*IRS.gov/SalesTax*) figures the amount you can claim if you itemize deductions on Schedule A (Form 1040 or 1040-SR), choose not to claim state and local income taxes, and you didn't save your receipts showing the sales tax you paid.

Resolving tax-related identity theft issues.

- The IRS doesn't initiate contact with taxpayers by email or telephone to request personal or financial information. This includes any type of electronic communication, such as text messages and social media channels.
- Go to *IRS.gov/IDProtection* for information.
- If your SSN has been lost or stolen or you suspect you're a victim of tax-related identity theft, visit *IRS.gov/IdentityTheft* to learn what steps you should take.

Checking on the status of your refund.

- Go to *IRS.gov/Refunds*.
- The IRS can't issue refunds before mid-February 2020 for returns that claimed the EIC or the ACTC. This applies to the entire refund, not just the portion associated with these credits.
- Download the official IRS2Go app to your mobile device to check your refund status.
- Call the automated refund hotline at 800-829-1954.

Making a tax payment. The IRS uses the latest encryption technology to ensure your electronic payments are safe and secure. You can make electronic payments online, by phone, and from a mobile device using the IRS2Go app. Paying electronically is quick, easy, and faster than mailing in a check or money order. Go to *IRS.gov/Payments* to make a payment using any of the following options.

- *IRS Direct Pay*: Pay your individual tax bill or estimated tax payment directly from your checking or savings account at no cost to you.
- *Debit or Credit Card*: Choose an approved payment processor to pay online, by phone, and by mobile device.
- *Electronic Funds Withdrawal*: Offered only when filing your federal taxes using tax return preparation software or through a tax professional.
- *Electronic Federal Tax Payment System*: Best option for businesses. Enrollment is required.
- *Check or Money Order*: Mail your payment to the address listed on the notice or instructions.
- *Cash*: You may be able to pay your taxes with cash at a participating retail store.
- *Same-Day Wire*: You may be able to do same-day wire from your financial institution. Contact your financial institution for availability, cost, and cut-off times.

What if I can't pay now? Go to *IRS.gov/Payments* for more information about your options.

- Apply for an *online payment agreement* (*IRS.gov/OPA*) to meet your tax obligation in monthly installments if you can't pay your taxes in full today. Once you complete the online process, you will receive immediate notification of whether your agreement has been approved.
- Use the *Offer in Compromise Pre-Qualifier* to see if you can settle your tax debt for less than the full

DRAFT AS OF February 10, 2020

amount you owe. For more information on the Offer in Compromise program, go to *IRS.gov/OIC*.

Checking the status of an amended return. Go to *IRS.gov/WMAR* to track the status of Form 1040-X amended returns. Please note that it can take up to 3 weeks from the date you filed your amended return for it to show up in our system, and processing it can take up to 16 weeks.

Understanding an IRS notice or letter. Go to *IRS.gov/Notices* to find additional information about responding to an IRS notice or letter.

Contacting your local IRS office. Keep in mind, many questions can be answered on IRS.gov without visiting an IRS Tax Assistance Center (TAC). Go to *IRS.gov/LetUsHelp* for the topics people ask about most. If you still need help, IRS TACs provide tax help when a tax issue can't be handled online or by phone. All TACs now provide service by appointment so you'll know in advance that you can get the service you need without long wait times. Before you visit, go to *IRS.gov/TACLocator* to find the nearest TAC, check hours, available services, and appointment options. Or, on the IRS2Go app, under the Stay Connected tab, choose the Contact Us option and click on "Local Offices."

DRAFT AS OF February 10, 2020

The Taxpayer Advocate Service (TAS) Is Here To Help You

What Is TAS?

TAS is an ***independent*** organization within the IRS that helps taxpayers and protects taxpayer rights. Their job is to ensure that every taxpayer is treated fairly and that you know and understand your rights under the *Taxpayer Bill of Rights*.

How Can You Learn About Your Taxpayer Rights?

The Taxpayer Bill of Rights describes 10 basic rights that all taxpayers have when dealing with the IRS. Go to *TaxpayerAdvocate.IRS.gov* to help you understand *what these rights mean to you* and how they apply. These are ***your*** rights. Know them. Use them.

What Can TAS Do For You?

TAS can help you resolve problems that you can't resolve with the IRS. And their service is free. If you qualify for their assistance, you will be assigned to one advocate who will work with you throughout the process and will do everything possible to resolve your issue. TAS can help you if:

- Your problem is causing financial difficulty for you, your family, or your business;
- You face (or your business is facing) an immediate threat of adverse action; or
- You've tried repeatedly to contact the IRS but no one has responded, or the IRS hasn't responded by the date promised.

How Can You Reach TAS?

TAS has offices *in every state, the District of Columbia, and Puerto Rico*. Your local advocate's number is in your local directory and at *TaxpayerAdvocate.IRS.gov/Contact-Us*. You can also call them at 877-777-4778.

How Else Does TAS Help Taxpayers?

TAS works to resolve large-scale problems that affect many taxpayers. If you know of one of these broad issues, please report it to them at *IRS.gov/SAMS*.

TAS also has a website, *Tax Reform Changes*, which shows you how the new tax law may change your future tax filings and helps you plan for these changes. The information is categorized by tax topic in the order of the IRS Form 1040 or 1040-SR. Go to *TaxChanges.us* for more information.

TAS for Tax Professionals

TAS can provide a variety of information for tax professionals, including tax law updates and guidance, TAS programs, and ways to let TAS know about systemic problems you've seen in your practice.

Low Income Taxpayer Clinics (LITCs)

LITCs are independent from the IRS. LITCs represent individuals whose income is below a certain level and need to resolve tax problems with the IRS, such as audits, appeals, and tax collection disputes. In addition, clinics can provide information about taxpayer rights and responsibilities in different languages for individuals who speak English as a second language. Services are offered for free or a small fee. To find a clinic near you, visit *IRS.gov/LITC* or see IRS Pub. 4134, *Low Income Taxpayer Clinic List*.

Worksheet A. **Simplified Method** *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 or 1040-SR, line 4c; or Form 1040-NR, line 17a . . . . . **1.** _____

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.** _____

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.** _____

4. Divide line 2 by the number on line 3 . . . . . **4.** _____

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.** _____

6. Enter any amounts previously recovered tax free in years after 1986. This is the amount shown on line 10 of your worksheet for last year . . . . . **6.** _____

7. Subtract line 6 from line 2 . . . . . **7.** _____

8. Enter the smaller of line 5 or line 7 . . . . . **8.** _____

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 or 1040-SR, line 4d; or Form 1040-NR, line 17b.
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*, earlier, before entering an amount on your tax return . . . . . **9.** _____

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 2018. You will need this number if you need to fill out this worksheet next year . . . . . **10.** _____

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.** _____

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

DRAFT AS OF February 10, 2020

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 ...	AND your annuity starting date was— 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 over	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 over	210

To help us develop a more useful index, please let us know if you have ideas for index entries. See "Comments and Suggestions" in the "Introduction" for the ways you can reach us.

DRAFT AS OF February 10, 2020

403(b) plans:
Defined 4
Loans from, without tax consequences 18
Simplified Method to be used 13
5% owners 37

A

Age 70 1/2 37
Alimony (*See* Qualified domestic relations orders (QDROs))
Annuities:
5% rate on early distributions 33
Defined 4
Fixed-period 4, 13
Guaranteed payments 39
Joint and survivor annuities 4
Minimum distributions from 38
Payments under 5
Qualified plan annuity starting before November 19, 1996 12
Rollovers 30
(*See also* Rollovers)
Single-life 4, 13
Starting date of 11, 13, 16
Before November 19, 1996 14
Distribution on or after 16
Transfers of contracts 19
Types of 4
Variable annuities 4, 5
Assistance (*See* Tax help)

B

Beneficiaries 39

C

Capital gains:
Lump-sum distributions 22
Cash withdrawals (*See* Nonperiodic payments)
Child support (*See* Qualified domestic relations orders (QDROs))
Corrective distributions of excess plan contributions 14
Costs:
Investment in the contract 10
Lump-sum distribution, determination for 22

D

Death benefits 5
Death of employee 38, 39
Death of retiree 39
Deductible voluntary employee contributions 12
Defined contribution plans 17
Designated Roth accounts:
Costs 11
Defined 4
Qualified distributions 11
Rollovers 31
Disability pensions 4, 6
Disaster-related relief 39
Distributions 27
(*See also* Rollovers)
Beginning date for 37
Early distributions and penalty tax 29, 33
Employer securities 16
Loans treated as 18
Lump-sum 16, 20–26
Minimum required 37
Nonperiodic, taxation of 14
Periodic, taxation of 11
Public safety employees 36
Qualified distribution 40
Qualified reservist 36
U.S. savings bonds 18
Dividends 14

E

Early withdrawal from deferred interest account:
Penalty tax on 29, 33
Eligible retirement plan 43
Employer securities, distributions of 16
Estate tax 23
Deduction 39
Estimated tax 10
Excess accumulation, tax on 37
Excess plan contributions, corrective distributions of 14

F

Figuring taxable amount 16–18
Fixed-period annuities 4, 13
Foreign employment contributions 11
Form:
4972 21
W-4P 9
Form 1040 or 1040-SR:
Rollovers 31
Form 1040-X:
Changing your mind on lump-sum treatment 22
Form 1099-INT:
U.S. savings bonds distributions 18
Form 1099-R:
10-year tax option for lump-sum distribution 23
Corrected form 2
Corrective distributions of excess plan contributions 16
Exceptions to tax 35
Investment in the contract 11
Loan treated as distribution from plan 19
Rollovers 31
Tax-free exchanges 20
Form 4972:
10-year tax option for lump-sum distribution 23
Lump-sum distributions 21, 22
Form 5329:
Recapture tax 37
Special additional taxes (penalty taxes) 33, 35
Form RRB-1099-R 7
Form W-4P:
Withholding from retirement plan payments 9, 10
Form W-4V:
Voluntary withholding request for social security or railroad retirement benefits 10
Frozen deposits 30
Fully taxable payments 12

G

General Rule 12, 14
Death of retiree under 39
Investment in the contract, determination of 10
Guaranteed payments 13

H

Home purchase:
Loans from qualified plans for 18

I

Identity theft 45
Individual retirement accounts:
Minimum distributions from 38
Rollovers 28
In-plan Roth rollovers 31
Interest deduction:
Denial on loan from plan 19

J

Joint and survivor annuities 4

L

Loans treated as distributions 18
Local government employees:
Section 457 plans 5
Losses:
Lump-sum distribution 22
Lump-sum distributions 16, 20–26
10-year tax option 23
Capital gain treatment 22
Defined 20
Election of 22
Form 4972 21

M

Military and Government Disability Pensions:
Service-connected disability 6
Minimum required distributions 37
Missing children, photographs of 2
Multiple annuitants 14
Multiple-lives annuities 13

N

Net Investment Income Tax 5, 18
Net unrealized appreciation (NUA) 22
Deferring tax on 16
Nonperiodic payments:
Loan treated as 18
Taxation of 14
Nonqualified plans:
Distribution before annuity start date 17
General Rule to be used 14
Loans treated as distributions from 19
Nonresident aliens:
Railroad retirement 7

P

Partial rollovers 29
Partly taxable payments 12
Penalty taxes:
Early distributions 33
Excess accumulation 37
Pensions:
Defined 4
Disability pensions 4, 6
Types of 4
Periodic payments:
Taxation of 11
Withholding tax 10
Plan loan offset 29
Publications (*See* Tax help)
Public safety officers insurance premiums 6
Public school employees:
Tax-sheltered annuity plans for (*See* 403(b) plans)

Q

Qualified 2016 disaster distribution 40
Qualified 2017 disaster distribution 40
Qualified 2018 and 2019 disaster distributions 40
Qualified Disaster Distributions 40
Qualified domestic relations orders (QDROs) 4, 30
Alternate payee under and lump-sum distribution 21
Qualified employee annuities:
Defined 4
Simplified Method to be used 13
Qualified employee plans:
Defined 4
Simplified Method to be used 13
Qualified plans 14
(*See also* specific type of plan)
Distribution before annuity starting date 17
General Rule 14
Loans from, without tax consequences 18
Rollovers 28
Qualified public safety employees 36
Qualified settlement income:
Exxon Valdez litigation settlement 32

R

Railroad retirement benefits 6–9
Taxability of 10
Recapture tax:
Changes in distribution method 37
Reemployment 21
Related employers and related plans 19
Repayment of loan within 5 years 18
Required beginning date 37
Required distributions, minimum 37
Retirement bonds 30
Rollovers 28–32
20% tax rate on distribution 10
Comparison of direct payment vs. direct rollover (Table 1) 32
Direct rollover to another qualified plan 10, 29
In-plan Roth 31
Nonspouse beneficiary 31
Nontaxable amounts 28
Notice to recipients of eligible rollover distribution 31
Property and cash distributed 30
Roth IRAs 32
Substitution of other property 30
Surviving spouse making 30

S

Section 457 deferred compensation plans 5
Securities of employer, distributions of 16
Self-employed persons' rollovers 28
Service-connected disability 6
Simplified Method 12, 13
Death of retiree under 39
How to use 13
Investment in the contract, determination of 10
Not allowed 13
Single-sum in connection with start of payments 17
Single-life annuities 4, 13
Social security, tax on 10
State employees:
Section 457 plans 5
State insurer delinquency proceedings 37
Surviving spouse:
Distribution rules for 38
Rollovers by 30

T

Tables:
Comparison of direct payment vs. direct rollover (Table 1) 32
Tax-free exchanges 20
Tax help 44
Ten percent tax for early withdrawal 29, 33
Ten-year tax option 23
Time for making rollover 29
Transfers of annuity contracts 19

U

U.S. savings bonds:
Distribution of 18

V

Variable annuities 4, 5
Voluntary employee contributions 12

W

Withdrawals 5
Employees withdrawing contributions 17
Withholding 9
10% rate used 10
20% of eligible rollover 28, 29, 32
Periodic payments 10
Railroad retirement 7
Worksheets:
Simplified Method 13
Worksheet A, illustrated 15
Worksheet A, Simplified Method 47

DRAFT AS OF February 10, 2020