



Instructions for Form 4972

Tax on Lump-Sum Distributions

Section references are to the Internal Revenue Code.

Paperwork Reduction Act Notice

We ask for the information on this form to carry out the Internal Revenue laws of the United States. You are required to give us the information. We need it to ensure that you are complying with these laws and to allow us to figure and collect the right amount of tax.

The time needed to complete this form will vary depending on individual circumstances. The estimated average time is:

| | |
|--|----------------|
| Recordkeeping | 33 min. |
| Learning about the law or the form | 27 min. |
| Preparing the form | 1 hr., 46 min. |
| Copying, assembling, and sending the form to the IRS | 35 min. |

If you have comments concerning the accuracy of these time estimates or suggestions for making this form more simple, we would be happy to hear from you. You can write to both the IRS and the Office of Management and Budget at the addresses listed in the instructions for the tax return with which this form is filed.

General Instructions

Purpose of Form

If you received a qualifying lump-sum distribution from a qualified profit-sharing or retirement plan, all or part of the distribution is generally taxable. If you meet the requirements under **Who Can Use the Form**, you can use Form 4972 to figure your tax by special methods.

Caution: *If you received an early distribution (before age 59½) from a qualified retirement plan, you may have to pay an additional tax. Form 5329, Additional Taxes Attributable to Qualified Retirement Plans (including IRAs), Annuities, and Modified Endowment Contracts, may be required to pay this tax. See the Instructions for Form 5329 and Pub. 575, Pension and Annuity Income (Including Simplified General Rule).*

The 20% capital gain election and/or the 5- and 10-year averaging methods are special formulas used to figure a separate tax on a qualified lump-sum distribution **ONLY** for the year in which the distribution is received.

You pay the tax only once. You do not pay the tax over the next 5 or 10 years. Once you choose your method and figure the tax, it is then added to the regular tax figured on your other income. The use of either method may result in a smaller tax than you would pay by including the taxable amount of the distribution as ordinary income in figuring your tax.

Who Can Use the Form

You can use Form 4972 if you received a qualifying distribution in 1993 and the plan participant met the age requirement. Also, you must meet the conditions explained on page 2 under **How Often You Can Choose**.

If you were the plan participant and received the distribution, **you must have been born before 1936; otherwise you cannot use this form for 1993.** If you received a qualifying distribution as a beneficiary after a participant's death, the deceased must have been born before 1936 for you to use this form for that distribution.

Distributions to Alternate Payees.—

If you are the spouse or former spouse of a plan participant who was born before 1936 and you received a qualifying lump-sum distribution as an alternate payee under a qualified domestic relations order, you can use Form 4972 to figure the tax on that income.

If the distribution is a qualifying distribution, you can use Form 4972 to make the 20% capital gain election and choose either the 5- or 10-year averaging method to figure your tax on the distribution. See **How To Use the Form** on page 2.

Distributions That Qualify for the 20% Capital Gain Election or for 5- or 10-Year Averaging

The distribution is a qualifying lump-sum distribution **only if all six** of the following conditions are met:

1. The distribution came from a qualified pension, profit-sharing, or stock bonus plan.
2. The distribution came from all the employer's qualified plans of one kind (pension, profit-sharing, or stock bonus) in which the participant had funds.
3. The distribution was for the **full** amount credited to the participant. For this purpose, the full amount credited to the participant does not include any accumulated deductible employee contributions under the plan.
4. The distribution was paid within a single tax year, whether in one sum or in installments.
5. The participant was in the plan for 5 or more tax years before the tax year of distribution unless the distribution was paid because the participant died.
6. The distribution was paid in **any** of the following cases:
 - a. The plan participant died.
 - b. The participant was age 59½ or older at the time of the distribution.
 - c. The participant, if a common-law employee, quit, retired, was laid off, or was fired. A common-law employee is anyone who performs services that an employer has the right to control (what will be done and how) and whom the employer has the right to fire.
 - d. The participant, if a self-employed individual or an owner-employee, became permanently and totally disabled. An individual is considered disabled if he or she is unable to engage in any substantial gainful activity as a result of a medically determinable physical or mental impairment that is expected to result in death or to be of long-continued and indefinite duration.

Distributions That Do Not Qualify for the 20% Capital Gain Election or for 5- or 10-Year Averaging

The following distributions are not qualifying lump-sum distributions and **do not** qualify for the 20% capital gain method or the 5- or 10-year averaging method:

1. Distributions received if the plan participant was born after 1935.
2. U.S. Retirement Bonds distributed with the lump sum.
3. Any distribution made before the participant had been in the plan for 5 tax years before the tax year of the distribution, **unless it was paid because the participant died.**
4. The current actuarial value of any annuity contract included in the lump sum (the payer's statement should show this amount, which you use only to figure tax on the ordinary income part of the distribution).
5. Any distribution to a 5% owner that is subject to penalties under section 72(m)(5)(A).
6. A distribution from an IRA.
7. A distribution from a tax-sheltered annuity (section 403(b) plan).
8. Redemption proceeds of bonds rolled over tax free to a qualified pension plan, etc., from a qualified bond purchase plan.
9. A distribution from a qualified pension or annuity plan when the participant or his or her surviving spouse received an eligible rollover distribution from the same plan (or another plan of the employer required to be aggregated for the lump-sum distribution rules), and the proceeds of the previous distribution were rolled over tax free to an eligible retirement plan (including an IRA).
10. A corrective distribution of excess deferrals, excess contributions, or excess aggregate contributions.
11. A lump-sum credit or payment from the Federal Civil Service Retirement System (or the Federal Employees Retirement System).
12. A distribution from a qualified pension or annuity plan if any portion of the distribution is rolled over tax free to another qualified pension or annuity plan or IRA.

How To Use the Form

If you qualify to use Form 4972, attach it to Form 1040 (individuals) or Form 1041 (estates or trusts). The payer should have given you a **Form 1099-R**, Distributions From Pensions, Annuities, Retirement or Profit-Sharing

Plans, IRAs, Insurance Contracts, etc., or other statement that shows the separate amounts to use in completing the form. The following choices are available to you:

1. 20% Capital Gain Election. If there is an amount shown on Form 1099-R, box 3 (capital gain), you can use Part II of this form to make the 20% capital gain election. When you complete Part II, you are electing to apply a 20% tax rate to the capital gain portion. See **Capital Gain Election** below and the line 10 or 33 instructions for details.

2. 5- or 10-Year Averaging Methods. You can use Part III to choose the 5-year averaging method or Part IV to choose the 10-year averaging method to figure your tax on the lump-sum distribution. You can choose either method whether or not you make the 20% capital gain election described above. But if you receive more than one lump-sum distribution for the same participant in 1 tax year, you must use the same averaging method for all of those distributions.

How To Report the Distribution

Depending on which parts of Form 4972 you choose to use, report amounts from your Form 1099-R either directly on your tax return (Form 1040 or Form 1041) or on Form 4972.

- If you choose **not** to use **any** part of Form 4972, report the entire amount from Form 1099-R, box 1 (Gross distribution), on Form 1040, line 17a and the taxable amount on line 17b (or on Form 1041, line 8). If your pension or annuity is fully taxable, enter the amount from Form 1099-R, box 2a (Taxable amount), on Form 1040, line 17b; **do not** make an entry on line 17a.

- If you choose **not** to use either Part III or IV of Form 4972, but you do use Part II, report only the ordinary income part of the distribution on Form 1040, lines 17a and 17b (or on Form 1041, line 8). The ordinary income part of the distribution is the amount shown in Form 1099-R, box 2a, minus the amount shown in box 3 of that form.

- If you choose to use Part III or IV of Form 4972, do not also include any part of the distribution on Form 1040, lines 17a and 17b (or on Form 1041, line 8).

The entries in other boxes on Form 1099-R may also apply in completing Form 4972:

- Box 6, Net Unrealized Appreciation (NUA). See **Net Unrealized**

Appreciation (NUA) on page 3 for details on how to treat this amount.

- Box 8, Other, current actuarial value of an annuity.

If applicable, get the amount of Federal estate tax paid attributable to the taxable part of the lump-sum distribution from the administrator of the deceased's estate.

For more details, see Pub. 575.

How Often You Can Choose

If you choose either the 5- or 10-year averaging method or capital gain treatment for any lump-sum distribution received after 1986, you cannot choose any of these methods for any distribution received in a later year from a plan for the same participant.

If you make an election as a beneficiary of a deceased participant, it does not affect any election you can make for qualifying lump-sum distributions from your own plan. You can also make an election as the beneficiary of more than one qualifying person. For example, your mother and father died and each was born before 1936. Each had a qualifying plan of which you are the beneficiary. You also received a qualifying lump-sum distribution from your own plan and you were born before 1936. You may make an election for each of the distributions; one for yourself, one as the beneficiary of your father, and one as the beneficiary of your mother. It does not matter if the distributions all occur in the same year or in different years. File a separate Form 4972 for each participant's distribution.

Note: *Even though you made an election on Form 4972 or Form 5544 for distributions received before 1987 while you were under age 59½, you may still be able to make an election for distributions received after 1986.*

When You Can Choose

You can file Form 4972 with either an original or an amended return. Generally, you have 3 years from the later of the due date of your tax return or the date you filed your return to choose any of the methods.

Capital Gain Election

Only the taxable amount of distributions resulting from pre-1974 participation qualifies for capital gain treatment. The capital gain amount should be shown in Form 1099-R, box 3. If there is an amount in Form 1099-R, box 6 (net unrealized appreciation), part of it may also qualify for capital gain treatment. Use

the NUA Worksheet on this page to figure the capital gain part of NUA if you make the election to include NUA in your taxable income.

If your distribution includes capital gain, you can either **(a)** make the 20% capital gain election in Part II of Form 4972, or **(b)** treat the capital gain as ordinary income.

Net Unrealized Appreciation (NUA).—Normally, the net unrealized appreciation (NUA) in employer securities received as part of a lump-sum distribution is not taxable until the securities are sold. However, you can elect to include NUA in taxable income in the year received.

The total amount to report as NUA should be shown on Form 1099-R, box 6. Part of the amount in box 6 will qualify for capital gain treatment if there is an amount on Form 1099-R, box 3, and you elect to include the NUA in current income.

To figure the total amount subject to capital gain treatment including the NUA, complete the NUA Worksheet below.

Specific Instructions

Name of Recipient of Distribution and Identifying Number.—At the top of Form 4972, fill in the name and identifying number of the recipient of the distribution.

If you received more than one qualifying distribution in 1993 for the same plan participant, add them and figure the tax on the total amount. If you received qualifying distributions in 1993 for more than one participant, file a separate Form 4972 for the distributions of each participant.

If you and your spouse are filing a joint return and each has received a lump-sum distribution, complete and file a separate Form 4972 for each spouse's election, and combine the tax on Form 1040, line 39.

If you are filing for a trust that shared the distribution only with other trusts, figure the tax on the total lump sum first. The trusts then share the tax in the same proportion that they shared the distribution.

If the distribution is made to more than one beneficiary, follow the instructions under **Multiple Recipients of a Lump-Sum Distribution** on page 4.

Part II

See **Capital Gain Election** on page 2 before completing Part II.

Line 8.—Leave this line blank if your distribution does not include a capital gain amount, **or** you do not make the 20% capital gain election. Go on to Part III or IV.

To make the 20% capital gain election but **not take a death benefit exclusion** (see instructions for line 11 or 34), enter on line 8 the entire capital gain amount from Form 1099-R, box 3. However, if you elect to include NUA in your taxable income, enter on line 8 the amount from line G of the NUA Worksheet on this page instead of the amount from Form 1099-R, box 3. On the dotted line to the left of the entry space for line 8, write "NUA" and the amount from line E of the NUA Worksheet.

To make the 20% capital gain election when you **are taking a death benefit exclusion**, figure the amount to enter on line 8 using the worksheet below.

The remaining allowable death benefit exclusion should be entered on line 11 or 34, if you choose the 5- or 10-year averaging method.

If any Federal estate tax was paid on the lump-sum distribution, you must decrease the capital gain amount by the amount of estate tax applicable to it. To figure the amount, multiply the total Federal estate tax paid on the lump-sum distribution by the decimal amount from line C of the Death Benefit Worksheet. The result is the portion of the Federal estate tax

applicable to the capital gain amount. Then use that result to reduce the box 3, Form 1099-R, amount if you don't take the death benefit exclusion, or reduce line F of the Death Benefit Worksheet if you do. Enter the remaining capital gain on line 8. If you elected to include NUA in taxable income, subtract the portion of Federal estate tax applicable to the capital gain amount from the amount on line G of the NUA Worksheet. Enter the result on line 8. Enter the remainder of the Federal estate tax on line 20 or 43.

Note: *If you take the death benefit exclusion and Federal estate tax was paid on the capital gain amount, the capital gain amount must be reduced by both the above procedures to figure the correct entry for line 8.*

Parts III and IV

Line 10 or 33.—If the payer of the distribution left box 2a (taxable amount) of Form 1099-R blank, you must first figure the taxable amount. For details on how to do this, see Pub. 575.

If you **made the 20% capital gain election**, enter only the ordinary income from Form 1099-R on this line. To figure this amount, subtract Form 1099-R, box 3, from Form 1099-R, box 2a. Enter the result on line 10 or 33. Add to that result the amount from line F of the NUA Worksheet if you included NUA capital gain in the 20% capital gain election.

NUA Worksheet

(Do not complete unless you make the capital gain election.)

- A. Enter the amount from Form 1099-R, box 3 _____
- B. Enter the amount from Form 1099-R, box 2a _____
- C. Divide line A by line B and enter the result as a decimal _____
- D. Enter the amount from Form 1099-R, box 6 _____
- E. Multiply line C by line D and enter the result (NUA subject to capital gain treatment) _____
- F. Subtract line E from line D (NUA that is ordinary income) _____
- G. Add lines A and E (total part of distribution that can receive capital gain treatment) _____

Death Benefit Worksheet

- A. Enter the capital gain amount from Form 1099-R, box 3 (if you elected to include NUA in taxable income, enter the amount from line G of the NUA Worksheet) _____
- B. Enter the taxable amount from Form 1099-R, box 2a (if you elected to include NUA in taxable income, add the amount from Form 1099-R, box 6, to the amount from Form 1099-R, box 2a, and enter the result here) _____
- C. Divide line A by line B and enter the result as a decimal _____
- D. Enter your share of the death benefit exclusion* _____
- E. Multiply line D by line C _____
- F. Subtract line E from line A. Enter the result here and on line 8 _____

*If there are multiple recipients of the distribution, the \$5,000 maximum death benefit exclusion must be allocated among the recipients in the same proportion that they share the distribution.

If you **did not make the 20% capital gain election** and did not elect to include NUA in taxable income, enter the amount from Form 1099-R, box 2a. If you did not make the 20% capital gain election but did elect to include NUA in your taxable income, add the amount from Form 1099-R, box 2a, to the amount from Form 1099-R, box 6. Enter the total on line 10 or 33. On the dotted line to the left of the line 10 or 33 entry space, write "NUA" and the amount of NUA included.

Note: *Community property laws do not apply in figuring tax on the amount you report on line 10 or 33.*

Line 11 or 34.—If you received the distribution because of the plan participant's death, you may be able to exclude up to \$5,000 of the lump sum from your gross income. If there are multiple recipients of the distribution not all of whom are trusts, enter the full remaining allowable death benefit exclusion (after the amount taken against the capital gain portion of the distribution by all recipients—see the instructions for line 8 above) on line 11 or 34 without allocation among the recipients (the exclusion is in effect allocated among the recipients through the computation described below under **Multiple Recipients of a Lump-Sum Distribution**). This exclusion applies to the beneficiaries or estates of common-law employees, self-employed individuals, and shareholder-employees who owned more than 2% of the stock of an S corporation. Pub. 575 gives more information about the death benefit exclusion.

Enter the death benefit exclusion on line 11 or 34. But see the instructions for line 8 if you made a capital gain election.

Line 20 or 43.—A beneficiary who receives a lump-sum distribution because of a plan participant's death must reduce the taxable part of the distribution by any Federal estate tax paid on the lump-sum distribution. The reduction is made by entering on line 20 or 43 the Federal estate tax attributable to the lump-sum distribution. Also see the instructions for line 8.

Lines 23 and 29.—Use the following tax rate schedule to complete lines 23 and 29.

Tax Rate Schedule for the 5-Year Method Lines 23 and 29

| If the amount on line 22 or 28 is: | | Enter on line 23 or 29: | |
|------------------------------------|---------------|-------------------------|---------------------|
| Over— | But not over— | | Of the amount over— |
| \$-0- | \$22,100 | ----- 15% | \$-0- |
| 22,100 | 53,500 | \$3,315.00 + 28% | 22,100 |
| 53,500 | 115,000 | 12,107.00 + 31% | 53,500 |
| 115,000 | 250,000 | 31,172.00 + 36% | 115,000 |
| 250,000 | ----- | 79,772.00 + 39.6% | 250,000 |

Line 25 or 48.—Decimals should be carried to five places and rounded to four places. Drop amounts 4 and under (.44454 becomes .4445). Round amounts 5 and over up to the next number (.44456 becomes .4446).

Lines 46 and 52.—Use the following tax rate schedule to complete lines 46 and 52.

Tax Rate Schedule for the 10-Year Method Lines 46 and 52

| If the amount on line 45 or 51 is: | | Enter on line 46 or 52: | |
|------------------------------------|---------------|-------------------------|---------------------|
| Over— | But not over— | | Of the amount over— |
| \$-0- | \$1,190 | ----- 11% | \$-0- |
| 1,190 | 2,270 | \$130.90 + 12% | 1,190 |
| 2,270 | 4,530 | 260.50 + 14% | 2,270 |
| 4,530 | 6,690 | 576.90 + 15% | 4,530 |
| 6,690 | 9,170 | 900.90 + 16% | 6,690 |
| 9,170 | 11,440 | 1,297.70 + 18% | 9,170 |
| 11,440 | 13,710 | 1,706.30 + 20% | 11,440 |
| 13,710 | 17,160 | 2,160.30 + 23% | 13,710 |
| 17,160 | 22,880 | 2,953.80 + 26% | 17,160 |
| 22,880 | 28,600 | 4,441.00 + 30% | 22,880 |
| 28,600 | 34,320 | 6,157.00 + 34% | 28,600 |
| 34,320 | 42,300 | 8,101.80 + 38% | 34,320 |
| 42,300 | 57,190 | 11,134.20 + 42% | 42,300 |
| 57,190 | 85,790 | 17,388.00 + 48% | 57,190 |
| 85,790 | ----- | 31,116.00 + 50% | 85,790 |

Multiple Recipients of a Lump-Sum Distribution.—If you shared a lump-sum distribution from a qualified retirement plan when not all recipients were trusts (a percentage will be shown on Form 1099-R, boxes 8 and/or 9), figure your tax on Form 4972 as follows:

Step 1.—Complete Form 4972, Parts I and II. (If you make the 20% capital gain election in Part II and also elect to include NUA in taxable income, see **Net Unrealized Appreciation (NUA)** on page 3 to determine the amount of NUA that qualifies for capital gain treatment.)

Step 2.—Use this step **only** if you **do not elect to include NUA** in your taxable income or if you do not have

NUA. If you elect to include NUA in taxable income, skip Step 2 and go to Step 3. (Box numbers used below are all from Form 1099-R.)

a. If you do not make the capital gain election, divide the amount shown in box 2a by your percentage of distribution shown in box 9. Enter this amount on Form 4972, line 10 or 33, as applicable.

b. If you make the capital gain election, subtract the amount in box 3 from the amount in box 2a. Divide the result by your percentage of distribution shown in box 9. Enter the result on Form 4972, line 10 or 33, as applicable.

c. Divide the amount shown in box 8 by the percentage shown in box 8. Enter the result on Form 4972, line 13 or 36, as applicable.

Step 3.—Use this step **only** if you **elect to include NUA** in your taxable income.

a. If you do not make the capital gain election, add the amount shown in box 2a to the amount shown in box 6. Divide the result by your percentage of distribution shown in box 9. Enter the result on Form 4972, line 10 or 33, as applicable.

b. If you make the capital gain election, subtract the amount in box 3 from the amount in box 2a. Add to the result the amount from line F of your NUA Worksheet. Then divide the total by your percentage of distribution shown in box 9. Enter the result on Form 4972, line 10 or 33, as applicable.

c. Divide the amount shown in box 8 by the percentage shown in box 8. Enter the result on Form 4972, line 13 or 36, as applicable.

Step 4.—Complete Form 4972, Part III or IV, as applicable, through line 31 or 54.

Step 5.—Complete the following worksheet:

- A. Enter your percentage of distribution from Form 1099-R, box 9 _____
- B. Enter the amount from Form 4972, line 31 or 54 _____
- C. Multiply line A by the amount on line B _____
- D. Enter the amount from line 9 _____
- E. Add lines C and D. Enter the result here and on Form 4972, line 32 or 55 and write "MRD" on the dotted line to the left of the entry space _____