



Instructions for Form 4972

Tax on Lump-Sum Distributions

From Qualified Retirement Plans

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	26 min.
Preparing the form	1 hr., 27 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 simpler, 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

The 20% capital gain election and/or the 5- or 10-year tax option 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 option and figure the tax, it is then added to the regular tax figured on your other income. The use of either option 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.

Related Publications

Pub. 575, Pension and Annuity Income (Including Simplified General Rule)

Pub. 721, Tax Guide to U.S. Civil Service Retirement Benefits

Pub. 939, Pension General Rule (Nonsimplified Method)

Who Can Use Form 4972

You can use Form 4972 if you received a qualified lump-sum distribution in 1994. To see if you qualify, you must first determine if your distribution is a qualified lump sum. See **What Is A Qualified Lump-Sum Distribution?** below. If you determine that your distribution is a qualified lump sum, you must **also** meet age and other requirements as outlined in **Distributions That Qualify for the 20% Capital Gain Election or for the 5- or 10-Year Tax Option** on this page.

What Is A Qualified Lump-Sum Distribution?

It 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 (i.e., pension, profit-sharing, or stock bonus plans), in which the participant had funds. The participant's entire balance does not include deductible voluntary employee contributions or certain forfeited amounts. In addition, the distribution must have been made—

- Because of the participant's death, or
- After the participant reached age 59½, or
- Because the participant separated from service, or
- After the participant, if a self-employed individual, became permanently and totally disabled.

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 qualified 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 qualified distribution, you can use Form 4972 to make the 20% capital gain election and choose either the 5- or 10-year tax option to figure your tax on the distribution. See **How To Report the Distribution** on page 2.

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

The lump-sum distribution is qualified for the special tax option(s) **only if all** of the following conditions are met:

1. No part of the distribution was rolled over,
2. The plan participant was born before 1936, and
3. No earlier election to use either the 5- or 10-year tax option was made after 1986 for the same plan participant.

Caution: *If you received a distribution before the age of 59½, you **may** have to pay an additional tax. Get **Form 5329, Additional Taxes Attributable to Qualified Retirement Plans (Including IRAs), Annuities, and Modified Endowment Contracts.***

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

The following distributions are not qualified lump-sum distributions and **do not** qualify for the 20% capital gain election or the 5- or 10-year tax option:

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 if any portion of the distribution is rolled over tax free to another qualified pension or annuity plan or IRA.

10. 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).

11. A corrective distribution of excess deferrals, excess contributions, or excess aggregate contributions.

12. A lump-sum credit or payment from the Federal Civil Service Retirement System (or the Federal Employees Retirement System).

How To Report the Distribution

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:

20% Capital Gain Election.—If there is an amount shown in Form 1099-R, box 3, you can use Part II of Form 4972. You are electing to apply a 20% tax rate to the capital gain portion. See **Capital Gain Election** on this page.

5- or 10-Year Tax Option.—You can use Part III to choose the 5- or 10-year tax option to figure your tax on the lump-sum distribution. You can choose either option whether or not you make the 20% capital gain election described earlier.

Where To Report.—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 16a and the taxable amount on line 16b (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 16b; **do not** make an entry on line 16a.

● If you choose **not** to use Part III of Form 4972, but you do use Part II, report only the ordinary income part of the distribution on Form 1040, lines 16a and 16b (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 of Form 4972, do not include any part of the distribution on Form 1040, lines 16a and 16b (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 this page 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

After 1986, you may choose to use Form 4972 only once for each plan participant. If you receive more than one lump-sum distribution for the same plan participant in 1 tax year, you must treat all those distributions in the same way. Combine them on a single Form 4972.

If you make an election as a beneficiary of a deceased participant, it does not affect any election you can make for qualified lump-sum distributions from your own plan. You can also make an election as the beneficiary of more than one qualifying person.

Example. Your mother and father died and each was born before 1936. Each had a qualified plan of which you are the beneficiary. You also received a

qualified 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 your mother's beneficiary, and one as your father's. 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 to use any part of Form 4972.

Capital Gain Election

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.

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 from Form 1099-R, box 6 (net unrealized appreciation), part of it may also qualify for capital gain treatment. Use the NUA Worksheet on page 3 to figure the capital gain part of NUA if you make the election to include NUA in your taxable income.

You may elect to report the remaining balance of the distribution as ordinary income on Form 1040, line 16b (or Form 1041, line 8), or you may elect to figure the tax using the 5- or 10-year tax option. The remaining balance is the difference between Form 1099-R, box 3, and Form 1099-R, box 2a.

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 in Form 1099-R, box 6. Part of the amount in box 6 will qualify for capital gain treatment if there is an amount in 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 on this page.

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 qualified distribution in 1994 for the same plan participant, add them and figure the tax on the total amount. If you received qualified distributions in 1994 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 to Part III.

To make the 20% capital gain election but **not take a death benefit exclusion** (see instructions for line 11), 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, use the NUA Worksheet on this page to figure the amount to enter.

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

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

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 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 amount in Form 1099-R, box 3, 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.

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.*

Part III

Line 10.—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. 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.

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. On the dotted line next to line 10, write "NUA" and the amount of NUA included.

NUA Worksheet (keep for your records)

Complete only if you make the capital gain election.

- | | |
|--|----------|
| A. Enter the amount from Form 1099-R, box 3 | A. _____ |
| B. Enter the amount from Form 1099-R, box 2a | B. _____ |
| C. Divide line A by line B and enter the result as a decimal | C. _____ |
| D. Enter the amount from Form 1099-R, box 6 | D. _____ |
| E. Multiply line C by line D (NUA subject to capital gain treatment) | E. _____ |
| F. Subtract line E from line D (NUA that is ordinary income) | F. _____ |
| G. Add lines A and E (total part of distribution that can receive capital gain treatment). Enter the total here and on Form 4972, line 8 | G. _____ |
- On the dotted line next to line 8, write "NUA" and the amount from line E above.

Death Benefit Worksheet (keep for your records)

- | | |
|---|----------|
| 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 | A. _____ |
| 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 total here | B. _____ |
| C. Divide line A by line B and enter the result as a decimal | C. _____ |
| D. Enter your share of the death benefit exclusion*. | D. _____ |
| E. Multiply line D by line C | E. _____ |
| F. Subtract line E from line A. Enter the result here and on Form 4972, line 8 | F. _____ |

*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.

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

Line 11.—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 on line 11 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) 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. But see the instructions for line 8 if you made a capital gain election.

Line 20.—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 the Federal estate tax attributable to the lump-sum distribution. Also see the instructions for line 8.

Line 22.—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 26 and 29.—Use the following tax rate schedule to complete lines 26 and 29.

Tax Rate Schedule for the 5-Year Tax Option Lines 26 and 29

If the amount on line 25 or 28 is:		Enter on line 26 or 29:	
Over—	But not over—		Of the amount over—
\$-0-	\$22,750	----- 15%	\$-0-
22,750	55,100	\$3,412.50 + 28%	22,750
55,100	115,000	12,470.50 + 31%	55,100
115,000	250,000	31,039.50 + 36%	115,000
250,000	-----	79,639.50 + 39.6%	250,000

Lines 34 and 37.—Use the following tax rate schedule to complete lines 34 and 37.

Tax Rate Schedule for the 10-Year Tax Option Lines 34 and 37

If the amount on line 33 or 36 is:		Enter on line 34 or 37:	
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 in 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 2 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.

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.

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

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.

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.

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

Step 4.—Complete Form 4972 through line 39, except for line 32.

Step 5.—Complete the following worksheet twice (once to figure the entry for line 32 and once for line 40):

- A. Enter your percentage of distribution from Form 1099-R, box 9 _____
- B. Enter the amount from Form 4972, line 31 or 39 _____
- C. Multiply line A by the amount on line B _____
- D. Enter the amount from Form 4972, line 9 _____
- E. Add lines C and D. Enter the total here and on Form 4972, line 32 or 40. Also, write "MRD" on the dotted line next to the entry space _____