



DEPARTMENT OF THE TREASURY  
INTERNAL REVENUE SERVICE  
WASHINGTON, D.C. 20224

OFFICE OF THE CHIEF COUNSEL

September 11, 2018

CC:TEGE:EB:QP2:  
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The Honorable Chuck Fleischmann  
Member, U.S. House of Representatives  
900 Georgia Avenue, Suite 126  
Chattanooga, TN 37402

Attention:

Dear Representative Fleischmann:

I am responding to an email dated August 13, 2018, on behalf of your constituent, . He asked why we taxed the investment gains in his IRA before distribution.

We do not have enough information to determine what, if any, changes occurred either in the law or financial circumstances that would affect his IRA. We can, however, provide some general information on IRA taxability that we hope is helpful.

Generally, individuals are not taxed on IRA income until the funds are distributed or withdrawn. However, some IRAs engage in activities and investments that generate taxable income to the IRA. For example, if an IRA holds an operating business or debt-financed assets, the income related to that operating business or debt-financed asset may be subject to Unrelated Business Income Tax (UBIT). For more information, see Sections 408(e)(1) and 511-514 of the Internal Revenue Code and Section 1.408-1(b) of the Treasury Income Tax Regulations.

The IRA custodian reports UBIT on a Form 990-T (Exempt Organization Business Income Tax Return). The IRA custodian also pays any resulting taxes, penalties, and interest from available assets in the taxpayer's account. For more information about these tax payments, see Section 1.6012-2 (e) and 1.6012-3(a)(5) of the Regulations.

I'm enclosing a copy of Publication 590-B, Distributions from Individual Retirement Arrangements (IRAs). may want to read the information under the heading "What Acts Result in Penalties and Additional Taxes" on page 22. I am also enclosing a

copy of Publication 598, Tax on Unrelated Business Income of Exempt Organizations, to which Publication 590-B refers.

I hope this information is helpful. If you have additional questions, please call me or  
at .

Sincerely,

Victoria A. Judson  
Associate Chief Counsel  
Tax Exempt and Government Entities

Enclosures (2)