



GUIDE TO IRS FORM 1099-R

FOR IRA OR EMPLOYER RETIREMENT PLAN DISTRIBUTIONS

This guide is for advisors, their clients, and tax professionals. A 1099-R is issued for all IRA distributions that are made payable to an IRA or Roth IRA account owner and for all IRA distributions that go to a Roth IRA custodian. The form is issued for all employer plan distributions, whether they go to a plan participant or directly to another retirement plan. A copy of the form is provided to IRS, so it is important that the form be accurate and that it is included on the tax return.

Following are the boxes most frequently used for IRA and employer plan distributions.

		<input type="checkbox"/> CORRECTED (if checked)		OMB No. 1545-0119		Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.
PAYER'S name, street address, city or town, state or province, country, and ZIP or foreign postal code		1 Gross distribution	2016		Form 1099-R	
		2a Taxable amount	2b Taxable amount not determined <input type="checkbox"/>		Total distribution <input type="checkbox"/>	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.
PAYER'S federal identification number	RECIPIENT'S identification number	3 Capital gain (included in box 2a)	4 Federal income tax withheld			
RECIPIENT'S name		5 Employee contributions / Designated Roth insurance premiums	6 Net unrealized appreciation in employer's securities			This information is being furnished to the Internal Revenue Service.
Street address (including apt. no.)		7 Distribution code(s)	8 Other			
City or town, state or province, country, and ZIP or foreign postal code		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.	12 State tax withheld	13 State/Payer's state no.		14 State distribution	
Account number (see instructions)		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

Box 1 should have the gross amount of the distribution.

Box 2 is for reporting taxable amounts of the distribution. For IRAs, the box "Taxable amount not determined" should always be checked. Traditional IRA owners track their own basis on Form 8606. Roth IRA owners track their own 5-year holding periods. The IRA custodian does not track or report this information.

Box 4 will show amount withheld for federal income tax.

Box 5 will show amounts contributed to employer Roth accounts.

Box 6 will show "Net unrealized appreciation in employer's securities." This will be used when the participant is eligible for NUA tax treatment.

Box 7 contains the distribution codes. A discussion of those follows.

Box 11 contains the first year of participation in an employer Roth plan. This will be used to calculate any taxes applicable on an early distribution.

Boxes 12 and 15 contain any state and local taxes withheld.

Following are the distribution codes for in Box 7 that are used most frequently for IRA and plan distributions. Typically there will be two codes used in Box 7. When more codes are necessary, more than one 1099-R will be issued.

Code 1	“Early distribution, no known exception.” IRA custodians are not required to determine if the individual qualifies for an exception. The account owner files Form 5329 to claim an exception to the penalty.
Code 2	“Early distribution, exception applies.” This code will be used for Roth conversions, governmental 457(b) plan distributions, 72(t) distributions (if this code is not used the individual can correct it using Form 5329), and employer plan distributions where the employee has separated from service at age 55 or later (age 50 for certain public safety employees). It is also used for an IRS levy.
Code 3	“Disability.” The tax code definition of disability for this purpose is that the individual cannot perform any meaningful employment, the disability must be of long lasting or indefinite duration, possibly ending in death. If the individual qualifies, Form 5329 can be used to claim the exception to the early distribution penalty.
Code 4	“Death.” This code is used for all distributions to beneficiaries. IRA distributions with this code are fully taxable and cannot be rolled over to another retirement account. A beneficiary can only move retirement funds in a direct transfer. Beneficiaries of employer plan benefits with a Code G along with Code 4 will not have a taxable distribution.
Code 5	“Prohibited transaction.” The individual is in trouble. They have engaged in a prohibited transaction, which will generally make the entire IRA account balance taxable for the year of the prohibited transaction.
Code 7	“Normal distribution.” The distribution was made after attainment of age 59½ so there are no penalties, only income tax due on the distribution.
Code 8	“Excess contributions plus earnings/excess deferrals (and/or earnings) taxable in 2016.” That one is a mouthful. Distributions of excess contributions made to IRAs are generally not taxable, but the earnings, if any, are taxable.
Code A	“May be eligible for 10-year tax option.” This code is only used for employer plan participants born before 1936.
Code B	“Designated Roth account distribution.” This code is used when employer Roth account funds are distributed to the plan participant.
Code G	“Direct rollover and rollover contribution.” This code is used for most employer plan distributions that go directly to another retirement plan. It is the only way a non-spouse beneficiary can move plan assets income tax free. If the funds go to a Roth IRA, then the pre-tax portion of the distribution is taxable.
Code H	“Direct rollover of a designated Roth account distribution to a Roth IRA.” This is a distribution from an employer Roth account that goes directly to a Roth IRA. It is not a taxable distribution.
Code J	“Early distribution from a Roth IRA.” Distributions from Roth IRAs follow ordering rules. It is up to the account owner to determine if an early Roth distribution is taxable or subject to the 10% early distribution penalty. IRS Form 8606 must be filed with the tax return to calculate any tax or penalty.
Code K	“Distribution of IRA assets not having a readily available fair market value.” This code is used to indicate that an IRA distribution contains hard-to-value assets, such as real estate, privately held stock or partnerships not traded on an exchange. Code K reporting is optional for 2014, but mandatory for 2015 and beyond.
Code L	“Loan treated as deemed distributions under section 72(p).” Loans distributed from employer plans with this code can be rolled over (repaid with out of pocket funds) within 60 days of the date of the deemed distribution.
Code N	“Recharacterized IRA contribution made for 2016.” This code is used when the contribution or Roth IRA conversion and the recharacterization occur in the same year. The 1099-R must be included on the tax return, and a note of explanation must be attached (see the instructions for Form 8606, page 3, for more information).
Code P	“Excess contributions plus earnings/excess deferrals taxable.” Use this code when the excess contribution is being corrected in the year after it was made. The distribution from an IRA is generally not taxable.
Code Q	“Qualified distribution from a Roth IRA.” This code is used when the Roth IRA account owner is over the age of 59½ or has died or is disabled and has held a Roth IRA with that custodian for more than 5 years.
Code R	“Recharacterized IRA contribution made for 2015.” Use this code for a recharacterization of an IRA contribution or a Roth conversion that took place in 2015, and the recharacterization took place in 2016.
Code S	“Early distribution from a SIMPLE IRA in the first 2 years, no known exception.” This code is used because early distributions from SIMPLE accounts are subject to a penalty of 25% if no exception applies. Use IRS Form 5329 to claim an exception to the penalty. In addition, early SIMPLE distributions cannot be rolled over, other than to another SIMPLE IRA.
Code T	“Roth IRA distribution, exception applies.” This code will be used by a Roth IRA custodian when they do not know if the 5 year holding period has been met by the account owner, but the account owner is age 59½, dead, or disabled.
Code U	“Dividends distributed from an ESOP under section 404(k).” Dividends from an employee stock ownership plan that are not eligible for rollover will be reported using this code.

When a client has a 1099-R, the first question should be “What did you do?” ***The error rate on 1099-Rs is over 50% according to one government report.*** Despite the fact that most 1099-Rs are wrong, custodians are generally unwilling to correct the 1099-Rs they issue. Make sure the 1099-R for the individual is filled out correctly, reflecting what the individual actually did, so it can be accurately handled on the tax return.

If a distribution was rolled over, make sure it was eligible for a rollover so the transaction can be accurately reported on the tax return. Beginning in 2015, only one rollover per year is allowed regardless of how many IRAs or Roth IRAs a client has..

There are a number of exceptions to the 10% early distribution penalty. They can all be found on IRS Form 5329 and its instructions. Not all exceptions apply to all types of retirement plans so be sure an individual qualifies for the exception that will be claimed on the tax return. The disability exception has a very strict standard of disability. Just being on disability income will not necessarily qualify an individual for the disability exception to the 10% early distribution penalty.

Looking back at the list of codes, you will see that there is no code for a hardship distribution. A hardship distribution from an employer plan is subject to income tax, and the early distribution penalty, if no exception applies. It is not eligible for a rollover. There are no hardship distributions from IRAs.

Watch for the “Death” code, code 4. This is for a distribution to a beneficiary and the amount on the 1099-R will generally have to be included in the beneficiary’s income for the year.

Beneficiaries cannot do 60 day rollovers, only direct transfers. Ask the beneficiary if they qualify for any tax breaks such as after-tax funds in the IRA, net unrealized appreciation (NUA), 10-year averaging, or income in respect of a decedent (IRD).

Custodians are not supposed to issue a 1099-R for a direct transfer of IRA funds. If one is issued in error, and there is no corresponding 5498 to show the deposit of the IRA funds, the individual may receive correspondence from IRS down the road.

When a client is over the age of 70½, and they have no 1099-Rs, ask them about their required distributions. All IRA owners must take RMDs by April 1 of the year after they attain age 70 ½. Employer plans have a couple of exceptions to beginning required distributions. Any required distribution that is not taken is subject to a penalty of 50% of the amount not taken. This penalty is reported on IRS Form 5329.

Watch for conversions of plan assets to Roth IRAs. When this is done directly from the plan to the Roth IRA, the 1099-R will have a Code “G” for a direct rollover. This is normally a non-taxable transfer. For a Roth conversion, it is a taxable transfer and the taxable amount of the distribution must be included in the individual’s taxable income for the year.

Roth IRA distributions follow ordering rules. All Roth IRAs are treated as one account for distribution purposes. It is up to the Roth IRA owner to track the contributions, converted amounts, earnings, and the dates of conversions in order to determine any tax or penalty on a Roth distribution. Early Roth distributions are reported on IRS Form 8606.

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QUESTIONS?

**Retirement distribution planning
is complicated.**

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