



# Instructions for Forms 1099-R and 5498

(Rev. October 2006)

Section references are to the Internal Revenue Code unless otherwise noted.

## What's New

### Form 1099-R

**Account closure.** Instructions for reporting a distribution as a result of an account closure have been added to the discussion of an IRA revocation on page R-2.

**Permissive service credit.** The discussion under *Transfers* on page R-4 has been revised to include the purchase of permissive service credit.

**Disclaimer of an IRA account balance.** Revenue Ruling 2005-36 provides for the qualified disclaimer of all or some of an IRA account balance under certain conditions. See *Disclaimers* on page R-5.

**Certain Roth IRA conversions.** Regulations section 1.408A-4T discusses how to determine the fair market value of an individual retirement annuity described in section 408(b) that is converted to a Roth IRA. See *Roth IRA conversion* on page R-7.

**Box 2a. Taxable amount.** Reporting instructions have been changed for distributions under section 408(d)(5). See the instructions on page R-6.

**Designated Roth account distributions.** Section 402A, which was added by the Economic Growth and Tax Relief Reconciliation Act of 2001, provides that a participant in a section 401(k) or 403(b) plan that includes a Roth contribution program may elect to make designated Roth account contributions to the plan. Designated Roth account contributions are reported on the participant's Form W-2. Designated Roth account distributions are reported separately to the participant. A new distribution code has been added to report these distributions, Code B—Designated Roth account distribution. Other rules relating to designated Roth accounts have been added throughout the instructions as applicable. Also, the form requires the trustee to report the first year of the designated Roth account contribution and the basis of the designated Roth account distribution. Note that the instructions to the recipient have been expanded, and appear on the back of Copy 2 as well as on the backs of Copies B and C. See Proposed Regulations sections 1.402(g)-1, 1.402A-1, 1.402A-2, 1.403(b)-2, 1.403(b)-3, and 1.403(b)-7.

**Guide to Distribution Codes.** Distribution codes 1 and 2 have been revised for withdrawals by qualified reservists and certain public safety employees, respectively, based on provisions in the Pension Protection Act of 2006.

### Form 5498

**Account closure.** Instructions for reporting as a result of an account closure have been added to the discussion of an IRA revocation. See *IRA revocation or account closure* on page R-12.

**Contributions.** A caution has been added to remind filers that Form 5498 is required to be filed even after required minimum distributions or other payments have started. See page R-12.

**Special reporting for U.S. Armed Forces in designated combat zones.** The Heroes Earned Retirement Opportunities (HERO) Act of 2006 amended section 219(f) so that combat pay that is excluded under section 112 is included in compensation for determining contributions to traditional and Roth IRAs. This rule is applied retroactively to allow contributions for tax years 2004 and 2005. See page R-13 for the special reporting rules.

## Reminders

In addition, see the 2006 General Instructions for Forms 1099, 1098, 5498, and W-2G for information on:

- Backup withholding
- Electronic reporting requirements
- Penalties
- Who must file (nominee/middleman)
- When and where to file
- Taxpayer identification numbers
- Statements to recipients
- Corrected and void returns
- Other general topics

You can get the general instructions from the IRS website at [www.irs.gov](http://www.irs.gov) or call 1-800-TAX-FORM (1-800-829-3676).

**Hurricane distributions.** For information on the relief provisions relating to Hurricanes Katrina, Rita, and Wilma, see Section 1400Q and Pub. 4492, Information for Taxpayers Affected by Hurricanes Katrina, Rita, and Wilma.

## Specific Instructions for Form 1099-R

File Form 1099-R, Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc., for each person to whom you have made a designated distribution or are treated as having made a distribution of \$10 or more from profit-sharing or retirement plans, any IRAs, annuities, pensions, insurance contracts, survivor income benefit plans, permanent and total disability payments under life insurance contracts, charitable gift annuities, etc.

Also, report on Form 1099-R death benefit payments made by employers that are not made as part of a pension, profit-sharing, or retirement plan. See box 1 on page R-6.

Reportable disability payments made from a retirement plan must be reported on Form 1099-R.

Generally, do not report payments subject to withholding of social security and Medicare taxes on this form. Report such payments on Form W-2, Wage and Tax Statement.

Generally, do not report amounts totally exempt from tax, such as workers' compensation and Department of Veterans Affairs (VA) payments. However, if part of the distribution is taxable and part is nontaxable, report the entire distribution.

**Military retirement annuities.** Report payments to military retirees or payments of survivor benefit annuities on Form 1099-R. Report military retirement pay awarded as a property settlement to a former spouse under the name and taxpayer identification number (TIN) of the recipient, not that of the military retiree.

**Governmental section 457(b) plans.** Report on Form 1099-R, not Form W-2, income tax withholding and distributions from a governmental section 457(b) plan maintained by a state or local government employer. Distributions from a governmental section 457(b) plan to a participant or beneficiary include all amounts that are paid from the plan. For more information, see Notice 2003-20 which is on page 894 of Internal Revenue Bulletin 2003-19, available at [www.irs.gov/pub/irs-irbs/irb03-19.pdf](http://www.irs.gov/pub/irs-irbs/irb03-19.pdf). Also see *Section 457(b) plan distributions* on page R-9 for information on distribution codes.

**Nonqualified plans.** Report any reportable distributions from commercial annuities. Report distributions to employee plan participants from section 409A nonqualified deferred compensation plans including nongovernmental section 457(b) plans on Form W-2, not on Form 1099-R; for nonemployees, these payments are reportable on Form 1099-MISC. However, report distributions to beneficiaries of deceased plan participants on Form 1099-R. See box 1 on page R-6.

**Charitable gift annuities.** If cash or capital gain property is donated in exchange for a charitable gift annuity, report

distributions from the annuity on Form 1099-R. See *Charitable gift annuities* on page R-6.

**Life insurance, annuity, and endowment contracts.** Report payments of matured or redeemed annuity, endowment, and life insurance contracts. However, you do not need to file Form 1099-R to report the surrender of a life insurance contract if it is reasonable to believe that none of the payment is includible in the income of the recipient. If you are reporting the surrender of a life insurance contract, see Code 7 on page R-10.

Also report premiums paid by a trustee or custodian for the cost of current life or other insurance protection. Costs of current life insurance protection are not subject to the 10% additional tax under section 72(t). See *Cost of current life insurance protection* on page R-6.

**Section 1035 exchange.** A tax-free section 1035 exchange is the exchange of (a) a life insurance contract for another life insurance, endowment, or annuity contract, (b) an endowment contract for an annuity contract or for another endowment contract that provides for regular payments to begin no later than they would have begun under the old contract, and (c) an annuity contract for another annuity contract. However, the distribution of other property or the cancellation of a contract loan at the time of the exchange may be taxable and reportable on a separate Form 1099-R.

These exchanges of contracts are generally reportable on Form 1099-R. However, reporting on Form 1099-R is not required if (a) the exchange occurs within the same company, (b) the exchange is solely a contract for contract exchange, as defined above, that does not result in a designated distribution, and (c) the company maintains adequate records of the policyholder's basis in the contracts. For example, a life insurance contract issued by Company X received in exchange solely for another life insurance contract previously issued by Company X does not have to be reported on Form 1099-R as long as the company maintains the required records. See Rev. Proc. 92-26, 1992-1 C.B. 744.

For more information on reporting taxable exchanges, see box 1 on page R-6.

### Designated Roth Account Distributions

An employer offering a section 401(k) or 403(b) plan may allow participants to contribute all or a portion of the elective deferrals they are otherwise eligible to make to a separate designated Roth account established under the plan. Contributions made under a 401(k) plan must meet the requirements of Regulations section 1.401(k)-1(f) (Proposed Regulations section 1.403(b)-3(c) for a 403(b) plan). Under the terms of the 401(k) plan or 403(b) plan the designated Roth account must meet the requirements of section 402A.



*A separate Form 1099-R must be used to report a distribution from a designated Roth account.*

### IRA Distributions



*For deemed IRAs under section 408(q), use the rules that apply to traditional IRAs or Roth IRAs as applicable. SEP IRAs and SIMPLE IRAs, however, may not be used as deemed IRAs.*

**Deemed IRAs.** A qualified employer plan may allow employees to make voluntary employee contributions to a separate account or annuity established under the plan. Under the terms of the qualified employer plan, the account or annuity must meet the applicable requirements of section 408 or 408A for a traditional IRA or Roth IRA. Under section 408(q), the "deemed IRA" portion of the qualified employer plan is subject to the rules applicable to traditional and Roth IRAs, and not to those of the applicable plan under section 401(a), 403(a), 403(b), or 457.

Accordingly, the reporting and withholding rules on plan and IRA distributions apply separately depending on whether the distributions are made from the deemed IRA or the qualified employer plan. For example, the reporting rules for required minimum distributions apply separately for the two portions of the plan. A total distribution of amounts held in the qualified employer plan portion and the deemed IRA portion is reported on two separate Forms 1099-R — one for the distribution from the deemed IRA portion and one for the rest of the distribution. Also, the 20% withholding rules of section 3405(c) do not apply to a distribution from the deemed IRA portion but would apply to a distribution from the qualified employer plan portion, and section 72(t) applies separately to the two portions.

**IRAs other than Roth IRAs.** Distributions from any individual retirement arrangement (IRA), except a Roth IRA, must be reported in boxes 1 and 2a regardless of the amount. You may check the "Taxable amount not determined" box in box 2b. But see the instructions for box 2a on page R-6 for how to report

the withdrawal of IRA contributions under section 408(d)(4). Also see *Transfers* on page R-4 for information on trustee-to-trustee transfers, including recharacterizations. The direct rollover provisions on page R-3 do not apply to distributions from any IRA. However, taxable distributions from traditional IRAs and SEP IRAs may be rolled over into an eligible retirement plan. See section 408(d)(3). SIMPLE IRAs may also be rolled over into an eligible retirement plan, but only after the 2-year period described in section 72(t)(6).

An IRA includes all investments under one IRA plan or account. File only one Form 1099-R for distributions from all investments under one plan that are paid in 1 year to one recipient, unless you must enter different codes in box 7. You do not have to file a separate Form 1099-R for each distribution under the plan.

**Roth IRAs.** For distributions from a Roth IRA, report the gross distribution in box 1 but generally leave box 2a blank. Check the "Taxable amount not determined" box in box 2b. Enter Code J, Q, or T as appropriate in box 7. Do not use any other codes with Code Q or Code T. You may enter Code 8 or P with Code J. For the withdrawal of excess contributions, see box 2a on page R-6. It is not necessary to mark the IRA/SEP/SIMPLE checkbox.

**Roth IRA conversions.** You must report an IRA that is converted or reconverted this year to a Roth IRA in boxes 1 and 2a, even if the conversion is a trustee-to-trustee transfer or is with the same trustee. Enter Code 2 or 7 in box 7 depending on the participant's age.

**Conduit IRAs.** If you know the distribution is from a conduit IRA, follow these rules. If a distribution from a conduit IRA is paid to the participant, report the full amount in boxes 1 and 2a, and use Code 1 or 7 in box 7 depending on the participant's age. If a distribution from a conduit IRA is paid to the trustee of, or is transferred to, an employer plan, report the distribution in box 1, enter 0 (zero) in box 2a, and use Code G in box 7.

### IRA Revocation or Account Closure

If a traditional or Roth IRA is revoked during its first 7 days (under Regulations section 1.408-6(d)(4)(ii)) or is closed at any time by the IRA trustee or custodian due to a failure of the taxpayer to satisfy the Customer Identification Program requirements described in section 326 of the U.S. Patriot Act, the distribution from the IRA must be reported. In addition, Form 5498, IRA Contribution Information, must be filed to report any regular, rollover, Roth IRA conversion, SEP IRA, or SIMPLE IRA contribution to an IRA that is subsequently revoked or closed by the trustee or custodian.

If a regular contribution is made to a traditional or Roth IRA that later is revoked or closed, and distribution is made to the taxpayer, enter the gross distribution in box 1. If no earnings are distributed, enter 0 (zero) in box 2a and Code 8 in box 7 for a traditional IRA and Code J for a Roth IRA. If earnings are distributed, enter the amount of earnings in box 2a. For a traditional IRA, enter Code 1 and 8, if applicable, in box 7; for a Roth IRA, enter Codes J and 8, if applicable. These earnings could be subject to the 10% early distribution tax under section 72(t). If a rollover contribution is made to a traditional or Roth IRA that later is revoked or closed, and distribution is made to the taxpayer, enter in boxes 1 and 2a of Form 1099-R the gross distribution and the appropriate code in box 7 (Code J for a Roth IRA). Follow this same procedure for a transfer from a traditional or Roth IRA to another IRA of the same type that later is revoked or closed. The distribution could be subject to the 10% early distribution tax under section 72(t).

If an IRA conversion contribution is made to a Roth IRA that later is revoked or closed, and a distribution is made to the taxpayer, enter the gross distribution in box 1 of Form 1099-R. If no earnings are distributed, enter 0 (zero) in box 2a and Code J in box 7. If earnings are distributed, enter the amount of the earnings in box 2a and Code J in box 7. These earnings could be subject to the 10% early distribution tax under section 72(t).

If an employer SEP (simplified employee pension) IRA or SIMPLE (savings incentive match plan for employees) IRA plan contribution is made and the SEP IRA or SIMPLE IRA is revoked by the employee or is closed by the trustee or custodian, report the distribution as fully taxable.

For more information on IRAs that have been revoked, see Rev. Proc. 91-70, 1991-2 C.B. 899.

### Deductible Voluntary Employee Contributions (DECs)

If you are reporting a total distribution from a plan that includes a distribution of DECs, file a separate Form 1099-R to report the distribution of DECs. Report the distribution of DECs in boxes 1 and 2a on the separate Form 1099-R. However, for the direct rollover (explained on page R-3) of funds that include



DECs, a separate Form 1099-R is not required to report the direct rollover of the DECs.

## Direct Rollovers

You must report a direct rollover of an eligible rollover distribution. A direct rollover is the direct payment of the distribution from a qualified plan (including a governmental section 457(b) plan) or 403(b) plan to a traditional IRA or other eligible retirement plan. For additional rules regarding the treatment of direct rollovers from designated Roth accounts, see *Designated Roth accounts* below. A direct rollover may be made for the employee, for the employee's surviving spouse, or for the spouse or former spouse who is an alternate payee under a qualified domestic relations order (QDRO). If the distribution is paid to the surviving spouse, the distribution is treated in the same manner as if the spouse were the employee.

An eligible rollover distribution is any distribution of all or any portion of the balance to the credit of the employee (including net unrealized appreciation (NUA)) from a qualified plan (including a governmental section 457(b) plan) or a 403(b) plan except:

1. One of a series of substantially equal periodic payments made at least annually over:
  - a. The life of the employee or the joint lives of the employee and the employee's designated beneficiary,
  - b. The life expectancy of the employee or the joint life and last survivor expectancy of the employee and the employee's designated beneficiary, or
  - c. A specified period of 10 years or more.
2. A required minimum distribution (under section 401(a)(9)). A plan administrator is permitted to assume there is no designated beneficiary for purposes of determining the minimum distribution.
3. Elective deferrals (under section 402(g)(3)) and earnings returned because of the section 415 limits.
4. Corrective distributions of excess deferrals (under section 402(g)) and earnings.
5. Corrective distributions of excess contributions under a qualified cash or deferred arrangement (under section 401(k)) and excess aggregate contributions (under section 401(m)) and earnings.
6. Loans treated as deemed distributions (under section 72(p)). But plan loan offset amounts can be eligible rollover distributions. See Regulations section 1.402(c)-2, Q/A-9.
7. Section 404(k) dividends.
8. Cost of current life insurance protection.
9. Distributions to a payee other than the employee, the employee's surviving spouse, or a spouse or former spouse who is an alternate payee under a QDRO.
10. Any hardship distribution.

Amounts paid under an annuity contract purchased for and distributed to a participant under a qualified plan can qualify as eligible rollover distributions. See Regulations section 1.402(c)-2, Q/A-10.

**Automatic rollovers.** Eligible rollover distributions may also include involuntary distributions that are more than \$1,000 but \$5,000 or less and are made from a qualified plan to an IRA on behalf of a plan participant. Involuntary distributions made on or after March 28, 2005, are generally subject to the automatic rollover provisions of section 401(a)(31)(B) and must be paid in a direct rollover to an IRA. For information on the notification requirements, see *Explanation to Recipients Before Eligible Rollover Distributions (Section 402(f) Notice)* below. For additional information, also see Notice 2005-5 which is available on page 337 of Internal Revenue Bulletin 2005-3 at [www.irs.gov/pub/irs-irbs/irb05-03.pdf](http://www.irs.gov/pub/irs-irbs/irb05-03.pdf).

Any part of an eligible rollover distribution that is not a direct rollover is subject to 20% income tax withholding. See box 4 on page R-7.

**Reporting a direct rollover.** Report a direct rollover in box 1 and a 0 (zero) in box 2a. You do not have to report capital gain in box 3 or NUA in box 6. Enter Code G in box 7. Prepare the form using the name and social security number (SSN) of the person for whose benefit the funds were rolled over (generally the participant), not those of the trustee of the traditional IRA or other plan to which the funds were rolled.



**TIP** Also, use Code G with Code 4 for a surviving spouse who elects a direct rollover to an IRA or a qualified plan. Prepare the form using the name and SSN of the surviving spouse.

If you receive a direct rollover to an IRA, you must prepare Form 5498. If you receive a direct rollover to a qualified plan (including a governmental section 457(b) plan) or 403(b) plan, no report is required.

If part of the distribution is a direct rollover and part is distributed to the recipient, prepare two Forms 1099-R.

For more information on eligible rollover distributions, including substantially equal periodic payments, required minimum distributions, and plan loan offset amounts, see Regulations sections 1.402(c)-2 and 1.403(b)-2. Also, see Rev. Rul. 2002-62 which is on page 710 of Internal Revenue Bulletin 2002-42 at [www.irs.gov/pub/irs-irbs/irb02-42.pdf](http://www.irs.gov/pub/irs-irbs/irb02-42.pdf) for guidance on substantially equal periodic payments that began after December 31, 2002.



**TIP** For information on distributions of amounts attributable to rollover contributions separately accounted for by an eligible retirement plan and if permissible timing restrictions apply, see Rev. Rul. 2004-12 which is on page 478 of Internal Revenue Bulletin 2004-7, available at [www.irs.gov/pub/irs-irbs/irb04-07.pdf](http://www.irs.gov/pub/irs-irbs/irb04-07.pdf).

**Designated Roth accounts.** A direct rollover from a designated Roth account under a qualified cash or deferred arrangement may only be made to another designated Roth account under an applicable retirement plan described in section 402A(e)(1) or to a Roth IRA described in section 408A, and only to the extent the direct rollover is permitted under the rules of section 402(c). A distribution from a Roth IRA, however, cannot be rolled over into a designated Roth account. In addition, a plan is permitted to treat the balance of the participant's designated Roth account and the participant's other accounts under the plan as accounts held under two separate plans for purposes of applying Q/A-11 of Regulations section 1.401(a)(31)-1. Thus, if a participant's balance in the designated Roth account is less than \$200, the plan is not required to offer a direct rollover election or to apply the automatic rollover provisions to such balance.

When the portion of the distribution from a designated Roth account under a plan qualified under section 401(a) that is not includible in gross income is to be rolled over into a designated Roth account under another plan, the rollover must be accomplished by a direct rollover. Any portion not includible in gross income that is distributed to the employee, however, cannot be rolled over to another designated Roth account. Also, the recipient plan must be a section 401(a) plan and must agree to separately account for the amount not includible in gross income. In the case of a direct rollover, the distributing plan is required to report to the recipient plan the amount of the investment (basis) in the contract and the first year of the 5-taxable-year period.

## Explanation to Recipients Before Eligible Rollover Distributions (Section 402(f) Notice)

For qualified plans, tax-sheltered annuities, and governmental section 457(b) plans, no more than 90 days and no fewer than 30 days before making an eligible rollover distribution (or before the annuity starting date), the plan administrator must provide a written explanation to each recipient (section 402(f) notice). However, if the recipient who has received the section 402(f) notice affirmatively elects a distribution, you will not fail to satisfy the timing requirements merely because you make the distribution fewer than 30 days after you provided the notice as long as you meet the requirements of Regulations section 1.402(f)-1, Q/A-2. You may provide the section 402(f) notice more than 90 days before a distribution if you also provide a summary of the notice during the 90-day/30-day period before the distribution.

The notice must explain the rollover rules, the special tax treatment for lump-sum distributions, the direct rollover option (and any default procedures), the mandatory 20% withholding rules, and an explanation of how distributions from the plan to which the rollover is made may have different restrictions and tax consequences than the plan from which the rollover is made. The notice and summary are permitted to be sent either as a written paper document or through an electronic medium reasonably accessible to the recipient; see Regulations section 1.402(f)-1, Q/A-5.

For periodic payments that are eligible rollover distributions, you must provide the notice before the first payment and at least once a year as long as the payments continue. For tax-sheltered annuities, the payer must provide an explanation of the direct rollover option within the time period described above or some other reasonable period of time.

Notice 2002-3, which is on page 289 of Internal Revenue Bulletin 2002-2 and available at [www.irs.gov/pub/irs-irbs/irb02-02.pdf](http://www.irs.gov/pub/irs-irbs/irb02-02.pdf), contains model notices that the plan administrator can use to satisfy the notice requirements.



**CAUTION** Notice 2002-3 has not yet been updated for requirements related to plans that accept designated Roth account contributions. For distributions from designated Roth accounts, the section 402(f) notice must

contain the rollover and taxation rules for the distribution of designated Roth contributions.

**Involuntary distributions.** For involuntary distributions paid to an IRA in a direct rollover (automatic rollover) you may satisfy the notification requirements of section 401(a)(31)(B)(i) either separately or as a part of the section 402(f) notice. The notification must be in writing and may be sent using electronic media in accordance with Q/A 5 of Regulations section 1.402(f)-1. For more information, see Notice 2005-5, Q/A 15.

## Transfers

Generally, do not report transfers between trustees or issuers (unless they are direct rollovers from qualified plans) that involve no payment or distribution of funds to the participant, including a trustee-to-trustee transfer from one IRA to another (unless they are recharacterized IRA contributions or Roth IRA conversions), from one tax-sheltered (section 403(b)) arrangement to another, or for the purchase of permissible service credit under section 403(b)(13) or 457(e)(17).

**IRA recharacterizations.** You must report each recharacterization of an IRA contribution. If a participant makes a contribution to an IRA (first IRA) for a year, the participant may choose to recharacterize the contribution by transferring, in a trustee-to-trustee transfer, any part of the contribution (plus earnings) to another IRA (second IRA). The contribution is treated as made to the second IRA (recharacterization). A recharacterization may be made with the same trustee or with another trustee. The trustee of the first IRA must report the recharacterization as a distribution on Form 1099-R and the contribution to the first IRA and its character on Form 5498.

Enter the fair market value (FMV) of the amount recharacterized in box 1, 0 (zero) in box 2a, and Code R in box 7 if reporting a recharacterization of a prior-year (2005) contribution or Code N if reporting a recharacterization of a contribution in the same year (2006). It is not necessary to check the IRA/SEP/SIMPLE checkbox. For more information, see Notice 2000-30 on page 1266 of Internal Revenue Bulletin 2000-25 at [www.irs.gov/pub/irs-irbs/irb00-25.pdf](http://www.irs.gov/pub/irs-irbs/irb00-25.pdf).

**Roth IRA conversions.** A Roth IRA conversion is not considered a trustee-to-trustee transfer. You must report a Roth IRA conversion or reconversion as a distribution. Therefore, for an IRA that is converted to a Roth IRA, even with the same trustee, you must report the amount converted in boxes 1 and 2a. Use Code 2 or 7 in box 7 depending on the participant's age.

**SIMPLE IRAs.** Do not report a trustee-to-trustee transfer from one SIMPLE IRA to another SIMPLE IRA. However, you must report as a taxable distribution in boxes 1 and 2a a trustee-to-trustee transfer from a SIMPLE IRA to an IRA that is not a SIMPLE IRA during the 2-year period beginning on the day contributions are first deposited in the individual's SIMPLE IRA by the employer. Use Code S in box 7 if appropriate.

**Section 1035 exchange.** You may have to report exchanges of insurance contracts, including an exchange under section 1035, under which any designated distribution may be made. For a section 1035 exchange that is in part taxable, file a separate Form 1099-R to report the taxable amount. See *Section 1035 exchange* on page R-2.

**Transfer of an IRA to spouse.** If you transfer or re-designate an interest from one spouse's IRA to an IRA for the other spouse under a divorce or separation instrument, the transfer or re-designation as provided under section 408(d)(6) is tax free. Do not report such a transfer on Form 1099-R.

## Corrective Distributions

You must report on Form 1099-R corrective distributions of excess deferrals, excess contributions and excess aggregate contributions under section 401(a) plans, section 401(k) cash or deferred arrangements, section 403(a) annuity plans, section 403(b) salary reduction agreements, and salary reduction simplified employee pensions (SARSEPs) under section 408(k)(6). Excess contributions that are recharacterized under a section 401(k) plan are treated as distributed. Corrective distributions of an excess plus earnings are reportable on Form 1099-R for the year of the distribution regardless of when the distribution is taxable to the participant. Enter Code 8, P, or in some cases D, in box 7 (with Code B if applicable) to designate the distribution and the year it is taxable.

Use a separate Form 1099-R to report a corrective distribution from a designated Roth account.



**The total amount of the elective deferral is reported in box 12 of Form W-2. See the Instructions for Forms W-2 and W-3 for more information.**

If the excess and the earnings are taxable in 2 different years, you must issue two Forms 1099-R to designate the year each is taxable.

You must advise the plan participant at the time of the distribution of the year(s) in which the distribution is taxable and that it may be necessary to file an amended return for a prior tax year.

For more information about reporting corrective distributions see: the *Guide to Distribution Codes* on pages R-10 and R-11; Notice 89-32, 1989-1 C.B. 671; Notice 88-33, 1988-1 C.B. 513; Notice 87-77, 1987-2 C.B. 385; Rev. Proc. 91-44, 1991-2 C.B. 733 (SARSEPs); and the Regulations under sections 401(k), 401(m), 402(g), and 457.

**Excess deferrals.** Excess deferrals under section 402(g) can occur in 401(k) plans or 403(b) plans or SARSEPs. If distributed by April 15 of the year following the year of deferral, the excess is taxable to the participant in the year of deferral, but the earnings are taxable in the year distributed. Except for a SARSEP, if the distribution occurs after April 15, the excess is taxable in the year of deferral and the year distributed. The earnings are taxable in the year distributed. For a SARSEP, excess deferrals not withdrawn by April 15 are considered regular IRA contributions subject to the IRA contribution limits. Corrective distributions of excess deferrals are not subject to federal income tax withholding or social security and Medicare taxes. For losses on excess deferrals, see *Losses* below. See the regulations under section 457 for special rules for excess deferrals under governmental section 457(b) plans.

**Excess contributions.** Excess contributions can occur in a 401(k) plan or a SARSEP. For a 401(k) plan, if the withdrawal of the excess plus earnings occurs within 2½ months after the close of the plan year, the excess and earnings are taxable to the participant in the year deferred. But if the corrective distribution is made after the 2½-month period, or the excess contribution (not including earnings) (and excess aggregate contributions (not including earnings) in the case of a 401(k) plan) is less than \$100, the excess (other than designated Roth account contributions) and earnings are taxable in the year distributed. For recharacterized excess contributions, the excess is taxable in the year a corrective distribution would have occurred. No earnings are allocated to recharacterized amounts. For a SARSEP, the employer must notify the participant by March 15 of the year after the year the excess contribution was made that the participant must withdraw the excess and earnings. The excess contribution is taxable to the participant in the year of deferral and the earnings are taxable in the year withdrawn. If the excess contribution (not including earnings) is less than \$100, the excess is taxable in the year of notification and the earnings are taxable in the year withdrawn. An excess contribution not withdrawn by April 15 of the year after the year of notification is considered a regular IRA contribution subject to the IRA contribution limits.

Excess contributions distributed within the 2½-month period are not subject to federal income tax withholding or social security and Medicare taxes. But amounts distributed from a 401(k) plan after the 2½-month period are subject to federal income tax withholding under section 3405.

**Excess aggregate contributions.** Excess aggregate contributions under section 401(m) can occur in 401(a), 401(k), 403(a), and 403(b) plans. A corrective distribution of excess aggregate contributions plus earnings within 2½ months after the close of the plan year is taxable to the participant in the year the contributions were made. A corrective distribution made after the 2½-month period is taxable in the year distributed. Report the gross distribution in box 1 of Form 1099-R. In box 2a, enter the excess and earnings distributed less any after-tax contributions. If the total excess contributions and excess aggregate contributions distributed are less than \$100 (excluding earnings), the distribution is taxable in the year of distribution.

A distribution made within 2½ months after the close of the plan year is not subject to federal income tax withholding or social security and Medicare taxes. But amounts distributed after 2½ months are subject to federal income tax withholding under section 3405.

**Losses.** If a corrective distribution of an excess deferral is made in a year after the year of deferral and a net loss has been allocated to the excess deferral, report the corrective distribution amount in boxes 1 and 2a of Form 1099-R for the year of the distribution with the appropriate distribution code in box 7. If the excess deferrals consist of designated Roth account contributions, report the corrective distribution amount in box 1, 0 (zero) in box 2a, and the appropriate distribution code in box 7. However, taxpayers must include the total amount of the excess deferral (unadjusted for loss) in income in the year of deferral, and they may report a loss on the tax return for the year the corrective distribution is made.



## Excess Annual Additions Under Section 415

You must report on Form 1099-R distributions made under Regulations section 1.415-6(b)(6)(iv) of elective deferrals or a return of employee contributions (and gains attributable to such elective deferrals or employee contributions) to reduce excess annual additions arising from the allocation of forfeitures, a reasonable error in estimating a participant's compensation, or a reasonable error in determining the amount of elective deferrals that may be made for an individual under the limits of section 415.

Such distributions are not eligible rollover distributions although they are subject to federal income tax withholding under section 3405. They are not subject to social security, Medicare, or Federal Unemployment Tax Act (FUTA) taxes. In addition, such distributions are not subject to the 10% early distribution tax under section 72(t).

You may report the distribution of elective deferrals (other than designated Roth account contributions) and employee contributions (and gains attributable to such elective deferrals and employee contributions) on the same Form 1099-R. However, if you made other distributions during the year, report them on a separate Form 1099-R. Because the distribution of elective deferrals (other than designated Roth account contributions) is fully taxable in the year distributed (no part of the distribution is a return of the investment in the contract), report the total amount of the distribution in boxes 1 and 2a. Leave box 5 blank, and enter Code E in box 7. For a return of employee contributions (or designated Roth account contributions) plus gains, enter the gross distribution in box 1, the gains attributable to the employee contributions (or designated Roth account contributions) being returned in box 2a, and the employee contributions (or designated Roth account contributions) being returned in box 5. Enter Code E in box 7. For more information, see Rev. Proc. 92-93, 1992-2 C.B. 505.

## Certain Excess Amounts Under 403(b) Plans

A corrective distribution under the Employee Plans Compliance Resolution System to the participant of contributions to a 403(b) plan (plus gains attributable to such contributions) that were in excess of the limits under section 415 is treated the same as corrective distributions of elective deferrals to satisfy the limits under section 415. It is taxable to the participant in the year of distribution. See *Excess Annual Additions Under Section 415* above.

## Failing the ADP or ACP Test After a Total Distribution

If you make a total distribution in 2006 and file a Form 1099-R with the IRS and then discover in 2007 that the plan failed either the section 401(k)(3) actual deferral percentage (ADP) test for 2006 and you compute excess contributions or the section 401(m)(2) actual contribution percentage (ACP) test and you compute excess aggregate contributions, you must recharacterize part of the total distribution as excess contributions or excess aggregate contributions. First, file a CORRECTED Form 1099-R for 2006 for the correct amount of the total distribution (not including the amount recharacterized as excess contributions or excess aggregate contributions). Second, file a new Form 1099-R for 2006 for the excess contributions or excess aggregate contributions and allocable earnings.

To avoid a late filing penalty if the new Form 1099-R is filed after the due date, enter in the bottom margin of Form 1096, Annual Summary and Transmittal of U.S. Information Returns, the words "Filed To Correct Excess Contributions."

You must also issue copies of the Forms 1099-R to the plan participant with an explanation of why these new forms are being issued.

## Loans Treated as Distributions

A loan from a qualified plan under sections 401 and 403(a) and (b), and a plan maintained by the United States, a state or political subdivision, or any of its subsidiary agencies made to a participant or beneficiary is not treated as a distribution from the plan if the loan satisfies the following requirements.

1. The loan is evidenced by an enforceable agreement,
2. The agreement specifies that the loan must be repaid within 5 years, except for a principal residence,
3. The loan must be repaid in substantially level installments (at least quarterly), and
4. The loan amount does not exceed the limits in section 72(p)(2)(A) (maximum limit is equal to the lesser of 50% of the vested account balance or \$50,000).

Certain exceptions, cure periods, and suspension of the repayment schedule may apply.

The loan agreement must specify the amount of the loan, the term of the loan, and the repayment schedule. The agreement may include more than one document.

If a loan fails to satisfy 1, 2, or 3, the balance of the loan is a deemed distribution. The distribution may occur at the time the loan is made or later if the loan is not repaid in accordance with the repayment schedule.

If a loan fails to satisfy 4 at the time the loan is made, the amount that exceeds the amount permitted to be loaned is a deemed distribution.

**Deemed distribution.** If a loan is treated as a deemed distribution, it is reportable on Form 1099-R using the normal taxation rules of section 72, including tax basis rules. The distribution also may be subject to the 10% early distribution tax under section 72(t). It is not eligible to be rolled over to an eligible retirement plan nor is it eligible for the 10-year tax option. On Form 1099-R, complete the appropriate boxes, including boxes 1 and 2a, and enter Code L in box 7. Also, enter Code 1 or Code B, if applicable.

Interest that accrues after the deemed distribution of a loan is not an additional loan, and, therefore, is not reportable on Form 1099-R.

Loans that are treated as deemed distributions or that are actual distributions are subject to federal income tax withholding. If a distribution occurs after the loan is made, you must withhold only if you distributed cash or property (other than employer securities) at the time of the deemed or actual distribution. See section 72(p), 72(e)(4)(A), and Regulations section 1.72(p)-1.

**Subsequent repayments.** If a participant makes any cash repayments on a loan that was reported on Form 1099-R as a deemed distribution, the repayments increase the participant's tax basis in the plan as if the repayments were after-tax contributions. However, such repayments are not treated as after-tax contributions for purposes of section 401(m) or 415(c)(2)(B).

For a deemed distribution that was reported on Form 1099-R but was not repaid, the deemed distribution does not increase the participant's basis.

If a participant's accrued benefit is reduced (offset) to repay a loan, the amount of the account balance that is offset against the loan is an actual distribution. Report it as you would any other actual distribution. Do not enter Code L in box 7.

## Missing Participants

The IRS administers a letter-forwarding program that could help plan administrators contact missing retirement plan participants (or possibly their beneficiaries). To inform individuals of their rights to benefits under a retirement plan, the IRS will forward letters from plan administrators to the missing individuals if the administrators provide the names and social security numbers (SSNs) of the missing individuals. However, the IRS cannot disclose individuals' addresses or give confirmation of letter delivery. All undelivered letters will be destroyed. For further information, see Rev. Proc. 94-22, 1994-1 C.B. 608, or contact your IRS office.

## Corrected Form 1099-R

If you filed a Form 1099-R with the IRS and later discover that there is an error on it, you must correct it as soon as possible. For example, if you transmit a direct rollover and file a Form 1099-R with the IRS reporting that none of the direct rollover is taxable by entering 0 (zero) in box 2a, and you then discover that part of the direct rollover consists of required minimum distributions under section 401(a)(9), you must file a corrected Form 1099-R. See part H in the 2006 General Instructions for Forms 1099, 1098, 5498, and W-2G or Pub. 1220, if filing electronically.

## Filer

The payer, trustee, or plan administrator must file Form 1099-R using the same name and employer identification number (EIN) used to deposit any tax withheld and to file Form 945, Annual Return of Withheld Federal Income Tax.

## Beneficiaries

If you make a distribution to a beneficiary, trust, or estate, prepare Form 1099-R using the name and TIN of the beneficiary, trust, or estate, not that of the decedent. If there are multiple beneficiaries, report on each Form 1099-R only the amount paid to the beneficiary whose name appears on the Form 1099-R, and enter the percentage in box 9a, if applicable.

**Disclaimers.** A beneficiary may make a qualified disclaimer of all or some of an IRA account balance if the disclaimed amount and income are paid to a new beneficiary or segregated in a separate account. A qualified disclaimer may be made after the beneficiary has previously received the required minimum distribution for the year of the decedent's death. For more

information, see Revenue Ruling 2005-36, which is on page 1368 of Internal Revenue Bulletin 2005-26 available at [www.irs.gov/pub/irs-irbs/irb05-36.pdf](http://www.irs.gov/pub/irs-irbs/irb05-36.pdf).

### Alternate Payee Under a Qualified Domestic Relations Order (QDRO)

Distributions to an alternate payee who is a spouse or former spouse of the employee under a QDRO are reportable on Form 1099-R using the name and TIN of the alternate payee. If the alternate payee under a QDRO is a non-spouse, enter the name and TIN of the employee. However, this rule does not apply to IRAs; see *Transfer of an IRA to spouse* on page R-4.

### Nonresident Aliens

If income tax is withheld under section 3405 on any distribution to a nonresident alien, report the distribution and withholding on Form 1099-R. Also file Form 945 to report the withholding. See the Presumption Rules in part S of the 2006 General Instructions for Forms 1099, 1098, 5498, and W-2G.

However, any payments to a nonresident alien from any trust under section 401(a), any annuity plan under section 403(a), any annuity, custodial account, or retirement income account under section 403(b), or any IRA account under section 408(a) or (b) are subject to withholding under section 1441. Report the distribution and withholding on Form 1042, Annual Withholding Tax Return for U.S. Source Income of Foreign Persons, and Form 1042-S, Foreign Person's U.S. Source Income Subject to Withholding.

### Statements to Recipients

If you are required to file Form 1099-R, you must furnish a statement to the recipient. For more information about the requirement to furnish a statement to each recipient, see part M in the 2006 General Instructions for Forms 1099, 1098, 5498, and W-2G.



*Do not enter a negative amount in any box on Form 1099-R.*

### Account Number

The account number is required if you have multiple accounts for a recipient for whom you are filing more than one Form 1099-R. Additionally, the IRS encourages you to designate an account number for all Forms 1099-R that you file. See part L in the 2006 General Instructions for Forms 1099, 1098, 5498, and W-2G.

### Box 1. Gross Distribution

Enter the total amount of the distribution before income tax or other deductions were withheld. Include direct rollovers, IRA rollovers to accepting employer plans, premiums paid by a trustee or custodian for the cost of current life or other insurance protection, and the gross amount of any IRA distribution, including a recharacterization and a Roth IRA conversion. Also include in this box distributions to plan participants from governmental section 457(b) plans. However, in the case of a distribution by a trust representing CDs redeemed early, report the net amount distributed. Also, see box 6 on page R-8.

Include in this box the value of U.S. Savings Bonds distributed from a plan. Enter the appropriate taxable amount in box 2a. Furnish a statement to the plan participant showing the value of each bond at the time of distribution. This will provide him or her with the information necessary to figure the interest income on each bond when it is redeemed.

Include in box 1 amounts distributed from a qualified retirement plan for which the recipient elects to pay health insurance premiums under a cafeteria plan or that are paid directly to reimburse medical care expenses incurred by the recipient (see Rev. Rul. 2003-62, 2003-25 I.R.B. 1034). Also include this amount in box 2a.

In addition to reporting distributions to beneficiaries of deceased employees, report here any death benefit payments made by employers that are not made as part of a pension, profit-sharing, or retirement plan. Also enter these amounts in box 2a; enter Code 4 in box 7.



*Do not report accelerated death benefits on Form 1099-R. Report them on Form 1099-LTC, Long-Term Care and Accelerated Death Benefits.*

For section 1035 exchanges that are reportable on Form 1099-R, enter the total value of the contract in box 1, 0 (zero) in box 2a, the total premiums paid in box 5, and Code 6 in box 7.

**Designated Roth account distributions.** If you are making a distribution from a designated Roth account, enter the gross distribution in box 1, the taxable portion of the distribution in box 2a, the basis included in the distributed amount in box 5, and

the first year of the 5-taxable-year period in the box to the left of box 10. Also, enter the applicable code(s) in box 7.

**Employer securities and other property.** If you distribute employer securities or other property, include in box 1 the FMV of the securities or other property on the date of distribution. If there is a loss, see *Losses* on page R-7.

If you are distributing worthless property only, you are not required to file Form 1099-R. However, you may file and enter 0 (zero) in boxes 1 and 2a and any after-tax employee contributions or designated Roth contributions in box 5.

**Charitable gift annuities.** If cash or capital gain property is donated in exchange for a charitable gift annuity, report the total amount distributed during the year in box 1. See *Charitable gift annuities* under box 3 on page R-7.

### Box 2a. Taxable Amount

Generally, you must enter the taxable amount in box 2a. However, if you are unable to reasonably obtain the data needed to compute the taxable amount, leave this box blank. Do not enter excludable or tax-deferred amounts reportable in boxes 5, 6, and 8.

For a direct rollover from a qualified plan (including a governmental section 457(b) plan) or 403(b) plan, for a distribution from a conduit IRA that is payable to the trustee of or is transferred to an employer plan, for an IRA recharacterization, or for a nontaxable section 1035 exchange of life insurance, annuity, or endowment contracts, enter 0 (zero) in box 2a.

**Cost of current life insurance protection.** Include current life insurance protection costs (net premium costs) that were reported in box 1. However, do not report these costs and a distribution on the same Form 1099-R. Use a separate Form 1099-R for each. For the cost of current life insurance protection, enter Code 9 in box 7.

**DECs.** Include DEC distributions in this box. Also see *Deductible Voluntary Employee Contributions (DECs)* on page R-2.

**Annuity starting date in 1998 or later.** If you made annuity payments from a qualified plan (under section 401(a), 403(a), or 403(b)) and the annuity starting date is in 1998 or later, you must use the simplified method (under section 72(d)(1)) to figure the taxable amount. Under this method, the expected number of payments you use to figure the taxable amount depends on whether the payments are based on the life of one or more than one person. See Notice 98-2, 1998-1 C.B. 266, and Pub. 575, Pension and Annuity Income, to help you figure the taxable amount to enter in box 2a.

**Annuity starting date after November 18, 1996, and before 1998.** Under the simplified method for figuring the taxable amount, the expected number of payments is based only on the primary annuitant's age on the annuity starting date. See Notice 98-2.

**Annuity starting date before November 19, 1996.** If you properly used the rules in effect before November 19, 1996, for annuities that started before that date, continue to report using those rules. No changes are necessary.

**Designated Roth account.** Generally, a distribution from a designated Roth account that is not a qualified distribution (as defined in section 402A and its regulations) is taxable to the recipient under section 402 in the case of a plan qualified under section 401(a) and under section 403(b)(1) in the case of a section 403(b) plan. For purposes of section 72, designated Roth contributions are treated as employer contributions as described in section 72(f)(1) (that is, as includable in the participant's gross income).

**Example.** Participant A received a nonqualified distribution of \$5,000 from the participant's designated Roth account. Prior to the distribution, the participant's account balance was \$10,000, consisting of \$9,400 of designated Roth contributions and \$600 of earnings. The taxable amount of the \$5,000 distribution is \$300 ( $\$600/\$10,000 \times \$5,000$ ). The nontaxable portion of the distribution is \$4,700 ( $\$9,400/\$10,000 \times \$5,000$ ). The issuer would report on Form 1099-R:

- Box 1, \$5,000 as the gross distribution;
- Box 2a, \$300 as the taxable amount;
- Box 5, \$4,700 as the designated Roth contribution basis (nontaxable amount); and
- The first year of the 5-taxable-year period in the box to the left of box 10.

**Traditional IRA or SEP IRA.** Generally, you are not required to compute the taxable amount of a traditional IRA or SEP IRA nor designate whether any part of a distribution is a return of basis attributable to nondeductible contributions. Therefore, report the total amount distributed from a traditional IRA or SEP IRA in box 2a. This will be the same amount reported in box 1. Check the "Taxable amount not determined" box in box 2b.



However, for a distribution by a trust representing CDs redeemed early, report the net amount distributed. Do not include any amount paid for IRA insurance protection in this box.

For a distribution of contributions plus earnings from an IRA before the due date of the return under section 408(d)(4), report the gross distribution in box 1, only the earnings in box 2a, and enter Code 8 or P, whichever is applicable, in box 7. Enter Code 1 or 4, if applicable.

For a distribution of excess contributions without earnings after the due date of the individual's return under section 408(d)(5), leave box 2a blank, and check the "Taxable amount not determined" checkbox in box 2b. Use Code 1 or 7 in box 7 depending on the age of the participant.

For a traditional IRA and a SEP IRA rolled over to an accepting employer plan, enter the gross amount in box 1, 0 (zero) in box 2a, and Code G in box 7.

**SIMPLE IRA.** Enter the total amount distributed from a SIMPLE IRA in box 2a. For a SIMPLE IRA rolled over to an accepting employer plan after the 2-year period (see section 72(t)(6)), enter the gross amount in box 1, 0 (zero) in box 2a, and Code G in box 7.

**Roth IRA.** For a distribution from a Roth IRA, report the total distribution in box 1 and leave box 2a blank except in the case of an IRA revocation or account closure (see page R-2) and a recharacterization (see page R-4). Use Code J, Q, or T as appropriate in box 7. Use Code 8 or P, if applicable, in box 7 with Code J. Do not combine Code Q or T with any other codes.

However, for the distribution of excess Roth IRA contributions, report the gross distribution in box 1 and only the earnings in box 2a. Enter Code J, and Code 8 or P in box 7.

**Roth IRA conversion.** Report the total amount converted or reconvered from a traditional IRA, SEP IRA, or SIMPLE IRA to a Roth IRA in boxes 1 and 2a. A conversion or reconversion is considered a distribution and must be reported even if it is with the same trustee and even if the conversion is done by a trustee-to-trustee transfer. When an individual retirement annuity described in section 408(b) is converted to a Roth IRA, the amount that is treated as distributed is the fair market value (FMV) of the annuity contract on the date the annuity contract is converted. This rule also applies when a traditional individual retirement account holds an annuity contract as an account asset and the traditional IRA is converted to a Roth IRA. Determining the FMV of an individual retirement annuity issued by a company regularly engaged in the selling of contracts depends on the timing of the conversion as outlined in Q/A-14 of Regulations section 1.408A-4T. Also, see Revenue Procedure 2006-13 for a safe harbor determination of the FMV when an individual retirement annuity is converted to a Roth IRA. Revenue Procedure 2006-13 is on page 315 of Internal Revenue Bulletin 2006-3 available at [www.irs.gov/pub/irs-irbs/irb06-03.pdf](http://www.irs.gov/pub/irs-irbs/irb06-03.pdf).

For a Roth IRA conversion, use Code 2 in box 7 if the participant is under age 59½ or Code 7 if the participant is at least age 59½. Also check the IRA/SEP/SIMPLE box in box 7.

**Losses.** If a distribution is a loss, do not enter a negative amount in this box. For example, if stock is distributed from a profit-sharing plan but the value is less than the employee's after-tax contributions or designated Roth account contributions, enter the value of the stock in box 1, leave box 2a blank, and enter the employee's contributions or designated Roth account contributions in box 5.

For a plan with no after-tax contributions or designated Roth account contributions, even though the value of the account may have decreased, there is no loss for reporting purposes. Therefore, if there are no employer securities distributed, show the actual cash and/or FMV of property distributed in boxes 1 and 2a, and make no entry in box 5. If only employer securities are distributed, show the FMV of the securities in boxes 1 and 2a and make no entry in box 5 or 6. If both employer securities and cash or other property are distributed, show the actual cash and/or FMV of the property (including employer securities) distributed in box 1, the gross less any NUA on employer securities in box 2a, no entry in box 5, and any NUA in box 6.

**Corrective distributions.** Enter in box 2a the amount of excess deferrals, excess contributions, or excess aggregate contributions (other than employee contributions or designated Roth account contributions). See *Corrective Distributions* on page R-4.

### Box 2b. Taxable Amount not Determined

Enter an "X" in this box only if you are unable to reasonably obtain the data needed to compute the taxable amount. If you check this box, leave box 2a blank. Except for IRAs, make every effort to compute the taxable amount. However, see *IRA*

*Revocation or Account Closure* on page R-2 and *Corrective Distributions* on page R-4.

### Box 2b. Total Distribution

Enter an "X" in this box only if the payment shown in box 1 is a total distribution. A total distribution is one or more distributions within 1 tax year in which the entire balance of the account is distributed. If periodic or installment payments are made, mark this box in the year the final payment is made.

### Box 3. Capital Gain (Included in Box 2a)

If any amount is taxable as a capital gain, report it in box 3.

**Charitable gift annuities.** Report in box 3 any amount from a charitable gift annuity that is taxable as a capital gain. Report in box 1 the total amount distributed during the year. Report in box 2a the taxable amount. Advise the annuity recipient of any amount in box 3 subject to the 28% rate gain for collectibles and any unrecaptured section 1250 gain. Report in box 5 any nontaxable amount. Enter Code F in box 7. See Regulations section 1.1011-2(c), Example 8.

**Special rule for participants born before January 2, 1936 (or their beneficiaries).** For lump-sum distributions from qualified plans only, enter the amount in box 2a eligible for the capital gain election under section 1122(h)(3) of the Tax Reform Act of 1986, 1986-3 (Vol. 1) C.B. 1, 387 and section 641(f)(3) of the Economic Growth and Tax Relief Reconciliation Act of 2001. Enter the full amount eligible for the capital gain election. You should not complete this box for a direct rollover.

To compute the months of an employee's active participation before 1974, count as 12 months any part of a calendar year in which an employee actively participated under the plan; for active participation after 1973, count as 1 month any part of a month in which the employee actively participated under the plan. See the *Example* below.

Active participation begins with the first month in which an employee became a participant under the plan and ends with the earliest of:

- The month in which the employee received a lump-sum distribution under the plan;
- For an employee, other than a self-employed person or owner-employee, the month in which the employee separates from service;
- The month in which the employee dies; or
- For a self-employed person or owner-employee, the first month in which the employee becomes disabled within the meaning of section 72(m)(7).

### Example for Computing Amount Eligible for Capital Gain Election (See Box 3.)

#### Step 1. Total Taxable Amount

A. Total distribution		XXXXX
B. Less:		
1. Current actuarial value of any annuity		XXXX
2. Employee contributions or designated Roth contributions (minus any amounts previously distributed that were not includable in the employee's gross income)		XXXX
3. Net unrealized appreciation in the value of any employer securities that was a part of the lump-sum distribution.		XXXX
C. Total of lines 1 through 3		XXXXX
D. Total taxable amount. Subtract line C from line A.		XXXXX

#### Step 2. Capital Gain

Total taxable amount		Months of active participation before 1974	
Line D	X		= Capital gain
		Total months of active participation	

### Box 4. Federal Income Tax Withheld

Enter any federal income tax withheld. This withholding under section 3405 is subject to deposit rules and the withholding tax return is Form 945. Backup withholding does not apply. See Pub. 15-A, Employer's Supplemental Tax Guide, and the Instructions for Form 945 for more withholding information.

Even though you may be using Code 1 in box 7 to designate an early distribution subject to the 10% additional tax specified in section 72(q), (t), or (v), you are not required to withhold that tax.



The amount withheld cannot be more than the sum of the cash and the FMV of property (excluding employer securities) received in the distribution. If a distribution consists solely of employer securities and cash (\$200 or less) in lieu of fractional shares, no withholding is required.

To determine your withholding requirements for any designated distribution under section 3405, you must first determine whether the distribution is an eligible rollover distribution. See *Direct Rollovers* on page R-3 for a discussion of eligible rollover distributions. If the distribution is not an eligible rollover distribution, the rules for periodic payments or nonperiodic distributions apply. For purposes of withholding, distributions from any IRA are not eligible rollover distributions.

**Eligible rollover distribution; 20% withholding.** If an eligible rollover distribution is paid directly to an eligible retirement plan in a direct rollover, do not withhold federal income tax. If any part of an eligible rollover distribution is not a direct rollover, you must withhold 20% of the part that is paid to the recipient and includible in gross income. The recipient cannot claim exemption from the 20% withholding but may ask to have additional amounts withheld on Form W-4P, Withholding Certificate for Pension or Annuity Payments. If the recipient is not asking that additional amounts be withheld, Form W-4P is not required for an eligible rollover distribution because 20% withholding is mandatory.

Employer securities and plan loan offset amounts that are part of an eligible rollover distribution must be included in the amount multiplied by 20%. However, the actual amount to be withheld cannot be more than the sum of the cash and the FMV of property (excluding employer securities and plan loan offset amounts). For example, if the only part of an eligible rollover distribution that is not a direct rollover is employer securities or a plan loan offset amount, no withholding is required. However, any cash that is paid in the distribution must be used to satisfy the withholding on the employer securities or plan loan offset amount.

The payer is required to withhold 20% of eligible rollover distributions from a qualified plan's distributed annuity and on eligible rollover distributions from a governmental section 457(b) plan.

Any NUA excludable from gross income under section 402(e)(4) is not included in the amount of any eligible rollover distribution that is subject to 20% withholding.

You are not required to withhold 20% of an eligible rollover distribution that, when aggregated with other eligible rollover distributions made to one person during the year, is less than \$200.

**IRAs.** The 20% withholding does not apply to distributions from any IRA, but withholding does apply to IRAs under the rules for periodic payments and nonperiodic distributions. For withholding, assume that the entire amount of an IRA distribution is taxable (except for the distribution of contributions under section 408(d)(4), in which only the earnings are taxable, and 408(d)(5), as applicable). Generally, Roth IRA distributions are not subject to withholding except on the earnings portion of excess contributions distributed under section 408(d)(4).

An IRA recharacterization is not subject to income tax withholding.

**Periodic payments.** For periodic payments that are not eligible rollover distributions, withhold on the taxable part as though the periodic payments were wages, based on the recipient's Form W-4P. The recipient may request additional withholding on Form W-4P or claim exemption from withholding. If a recipient does not submit a Form W-4P, withhold by treating the recipient as married with three withholding allowances. See Circular E, Employer's Tax Guide (Pub. 15), for wage withholding tables.



Rather than Form W-4P, military retirees should give you Form W-4, Employee's Withholding Allowance Certificate.

**Nonperiodic distributions.** Withhold 10% of the taxable part of a nonperiodic distribution that is not an eligible rollover distribution. The recipient may request additional withholding on Form W-4P or claim exemption from withholding.

**Failure to provide TIN.** For periodic payments and nonperiodic distributions, if a payee fails to furnish his or her correct TIN to you in the manner required, or if the IRS notifies you before any distribution that the TIN furnished is incorrect, a payee cannot claim exemption from withholding. For periodic payments, withhold as if the payee was single claiming no withholding allowances. For nonperiodic payments, withhold 10%. Backup withholding does not apply.

### Box 5. Employee Contributions/Designated Roth Contributions or Insurance Premiums

Enter the employee's contributions to a profit-sharing or retirement plan, designated Roth account contributions, or

insurance premiums that the employee may recover tax free this year. The entry in box 5 may include any of the following: (a) designated Roth account contributions or contributions actually made by the employee over the years under the retirement or profit-sharing plan that were required to be included in the income of the employee when contributed (after-tax contributions), (b) contributions made by the employer but considered to have been contributed by the employee under section 72(f), (c) the accumulated cost of premiums paid for life insurance protection taxable to the employee in previous years and in the current year under Regulations section 1.72-16 (cost of current life insurance protection) (only if the life insurance contract itself is distributed), and (d) premiums paid on commercial annuities. Also report after-tax contributions directly rolled over to an IRA. Do not include contributions to any DEC, 401(k) plan, or any other contribution to a retirement plan that was not an after-tax contribution.

Generally, for qualified plans, tax-sheltered annuities, and nonqualified commercial annuities, enter in box 5 the employee contributions or insurance premiums recovered tax free during the year based on the method you used to determine the taxable amount to be entered in box 2a. On a separate Form 1099-R, include the portion of the employee's basis that has been distributed from a designated Roth account. See the *Example* in the instructions for box 2a on page R-6.

If periodic payments began before 1993, you are not required to, but you are encouraged to, report in box 5.



If you made periodic payments from a qualified plan and the annuity starting date is after November 18, 1996, you must use the simplified method to figure the tax-free amount each year. See Annuity starting date in 1998 or later on page R-6.

If a total distribution is made, the total employee contributions or insurance premiums available to be recovered tax free must be shown only in box 5. If any previous distributions were made, any amount recovered tax free in prior years must not appear in box 5.

If you are unable to reasonably obtain the data necessary to compute the taxable amount, leave boxes 2a and 5 blank, and check the first box in box 2b.

For more information, see Rev. Proc. 92-86, 1992-2 C.B. 495 and section 72(d).

For reporting charitable gift annuities, see *Charitable gift annuities* on page R-6.

### Box 6. Net Unrealized Appreciation (NUA) in Employer's Securities

Use this box if a distribution from a qualified plan (except a qualified distribution from a designated Roth account) includes securities of the employer corporation (or a subsidiary or parent corporation) and you can compute the NUA in the employer's securities. Enter all the NUA in employer securities if this is a lump-sum distribution. If this is not a lump-sum distribution, enter only the NUA in employer securities attributable to employee contributions. See Regulations section 1.402(a)-1(b) for the determination of the NUA. Also see Notice 89-25, Q/A-1, 1989-1 C.B. 662. Include the NUA in box 1 but not in box 2a. You do not have to complete this box for a direct rollover.

### Box 7. Distribution Code(s)

Enter an "X" in the IRA/SEP/SIMPLE checkbox if the distribution is from a traditional IRA, SEP IRA, or SIMPLE IRA. It is not necessary to check the box for a distribution from a Roth IRA or for an IRA recharacterization.

**Enter the appropriate code(s) in box 7.** Use the *Guide to Distribution Codes* on pages R-10 and R-11 to determine the appropriate code(s) to enter in box 7 for any amounts reported on Form 1099-R. Read the codes carefully and enter them accurately because the IRS uses the codes to help determine whether the recipient has properly reported the distribution. If the codes you enter are incorrect, the IRS may improperly propose changes to the recipient's taxes.

When applicable, enter a numeric and an alpha code. For example, when using Code P for a traditional IRA distribution under section 408(d)(4), you must also enter Code 1, if it applies. For a normal distribution from a qualified plan that qualifies for the 10-year tax option, enter Codes 7 and A. For a direct rollover to an IRA or a qualified plan for the surviving spouse of a deceased participant, enter Codes 4 and G.



Only three numeric combinations are permitted on one Form 1099-R: Codes 8 and 1, 8 and 2, or 8 and 4. If two or more other numeric codes are applicable, you must file more than one Form 1099-R. For example, if part of a distribution is premature (Code 1) and part is not (Code 7), file one Form 1099-R for the part to which Code 1 applies and another Form 1099-R for the part to which Code 7 applies. In



addition, for the distribution of excess deferrals, excess contributions, or excess aggregate contributions, parts of the distribution may be taxable in 2 or 3 different years. File separate Forms 1099-R using Code 8, D, or P to indicate the year the amount is taxable.

Even if the employee/taxpayer is age 59½ or over, use Code 1 if a series of substantially equal periodic payments was modified within 5 years of the date of the first payment (within the meaning of section 72(q)(3) or (t)(4)). For example, Mr. B began receiving payments that qualified for the exception for part of a series of substantially equal periodic payments under section 72(t)(2)(A)(iv) when he was 57. When he was 61, Mr. B substantially modified the payments. Because the payments were modified within 5 years, use Code 1 in the year the payments were modified, even though Mr. B is over 59½.



*For further guidance on what makes a series of substantially equal periodic payments, see Notice 89-25, 1989-1 C.B. 662, as modified by Rev. Rul. 2002-62, 2002-42 I.R.B. 710. Notice 2004-15, available on page 526 of Internal Revenue Bulletin 2004-9 at [www.irs.gov/pub/irs-irbs/irb04-09.pdf](http://www.irs.gov/pub/irs-irbs/irb04-09.pdf), allows taxpayers to use one of three methods in Notice 89-25, as modified by Rev. Rul. 2002-62, to determine whether a distribution from a nonqualified annuity is part of a series of substantially equal periodic payments under section 72(q)(2)(D).*

If part of an eligible rollover distribution is paid in a direct rollover and part is not, you must file a separate Form 1099-R for each part showing the appropriate code on each form. If part of a distribution is an eligible rollover distribution and part is not (for example, a minimum distribution required by section 401(a)(9)) and the part that is an eligible rollover distribution is directly rolled over, you must file a separate Form 1099-R to report each part.

**Designated Roth accounts.** Use Code B for a distribution from a designated Roth account unless the distribution is due to an IRS levy under section 6331, in which case, use Code 2; or to an excess annual addition under section 415, in which case use Code E. For 2006, Code B may be combined with Codes 1, 2, 4, 8, G, and L, as appropriate.

**Section 457(b) plan distributions.** Generally, a distribution from a governmental section 457(b) plan is not subject to the 10% additional tax under section 72(t). However, an early distribution from a governmental section 457(b) plan of an amount that is attributable to a rollover from another type of plan or IRA is subject to the additional tax as if the distribution were from a plan described in section 401(a). See section 72(t)(9). If the distribution consists solely of amounts that are not attributable to such a rollover, enter Code 2 in box 7. If the distribution consists solely of amounts attributable to such a rollover, then enter the appropriate code in box 7 as if the distribution were from a plan described in section 401(a). If the distribution is made up of amounts from both sources, you must

file separate Forms 1099-R for each part of the distribution unless Code 2 would be entered on each form.

### Box 8. Other

Enter the current actuarial value of an annuity contract that is part of a lump-sum distribution. Do not include this item in boxes 1 and 2a.

To determine the value of an annuity contract, show the value as an amount equal to the current actuarial value of the annuity contract, reduced by an amount equal to the excess of the employee's contributions over the cash and other property (not including the annuity contract) distributed.

If an annuity contract is part of a multiple recipient lump-sum distribution, enter in box 8, along with the current actuarial value, the percentage of the total annuity contract each Form 1099-R represents.

### Box 9a. Your Percentage of Total Distribution

If this is a total distribution and it is made to more than one person, enter the percentage received by the person whose name appears on Form 1099-R. You need not complete this box for any IRA distributions or for a direct rollover.

### Box 9b. Total Employee Contributions

You are not required to enter the total employee contributions or designated Roth account contributions in box 9b. However, because this information may be helpful to the recipient, you may choose to report them.

If you choose to report the total employee contributions or designated Roth account contributions, do not include any amounts recovered tax free in prior years. For a total distribution, report the total employee contributions or designated Roth account contributions in box 5 rather than in box 9b.

### Boxes 10–15. State and Local Information

These boxes and Copies 1 and 2 are provided for your convenience only and need not be completed for the IRS. Use the state and local information boxes to report distributions and taxes for up to two states or localities. Keep the information for each state or locality separated by the broken line. If state or local income tax has been withheld on this distribution, you may enter it in boxes 10 and 13, as appropriate. In box 11, enter the abbreviated name of the state and the payer's state identification number. The state number is the payer's identification number assigned by the individual state. In box 14, enter the name of the locality. In boxes 12 and 15, you may enter the amount of the state or local distribution. Copy 1 may be used to provide information to the state or local tax department. Copy 2 may be used as the recipient's copy in filing a state or local income tax return.

**Guide to Distribution Codes**

Distribution Codes	Explanations	*Used with code ...(if applicable)
1—Early distribution, no known exception.	Use Code 1 only if the employee/taxpayer has not reached age 59½, and you do not know if any of the exceptions under Distribution Code 2, 3, or 4 apply. Use Code 1 even if the distribution is made for medical expenses, health insurance premiums, qualified higher education expenses, a first-time home purchase, or a qualified reservist distribution under section 72(t)(2)(B), (D), (E), (F), or (G). Code 1 must also be used even if a taxpayer is 59½ or older and he or she modifies a series of substantially equal periodic payments under section 72(q), (t), or (v) prior to the end of the 5-year period.	8, B, D, L, or P
2—Early distribution, exception applies.	Use Code 2 only if the employee/taxpayer has not reached age 59½ and the distribution is: <ul style="list-style-type: none"> <li>• A Roth IRA conversion (an IRA converted to a Roth IRA).</li> <li>• A distribution made from a qualified retirement plan or IRA because of an IRS levy under section 6331.</li> <li>• A section 457(b) plan distribution that is not subject to the additional 10% tax. But see <i>Section 457(b) plan distributions</i> on page R-9 for information on distributions that may be subject to the 10% additional tax.</li> <li>• A distribution from a qualified retirement plan after separation from service where the taxpayer has reached age 55.</li> <li>• A distribution from a governmental defined benefit plan to a public safety employee after separation from service where the taxpayer has reached age 50.</li> <li>• A distribution that is part of a series of substantially equal periodic payments as described in section 72(q), (t), or (v).</li> <li>• Any other distribution subject to an exception under section 72(q), (t), or (v) that is not required to be reported using Code 1, 3, or 4.</li> </ul>	8, B, D, or P
3—Disability.	For these purposes, see section 72(m)(7).	None
4—Death.	Use Code 4 regardless of the age of the employee/taxpayer to indicate payment to a decedent's beneficiary, including an estate or trust. Also use it for death benefit payments made by an employer but not made as part of a pension, profit-sharing, or retirement plan.	8, A, B, D, G, L, or P
5—Prohibited transaction.	Use Code 5 if there was a prohibited (improper) use of the account. Code 5 means the account is no longer an IRA.	None
6—Section 1035 exchange.	Use Code 6 to indicate the tax-free exchange of life insurance, annuity, or endowment contracts under section 1035.	None
7—Normal distribution.	Use Code 7: (a) for a normal distribution from a plan, including a traditional IRA, if the employee/taxpayer is at least age 59½, (b) for a Roth IRA conversion or reconversion if the participant is at least age 59½, and (c) to report a distribution from a life insurance, annuity, or endowment contract and for reporting income from a failed life insurance contract under sections 7702(g) and (h). See Rev. Rul. 91-17, 1991-1 C.B. 190. Use Code 7 with Code A, if applicable. Generally, use Code 7 if no other code applies. Do not use Code 7 for a Roth IRA. <b>Note:</b> Code 1 must be used even if a taxpayer is 59½ or older and he or she modifies a series of substantially equal periodic payments under section 72(q), (t), or (v) prior to the end of the 5-year period.	A
8—Excess contributions plus earnings/excess deferrals (and/or earnings) taxable in 2006.	Use Code 8 for an IRA distribution under section 408(d)(4), unless Code P applies. Also use this code for corrective distributions of excess deferrals, excess contributions, and excess aggregate contributions, unless Code D or P applies. See <i>Corrective Distributions</i> on page R-4 and <i>IRA Revocation or Account Closure</i> on page R-2 for more information.	1, 2, 4, B, or J
9—Cost of current life insurance protection.	Use Code 9 to report premiums paid by a trustee or custodian for current life or other insurance protection. See box 2a on page R-6 for more information.	None
A—May be eligible for 10-year tax option.	Use Code A only for participants born before January 2, 1936, or their beneficiaries to indicate the distribution may be eligible for the 10-year tax option method of computing the tax on lump-sum distributions (on Form 4972, <i>Tax on Lump-Sum Distributions</i> ). To determine whether the distribution may be eligible for the tax option, you need not consider whether the recipient used this method (or capital gain treatment) in the past.	4 or 7
B—Designated Roth account distribution.	Use Code B for a distribution from a designated Roth account that is not a qualified distribution. But use Code 2 for an IRS levy and Code E for a section 415 excess.	1, 2, 4, 8, G, or L
D—Excess contributions plus earnings/excess deferrals taxable in 2004.	See the explanation for Code 8. Generally, do not use Code D for an IRA distribution under section 408(d)(4) or 408(d)(5).	1, 2, or 4
E—Excess annual additions under section 415/certain excess amounts under section 403(b) plans.	See <i>Excess Annual Additions Under Section 415</i> on page R-5.	None
F—Charitable gift annuity.	See <i>Charitable gift annuities</i> on page R-6.	None



**Guide to Distribution Codes**

Distribution Codes	Explanations	*Used with code ...(if applicable)
<b>G—Direct rollover and rollover contribution.</b>	Use Code G for a direct rollover from a qualified plan (including a governmental section 457(b) plan) or 403(b) plan to an eligible retirement plan (another qualified plan, a 403(b) plan, or an IRA). See <i>Direct Rollovers</i> on page R-3. Also use Code G for certain distributions from conduit IRAs to an employer plan and IRA rollover contributions to an accepting employer plan. See <i>Conduit IRAs</i> on page R-2.	4 or B
<b>J—Early distribution from a Roth IRA.</b>	Use Code J for a distribution from a Roth IRA when Code Q or Code T does not apply. But use Code 2 for an IRS levy and Code 5 for a prohibited transaction.	8 or P
<b>L—Loans treated as deemed distributions under section 72(p).</b>	Do not use Code L to report a loan offset. See <i>Loans Treated as Distributions</i> on page R-5.	1, 4, or B
<b>N—Recharacterized IRA contribution made for 2006.</b>	Use Code N for a recharacterization of an IRA contribution made for 2006 and recharacterized in 2006 to another type of IRA by a trustee-to-trustee transfer or with the same trustee.	None
<b>P—Excess contributions plus earnings/ excess deferrals taxable in 2005.</b>	See the explanation for Code 8. The IRS suggests that anyone using Code P for the refund of an IRA contribution under section 408(d)(4), including excess Roth IRA contributions, advise payees, at the time the distribution is made, that the earnings are taxable in the year in which the contributions were made.	1, 2, 4, or J
<b>Q—Qualified distribution from a Roth IRA.</b>	Use Code Q for a distribution from a Roth IRA if you know that the participant meets the 5-year holding period and: <ul style="list-style-type: none"> <li>• The participant has reached age 59 1/2, or</li> <li>• The participant died, or</li> <li>• The participant is disabled.</li> </ul> <b>Note:</b> <i>If any other code, such as 8 or P, applies, use Code J.</i>	None
<b>R—Recharacterized IRA contribution made for 2005.</b>	Use Code R for a recharacterization of an IRA contribution made for 2005 and recharacterized in 2006 to another type of IRA by a trustee-to-trustee transfer or with the same trustee.	None
<b>S—Early distribution from a SIMPLE IRA in the first 2 years, no known exception.</b>	Use Code S only if the distribution is from a SIMPLE IRA in the first 2 years, the employee/taxpayer has not reached age 59 1/2, and none of the exceptions under section 72(t) are known to apply when the distribution is made. The 2-year period begins on the day contributions are first deposited in the individual's SIMPLE IRA. Do not use Code S if Code 3 or 4 applies.	None
<b>T—Roth IRA distribution, exception applies.</b>	Use Code T for a distribution from a Roth IRA if you do not know if the 5-year holding period has been met but: <ul style="list-style-type: none"> <li>• The participant has reached age 59 1/2, or</li> <li>• The participant died, or</li> <li>• The participant is disabled.</li> </ul> <b>Note:</b> <i>If any other code, such as 8 or P, applies, use Code J.</i>	None

\*See the **Caution** for box 7 instructions on page R-8.

## Specific Instructions for Form 5498

File Form 5498, IRA Contribution Information, with the IRS by May 31, 2007, for each person for whom in 2006 you maintained any individual retirement arrangement (IRA), including a deemed IRA under section 408(q).

An IRA includes all investments under one IRA plan. It is not necessary to file a Form 5498 for each investment under one plan. For example, if a participant has three certificates of deposit (CDs) under one IRA plan, only one Form 5498 is required for all contributions and the fair market values (FMVs) of the CDs under the plan. However, if a participant has established more than one IRA plan with the same trustee, a separate Form 5498 must be filed for each plan.

**Contributions.** You must report contributions to any IRA on Form 5498. See the instructions under boxes 1, 2, 3, 4, 8, 9, and 10 on page R-13. If no reportable contributions were made for 2006, complete only boxes 5 and 7, and box 11 if applicable.



*You are required to file Form 5498 even if RMDs or other payments have started.*

Report contributions to a spousal IRA under section 219(c) on a separate Form 5498 using the name and taxpayer identification number (TIN) of the spouse.

For contributions made between January 1 and April 16, 2007, trustees and issuers should obtain the participant's designation of the year for which the contributions are made.

**Direct rollovers, transfers, and recharacterizations.** You must report the receipt of a direct rollover from a qualified plan (including a governmental section 457(b) plan) or 403(b) plan to an IRA. Report a direct rollover in box 2. For information on direct rollovers of eligible rollover distributions, see *Direct Rollovers* on page R-3.

If a rollover or trustee-to-trustee transfer is made from a SIMPLE IRA to an IRA that is not a SIMPLE IRA and the trustee has adequately substantiated information that the participant has not satisfied the 2-year period specified in section 72(t)(6), report the amount as a regular contribution in box 1 even if the amount exceeds \$4,000 (\$5,000 for participants 50 or older).

**Transfers.** Do not report on Form 5498 a direct trustee-to-trustee transfer from (a) a traditional IRA to another traditional IRA or to a SEP IRA, (b) a SIMPLE IRA to another SIMPLE IRA, (c) a SEP IRA to another SEP IRA or to a traditional IRA, or (d) a Roth IRA to a Roth IRA. For reporting purposes, contributions and rollovers do not include these transfers.

**Recharacterizations.** You must report each recharacterization of an IRA contribution. If a participant makes a contribution to an IRA (first IRA) for a year, the participant may choose to recharacterize the contribution by transferring, in a trustee-to-trustee transfer, any part of the contribution (plus earnings) to another IRA (second IRA). The contribution is treated as made to the second IRA (recharacterization). A recharacterization may be made with the same trustee or with another trustee. The trustee of the first IRA must report the amount contributed before the recharacterization as a contribution on Form 5498 and the recharacterization as a distribution on Form 1099-R. The trustee of the second IRA must report the amount received (FMV) in box 4 on Form 5498 and check the type of IRA box in box 7.

All recharacterized contributions received by an IRA in the same year must be totaled and reported on one Form 5498 in box 4. You may report the FMV of the account on the same Form 5498 you use to report a recharacterization of an IRA contribution and any other contributions made to the IRA for the year.

**Catch-up contributions.** Participants, who are age 50 or older by the end of the year, may be eligible to make catch-up IRA contributions or catch-up elective deferral contributions. The annual IRA regular contribution limit of \$4,000 is increased to \$5,000 for participants age 50 or older. Catch-up elective deferral contributions reported on Form 5498 may be made under a salary reduction SEP (SARSEP) or under a SIMPLE IRA plan. For 2006, up to \$5,000 in catch-up elective deferral contributions may be made under a SARSEP, and up to \$2,500 to a SIMPLE IRA plan. For more information on catch-up elective deferral contributions, see Regulations section 1.414(v)-1.

Include any catch-up amounts when reporting contributions for the year in boxes 1, 8, 9, or 10.

**Roth IRA conversions.** You must report the receipt of a conversion from an IRA to a Roth IRA even if the conversion is with the same trustee. Report the total amount converted from a

traditional IRA, SEP IRA, or SIMPLE IRA to a Roth IRA in box 3.

**IRA revocation or account closure.** If a traditional IRA, Roth IRA, or SIMPLE IRA is revoked during its first 7 days (under Regulations section 1.408-6(d)(4)(ii)) or closed at any time by the IRA trustee pursuant to its resignation or such other event mandating the closure of the account, Form 5498 must be filed to report any regular, rollover, IRA conversion, SEP IRA, or SIMPLE IRA contributions to the IRA. For information about reporting a distribution from a revoked or closed IRA, see *IRA Revocation or Account Closure* on page R-2.

**Total distribution, no contributions.** Generally, if a total distribution was made from an account during the year and no contributions, including rollovers, recharacterizations, or Roth IRA conversion amounts, were made for that year, you need not file Form 5498 nor furnish the annual statement to reflect that the FMV on December 31 was zero.

**Required minimum distributions (RMDs).** An IRA (other than a Roth IRA) owner/participant must begin taking distributions for each calendar year beginning with the calendar year in which the participant attains age 70½. The distribution for the 70½ year must be made no later than April 1 of the following calendar year; RMDs for any other year must be made no later than December 31 of the year. See Regulations section 1.401(a)(9)-6 for RMDs from annuity contracts.

For each IRA you held as of December 31 of the prior year, if an RMD is required for the year, you must provide a statement to the IRA participant by January 31 regarding the RMD using one of two alternative methods described below. You are not required to use the same method for all IRA participants; you can use Alternative one for some IRA participants and Alternative two for the rest. Under both methods, the statement must inform the participant that you are reporting to the IRS that an RMD is required for the year. The statement can be provided in conjunction with the statement of the FMV.

If the IRA participant is deceased, and the surviving spouse is the sole beneficiary, special rules apply for RMD reporting. If the surviving spouse elects to treat the IRA as the spouse's own, then report with the surviving spouse as the owner. However, if the surviving spouse does not elect to treat the IRA as the spouse's own, then you must continue to treat the surviving spouse as the beneficiary. Until further guidance is issued, no reporting is required for IRAs of deceased participants (except where the surviving spouse elects to treat the IRA as the spouse's own, as described above).

**Alternative one.** Under this method, include in the statement the amount of the RMD with respect to the IRA for the calendar year and the date by which the distribution must be made. The amount may be calculated assuming the sole beneficiary of the IRA is not a spouse more than 10 years younger than the participant. Use the value of the account as of December 31 of the prior year to compute the amount. See box 11 on page R-14 for how to report.

**Alternative two.** Under this method, the statement informs the participant that a minimum distribution with respect to the IRA is required for the calendar year and the date by which such amount must be distributed. You must include an offer to furnish the participant with a calculation of the amount of the RMD if requested by the participant.

**Electronic filing.** These statements may be furnished electronically using the procedures described in part F of the 2006 General Instructions for Forms 1099, 1098, 5498, and W-2G.

**Reporting to the IRS.** If an RMD is required, check box 11. See page R-14. For example, box 11 is checked on the Form 5498 for a 2007 RMD. You are not required to report to the IRS the amount or the date by which the distribution must be made.

For more details, see Notice 2002-27, available on page 814 of Internal Revenue Bulletin 2002-18 at [www.irs.gov/pub/irs-irbs/irb02-18.pdf](http://www.irs.gov/pub/irs-irbs/irb02-18.pdf), and Notice 2003-3, available on page 258 of Internal Revenue Bulletin 2003-2 at [www.irs.gov/pub/irs-irbs/irb03-02.pdf](http://www.irs.gov/pub/irs-irbs/irb03-02.pdf).

**Inherited IRAs.** In the year an IRA participant dies, you, as an IRA trustee or issuer, generally must file a Form 5498 and furnish an annual statement for the decedent and a Form 5498 and an annual statement for each nonspouse beneficiary. An IRA holder must be able to identify the source of each IRA he or she holds for purposes of figuring the taxation of a distribution from an IRA. Thus, the decedent's name must be shown on the beneficiary's Form 5498 and annual statement. For example, you may enter "Brian Willow as beneficiary of Joan Maple" or something similar that signifies that the IRA was once owned by Joan Maple. You may abbreviate the word "beneficiary" as, for example, "bene."



For a spouse beneficiary, unless the spouse makes the IRA his or her own by making contributions to the account, including a rollover contribution, or by not taking distributions required by section 401(a)(9)(B), treat the spouse as a nonspouse beneficiary for reporting purposes. If the spouse makes the IRA his or her own, do not report the beneficiary designation on Form 5498 and the annual statement.

**Fair market value.** On the decedent's Form 5498 and annual statement, you must enter the FMV of the IRA on the date of death in box 5. Or you may choose the alternate reporting method and report the FMV as of the end of the year in which the decedent died. This alternate value will usually be zero because you will be reporting the end-of-year valuation on the beneficiary's Form 5498 and annual statement. The same figure should not be shown on both the beneficiary's and decedent's forms. If you choose to report using the alternate method, you must inform the executor or administrator of the decedent's estate of his or her right to request a date-of-death valuation.

On the beneficiary's Form 5498 and annual statement, the FMV of that beneficiary's share of the IRA as of the end of the year must be shown in box 5. Every year thereafter that the IRA exists, you must file Form 5498 and furnish an annual statement for each beneficiary who has not received a total distribution of his or her share of the IRA showing the FMV at the end of the year and identifying the IRA as described on page R-12.

However, if a beneficiary takes a total distribution of his or her share of the IRA in the year of death, you need not file a Form 5498 nor furnish an annual statement for that beneficiary, but you must still file Form 5498 for the decedent.

If you have no knowledge of the death of an IRA participant until after you are required to file Form 5498 (May 31), you are not required to file a corrected Form 5498 nor furnish a corrected annual statement. However, you must still provide the date-of-death valuation in a timely manner to the executor or administrator upon request.

For more information about the reporting requirements for inherited IRAs, see Rev. Proc. 89-52, 1989-2 C.B. 632.

**Special reporting for U.S. Armed Forces in designated combat zones.** A participant who is serving in or in support of the Armed Forces in a designated combat zone or qualified hazardous duty area has an additional period after the normal contribution due date of April 15 to make IRA contributions for a prior year. The period is the time the participant was in the designated zone or area plus at least 180 days. The participant must designate the IRA contribution for a prior year to claim it as a deduction on the income tax return.

Under section 219(f) as amended by the HERO Act, P.L. 109-227, combat zone compensation that is excluded from gross income under section 112 is treated as includible compensation for purposes of determining IRA contributions.

If a qualifying combat zone participant makes a contribution to an IRA after April 15th and designates the contribution for a prior year, you must report the type of contribution (box 7) and the amount on Form 5498. Report the amount either for (1) the year for which the contribution was made or (2) a subsequent year.

1. If you report the contribution for the year it is made, no special reporting is required. Include the contribution in box 1 of an original Form 5498 or of a corrected Form 5498 if an original was previously filed.

2. If you report the contribution on Form 5498 in a subsequent year, you must include the year for which the contribution was made, the amount of the contribution, and one of the following indicators:

- Use "AF" (Allied Force) for the Kosovo area.
- Use "JE" (Joint Endeavor) for the Persian Gulf area.
- Use "EF" (Enduring Freedom) for Afghanistan, Uzbekistan, Kyrgyzstan, Pakistan, Tajikistan, and Jordan.
- Use "IF" (Iraqi Freedom) for the Arabian Peninsula Areas (the Persian Gulf, the Red Sea, the Gulf of Oman, the portion of the Arabian Sea that lies north of 10 degrees north latitude and west of 68 degrees east longitude, the Gulf of Aden, and the total land areas of Iraq, Kuwait, Saudi Arabia, Oman, Bahrain, Qatar, and the United Arab Emirates and the airspace above such locations).

See Pub. 3, Armed Forces' Tax Guide, for a list of the locations within the designated combat zones and qualified hazardous duty areas.

**Example.** For a \$4,000 IRA contribution designated for Enduring Freedom for the tax year 2005, enter "EF 2005 4000" in the blank box next to box 10.

**Additional rules for 2004 and 2005.** Under the HERO Act, participants whose compensation was excluded from gross

income under section 112 for 2004 or 2005 may make an IRA contribution for either or both years, treating the excluded compensation as includible compensation for purposes of section 219, provided the contribution is made no later than May 28, 2009. File a separate Form 5498 for these contributions for each year for which the contributions are made, following the special reporting rules above.

**Electronic/magnetic media filers.** You may request an automatic waiver from filing Forms 5498 for combat zone participants by submitting Form 8508, Request for Waiver From Filing Information Returns Electronically/Magnetically. Once you have received the waiver, you may report all Forms 5498 for combat zone participants on paper. Alternatively, you may report contributions made by the normal contribution due date magnetically or electronically and report the contributions made after the normal contribution due date on paper. You may also report prior year contributions by combat zone participants on a corrected Form 5498 magnetically, electronically, or on paper.

See part F in the 2006 General Instructions for Forms 1099, 1098, 5498, and W-2G for information on how to request a waiver on Form 8508.

**Corrected Form 5498.** If you filed a Form 5498 with the IRS and later discover that there is an error on it, you must correct it as soon as possible. See part H in the 2006 General Instructions for Forms 1099, 1098, 5498, and W-2G or Pub. 1220, if filing electronically. For example, if you reported contributions as rollover contributions in box 2, and you later discover that part of the contribution was not eligible to be rolled over and was, therefore, a regular contribution that should have been reported in box 1, you must file a corrected Form 5498.

**Statements to participants.** If you are required to file Form 5498, you must provide a statement to the participant. By January 31, 2007, you must provide participants with a statement of the December 31, 2006, value of the participant's account and RMD, if applicable. Trustees of SIMPLE IRAs also must provide a statement of the account activity by January 31. Contribution information for all other types of IRAs must be provided by May 31, 2007. You are not required to provide information to the IRS or to participants as to whether a contribution is deductible or nondeductible. In addition, the participant is not required to tell you whether a contribution is deductible or nondeductible.

If you furnished a statement of the FMV of the account, and RMD if applicable, to the participant by January 31, 2007, and no reportable contributions, including rollovers, recharacterizations, or Roth IRA conversions, were made for 2006, you need not furnish another statement (or Form 5498) to the participant to report zero contributions. However, you must file Form 5498 with the IRS by May 31, 2007, to report the December 31, 2006, FMV of the account. This rule also applies to beneficiary accounts under the inherited IRA rules on page R-12.

For more information about the requirement to furnish statements to participants, see part M in the 2006 General Instructions for Forms 1099, 1098, 5498, and W-2G.



*If you do not furnish another statement to the participant because no reportable contributions were made for the year, the statement of the FMV of the account must contain a legend designating which information is being furnished to the Internal Revenue Service.*

## Account Number

The account number is required if you have multiple accounts for a recipient for whom you are filing more than one Form 5498. Additionally, the IRS encourages you to designate an account number for all Forms 5498 that you file. See part L in the 2006 General Instructions for Forms 1099, 1098, 5498, and W-2G.

## Box 1. IRA Contributions (Other Than Amounts in Boxes 2–4 and 8–10)

Enter contributions to a traditional IRA made in 2006 and through April 16, 2007, designated for 2006.

Report gross contributions, including the amount allocable to the cost of life insurance (see box 6) and including any excess contributions, even if the excess contributions were withdrawn. If an excess contribution is treated as a contribution in a subsequent year, do not report it on Form 5498 for the subsequent year. It has already been reported as a contribution on Form 5498 for the year it was actually contributed.

Also include employee contributions to an IRA under a SEP plan. These are contributions made by the employee, not by the employer, that are treated as regular IRA contributions subject to the 100% of compensation and \$4,000 (\$5,000 for participants 50 or older) limits of section 219. Do not include employer SEP IRA contributions or SARSEP contributions under section 408(k)(6). Instead, include them in box 8.

Also, do not include in box 1 contributions to a SIMPLE IRA (report them in box 9) and a Roth IRA (report them in box 10). In addition, do not include in box 1 rollovers and recharacterizations (report rollovers in box 2 and recharacterizations in box 4), or a Roth IRA conversion amount (report in box 3).

### **Box 2. Rollover Contributions**

Enter any rollover contributions to any IRA received by you during 2006. Include a direct rollover from a qualified plan (including a governmental section 457(b) plan) or 403(b) plan to an IRA. For the rollover of property, enter the FMV of the property on the date you receive it. This value may be different from the value of the property on the date it was distributed to the participant.

### **Box 3. Roth IRA Conversion Amount**

Enter the amount converted or reconverted from a traditional IRA, SEP IRA, or SIMPLE IRA to a Roth IRA during 2006. Do not include a rollover from one Roth IRA to another Roth IRA. Include a rollover in box 2.

### **Box 4. Recharacterized Contributions**

Enter any amounts recharacterized plus earnings from one type of IRA to another.

### **Box 5. Fair Market Value of Account**

Enter the FMV of the account on December 31. For inherited IRAs, see *Inherited IRAs* on page R-12.

### **Box 6. Life Insurance Cost Included in Box 1**

For endowment contracts only, enter the amount included in box 1 allocable to the cost of life insurance.

### **Box 7. Checkboxes**

Check the appropriate box.

**IRA.** Check "IRA" if you are filing Form 5498 to report information about a traditional IRA account.

**SEP.** Check "SEP" if you are filing Form 5498 to report information about a SEP IRA. If you do not know whether the account is a SEP IRA, check the "IRA" box.

**SIMPLE.** Check "SIMPLE" if you are filing Form 5498 to report information about a SIMPLE IRA account. Do not check this box for a SIMPLE 401(k) plan. See section 408(p).

**Roth IRA.** Check "Roth IRA" if you are filing Form 5498 to report information about a Roth IRA account.

### **Box 8. SEP Contributions**

Enter employer contributions made to a SEP IRA (including salary deferrals under a SARSEP) during 2006 including contributions made in 2006 for 2005, but not including contributions made in 2007 for 2006. Do not enter employee contributions to an IRA under a SEP plan. Report any employee contributions to an IRA under a SEP plan in box 1. Also include in box 8 SEP contributions made by a self-employed person to his or her own account.

### **Box 9. SIMPLE Contributions**

Enter any contributions made to a SIMPLE IRA during 2006. Do not include contributions to a SIMPLE 401(k) plan.

### **Box 10. Roth IRA Contributions**

Enter any contributions made to a Roth IRA in 2006 and through April 16, 2007, designated for 2006. However, report Roth IRA conversion amounts in box 3.

### **Box 11. Check if RMD for 2007**

Check the box if the participant must take a required minimum distribution (RMD) for 2007. You are required to check the box for the year in which the IRA participant reaches age 70½ even though the RMD for that year need not be made until April 1 of the following year. Then check the box for each subsequent year an RMD is required to be made.

On Form 5498, or in a separate statement, report the information required by *Alternative one* or *Alternative two*. See page R-12. To determine the RMD, see the regulations under sections 401(a)(9) and 408(a)(6) and (b)(3). If you use Form 5498 to report the additional information under *Alternative one*, enter the amount and date in the blank box to the left of box 10 on the form.



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