

# 1099-R Distribution Exceptions

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## Background

Most retirement plan distributions reported on Form 1099-R and paid to the client before age 59 ½ are subject to an additional tax of 10% (often referred to as an early withdrawal “penalty,” though it is not a penalty by definition). There are some exceptions to this additional 10% tax. If the payer of the funds knows the client meets an exception, then the client’s 1099-R will show “2,” “3,” or “4” in Box 7. (See *1099-R Codes* available in the CTC Volunteer Resources.)

## Foundation Communities Policy

Failure to properly note a distribution exception results in an inaccurate tax return.

## How To Assist Tax Clients

If the client meets an exception to the early withdrawal tax, but code “1” (early distribution, no known exception) is shown in Box 7 of Form 1099-R, then add *Form 5329* to the tax return using the “Other Taxes” menu. From the menu, select “Tax on Early Distribution *Form 5329*” Then on *Form 5329*, enter the dollar amount of “Early Distributions that are not subject to 10% tax”. Select the reason for exemption from the dropdown list (determined by interviewing the client):

Reason
Qualified retirement plan distributions (does not apply to IRA) received after separation from service in or after the year you reach 55
Distributions made as part of a series of substantially equal payments
Distributions due to total and permanent disability
<b>Distributions due to death</b>
<b>Qualified retirement plan distributions up to the amount paid for unreimbursed medical expenses, less 10% of AGI (less 7.5% of AGI if you are age 65 and over)</b>
Qualified retirement plan distributions made to an alternate payee under a QDRO
<b>IRA distributions made to unemployed individuals for health insurance premiums</b>
<b>IRA distributions made for higher education expenses</b>
<b>IRA distributions made for purchase of a first home, up to \$10,000</b>
Distributions due to IRS levy on the qualified retirement plan
Qualified distributions to reservists while serving on active duty for at least 180 days
Other

**Note:** If the client rolled over any of the distribution, check the appropriate box under the Rollover or Disability section.