

1099-R Distribution Exceptions

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
Distributions due to death
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)
Qualified retirement plan distributions made to an alternate payee under a QDRO
IRA distributions made to unemployed individuals for health insurance premiums
IRA distributions made for higher education expenses
IRA distributions made for purchase of a first home, up to \$10,000
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.