

About Form 1099-R: Scope, Codes & Distribution Exceptions

Background

IRS Form **1099-R**, *Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.* is used to report to recipients any distribution of \$10 or more from:

- Any individual retirement arrangements (IRAs).
- Profit-sharing or retirement plans.
- Annuities, pensions, insurance contracts, survivor income benefit plans.
- Permanent and total disability payments under life insurance contracts.
- Charitable gift annuities, etc.

Distribution Codes & What is Out of Scope for VITA

The codes entered in Box 7 of Form 1099-R indicate the type of distribution received and its taxability. For a complete list of **Box 7 Distribution Codes and Explanations**, scroll down or click [here](#).

These Box 7 distribution codes and circumstances are **out of scope** for VITA:

- Form 1099-R, Box 7 with codes 5, 6, 8, 9, A, E, J, K, N, P, R, T, U, W
- Form 1099-R, Box 7 code 2 or code 7, if the IRA/SEP/SIMPLE box is checked and additional reporting (i.e., Form 8606) is required. Additional reporting is required if the taxpayer made nondeductible contributions in that tax year or an earlier year, made a Roth conversion, or took a Roth distribution. *If the Tax Help Program is unsure whether any of these situations apply, refer to Special Tax Services.*
- Taxpayers who used the General Rule to figure the taxable portion of pensions and/or annuities for past years
- IRA rollovers that do not meet the tax-free requirements

Taxpayers with Form 1099-R Box 7 codes that are out of scope for VITA should be referred to **Special Tax Services**.

Determining the Taxable Amount & Certification Level Required

Depending on the codes and information on Form 1099-R, the return may require **Basic** or **Advanced** certification to prepare. Consult the table below to determine which certification level is required.

If Form 1099-R has...	Then the required Certification level is...
Box 2a with any amount in it, including "0" (zero)	Basic (and Box 2b is considered irrelevant)
Box 2a is empty and Box 2b is checked	Advanced The taxable amount of the distribution must be calculated using the so-called Simplified Method. See Using the Simplified Method to Determine Taxable Amount .

<input type="checkbox"/> VOID <input type="checkbox"/> CORRECTED				2021 Form 1099-R OMB No. 1545-0119 Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.
PAYER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone no.		1 Gross distribution \$ _____ 2a Taxable amount \$ _____	2b Taxable amount not determined <input checked="" type="checkbox"/> Total distribution <input type="checkbox"/>	
PAYER'S TIN	RECIPIENT'S TIN	3 Capital gain (included in box 2a) \$ _____	4 Federal income tax withheld \$ _____	Copy 1 For State, City, or Local Tax Department
RECIPIENT'S name		5 Employee contributions/ \$ _____	6 Net unrealized \$ _____	

Early Withdrawal Penalties & Exceptions

Most retirement plan distributions reported on Form 1099-R and paid to the taxpayer before age 59 ½ are subject to an additional tax of 10%. This is often referred to as an early withdrawal "penalty," although it is not a penalty by definition.

There are exceptions to this additional 10% tax. For a complete list of **Early Withdrawal Penalty Exceptions and Codes**, scroll down or click [here](#).

- If the issuer of Form 1099-R knows that the taxpayer meets one of these exceptions, Form 1099-R Box 7 will list code **2** or **3** or **4**.
- If the taxpayer meets the criteria for an exception to the early withdrawal penalty, but code **1** (early distribution, no known exception) is shown in Box 7 of Form 1099-R, **Form 5329, Additional Taxes on Qualified Plans (including IRAs) and Other Tax-Favored Accounts** is added to the tax return. (See below for more instructions and information.)

Reporting Rollovers

For information about preparing returns that are reporting a **rollover** of Form 1099-R funds, see [Form 1099- Rollovers](#).

Using Form 1099-R Disability Income as Earned Income

For information about preparing returns that use Form 1099-R **disability income as earned income**, see [Form 1099-R: Treating Disability Income as Earned Income](#).

How to Assist Taxpayers

When preparing a tax return with retirement account income from a Form 1099-R:

1. Report all data in TaxSlayer using **Federal Section 1099-R, RRB-1099, RRB-1099-R, SSA-1099** Add or Edit a 1099-R.
2. Indicate if the Form 1099-R is for the client or spouse.
3. Do not forget to include tax withholding if reported.
4. Report any income shown on Form 1099-R, even if the taxpayer “rolled over” the account into another account.
5. Take careful note of all distribution codes in Box 7. Every code noted is critical: Do not overlook them.

If the taxpayer meets the criteria for an exemption to the early withdrawal penalty but code **1** (early distribution, no known exception) or code **7** (Normal distribution) is shown Form 1099-R, Box 7:

1. Report all data in TaxSlayer using **Federal Section 1099-R, RRB-1099, RRB-1099-R, SSA-1099** Add or Edit a 1099-R.
2. Navigate to **Federal Section Other Taxes Tax on Early Distribution (Form 5329)**.

Part I - Additional Tax on Early Distributions

Form belongs to
Taxpayer

SIMPLE Retirement Distributions that are not subject to 25% Tax

\$

Early Distributions that are not subject to 10% tax

\$

Select the reason for exemption

-- Please Select --

3. If necessary, indicate whether the exemption is for the primary taxpayer or their spouse.

4. Enter the amount exempted from the penalty in **Early Distributions that are not subject to 10% tax**.
5. Click in **Select the reason for exemption** and select the appropriate reason for the exemption. (See below).
6. Click on **Continue** to continue tax return preparation.

Early Withdrawal Penalty Exceptions and Codes

Code	Explanation	TaxSlayer Option
01	Qualified retirement plan distributions (does not apply to IRA) received after separation from service in or after the year you reach 55	Separation from service after 55
02	Distributions made as part of a series of substantially equal payments	Series of equal payments
03	Distributions due to total and permanent disability	Total and permanent disability
04	Distributions due to death	Death
05	Qualified retirement plan distributions up to the amount paid for unreimbursed medical expenses, less 10% of AGI	Medical expenses
06	Qualified retirement plan distributions made to an alternate payee under a QDRO	Made to alternate payee
07	IRA distributions made to unemployed individuals for health insurance premiums*	Unemployed individuals for insurance
08	IRA distributions made for higher education expenses	Higher education purpose
09	IRA distributions made for purchase of a first home, up to \$10,000	First home purchase
10	Distributions due to IRS levy on the qualified retirement plan	Other
11	Qualified distributions to reservists while serving on active duty for at least 180 days	Reservists while serving on active duty
12	Other. Also, enter this code if more than one exception applies.	Other

*Medical insurance for yourself, your spouse, and your dependents (no 10% AGI reduction). All of the following conditions must apply:

- You lost your job.
- You received unemployment compensation paid under any federal or state law for 12 consecutive weeks because you lost your job.
- You receive the distributions during either the year you received the unemployment compensation or the following year.
- You receive the distributions no later than 60 days after you have been reemployed.

Box 7 Distribution Codes

Box 7 Distribution Codes	Explanations
1 - Early distribution, no known exception	<ul style="list-style-type: none"> If this amount was rolled over within 60 days of the withdrawal and—if the distribution was from an IRA--no prior rollover was made in the same 12-month period. Check the box under Rollover or Disability on Form 1099-R, and enter the amount rolled over. Trustee to trustee transfer isn't considered a prior rollover. If more than one rollover from an IRA in the 12-month period, return is Out of Scope. If this wasn't rolled over, a 10% additional tax will be applied unless the taxpayer qualifies for an exception. See Tab H, Other Taxes, Payments and Refundable Credits, for a list of exceptions. If the taxpayer qualifies for an exception, go to Form 5329, Additional Taxes on Qualified Plans and Other Tax-Favored Accounts, enter the amount that qualifies for an exception and select the reason for the exception from the dropdown list.
2 - Early distribution, exception applies	<p>Code 2 applies if the taxpayer is under 59 ½ but the payer knows that an exception to the additional tax applies. If the IRA/SEP/SIMPLE box ISN'T checked, no further action needed.</p> <p>If the IRA/SEP/SIMPLE box is checked AND additional reporting is required on Form 8606, the return is Out of Scope. See Distribution Codes & What is Out of Scope for VITA.</p>
3 - Disability	<p>Code 3 is for a disability pension.</p> <ul style="list-style-type: none"> If the taxpayer is under the minimum retirement age for the company he retired from, then check the box under Rollover or Disability that says, "Check here to report as wages on the Form 1040." This will reclassify the disability income as wages. It will also include the amount in earned income for calculation of the earned income credit, the dependent care credit and the additional child tax credit. If the taxpayer has reached the minimum retirement age, no further action is needed.
4 - Death	<p>Code 4 is for a survivor's benefit or an inherited IRA. If it's a pension, the original retiree has died, and the survivor is receiving his or her share of the pension. If the original pensioner was using the Simplified Method, continue to use it for the survivor. If it's an inherited IRA and the original owner had a basis, the survivor takes over that basis.</p>
5 – Prohibited transaction	<p>This code is Out of Scope.</p>
6 - Tax-free Section 1035 exchange	<p>This code is Out of Scope.</p>
7 – Normal distribution	<p>Code 7 is for normal distributions. It may occur in several different situations:</p> <ul style="list-style-type: none"> If the amounts in Box 1 and 2a are the same, and Box 2b isn't checked, the pension is fully taxable. If the taxpayer makes a rollover from one IRA to another and holds the money less than 60 days, enter the amount rolled over into the Rollover or Disability field. If the Box 2b is checked and there is an amount in Box 9b, complete the Simplified Method. Be sure to use the taxpayer's age at the time of retirement—not their current age. If there is an amount in Box 2 that is different than in Box 1, no further action is needed. If there is no amount (or zero) in Box 2a, check to see if there is an amount in Box 5. If this is the same amount as Box 1, the distribution is the taxpayer's own money coming back. None of the distribution will be taxed. If any portion of this distribution was sent directly from the trustee to a charity,

	<p>and the taxpayer is over 70 1/2 years old, enter the net taxable amount in box 2a (which may be zero). Hit Continue and at the IRA/Pensions Distributions page, select Nontaxable Distributions and check the box to mark that there is a Qualified Charitable Distribution (QCD). No charitable deduction may be taken for the donation.</p> <p>If the IRA/SEP/SIMPLE box is checked AND additional reporting is required on Form 8606, the return is Out of Scope. See Distribution Codes & What is Out of Scope for VITA.</p>
8 – Excess contributions	This code is Out of Scope.
9 - Cost of current life insurance	This code is Out of Scope
A - May be eligible for 10-year tax option	This code is Out of Scope.
B - Designated Roth account distribution	Code B is for a distribution from a designated Roth account. This code is in scope only if the taxable amount has been determined.
D - Annuity payments from nonqualified annuities	Code D is used for a distribution from a private annuity in conjunction with the regular code. The distribution is subject to the net investment income tax. If the taxpayer has AGI over a threshold amount (\$200,000 for a single taxpayer or HoH; \$250,000 MFJ or QW; \$125,000 MFS), then this code means the return is Out of Scope. If the AGI is less than the threshold amount the return is in scope and no further action is needed.
E - Distributions under Employee Plans Compliance Resolution System (EPCRS)	This code is Out of Scope.
F - Charitable gift annuity	Code F is used for the annuity payments from a charitable gift annuity. To determine the amount to enter in Box 2a (Taxable amount), subtract the amount in Box 3 Capital gain, and Box 5 (Employee contributions) from the Gross distribution (Box 1) and enter that difference in the Form 1099R screen Box 2a. Also, navigate to Income>Capital Gains and Losses>Additional Capital Gain Distributions and enter the amount in Box 3 as a long-term capital gain.
G - Direct rollover of distribution and direct payment	Code G is for a direct rollover from a qualified plan to an eligible retirement plan. If Box 2a, taxable amount, is zero or blank, it won't be taxed. If there is an amount in Box 2a, the direct rollover is fully or partially taxable. No further action is needed.
H - Direct rollover of a designated Roth account distribution to a Roth IRA	Code H is for a direct rollover of a distribution from a designated Roth account to a Roth IRA. It won't be taxed. No further action is needed. Box 2a should be blank. Place check mark in box IRA/ SEP/SIMPLE.
J - Early distribution from a Roth IRA	This code is Out of Scope.
K - Distribution of Traditional IRA assets not having a readily available FMV	This code is Out of Scope.
L - Loans treated as deemed distributions	Code L is for loans treated as deemed distributions. This code could possibly be combined with codes 1, 4, or B. For more information on how it is treated see the codes on this chart.
N - Recharacterized IRA contribution	This code is Out of Scope.
P - Excess contributions plus earnings/excess deferrals	This code is Out of Scope.

Q - Qualified distribution from a Roth IRA	This distribution isn't taxable. Box 2a should be blank. TaxSlayer enters the distribution amount on Form 1040 on the IRAs, pensions, and annuities line. No further action is needed.
R - Recharacterized IRA contribution	This code is Out of Scope.
S - Early distribution from a SIMPLE IRA in the first 2 years, no known exception	A 25% additional tax will be applied unless the taxpayer qualifies for an exception. See Tab H, Other Taxes, Payments, and Refundable Credits, for a list of exceptions. If the taxpayer qualifies for an exception, go to Form 5329 and enter the amount of the distribution not subject to the additional tax and the code for the exception and the amount that qualifies for it.
T - Roth IRA distribution, exception applies	This code is Out of Scope.
U - Dividends distributed from an ESOP	This code is Out of Scope.
W - Charges or payments for LTC contracts	This code is Out of Scope.