

CWF's *The Pension Digest* Special **IOWA** Alert

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Iowa Income Tax Withholding for IRA Distributions

We have received a number of consulting calls recently concerning the State of Iowa rules for income tax withholding on IRA distributions. The curious thing about these questions is that after explaining the rules, the usual question is, "Is this requirement new?"

First, the rules we are about to review **ARE NOT NEW**. These rules have been in effect for a long time. Although our explanation is taken from the most current Iowa publications, forms, and instructions, these procedures have not been changed for some time.

Whether or not Iowa Income Tax Withholding is required depends on a number of things.

Resident of Iowa and Federal Income Tax is NOT Withheld

If the IRA Accountholder/Beneficiary is a resident of Iowa and no Federal Income Tax is withheld, Iowa Income Tax Withholding **is optional**. If the IRA accountholder/beneficiary wants state withholding an election form must be completed authorizing it. This can be accomplished using CWF Form #57-ST, IRA Distribution Form, which contains a generic state withholding section.

CWF Form #39, State of Iowa Withholding Notice, can also be used, and in fact is better because it has all of the rules and procedures pertaining to Iowa withholding. The state form Iowa W-4P, or any complying substitute can also be used.

Resident of Iowa and Federal Income Tax IS Withheld

If the IRA Accountholder is a resident of Iowa and Federal Income Tax is withheld, Iowa Income Tax Withholding **is mandatory** in the amount of 5% of the IRA distribution unless the IRA Accountholder is eligible to claim an exemption from state withholding and does so.

An Iowa Income Tax Withholding election should be completed. CWF Form #39, State of Iowa Withholding Notice, the state form Iowa W-4P, or a complying substitute should be used.

Non-Resident of Iowa

If the IRA Accountholder/Beneficiary is a **non-resident of Iowa, no Iowa Income Tax Withholding is required**, whether Federal Income Tax is withheld or not.

An IRA Custodian/Trustee has the discretion whether or not it would withhold Iowa tax with respect to a distribution to a non-resident IRA accountholder or beneficiary. Normally, the IRA Custodian/Trustee would not withhold with respect to a distribution to a non-resident. If it chose to, then an election form must be completed by the IRA accountholder or beneficiary. This can be accomplished using CWF Form #57-ST, IRA Distribution Form, which contains a generic state

withholding section, CWF Form #39, State of Iowa Withholding Notice, the state form Iowa W-4P, or a complying substitute.

Non-Resident Alien of USA

We have confirmed with a representative of the Iowa Department of Revenue that a distribution to a US non-resident alien is not subject to Iowa income taxes and Iowa withholding rules.

Regular rules and procedures for Federal Withholding apply, whether the distribution is to the IRA Accountholder or to a beneficiary of a deceased IRA Accountholder, which means there will be Federal Income Tax Withholding, it is required. Federal withholding for non-resident aliens is a complicated procedure and not the topic of this *Pension Digest* Alert. It will be discussed in future *Pension Digest* Articles and Alerts.

But since the IRA Accountholder/Beneficiary is not a resident of Iowa (or the USA), state withholding is **NOT** mandatory. In the unlikely event the IRA accountholder/beneficiary wants state withholding, an election form must be completed authorizing it. This can be accomplished using CWF Form #57-ST, IRA Distribution Form, which contains a generic state withholding section, CWF Form #39, State of Iowa Withholding Notice, the state form Iowa W-4P, or a complying substitute.

If you have any questions on this procedure, please call our Consulting Department at 800-346-3961.