



# THE Pension Digest

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## ALSO IN THIS ISSUE –

Guide to Distribution  
Codes, Pages 7 & 8

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## Recap – Completing the 2001 Form 1099-R

The 1099-R season is not far off. The following article discusses the rules for preparing the Form 1099-R for each type of IRA and the Coverdell Education Savings Accounts.

### Traditional IRAs

#### General Instructions

1. **IRA distributions.** Distributions from any individual retirement arrangement (IRA), must be reported in boxes 1 and 2a regardless of the amount. You may mark the "Taxable amount not determined" box in box 2b.

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 one 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.

2. **Roth conversion.** Report the total amount converted or reconverted from an IRA, SEP, or SIMPLE 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 custodian or trustee. For a Roth conversion, use Code 2 in box 7 if the participant is under age 59 1/2, or Code 7 if the participant is at least age 59 1/2. Do not use Code J. Also, mark the "IRA/SEP/SIMPLE" box in box 7.

Even though 1998 conversions are taxable over 4 years (unless the participant elects otherwise), you only had to report the full amount converted on the 1998 Form 1099-R. You do not have to issue Form 1099-R for any future year to report the 1998 conversion.

3. **IRA revocation.** If a traditional IRA is revoked during its first 7 days (under Regulations section 1.408-6(d)(4)(ii)), the distribution from the IRA must be reported.

If a regular contribution is made to a traditional IRA that later is revoked, and 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 8 in box 7. If earnings are distributed, enter the amount of earnings in box 2a. Such earnings could be subject to the early distribution tax under section

## Medical Savings Accounts (MSAs) for 2001

MSAs (other than Medicare+Choice MSAs) have been renamed "Archer MSAs." Also, the pilot project for Archer MSAs was scheduled to end December 31, 2000. It has now been extended to December 31, 2002.

Archer MSAs were created to help self-employed individuals and employees of certain small employers meet their medical care costs. An Archer MSA is a tax-exempt trust or custodial account established with a financial institution where an individual can save for future medical expenses. This savings account accumulates earnings tax free, and the account holder can claim a tax deduction for contributions made, even if they do not itemize deductions on their Form 1040. There is no requirement that a contribution be made to an Archer MSA every year. Also, there is no requirement to withdraw funds from an Archer MSA within a certain period of time – the funds remain in the account until withdrawn.

### Rules for Individuals

To establish an Archer MSA, an individual must meet the following rules:

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72(t). If they are subject to that tax, enter Code 1 in box 7; if the earnings are not subject to that tax, enter Code 8.

*If you know that the taxpayer deducted the contribution, report the total amount distributed in box 2a and use the appropriate code in box 7.*

If a **rollover** contribution is made to an IRA that later is revoked, and distribution is made to the taxpayer, enter the gross distribution in boxes 1 and 2a of Form 1099-R, and the appropriate Code in box 7. Follow this same procedure for a transfer from one IRA to another IRA that later is revoked. The distribution could be subject to the early distribution tax under section 72(t).

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

4. **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 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, 0 (zero) in box 2a, and use Code H in box 7.
5. **Reporting a direct rollover.** Report a direct rollover in box 1 and 0 (zero) in box 2a. You do not have to report capital gain in box 3 or net unrealized appreciation in box 6. Enter the applicable Code G or H in box 7. Prepare the form using the name and social security number of the person for whose benefit the funds were rolled over (generally the participant), not those of the trustee of the IRA or other plan to which the funds were rolled.
6. **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 another 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).

9898 <input type="checkbox"/> VOID <input type="checkbox"/> CORRECTED		OMB No. 1545-0119		Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.
PAYER'S name, street address, city, state, and ZIP code		1 Gross distribution	2001	
		2a Taxable amount	Form 1099-R	
		2b Taxable amount not determined <input type="checkbox"/>	Total distribution <input type="checkbox"/>	Copy A For Internal Revenue Service Center
PAYER'S Federal identification number	RECIPIENT'S identification number	3 Capital gain (included in box 2a)	4 Federal income tax withheld	
RECIPIENT'S name		5 Employee contributions or insurance premiums	6 Net unrealized appreciation in employer's securities	File with Form 1098.  For Privacy Act and Paperwork Reduction Act Notice, see the 2001 General Instructions for Forms 1099, 1098, 5498, and W-2G.
Street address (including apt. no.)		7 Distribution code	8 Other	
City, state, and ZIP code		9a Your percentage of total distribution	9b Total employee contributions	
Account number (optional)	10 State tax withheld	11 State/Payer's state no.	12 State distribution	
	13 Local tax withheld	14 Name of locality	15 Local distribution	

Form 1099-R Cat. No. 14438C Department of the Treasury - Internal Revenue Service

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Enter the fair market value (FMV) of the amount recharacterized in box 1, 0 (zero) in box 2a, and Code R in box 7. It is not necessary to mark the IRA/SEP/SIMPLE checkbox. For more information, see Notice 98-49, 1998-2 C.B. 365.

*For IRA recharacterizations and Roth reconversions in 2001 with the same trustee, you may report the results of the recharacterizations and reconversions on Forms 1099-R and 5498 using a reasonable alternative method. However, if you use an alternative method to report, in addition to Forms 1099-R and 5498, you must provide instructions to the IRA owner, in conjunction with account statements or other information, about how to use the information shown on the forms to properly report the recharacterizations and reconversions on Form 1040. The instructions must include how to use the information to properly complete Form 8606, Nondeductible IRAs, and Form 5329, Additional Taxes Attributable to IRAs, Other Qualified Retirement Plans, Annuities, Modified Endowment Contracts, and MSAs. If trustees use different employer identification numbers to file Forms 1099-R and 5498, they are not the same trustee. See Announcement 99-5, 1999-3 I.R.B. 16, for more information.*

7. **Transfers.** Generally, do not report transfers between trustees or issuers (unless they are direct rollovers from qualified plans) including a trustee-to-trustee transfer from one IRA to another (unless they are recharacterized IRA contributions or Roth conversions) or from one tax-sheltered (section 403(b)) arrangement to another.

**Transfer of IRA to spouse.** If you transfer in an IRA from one spouse to another spouse under a divorce or separation instrument, the transfer is tax free. Do not report such a transfer on Form 1099-R.

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8. **SIMPLE IRAs.** Do not report a trustee-to-trustee transfer from one SIMPLE to another SIMPLE. 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 by the employer. Use Code S in box 7, if appropriate.
9. **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.
10. **Filer.** The payer, trustee, or plan administrator must file Forms 1099-R using the same name and employer identification number used to deposit any tax withheld and to file Form 945, Annual Return of Withheld Federal Income Tax.
11. **Beneficiaries.** If you make a distribution to a beneficiary or estate, prepare Form 1099-R using the name and taxpayer identification number (TIN) of the beneficiary or estate, not those 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.
12. **Do not enter a negative amount in any box on Form 1099-R**

**Specific Instructions to Complete Boxes 1-15.**

**Box 1.** Enter the **total amount of the distribution** before income tax or other deductions were withheld. Include direct rollovers, and the gross amount of any IRA distribution, including a recharacterization and a Roth conversion. However, in the case of a distribution by a trust representing CDs redeemed early, report the net amount distributed.

**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-6 of the 1099-R instructions.

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 in box 5.

**Box 2a.** 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 include excludable or tax-deferred amounts reportable in boxes 5, 6, and 8.

**IRA or SEP.** Generally, you are not required to compute the taxable amount of a traditional IRA or a SEP, nor designate whether any part of a distribution is a return of basis attributable to a nondeductible contribution. Therefore, report the total amount distributed from a traditional IRA or SEP in box 2a. This will be the same amount reported in box 1. You may mark 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 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. You may also enter Code 1, 2, or 4, if applicable.

For a distribution of contributions without earnings after the due date of the individual's return, under section 408(d)(5), enter 0 (zero). You might use Code 1 or 7 in box 7 depending on the age of the participant.

For a distribution from a conduit IRA or for an IRA recharacterization, enter 0 (zero) in box 2a.

**SIMPLE.** Enter the total amount distributed from a SIMPLE in box 2a.

**Box 2b – Taxable Amount not Determined.** If you mark this box, leave box 2a blank unless you are reporting a traditional IRA, SEP, or SIMPLE distribution. Except for IRAs, make every effort to compute the taxable amount.

**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 final payment is made.

**Box 3.** This box will never be completed for any IRA distribution.

**Box 4.** This box is used to report the amount of federal income tax withheld. It is mandatory if applicable.

**Box 5.** This box will never be completed for an IRA distribution.

**Box 6.** This box will never be completed for an IRA distribution.



**Completing 1099-R,  
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**Box 7.** Enter an "X" in the **IRA/SEP/SIMPLE checkbox** if the distribution is from a traditional IRA, SEP or SIMPLE, or is a Roth conversion.

**You must enter the appropriate code(s) in box 7.** 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, you may enter a numeric and an alpha code. For example, when using Code P for an IRA distribution under section 408(d)(4), you may also enter Code 1, if it applies.

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, file one Form 1099-R for the part to which Code 1 applies, and another Form 1099-R for the part that is a normal distribution, Code 7. Thus, file separate Forms 1099-R using Code 8, D, or P to indicate the year the amount is taxable.

Use the codes below for any amounts reported on Form 1099-R – distributions from qualified plans, any IRAs, Keoghs, commercial annuities, insurance contracts, charitable gift annuities, etc.

**Codes**

**1 – Early distribution, no known exception.** Use Code 1 only if the employee/taxpayer has not reached age 59 1/2, and if none of the exceptions under section 72(q), (t), or (v) are known to apply. For example, if a distribution is made for medical or qualified higher education expenses, you probably will not know if any medical or qualified higher education expense exception under section 72(t) applies. Therefore, use Code 1. However, if an early distribution is made from a qualified retirement plan because of an IRS levy under section 6331, use Code 2.

Even if the employee/taxpayer is 59 1/2 or over, use Code 1 if a series of substantially equal period 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 59 1/2.

**2 – Early distribution, exception applies (as defined in section 72(q), (t), or (v)).** Use Code 2 if the employee/taxpayer has not reached age 59 1/2, to indicate that an exception under section 72(q), (t), or (v) applies.

However, instead of Code 2, use Code 3 or 4, whichever applies, for an early distribution due to disability or death. Also use Code 2 for a Roth conversion (an IRA converted to a Roth IRA) or reconversion if the participant is under 59 1/2, and for an early distribution made from a qualified retirement plan because of an IRS levy under section 6331.

**3 – Disability.** Please be aware, the definition of "disabled" for IRA purposes may be different than that for workman's compensation or the disability payment. Per IRC section 72(m)(7) and IRS Regulation 1.72-17(f), disability for this distribution code means the IRA accountholder is "unable to engage in ANY substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or to be of long-continued and indefinite duration."

**4 – Death.** Code 4 is always used regardless of the age of the accountholder, to indicate payment to a beneficiary from any inherited IRA. Do not use Code 4 if the surviving spouse has elected the deceased spouse's IRA as his or her own.

**5 – Prohibited Transaction.** Code 5 is used if the IRA trustee or custodian or accountholder incurs a prohibited transaction.

**6 – Not used for IRA and pension purposes.**

**7 – Normal distribution.** Use Code 7 for a normal distribution from a plan, including a traditional IRA, if the employee/taxpayer is at least age 59 1/2. Use Code 7 for a Roth conversion or reconversion if the participant is at least age 59 1/2.

**8 – Excess contributions plus earnings/excess deferrals (and/or earnings) taxable in 2000.** Use Code 8 for an IRA distribution under section 408(d)(4).

**9 – Codes not used for IRAs**

- A – Not used for traditional IRAs.
- B – Not used for traditional IRAs.
- C – Not used for traditional IRAs.
- D – Not used for traditional IRAs.
- E – Not used for traditional IRAs.
- F – Not used for traditional IRAs.
- G – Not used for traditional IRAs.
- H – Used to report a direct rollover from a conduit IRA to a Qualified plan.
- J – Not used for traditional IRAs.
- L – Not used for traditional IRAs.
- M – Not used for traditional IRAs.
- P – Excess contributions/deferrals refunded plus earnings taxable in the previous calendar year.
- R – **Recharacterized IRA contribution.** Use Code R for a recharacterization of an IRA contribution to



**Completing 1099-R,  
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another type of IRA by a trustee-to-trustee transfer or with the same trustee.

- S – Early distribution from a SIMPLE IRA in first 2 years, no known exception. 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. 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.

**Box 8.** Other. This box is used to give the accountholder information on distributions not covered by the above.

**Box 9a.** 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 9.** This box is used if a total distribution is split among a number of recipients (i.e. more than one beneficiary). This box is used to enter the percentage this recipient was paid.

**Boxes 10 to 15.** These boxes do not need to be completed for IRS purposes, but may need to be completed for state and local tax reasons.

### Roth IRAs

Set forth are the instructions which specifically apply to Roth IRAs.

For distributions from a Roth IRA, report the gross distribution in box 1, but generally **leave box 2a blank**. Mark the "Taxable amount not determined" box in box 2b. Enter Code J in box 7. You may also enter Code 1, 2, 3, 4, 5, 8, or P with Code J. It is not necessary to mark the IRA/SEP/SIMPLE checkbox.

However, for the distribution of excess Roth contributions under section 408(d)(4), report the gross distribution in box 1, and only the earnings in box 2a. Enter Code J and 8 or P in box 7.

### Education IRAs

The name change for these accounts to the "Coverdell Education Savings Account" is not reflected on the 2001 reporting forms. For 2001 reporting, the accounts will still be referred to as "Education IRAs"

Set forth are the instructions which specifically apply to Education IRAs.

For distributions from an Ed IRA, report the gross distribution in box 1, but generally **leave box 2a blank**. Mark the "Taxable amount not determined" box in box 2b. Enter Code M in box 7. You may also enter Code 3, 4, 8, or P with

Code M. It is not necessary to mark the IRA/SEP/SIMPLE checkbox. For the withdrawal of excess contribution, see the standard rules. ♦

### MSA

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- (1) An individual must work for a small employer\* or be self employed;
- (2) An individual must have a high deductible health plan (HDHP)\*\*

\* A small employer is defined as having 50 or fewer employees when the Archer MSA was established; or the employer made a contribution for the last year he/she had 50 or fewer employees, and the employer had an average of 200 or fewer employees each year after 1996.

\*\* An HDHP is defined as (1) having a higher annual deductible than typical health plans, and (2) having a maximum limit on the annual out-of-pocket expenses that an individual must pay for covered expenses.

The following tables show the limits for annual deductible amounts, and the maximum out-of-pocket expenses for high deductible health plans for 2000 and 2001. In future years, these limits may be adjusted for inflation.

#### 2000

Type of coverage	Minimum annual deductible	Maximum annual deductible	Maximum annual out-of-pocket expenses
Self only	\$1,550	\$2,350	\$3,100
Family	\$3,100	\$4,650	\$5,700

#### 2001

Type of coverage	Minimum annual deductible	Maximum annual deductible	Maximum annual out-of-pocket expenses
Self only	\$1,600	\$2,400	\$3,200
Family	\$3,200	\$4,800	\$5,850

The MSA limits for 2002 have not been issued as of the publication date of this newsletter. As soon as the amounts are available, we will publish them.

### Other Health Insurance

An individual (or his/her spouse, if filing jointly) generally cannot have any other health plan that is not an HDHP. However, this rule does not apply if the other health plan only covers any of the following:

- Accidents • Disability • Dental Care • Vision Care
- Long-term Care • Benefits related to workers' compensation laws, tort liabilities, or ownership or use of property
- A specific disease or illness • A fixed amount per day (or other period) of hospitalization.

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**MSA**

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**Contributions**

Either the individual or his employer may make contributions to an Archer MSA; however, both cannot make contributions to an individual's Archer MSA in the same year.

An individual may contribute up to 75% of the amount of his/her annual health plan deductible (65% if you have a self-only plan). The individual must have the insurance all year to contribute the full amount. For each full month an individual does not have an HDHP, they must reduce the amount they can contribute by one twelfth. An individual cannot contribute more than was earned for the year from the employer through whom the HDHP is sponsored. A self-employed person cannot contribute more than their net self-employment income.

**Excess Contributions**

Excess contributions an individual makes to an Archer MSA must be reported by the individual as "other income" on the their tax return unless 1) the excess contributions are withdrawn by the due date, including extensions, of the individual's tax return, 2) the earnings on the excess are withdrawn and claimed as "other income" on the individual's tax return, and 3) the individual does not claim any exclusion from income for the amount of the withdrawn contributions. Otherwise, a 6% excise tax is owing on contributions made to an Archer MSA which are greater than the limits discussed earlier.

**Distributions**

An individual can take tax-free withdrawals from an Archer MSA to pay for qualified Medical expenses which are not reimbursed by their HDHP. An individual may ask the trustee of the Archer MSA to send a distribution to pay these expenses. Qualified medical expenses are explained in Publication 502, Medical and Dental Expenses. Examples include amounts paid for doctors' fees, prescription medicines, and necessary hospital services. Caution: An individual cannot deduct qualified medical expenses as an itemized deduction on Schedule A (Form 1040) if such expenses were paid with a tax-free distribution from an Archer MSA. An individual also cannot claim a deduction if other funds equal to the amount of the distribution were used to pay the expenses.

If you do not use a distribution from your Archer MSA to pay qualified medical expenses, you must pay normal income tax on the distribution. There is also an additional 15% tax on distributions not used to pay qualified expenses. This additional tax is reported under the "Other Taxes" section of Form 1040. However, there is no additional tax requirement if you are disabled, age 65 or older, or die during the year.

**Beneficiaries**

An individual is allowed to choose a beneficiary for an

Archer MSA. If the individual's spouse is designated as the beneficiary, the Archer MSA will be treated as the spouse's Archer MSA upon the individual's death.

If the beneficiary is not the individual's spouse, (1) the account is no longer considered to be an Archer MSA, and (2) the fair market value of the Archer MSA becomes taxable income to the designated beneficiary upon the accountholder's death.

If no beneficiary is designated, the fair market value of the Archer MSA will be included on the decedent's final income tax return.

**Recordkeeping**

For each qualified medical expense deducted as an itemized deduction on Schedule A or paid with a distribution from an Archer MSA, an individual must keep a record of the name and address of each person paid, as well as the amount and date of payment. Do not send these records to the IRS; keep them with your tax records.

**Reporting**

If contributions are made and/or distributions withdrawn, they must be reported by the individual each year on Form 8853; this form must be attached to the individual's Form 1040 income tax return. An individual must also include in income any distributions which were not used to pay qualified medical expenses, as discussed earlier.

**Rules for Employers**

Either the employer who has established the HDHP, or the employee may make contributions to an individual's Archer MSA; however, both cannot make contributions to the individual's Archer MSA in the same year.

In order for employees to have an Archer MSA, an employer must make an HDHP available to its employees. The employer can then make contributions and can deduct the contributions on the "Employee Benefit Programs" line of its business income tax return for the year the contributions are made. The employer must make "comparable contributions to all comparable participating employees" concerning Archer MSAs.

Contributions are "comparable" if they are either 1) the same amount, or 2) the same percentage of the annual deductible limit under the HDHP covering the employees.

Comparable participating employees are 1) covered by the employer's HDHP, 2) have the same category of coverage (self only or family), and 3) have the same category of employment (full-time or part-time).

Contributions which are not comparable are subject to an additional employer tax of 35% of the amount contributed.



## Guide to Distribution Codes

Distribution Codes	Explanations	*May be used with code...
1-Early distribution, no known exception.	Use Code 1 only if the employee/taxpayer has <b>not</b> reached age 59½, and if none of the exceptions under section 72(q), (t), or (v) are known to apply. For example, if a distribution is made for medical or qualified higher education expenses, you probably will not know if any medical or qualified higher education expense exception under section 72(t) applies. Therefore, use Code 1. However, if an early distribution is made from a qualified retirement plan because of an IRS levy under section 6331, use Code 2.	8, D, L, or P
2-Early distribution, exception applies (as defined in section 72(q), (t), or (v)).	Use Code 2 if the employee/taxpayer has <b>not</b> reached age 59½ to indicate that an exception under section 72(q), (t), or (v) applies. However, instead of Code 2, use Code 3 or 4, whichever applies, for an early distribution due to disability or death. Also use Code 2 for a Roth conversion (an IRA converted to a Roth IRA) or reconversion if the participant is under 59½ and for an early distribution made from a qualified retirement plan because of an IRS levy under section 6331.	8, D, L, or P
3-Disability.		M
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, D, G, L, M, or P
5-Prohibited transaction.		J or T
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 59½, (b) for a Roth conversion or reconversion if the participant is at least 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 section 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. <b>Do not</b> use Code 7 if Code M or T applies.	A
8-Excess contributions plus earnings/excess deferrals (and/or earnings) taxable in 2001.	Use Code 8 for an IRA distribution under section 408(d)(4), including excess Roth contributions, or the withdrawal of excess contributions from an Ed IRA, 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 <b>Corrective distributions</b> on page R-3. Also see <b>IRA revocation</b> on page R-2.	1, 2, 4, J, M, or T
9-PS 58 costs.	Use Code 9 to report premiums paid by a trustee or custodian for current life or other insurance protection (PS 58 costs). See <b>Box 2a</b> on page R-5 for more information.	None
A-May be eligible for 10-year tax option.	Use Code A only for participants born before 1936 or their beneficiaries to indicate the distribution is eligible for the 10-year tax option method of computing the tax on lump-sum distributions (on <b>Form 4972</b> , Tax on Lump-Sum Distributions). 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
D-Excess contributions plus earnings/excess deferrals taxable in 1999.	See the explanation for Code 8. Generally, do not use Code D for an IRA distribution under section 408(d)(4).	1, 2, or 4

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



**Guide to Distribution Codes (Cont.)**

Distribution Codes	Explanations	*May be used with code...
<b>E-</b> Excess annual additions under section 415/certain excess amounts under section 403(b) plans.		None
<b>F-</b> Charitable gift annuity.		None
<b>G-</b> Direct rollover to IRA.	Use Code G for the direct rollover from a qualified plan or tax-sheltered annuity to a traditional IRA. Do not use this code for a distribution from an IRA. Do not use this code with any other code except Code 4, when applicable. See <b>Direct rollovers</b> on page R-2.	4
<b>H-</b> Direct rollover to qualified plan or tax-sheltered annuity.	Use Code H for the direct rollover of a qualified plan or tax-sheltered annuity to an eligible retirement plan other than a traditional IRA. Do not use this code with any other code. Also, use Code H if you know the distribution is from a conduit IRA and it is made payable to the trustee of or is transferred to an employer plan.	None
<b>J-</b> Early distribution from a Roth IRA, no known exception.	Use Code J for a distribution from a Roth IRA if the taxpayer has not reached age 59½, and if none of the exceptions under section 72(q), (t), or (v) are known to apply.	5, 8, or P
<b>L-</b> Loans treated as deemed distributions under section 72(p).	Do not use Code L to report a loan offset. See <b>Loans treated as distributions</b> on page R-4.	1, 2, or 4
<b>M-</b> Distribution from an education IRA (Ed IRA).	Use Code M for any distribution from an Ed IRA.	3, 4, 8, or P
<b>N-</b> Recharacterized IRA contribution made for 2001.	Use Code N for a recharacterization of an IRA contribution made for 2001 and recharacterized in 2001 to another type of IRA by a trustee-to-trustee transfer or with the same trustee.	None
<b>P-</b> Excess contributions plus earnings/excess deferrals taxable in 2000.	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 contributions, or the withdrawal of excess contributions from an Ed IRA 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 M
<b>R-</b> Recharacterized IRA contribution made for 2000.	Use Code R for a recharacterization of an IRA contribution made for 2000 and recharacterized in 2001 to another type of IRA by a trustee-to-trustee transfer or with the same trustee.	None
<b>S-</b> Early distribution from a SIMPLE IRA in first 2 years, no known exception.	Use Code S only if the distribution is from a SIMPLE IRA in the first 2 years, the employee/taxpayer has not reached age 59½, and none of the exceptions under section 72(t) are known to apply. 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-</b> Roth IRA distribution, exception applies.	Use Code T for a distribution from a Roth IRA if the taxpayer is at least 59½, or if an exception under section 72(q), (t), or (v) applies.	3, 4, 5, 8, or P

**MSA,**  
**Continued from page 6**

Amounts contributed to employees' Archer MSAs are generally not subject to employment taxes.

**Excess Contributions**

Excess contributions which an employer makes to an employee's Archer MSA must be reported by the employee as "other income" on the employee's tax return unless 1) the

excess contributions are withdrawn by the due date, including extensions, of the employee's tax return, 2) the earnings on the excess are withdrawn and claimed as "other income" on the employee's tax return, and 3) the employee does not claim any exclusion from income for the amount of the withdrawn contributions. Otherwise, the employee would owe a 6% excise tax on contributions made to an Archer MSA which are greater than the limits discussed earlier. ♦