

# THE Pension Digest

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**Collin W. Fritz and Associates, Inc.,**  
*"The Pension Specialists"*



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## Major Change for Completing the 2009 Form 1099-R

9898 ☐ VOID ☐ CORRECTED

PAYER'S name, street address, city, state, and ZIP code		1 Gross distribution \$		OMB No. 1545-0119 <b>2009</b> Form 1099-R		Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.  Copy A For Internal Revenue Service Center File with Form 1096.  For Privacy Act and Paperwork Reduction Act Notice, see the 2009 General Instructions for Forms 1099, 1098, 3921, 3922, 5498, and W-2G.
		2a Taxable amount \$				
		2b Taxable amount not determined <input type="checkbox"/>		Total distribution <input type="checkbox"/>		
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 / Designated Roth contributions or insurance premiums \$		6 Net unrealized appreciation in employer's securities \$		
Street address (including apt. no.)		7 Distribution code(s)	IRA/SEP/SIMPLE <input type="checkbox"/>	8 Other \$		
City, state, and ZIP code		9a Your percentage of total distribution %		9b Total employee contributions \$		
	1st year of desig. Roth contrib.	10 State tax withheld \$		11 State/Payer's state no.		12 State distribution \$
Account number (see instructions)		13 Local tax withheld \$		14 Name of locality		15 Local distribution \$

Form 1099-R

Cat. No. 14438Q

Department of the Treasury - Internal Revenue Service

Do Not Cut or Separate Forms on This Page — Do Not Cut or Separate Forms on This Page

### IRS Issues 2009 Instructions for the 2009 Form 1099-R For Traditional IRA Distributions

IRA distributions are only one type of distribution reported on the Form 1099-R. There are also distributions from pension plans, profit sharing plans, 401(k) plans, ESOP plans, governmental section 457(b) plans, annuities, insurance contracts and in a number of other special situations.

The instructions are quite extensive and complicated since each type of distribution generally has its own special tax considerations.

This article focuses on completing the 2009 Form 1099-R to report 2009 traditional IRA distributions. A separate article discusses the rules for Roth IRA distributions. Since 1982, the IRS has struggled with how to have the IRA custodian report to the recipient and the IRS information about IRA distributions. Prior to 1982, in general, all IRA contributions were fully deductible and taxable upon withdrawal. Commencing in 1982 it became quite likely that individuals would make nondeductible contributions.

1982 was the first year when some individuals (active participants of a pension plan) lost the right to claim a tax deduction for their IRA contributions. They remained eligible to make nondeductible contributions even though they were ineligible to make deductible contributions. For the period of 1982 - 2005 the IRS had basically adopted the administrative approach that an IRA distribution is taxable and that it is the job of the recipient to demonstrate why a portion of a distribution is not taxable (i.e. includable in income). The IRS had the IRA custodian complete boxes 1 and 2a with the same amount. For a long time, the instructions have included a statement that an IRA custodian is not required to compute the taxable amount of a traditional IRA or SEP IRA distribution nor designate whether any part of a distribution is a return of basis attributable to nondeductible contributions.

### Change #1. Box 2a is To be Left Blank

The 2009 instructions start with a "What's New" section. The first item listed describes

Continued on page 2

**Major Change,  
Continued from page 1**

that the IRS is changing radically the manner in which the Form 1099-R is prepared by the IRA custodian. The IRS states, "Generally, box 2a (taxable amount) should be left blank when reporting distributions from traditional or SEP IRAs, unless otherwise instructed later in these instructions. Box 2b, 'Taxable amount not determined should be checked.'"

As will be illustrated later, there are other instructions which should also have been changed for consistency reasons.

Many of you may not remember, but the IRS issued the 2006 instructions in September of 2006 (fairly late in the year) and then issued "corrected" instructions in October of 2006. The first set of instructions read very similar to how the 2009 instructions now read. "Report the total amount distributed from a traditional IRA or SEP IRA in box 1, and leave box 2a blank. Check the taxable amount not determined box." However, the IRS had not mentioned this change in the "What's New" section for 2006. And the IRS had first proposed this new rule in September of 2006. Since the 2006 Form 1099-R's had to be furnished by January 31, 2007, the software provider of an IRA custodian had little time to implement this change. The corrected 2006 instructions reversed the proposed new policy by stating that, in general box 1 and 2a were to be completed with the distribution amount and then box 2b (taxable amount not determined) was to be checked.

The instructions for 2007 and 2008 continued to follow the corrected 2006 instructions.

By issuing the 2009 instructions in February of 2009, the IRS is making clear that this time they intend to adopt on a permanent basis the new rule that the IRA custodian will complete box 1 (gross amount) and that it will generally leave box 2a blank. Computer IRA software will need to be rewritten to incorporate these Form 1099-R changes. The recipient (account holder or beneficiary) will need to complete his or her tax return and show what portion of the distribution is taxable and what portion is not taxable, if any. This is done on Form 8606. This approach is the same approach to report distributions from Roth IRAs.

There are two exceptions to the new general rule that box 2a is to be left blank. When a contributor has made an excess contribution or a current year contribution, but withdraws it prior to the due date for that year's tax return along with the related income, then only the income is reported in box 2a. In some cases, box 2a is to be completed with a 0. This is to be done if the IRA account holder does a recharacterization or directly transfers funds from the IRA to an employer plan willing to accept such transfer.

Note this new reporting rule only applies to distributions from traditional IRAs and SEP IRAs. It does not apply to distributions from SIMPLE IRAs. A distribution from a SIMPLE IRA is to be reported in both box 1 (gross amount) and box 2a (taxable amount). It is impossible for a person to have any

basis within a SIMPLE IRA. Neither the individual nor his or her employer may make any "nondeductible" contribution to his or her SIMPLE IRA. A person cannot rollover funds containing basis from any other retirement plan into a SIMPLE IRA.

Why the different treatment for SIMPLE IRAs and SEP IRAs? A traditional IRA becomes a SEP IRA if SEP contributions are made to it. That is, a traditional IRA can hold both annual traditional IRA contributions (whether deductible or nondeductible) and also SEP contributions. It is possible for a person to have basis within a traditional IRA or a SEP IRA.

**Change #2. Qualified Reservist Distribution Is Now a Permanent 10% Exception.**

A qualified reservist distribution is an exception to the 10% pre-59½ tax. However, the IRS does not expect or require the IRA custodian to determine if all of the requirements have been met. Similarly, the IRS does not require the IRA custodian to determine if all of the requirements have been met for the medical expenses exception, health insurance premium exception, qualified higher education expense exception, or the first time home buyer exception.

Therefore, the IRA custodian is to report a Code 1 (early distribution, no known exception on account of...) even if the distribution is a qualified reservist distribution.

**Change #3. Qualified Charitable Distributions Exist For 2008 and 2009.**

The instructions recognize that qualified distributions from IRAs for charitable purposes may be made during 2008 and 2009. Since the law was changed so late, the 2008 instructions still indicate that qualified charitable distributions were not authorized for 2008.

**Change #4. For conversions leave box 2a blank.**

This is a change which should have been made by the IRS, but it was apparently missed. The 2009 instructions for a Roth IRA conversion still require an IRA custodian to report an IRA that is converted or reconverted in 2009 to a Roth IRA in boxes 1 and 2a. The IRA custodian is then to enter code 2 or 7 in box 7 depending on the IRA account holder's age. We expect the IRS will be changing these instructions to state that the amount converted or reconverted is reported in box 1, but box 2a is to be left blank. Again, the recipient must explain the tax consequences for a conversion, just as he or she must do so for other distributions.

Set forth on the next page are the rules we think are most important for an IRA custodian to follow and some observations.

**Major Change,  
Continued from page 2**

We discuss below various IRS rules and guidance and our observations. The format of the 2009 Form 1099-R is unchanged from the 2008 version.

#1. An IRA includes all investments under one IRA plan agreement. File only one Form 1099-R no matter how many distributions have been made from the investments of the same IRA plan agreement during one year unless different reasons codes apply. Example, Jane Doe is paid a death distribution (reason code #4) from her former spouse's IRA (she did not treat this IRA as her own) and she is also paid a distribution from her only IRA. She is age 65 (reason code #7). One Form 1099-R must be filed for all distributions with a reason code 4 and Form 1099-R must be filed for all distributions with a reason code 7.

#2. The IRS wants an IRA custodian to prepare a Form 1099-R for every distribution, even those less than \$10.00. The instructions are not very clear whether distributions (aggregated) less than \$10 for the year must be reported.

#3. The Form 1099-R and the Form 5498 are per plan agreement forms. If a person, age 65, has two traditional IRA plan agreements and takes a distribution from each IRA, he or she must be furnished two 1099-R forms each having a reason code 7 in box 7. The IRA custodian could be fined \$50.00 if it only created one Form 1099-R.

The IRA custodian must file Form 1099-R using the same name and EIN/TIN used to deposit any tax withheld and to file Form 945, Annual Return of Withheld Federal income Tax).

#4. If an IRA custodian is required to file a Form 1099-R, then it must furnish a statement ( i.e. a copy of the 1099-R form) to the recipient.

#5. An account number must be used on a Form 1099-R when a recipient has more than one IRA plan agreement and you are required to file multiple Form 1099-R's. However, the IRS encourages an IRA custodian to designate an account number for all Form 1099-Rs which it files.

#6. Never enter a negative amount in any box on Form 1099-R.

#7. Use the name and TIN of the individual or entity which receives funds from the IRA.

Normally, this will be the IRA accountholder. However, if you make a distribution to a beneficiary (whether an

individual, trust or estate), then the 1099-R is prepared using the name and TIN of the beneficiary. You do not use the name of the decedent for payments made to beneficiaries after his or her death.

#8. An IRA custodian has a duty to correct a Form 1099-R that it knows was prepared incorrectly. The correction must be made as soon as possible.

#9. An IRA custodian will generally check box 2b, taxable amount not determined. There will be times when it is not checked - withdrawal of an excess or current year contribution before the due date, a recharacterization and rolling funds from an IRA into an accepting employer plan.

#10. The total distribution box is also found in 2b. An "X" is to be entered in this box when the amount shown in box 1 is a total distribution. The instructions for the total distribution section of box 2b are not as clear as they should be. It is doubtful if this box applies to IRA distributions; but the instructions are unclear, and an IRA custodian should complete the box pursuant to the instructions. In order for a person to use the favorable 10 year averaging or capital gain treatment he or she must receive a total distribution. Such treatment does not ever apply to any type of IRA distribution. If this box is not checked, the IRS will question any individual's attempt to use 10 year averaging.

A total distribution is one or more distributions within one tax year in which the entire balance is distributed. This means if two or more nonperiodic occur in more than one year, then there is no total distribution and the box does not need to be checked. For example, a person with an IRA balance of \$30,000 withdraws \$10,000 in 2006 and the remainder in 2009 has not had a total distribution. Exception. If periodic or installment payments are made in more than one year, this box is to be marked for the year in which the final payment is made. Note that it is not to be checked if the distributions are nonperiodic.

#11. Our guess is that the frequency of the reason code use for distributions from traditional IRAs is: 7 (normal/age 59½ or older); 1, early distribution, no known exception or exception to be claimed by accountholder; 4, death; 2, early distribution, exception applies; P, 8, 3, N, R, G and 5.

#12. If the distribution is coming from a traditional IRA, SEP IRA or SIMPLE IRA, the box in box 7 must be checked.



## IRS Excerpts for Completing Form 1099-R for IRA Distributions

### Box 1. Gross Distribution

Enter the **total amount of the distribution** before income tax or other deductions were withheld. Include direct rollovers, a recharacterization and a Roth IRA 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.

*Do not enter a negative amount in any box on Form 1099-R.*

### Box 2a. Taxable Amount

Generally, you are not required to compute the taxable amount of a traditional IRA or SEP IRA nor designate whether any part of a distribution is a return of basis attributable to nondeductible contributions. Check 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 before the due date of the return 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. Enter Code 1 or 4 also, if applicable.

For distribution of excess contributions without earnings after the due date of the individual's return under section 408(d)(5), leave box 2a blank, and check the "Taxable amount not determined" checkbox in box 2b. Use Code 1 or 7 in box 7 depending on the age of the participant.

For a traditional IRA and a SEP IRA rolled over to an accepting employer plan, enter the gross amount in box 1, 0 (zero) in box 2a, and Code G in box 7.

### Box 2b. Taxable Amount not Determined

Check this box if you are reporting a traditional IRA, SEP IRA, or Roth IRA distribution.

### Box 2b. Total Distribution

Enter an "X" in this box only if the payment shown in box 2b 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, this box will be checked in the year the final payment is made.

### Box 3. Capital Gain

Does not apply to traditional IRAs.

### Box 4. Federal Income Tax Withheld

Enter any **Federal income tax withheld**. This withholding under section 3405 is subject to deposit rules, and the withholding tax return to be used is Form 945. Backup withholding does not apply. See **Pub. 15-A**, Employer's Supplemental Tax Guide, and the **Instructions for Form 945** for more withholding information.

Even though you may be using Code 1 in box 7 to designate an early distribution subject to the 10% additional tax specified in sections 72(q), (t), or (v), you are not required to withhold that tax.

The 20% withholding does not apply to distributions from any IRA, but withholding does apply to IRAs under the rules for periodic payments and nonperiodic distributions. For withholding, assume that the entire amount of an IRA distribution is taxable (except for the distribution of contributions under section 408(d)(4), in which only the earnings are taxable, and 408(d)(5), as applicable). Generally, Roth IRA distributions are not subject to withholding except on the earnings portion of excess contributions distributed under section 408(d)(4).

An IRA recharacterization is not subject to income tax withholding.

### Box 5. Employee Contributions or Insurance Premiums

Does not apply to traditional IRAs.

### Box 6. Net Unrealized Appreciation in employer's Securities

Does not apply to traditional IRAs.

### Box 7. Distribution Code

Enter an "X" in the **IRA/SEP/SIMPLE checkbox** if the distribution is from a traditional IRA, SEP IRA, or SIMPLE IRA. It is not necessary to check the box for a distribution from a Roth IRA or for an IRA recharacterization.

**You must enter the appropriate code(s) in box 7.** Use the **Guide to Distribution Codes** on pages 11 and 12 (shown in this newsletter on pages 6 and 7) to determine the appropriate code(s) to enter in box 7 for any amounts reported on Form 1099-R. 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, enter a numeric and an alpha code. For example, when using Code P for a traditional IRA distribution under section 408(d)(4), you must also enter Code 1, if it applies. For a normal distribution from a qualified plan that qualifies for the 10-year tax option, enter Codes 7 and A. For a direct rollover to an IRA or a qualified plan for the surviving spouse of a deceased participant, or on behalf of a non-spouse designated beneficiary, enter Codes 4 and G (Codes 4 and H if from a designated Roth account to a Roth IRA). If two or more distribution codes are not valid combinations, you must file more than one Form 1099-R.



Enter a maximum of two alpha/numeric codes in box 7. See the Guide to Distribution Codes on pages 11 and 12 for allowable combinations.

*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 (Code 7), file one Form 1099-R for the part to which Code 1 applies and another Form 1099-R for the part to which Code 7 applies. In addition, for the distribution of excess deferrals, excess contributions, or excess aggregate contributions, parts of the distribution may be taxable in 2 or 3 different years. File separate Forms 1099-R using Code 8, D, or P to indicate the year the amount is taxable.*

Even if the employee/taxpayer is 59½ or over, use Code 1 if a series of substantially equal periodic 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 59½.

#### **Box 8. Other**

Does not apply to traditional IRAs.

#### **Box 9a. Your Percentage of Total Distribution**

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 9b. Total Employee Contributions**

Does not apply to traditional IRAs.

#### **Boxes 10–15. State and Local Information**

These boxes and Copies 1 and 2 are provided for your convenience only and need not be completed for the IRS. Use the **state and local information** boxes to report distributions and taxes for up to two states or localities. Keep the information for each state or locality separated by the broken line. If state or local income tax has been withheld on this distribution, you may enter it in boxes 10 and 13, as appropriate. In box 11, enter the abbreviated name of the state and the payer's state identification number. The state number is the payer's identification number assigned by the individual state. In box 14, enter the name of the locality. In boxes 12 and 15 you may enter the amount of the state or local distribution. Copy 1 may be used to provide information to the state or local tax department. Copy 2 may be used as the recipient's copy in filing a state or local income tax return. ♦

## **IRS Issues 2009 Instructions for the 2009 Form 1099-R for Roth IRA Distributions**

*These instructions are found on page 2.*

**Roth IRAs.** For distributions from a Roth IRA, report the gross distribution in box 1 but generally leave box 2a blank. Check the "Taxable amount not determined" box in box 2b. Enter Code J, Q, or T as appropriate in box 7. Do not use any other codes with Code Q or Code T. You may enter Code 8 or P with Code J. For the withdrawal of excess contributions, see *Roth IRA* on page 8. It is not necessary to mark the IRA/SEP/SIMPLE checkbox.

*Virtually the same instructions are found on page 8.*

**Roth IRA.** For a distribution from a Roth IRA, report the total distribution in box 1 and leave box 2a blank except in the case of an IRA revocation or account closure (see page 2) and a recharacterization (see page 4). Use Code J, Q, or T as appropriate in box 7. Use Code 8 or P, if applicable, in box 7 with Code J. Do not combine Code Q or T with any other codes.

However, for the distribution of excess Roth IRA contributions, report the gross distribution in box 1 and only the earnings in box 2a. Enter Code J and Code 8 or P in box 7.

#### **CWF Observations.**

With respect to distributions from Roth IRAs, the general rule has always been, the Roth IRA custodian is to leave box 2a, the taxable amount box, blank. It will be up to the taxpayer/accountholder to explain what portion of the distribution is taxable, if any. He or she will do so by completing the Form 8606.

There are 3 main codes used to identify the types of the Roth IRA distribution: Q, T, and J. Lesser used codes are the recharacterization codes N and R, the excess contribution codes of J8 and JP, Code 2 for an IRS levy and Code 5 for a prohibited transaction.

Your financial institution is required to report the proper code subject to being assessed fines if you do not.

In general, these codes impact an individual's tax calculation only when he or she is withdrawing the "income" portion of his or her aggregated Roth IRAs. In the large majority of distributions this code does not mean that the individual owes income tax on the distribution or owes the 10% additional tax because a person withdrawing his or her own contribution does not include such amounts in his or her income; nor is the 10% additional tax applicable since it applies only if the distribution is included income. ♦

## 2009

Guide to Distribution Codes		
Distribution Codes	Explanations	*Used with code ... (if applicable)
<b>1—Early distribution, no known exception.</b>	Use Code 1 only if the employee/taxpayer has not reached age 59½, and you do not know if any of the exceptions under Distribution Code 2, 3, or 4 apply. Use Code 1 even if the distribution is made for medical expenses, health insurance premiums, qualified higher education expenses, a first-time home purchase, or a qualified reservist distribution under section 72(t)(2)(B), (D), (E), (F), or (G). Code 1 must also be used even if a taxpayer is 59½ or older and he or she modifies a series of substantially equal periodic payments under section 72(q), (t), or (v) prior to the end of the 5-year period.	8, B, D, L, or P
<b>2—Early distribution, exception applies.</b>	Use Code 2 only if the employee/taxpayer has not reached age 59½ and the distribution is: <ul style="list-style-type: none"> <li>• A Roth IRA conversion (an IRA converted to a Roth IRA).</li> <li>• A distribution made from a qualified retirement plan or IRA because of an IRS levy under section 6331.</li> <li>• A section 457(b) plan distribution that is not subject to the additional 10% tax. But see <i>Section 457(b) plan distributions</i> on page 10 for information on distributions that may be subject to the 10% additional tax.</li> <li>• A distribution from a qualified retirement plan after separation from service in or after the year the taxpayer has reached age 55.</li> <li>• A distribution from a governmental defined benefit plan to a public safety employee after separation from service in or after the year the employee has reached age 50.</li> <li>• A distribution that is part of a series of substantially equal periodic payments as described in section 72(q), (t), (u), or (v).</li> <li>• A distribution that is a permissible withdrawal under an eligible automatic contribution arrangement.</li> <li>• Any other distribution subject to an exception under section 72(q), (t), (u), or (v) that is not required to be reported using Code 1, 3, or 4.</li> </ul>	8, B, D, or P
<b>3—Disability.</b>	For these purposes, see section 72(m)(7).	None
<b>4—Death.</b>	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, B, D, G, H, L, or P
<b>5—Prohibited transaction.</b>	Use Code 5 if there was a prohibited (improper) use of the account. Code 5 means the account is no longer an IRA.	None
<b>6—Section 1035 exchange.</b>	Use Code 6 to indicate the tax-free exchange of life insurance, annuity, or endowment contracts under section 1035.	None
<b>7—Normal distribution.</b>	Use Code 7: (a) for a normal distribution from a plan, including a traditional IRA, section 401(k), or section 403(b) plan, if the employee/taxpayer is at least age 59½, (b) for a Roth IRA conversion or reconversion if the participant is at least age 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 sections 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. Do not use Code 7 for a Roth IRA. <b>Note:</b> Code 1 must be used even if a taxpayer is 59½ or older and he or she modifies a series of substantially equal periodic payments under section 72(q), (t), or (v) prior to the end of the 5-year period.	A
<b>8—Excess contributions plus earnings/ excess deferrals (and/or earnings) taxable in 2009.</b>	Use Code 8 for an IRA distribution under section 408(d)(4), 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 <i>Corrective Distributions</i> on page 5 and <i>IRA Revocation or Account Closure</i> on page 2 for more information.	1, 2, 4, B, or J
<b>9—Cost of current life insurance protection.</b>	Use Code 9 to report premiums paid by a trustee or custodian for current life or other insurance protection. See box 2a on page 7 for more information.	None
<b>A—May be eligible for 10-year tax option.</b>	Use Code A only for participants born before January 2, 1936, or their beneficiaries to indicate the distribution may be eligible for the 10-year tax option method of computing the tax on lump-sum distributions (on Form 4972, <i>Tax on Lump-Sum Distributions</i> ). 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
<b>B—Designated Roth account distribution.</b>	Use Code B for a distribution from a designated Roth account that is not a qualified distribution. But use Code E for a section 415 excess.	1, 2, 4, 8, D, G, L, P, or U
<b>D—Excess contributions plus earnings/ excess deferrals taxable in 2007.</b>	See the explanation for Code 8. Generally, do not use Code D for an IRA distribution under section 408(d)(4) or 408(d)(5).	1, 2, 4, or B
<b>E—Distributions under Employee Plans Compliance Resolution System (EPCRS).</b>	See <i>Distributions under Employee Plans Compliance Resolutions System (EPCRS)</i> on page 5.	None

## 2009

Guide to Distribution Codes		
Distribution Codes	Explanations	*Used with code ...(if applicable)
<b>F—Charitable gift annuity.</b>	See <i>Charitable gift annuities</i> on page 8.	None
<b>G—Direct rollover and rollover contribution.</b>	Use Code G for a direct rollover from a qualified plan (including a governmental section 457(b) plan) or section 403(b) plan to an eligible retirement plan (another qualified plan, a section 403(b) plan, or an IRA). See <i>Direct Rollovers</i> on page 3. Also use Code G for certain distributions to an employer plan and IRA rollover contributions to an accepting employer plan. <b>Note:</b> Do not use Code G for a direct rollover from a designated Roth account to a Roth IRA. Use Code H.	4 or B
<b>H—Direct rollover of a designated Roth account distribution to a Roth IRA.</b>	Use Code H for a direct rollover of a distribution from a designated Roth account to a Roth IRA.	4
<b>J—Early distribution from a Roth IRA.</b>	Use Code J for a distribution from a Roth IRA when Code Q or Code T does not apply. But use Code 2 for an IRS levy and Code 5 for a prohibited transaction.	8 or P
<b>L—Loans treated as deemed distributions under section 72(p).</b>	Do not use Code L to report a loan offset. See <i>Loans Treated as Distributions</i> on page 5.	1, 4, or B
<b>N—Recharacterized IRA contribution made for 2009.</b>	Use Code N for a recharacterization of an IRA contribution made for 2009 and recharacterized in 2009 to another type of IRA by a trustee-to-trustee transfer or with the same trustee.	None
<b>P—Excess contributions plus earnings/excess deferrals taxable in 2008.</b>	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 IRA contributions, 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, B, or J
<b>Q—Qualified distribution from a Roth IRA.</b>	Use Code Q for a distribution from a Roth IRA if you know that the participant meets the 5-year holding period and: • The participant has reached age 59½, • The participant died, or • The participant is disabled. <b>Note:</b> If any other code, such as 8 or P, applies, use Code J.	None
<b>R—Recharacterized IRA contribution made for 2008.</b>	Use Code R for a recharacterization of an IRA contribution made for 2008 and recharacterized in 2009 to another type of IRA by a trustee-to-trustee transfer or with the same trustee.	None
<b>S—Early distribution from a SIMPLE IRA in the first 2 years, no known exception.</b>	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 when the distribution is made. 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—Roth IRA distribution, exception applies.</b>	Use Code T for a distribution from a Roth IRA if you do not know if the 5-year holding period has been met but: • The participant has reached age 59½, • The participant died, or • The participant is disabled. <b>Note:</b> If any other code, such as 8 or P, applies, use Code J.	None
<b>U—Dividends distributed from an ESOP under section 404(k).</b>	Use Code U for a distribution of dividends from an employee stock ownership plan (ESOP) under section 404(k). These are not eligible rollover distributions. <b>Note.</b> Do not report dividends paid by the corporation directly to plan participants or their beneficiaries. Continue to report those dividends on Form 1099-DIV.	B

\*See the first **Caution** for box 7 instructions on page 10.

Note: The following statements have been made by the IRS on other pages of the instructions. We have chosen to add them to this page also.

### What's New For 2009

Guide to Distribution Codes. The following changes were made to the Guide to Distribution Codes.

- For Distribution Code 1, on page 11, references to the qualified reservist distribution under section 72(t)(2)(G) have been made permanent.
- New Distribution Code U, for distributions under IRC 404(k), was added to the table that begins on page 11. (Doesn't apply to IRAs)
- Distribution Codes B and U are a valid combination. (Doesn't apply to IRAs)

### No Special Reporting For QCD's

There is no special reporting for qualified charitable distributions described in section 408(d)(8), qualified HSA funding distributions described in section 408(d)(9), or for the payment of qualified health and long-term care insurance premiums for retired public safety officers described in section 402(l).

## Procedures for Preparing a Corrected Form 1099-R for a Distribution from a Roth IRA When it was First Reported Incorrectly as a Distribution From a Traditional IRA

One would think the IRS instructions would give more express guidance on how to correct the above described mistake, but the instructions do not. It may well be that correcting for the above mistake is very simple, but the IRS could help everyone by expressly discussing the above situation in the instructions as it is happening more often.

A financial institution adds a new IRA to its computer system, but it makes a mistake in doing so. The customer signed all of the forms for a Roth IRA, but somehow it was added to the computer system as a traditional IRA.

This article focuses on what correction is necessary for the following "distribution mistake." We will assume Jane Doe, age 37, opened her Roth IRA in 2005 for the 2005 tax year with a \$4,000 deposit at your institution. She made an additional \$4,000 contribution in 2006 for the 2006 tax year. She withdrew \$2,000 in 2008 because she needs to make a repair at her home. She was sent a 2008 Form 1099-R as set forth below.

9878 <input type="checkbox"/> VOID <input type="checkbox"/> CORRECTED		1 Gross distribution 2a Taxable amount 2b Taxable amount not determined <input checked="" type="checkbox"/>		1545 No. 1545 (1-10) 2008 Form 1099-R		Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.	
PAYER'S name, street address, city, state, and ZIP code		PAYER'S federal identification number 123-45-6789		RECIPIENT'S identification number 123-45-6789		3 Capital gain (included in box 2a) 4 Federal income tax withheld	
RECIPIENT'S name Jane Doe		Street address (including apt. no.)		City, state, and ZIP code		5 Employee contributions designated Roth contributions or insurance premiums 6 Net unrealized appreciation in employer's securities	
1st year of desig. Roth contrib.		10 State tax withheld		11 State/Payer's state no.		12 State distribution	
Account number (see instructions)		13 Local tax withheld		14 Name of locality		15 Local distribution	

She has called your institution because she knows the 2008 1099-R Form is incorrect. It shows the distribution coming from a traditional IRA when her IRA is a Roth IRA. She wants to be furnished as soon as possible a "correct" 2008 Form 1099-R. She wants you to assure her that she isn't going to have any difficulties with the IRS because of the institution's mistake.

### How is this error corrected?

There are two possible approaches. The first approach is simple and we believe it is the correct approach. Prepare a corrected 2008 Form 1099-R. We have done so and it is set forth in the adjacent column. As in any corrected Form 1099-R situation, the custodian is to check the corrected box and then prepare the 1099-R From in the correct manner. Code J would be reported in Box 7 as she is age 37. The IRA/SEP/SIMPLE box is

not to be checked since the distribution is coming from a Roth IRA. Box 1 will be completed with \$2,000, but box 2a will be left blank.

9878 <input type="checkbox"/> VOID <input checked="" type="checkbox"/> CORRECTED		1 Gross distribution 2a Taxable amount 2b Taxable amount not determined <input checked="" type="checkbox"/>		1545 No. 1545 (1-10) 2008 Form 1099-R		Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.	
PAYER'S name, street address, city, state, and ZIP code		PAYER'S federal identification number 123-45-6789		RECIPIENT'S identification number 123-45-6789		3 Capital gain (included in box 2a) 4 Federal income tax withheld	
RECIPIENT'S name Jane Doe		Street address (including apt. no.)		City, state, and ZIP code		5 Employee contributions designated Roth contributions or insurance premiums 6 Net unrealized appreciation in employer's securities	
1st year of desig. Roth contrib.		10 State tax withheld		11 State/Payer's state no.		12 State distribution	
Account number (see instructions)		13 Local tax withheld		14 Name of locality		15 Local distribution	

Some individuals believe that the following two step approach needs to be used. This is the second approach. First, a corrected 1099-R is prepared showing that the distribution from the traditional IRA did not take place. This is done by showing the distribution amount to be 0.00 in boxes 1 and 2a. Then an original 1099-R form is prepared to show the distribution was from a Roth. CWF doesn't believe this approach should be used.

On page 7 of the general 1099 instructions, the IRS sets forth its procedures for filing corrected returns on paper. There are two types of errors. When error type #1 occurs, only one return is needed to make the correction. Two separate returns are necessary to make the correction properly if error type #2 has occurred. An error with respect to a checkbox or a code, even if multiple errors, is an error type #1. The mix-up in type of IRA is a type #1 error. We confirmed this with the IRS.

Error type 1 (one or more of the following)

1. Incorrect money amount(s), code, or checkbox; or
2. Incorrect address; or
3. Incorrect payee name; or
4. A return was filed when one should not have been filed.

Error type 2 (one or more of the following)

1. No payee TIN; or
2. Incorrect payee TIN; or
3. Incorrect payee name and incorrect payee address; or
4. Original return was filed using wrong type of return. ♦