The Pension Digest

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ALSO IN THIS ISSUE –

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

What Advantages Does a 401(k) Plan Have Over a SEP?

No doubt SEP-IRA plans are simple. Many farmers and other one person businesses like the simplicity. That is also why bank personnel like SEPs. A 401(k) plan is more complicated than a SEP. However, the additional complexity is not so great that a person should automatically decide he or she wants to keep the SEP and not roll the SEP-IRA funds into a new 401(k) plan. The 401(k) plan has attractive features which the SEP does not have.

What can a person do with a 401(k) plan that he or she cannot do with a SEP plan?

1. An individual may make Designated Roth contributions to the 401(k) plan. This is true even if he or she is ineligible to make Roth IRA contributions because the income limits for Roth IRAs are exceeded. The individual could also "convert" non-Roth funds into the Designated Roth account. This ability to make Designated Roth contributions will be the primary reason a person will want a 401(k) plan rather than a SEP. As time goes on, more people will recognize the value of making designated Roth Contributions to a 401(k) plan. Most likely the SEP rules will never be changed to permit Roth contributions to a SEP.

2. In some income situations the contributions for a person may exceed 25% of compensation. The maximum contribution under a SEP is 25% of eligible compensation. A 401(k) plan has the special rule that the employer is allowed to deduct the amount which the participants have deferred PLUS a contribution of 25% of eligible compensation. For a one person plan, this means the deductible amount may be his or her elective deferral amount of $16,500/$22,500 plus 25% of eligible compensation.

3. In general, a person may borrow up to $50,000 from his or her 401(K) plan. No loan is permissible from a SEP IRA. This loan right is quite valuable to a small business person.

4. The law imposes a very harsh penalty if a prohibited transaction takes place with respect to a SEP-IRA. The entire account balance is deemed distributed as of the first day of the year in which it occurs. The individual will have to include this amount and pay tax at his or her marginal tax rate. This rate could be as high as 36%. The funds are no longer tax deferred. In contrast, there is no forced distribution if the prohibited transaction takes place within the 401(k) plan. A 15% excise tax must

Continued on page 2

Advantages, Continued from page 1

be paid if the prohibited transaction occurs with respect to the 401(k) plan and the prohibited transaction must be un-done.

5. The 401(k) plan can be used to allow a person to convert after-tax dollars from another employer's 401(k) plan into a Roth IRA. The SEP cannot be so used. Example, Jane Doe has $80,000 in a 401(k) plan with employer #1. Of this $80,000, $12,000 is after-tax dollars. She directly rolls over the entire $80,000 into a traditional IRA with your institution. She establishes a 401(k) plan with your institution because she has a small business. She then rolls $68,000 from the traditional IRA into her 401(k) plan. Since the $12,000 of after-tax dollars cannot be rolled into the 401(k) plan. She is now able to convert the $12,000 in the traditional IRA to a Roth IRA and no taxes are owed since these are after-tax funds. It is assumed that if she had any other taxable money within a traditional IRA that those funds also would be rolled into the 401(k) plan.

6. Funds within a 401(k) plan are more easily protected from creditors, if needed, than funds within a SEP IRA.

The above tax benefits create strong reasons for individuals with a SEP plan to establish a 401(k) plan and then roll the SEP funds into the 401(k) plan.

Will an individual be willing to pay an annual administrative fee of $75-$250 to have these additional tax benefits? The only way an institution will find out is to ask its SEP customers. An institution need not charge an administrative fee, but one should be charged. These tax benefits are very valuable and the institution has costs which it should pass on to its users. ◆

What are the RMD Rules Applying to a Participant of a Profit Sharing Plan?

The application of the RMD rules to an IRA accountholder depend on a person's required beginning date. The required beginning date of an IRA accountholder is April 1 of the year following the year he or she attains age 70½.

The application of the RMD rules to a participant of a PS plan or a one person 401(k) plan depend on whether or not such person is a 5% owner and on his or her required beginning date. The required beginning date of a 5% owner is April 1 of the year following the year he or she attains age 70½. This is identical to the IRA rule. That is, an individual who is a 5% owner and who will attains age 70½ in 2011 is required to take an RMD for 2011. His deadline for taking the 2011 distribution is April 1, 2012 and his deadline to take his 2012 RMD is December 31, 2012. A missed RMD is subject to the 50% excise tax.

The RMD rules are different for a participant who is <u>not</u> a 5% owner. The required beginning date of a person who is a participant, but who is not a 5% owner will normally be defined by the plan to be the later of: the April 1 of the year following the year he or she separates from service or April 1 of the calendar year following the calendar year in which he or she attains age 70½. Be aware that it is permissible for an employer to write the plan so that all participants will have a required beginning date of April 1 of the year following the year of attaining age 70½. Most employers, however, will write the plan document so that those participants who are not 5% owners do not need to commence RMDs at age 70½ if they are still employed.

A participant is treated as a 5% owner if he or she is a 5% owner as defined in Code section 416 at any time during the year ending with or within the calendar year in which such owner attains age 70½. Once RMDs have started, they must continue even if the participant ceases to be a 5% owner in a subsequent year.

Note that there is no look-back rule for determining if a participant is a 5% owner. Is the person a 5% owner at any time during the year ending with or with the calendar year in which he or she attains age 70½? If not, he or she is not a 5% owner.

For example, Jane Doe had participated in the employer's profit sharing plan since 1990. She attains age 70½ in 2011. Jane Doe was a 5% owner from 1990-2010, but she sold her ownership interest in 2010. She is still rendering services to the business entity and intends to do so for the next 3-5 years. She has not commenced distributions. She is not a 5% owner for purposes of the RMD rules and she is not required

Continued on page 4

THE Pension Digest

IRS Issues 2012 Indexed Amounts for HSAs

The HSA contribution limits for 2012 are slightly larger than the 2011 limits. The Treasury Department and Internal Revenue Service issued new guidance on the maximum contribution levels for Health Savings Accounts (HSAs) and out-of-pocket spending and deductible limits for High Deductible Health Plans (HDHPs) that must be used in conjunction with HSAs. The 2012 limits are set forth in Revenue Procedure 2011-32. The catch-up contribution amount of $1,000 is not subject to being adjusted by the COLA adjustment of Code section 223(g) and so it remains at $1,000 for 2012. The maximum annual out-of-pocket expense limits did increase slightly for 2012.

HSA Maximum Contribution Limits

	2011	2012	Change
Single HDHP	$3,050	$3,100	+ $50
Family HDHP	$6,150	$6,250	+ $100

HSA Catch-Up Contributions

	2011	2012	Change
Age 55 and Older	$1,000	$1,000	$0

High Deductible Health Plans

	Minimum Annual Deductible		Maximum Annual Out-of-Pocket Expenses	
	2011	2012	2011	2012
Single Coverage	$1,200	$1,200	$5,950	$6,050
Family Coverage	$2,400	$2,400	$11,900	$12,100

The IRS announces this change in May each year so that employers and individuals will have sufficient time to settle on HDHP insurance coverage and HSA contributions for 2012.

CWF will be updating our HSA brochures. ◆

RMD Rules,
Continued from page 2

to commence RMD distributions for 2011. She will need to take an RMD for the year she separates from service, but not until then.

Reporting of Roth IRA Contributions. It may seem surprising, but an individual does not report on his or her tax return whether on not he or she made a Roth IRA contribution for a given year. For example, we will assume Jane Doe made a $6,000 Roth IRA contribution for tax year 2010 on March 5, 2011. Jane Doe does not report this $6,000 on her 2010 federal income tax return. The IRA custodian will prepare a 2010 Form 5498 and report this $6,000 contribution in Box 10 (Roth IRA contributions). The IRA custodian will furnish a copy of the 2010 Form 5498 to the IRS and to Jane Doe. She will need to keep this Form 5498 in her records or files along with all other 5498 forms showing annual or conversion contributions. ◆

IRS Late in Issuing 2010 Form 5500-EZ and Guidance

It is May, 2011 and the IRS has not yet released the 2010 version of Form 5500-EZ. Previously, the IRS has never been this late. We called the national office of the IRS and talked with an IRS representative in the employee plans division. She said that IRS has not announced internally when the 2010 form would be available. Quite surprisingly, she said if the form was not available so that it could be filed by August 1, 2011, since July 31 falls on Sunday, a person should file for an extension by completing Form 5558.

One would think the IRS would grant all filers of the 2010 Form 5500-EZ an automatic extension since the IRS has not finalized the form, but we will need to wait to see if the IRS will adopt this approach.

The IRS has designed this form for certain one person plans to report certain information (contributions, distributions, total balance, number of participants, missed and late contributions) regarding their profit sharing, money purchase or defined benefit plan(s). Such plan or plans are not subject to ERISA section 104(a). In general, if a sponsoring employer has one plan or a combination of plans with total assets of more than $250,000 as of December 31st (i.e. the last day of the applicable plan year), then the employer is required to file a Form 5500-EZ for each one person plan. If the asset total is less than $250,000, then no filing of Form 5500-EZ is required. The IRS does want the sponsoring employer to file the Form 5500-EZ if this is the plan's final return regardless of the dollar amount. The instructions read, "All one-participant plans should file a return for their final plan year indicating that all assets have been distributed." We read the use of "should" as meaning the filing is not required.

The due date for filing most 2010 5500-EZ forms is August 1, 2011 since the legal deadline is the last day of the seventh month following the close of the plan year. This deadline is extended, however, if the 31st falls on a Saturday, Sunday or holiday. Since July 31, 2011 falls on a Sunday, the deadline for filing the 2010 5500-EZ return is August 1, 2011.

The filing of Form 5500-EZ must still be done by filing a paper form. For 2010 it is impossible to file the Form 5500-EZ electronically. A person can either complete, file and sign the official IRS printed form or a person can complete the on-line version of the form 5500-EZ at www.irs.gov and then print and sign to be mailed to the IRS at: Department of the Treasury, Internal Revenue Service, Ogden, UT. 84201- 0020. The business owner or sponsor must sign and date the paper form. The IRS has the authority to assess a fine of $25.00 per day (up to $15,000) for not filing the return.

Exception. A sponsor employer may choose to file the Form 5500-SF electronically under EFAST2 rather than file the Form 5500-EZ. This two-way filing approach allows an employer to file the annual return electronically. He or she files Form 5500-SF rather than the Form 5500-EZ. The plan is eligible to file the Form 5500-SF only if it covered fewer than 100 participants at the beginning of the year. Eligible one-participant plans need to complete only the following questions on the Form 5500-SF (these are the same questions that it would have to complete if it filed Form 5500-EZ):

Part I, lines A, B, and C;

Part II, lines 1a-5b;

Part III, lines 7a-c, and 8a;

Part IV, line 9a;

Part V, line log; and

Part VI, lines 11-12e.

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THE Pension Digest

Possible Major Change to be Made in the Instructions for Form 5498

The IRS has many divisions and locations. The IRS is always communicating with taxpayers and with it large number of employees internally. Sometimes the IRS communicates quickly and at other times it does not. As with any large institution, there will be times when different areas of the IRS are saying different things.

We at CWF recently wrote the IRS forms division and asked the question, "would the IRS assess the $50.00 per IRA penalty for an IRA custodian which prepared only one Form 5498 for an IRA accountholder even though he or she had multiple IRA plan agreements?" We had conducted an IRS audit for an IRA custodian with over 20,000 IRAs. The software vendor for this IRS custodian was preparing only one Form 5498 even though there were many individuals with multiple plan agreements of the same type of IRA. We thought there must be some reason why they were only preparing one Form 5498 when the IRS instructions clearly required multiple forms.

For many years the IRS instructions for the Form 5498 have contained the following sentence on the first page of the Form 5498 instructions, "However, if a participant has established more than one IRA plan with the same trustee, a separate Form 5498 must be filed for each plan." This sentence is currently present in both the 2010 and 2011 instructions.

The IRS form division instructed us to ask our questions to the IRS office located in Martinsburg, W. VA. We did so. Martinsburg is responsible for all of the filings of IRS reporting forms sent to the IRS electronically.

Martinsburg informed us that the IRS would not assess the $50 per form penalty if an IRA custodian prepared only one Form 5498 even though an individual had multiple IRA plan agreements for the same type of IRA.

After discussing our question with Martinsburg, we again contacted the IRA forms division and suggested that the instructions for Form 5498 should be changed to consistent with the position of Martinsburg. The IRS Forms division has not yet responded to us. Normally, they respond within 5-10 days. Once we hear from the IRS Forms division we will inform you. ◆

IRS has Inconsistent Guidance on Pilot Program for Truncating the Social Security Number on Forms 5498 and 1099-R

The IRS issued the 2011 instructions for Form 5498/1099-R and Forms 5498-SA/1099-SA in January of 2011. The instructions for Forms 1099-R/5498 contain the following:

> ***What's New?***
>
> ***Pilot program for truncating an individual's identifying number on paper payee statements has ended.*** *Filers of Forms 1099-R and 5498 must show the recipient's (Form 1099-R) and participant's (Form 5498) complete identifying number on all copies of the forms.*

A similar statement is set forth in the instructions for Forms 1099-SA/5498-SA.

On April 14, the IRS sent an email to CWF and other tax professionals informing that the IRS had released IRS Notice 2011-38. "This notice extends the pilot program as to paper payee statements furnished for calendar years 2011 and 2012 in order to allow more time for the IRS and taxpayers to evaluate the program."

Notice 2011-38 expressly states, "Truncation of an identifying number of a payee statement in the manner set forth herein in Section 4 is authorized notwithstanding calendar year 2011 form instructions that state that the pilot program announced in Notice 2009-93 has expired."

It is hard to tell if the above statement means the IRS will not be modifying the 2011 instructions. Presumably, the IRS will be updating the various instructions in the near future by deleting the statement that the pilot program for truncating an individual's identifying number has been ended. The IRS should not conclude that just because it has issued this notice that it need not revise the instructions.

The IRS had first announced a trial truncation program in Notice 2009-93. It authorized filers of certain information returns to truncate an individual payee's nine-digit identifying number on specified payee statements furnished for 2009 and 2010, if the filers met certain requirements. For most individual, there social

Continued on page 6

Truncating,
Continued from page 5

security number will be their identifying number. For some individuals, they will have been assigned an IRS individual taxpayer identification number or an IRS adoption taxpayer identification number.

The IRS is aware that a risk exists that a third party by misappropriating the statement could misappropriate the social security number and identity theft could result. This notice applies only to paper payee statements in the Form 1099 series, Form 5498 series and the Form 1098 series. However, it no longer includes Form 1098-C, Contributions of Motor Vehicles, Boats and Airplanes.

An identifying number is truncated by replacing the first five digits of the nine digit number with asterisks or Xs while reporting the final four digits. For example, a social security number of 123-45-6789 would appear on the payee statement as either ***-**-6789 or XXX-XX-6789.

This notice does not apply to any information return filed with the IRS or any payee statement furnished electronically.

This notice does not authorize the truncation of the filer's (i.e. the IRA custodian) identifying number.

In summary, the IRS has chosen to extend its trial truncation program for certain payee statements for two more years (2011 and 2012). Again the use of this trial program is optional. Its use is not mandatory. Our experience is that many taxpayers appreciate the use of this program. ◆

Addressing and Responding to Identity Theft Concerns Arising from IRS Reporting Forms

For a long time the IRS has had the rule for certain reporting forms that the legend "Important Tax Return Document Enclosed" must appear in a bold and conspicuous manner on the outside of the envelope. It was important to the IRS that the recipient was informed that important tax information was enclosed.

The identity theft problem is making the IRS and financial institutions rethink their mailings, including the mailings of IRS reporting forms.

An IRA custodian recently mailed its 2010 Form 5498s to IRA accountholders who had made reportable contributions. The IRA custodian had mailed these forms in an envelope with the legend "Important Tax Return Document Enclosed." An IRA accountholder sent a letter to the bank president voicing her great displeasure about possible identity theft possibilities.

The IRS is re-thinking this envelope legend rule and other rules. As discussed below, the IRS has created an exception so that this envelope legend is not required. The IRS recently decided to reinstate its trial program of allowing the IRA custodian to truncate the tax identifying number of IRA accountholders and beneficiaries after initially deciding to terminate this trial program. This indicates that the IRS realizes and is concerned that its tax reporting rules may be contributing to the identity theft problem.

IRS reporting rules differ depending on the type of the reporting form. The IRS has very strict rules for statement mailing requirements for Forms 1099-DIV, 1099-INT, 1099-OID, and 1099-PATR, and forms reporting royalties only. The IRS has less strict rules for the IRA and HSA reporting forms and many other forms.

The strict rules require that the mailing must contain the official IRS Form 1099 or a qualifying substitute and may also contain certain additional enclosures. No additional enclosures, such as advertising, promotional materials, or a quarterly or annual report are permitted. Logos on the envelope are permitted. The general rule is the legend "Important Tax Return Document Enclosed" must appear is a bold and conspicuous manner on the outside of the envelope and on each letter explaining why no cheek is enclosed, or on each check or account statement that is not perforated to the recipient statement. There is an exception. The legend "Important Tax Return Document Enclosed" is not required to be included on the envelope, if the financial institution provides recipient statements in a separate mailing that contains only the recipient statements and three of the other permissible items.

The strict statement mailing requirements discussed above do NOT apply to the 5498 series forms, the 1099-R, 1099-SA and 1099-Q forms and certain other reporting forms. A financial institution may combine the statements with other reports or financial or commer-

Continued on page 7

Identity Theft,
Continued from page 6

cial notices, or expand them to include other information of interest to the recipient.

This means there is no requirement for IRA and HSA reporting purposes to include the legend "Important Tax Return Document Enclosed." If it is not required, why do it. Highlighting that a tax form is enclosed is a beacon to person who may be interested in identity theft.◆

Withholding of Iowa Income Tax on Traditional IRA Distributions

Iowa tax law requires that there be withholding of Iowa income tax at the rate of 5% for most Iowa residents who are taking an IRA or pension distribution which is subject to federal income tax withholding. That is, if an IRA accountholder who is an Iowa resident does not instruct the Iowa IRA custodian that he or she does not want any withholding of federal income tax from his or her IRA distribution, then 5% of the distribution must be withheld for Iowa income tax withholding purposes. The IRA custodian cannot accept a request for exemption from the withholding of Iowa income tax if federal income tax is being withheld unless the IRA recipient is eligible for an exemption.

Example. Jane Doe, age 50, withdrew $1,000 from her traditional IRA on April 20, 2011. Jane Doe is a resident of Iowa. Her income is more than $40,000. She elected to have 10% or $100 withheld for federal income taxes. That is, she did not elect to have no federal withholding. Consequently, 5% or $50 must be withheld from the IRA distribution by the IRA custodian for state of Iowa income tax withholding. She is ineligible for any of the three exemptions.

Iowa law provides for three situations where certain Iowa residents may claim an exemption so the 5% will not be withheld. If an individual has income below a certain level, the he or she can claim an exemption from the 5% withholding requirement. Two of the exemptions are based on an income limit test. One limits applies to individuals not yet age 65 and the other limit applies to individuals age 65 and older. The third exemption exists because Iowa law provides that the first $6,000 a resident receives in IRA, pension and annuity distributions is not subject to Iowa income tax. such amount should not then be subject to withholding. The $6,000 is increased in some situations to $12,000 for a married person. These exemptions are discussed in more detail below and in the CWF form.

An individual who is a nonresident of Iowa is not subject to the Iowa withholding tax rules.

The Iowa Department of Revenue has issued Iowa W-4P, withholding certificate for pension or annuity payments. This form is set forth on page 8. An IRA custodian is to use this form (or a substitute form) for the withholding of Iowa income tax. This form is available from the department. The form has been designed with the assumption that the individual will use the $6,000 exemption, if applicable, so the 5% rate will only apply when the "annual" distribution is in excess of $6,000. If the individual does not complete this form, the IRA custodian is authorized to withhold at the rate of 5% only after the $6,000 exclusion is allowed.

Additional Discussion of the Three (3) Exemptions.

Exemption #1. Recipients of IRA and Pension Distributions and Other Retirement Benefits. An Iowa resident qualifies for this exemption if he or she is age 55 years or older, disabled, or a surviving spouse or other survivor of an individual who would have qualified for the exclusion in the tax year. To be considered disabled, a person must be receiving the retirement income on the basis of a documented disability or one must meet federal or state criteria for disability. This exemption does not apply for social security benefits.

Exemption #2. Recipient is 65 Years of Age or Older and Low Income. An Iowa resident qualifies for this exemption if he or she is single and has income of $24,000 or less or whose filing status is other than single and has combined income of $32,000 or less. For purposes of the income limits, if he or she excluded any pension funds or social security funds, then such amounts, must be added back to his or her income for purpose of determining this low income exemption.

Exemption #3. Recipient Is under 65 Years of Age and Low Income. An Iowa resident qualifies for this

Continued on page 8

Iowa Income Tax,
Continued from page 7

exemption if he or she has net income less than $5,000 and has been claimed as a dependent on another person's Iowa tax return, he or she is single and has net income of $9,000 or less and has not been claimed as a dependent on another person's Iowa tax return, or his or her filing status is other than single and the combined net income is $13,500 or less.

Iowa Form W-4P or the CWF form is to be used in two situations.

First, it is to be used by an Iowa resident to instruct to the extent permissible that the or she does NOT want to have any Iowa income tax withheld from the taxable portion of any traditional IRA distribution. That is, the Iowa resident may use this form to specify the amount of exemption he or she is electing to use (maximum of $6,000 or $12,000, if married filing jointly). For example, a married person who is age 58 withdraws $10,000 from his traditional IRA and elects to have 10% withheld for federal income tax purposes. This means state withholding is mandatory. However, using the special exemption rules, he could instruct that he wished to have no withholding for Iowa income tax purposes. Another example, a married person who is age 58 withdraws $20,000 from his traditional IRA and elects to have 10% withheld for federal income tax purposes. Using the special exemption rules, he could instruct that he wished to use the $12,000 exemption so there would be withholding only on a distribution of $8,000.

Second, it is to be used when a person voluntarily chooses to have Iowa income tax withheld. For example, a person could use this form to instruct that he or she wants 5% (plus an additional amount to be specified) withheld for state income tax purposes even though he or she has instructed to not have any federal income tax withholding.

In conclusion, an Iowa IRA custodian has the duty to withhold Iowa income from an IRA distribution to an Iowa resident if there is federal income tax being withheld from such distribution unless the individual is eligible for one of three (3) exemptions. If an IRA custodian is not complying with the Iowa withholding rules, it will want to commence procedures to do so as soon as possible. ◆

Iowa W-4P Instructions

Eligibility Requirements
A partial exemption is provided to qualified Iowa residents receiving pensions, annuities, self-employed retirement benefits, deferred compensation, IRA distribution, or other retirement benefits. To qualify you must be 55 years of age or older, disabled or a surviving spouse or other survivor of an individual who would have qualified for the exclusion in the tax year. To be considered disabled you must be receiving the retirement income on the basis of a documented disability or you must meet federal or state criteria for disability. **Social Security benefits are not covered by this exemption.** Federal Civil Service annuitants who want Iowa tax withheld from federal pensions should call the Office of Personnel Management toll-free at 1-888-767-6738 or e-mail retire@opm.gov.

Withholding Choices
An Iowa resident may choose to have Iowa tax withheld on the annual taxable amount, exempting $6,000. Married taxpayers may exclude up to $12,000 from the annual taxable amount. **Only the pension income of the spouse who meets the eligibility requirements can be excluded.** If no choice is made, you will automatically be given a $6,000 exemption. If you are receiving retirement income from more than one source, you are still entitled to claim only a maximum $6,000/$12,000 exemption.

Low Income Exemption From Tax
Taxpayers 65 years of age or older: You are exempt if (1) You are single and your income is $24,000 or less, or (2) Your filing status is other than single and your combined income is $32,000 or less. *Note:* The amount of any pension exclusion or Social Security Phase-out exclusion must be added back to income for purposes of determining the low income exemption. Only one spouse must be 65 or older to qualify for the exemption.

Taxpayers under 65: You are exempt if (1) Your net income is less than $5,000 and you are claimed as a dependent on another person's Iowa return; or (2) You are single and your net income is $9,000 or less and you are not claimed as a dependent on another person's Iowa return; or (3) Your filing status is other than single and your combined net income is $13,500 or less.

Claiming No Exemption
If this box is checked, Iowa income tax will be withheld on the entire amount of taxable benefits received.

Withholding Rates
Payers have the option of withholding at the rate of 5% or using the published withholding formulas or withholding tables.

Where To Send The Iowa W-4P
Return the completed form to the person who handles your pension/retirement check, or, if planning to retire, your current payroll officer. If you are a federal employee, return it to OPM. Your choice will remain in effect until you complete a new W-4P. Withholding agents will retain the completed W-4P as required under Iowa rule 701-38.3(1).

Iowa Department of Revenue
www.state.ia.us/tax

Reset Form | Print Form

2011 Iowa W-4P

Withholding Certificate for Pension or Annuity Payments

Name: ______________________ SSN: ____________

Address: ______________________

City: ______________ State: __________ Zip: ________

Signature: ______________________ Date: ________

Are you an Iowa resident? .... ☐ Yes ☐ No

Iowa income tax can be withheld only for Iowa residents.

I choose **not to have** income tax withheld from my pension/annuity .... ☐

NOTE: If you are an Iowa resident and the taxable portion of your annual distribution is greater than $6,000 ($12,000 married Iowa filers), Iowa tax must be withheld if federal tax is being withheld unless you qualify for the low income exemption described in the instructions above.

I choose **to have** Iowa income tax withheld from my pension/annuity at a rate of 5% (or based on the published withholding formulas if the payer so chooses). Select one of the following:

- claiming no exemption (see instructions) .... ☐
- exempting $6,000 in benefits each year .... ☐
- exempting $12,000 in benefits each year (married – status 2, 3, or 4 – Iowa filers only) .... ☐

Additional amount, if any, to be withheld from each benefit payment (whole dollars): $ ________ .00

See instructions for eligibility requirements.

44-020 (07/16/10)

State of Iowa Withholding Form

Substitute Form Iowa W-4P
Iowa Withholding Certificate for Pension or IRA Payments

Custodian/Trustee Information

Name ____
Address ____
City ________________________ State ____ Zip _________

Accountholder/Recipient Information

Accountholder/Recipient _______________________________
Home Address ___________________________________
City ________________________ State ____ Zip _________
Social Security Number ___________________

The terms "you" and "your" refer to the accountholder/ recipient, and the terms "we," "us" and "our" refer to the custodian/trustee.

Withholding Instruction for Nonresidents

○ A. You certify that you are not a resident of Iowa. No Iowa income tax can be withheld.

Withholding Instruction for Iowa Residents

○ A. You are having federal income tax withheld from your distribution so you must have Iowa tax withheld from your distribution unless your claimed exemption will negate this duty. Your instructions are shown below.

○ B. You are not having federal income tax withheld from your distribution, but you instruct us that you want Iowa tax withheld as shown below.

Purpose of Form

You have completed a separate IRA or qualified plan distribution form setting forth the amount of your IRA or pension plan distributions and the amount of federal income tax withholding, if any. If on that distribution form it is indicated that you want or will have federal income tax withholding, then if you are an Iowa resident, there must be Iowa income tax withheld from such distribution unless you claim an exemption under Iowa tax laws. This form is to be used to claim such an exemption, if applicable. This form is also to be used to calculate the amount of Iowa state income tax to withhold for those individuals who must have Iowa state income tax withheld.

Please furnish us your instruction as to withholding of Iowa tax. The reverse side of this form discusses the current Iowa withholding rules. You should read these rules before making your instruction. Except as indicated under the signature section, your choice will remain in effect until you complete a new W-4P.

Special Note. Even though you are not required to have any withholding of Iowa state income tax because you are not having any federal income tax withholding, you may use this form to instruct us to withhold Iowa income tax.

Determination of Eligibility for Exemption

○ A. You are ineligible to claim one of the exemptions listed below. This means your distribution must have Iowa tax withheld as calculated and indicated below.

○ B. You are eligible to claim one of the exemptions. Iowa tax need not be withheld to the extent so indicated. Check as applicable.

- ○ Age 65 or older and low/moderate income exemption.
- ○ Taxpayers under age 65 and low/moderate income exemption
- ○ IRA/Pension funds exemption for age 55 or older, disabled or a surviving spouse or other survivor of an individual who would have qualified for the exemption in the tax year.

Iowa Income Tax Withholding Worksheet

(1)	Gross Amount of Distribution	$______________
(2)	Amount of Exemption Claimed — Cannot Exceed $6,000 (or $12,000 if filing a joint return).	$______________
(3)	Nontaxable Portion of Distribution	$______________
(4)	Taxable Amount Subject to Withholding (Line 1 Less Line 2 and 3).	$______________
(5)	5% Withholding Rate (5% X Line 4) ○ If this box is checked, then we have chosen to use the published formulas rather than the 5% rate.	$______________
(6)	Additional amount, if any, you want withheld for Iowa taxes from this distribution (must be in whole dollars).	$______________
(7)	Total Iowa income tax Amount Withheld (Line 7 = Line 5 + Line 6)	$______________

Signature — *You hereby certify that you have instructed the custodian/trustee to withhold or not withhold Iowa income tax as indicated. If subsequent to this distribution, you take another distribution from the same IRA or pension plan to which federal withholding applied and you elect to have no federal withholding, then such instruction will have the immediate effect that no Iowa income tax will be withheld from this distribution or any subsequent distribution unless you would again change your instruction to have federal income tax withholding.*

Accountholder/Recipient's Signature: ______________________________ Date: ______________________

 White — Custodian/Trustee Yellow — Accountholder

Explanation

The following rules will determine what amount, if any, is subject to Iowa income tax withholding.

- If you are a nonresident of Iowa, Iowa income tax cannot be withheld.
- If you are a resident of Iowa and federal income tax is withheld from your distribution(s), then Iowa tax must be withheld unless one of the following exceptions apply:

  ❶ Nondeductible IRA and/or qualified plan contributions are not subject to this withholding requirement.

  ❷ You are 65 years of age or older and you meet the following income and filing status requirements. You are single and your income is $24,000 or less or your filing status is other than single and your combined income is $32,000 or less. For purposes of the income limits, if you have excluded any pension funds or social security funds, then such amounts, must be added back to your income for purpose of determining this low income exemption.

  ❸ You are under 65 years of age and you meet the following income and filing status requirements. Your net income is less than $5,000 and you have been claimed as a dependent on another person's Iowa return, you are single and your net income is $9,000 or less and you have not been claimed as a dependent on another person's Iowa tax return, or your filing status is other than single and your combined net income is $13,500 or less.

  ❹ You are a person who qualifies to exempt a portion of your IRA or QP distribution. A person whose filing status* is 1, 5 or 6, who files a separate state income tax return may exempt up to $6,000 in benefits. A person who files a joint return with his or her spouse may exempt up to $12,000 in benefits. A person who is married but who elects to use filing status* 3 or 4 on Form IA 1040, may exempt up to $12,000. Special rules apply for allocating this $12,000 between the two spouses. Unless you instruct us otherwise, we will use the exemption amount of $6,000. To qualify for this partial exemption, you must be 55 years of age or older, disabled, or a surviving spouse of an individual who would have qualified for this exemption. Only the IRA or pension income of the spouse who meets the eligibility requirement can be excluded. A person is disabled for purposes of this partial exemption if the person is receiving retirement income on the basis of a documented disability or the person meets federal or state criteria for disability. Social Security benefits are not covered by this exemption. State income tax is not required to be withheld if the amount of the distribution is $500 per month or less or if the taxable amount is $500 or less and the person receiving the distribution is eligible for the partial exemption of retirement benefits. In instances where the distribution amount or the taxable amount is more than $500 per month but less than $6,000 for the year, no state income tax is required to be withheld if the person receiving the distribution is eligible for a partial exemption of retirement benefits. Reference 701–46.2(1)c Iowa Administrative Code.

Other Rules

- The custodian, trustee or other payor has the option of withholding at the rate of 5%, or using the published withholding formula.
- If the accountholder has not completed an Iowa W-4P form by the time payment is to be made by the custodian/trustee, the custodian/trustee will withhold state income tax on the basis that the accountholder has claimed one withholding allowance or exemption.
- If you have not elected to have federal income taxes withheld, the custodian/trustee will not withhold state income taxes unless instructed by you to do so. You may make this instruction on this form.
- Your election will remain in effect until you revoke it. You may revoke your election at any time by returning the signed and dated revocation to the address above. Any election or revocation will be effective no later than the January 1, May 1, July 1, or October 1 after it is received, whichever comes first.
- Even if you elect not to have state income tax withheld, you are liable for payment of state income tax on the taxable portion of your IRA. You may be subject to tax penalties under the estimated payment rules if your payments of estimated tax and state withholding tax are not adequate.
- **MARRIED SEPARATE FILERS:** Effective for tax years beginning January 1, 1998, the exemption of up to $12,000 is allocated between spouses in the ratio that each spouse's pension relates to the total pension received by both spouses. To take this exemption you must meet one of the conditions stated above. Following is an example of how a husband and wife would prorate their pension exemption—

  Step one: Find the percent of taxable pension income belonging to one of the spouses. In this example, the husband has a taxable pension of $45,000 and the wife has a taxable pension of $5,000. Husband/Total of Husband & Wife = 45,000/(45,000 + $5,000) = 45,000/50,000 = 90%

  Step two: Multiply $12,000 (the maximum exclusion) by 90% = $10,800. This is the husband's portion of the exemption. The wife's portion is $12,000 - $10,800 = $1,200.

  For married separate filers when only one spouse has pension income, that spouse would take an exclusion equal to the lesser of $12,000 or the taxable amount of the pension. The spouse who has no pension income would receive no exclusion.
- *Explanation of Filing Status — IA 1040 Form

1. Single	4. Married Filing Separate returns
2. Married Filing a Joint Return	5. Head of Household with qualifying person
3. Married Filing Separately on this combined form	6. Qualifying widow(er) with dependent child

- In the case of lump-sum distributions, the Iowa income tax imposed on the taxable amount of the distribution is 25% of the federal income tax on that distribution.