

Reporting Roth IRA Distributions on the 2013 Form 1099-R

The general preparation rule is – a Roth IRA custodian is to report the total distribution amount in box 1 and 2a (*taxable amount*) is to be left blank. Note the instruction to leave box 2a blank does not mean to insert “0.00” on the copy furnished to the individual.

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 or town, province or state, country, and ZIP or foreign postal code		1 Gross distribution		2013 Form 1099-R		Total distribution <input type="checkbox"/>	
		2a Taxable amount					
PAYER'S federal identification number		3 Capital gain (included in box 2a)		4 Federal income tax withheld		Copy A For Internal Revenue Service Center File with Form 1096. For Privacy Act and Paperwork Reduction Act Notice, see the 2013 General Instructions for Certain Information Returns.	
		5 Employee contributions / Designated Roth contributions or insurance premiums		6 Net unrealized appreciation in employer's securities			
RECIPIENT'S name		7 Distribution code(s)		8 Other		9a Your percentage of total distribution %	
Street address (including apt. no.)		IRA/SEP/SIMPLE <input type="checkbox"/>		9b Total employee contributions %			
City or town, province or state, country, and ZIP or foreign postal code		10 Amount allocable to IRF within 5 years		11 1st year of desig. Roth contrib.		12 State tax withheld	
Account number (see instructions)		13 State/Payer's state no.		14 State distribution		15 Local tax withheld	
		16 Name of locality		17 Local distribution			

Form 1099-R Cal. No. 144390 www.irs.gov/form1099r Department of the Treasury - Internal Revenue Service

When box 2a is left blank, the IRS instructions for box 2b suggest that box 2b (*taxable amount not determined*) is to be checked. The IRS instructions do not expressly state this. Since a Roth IRA custodian does not know if a specific Roth IRA distribution is taxable or not because of the ordering rules applying to Roth IRA distributions, CWF believes that box 2b is to be checked. There are, of course, some exceptions when box 2a is to be completed with an amount and is not to be left blank. This in turn means box 2b is not checked.

Exception #1. There has been the withdrawal of current year contribution including a true excess contribution. Only the earnings are to be reported box 2a. If there has been no earnings, then report 0.00.

Exception #2. If there has been a deemed recharacterization withdrawal from the Roth IRA, then report 0.00 as a recharacterization is a non-taxable transaction. Box 7 is comprised of two boxes. The “second” box is for IRA/SEP/SIMPLE. This box is not to be checked when the distribution is from a Roth IRA. In the “first” box, the proper Code must be entered to describe the distribution from the Roth IRA. Unlike with traditional IRA distributions where two Codes are often used, with Roth IRAs as discussed later, two Codes are only used in two situations. Code Q – to be used if the custodian knows the 5-year time period has been met and the recipient is either the Roth IRA owner who has reached age 59½ or is disabled, or is an inheriting beneficiary. Note that for

purposes of determining if the 5-year time period requirement has been met the Roth IRA custodian only considers the time the Roth IRA has been at the Roth IRA custodian. That is, the time the individual may have had the same Roth IRA funds with another custodian is not considered. No other Code is ever used with Code Q.

Code T – to be used if the custodian knows the 5-year time period has NOT been met and the recipient is either the Roth IRA owner who has reached age 59½ or is disabled, or is an inheriting beneficiary. Note that for purposes of determining if the 5-year time period requirement has been met, the Roth IRA custodian only considers the time the Roth IRA has been with the Roth IRA custodian. That is, the time the individual may have had the same Roth IRA funds with another custodian is not considered. No other Code is ever used with Code T.

Code J – to be used when Code Q or Code T is NOT used. In general, the use of Code J means there has been an early (*i.e. before age 59½*) distribution from the Roth IRA. For example, Jane Doe has not yet attained age 59½. Regardless of whether she has met the 5-year time period requirement, Code J is to be used.

The two situations where two Codes are used to report a Roth IRA distribution are as follows.

Use Code J8 when there has been the withdrawal of a current year Roth IRA contribution, including a true excess contribution, when the contribution is made one year (*could either be 2013 or 2014*) and is withdrawn the same year (*2013 or 2014*). The 8 informs the individual and the IRS that the income, if any, is taxable for the year in which the contribution was made.

Use Code JP when there has been the withdrawal of a current year Roth IRA contribution, including a true excess contribution, when the contribution is made in 2013 but withdrawn in 2014. The P informs the individual and the IRS that the income, if any, is taxable for 2013 since the contribution was made in 2013.

Code N – to be used if a Roth IRA contribution was made during 2013 and it was also recharacterized (*deemed to have been withdrawn from the Roth IRA*) in 2013 to be a traditional IRA. Code R – to be used if a Roth IRA contribution was made during 2012, but it was recharacterized (*deemed to have been withdrawn from the Roth IRA*) in 2013 to be a traditional IRA.

Code 2 – to be used when the withdrawal was due to an IRS *levy (not a state revenue department)* or the withdrawal was pursuant to a substantially equal periodic payment schedule. These are early distributions, but an exception is known so the individual and the IRS is told that the 10% additional tax is not owed. The general IRS instructions for box 2a still apply, box 2a is to be checked indicating that the custodian does not know the taxable amount.

Code 5 – to be used when a prohibited transaction has occurred. Code 5 means the account is no longer a Roth IRA. The general IRS instructions for box 2a still apply, this box is to be checked indicating that the custodian does not know the taxable amount. The Codes as discussed above are the only Codes to be inserted in box 7 for a Roth distribution. Note that no other Codes are ever used to report a distribution from a Roth IRA.

Code B reports a distribution of Designated Roth funds to a person from a 401(k)/403b/457b plan and is never used to report a distribution from any IRA, including a Roth IRA.

Note that Code J is not used with any other code except it is to be used with the Code 8 or Code P, as applicable. Code J1 is never used. The current IRS approach does not inform the individual or the IRS that if the recipient is under age 59½ that he or she owes the 10% if there is any taxable income being distributed. Special Reporting When Roth Distribution Is Due to Revocation By the Individual or By the Custodian For CIP Reasons If a Roth owner revokes (*7-day rule*) a regular Roth IRA contribution or if the custodian for CIP reasons closes the Roth IRA after the making of a regular Roth IRA contribution, but there are no earnings, then the gross distribution is entered in box 1, enter 0.00 in box 2a, box 2b is not checked and Code J is used in box 7. Note this is true even if the individual is older than age 59½ or is disabled.

The above reporting will also be done for any conversion contribution which is revoked by the individual or closed by the custodian for CIP reasons. If a Roth owner *revokes (7-day rule)* a regular Roth IRA contribution or if the custodian for CIP reasons closes the Roth IRA after the making of a regular Roth IRA contribution, and there are earnings, then the gross distribution is entered in box 1, enter the amount of earnings in box 2a, box 2b is not checked and Code J8 is used in box 7. Note this is true even if the individual is older than age 59½ or is disabled.

The above reporting will also be done for any conversion contribution which is revoked by the individual or closed by the custodian for CIP reasons.

If a Roth owner makes a rollover contribution (*or a transfer contribution*) from another Roth IRA and then revokes (*7-day rule*) or if he or she makes a rollover contribution (*or a transfer contribution*) from another Roth IRA and the custodian for CIP reasons closes the Roth IRA after such rollover or transfer, then the gross distribution is entered in box 1, box 2a is to be completed with the same amount as in box 1 and Code J is used in box 7. Note this is true even if the individual is older than age 59½ or is disabled.

CWF Observation/Comment. We do not understand why the IRS wants the taxable amount box completed with the same amount as the gross distribution from the revoked or closed Roth IRA. When the individual withdrew the funds from the original Roth IRA, the Form 1099-R for that distribution would be prepared with box 2a being blank. We do not see the rationale requiring the new custodian to report the distribution of the closed or revoked Roth IRA as being taxable. This make sense for a distribution from a traditional IRA, but not a distribution from a Roth IRA.

If a Roth owner has made a rollover contribution into his or her Roth IRA from a qualified plan and then revokes (*7-day rule*) it or the custodian for CIP reasons closes the Roth IRA after such rollover and there are no earnings, then the gross distribution is entered in box 1, enter 0.00 in box 2a, box 2b is not checked and Code J is used in box 7. Note this is true even if the individual is older than age 59½ or is disabled.

If a Roth owner has made a rollover contribution into his or her Roth IRA from a qualified plan and then revokes (*7 day rule*) it or the custodian for CIP reasons closes the Roth IRA after such rollover and there are earnings, then the gross distribution is entered in box 1,

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enter the earnings in box 2a, box 2b is not checked and Code J is used in box 7. Note this is true even if the individual is older than age 59½ or is disabled.

In conclusion, the IRS has detailed rules and procedures to be followed by the custodian to report Roth IRA distributions. Remember, the IRS may assess a \$100 per form fine for each improperly prepared Form 1099-R. Until the IRS furnishes additional guidance explaining more definitely that a person who receives a Form 1099-R with a reason Code Q in box 7 need not mention it on his or her federal income tax return, an individual will want to explain on the return that the distribution is qualified and is not taxable.