



# Instructions for Forms 1099-R and 5498

Section references are to the Internal Revenue Code.

## What's New for 20\_\_?

**Form 1099-R.** Distribution codes for box 7 are in a chart format, **Guide to Distribution Codes**, on pages R-9 and R-10. Also, the following changes were made to the following distribution codes reported in box 7:

- Code **N**, "Recharacterized IRA contribution made for 2001," was added. Use Code N for an IRA contribution that was made for 2001 and was recharacterized in 2001.
- Code **R**, "Recharacterized IRA contribution made for 2000," was changed. Use Code R for an IRA contribution that was made for 2000 and was recharacterized in 2001.
- Code **J**, "Early distribution from a Roth IRA, no known exception," was changed. Use Code J for an early distribution from a Roth IRA when no known exception applies and the recipient is under age 59½.
- Code **T**, "Roth IRA distribution, exception applies," was added for reporting a distribution from a Roth IRA when the recipient is either age 59½ or over or an exception applies.

**Form 5498.** Recharacterized contributions no longer will be reported in box 2, "Rollover contributions." Instead, box 4, "Recharacterized contributions," was added to report recharacterized IRA contributions. The "Rechar." checkbox was removed from box 6. Boxes 4 through 10 were renumbered 5 through 11.

**IRA recharacterizations and Roth reconversions.** Prior year recharacterizations (i.e., IRA contributions made for 2000 and recharacterized in 2001) and same year recharacterizations (i.e., IRA contributions made for 2001 and recharacterized in 2001) must be reported on separate Forms 1099-R. Prior year recharacterizations will be coded with Code **R** and same year recharacterizations will be coded with new Code **N**.

## An Item To Note

In addition to these specific instructions, you should also use the **2001 General Instructions for Forms 1099, 1098, 5498, and W-2G**. Those general instructions include information about:

- Backup withholding
- Magnetic media and electronic reporting requirements
- Penalties
- When and where to file
- Taxpayer identification numbers
- Statements to recipients
- Corrected and void returns
- Other general topics

You can get the general instructions from the IRS Web Site at [www.irs.gov](http://www.irs.gov) or by calling 1-800-TAX-FORM (1-800-829-3676).

## Specific Instructions for Form 1099-R

File **Form 1099-R**, Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc., for each person to whom you have made a designated distribution of \$10 or more from profit-sharing or retirement plans, any IRAs, annuities, pensions, insurance contracts, survivor income benefit plans, permanent and total disability payments under life insurance contracts, charitable gift

annuities, etc.

Also report on Form 1099-R death benefit payments made by employers that are **not** made as part of a pension, profit-sharing, or retirement plan. (See the instructions for box 1 on page R-5.)

Reportable disability payments made from a retirement plan must be reported on Form 1099-R.

Generally, **do not** report payments subject to withholding of social security and Medicare taxes on this form. Report such payments on **Form W-2**, Wage and Tax Statement.

**Do not** report amounts totally exempt from tax, such as workers' compensation and Department of Veterans Affairs (VA) payments. However, if part of the distribution is taxable and part is nontaxable, file a Form 1099-R reporting the entire distribution.

**Military retirement pay.** Report payments to military retirees on Form 1099-R. Report military retirement pay awarded as a property settlement to a former spouse on Form 1099-R under the name and taxpayer identification number (TIN) of the recipient, not those of the military retiree.

Also report payments of survivor benefit annuities on Form 1099-R.

**Nonqualified plans.** Report any reportable distributions from commercial annuities on Form 1099-R. Report distributions to **plan participants** from nonqualified deferred compensation plans, including section 457 plans, on Form W-2, not on Form 1099-R. However, report distributions to **beneficiaries** of deceased employees on Form 1099-R. Report distributions to beneficiaries in boxes 1 and 2a and use Code 4 in box 7.

**Charitable gift annuities.** If cash or capital gain property is donated in exchange for a charitable gift annuity, report distributions from the annuity on Form 1099-R. Report in box 1 the total amount distributed during the year. Report in box 2a the taxable amount. If any amount is taxable as a capital gain, report it in box 3. Advise the annuity recipient of any amount in box 3 subject to the 28% rate gain, such as for collectibles, and any unrecaptured section 1250 gain. Report in box 5 any nontaxable amount. Enter Code F in box 7. See Regulations section 1.1011-2(c), Example 8.

**Life insurance, annuity, and endowment contracts.** Report on Form 1099-R payments of matured or redeemed annuity, endowment, and life insurance contracts. However, you need not file Form 1099-R to report the surrender of a life insurance contract if it is reasonable to believe that none of the payment is includible in the income of the recipient. If you are reporting the surrender of a life insurance contract on Form 1099-R, enter Code 7 in box 7.

Also report premiums paid by a trustee or custodian for current life or other insurance protection (PS 58 costs). PS 58 costs are not subject to the 10% additional tax under section 72(t). Enter Code 9 in box 7.

Also see the **Instructions for Form 1099-LTC** for information on reporting accelerated death benefits.

**Section 1035 exchange.** A tax-free section 1035 exchange is the exchange of **(1)** a life insurance contract for another life insurance, endowment, or annuity contract, **(2)** an endowment contract for an annuity contract or for another endowment contract that provides for regular payments to begin no later than they would have begun under the old contract, and **(3)** an annuity contract for another annuity contract. However, the distribution of other property or the cancellation of a contract

loan at the time of the exchange may be taxable and reportable on a separate Form 1099-R.

These exchanges of contracts are generally reportable on Form 1099-R. However, reporting on Form 1099-R is not required if (1) the exchange occurs within the same company, (2) the exchange is solely a contract for contract exchange, as defined above, that does not result in a designated distribution, and (3) the company maintains adequate records of the policyholder's basis in the contracts. For example, a life insurance contract issued by Company X received in exchange solely for another life insurance contract previously issued by Company X does not have to be reported on Form 1099-R as long as the company maintains the required records. (See Rev. Proc. 92-26, 1992-1 C.B. 744.)

For those section 1035 exchanges that are reportable on Form 1099-R, enter the total value of the contract in box 1, 0 (zero) in box 2a, the total premiums paid in box 5, and Code 6 in box 7.

**IRA distributions.** Distributions from any individual retirement arrangement (IRA), except a Roth IRA or education IRA (Ed IRA), must be reported in boxes 1 and 2a regardless of the amount. You may mark the "Taxable amount not determined" box in box 2b. But see the instructions for box 2a on page R-5 for how to report the withdrawal of IRA contributions under section 408(d)(4). Also see **Transfers** on page R-3 for information on trustee-to-trustee transfers, including recharacterizations. The direct rollover provisions (see below) do not apply to distributions from any IRA.

An IRA includes all investments under one IRA plan or account. File only one Form 1099-R for distributions from all investments under one plan that are paid in 1 year to one recipient, unless you must enter different codes in box 7. You do not have to file a separate Form 1099-R for each distribution under the plan.

**Roth and Ed IRAs.** For distributions from a Roth IRA or an Ed IRA, report the gross distribution in box 1 but generally **leave box 2a blank**. Mark the "Taxable amount not determined" box in box 2b. Enter Code J, M, or T as appropriate in box 7. You must enter Code 5, 8, or P with Code J and T, and 3, 4, 8, or P with Code M, if applicable. It is not necessary to mark the IRA/SEP/SIMPLE checkbox. For the withdrawal of excess contributions, see **Box 2a** on page R-5.

**Roth conversions.** You must report an IRA that is converted or reconverted this year to a Roth IRA in boxes 1 and 2a, even if the conversion is a trustee-to-trustee transfer or is with the same trustee. Enter Code 2 or 7 in box 7 as appropriate.

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

**Conduit IRAs.** If you know the distribution is from a conduit IRA, follow these rules. If a distribution from a conduit IRA is paid to the participant, report the full amount in boxes 1 and 2a, and use Code 1 or 7 in box 7 depending on the participant's age. If a distribution from a conduit IRA is paid to the trustee or is transferred to an employer plan, report the distribution in box 1, 0 (zero) in box 2a, and use Code H in box 7.

**IRA revocation.** If a traditional or Roth IRA is revoked during its first 7 days (under Regulations section 1.408-6(d)(4)(ii)), the distribution from the IRA must be reported. In addition, **Form 5498**, IRA Contribution Information, must be filed to report any regular, rollover, or IRA conversion contributions to an IRA that is revoked.

If a **regular contribution** is made to a traditional or Roth IRA that later is revoked, and distribution is made to the taxpayer, enter the gross distribution in box 1 of Form 1099-R. If no earnings are distributed, enter 0 (zero) in box 2a and Code 8 in box 7. If earnings are distributed, enter the amount of earnings in box 2a. These earnings could be subject to the early distribution tax under section 72(t). If they are subject to that tax, enter Code 1 in box 7 for a traditional IRA or Code J in box 7 for

a Roth IRA; if the earnings are not subject to that tax, enter Code 8 for a traditional IRA and Codes J and 8 for a Roth IRA. If a rollover contribution is made to a traditional or Roth IRA that later is revoked, and distribution is made to the taxpayer, enter in boxes 1 and 2a of Form 1099-R the gross distribution and the appropriate code in box 7 (Code J for a Roth IRA). Follow this same procedure for a transfer from a traditional or Roth IRA to another IRA of the same type that later is revoked. The distribution could be subject to the early distribution tax under section 72(t).

If an **IRA conversion contribution** is made to a Roth IRA that later is revoked, and distribution is made to the taxpayer, enter the gross distribution in box 1 of Form 1099-R. If no earnings are distributed, enter 0 (zero) in box 2a and Code 8 in box 7. If earnings are distributed, enter the amount of the earnings in box 2a. These earnings could be subject to the early distribution tax under section 72(t). If they are subject to the tax, enter Code J in box 7; if the earnings are not subject to that tax, enter Codes J and 8.

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

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

For more information, see Rev. Proc. 91-70, 1991-2 C.B. 899.

**DECs.** If you are reporting a total distribution from a plan that includes a distribution of deductible voluntary employee contributions (DECs), file two Forms 1099-R—one to report the distribution of DECs, the other to report the distribution from the other part of the plan. Report the distribution of DECs in boxes 1 and 2a on the separate Form 1099-R. However, for the direct rollover (explained below) of funds that include DECs, file only one Form 1099-R to report the direct rollover of the entire amount.

**Direct rollovers.** You must report a direct rollover of an eligible rollover distribution. A direct rollover is the direct payment of the distribution from a qualified plan or tax-sheltered annuity to a traditional IRA or other eligible retirement plan. A direct rollover may be made for the employee, for the employee's surviving spouse, or for the spouse or former spouse who is an alternate payee under a qualified domestic relations order (QDRO). However, a direct rollover for a surviving spouse may be made only to a traditional IRA.

An **eligible rollover distribution** is the taxable part of any distribution of the balance to the credit of the employee (including net unrealized appreciation) from a qualified plan (or tax-sheltered annuity but not from an IRA) except:

1. One of a series of substantially equal periodic payments made (at least annually) for:
  - a. The life of the employee (or the joint lives of the employee and the employee's designated beneficiary),
  - b. The life expectancy of the employee (or the joint life and last survivor expectancy of the employee and the employee's designated beneficiary), or
  - c. A specified period of 10 years or more.
2. A required minimum distribution (under section 401(a)(9)). A plan administrator is permitted to assume there is no designated beneficiary for purposes of determining the minimum distribution.
3. Nontaxable amounts, including a return of the employee's investment in the contract (after-tax contributions).
4. Elective deferrals (under section 402(g)(3)) and earnings returned because of the section 415 limits.
5. Corrective distributions of excess deferrals (under section 402(g)) and earnings.
6. Corrective distributions of excess contributions under a qualified cash or deferred arrangement (under section 401(k)) and excess aggregate contributions (under section 401(m)) and earnings.

7. Loans treated as deemed distributions (under section 72(p)). (But plan loan offset amounts can be eligible rollover distributions. See Regulations section 1.402(c)-2, Q/A-9.)

8. Section 404(k) dividends.

9. PS 58 costs.

10. Distributions to a payee other than the employee, the employee's surviving spouse, or a spouse or former spouse who is an alternate payee under a QDRO.

11. Hardship distributions described in section 401(k)(2)(B)(i)(IV). See Notice 99-5, 1999-3 I.R.B. 10 and Notice 2000-32, 2000-26 I.R.B. 1274.

Amounts paid under an annuity contract purchased for and distributed to a participant under a qualified plan can qualify as eligible rollover distributions. See Regulations section 1.402(c)-2, Q/A-10.

Any part of an eligible rollover distribution that is not a direct rollover is subject to 20% income tax withholding. See **Box 4** on page R-7.

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

If you receive a direct rollover to an IRA, you must prepare Form 5498. If you receive a direct rollover to a qualified plan or tax-sheltered annuity, no report is required.

If part of the distribution is a direct rollover and part is distributed to the recipient, prepare two Forms 1099-R.

For more information on eligible rollover distributions, including substantially equal periodic payments, required minimum distributions, and plan loan offset amounts, see Regulations sections 1.402(c)-2 and 1.403(b)-2.

**Explanation to recipients before eligible rollover distributions (section 402(f) notice).** For qualified plans, no more than 90 days and no fewer than 30 days before making an eligible rollover distribution (or before the annuity starting date), the plan administrator must provide a written explanation to each recipient (section 402(f) notice). However, if the recipient who has received the section 402(f) notice affirmatively elects a distribution, you will not fail to satisfy the timing requirements merely because you make the distribution fewer than 30 days after you provided the notice as long as you meet the requirements of Regulations section 1.402(f)-1, Q/A-2. You may provide the 402(f) notice more than 90 days before a distribution if you also provide a summary of the notice during the 90-day/30-day period before the distribution.

The notice must explain the rollover rules, the special tax treatment for lump-sum distributions, the direct rollover option (and any default procedures), and the mandatory 20% withholding rules. The notice and summary are permitted to be sent either as a written paper document or through an electronic medium reasonably accessible to the recipient; see Regulations section 1.402(f)-1, Q/A-5.

For periodic payments that are eligible rollover distributions, you must provide the notice before the first payment and at least once a year as long as the payments continue. For tax-sheltered annuities, the payer must provide an explanation of the direct rollover option within the time period described above or some other reasonable period of time.

Notice 2000-11, 2000-6 I.R.B. 572, contains a model notice the plan administrator can use to satisfy the notice requirement.

**Transfers.** Generally, do not report transfers between trustees or issuers (unless they are direct rollovers from qualified plans) that involve no payment or distribution of funds to the participant, including a trustee-to-trustee transfer from one IRA to another (unless they are recharacterized IRA contributions or Roth conversions) or from one tax-sheltered (section 403(b)) arrangement to another.

**IRA recharacterizations.** You must report each recharacterization of an IRA contribution. If a participant makes a contribution to an IRA (first IRA) for a year, the participant may choose to recharacterize the contribution by transferring, in a trustee-to-trustee transfer, any part of the contribution (plus earnings) to another IRA (second IRA). The contribution is treated as made to the second IRA (recharacterization). A recharacterization may be made with the same trustee or with another trustee. The trustee of the first IRA must report the recharacterization as a distribution on Form 1099-R (and the contribution to the first IRA and its character on Form 5498).

Enter the fair market value (FMV) of the amount recharacterized in box 1, 0 (zero) in box 2a, and Code R in box 7 if reporting a recharacterization of a prior-year (2000) contribution or Code N if reporting a recharacterization of a contribution in the same year (2001). It is not necessary to mark the IRA/SEP/SIMPLE checkbox. For more information, see Notice 2000-30, 2000-25 I.R.B. 1266.

**Roth conversions.** A Roth conversion is not considered a trustee-to-trustee transfer. You must report a Roth conversion or reconversion as a distribution. Therefore, for an IRA that is converted to a Roth IRA, even with the same trustee, you must report the amount converted in boxes 1 and 2a. Use Code 2 or 7 in box 7 as appropriate.

**SIMPLE IRAs.** Do not report a trustee-to-trustee transfer from one SIMPLE IRA to another SIMPLE IRA. However, you must report as a taxable distribution in boxes 1 and 2a, a trustee-to-trustee transfer from a SIMPLE IRA to an IRA that is not a SIMPLE IRA during the 2-year period beginning on the day contributions are first deposited in the individual's SIMPLE IRA by the employer. Use Code S in box 7 if appropriate.

**Section 1035 exchange.** You may have to report exchanges of insurance contracts, including an exchange under section 1035, under which any designated distribution may be made. For a section 1035 exchange that is in part taxable, file a separate Form 1099-R to report the taxable amount. See **Section 1035 exchange** on page R-1.

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

**Corrective distributions.** You must report on Form 1099-R corrective distributions of excess deferrals, excess contributions and excess aggregate contributions under section 401(a) plans, section 401(k) cash or deferred arrangements, section 403(a) annuity plans, section 403(b) salary reduction agreements, and salary reduction simplified employee pensions (SARSEPs under section 408(k)(6)). Corrective distributions of an excess plus earnings are reportable on Form 1099-R for the year of the distribution regardless of when the distribution is taxable to the participant. Enter Code 8, P, or in some cases, D in box 7 to designate the distribution and the year it is taxable.

If the excess and the earnings are taxable in two different years, you must issue two Forms 1099-R to designate the year each is taxable.

You must advise the plan participant at the time of the distribution of the year or years in which the distribution is taxable and that it may be necessary to file an amended return for a prior tax year.

For more information about reporting corrective distributions see: the **Guide to Distribution Codes** on page R-9; Notice 89-32, 1989-1 C.B. 671; Notice 88-33, 1988-1 C.B. 513; Notice 87-77, 1987-2 C.B. 385; Rev. Proc. 91-44, 1991-2 C.B. 733 (SARSEPs); and the regulations under sections 401(k), 401(m), and 402(g).

**Excess deferrals.** Excess deferrals under section 402(g) can occur in 401(k) plans, 403(b) plans, or SARSEPs. If distributed by April 15 of the year following the year of deferral, the excess is taxable to the participant in the year of deferral, but the earnings are taxable in the year distributed. Except for a SARSEP, if the distribution occurs after April 15, the excess is taxable in the year of deferral **and** the year distributed. The earnings are taxable in the year distributed. For a SARSEP,

excess deferrals not withdrawn by April 15 are considered regular IRA contributions subject to the IRA contribution limits. Corrective distributions of excess deferrals are not subject to Federal income tax withholding or social security and Medicare taxes. For losses on excess deferrals, see **Losses** below.

**Excess contributions.** Excess contributions can occur in a 401(k) plan or a SARSEP. For a 401(k) plan, if the withdrawal of the excess plus earnings occurs within 2½ months after the close of the plan year, the excess and earnings are taxable to the participant in the year deferred. But if the corrective distribution is made after the 2½-month period, or the excess contribution (not including earnings) (and excess aggregate contributions (not including earnings) in the case of a 401(k) plan) is less than \$100 (de minimis rule), the excess and earnings are taxable in the year distributed. For recharacterized excess contributions, the excess is taxable in the year a corrective distribution would have occurred. (No earnings are allocated to recharacterized amounts.) For a SARSEP, the **employer** must notify the participant by March 15 of the year after the year the excess contribution was made that the participant must withdraw the excess and earnings. The excess contribution is taxable to the participant in the year of deferral and the earnings are taxable in the year withdrawn. If the excess contribution (not including earnings) is less than \$100, the excess is taxable in the year of notification and the earnings are taxable in the year withdrawn. An excess contribution not withdrawn by April 15 of the year after the year of notification is considered a regular IRA contribution subject to the IRA contribution limits.

Excess contributions distributed within the 2½-month period are **not** subject to Federal income tax withholding or social security and Medicare taxes. But amounts distributed from a 401(k) plan after the 2½-month period are subject to Federal income tax withholding under section 3405.

**Excess aggregate contributions.** Excess aggregate contributions under section 401(m) can occur in 401(a), 401(k), 403(a), and 403(b) plans. A corrective distribution of excess aggregate contributions plus earnings within 2½ months after the close of the plan year is taxable to the participant in the year the contributions were made. A corrective distribution made after the 2½-month period is taxable in the year distributed. Report the gross distribution in box 1 of Form 1099-R. In box 2a, enter the excess and earnings distributed less any after-tax contributions. If the total excess contributions and excess aggregate contributions distributed are less than \$100 (excluding earnings), the distribution is taxable in the year of distribution.

A distribution made within 2½ months after the close of the plan year is **not** subject to Federal income tax withholding or social security and Medicare taxes. But amounts distributed after 2½ months are subject to Federal income tax withholding under section 3405.

**Losses.** If a corrective distribution of an excess deferral is made in a year after the year of deferral and a net loss has been allocated to the excess deferral, report the corrective distribution amount in boxes 1 and 2a of Form 1099-R for the year of the distribution with the appropriate distribution code in box 7. However, taxpayers must include the total amount of the excess deferral (unadjusted for loss) in income in the year of deferral, and they may report a loss on the tax return for the year the corrective distribution is made. Therefore, if there are no employer securities distributed, show the actual cash and/or fair market value (FMV) of property distributed in boxes 1 and 2a, and make no entry in box 5. If only employer securities are distributed, show the FMV of the securities in boxes 1 and 2a and make no entry in box 5 or 6. If both employer securities and other property are distributed, show the actual cash and/or FMV of the property distributed in box 1, the gross less any net unrealized appreciation (NUA) on employer securities in box 2a, no entry in box 5, and any NUA in box 6.

**Excess annual additions under section 415.** You must report on Form 1099-R distributions made under Regulations section 1.415-6(b)(6)(iv) of elective deferrals or a return of employee contributions (and gains attributable to such elective deferrals or employee contributions) to reduce excess annual additions

arising from the allocation of forfeitures, a reasonable error in estimating a participant's compensation, or a reasonable error in determining the amount of elective deferrals that may be made for an individual under the limits of section 415.

Such distributions are not eligible rollover distributions although they are subject to income tax withholding under section 3405. They are not subject to social security, Medicare, or Federal Unemployment Tax Act (FUTA) taxes. In addition, such distributions are not subject to the early distribution tax under section 72(t).

You may report the distribution of elective deferrals and employee contributions (and gains attributable to such elective deferrals and employee contributions) on the same Form 1099-R. However, if you made other distributions during the year, report them on a separate Form 1099-R. Because the distribution of elective deferrals is fully taxable (no part of the distribution is a return of the investment in the contract), report the total amount of the distribution in boxes 1 and 2a. Leave box 5 blank, and enter Code E in box 7. For a return of employee contributions plus gains, enter the gross distribution in box 1, the gains attributable to the employee contributions being returned in box 2a, and the employee contributions being returned in box 5. Enter Code E in box 7.

For more information, see Rev. Proc. 92-93, 1992-2 C.B. 505.

**Certain excess amounts under 403(b) plans.** A corrective distribution under the Employee Plans Compliance Resolution System to the participant of contributions to a 403(b) plan (plus gains attributable to such contributions) that were in excess of the limits under section 415 or section 403(b)(2) (the exclusion allowance limit) is treated the same as corrective distributions of elective deferrals to satisfy the limits under section 415. It is taxable to the participant in the year of distribution. See **Excess annual additions under section 415** above.

**Failing the ADP or ACP test after a total distribution.** If you make a total distribution in 2001 and file a Form 1099-R with the IRS and then discover in 2002 that the plan **failed** either the section 401(k)(3) ADP (actual deferral percentage) test for 2001 and you compute excess contributions **or** the section 401(m)(2) ACP (actual contribution percentage) test and you compute excess aggregate contributions, you must recharacterize part of the total distribution as excess contributions or excess aggregate contributions. First, file a **CORRECTED** Form 1099-R for 2001 for the correct amount of the total distribution (not including the amount recharacterized as excess contributions or excess aggregate contributions). Second, file a **new** Form 1099-R for 2001 for the excess contributions or excess aggregate contributions and allocable earnings.

To avoid a late filing penalty if the new Form 1099-R is filed after the due date, enter in the bottom margin of **Form 1096**, Annual Summary and Transmittal of U.S. Information Returns, the words "Filed To Correct Excess Contributions."

You must also issue copies of the Forms 1099-R to the plan participant with an explanation of why these new forms are being issued.

**Loans treated as distributions.** A loan from a qualified plan under sections 401 and 403(a) and (b), and a plan maintained by the United States, a state or political subdivision, or any of its subsidiary agencies made to a participant or beneficiary is **not** treated as a distribution from the plan if the loan satisfies the following requirements:

1. The loan is evidenced by an enforceable agreement,
2. The agreement specifies that the loan must be repaid within 5 years, except for a principal residence,
3. The loan must be repaid in substantially level installments (at least quarterly), and
4. The loan amount does not exceed the limits in section 72(p)(2)(A) (maximum limit is equal to the lesser of 50% of the vested account balance or \$50,000).

Certain exceptions, cure periods, and suspension of the repayment schedule may apply.

The loan agreement must specify the amount of the loan, the term of the loan, and the repayment schedule. The agreement may include more than one document.

If a loan fails to satisfy **1**, **2**, or **3** above, the balance of the loan is a deemed distribution. The distribution may occur at the time the loan is made or later if the loan is not repaid in accordance with the repayment schedule.

If a loan fails to satisfy **4** above at the time the loan is made, the amount that exceeds the amount permitted to be loaned is a deemed distribution.

If a loan is treated as a deemed distribution, it is reportable on Form 1099-R using the normal taxation rules of section 72, including tax basis rules. The distribution also may be subject to the 10% additional tax for early distributions under section 72(t). It is not eligible to be rolled over to an eligible retirement plan nor is it eligible for the 10-year tax option. On Form 1099-R, complete the appropriate boxes, including boxes 1 and 2a, and enter Code L in box 7. Enter another code, such as Code 1 or 2, in box 7, if applicable.

Interest that accrues after the deemed distribution of a loan is not an additional loan, and, therefore is not reportable on Form 1099-R.

If a participant's accrued benefit is reduced (offset) to repay a loan, the amount of the account balance that is offset against the loan is an actual distribution. Report it as you would any other actual distribution. Do not enter Code L in box 7.

Loans that are treated as deemed distributions or that are actual distributions are subject to Federal income tax withholding. If a distribution occurs after the loan is made, you must withhold only if you distributed cash or property (other than employer securities) at the time of the deemed or actual distribution. See section 72(p), 72(e)(4)(A), and Regulations section 1.72(p)-1.

**Subsequent distributions.** If a participant makes any cash **repayments** on a loan that was reported on Form 1099-R as a deemed distribution, the repayments increase the participant's tax basis in the plan as if the repayments were after-tax contributions. However, such repayments are not treated as after-tax contributions for purposes of section 401(m) or 415(c)(2)(B).

For a deemed distribution that was reported on Form 1099-R but was **not repaid**, the deemed distribution does **not** increase the participant's basis.

**Missing participants.** The IRS administers a letter-forwarding program that could help plan administrators contact missing retirement plan participants (or possibly their beneficiaries). To inform individuals of their rights to benefits under a retirement plan, the IRS will forward letters from plan administrators to the missing individuals if the administrators provide the names and social security numbers (SSNs) of the missing individuals. However, the IRS cannot disclose individuals' addresses or give confirmation of letter delivery. All undelivered letters will be destroyed.

For further information, see Rev. Proc. 94-22, 1994-1 C.B. 608, or contact your IRS office.

**Corrected Form 1099-R.** If you filed a Form 1099-R with the IRS and later discover that there is an error on it, you must correct it as soon as possible. For example, if you transmit a direct rollover and file a Form 1099-R with the IRS reporting that none of the direct rollover is taxable by entering 0 (zero) in box 2a, and you then discover that part of the direct rollover consists of required minimum distributions under section 401(a)(9), you must file a corrected Form 1099-R. See part **I** in the General Instructions for Forms 1099, 1098, 5498, and W-2G.

**Filer.** The payer, trustee, or plan administrator must file Form 1099-R using the same name and employer identification number (EIN) used to deposit any tax withheld and to file **Form 945**, Annual Return of Withheld Federal Income Tax.

**Beneficiaries.** If you make a distribution to a beneficiary or estate, prepare Form 1099-R using the name and TIN of the beneficiary or estate, not those of the decedent. If there are multiple beneficiaries, report on each Form 1099-R only the amount paid to the beneficiary whose name appears on the Form 1099-R, and enter the percentage in box 9a, if applicable.

**Alternate payee under QDRO.** Distributions to an alternate payee who is a spouse or former spouse of the employee under a QDRO are reportable on Form 1099-R using the name and TIN of the alternate payee. However, see **Transfer of IRA to spouse** on page R-3.

**Nonresident aliens.** If income tax is withheld under section 3405 on a distribution to a nonresident alien, report the distribution and withholding on Form 1099-R. Also file Form 945 to report the withholding. Any payments to a nonresident alien from any trust under section 401(a), any annuity plan under 403(a), or any annuity, custodial account, or retirement income account under 403(b) are subject to withholding under section 1441. Report the distribution and withholding on **Form 1042**, Annual Withholding Tax Return for U.S. Source Income of Foreign Persons, and **Form 1042-S**, Foreign Person's U.S. Source Income Subject to Withholding.

**Statements to recipients.** If you are required to file Form 1099-R, you must furnish a statement to the recipient. For more information about the requirement to furnish a statement to each recipient, see part **H** in the **General Instructions for Forms 1099, 1098, 5498, and W-2G**.



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

### Box 1. Gross Distribution

Enter the **total amount of the distribution** before income tax or other deductions were withheld. Include direct rollovers, premiums paid by a trustee or custodian for current life or other insurance protection (PS 58 costs), and the gross amount of any IRA distribution, including a recharacterization and a Roth conversion. However, in the case of a distribution by a trust representing CDs redeemed early, report the net amount distributed. Also, see **Box 6** on page R-8.

Include in this box the value of U.S. Savings Bonds distributed from a plan. Enter the appropriate taxable amount in box 2a. Please furnish a statement to the plan participant showing the value of each bond at the time of distribution. This will provide him or her with the information necessary to figure the interest income on each bond when it is redeemed.

In addition to reporting death benefit payments made from a plan, report here any **death benefit payments** made by employers that are not made as part of a pension, profit-sharing, or retirement plan. Also enter this amount in box 2a. Enter Code 4 in box 7. For example, the board of directors of XYZ Corporation votes to pay the widow of one of its employees a lump sum "death benefit." Report this amount in boxes 1 and 2a, and show Code 4 in box 7.



*Do not report accelerated death benefits on Form 1099-R. Report them on **Form 1099-LTC**, Long-Term Care and Accelerated Death Benefits.*

For a section 1035 exchange, see **Section 1035 exchange** on page R-1.

**Employer securities and other property.** If you distribute employer securities or other property, include in box 1 the FMV of the securities or other property on the date of distribution. If there is a loss, see **Losses** on page R-6.

If you are distributing worthless property only, you are not required to file Form 1099-R. However, you may file and enter 0 (zero) in boxes 1 and 2a and any after-tax employee contributions in box 5.

### Box 2a. Taxable Amount

Generally, you must enter the taxable amount in box 2a. However, if you are unable to reasonably obtain the data needed to compute the **taxable amount**, leave this box blank. Do not include excludable or tax-deferred amounts reportable in boxes 5, 6, and 8.

For a direct rollover from a qualified plan or tax-sheltered annuity, for a distribution from a conduit IRA that is payable to the trustee of or is transferred to an employer plan, for an IRA recharacterization, or for a nontaxable section 1035 exchange

of life insurance, annuity, or endowment contracts, enter 0 (zero) in box 2a.

**PS 58 costs and DECs.** Include PS 58 costs that were reported in box 1. However, do not report PS 58 costs and a distribution on the same Form 1099-R. Use a separate Form 1099-R for each. Enter Code 9 in box 7 for PS 58 costs. See Regulations section 1.72-16(b) and Rev. Ruls. 55-747, 1955-2 C.B. 228, and 66-110, 1966-1 C.B. 12, for information on the cost of premiums paid by an employees' trust under a qualified plan for current life insurance protection taxable to plan participants or their beneficiaries.

Also include DEC distributions in this box.

**Annuity starting date in 1998 or later.** If you made annuity payments from a qualified plan (under section 401(a), 403(a), or 403(b)) and the annuity starting date is in 1998 or later, you **must** use the simplified method (under section 72(d)) to figure the taxable amount. Under this method, the expected number of payments you use to figure the taxable amount depends on whether the payments are based on the life of one or more than one person. See Notice 98-2, 1998-1 C.B. 266, and **Pub. 575**, Pension and Annuity Income, to help you figure the taxable amount to enter in box 2a.

**Annuity starting date after November 18, 1996, and before 1998.** Under the simplified method for figuring the taxable amount, the expected number of payments is based only on the primary annuitant's age on the annuity starting date. See Notice 98-2.

**Annuity starting date before November 19, 1996.** If you properly used the rules in effect before November 19, 1996, for annuities that started before that date, continue to report using those rules. No changes are necessary.

**IRA or SEP.** Generally, you are not required to compute the taxable amount of a traditional IRA or SEP nor designate whether any part of a distribution is a return of basis attributable to nondeductible contributions. Therefore, report the total amount distributed from a traditional IRA or SEP in box 2a. This will be the same amount reported in box 1. Mark the "Taxable amount not determined" box in box 2b.

However, for a distribution by a trust representing CDs redeemed early, report the net amount distributed. Do not include any amount paid for IRA insurance protection in this box.

For a distribution of contributions plus earnings from an IRA under **section 408(d)(4)**, report the gross distribution in box 1, only the earnings in box 2a, and enter Code 8 or P, whichever is applicable, in box 7. Enter Code 1, 2, 4, or 7, if applicable.

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

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

**Roth or Ed IRA.** For a distribution from a Roth or Ed IRA, report the total distribution in box 1 and leave box 2a blank except in the case of an IRA revocation (see page R-2). Use Code J, M, or T as appropriate in box 7. Use Code 5, 8, or P, if applicable, in box 7 with Code J or T and Code 3, 4, 8, or P with Code M.

However, for the distribution of excess Roth IRA contributions under section 408(d)(4) or of excess Ed IRA contributions under section 530(d)(4), report the gross distribution in box 1 and only the earnings in box 2a. Enter Code J, M, or T and 8 or P in box 7.

**Roth conversion.** Report the total amount converted or reconverted from a traditional IRA, SEP IRA, or SIMPLE IRA to a Roth IRA in boxes 1 and 2a. A conversion or reconversion is considered a distribution and must be reported even if it is with the same trustee and even if the conversion is done by a trustee-to-trustee transfer. For a Roth conversion, use Code 2 in box 7 if the participant is under age 59½ or Code 7 if the participant is at least age 59½. Also, mark the IRA/SEP/SIMPLE box in box 7.

**Losses.** If a distribution is a loss, do not enter a negative amount in this box. For example, if stock is distributed but the value is less than the employee's after-tax contributions, enter the value

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### Example for Computing Amount Eligible for Capital Gain Election (See Box 3.)

#### Step I: Total Taxable Amount

Total distribution . . . . .	XXXXX	
Less: 1. Current actuarial value of any annuity. . . . .	XXXXX	
2. Employee contributions (minus any amounts previously distributed that were not includible in the employee's gross income) . . . . .	XXXXX	
3. Net unrealized appreciation in the value of any employer securities that were a part of the lump-sum distribution . . . . .	XXXXX	XXXXX
Total taxable amount . . . . .	XXXXX	XXXXX

#### Step II: Capital Gain

Total taxable amount (from Step I)	×	Months of active participation before 1974	=	Capital gain
		Total months of active participation		

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of the stock in box 1, leave box 2a blank, and enter the employee's contributions in box 5.

For a plan with no after-tax contributions, even though the value of the account may have decreased, there is no loss for reporting purposes. Therefore, if there are no employer securities distributed, show the actual cash and/or FMV of property distributed in boxes 1 and 2a, and make no entry in box 5. If only employer securities are distributed, show the FMV of the securities in boxes 1 and 2a and make no entry in box 5 or 6. If both employer securities and cash or other property are distributed, show the actual cash and/or FMV of the property (including employer securities) distributed in box 1, the gross less any NUA on employer securities in box 2a, no entry in box 5, and any NUA in box 6.

#### Box 2b—Taxable Amount not Determined

Enter an "X" in this box only if you are unable to reasonably obtain the data needed to compute the taxable amount. If you mark this box, leave box 2a blank unless you are reporting a traditional IRA, SEP IRA, or SIMPLE IRA distribution. Except for IRAs, make every effort to compute the taxable amount.

#### Box 2b—Total Distribution

Enter an "X" in this box only if the payment shown in box 1 is a total distribution. A total distribution is one or more distributions within 1 tax year in which the entire balance of the account is distributed. If periodic or installment payments are made, mark this box in the year the final payment is made.

#### Box 3. Capital Gain (Included in Box 2a)

For lump-sum distributions from qualified plans only, enter the amount in box 2a eligible for the **capital gain** election under section 1122(h)(3) of the Tax Reform Act of 1986, 1986-3 (Vol. 1) C.B. 1, 387, for participants born before 1936 (or their beneficiaries). Enter the full amount eligible for the capital gain election. You should not complete this box for a direct rollover.

To compute the months of an employee's active participation before 1974, count as 12 months any part of a calendar year in which an employee actively participated under the plan; for active participation after 1973, count as 1 month any part of a month in which the employee actively participated under the plan. See the **Example** above.

Active participation begins with the first month in which an employee became a participant under the plan and ends with the earliest of:

1. The month in which the employee received a lump-sum distribution under the plan;

2. For an employee, other than a self-employed person or owner-employee, the month in which the employee separates from service;

3. The month in which the employee dies; or


4. For a self-employed person or owner-employee, the first month in which the employee becomes disabled (within the meaning of section 72(m)(7)).

For a charitable gift annuity, see **Charitable gift annuities** on page R-1.

#### 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 is **Form 945**, Annual Return of Withheld Federal Income Tax. 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 amount withheld cannot be more than the sum of the cash and the FMV of property (excluding employer securities) received in the distribution. If a distribution consists solely of employer securities and cash (\$200 or less) in lieu of fractional shares, no withholding is required.*

To determine your withholding requirements for any designated distribution under section 3405, you must first determine whether the distribution is an eligible rollover distribution. (See **Direct rollovers** on page R-2 for a discussion of eligible rollover distributions.) If the distribution is not an eligible rollover distribution, the rules for periodic payments or nonperiodic distributions apply. For purposes of withholding, distributions from any IRA are not eligible rollover distributions.

**Eligible rollover distribution; 20% withholding.** If an eligible rollover distribution is paid directly to an eligible retirement plan in a direct rollover, do not withhold Federal income tax. If any part of an eligible rollover distribution is not a direct rollover, you must withhold 20% of the part that is paid to the recipient. The recipient cannot claim exemption from the 20% withholding but may ask to have additional amounts withheld on **Form W-4P**, Withholding Certificate for Pension or Annuity Payments. If the recipient is not asking that additional amounts be withheld, Form W-4P is not required for an eligible rollover distribution because 20% withholding is mandatory.

Employer securities and plan loan offset amounts that are part of an eligible rollover distribution must be included in the amount multiplied by 20%. However, the actual amount to be withheld cannot be more than the sum of the cash and the FMV of property (excluding employer securities and plan loan offset amounts). For example, if the only part of an eligible rollover distribution that is not a direct rollover is employer securities or a plan loan offset amount, no withholding is required. However, any cash that is paid in the distribution must be used to satisfy the withholding on the employer securities or plan loan offset amount.

The 20% withholding requirement applies to eligible rollover distributions from a qualified plan distributed annuity contract. For such a contract, the payer is required to withhold.

Any NUA excludable from gross income under section 402(e)(4) is not included in the amount of any eligible rollover distribution that is subject to 20% withholding.

You are not required to withhold 20% of an eligible rollover distribution that, when aggregated with other eligible rollover distributions made to one person during the year, is less than \$200.


**IRAs.** 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 below. 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)). However, do not withhold on a distribution from an Ed IRA.

A distribution from a Roth IRA is considered a designated distribution and is subject to withholding under the rules for periodic payments and nonperiodic distributions below. However, an individual may claim exemption from such withholding.

An IRA recharacterization is not subject to income tax withholding.

**Periodic payments.** For periodic payments that are not eligible rollover distributions, withhold on the taxable part as though the periodic payments were wages, based on the recipient's Form W-4P. The recipient may request additional withholding on Form W-4P or claim exemption from withholding. If a recipient does not submit a Form W-4P, withhold by treating the recipient as married with three withholding allowances. See **Circular E**, Employer's Tax Guide (Pub. 15), for wage withholding tables.

 *Rather than Form W-4P, military retirees should give you Form W-4, Employee's Withholding Allowance Certificate.*


**Nonperiodic distributions.** Withhold 10% of the taxable part of a nonperiodic distribution that is not an eligible rollover distribution. The recipient may request additional withholding on Form W-4P or claim exemption from withholding.

**Failure to provide TIN.** For periodic payments and nonperiodic distributions, if a payee fails to furnish his or her correct TIN to you in the manner required, or if the IRS notifies you before any distribution that the TIN furnished is incorrect, a payee cannot claim exemption from withholding. For periodic payments, withhold as if the payee was single claiming no withholding allowances. For nonperiodic payments, withhold 10%. Backup withholding does not apply.

#### Box 5. Employee Contributions or Insurance Premiums

Enter the **employee's contributions** to a profit-sharing or retirement plan, or **insurance premiums** that the employee may recover tax free this year. The entry in box 5 may include any of the following: **(a)** contributions actually made by the employee over the years under the retirement or profit-sharing plan that were required to be included in the income of the employee when contributed ("after-tax contributions"), **(b)** contributions made by the employer but considered to have been contributed by the employee under section 72(f), **(c)** the accumulated cost of premiums paid for life insurance protection taxable to the employee in previous years and in the current year under Regulations section 1.72-16 (PS 58 costs) (only if the life insurance contract itself is distributed), and **(d)** premiums paid on commercial annuities. Do not include contributions to any IRA, DEC, 401(k) plan, or any other contribution to a retirement plan that was not an after-tax contribution.

Generally, for qualified plans, tax-sheltered annuities, and nonqualified commercial annuities, enter in box 5 the employee contributions or insurance premiums recovered tax free during the year based on the method you used to determine the taxable amount to be entered in box 2a. If periodic payments began before 1993, you are not required to, but you are encouraged to, report in box 5.

 *If you made periodic payments from a qualified plan and the annuity starting date is after November 18, 1996, you must use the simplified method to figure the tax-free amount each year. See **Annuity starting date in 1998 or later** on page R-6.*

If a total distribution is made, the total employee contributions or insurance premiums available to be recovered tax free must be shown only in box 5. If any previous distributions were made, any amount recovered tax free in prior years must not appear in box 5.

If you are unable to reasonably obtain the data necessary to compute the taxable amount, leave boxes 2a and 5 blank, and mark the first box in box 2b.

For more information, see Rev. Proc. 92-86, 1992-2 C.B. 495 and section 72(d).

For charitable gift annuities, see **Charitable gift annuities** on page R-1.

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

Use this box if a distribution includes securities of the employer corporation (or a subsidiary or parent corporation) and you can compute the net unrealized appreciation (NUA) in the employer's securities. Enter all the NUA in employer securities if this is a lump-sum distribution. If this is not a lump-sum distribution, enter only the NUA in employer securities attributable to employee contributions. See Regulations section 1.402(a)-1(b) for the determination of the NUA. Also see Notice 89-25, Q/A-1, 1989-1 C.B. 662. Include the NUA in box 1 but not in box 2a. You do not have to complete this box for a direct rollover.

### 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 mark the box for a distribution from a Roth or Ed IRA or for an IRA recharacterization.

**You must enter the appropriate code(s) in box 7.** Use the **Guide to Distribution Codes** on pages R-9 and R-10 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. Or 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 for the surviving spouse of a deceased participant, enter Codes 4 and G. Do not use Code 4 with Code H.



*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.

If part of an eligible rollover distribution is paid in a direct rollover and part is not, you must file a separate Form 1099-R for each part showing the appropriate code on each form. If part of a distribution is an eligible rollover distribution and part is not (e.g., a minimum distribution required by section 401(a)(9)) and the part that is an eligible rollover distribution is directly rolled over, you must file a separate Form 1099-R to report each part.

### Box 8. Other

Enter the current **actuarial value** of an annuity contract that is part of a lump-sum distribution. Do not include this item in boxes 1 and 2a.

To determine the value of an annuity contract, show the value as an amount equal to the current actuarial value of the annuity contract, reduced by an amount equal to the excess of the employee's contributions over the cash and other property (not including the annuity contract) distributed.

If an annuity contract is part of a multiple recipient lump-sum distribution, enter in box 8, along with the current actuarial value, the percentage of the total annuity contract each Form 1099-R represents.

### 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

You are not required to enter the total employee contributions in box 9b. However, because this information may be helpful to the recipient, you may choose to report them.

If you choose to report the total employee contributions, do not include any amounts recovered tax free in prior years. For a total distribution, report the total employee contributions in box 5 rather than in box 9b.

### 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.



## Guide to Distribution Codes

Distribution Codes	Explanations	*May be used with code...
1—Early distribution, no known exception.	Use Code 1 only if the employee/taxpayer has <b>not</b> reached age 59½, and if none of the exceptions under section 72(q), (t), or (v) are known to apply. For example, if a distribution is made for medical or qualified higher education expenses, you probably will not know if any medical or qualified higher education expense exception under section 72(t) applies. Therefore, use Code 1. However, if an early distribution is made from a qualified retirement plan because of an IRS levy under section 6331, use Code 2.	8, D, L, or P
2—Early distribution, exception applies (as defined in section 72(q), (t), or (v)).	Use Code 2 if the employee/taxpayer has <b>not</b> reached age 59½ to indicate that an exception under section 72(q), (t), or (v) applies. However, instead of Code 2, use Code 3 or 4, whichever applies, for an early distribution due to disability or death. Also use Code 2 for a Roth conversion (an IRA converted to a Roth IRA) or reconversion if the participant is under 59½ and for an early distribution made from a qualified retirement plan because of an IRS levy under section 6331.	8, D, L, or P
3—Disability.		M
4—Death.	Use Code 4 regardless of the age of the employee/taxpayer to indicate payment to a decedent's beneficiary, including an estate or trust. Also use it for death benefit payments made by an employer but not made as part of a pension, profit-sharing, or retirement plan.	8, A, D, G, L, M, or P
5—Prohibited transaction.		J or T
6—Section 1035 exchange.	Use Code 6 to indicate the tax-free exchange of life insurance, annuity, or endowment contracts under section 1035.	None
7—Normal distribution.	Use Code 7 (a) for a normal distribution from a plan, including a traditional IRA, if the employee/taxpayer is at least 59½, (b) for a Roth conversion or reconversion if the participant is at least 59½, and (c) to report a distribution from a life insurance, annuity, or endowment contract and for reporting income from a failed life insurance contract under section 7702(g) and (h). (See Rev. Rul. 91-17, 1991-1 C.B. 190.) Use Code 7 with Code A, if applicable. Generally, use Code 7 if no other code applies. <b>Do not</b> use Code 7 if Code M or T applies.	A
8—Excess contributions plus earnings/excess deferrals (and/or earnings) taxable in 2001.	Use Code 8 for an IRA distribution under section 408(d)(4), including excess Roth contributions, or the withdrawal of excess contributions from an Ed IRA, unless Code P applies. Also use this code for corrective distributions of excess deferrals, excess contributions, and excess aggregate contributions, unless Code D or P applies. See <b>Corrective distributions</b> on page R-3. Also see <b>IRA revocation</b> on page R-2.	1, 2, 4, J, M, or T
9—PS 58 costs.	Use Code 9 to report premiums paid by a trustee or custodian for current life or other insurance protection (PS 58 costs). See <b>Box 2a</b> on page R-5 for more information.	None
A—May be eligible for 10-year tax option.	Use Code A only for participants born before 1936 or their beneficiaries to indicate the distribution is eligible for the 10-year tax option method of computing the tax on lump-sum distributions (on <b>Form 4972</b> , Tax on Lump-Sum Distributions). To determine whether the distribution may be eligible for the tax option, you need not consider whether the recipient used this method (or capital gain treatment) in the past.	4 or 7
D—Excess contributions plus earnings/excess deferrals taxable in 1999.	See the explanation for Code 8. Generally, do not use Code D for an IRA distribution under section 408(d)(4).	1, 2, or 4

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

## Guide to Distribution Codes (Cont.)

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

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## Specific Instructions for Form 5498

File **Form 5498**, IRA Contribution Information, with the IRS by May 31, 2002, for each person for whom you maintained any individual retirement arrangement (IRA) during 2001.

An IRA includes all investments under one IRA plan. It is not necessary to file a Form 5498 for each investment under one plan. For example, if a participant has three CDs under one IRA plan, only one Form 5498 is required for all contributions and the fair market values (FMVs) of the CDs under the plan. However, if an individual has established more than one IRA plan with the same trustee, a separate Form 5498 must be filed for each plan.

**Contributions.** You must report contributions to any IRA on Form 5498. See the instructions under Boxes 1, 2, 3, 4, 8, 9, 10, and 11 on page R-12. If no reportable contributions were made for 2001, complete only boxes 5 and 7.

Report contributions to a spousal IRA under section 219(c) on a separate Form 5498 using the name and taxpayer identification number (TIN) of the spouse.

For contributions made between January 1 and April 15, 2002, trustees and issuers should obtain the participant's designation of the year for which the contributions are made.

**Direct rollovers, transfers, and recharacterizations.** You must report the receipt of a direct rollover from a qualified plan or tax-sheltered annuity to an IRA. Report a direct rollover in box 2. For information on direct rollovers of eligible rollover distributions, see **Direct rollovers** on page R-2. If a rollover or trustee-to-trustee transfer is made from a SIMPLE IRA to an IRA that is not a SIMPLE IRA and the trustee has adequately substantiated information that the participant has not satisfied the 2-year period specified in section 72(t)(6), report the amount as a regular contribution in box 1 even if the amount exceeds \$2,000.

**Transfers.** Do not report on Form 5498 a direct trustee-to-trustee transfer from (1) a traditional IRA to another traditional IRA, (2) a SIMPLE IRA to another SIMPLE IRA, (3) a SEP IRA to another SEP IRA or to a traditional IRA, (4) a Roth IRA to a Roth IRA, or (5) an Ed IRA to an Ed IRA. For reporting purposes, contributions and rollovers do not include these transfers.

**Recharacterizations.** You must report each recharacterization of an IRA contribution. If a participant makes a contribution to an IRA (first IRA) for a year, the participant may choose to recharacterize the contribution by transferring, in a trustee-to-trustee transfer, any part of the contribution (plus earnings) to another IRA (second IRA). The contribution is treated as made to the second IRA (recharacterization). A recharacterization may be made with the same trustee or with another trustee. The trustee of the first IRA must report the amount contributed before the recharacterization as a contribution on Form 5498 (and the recharacterization as a distribution on Form 1099-R).

The trustee of the second IRA must report the amount received (FMV) in box 4 on Form 5498 and check the type of IRA box in box 7. All recharacterized contributions received by an IRA in the same year must be totaled and reported on one Form 5498 in box 4.

You must report a recharacterization of an IRA contribution and other contributions made to the IRA for the year on the same Form 5498. You may report the FMV of the account on the same Form 5498 you use to report a recharacterization of an IRA contribution and any other contributions made to the IRA for the year.

**Roth conversions.** You must report the receipt of a conversion from an IRA to a Roth IRA even if the conversion is with the same trustee. Report the total amount converted from a traditional IRA, SEP IRA, or SIMPLE IRA to a Roth IRA in box 3. Also report a reconversion to a Roth IRA after a recharacterization in box 3.

**IRA revocation.** If a traditional or Roth IRA is revoked during its first 7 days (under Regulations section 1.408-6(d)(4)(ii)), Form 5498 must be filed to report any regular, rollover, or IRA

conversion contributions to an IRA that is revoked. For information about reporting a distribution from a revoked IRA, see **IRA revocation** on page R-2.

**Total distribution, no contributions.** Generally, if a total distribution was made from an account during the year and no contributions, including rollovers, recharacterizations, or Roth conversion amounts, were made for that year, you need not file Form 5498 nor furnish the annual statement to reflect that the FMV on December 31 was zero.

**Distributions.** Report distributions (including recharacterizations) from any IRA on Form 1099-R. For an early distribution of contributions plus earnings, report the distribution on Form 1099-R using the applicable code.

**Inherited IRAs.** In the year an IRA owner dies, you, as an IRA trustee or issuer, generally must file a Form 5498 and furnish an annual statement for the decedent and a Form 5498 and an annual statement for each nonspouse beneficiary. An IRA holder must be able to identify the source of each IRA he or she holds for purposes of figuring the taxation of a distribution from an IRA. Thus, the decedent's name must be shown on the beneficiary's Form 5498 and annual statement. For example, you may enter "Brian Young as beneficiary of Joan Smith" or something similar that signifies that the IRA was once owned by Joan Smith. You may abbreviate the word "beneficiary" as, for example, "bene."

For a spouse beneficiary, unless the spouse makes the IRA his or her own by making contributions to the account, including a rollover contribution, or by not taking distributions required by section 401(a)(9)(B), treat the spouse as a nonspouse beneficiary for reporting purposes. If the spouse makes the IRA his or her own, do not report the beneficiary designation on Form 5498 and the annual statement.

**Fair market value.** On the decedent's Form 5498 and annual statement, you must enter the FMV of the IRA on the date of death in box 5. Or you may choose the alternate reporting method and report the FMV as of the end of the year in which the decedent died. This alternate value will usually be zero because you will be reporting the end-of-year valuation on the beneficiary's Form 5498 and annual statement. The same figure should not be shown on both the beneficiary's and decedent's forms. If you choose to report using the alternate method, you must inform the executor or administrator of the decedent's estate of his or her right to request a date-of-death valuation.

On the beneficiary's Form 5498 and annual statement, the FMV of that beneficiary's share of the IRA as of the end of the year must be shown in box 5. Every year thereafter that the IRA exists, you must file Form 5498 and furnish an annual statement for each beneficiary who has not received a total distribution of his or her share of the IRA showing the FMV at the end of the year and identifying the IRA as described above.

However, if a beneficiary takes a total distribution of his or her share of the IRA in the year of death, you need not file a Form 5498 nor furnish an annual statement for that beneficiary, but you must still file Form 5498 for the decedent.

If you have no knowledge of the death of an IRA owner until after you are required to file Form 5498 (May 31), you are not required to file a corrected Form 5498 nor furnish a corrected annual statement. However, you must still provide the date-of-death valuation in a timely manner to the executor or administrator upon request.

For more information about the reporting requirements for inherited IRAs, see Rev. Proc. 89-52, 1989-2 C.B. 632.

**Desert Storm/Shield, Operation Joint Endeavor (Bosnia Region)/Operation Joint Guard, Operation Allied Force (Kosovo area) contributions.** For information about reporting contributions for a prior year made by a qualifying Desert Storm/Shield individual, see Notice 91-17, 1991-1 C.B. 319, and the 1994 Form 5498 instructions. The instructions for filing Form 5498 for Desert Storm/Shield participants also apply to participants of Operation Joint Endeavor (Bosnia Region)/Operation Joint Guard, and Operation Allied Force. However, substitute "JE" for Joint Endeavor, "JG" for Joint Guard, and "AF" for Allied Force for "DS" in those instructions.

**Corrected Form 5498.** If you filed a Form 5498 with the IRS and later discover that there is an error on it, you must correct it as soon as possible. See part **I** in the General Instructions for Forms 1099, 1098, 5498, and W-2G. For example, if you reported contributions as rollover contributions in box 2, and you later discover that part of the contribution was not eligible to be rolled over and was a regular contribution that should have been reported in box 1, you must file a corrected Form 5498.

**Statements to participants.** If you are required to file Form 5498, you must provide a statement to the participant. By January 31, 2002, you must provide participants of an IRA with a statement of the December 31, 2001 value of the participant's account in any written format. Trustees of SIMPLE IRAs also must provide a statement of the account activity by January 31. Contribution information for an Ed IRA also must be provided by January 31, 2002. Contribution information for all other types of IRAs must be provided by May 31, 2002. You are not required to provide information to the IRS or to participants as to whether a contribution is deductible or nondeductible. In addition, the participant is not required to tell you whether a contribution is deductible or nondeductible.

If you furnished a statement of the FMV of the account to the participant by January 31, 2002, and no contributions, including rollovers, recharacterizations, or Roth conversions, were made for 2001, you need not furnish another statement (or Form 5498) to the participant to report zero contributions. However, you must file Form 5498 with the IRS by May 31, 2002, to report the December 31, 2001 FMV of the account. This rule also applies to beneficiary accounts under the inherited IRA rules on page R-11.

For more information about the requirement to furnish statements to participants, see part **H** in the General Instructions for Forms 1099, 1098, 5498, and W-2G.



*If you do not furnish another statement to the participant because no contributions were made for the year, the statement of the FMV of the account must contain a legend designating which information is being furnished to the Internal Revenue Service.*

### **Box 1. IRA Contributions (Other Than Amounts in Boxes 2, 3, 4, and 8–11)**

Enter **contributions** to a traditional IRA made in 2001 and through April 15, 2002, designated for 2001.

Report gross contributions, including the amount allocable to the cost of life insurance (see **Box 6**) and including any excess contributions, even if the excess contributions were withdrawn. If an excess contribution is treated as a contribution in a subsequent year, do not report it on Form 5498 for the subsequent year. It has already been reported as a contribution on Form 5498 for the year it was actually contributed.

Also include **employee** contributions to an IRA under a SEP plan. These are contributions made by the employee, not by the employer, that are treated as regular IRA contributions subject to the 100% of compensation and \$2,000 limits of section 219. Do not include employer SEP contributions including salary reduction SEP (SARSEP) contributions under section 408(k)(6). Include them in box 8.

Also, **do not** include in box 1 contributions to a SIMPLE IRA (report them in box 9), a Roth IRA (report them in box 10), and an Ed IRA (report them in box 11). In addition, do not include in box 1 rollovers and recharacterizations (report rollovers in box 2 and recharacterizations in box 4), or a Roth conversion amount (report in box 3).

### **Box 2. Rollover Contributions**

Enter any **rollover contributions** to any IRA received by you during 2001. Include a direct rollover from a qualified plan or tax-sheltered annuity to an IRA. For the rollover of property, enter the FMV of the property on the date you receive it. This

value may be different from the value of the property on the date it was distributed to the participant.

### **Box 3. Roth Conversion Amount**

Enter the amount converted or reconverted from a traditional IRA, SEP IRA, or SIMPLE IRA to a Roth IRA during 2001. Do not include a rollover from one Roth IRA to another Roth IRA. Include a rollover in box 2.

### **Box 4. Recharacterized Contributions**

Enter any amounts recharacterized from one type of IRA to another.

### **Box 5. Fair Market Value of Account**

Enter the FMV of the account on December 31. For inherited IRAs, see **Inherited IRAs** on page R-11.

### **Box 6. Life Insurance Cost Included in Box 1**

For endowment contracts only, enter the amount included in box 1 allocable to the cost of life insurance.

### **Box 7. Checkboxes**

If you did **not** enter an amount in box 1, 3, 8, 9, 10, or 11 even if you entered an amount in box 2 or 4, you must mark the appropriate box. If you entered an amount in box 1, 3, 8, 9, 10, or 11 you may, but you do not have to, mark the appropriate box.

**IRA.** Check "IRA" if you are filing Form 5498 to report information about a traditional IRA account.

**SEP.** Check "SEP" if you are filing Form 5498 to report information about a SEP IRA. A SEP is a written arrangement (plan) under section 408(k) established by an employer to make contributions toward his or her own (if a self-employed individual) and employees' retirement. The contributions are made to the IRAs of the participants in the plan. If you do not know whether the account is a SEP IRA, mark the "IRA" checkbox.

**SIMPLE.** Check "SIMPLE" if you are filing Form 5498 to report information about a SIMPLE IRA account. A SIMPLE IRA is an individual retirement plan that can receive contributions under a written salary reduction arrangement. It may be established by an employer (including a self-employed person) with 100 or fewer employees. Do not check this box for a SIMPLE IRA under a section 401(k) plan. See section 408(p).

**Roth IRA.** Check "Roth IRA" if you are filing Form 5498 to report information about any Roth IRA account.

**Ed IRA.** Check "Ed IRA" if you are filing Form 5498 to report information about an Ed IRA account.

### **Box 8. SEP Contributions**

Enter **employer** contributions made to a SEP IRA (including salary deferrals under a SARSEP) during 2001 including contributions made in 2001 for 2000, but not including contributions made in 2002 for 2001. **Do not** enter employee contributions to an IRA under a SEP plan. Report any **employee** contributions to an IRA under a SEP plan in box 1. Also include in box 8 SEP contributions made by a self-employed person to his or her own account.

### **Box 9. SIMPLE Contributions**

Enter **any** contributions made to a SIMPLE IRA during 2001. Do not include contributions to a SIMPLE under a 401(k) plan.

### **Box 10. Roth IRA Contributions**

Enter any contributions made to a Roth IRA in 2001 and through April 15, 2002, designated for 2001. However, report Roth conversion amounts in box 3.

### **Box 11. Ed IRA Contributions**

Enter any contributions made to an Ed IRA during 2001.

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## Index

<b>A</b>	
Actuarial value of annuity contract .....	R-8
Alternate payee under QDRO .....	R-5
Annuity distributions .....	R-1-R-8
<b>B</b>	
Backup withholding .....	R-7
Beneficiaries .....	R-5
<b>C</b>	
Capital gain distributions .....	R-1, R-6
Charitable gift annuities .....	R-1
Conduit IRAs .....	R-2, R-5
Corrected returns .....	R-4, R-5, R-12
Corrective distributions .....	R-3
<b>D</b>	
Death benefit payments .....	R-1, R-5
DECs .....	R-2, R-6
Direct rollovers .....	R-2, R-3, R-5, R-7, R-8, R-11, R-12
<b>E</b>	
Education IRA contributions .....	R-11-R-12
Education IRA distributions .....	R-1, R-2, R-6
Eligible rollover distribution .....	R-2, R-7, R-8
Employee contributions, retirement plan .....	R-7, R-8
Employer securities, distributions .....	R-4, R-5, R-6, R-7, R-8
Endowment contracts .....	R-1, R-12
Excess annual additions .....	R-4
Excess deferrals, excess contributions, corrective distributions of .....	R-3
<b>F</b>	
Failing ADP or ACP test, corrections .....	R-4
Form 1099-R .....	R-1
Form 5498 .....	R-11
Form 945 .....	R-5, R-7
<b>I</b>	
Inherited IRAs .....	R-11, R-12
Insurance contracts .....	R-1, R-8
IRA contributions .....	R-11-R-12
IRA distributions .....	R-1-R-8
IRA recharacterizations .....	R-1, R-2, R-3, R-5, R-7, R-11, R-12
IRA revocation .....	R-2, R-11
<b>L</b>	
Life insurance contract distributions .....	R-1
Loans treated as distributions .....	R-2, R-4
Losses, retirement distributions .....	R-4, R-6
<b>M</b>	
Military retirement .....	R-1
Missing retirement plan participants .....	R-5
<b>N</b>	
Net unrealized appreciation .....	R-2, R-3, R-4, R-6, R-7, R-8
Nonperiodic distributions .....	R-7
Nonqualified plan distributions .....	R-1
Nonresident aliens .....	R-5
<b>P</b>	
Pension distributions .....	R-1-R-8
Periodic payments .....	R-7
Profit-sharing distributions .....	R-1-R-8
PS 58 costs .....	R-1, R-2, R-5, R-7
<b>Q</b>	
Qualified plan distributions .....	R-1-R-8
<b>R</b>	
Recharacterized IRA contributions .....	R-3, R-5, R-7, R-11
Retirement payments .....	R-1-R-8
Revocation, IRA .....	R-2, R-11
Rollovers .....	R-2, R-3, R-5, R-7, R-8, R-11, R-12
Roth conversions .....	R-1, R-2, R-3, R-6, R-7, R-11, R-12
Roth IRA contributions .....	R-11, R-12
Roth IRA distributions .....	R-2, R-6, R-7
<b>S</b>	
Section 1035 exchange .....	R-1, R-3, R-5
Section 402(f) notice .....	R-3
SEP contributions .....	R-2, R-6, R-11, R-12
SEP distributions .....	R-2, R-6, R-8
SIMPLE contributions .....	R-11, R-12
SIMPLE distributions .....	R-2, R-3, R-6, R-8
State and local information .....	R-8
Statements to recipients/participants .....	R-5, R-12
<b>T</b>	
Taxable amount, retirement distributions .....	R-5
Transfers:	
Form 1099-R .....	R-3
Form 5498 .....	R-11
<b>W</b>	
What's new for 2001 .....	R-1
Withholding:	
Backup .....	R-7
Pensions and annuities .....	R-3, R-4, R-7

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