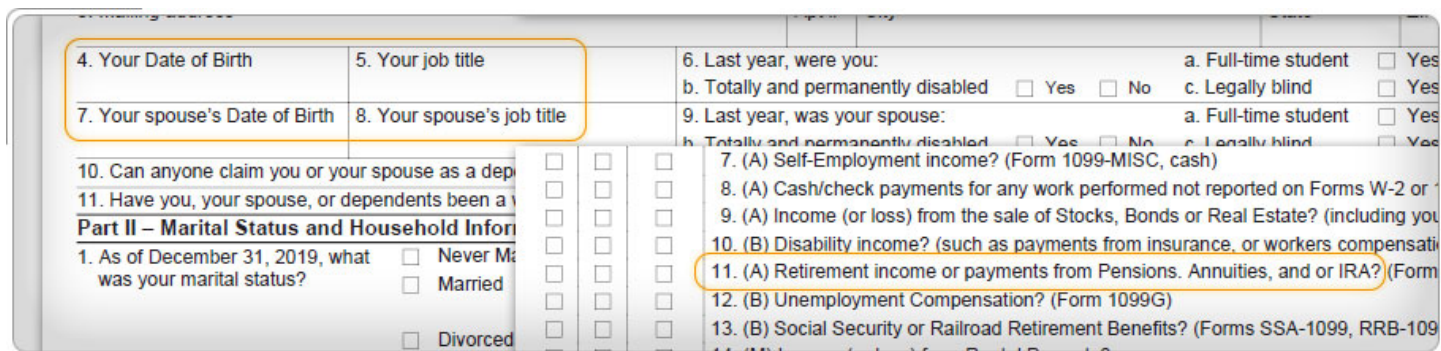


# Retirement Income

A screenshot of the IRS Form 1041, "Income Tax Return for Beneficiaries of an Estate, Trust, or Beneficiary of Certain Annuities (Form 1041)". The form is divided into several sections. The top section contains questions 4 through 11. Questions 4 and 5 are grouped together, as are 7 and 8. Questions 6 and 9 are grouped together. Questions 10 and 11 are grouped together. The "Part II - Marital Status and Household Information" section is highlighted in yellow. Question 11 is also highlighted in yellow. The form is displayed in a window with a white background and a grey border.

4. Your Date of Birth      5. Your job title

7. Your spouse's Date of Birth      8. Your spouse's job title

6. Last year, were you:      a. Full-time student       Yes       No

b. Totally and permanently disabled       Yes       No      c. Legally blind       Yes       No

9. Last year, was your spouse:      a. Full-time student       Yes       No

b. Totally and permanently disabled       Yes       No      c. Legally blind       Yes       No

10. Can anyone claim you or your spouse as a dependent?       Yes       No

11. Have you, your spouse, or dependents been a dependent of another person?       Yes       No

**Part II - Marital Status and Household Information**

1. As of December 31, 2019, what was your marital status?       Never Married       Married       Divorced

7. (A) Self-Employment income? (Form 1099-MISC, cash)

8. (A) Cash/check payments for any work performed not reported on Forms W-2 or 1099-MISC?

9. (A) Income (or loss) from the sale of Stocks, Bonds or Real Estate? (including you)

10. (B) Disability income? (such as payments from insurance, or workers compensation)

11. (A) Retirement income or payments from Pensions, Annuities, and or IRA? (Form 1099-R)

12. (B) Unemployment Compensation? (Form 1099G)

13. (B) Social Security or Railroad Retirement Benefits? (Forms SSA-1099, RRB-1099)

# About Retirement Income

- Additional resources listed in L&LT “References” tab
- Review all tips and cautions in the lesson
- Read all examples and sample interviews
- We will review answers to each exercise

# Objectives – Retirement Income

- Identify how retirement income is reported to the taxpayer using Form 1099-R series
- Calculate the taxable portion of different types of retirement income
- Determine how to report retirement income on the tax return
- Determine when an adjustment to withholding should be made
- Time Required: 15 minutes

# Topics



- Retirement Income Documents
- When to Adjust Withholding



- Retirement Plan Distributions
- Taxable IRA Distributions
- Reporting IRA Distributions
- Taxable Pensions and Annuities
- Other Retirement Income Issues

# Key Terms

Definitions are always available in the L&LT online Glossary.

- Annuity
- After-tax Contributions
- Before-tax Contributions
- Excludable Income
- Form W4-P
- Form W4-V
- Individual Retirement Arrangement (IRA)
- Lump-sum Distribution
- Railroad Retirement Benefits (RRBs)
- Required Minimum Distribution (RMD)
- Retirement Income
- Rollover
- Simplified Method

# Retirement Income Documents

- What forms are used to report retirement income?
  - The Form 1099-R series – CSA, CSF, RRB 1099-Rs
- The forms indicate amount received, taxable portion, and taxpayer's cost (investment) in the retirement plan.
- Pub 4012, Form 1099-R

CORRECTED (if checked)

PAYER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone no.		1 Gross distribution \$		OMB No. 1545-0119		Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.
		2a Taxable amount \$		2021		
PAYER'S TIN		RECIPIENT'S TIN		2b Taxable amount not determined <input type="checkbox"/>		<b>Copy B</b> Report this income on your federal tax return. If this form shows federal income tax withheld in box 4, attach this copy to your return.
RECIPIENT'S name		3 Capital gain (included in box 2a) \$		4 Federal income tax withheld \$		
Street address (including apt. no.)		5 Employee contributions/ Designated Roth contributions or insurance premiums \$		6 Net unrealized appreciation in employer's securities \$		This information is being furnished to the IRS.
City or town, state or province, country, and ZIP or foreign postal code		7 Distribution code(s)		8 Other \$ %		
10 Amount allocable to IRR within 5 years \$		11 1st year of desig. Roth contrib.		9a Your percentage of total distribution %		
12 FATCA filing requirement <input type="checkbox"/>		13 Date of payment		9b Total employee contributions \$		This information is being furnished to the IRS.
Account number (see instructions)		14 State tax withheld \$		15 State/Payer's state no.		
17 Local tax withheld \$		18 Name of locality		16 State distribution \$		
19 Local distribution \$						

Form 1099-R www.irs.gov/Form1099R Department of the Treasury - Internal Revenue Service



# Retirement Plan Distributions

- Retirement plans are funded by either “before-tax” or “after-tax” contributions.
- This funding status determines if the distribution from the retirement plan is taxable
  - If the taxpayer *did not* contribute to the retirement plan, *all* the distributions are fully taxable
  - If the taxpayer made *all* contributions to a plan with *before-tax* dollars, the entire distribution is *fully* taxable.
  - If the taxpayer made *all* contributions to a plan with *after-tax* dollars, then the distributions will be *partially* taxable. The portion that represents earnings is taxable since it has not been previously taxed. Review [Pub 4012, Form 1099-R](#)

Employee Contributions	Contributions		Taxability of Distributions	
	Before-Tax	After-Tax	Fully	Partially
No	n/a	n/a	Yes	—
Yes	Yes	—	Yes	—
Yes	—	Yes	—	Yes



# Taxable IRA Distributions

- What is the difference between distributions from a Roth IRA and a traditional IRA?
  - Roth IRA distributions are generally tax-free, because the contributions were after-tax
  - Traditional IRA distributions may be fully or partially taxable, because the contributions may have been deductible or non-deductible
- Additional taxes may apply to nonqualified distributions from a ROTH IRA. Taxpayers who made nonqualified Roth IRA distributions should be referred to a professional tax preparer.
- Distributions from SIMPLE and SEP IRAs are in scope for VITA/TCE, because they are taxable and are generally reported on the return just like taxable traditional IRA distributions.
  - Note: Distributions from SIMPLE IRAs in the first two years (code S) can only be rolled over tax-free into other SIMPLE IRAs. Taxable SIMPLE IRA rollovers are out of scope for VITA/TCE.





# Reporting IRA Distributions

- Distribution codes on [Form 1099-R](#): Form 1099-R has explanations; also on the back of Form 1099-R.
- Distributions rolled directly into another qualified plan are not taxable (code G). Generally, eligible rollover distributions paid to the taxpayer are not taxable if they are rolled over to another qualified plan or retirement account within 60 days.
- Roth account rollover is code H

CORRECTED (if checked)

OMB No. 1545-0119

**2021**

Form **1099-R**

Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.

**Copy B**  
Report this income on your federal tax return. If this form shows federal income tax withheld in box 4, attach this copy to your return.

This information is being furnished to the IRS.

State or province, and zip code	<b>1</b> Gross distribution \$		
	<b>2a</b> Taxable amount \$		
	<b>2b</b> Taxable amount not determined <input type="checkbox"/>	Total distribution <input type="checkbox"/>	
SSN	<b>3</b> Capital gain (included in box 2a) \$	<b>4</b> Federal income tax withheld \$	
	<b>5</b> Employee contributions/ Designated Roth contributions or insurance premiums \$	<b>6</b> Net unrealized appreciation in employer's securities \$	
	<b>7</b> Distribution code(s)	IRA/SEP/SIMPLE <input type="checkbox"/>	<b>8</b> Other \$ %
Foreign postal code	<b>9a</b> Your percentage of total distribution %	<b>9b</b> Total employee contributions \$	
Signature	<b>12</b> FATCA filing requirement <input type="checkbox"/>	<b>14</b> State tax withheld \$	<b>15</b> State/Payer's state no. \$
	<b>13</b> Date of payment	<b>17</b> Local tax withheld \$	<b>18</b> Name of locality \$
			<b>19</b> Local distribution \$

www.irs.gov/Form1099R Department of the Treasury - Internal Revenue Service



# Taxable Pensions and Annuities

- When are pension or annuity payments fully taxable?
  - Taxpayers did not pay any part of the cost of their employee pensions or annuities
  - Employers did not withhold part of the cost from the taxpayers' pay while they worked
  - Employers withheld part of the cost from the taxpayers' "before-tax" pay while they worked

<b>IRA/Pension Distributions</b>	
Add or Edit a 1099-R	<b>BEGIN</b>
RRB-1099-R	<b>BEGIN</b>
Social Security Benefits/RRB-1099	<b>BEGIN</b>
Nontaxable Distributions ←	<b>BEGIN</b>

Select Nontaxable Distributions to record Qualified Charitable Distributions (QCDs) and eligible retired public safety officer distributions for health insurance premiums. Qualified Health Savings Accounts funding distributions are out of scope.



# Taxable Pensions and Annuities

- Two methods used to figure taxable portion of pension or annuity payment:
  - The General Rule – out of scope
  - The Simplified Method
    - [Form 1040 Instructions Simplified Method Worksheet](#)
- Disability income from a retirement plan is taxed differently depending on the taxpayer's age:
  - Before minimum retirement age – taxed as wages
  - After minimum retirement age – taxed as pension



# Other Retirement Income Issues

- Some distributions are subject to additional taxes, computed on [Form 5329](#). Only Part I of Form 5329 is within scope.
  - Lump sum distributions
  - Premature distributions
  - Required minimum distributions
  - Withdrawal of excess IRA contributions

Form <b>5329</b> Department of the Treasury Internal Revenue Service (99)	<b>Additional Taxes on Qualified Plans (Including IRAs) and Other Tax-Favored Accounts</b> ▶ Attach to Form 1040, 1040-SR, or 1040-NR. ▶ Go to <a href="http://www.irs.gov/Form5329">www.irs.gov/Form5329</a> for instructions and the latest information.	OMB No. 1545-0074 <b>2021</b> Attachment Sequence No. 29
Name of individual subject to additional tax. If married filing jointly, see instructions.		Your social security number
Home address (number and street), or P.O. box if mail is not delivered to your home		Apt. no.
<b>Fill in Your Address Only if You Are Filing This Form by Itself and Not With Your Tax Return</b>	City, town or post office, state, and ZIP code. If you have a foreign address, also complete the spaces below. See instructions.	
	If this is an amended return, check here <input type="checkbox"/>	
	Foreign country name	Foreign province/state/county
		Foreign postal code
If you <b>only</b> owe the additional 10% tax on the full amount of the early distributions, you may be able to report this tax directly on Schedule 2 (Form 1040), line 8, without filing Form 5329. See instructions.		
<b>Part I</b>	<b>Additional Tax on Early Distributions.</b> Complete this part if you took a taxable distribution (other than a qualified disaster distribution) before you reached age 59½ from a qualified retirement plan (including an IRA) or modified endowment contract (unless you are reporting this tax directly on Schedule 2 (Form 1040)—see above). You may also have to complete this part to indicate that you qualify for an exception to the additional tax on early distributions or for certain Roth IRA distributions. See instructions.	

# When to Adjust Withholding

- Discuss with taxpayer if they owe \$1,000 or more on their tax return
- Taxpayers can request withholding using form W-4P, W-4R, or Form W-4V
- If no withholding, taxpayer may need to make quarterly estimated tax payments. Refer the taxpayer to Publication 505, Tax Withholding and Estimated Tax

Form <b>W-4P</b> Department of the Treasury Internal Revenue Service		<b>Withholding Certificate for Pension or Annuity Payments</b> ▶ For Privacy Act and Paperwork Reduction Act Notice, see page 6.		OMB No. 1545-0074 <b>2021</b>	
Your first name and middle initial		Last name		Your social security number	
Home address (number and street or rural route)		Form <b>W-4V</b> (Rev. February 2018) Department of the Treasury Internal Revenue Service		<b>Voluntary Withholding Request</b> (For unemployment compensation and certain Federal Government and other payments.) ▶ Give this form to your payer. Do not send it to the IRS.	
City or town, state, and ZIP code				OMB No. 1545-0074	
<b>Complete the following applicable to you:</b> 1 Check here if you do not want any federal income tax withheld from your payment. 2 Total number of allowances and other adjustments you want on your payment. (You may also designate a marital status.) Marital status: <input type="checkbox"/> Single <input type="checkbox"/> Married 3 Additional amount, if any, you want withheld from your payment. If you can't enter an amount here write "N/A".		1 Your first name and middle initial Last name		2 Your social security number	
		3 Home address (number and street or rural route) City or town State ZIP code			
		4 Claim or identification number (if any) you use with your payer			
Your signature ▶		5 <input type="checkbox"/> I want federal income tax withheld from my unemployment compensation at a rate of 10% of each payment.			
		6 I want federal income tax withheld from (a) my social security benefits, (b) my social security equivalent Tier 1 railroad retirement benefits, (c) my Commodity Credit Corporation loans, (d) certain crop disaster payments under the Agricultural Act of 1949 or under Title II of the Disaster Assistance Act of 1988, or (e) dividends and other distributions from Alaska Native Corporations to its shareholders, at the rate of (check one): 7% <input type="checkbox"/> 10% <input type="checkbox"/> 12% <input type="checkbox"/> 22% <input type="checkbox"/>			
		7 <input type="checkbox"/> I want you to stop withholding federal income tax from my payment(s).			
Your signature ▶		Date ▶			
For Privacy Act and Paperwork Reduction Act Notice, see page 2.		Cat. No. 22891V		Form <b>W-4V</b> (Rev. 2-2018)	

# Summary

- This lesson covered:
  - Identifying, calculating and reporting the taxable portion of retirement income
  - Types of retirement income and forms used to report it
  - Requirements for taking minimum distributions
  - When adjustments to withholding may be needed
- Check your understanding of this lesson by going to Certification Warm Up on your student landing page

## Out of Scope for this Lesson:

- Form 8606 required
- Nondeductible contributions made to a traditional IRA
- Taxpayers subject to additional tax due to excess IRA contributions
- Roth IRA distributions that are taxable or partially taxable, and those with Form 1099-R, code J or T
- IRA rollovers that do not meet the tax-free requirements
- Part of a distribution is a return of after-tax contributions (may require Form 8606)
- General Rule used to figure the taxable portion of pensions and/or annuities for past years
- Form 1099-R, distribution code A (lump-sum distribution qualifying for special tax treatments)
- Contributions to SIMPLE and SEP IRAs