



Federal Income Tax Withholding from Qualified Plan Distributions

For plans working with an investment company that does not perform its income tax reporting

Tax reporting of distributions from retirement plans involves four steps:

1. Withholding income taxes at the time the distribution occurs
2. Depositing the amount withheld with the IRS
3. Preparing & distributing a Form 1099-R to report the distribution as income to the participant
4. Preparing a Form 945 to report the distribution and withholding to the IRS

Each of these steps can be completed by either the employer or partners who support the plan. It is absolutely critical that responsibility for completing these tasks is clearly assigned. The IRS expects each step to be completed accurately and timely. They may impose fines or penalties if the processes are not completed as they dictate.

Withholding Income Taxes at the Time the Distribution Occurs

If a participant requests a rollover of plan assets directly to an IRA or another qualified plan, income tax withholding is not required, and the entire amount of the distribution can be remitted to the participant's account at the financial institution.

However, when a retirement plan participant requests a cash distribution, the plan trustee must direct the investment company to withhold 20% of the distribution for mandatory federal income tax withholding. It will then be the employer's responsibility to deposit the withholding with the IRS.

If the investment company does not manage tax reporting for the plan, the employer will need to coordinate the tax reporting when paying out a cash distribution.

This begins by requesting two checks:

- A check payable to the employer (not the plan) representing the 20% federal withholding amount. This check should be deposited in the company's bank account and sent to the IRS using the Electronic Federal Tax Payment System (EFTPS).
- A check payable to the participant reflecting the net amount of the distribution after withholding.

Depositing the Amount Withheld with the IRS

Deposit Deadline: The income tax withheld during a month must be deposited by the 15th day of the following month. The IRS considers a deposit to be received timely if the deposit is submitted at least two days before the due date for the deposit.

Federal tax deposits, including withholding from retirement plan distributions or annuities, must be made using the EFTPS.

Depositing the Amount (cont'd)

To get more information about EFTPS or to enroll, visit www.eftps.gov, call 1-800-555-4477 or 1-800-733-4829 (TDD), or review [Publication 966, Electronic Federal Tax Payment System: A Guide to Getting Started](#).

For more information on making federal tax deposits, review:

- [Publication 15 \(Circular E\), Employer's Tax Guide](#)
- [Publication 15-A \(2014\), Employer's Supplemental Tax Guide](#)

If the employer does not want to use EFTPS, their tax professional, financial institution, payroll service or other trusted third party can make electronic deposits on their behalf. Arrange for the financial institution to initiate a same-day wire payment. EFTPS is a free service provided by the U.S. Department of Treasury. Services provided by tax professionals, financial institutions, payroll services or other third party may have a fee.

Preparing and Distributing Form 1099-R to Report the Distribution as Income to the Participant

Whether a participant requests a rollover of plan assets to an IRA (or other qualified plan) or receives a cash distribution, the plan must issue Form 1099-R to the participant reporting the taxable amount of the distribution.

Deadline: The Form 1099-R for distributions may be provided at the time of distribution but no later than January 31st of the following year.

If the investment company does not manage tax reporting for the plan, the TPA or accountant can prepare this form. Typically, the forms will be provided for distribution to the participant, although some professionals will also mail the forms directly to the participant.

If the employer chooses to complete this process, the forms are available at local IRS offices or call the IRS Forms request line at (800) 829-3676, For instructions, review <http://www.irs.gov/pub/irs-pdf/i1099r.pdf>.

Preparing Form 945 to Report all Withholding from Distributions to the IRS

Form 945 is used to report all withholding from pension distributions in the current year to the IRS. Any distributions that were made without a withholding, such as rollovers directly to an IRA or a qualified plan, do not have to be reported on Form 945.

Deadline: Form 945 is submitted once a year, no later than January 31st of the following year.

The employer's TPA can prepare the form and file it with the IRS on behalf of the plan. If the employer chooses to prepare and file Form 945, obtain the form at the local IRS office or call the IRS Forms request line at (800) 829-3676. For instructions, review [Form 945, Annual Return of Withheld Federal Income Tax](#).

