

# Volunteer Tax Alert 2013-03 **March 1, 2013**

## **Form 1099-R, Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.**

**General Rule:** When the taxable amount of a pension is not determined by the payer, Box 2a of Form 1099-R is blank. In this case, preparers must use the TaxWise Simplified Method worksheet at the bottom of Form 1099-R to calculate the taxable amount of the gross distribution. If the Simplified Method is not used correctly, this may cause an inaccurate tax return.

<input type="checkbox"/> CORRECTED (if checked)		OMB No. 1545-0119  <b>2012</b>	Form <b>1099-R</b>	<b>Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.</b>
PAYER'S name, street address, city, state, and ZIP code  John Doe 123 Main Street, City, State, Zip	<b>1</b> Gross distribution \$ 20,000.00 <hr/> <b>2a</b> Taxable amount \$			
		<b>2b</b> Taxable amount not determined <input checked="" type="checkbox"/>		

### **Simplified Method**

If the taxpayer made after-tax contributions toward the pension, a portion of the annuity payment is not taxable. The Simplified Method calculates the non-taxable amount. (Generally, if the starting date of the payments was prior to July 2, 1986, the Simplified Method would not apply. Refer these taxpayers to a professional tax preparer.)

### **Completing the Simplified Method Worksheet in TaxWise®**

Simplified Method	
1 Cost in the plan at the annuity starting date (RRB line 3) . . . . .	0.
2 Check age of primary annuitant at annuity starting date	
<input type="checkbox"/> 55 or under <input type="checkbox"/> 56-60 <input type="checkbox"/> 61-65	
<input type="checkbox"/> 66-70 <input type="checkbox"/> 71 or older	
<input type="checkbox"/> Check if the annuity starting date is after 11/18/1996.	
<input type="checkbox"/> Check if the annuity starting date is after 12/31/1997 and this is a joint and survivor annuity. Use table below.	
Check combined age of annuitants at annuity starting date	
<input type="checkbox"/> 110 or under <input type="checkbox"/> 111-120 <input type="checkbox"/> 121-130	
<input type="checkbox"/> 131-140 <input type="checkbox"/> 141 or more	
3 Exclusion per month . . . . .	0.00
4 Number of months for which payments were received this year . . . . .	0
5 If the annuity started after 1986, enter the amount recovered tax free in prior years . . . . .	0.
6 Exclusion . . . . .	0.
7 Remaining cost in the pension or annuity . . . . .	0.

**Line 1:** Enter the total amount of employee contributions from Form 1099-R, Box 9b.

**Line 2:** Check the box indicating the retiree's age when the payments started (not his or her current age). **NOTE:** For a joint or survivor annuity, the box indicating the combined ages at the time the annuity started must also be checked.

**Line 5:** Enter the amount recovered tax free in prior years. Look at last year's tax return to find this amount, or calculate the amount using the monthly tax free amount computed by TaxWise for the 2012 tax year times the number of months prior to 2012.

**NOTE:** If unable to determine, leave blank. This does not affect the taxable amount for the current year. Advise the taxpayer he/she is responsible for determining prior year exclusions from previous tax returns. Generally, the amount excluded over the years as a recovery of the cost cannot exceed the taxpayer's total cost.

**Line 4:** Enter the number of months that payments were received during the tax year.

Once the Simplified Method worksheet is complete, TaxWise computes the taxable amount and places it on Form 1040, line 16b. TaxWise Form 1099-R, Box 2a, will no longer be “red” but it will remain blank. Volunteer preparers should not make any entry in Box 2a.

Refer to the following resource materials for guidance:

- Publication 4012, *Volunteer Resource Guide*, page 2-17 and 2-18
- Publication 17, *Your Federal Income Taxes for Individuals*

If you have any questions, please discuss them with your site coordinator or contact your local IRS SPEC relationship manager.

**Thank you for volunteering to serve your community and for your dedication to providing top QUALITY service!**