IRA Withholding Requirements

Always have a plan

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Table of Contents

Federal Withholding Requirements 1

Potential Penalties 1

Provide Withholding Option 2

Notify Distribution Recipients of Their Withholding Rights 7

Withhold and Deposit the Assets 10

Report Withholding to the IRS 11

State Withholding Requirements 12

State Reporting Requirements 15

Combined Federal/State Filing Program 16

Reconciliation of Payer Copies 18

Determine a Specific Amount After Withholding 19

Specific Amount After Federal and State Percentage Withholding 20

Specific Amount After Federal and Specific State Withholding 21

Additional Distribution Issues 22

Learning Objectives

At the completion of this course you will be able to

- list the possible penalties for failing to withhold,
- explain the withholding notice and election requirements,
- discuss how withholding is reported and transmitted to the IRS, and
- describe foreign withholding requirements.

Icon Legend

Individual Exercise

Group Exercise

Group Discussion

Example

Job Aid

Additional Information

Federal Withholding Requirements

Internal Revenue Code section (IRC Sec.) 3405 contains information on federal income tax withholding.

- Financial organizations are required to offer federal withholding on all IRA distributions that may be subject to income tax.
- Financial organizations must provide IRA owners and beneficiaries with the required withholding notices and an opportunity to have federal income taxes withheld.
- Financial organizations must withhold according to the distribution recipient's instructions and deposit the assets to a federal depository.
- Financial organizations must report the withheld amounts to the IRS.

Potential Penalties

Failure by the financial organization to follow proper withholding requirements can lead to IRS and state penalties.

Requirement	Penalty for Failure	Code Section
Withhold federal income tax or obtain signed withholding waiver	The financial organization must pay the tax required to be withheld	*IRC Sec. 3405(d)*
Keep records necessary to report withholding to the IRS	$50 for each IRA for which proper records were not kept	*IRC Sec. 6704; 6047(d)*
Notify distribution recipients of their withholding rights as required	$10 for each failure	*IRC Sec. 6652(h)*
Deposit amounts withheld from IRA distributions with a federal depository on a timely basis	1–5 days late: 2% 6–15 days late: 5% 16+ days late: 10% More than 10 days after IRS notice: 15% The penalty is a percentage of the amount that should have been deposited. Because the failure to make a required deposit affects all subsequent deposits until the full amount of the under-deposit is corrected, it is important to make withholding deposits on a timely basis.	*IRC Sec. 6656(b)*

Provide Withholding Option

Withholding is required on all IRA distributions except for those where it is reasonable to believe that the entire amount is not taxable (IRC Sec. 3405(e)(1)(B)(ii) and Temp. Treas. Reg. 35.3405-1T, D-16)).

- The IRA owner is transferring to another IRA of the same type.
- The IRA owner is recharacterizing a contribution.
- The IRA owner is making a direct rollover from a Traditional IRA to an employer-sponsored retirement plan.
- The IRA owner is making a qualified charitable distribution from an IRA after attaining age 70½.
- The IRA owner is making a qualified health savings account (HSA) funding distribution.
- Based on its own records, the financial organization has reason to believe that a Roth IRA distribution is a qualified distribution and not taxable (e.g., the IRA owner is over age 59½ and has had a Roth IRA at the financial organization for at least five years).

The IRA withholding requirements vary depending upon whether the distributions are deemed to be periodic or nonperiodic.

Periodic distributions	These generally are annuitized distributions from individual retirement annuities. Periodic distributions are treated as wages for withholding purposes, and financial organizations determine withholding by using the income tax withholding tables with the assumption that the distribution recipient is married and has three exemptions (unless the distribution recipient chooses a different withholding rate).
Nonperiodic distributions	Amounts that are payable on demand. The nature of "payable on demand" means that an individual can request a partial or total distribution from the IRA at any time. Because IRA owners and beneficiaries generally can request distributions whenever they wish, IRA distributions generally are considered payable on demand, and therefore, are deemed nonperiodic distributions. Subject to 10 percent withholding unless the individual waives withholding or elects a higher rate.

Financial organizations are required to provide a federal withholding notice for IRA distributions that, in aggregate, total $200 or more per year.

Withholding from an IRA distribution is the prepayment of income taxes at the time of distribution.

The amount that is withheld is credited against the individual's total tax liability for the year.

- If the individual has had more income tax withheld (from all sources) than the individual's tax liability, a tax refund will be received after the individual files an income tax return.
- If the individual's tax liability exceeds the amount withheld, an additional amount of tax will have to be paid.

Withholding applies to all IRA owners and beneficiaries, regardless of age or IRA type.

Withholding applies whether or not the distribution is subject to the 10 percent early distribution penalty tax.

Financial organizations are required to withhold 10 percent from most nonperiodic IRA distributions unless the individual receiving the distribution elects to waive withholding or withhold a greater amount.

- The distribution recipient may elect a withholding rate greater than 10 percent. The recipient may not elect a rate less than 10 percent unless the recipient elects to waive withholding.
- The financial organization must complete federal withholding (and state withholding, if applicable) on distributions where the financial organization has not received a withholding election. Once the recipient makes a withholding election, it is valid until revoked. The financial organization should retain a copy of the election in the recipient's file.
  - The withholding election is met by having the distribution recipient complete IRS Form W4-P, *Withholding Certificate for Pension or Annuity Payments*, or a substitute form. The federal withholding section of any Ascensus form authorizing a distribution contains substitute Form W-4P language. A recipient may revoke an election at any time by signing a new form.

If the financial organization offers a substitute form, the form must follow certain required guidelines or be submitted to the IRS for approval. Substitute Forms W-4P must include the following information.

- The form number (Form W-4P).
- The number and expiration date assignment by the Office of Management and Budget (OMB) to the Form W-4P (OMB 1545-0074).
- Space for the recipient's name, address, and Social Security number.
- An entry that the recipient can mark to claim an exemption from withholding.
- The substance of the official Form W-4P instructions, including the caution on penalties for not paying enough withholding or estimated tax during the year.

For periodic payments of pensions and annuities, the IRS also requires the following information.

- A line where the recipient can show the number of allowances on which withholding is computed.
- A line for marital status (single, married, or married but withhold at a higher single rate).
- A line to ask for an additional amount to be withheld from each payment.
- Space for the recipient's signature.

If an in-kind distribution is not directly rolled over or transferred, any cash that is paid in the distribution must be used to satisfy the withholding on the in-kind distribution. If the distribution consists solely of property, no federal tax withholding is required on the distribution.

Withholding Election Change

Frank is receiving scheduled payments from his IRA and has elected 10 percent federal withholding. He is in the financial organization today to request an additional distribution and would like to waive the withholding requirement.

What should the financial organization do to handle Frank's withholding request?

Withholding for U.S. Citizens and Resident Aliens

U.S. citizens and resident aliens who have IRA distributions delivered to them at an address outside of the U.S. are subject to the withholding rules and may not waive the withholding requirement.

Withholding for Nonresident Aliens

Unlike U.S. citizens or resident aliens, nonresident aliens who take IRA distributions are subject to a 30 percent withholding requirement under IRC Sec. 1441, or an applicable rate specified under a tax treaty specific to his resident country. An IRA owner may use the tax treaty rate if she provides the financial organization with Form W-8BEN, *Certificate of Foreign Status of Beneficial Owner for United States Tax Withholding.* If the distribution recipient is an entity (e.g., a charity as a beneficiary located in Canada) rather than an individual, it must file Form W-8BEN-E, *Certificate of Status of Beneficial Owner for United States Tax Withholding and Reporting (Entities).*

The IRS website provides *TABLE 1. Withholding Tax Rates on Income Other Than Personal Service Income Under Chapter 3, Internal Revenue Code, and Income Tax Treaties,* to show the countries with which the U.S. has income tax treaties and the rates of withholding applicable to payments made to nonresident aliens of those countries.

		Interest [ccc]		Dividends			Pensions and Annuities	
Income Code Number		**1**		**6**	**7**		**15**	
Name	**Code**	**Paid by U.S. Obligors—General**	**Treaty Article Citation**	**Paid by U.S. Corporations—General [a]**	**Qualifying for Direct Dividend Rate [a, b, aaa]**	**Treaty Article Citation**	**Pensions and Annuities [d]**	**Treaty Article Citation**
Australia....................	AS	10 g, jj, nn	11(2) / P7	15 mm	5 mm,oo	10(2) / P6	0	18(1)
Austria.....................	AU	0 g,jj,ss	11(1)	15 w	5 w	10(2)	0	18(1)(a)
Bangladesh................	BG	10 g,bb,jj	11(2)	15 mm	10 mm	10(2)	0 f,q	19(1)
Barbados.............	BB	5 rr, z	11(1) /1PIV; 2PII(6)	15 w rr	5 w, rr	10(2) / 1PIII(1); 2PII(6)	0 f	18(1)(a)
Belgium	BE	0 g,jj, ss	11(1)	15 dd,mm	5 dd,mm,oo	10(2)	0 f	17(1)
Bulgaria	BU	5 g,dd,jj,z	11(1)-(3)	10 dd,mm	5 dd,mm	10(2)	0 f	17(1)
Canada.....................	CA	0 g,jj	XI(1) \ 5P6(1)	15 mm	5 mm	X(2) / 5P5(1)	15 ii	XVIII(1) / 3P9; 5P13
China, People's Rep. of......	CH	10 z	10(2)	10	10	9(2)	0 t	17(1)
Comm. of Independent States*............		0 n	III(1)(g)	30	30	None	30	none
Cyprus..bbb..................	CY	10 z	13(2)	15	5	12(2)	0 f	23(1)
Czech Republic........	EZ	0 g	11(1)	15 w	5 w	10(2)	0 f	19(1)(a)

Withholding on IRA Distributions

Is the recipient a U.S. citizen or a resident alien?

YES → Is the distribution being delivered to the recipient's U.S. home address?

- **YES** → May elect out of withholding
- **NO** → May **not** elect out of withholding

NO → Has the recipient elected a treaty rate on Form W-8BEN or W-8BEN-E?

- **YES** → May elect out of *IRC Sec. 1441* withholding (30%) and apply treaty rate
- **NO** → May **not** elect out of *IRC Sec. 1441* withholding (30% withholding applies)

If the IRA distribution recipient is a nonresident alien who is subject to the 30 percent withholding rate or the applicable treaty rate, the financial organization must send Form 1042-S, *Foreign Person's U.S. Source Income Subject to Withholding,* to both the IRS and the recipient. The financial organization does not file Form 1099-R, *Distributions From Pensions, Annuities, Retirement or Profit Sharing Plans, IRAs, Insurance Contracts, etc.* to report these distributions. Form 1042-S is filed even if, as a result of the treaty rate, nothing is withheld.

Notify Distribution Recipients of Their Withholding Rights

Distribution recipients must be notified of their right to waive withholding on IRA distributions. The frequency of distributions determines when the financial organization must provide the notification. A withholding notice appears on each of Ascensus' *IRA Withdrawal Authorization* forms.

Type of Distribution	Timing of Notification	Notification Method
Individual distributions	When the distribution is requested	*Withdrawal Authorization* form
Quarterly or more frequently	Before the first distribution each year	Form W-4P or acceptable substitute
Less frequently than quarterly	Before each distribution*	Form W-4P or acceptable substitute

*This can be no earlier than six months before the scheduled distribution, and must be early enough to allow distribution recipients to make a withholding change.

**North Carolina financial organizations must also provide the *North Carolina Withholding Notice* using the same timeline.

Ascensus' Traditional & SIMPLE IRA Withdrawal Authorization, Withholding Notice Information*, section*

WITHHOLDING NOTICE INFORMATION *(Form W-4P/OMB No. 1545-0074)*

Basic Information About Withholding From Pensions and Annuities. Generally, federal income tax withholding applies to the taxable part of payments made from pension, profit sharing, stock bonus, annuity, and certain deferred compensation plans; from IRAs; and from commercial annuities.

Caution: There may be penalties for not paying enough tax during the year, through either withholding or estimated tax payments. New retirees should see Publication 505, *Tax Withholding and Estimated Tax.* It explains the estimated tax requirements and penalties in detail. You may be able to avoid quarterly estimated tax payments by having enough tax withheld from your IRA using form W-4P.

Purpose of Form W-4P. Unless you elect otherwise, 10 percent federal income tax will be withheld from payments from individual retirement accounts (IRAs). You can use Form W-4P (or a substitute form, such as this form), provided by the trustee or custodian, to instruct your trustee or custodian to withhold no tax from your IRA payments or to withhold more than 10 percent. This substitute form should be used only for withdrawals from IRAs that are payable upon demand.

Nonperiodic Payments. Payments made from IRAs that are payable upon demand are treated as nonperiodic payments for federal income tax purposes. Generally, nonperiodic payments must have at least 10 percent income tax withheld.

Your election will remain in effect for any subsequent withdrawal unless you change or revoke it.

Payments Delivered Outside of the U.S. A U.S. citizen or resident alien may not waive withholding on any withdrawal delivered outside of the U.S. or its possessions. Withdrawals by a nonresident alien generally are subject to a tax withholding rate of 30 percent. A reduced withholding rate may apply if there is a tax treaty between the nonresident alien's country of residence and the United States and if the nonresident alien submits Form W-8BEN, *Certificate of Foreign Status of Beneficial Owner for United States Tax Withholding,* or satisfies the documentation requirements as provided under federal regulations. The Form W-8BEN must contain the foreign person's taxpayer identification number.

For more information, Publication 515, *Withholding of Tax on Nonresident Aliens and Foreign Entities,* and Publication 519, *U.S. Tax Guide for Aliens,* are available on the IRS website at www.irs.gov or by calling 1-800-TAX-FORM.

Revoking the Exemption From Withholding. If you want to revoke your previously filed exemption from withholding, file another Form W-4P with the trustee or custodian and check the appropriate box on that form.

Statement of Income Tax Withheld From Your IRA. By January 31 of next year, your trustee or custodian will provide a statement to you and to the IRS showing the total amount of your IRA distributions and the total federal income tax withheld during the year. Copies of Form W-4P will not be sent to the IRS by the trustee or custodian.

Page 2 of 3

314 / 2306T (Rev. 10/2018)

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SAMPLE

Financial organizations may use Ascensus' *IRA Withholding Notice and Election* or IRS Form W-4P to notify individuals receiving scheduled distributions of their withholding election rights.

Ascensus' IRA Withholding Notice and Election

IRA WITHHOLDING NOTICE AND ELECTION

The term IRA will be used below to mean Traditional IRA, Roth IRA, and SIMPLE IRA, unless otherwise specified. If this is an inherited IRA, the IRA Owner is the beneficiary who has inherited this IRA. Refer to page 2 of this form for withholding notice information.

PART 1. IRA OWNER

Name *(First/MI/Last)* ____
Address Line 1 ____
Address Line 2 ____
City/State/ZIP ____
Social Security Number ____
Date of Birth ____________________ Phone ____________________
Email Address ____
Account Number_________________________________ Suffix _____

ACCOUNT TYPE *(Select one)*
☐ Traditional IRA ☐ Roth IRA ☐ SIMPLE IRA
☐ Inherited Traditional IRA ☐ Inherited Roth IRA

PART 2. IRA TRUSTEE OR CUSTODIAN

To be completed by the IRA trustee or custodian

Name ____
Address Line 1 ____
Address Line 2 ____
City/State/ZIP ____
Phone________________________ Organization Number___________

PART 3. WITHHOLDING NOTICE

Federal regulations require us to provide notice regarding withholding elections on your IRA distributions. You may incur tax penalties under the estimated tax payment rules if your payments of the estimated tax and withholding are insufficient.

Your withholding election remains in effect for any subsequent distributions unless you change or revoke the election. If you want your current withholding election to remain unchanged, no action is required.

You may change or revoke your election at any time. To make a new withholding election, complete Part 5 below, sign and date this form, and return the original copy to us.

PART 4. CURRENT WITHHOLDING ELECTION ON FILE

To be completed by the trustee or custodian

☐ You elected not to have federal income tax withheld from your IRA distributions.

☐ You elected to withhold federal income tax of ________ % from your IRA distributions.

You also elected to withhold additional federal income tax of $___________________ from your IRA distributions.

☐ You elected to withhold state income tax of ___________________ from your IRA distributions.

Name of Withholding State_________________________________

PART 5. WITHHOLDING ELECTION *(Form W-4P/OMB No. 1545-0074)*

To be completed by the IRA owner to change or revoke the current withholding election

FEDERAL WITHHOLDING *(Select one)*

☐ Withhold ________ % *(Must be 10% or greater)*

Withhold Additional Federal Income Tax of $ ___________________ *(If applicable)*

☐ Do Not Withhold Federal Income Tax

STATE WITHHOLDING *(If applicable, select one)*

Name of Withholding State ________________________________

☐ Withhold ________ %
☐ Withhold $___________________
☐ Do Not Withhold State Income Tax

PART 6. SIGNATURE

I understand that I am responsible for the payment of federal income tax on my IRA distributions regardless of my withholding election.

X____ ________________________
Signature of IRA Owner Date *(mm/dd/yyyy)*

317 (Rev. 10/2015) **Page 1 of 2**

IRS Form W-4P, Withholding Certificate for Pension or Annuity Payments

Form **W-4P**
Department of the Treasury
Internal Revenue Service

Withholding Certificate for Pension or Annuity Payments

OMB No. 1545-0074

2019

Future developments. For the latest information about any future developments related to Form W-4P, such as legislation enacted after it was published, go to *www.irs.gov/FormW4P*.

Purpose. Form W-4P is for U.S. citizens, resident aliens, or their estates who are recipients of pensions, annuities (including commercial annuities), and certain other deferred compensation. Use Form W-4P to tell payers the correct amount of federal income tax to withhold from your payment(s). You also may use Form W-4P to choose (a) not to have any federal income tax withheld from the payment (except for eligible rollover distributions or for payments to U.S. citizens to be delivered outside the United States or its possessions) or (b) to have an additional amount of tax withheld.

Your options depend on whether the payment is periodic, nonperiodic, or an eligible rollover distribution, as explained on pages 2 and 3. Your previously filed Form W-4P will remain in effect if you don't file a Form W-4P for 2019.

General Instructions

Section references are to the Internal Revenue Code.

Follow these instructions to determine the number of withholding allowances you should claim for pension or annuity payment withholding for 2019 and any additional amount of tax to have withheld. Complete the worksheet(s) using the taxable amount of the payments.

If you don't want any federal income tax withheld (see *Purpose,* earlier), you can skip the worksheets and go directly to the Form W-4P below.

Sign this form. Form W-4P is not valid unless you sign it.

You can also use the calculator at ***www.irs.gov/W4App*** to determine your tax withholding more accurately. Consider using this calculator if you have a more complicated tax situation, such as if you have more than one pension or annuity, a working spouse, or a large amount of income outside of your pensions. After your Form W-4P takes effect, you can also use this calculator to see how the amount of tax you're having withheld compares to your projected total tax for 2019. If you use the calculator, you don't need to complete any of the worksheets for Form W-4P.

Note that if you have too much tax withheld, you will receive a refund when you file your tax return. If you have too little tax withheld, you will owe tax when you file your tax return, and you might owe a penalty.

Filers with multiple pensions or more than one income. If you have more than one source of income subject to withholding (such as more than one pension or a pension and a job, or you're married filing jointly and your spouse is working), read all of the instructions, including the instructions for the Multiple Pensions/More-Than-One-Income Worksheet, before beginning.

Other income. If you have a large amount of income from other sources not subject to withholding (such as interest, dividends, or capital gains), consider making estimated tax payments using Form 1040-ES, Estimated Tax for Individuals. Otherwise, you might owe additional tax. See Pub. 505, Tax Withholding and Estimated Tax, for more information. Get Form 1040-ES and Pub. 505 at *www.irs.gov/FormsPubs*. Or, you can use the Deductions, Adjustments, and Additional Income Worksheet on page 5 or the calculator at *www.irs.gov/W4App* to make sure you have enough tax withheld from your payments. If you have income from wages, see Pub. 505 or use the calculator at *www.irs.gov/W4App* to find out if you should adjust your withholding on Form W-4 or Form W-4P.

Note: Social security and railroad retirement payments may be includible in income. See Form W-4V, Voluntary Withholding Request, for information on voluntary withholding from these payments.

Withholding From Pensions and Annuities

Generally, federal income tax withholding applies to the taxable part of payments made from pension, profit-sharing, stock bonus, annuity, and certain deferred compensation plans; from individual retirement arrangements (IRAs); and from commercial annuities. The method and rate of withholding depend on (a) the kind of payment you receive; (b) whether the payments are to be delivered outside the United States or its possessions; and (c) whether the recipient is a nonresident alien individual, a nonresident alien beneficiary, or a foreign estate. Qualified distributions from a Roth IRA are nontaxable and, therefore, not subject to withholding. See page 3 for special withholding rules that apply to payments to be delivered outside the United States and payments to foreign persons.

Separate here and give Form W-4P to the payer of your pension or annuity. Keep the worksheet(s) for your records.

Form **W-4P**
Department of the Treasury
Internal Revenue Service

Withholding Certificate for Pension or Annuity Payments

▶ **For Privacy Act and Paperwork Reduction Act Notice, see page 6.**

OMB No. 1545-0074

2019

Your first name and middle initial	Last name	**Your social security number**
Home address (number and street or rural route)		Claim or identification number (if any) of your pension or annuity contract
City or town, state, and ZIP code		

Complete the following applicable lines.

1 Check here if you **do not want any** federal income tax withheld from your pension or annuity. (Don't complete line 2 or 3.) ▶ ☐

2 Total number of allowances and marital status you're claiming for withholding from each **periodic** pension or annuity payment. (You also may designate an additional dollar amount on line 3.) . . . . ▶ (Enter number of allowances.)
Marital status: ☐ Single ☐ Married ☐ Married, but withhold at higher Single rate.

3 Additional amount, if any, you want withheld from each pension or annuity payment. (**Note:** For periodic payments, you can't enter an amount here without entering the number (including zero) of allowances on line 2.) . . . . ▶ $

Your signature ▶ **Date** ▶

Cat. No. 10225T Form **W-4P** (2019)

Withholding Notice

Valley Financial Organization mails withholding notices to recipients twice a year on the following schedule.

In December, the withholding notice is mailed for annual distributions scheduled for the first six months of the year, and all monthly, quarterly, and semiannual distributions.

In June, the withholding notice is mailed for annual distributions scheduled for the second six months of the year, and all semiannual distributions.

Withhold and Deposit the Assets

Track the assets: Establish a separate general ledger account for IRA withholding.

Determine the deposit schedule: The frequency with which a financial organization must deposit federal withholding is generally based on the "lookback period." The lookback period is based on the calendar year two years before the current year (Treas. Reg. 31.6302-4(c)(2)(iv)).

- For calendar year 2019, a financial organization's status is determined by the amount of taxes reported on IRS Form 945, *Annual Return of Withheld Federal Income Tax*, for calendar year 2017.
- Tax deposits reported on Form 945 are determined by the financial organization's depositor status—either a semiweekly depositor or monthly depositor.

Total tax reported on 2017 Form 945	2019 deposit schedule
$50,000 or less	***Monthly deposits***. Deposit nonpayroll withholding balance with a federal depository by the 15th day of the following month.
Over $50,000	***Semiweekly deposits***. Deposit amounts withheld on Wednesday, Thursday, and Friday with a federal depository by the following Wednesday. Deposit amounts withheld on Saturday, Sunday, Monday, and Tuesday with a federal depository by the following Friday.

Exception: If the accumulated nonpayroll withholding amount reaches $100,000 for any day within a deposit period, the financial organization must deposit withheld assets by the end of the next business day. Thereafter, the financial organization is a semiweekly depositor for the remainder of the calendar year and also for the subsequent calendar year.

NOTE: *The frequency with which the financial organization must deposit state withholding is determined by its state department of revenue.*

Deposit the assets: Assets are deposited with the federal depository electronically.

Most financial organizations must now use the Electronic Federal Tax Payment System (EFTPS). Only those financial organizations with aggregate deposits of less than $2,500 during a calendar year may deposit withholding amounts manually. That withholding may be deposited annually with Form 945.

NOTE: *Financial organizations should verify on a regular basis that the assets deposited match the withholding done on IRA distributions.*

Report Withholding to the IRS

Financial organizations must report nonpayroll withholding amounts on Form 945, which is filed annually by the following January 31.

Semiweekly filers also must attach IRS Form 945-A, *Annual Record of Federal Tax Liability*, which is a daily ledger.

Withholding amounts from IRAs of nonresident aliens are reported on Form 1042, *Annual Withholding Tax Return For U.S. Source Income of Foreign Persons,* which is filed annually by the following March 15.

Who is responsible at your financial organization for depositing withheld assets to the federal depository?

Who is responsible for completing Forms 945 and 945-A?

State Withholding Requirements

State withholding regulations apply if

- the financial organization has a branch or office in the state, and
- the distribution recipient is required to file an income tax return in that state.

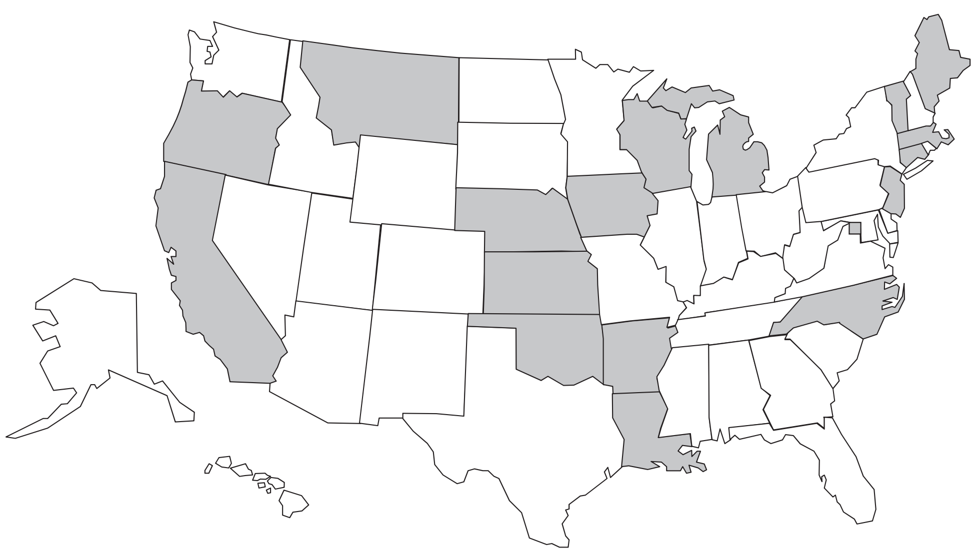
  In most cases, state withholding applies to state residents only. In **Maine**, **Massachusetts**, **Montana**, **Nebraska**, **Oregon**, and **Wisconsin**, state withholding also applies to individuals required to file a state tax return in that state.

The rate at which income taxes are withheld varies from state to state.

If financial organizations participate in shared branching or shared service centers in other states, check with that state's revenue authority to determine if that state has IRA withholding requirements.

The following states require financial organizations to offer withholding of state income taxes from IRA distributions.

Arkansas	Kansas	Montana	Oregon
California	Louisiana	Nebraska	Vermont
Connecticut	Maine	New Jersey	Wisconsin
District of Columbia	Massachusetts	North Carolina	
Iowa	Michigan	Oklahoma	



NOTE: *Financial organizations that conduct business in a state in which they do not have a branch or office, should review the withholding regulations in those states, to determine if they are also required to comply with those states' withholding requirements.*

Each state has its own IRA distribution withholding requirements.

- In certain states, financial organizations are required to offer state withholding on all IRA distributions that may be subject to income tax.
- Financial organizations must provide distribution recipients with the required withholding notices and an opportunity to have state income taxes withheld.
- Financial organizations must withhold according to the distribution recipient's instructions and deposit the assets to their state's department of revenue.
- Financial organizations must report the withholding amounts to their state's department of revenue.

State Income Tax Withholding Guide for IRA Distributions

This guide provides general information about state withholding requirements for IRA distributions. It is not intended to provide a complete overview of state withholding rules and regulations. The information in this guide was obtained from state revenue authorities, and every effort has been made to ensure its accuracy. Because state tax laws are subject to constant change, often without prior notice, the accuracy of the information cannot be guaranteed beyond the revision date of this guide.

General Rules

In most cases, state withholding applies to state residents only. In Maine, Massachusetts, Montana, Nebraska, Oregon, and Wisconsin, state withholding also applies to individuals required to file a state tax return in that state.

If a state withholding election is not made and state withholding is required, state tax will be withheld.

A state withholding election may be changed at any time, applicable to payments made after the change.

State-Specific Rules

ARKANSAS. IRA distributions are subject to state withholding at 3.0% of the gross payment unless the IRA owner elects no state withholding.

CALIFORNIA. IRA distributions are subject to state withholding at 1.0% of the gross payment unless the IRA owner elects no state withholding.

CONNECTICUT. Taxable lump-sum IRA distributions are subject to mandatory state withholding at 6.99% of the gross payment. Any other taxable distribution from an IRA is subject to state withholding at 6.99% of the gross payment, unless the IRA owner furnishes the financial organization with a completed Form CT-W4P. Form CT-W4P may be obtained from the Connecticut Department of Revenue Services.

DISTRICT OF COLUMBIA. Lump-sum IRA distributions are subject to mandatory state withholding at 8.95% of the gross payment, except for any after-tax amount in a lump-sum distribution or a trustee-to-trustee transfer between IRAs.

IOWA. IRA distributions are subject to state withholding at 5.0% of the gross payment if federal income taxes are withheld from the payment.

KANSAS. IRA distributions are subject to state withholding at 5.0% of the gross payment if federal income taxes are withheld from the payment or if the IRA owner requests state withholding in writing.

LOUISIANA. IRA distributions are subject to state withholding only when the IRA owner elects state withholding and specifies a percentage not to exceed 4.8% of the gross payment.

MAINE. IRA distributions are subject to state withholding at 5.0% of the gross payment if federal income taxes are withheld from that payment.

MASSACHUSETTS. IRA distributions are subject to state withholding at 5.05% of the gross payment if federal income taxes are withheld from the payment. (EXCEPTION: A payment is not subject to state withholding if it is excluded from taxation under Massachusetts law.)

MICHIGAN. Any taxable distribution from an IRA received by an IRA owner or beneficiary born after December 31, 1945, is subject to state withholding at 4.25% of the gross payment, unless the IRA owner provides the financial organization with a completed Form MI W-4P. Withholding also applies to any taxable distributions received by an IRA owner or beneficiary born before 1946 that exceeds certain income thresholds. Withholding is not required on qualified distributions from Roth IRAs. Form MI W-4P may be obtained from the Michigan Department of Treasury.

MONTANA. IRA distributions are subject to state withholding when an IRA owner elects state withholding and specifies an amount. If state withholding is elected, the financial organization is not required to withhold the amount specified if it would result in a net payment of less than $10.

NEBRASKA. IRA distributions are subject to state withholding at 5.0% of the gross payment if federal income taxes are withheld from the payment or if the IRA owner requests state withholding in writing.

NEW JERSEY. IRA distributions are subject to state withholding when an IRA owner elects state withholding and specifies an amount. The IRA owner must specify an even dollar amount. If state withholding is elected, the financial organization is not required to withhold the amount specified if the withheld amount would be less than $10 (per payment).

NORTH CAROLINA. IRA distributions are subject to state withholding at 4.0% of the gross payment unless the IRA owner furnishes the financial organization with a completed Form NC-4P. Form NC-4P may be obtained from the North Carolina Department of Revenue.

OKLAHOMA. IRA distributions are subject to state withholding at 5.0% of the gross payment if federal income taxes are withheld from the payment or if the IRA owner requests state withholding in writing.

OREGON. IRA distributions are subject to state withholding at 8.0% of the gross payment unless the IRA owner elects no state withholding.

VERMONT. IRA distributions are subject to state withholding at 3.0% of the gross payment if federal income taxes are withheld from the payment or if the IRA owner requests state withholding in writing.

WISCONSIN. IRA distributions are subject to state withholding when an IRA owner elects state withholding and specifies an amount. If state withholding is elected, the financial organization is not required to withhold the amount specified if the withheld amount would be less than $5 (per payment).

317-SU (Rev. 4/2019)

State Reporting Requirements

Many states require financial organizations to report IRA information for state residents.

- Most states that have reporting requirements claim that they are entitled to information about every IRA owned by a state resident, even if the financial organization is not located in that state.
- If IRA owners legally reside in another state, the financial organization should contact the individual state agencies about their reporting requirements.
  - The laws are unclear as to whether a state has the power to require an out-of-state financial organization to do this reporting.
  - Financial organizations should establish their own policies for handling this problem.
  - Ascensus recommends that, at a minimum, financial organizations report IRA information to any state in which they have an office (assuming that state requires reporting).

Some states require the use of their own transmittal forms and want advance notice that the financial organization will be filing forms with them.

- This information generally is available from the state's department of revenue or taxation.
- To meet these state requirements, Ascensus recommends that financial organizations contact, in advance, each state with which they may be filing IRA tax forms.

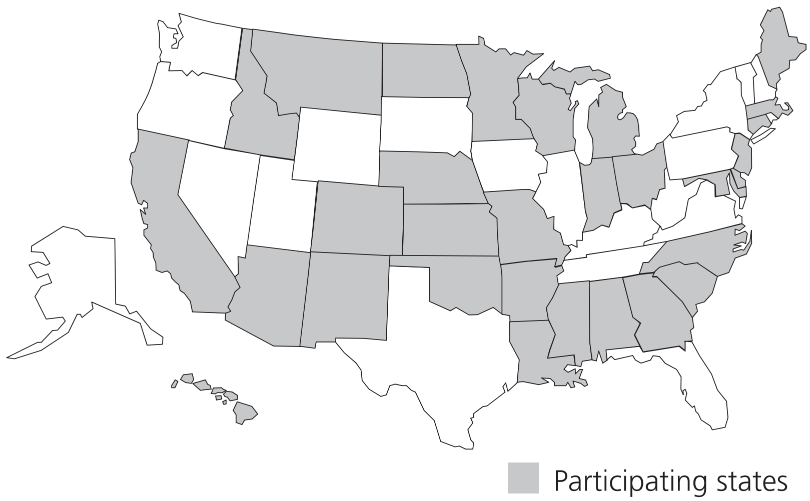
Financial organizations should check with local jurisdictions to see if any jurisdiction has its own income tax.

Combined Federal/State Filing Program

The IRS has a Combined Federal/State Filing Program under which it forwards information to many states that require reporting.

- Each year, the IRS publishes an updated list of states that participate.
  - To find out which states participate, refer to the most recent IRS revenue procedure covering reporting, Publication 1220, *Specifications for Electronic Filing of Forms 1097, 1098, 1099, 3921, 3922, 5498 and W-2G.*
- Check with individual state agencies about their participation in the Combined Federal/State Filing Program.
- Financial organizations that file electronically should include the applicable state code, not the state abbreviation in their files. A list of state codes and file layout information is available in Publication 1220.
- To enable the IRS to forward IRA information to an organization's state as part of the Combined Federal/State Filing Program, the financial organization must file IRS Form 6847, *Consent for Internal Revenue Service to Release Tax Information,* with the IRS consenting to the release of the information.
  - For those financial organizations on Ascensus' *Fully-Administered Program*, the financial organization sends IRS Form 6847 to Ascensus, who then forwards the information to the IRS.
  - The IRS will forward all corrections that are properly coded for the Combined Federal/State Filing Program to the participating states.

States Participating in the Federal/State Filing Program



States Participating in the Federal/State Combined Filing Program (9/2018)			
State	Code*	State	Code*
Alabama	01	Massachusetts	25
Arizona	04	Michigan	26
Arkansas	05	Minnesota	27
California	06	Mississippi	28
Colorado	07	Missouri	29
Connecticut	08	Montana	30
Delaware	10	Nebraska	31
Georgia	13	New Jersey	34
Hawaii	15	New Mexico	35
Idaho	16	North Carolina	37
Indiana	18	North Dakota	38
Kansas	20	Ohio	39
Louisiana	22	Oklahoma	40
Maine	23	South Carolina	45
Maryland	24	Wisconsin	55

*The codes listed apply only to the Combined Federal/State Filing Program and may not correspond to state codes of agencies or programs outside the IRS.

Reconciliation of Payer Copies

All financial organizations must check with their state to determine the correct forms and deadlines for properly reporting IRA distributions and state withholding.

- Some states will accept Forms 1099-R that are submitted electronically through the IRS.
- Some states require paper payer copies that are filed with the state's department of revenue.

Determine a Specific Amount After Withholding

If an individual withdraws all of the assets from the IRA or wants the withholding calculated on a gross amount, the withholding amount is subtracted from the distribution amount, and the individual receives the difference.

$$\begin{array}{r} \text{gross distribution} \\ \underline{\times \text{ federal withholding rate}} \\ \text{federal withholding amount} \end{array}$$

then

$$\begin{array}{r} \text{gross distribution} \\ \underline{- \text{ federal withholding amount}} \\ \text{net payment} \end{array}$$

Individuals sometimes specify the actual distribution amount that they want to receive after withholding.

$$\frac{\text{net payment}}{\begin{array}{c}1.00 - \text{federal withholding rate} \\ \text{(expressed as a decimal)}\end{array}} = \text{gross distribution}$$

Specific Amount After Federal and State Percentage Withholding

For states that allow individuals to withhold a percentage, use the following calculation to determine the gross distribution when an individual wants both state and federal withholding.

$$\frac{\text{net payment}}{\begin{array}{c}\text{1.00 – fed w/h rate – state w/h rate}\\ \text{(expressed as a decimal)}\end{array}} = \text{gross distribution}$$

Determining Gross Distribution

Kathy lives in Maine. She wants to receive $5,000 and withhold 5 percent for state withholding plus 10 percent for federal withholding.

What would be the gross distribution amount for Kathy?

Specific Amount After Federal and Specific State Withholding

For states that allow distribution recipients to specify a dollar amount to be withheld, use the following calculation to determine the gross distribution when the recipient wants both state and federal withholding.

$$\frac{\text{net payment + state w/h amount}}{\text{1.00 – federal withholding rate (expressed as a decimal)}} = \text{gross distribution}$$

If the recipient wants only a specific dollar amount withheld for state taxes, and no federal withholding, simply add the withholding amount to the desired net payment to find the gross payment.

Additional Distribution Issues

The distribution amount shown on IRS Form 1099-R does not include financial organization fees or penalties.

These penalties are considered an investment loss and are not reported as a distribution.

Remember, the financial organization does not consider (or collect) any additional taxes due, such as the 10 percent early distribution penalty tax. This is the distribution recipient's responsibility.

Determining Gross Distribution With Penalty

Sandy has a $5,000 IRA balance. She has elected to withdraw the entire amount from her IRA and apply 10 percent federal withholding. The $5,000 in her IRA is invested in a one-year share certificate that matures on November 22, 2019. The penalty for breaking the terms of the share certificate is 90 days' dividends, which in this case is $100.

What is the total amount removed from the IRA?

What is the distribution amount reported to Sandy?

What is the net amount Sandy will receive?

Withholding

Mia has been at the financial organization for one year and is now going to assist in the IRA department. **For each of the following questions, work with the group at your table to determine how you would explain the answers to Mia.**

1. What is the penalty if the financial organization does not withhold on an IRA distribution?

2. Does the financial organization have to send a withholding notice? If yes, how often does it need to be sent?

3. What is the penalty for failing to send a withholding notice?

4. What happens to the assets that are withheld?

Roman takes scheduled quarterly Traditional IRA distributions in March, June, September, and December. Roman elected to withhold 10 percent for federal income taxes. In July, Roman took a $100 distribution and chose to waive withholding.

5. How should withholding be handled on the next scheduled distribution if Roman completes no additional paperwork?

6. How could the financial organization ensure that Roman's scheduled distributions stay the same?

Exercise Answers

Withholding

Mia has been at the financial organization for one year and is now going to assist in the IRA department.

1. What is the penalty if the financial organization does not withhold on an IRA distribution?

   The financial organization must pay the tax required to be withheld.

2. Does the financial organization have to send a withholding notice? If yes, how often does it need to be sent?

   Yes, if distributions occur quarterly or more frequently, a notice must be sent before the first distribution each year. If the distributions are less frequent than quarterly, the notice must be sent before each distribution, but no earlier than six months before the scheduled distribution.

3. What is the penalty for failing to send a withholding notice?

   $10 for each failure

4. What happens to the assets that are withheld?

   The assets are sent to the IRS and reported as withheld on the IRA owner's Form 1099-R. When the IRA owner files her income tax return, she will include that amount as withheld.

Roman takes scheduled quarterly Traditional IRA distributions in March, June, September, and December. Roman elected to withhold 10 percent for federal income taxes. In July, Roman took a $100 distribution and chose to waive withholding.

5. How should withholding be handled on the next scheduled distribution if Roman completes no additional paperwork?

   Because Roman has now elected to waive withholding, all future scheduled distributions should have withholding waived until Roman makes a new election.

6. How could the financial organization ensure that Roman's scheduled distributions stay the same?

   Roman would need to complete a new withholding election for his scheduled distributions and elect 10 percent federal withholding.