



# VITA/TCE Volunteer Tax Alert (VTA)

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

<b>VTA Number</b>	VTA-2015-08
<b>Date Issued</b>	February 11, 2015
<b>Tax Law Topic</b>	<b>Scope Corrections to Publications 4012 and 4491 Concerning IRAs</b>
<b>Out of Scope Topics</b>	<p>The following items on Form 1099R, <i>Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc</i> are out of scope:</p> <p>Distribution codes J and T</p> <p>Distribution Code 2 – Out of scope <b>only if</b> the IRA/SEP/SIMPLE box is checked. This generally would indicate a conversion to a Roth IRA, which is reportable on Form 8606, <i>Nondeductible IRAs</i>. Form 8606 is out of scope.</p>
<b>In Scope Topics</b>	Distributions from SIMPLE and SEP IRAs are in scope for VITA/TCE as they are generally treated in the same manner as traditional IRA distributions.
<b>Publication 4012 Updates</b>	<p>Correction – Nonqualified Distributions from Roth IRAs are out of scope for VITA/TCE, because it requires the completion of Form 8606. Distribution <b>Codes J and T are out of scope</b></p> <p>Change verbiage for J to: This code is out of scope, page D-21 Change verbiage for T to: This code is out of scope, page D-21</p> <p><b>Publication 4012, page D-21</b> Change Distribution Code G to: Code G is for a direct rollover from a qualified plan to an eligible retirement plan. If box 2, taxable amount, is zero or blank, it will not be taxed. If there is an amount in box 2, the direct rollover is fully or partially taxable. No further action is needed.</p> <p><b>Publication 4012, page D-20, Distribution Code 2</b> Change Code 2 to: Code 2 applies if the taxpayer is under 59 ½ but the payer knows that an exception to the additional tax applies. If the IRA/SEP/SIMPLE box is NOT checked, no further action needed. If the IRA/SEP/SIMPLE box IS checked, additional reporting may be required on Form 8606, and the return is out of scope.</p>
<b>Pub 4491 Updates</b>	<p><b>Roth IRAs</b> Publication 4491, pages 134-135, Section on Nonqualified Distributions -Replace the entire section with the following paragraph:</p> <p><b>Nonqualified Distributions</b> If the above requirements are not met, the distribution is non-qualified and additional taxes may apply. Taxpayers who made non-qualified Roth IRA distributions should be referred to a professional tax preparer.</p> <p>-Change the TIP to the right of the qualified Roth IRA section on page 134 as follows: TIP: You can identify Roth IRAs from the distribution code used on Form 1099R. Distribution codes Q, J, and T are specific to Roth IRAs. <b>(Only code Q is in scope for the VITA/TCE program).</b></p> <p><b>SIMPLE and SEP IRAs</b> Publication 4491, page 135, middle of page (before info on SIMPLE and SEP IRAs):</p> <ul style="list-style-type: none"><li>• Change the wording in the Caution box to:</li></ul> <p><b>Contributions</b> to SIMPLE and SEP IRAs are out of scope for VITA/TCE.</p> <p><b>Publication 4491, Page 136, after the Traditional IRA section</b></p> <ul style="list-style-type: none"><li>• Add the following paragraph regarding SIMPLE and SEP IRAs:</li></ul>

	<p><b>SIMPLE and SEP IRAs</b> 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.</p> <p>Exception: Funds distributed from a SIMPLE IRA in the first two years are subject to a 25% early distribution penalty. If this is applicable, Form 1099R will be issued with distribution Code S. If an exception to the penalty applies, complete Form 5329 as you would do with traditional IRA distributions.</p> <p>-Remove the TIP that says SIMPLE/SEP distributions are out of scope.</p> <p><b>Rollovers</b> Publication 4491, page 136, “How are rollovers handled”?</p> <ul style="list-style-type: none"> <li>• Replace the 2<sup>nd</sup> paragraph with the following:</li> </ul> <p>Form 1099-R will be issued to the taxpayer by the financial institution. If the distribution was a direct rollover by the institution to another institution, it will show distribution code G. If there is also a taxable amount in box two of the 1099R, the distribution may be partially or fully taxable. No further action is needed.</p> <p>If the taxpayer indicates that a rollover occurred but the distribution code is NOT G, then the taxpayer must have re-deposited the full amount into an appropriate account within 60 days. If this was not done, the distribution may be partially or fully taxable; refer the taxpayer to a professional tax preparer.</p> <p>Note: Distributions from SIMPLE IRAs in the first 2 years (distribution code S) can only be rolled over tax-free into other SIMPLE IRAs. Taxable SIMPLE IRA rollovers are out of scope for VITA/TCE.</p>
<b>Volunteers’ Role</b>	Volunteers are expected to make these changes in their Publications 4012 and 4491.
<b>Additional Information</b>	All of these updates will be included in the next revision of the Publication 4491X currently schedule for mid-February.
<b>Resources</b>	<a href="#">Form 1099R</a> <a href="#">Publication 4012</a> <a href="#">Publication 4491</a> <a href="#">Publication 4491-X</a>

*For additional questions, please talk to your site coordinator, partner, or IRS SPEC relationship manager.*