

MEMO# 32851

October 20, 2020

IRS Guidance Clarifies Tax Implications of Payments from Qualified Plans to State Unclaimed Property Funds, Including Extension of 60-Day Rollover Deadline

[32851]

October 20, 2020 TO: ICI Members
Pension Committee

Pension Operations Advisory Committee SUBJECTS: Abandoned Property and Escheatment
Pension RE: IRS Guidance Clarifies Tax Implications of Payments from Qualified Plans to
State Unclaimed Property Funds, Including Extension of 60-Day Rollover Deadline

Last Friday, the Internal Revenue Service (IRS) released Revenue Ruling 2020-24 and Revenue Procedure 2020-46.[\[1\]](#) In the Revenue Ruling, IRS provides guidance on the income tax implications of payments from qualified plans to state unclaimed property funds. In the Revenue Procedure, the IRS modifies its list of permissible reasons for a taxpayer to self-certify eligibility for a waiver of the 60-day rollover requirement to include a distribution made to a state unclaimed property fund.

Guidance on Withholding and Reporting

Generally, pursuant to the Revenue Ruling, an employer plan's obligations regarding an amount sent to an unclaimed property fund are the same as for distributions to a participant, with respect to reporting and withholding on the amount paid.[\[2\]](#)

Under the facts presented, the participant has an accrued benefit with a value of \$900, which in 2020 the plan paid to a state unclaimed property fund (described as a fund under which a claim for property may be made by an owner).[\[3\]](#) The participant has no investment in the contract (i.e., basis) within the meaning of Internal Revenue Code § 72 and has never made a withholding election with respect to the plan. The plan does not allow designated Roth contributions.

The Revenue Ruling provides that:

1. The payment of the participant's accrued benefit from the plan is subject to federal income tax withholding under § 3405.

2. The payment from the plan is subject to reporting under § 6047. The payor must report the distribution in Box 1 of Form 1099-R and the federal income tax withheld in Box 4.

The Revenue Ruling provides transition relief, specifying that a person will not be treated as failing to comply with the withholding and reporting requirements described in this Revenue Ruling with respect to payments made before the earlier of January 1, 2022, or the date it becomes reasonably practicable for the person to comply with those requirements.

Waiver of the 60-Day Rollover Requirement

If a distribution from a qualified plan or IRA is paid directly to the plan participant or IRA owner, and the amount is an “eligible rollover distribution,” the plan participant or IRA owner may roll over the distribution by depositing the amount into another qualified plan or IRA within 60 days. Generally, a taxpayer who missed the 60-day deadline must request a private letter ruling in order to receive a waiver of the deadline.^[4] In 2016, the IRS released Revenue Procedure 2016-47, which described a new self-certification procedure available for taxpayers seeking a waiver of the 60-day requirement for rollovers.^[5]

Revenue Procedure 2016-47 included a list of permissible reasons for a taxpayer to self-certify eligibility for a waiver of the 60-day rollover requirement. The new Revenue Procedure modifies that list by adding a new permissible reason for missing the 60-day deadline: a distribution was made to a state unclaimed property fund. An appendix to the Revenue Procedure includes a model letter that may be used for self-certification, updated to include this new permissible reason as an available option.

Shannon Salinas
Assistant General Counsel - Retirement Policy

endnotes

^[1] Revenue Ruling 2020-24 is available at <https://www.irs.gov/pub/irs-drop/rr-20-24.pdf>. Revenue Procedure 2020-46 is available at <https://www.irs.gov/pub/irs-drop/rp-20-46.pdf>.

^[2] Note that the analysis and holding of this ruling is nearly identical to that of Revenue Ruling 2019-19, which the IRS issued last year, regarding the tax implications of a plan participant’s failure to cash a distribution check from a tax-qualified retirement plan. See ICI Memorandum No. 31912, dated August 20, 2019, available at https://www.ici.org/my_ici/memorandum/memo31912. The ruling also follows Revenue Ruling 2018-17, which provided guidance on reporting and withholding obligations with respect to amounts paid from an IRA to a state unclaimed property fund. See ICI Memorandum No. 31494, dated November 20, 2018, available at https://www.ici.org/my_ici/memorandum/memo31494.

^[3] The ruling includes a footnote indicating that the ruling does not address whether the payment to the state unclaimed property fund otherwise complies with applicable law. For example, it does not address compliance with any search requirements applicable under state law and does not address matters arising under Title I of ERISA. Note that in 2019 the ERISA Advisory Council considered the implications under ERISA of permissive transfers of uncashed checks from ERISA plans to state unclaimed property funds. See ICI Memorandum

No. 32039, dated November 6, 2019, *available at* https://www.ici.org/my_ici/memorandum/memo32039.

[4] The IRS may waive the 60-day rollover requirement “where the failure to waive such requirement would be against equity or good conscience, including casualty, disaster, or other events beyond the reasonable control of the individual subject to such requirement.” See Internal Revenue Code sections 402(c)(3)(B) and 408(d)(3)(I).

[5] For a description of Revenue Procedure 2016-47, see ICI Memorandum No. 30166, dated August 25, 2016, *available at* https://www.ici.org/my_ici/memorandum/memo30166. The IRS cautions that a self-certification is not an actual waiver by the IRS of the 60-day rollover requirement. However, a taxpayer may report the contribution as a valid rollover unless later informed otherwise by the IRS. Further, a self-certification applies only for purposes of a waiver of the 60-day requirement for a valid rollover; it does not apply for purposes of any other requirement for a valid rollover.

Copyright © by the Investment Company Institute. All rights reserved. Information may be abridged and therefore incomplete. Communications from the Institute do not constitute, and should not be considered a substitute for, legal advice.