

MEMO# 1064

March 27, 1989

IRS NOTICE CONCERNING TAXATION OF DISTRIBUTIONS

- 1 - March 27, 1989 TO: PENSION MEMBERS NO. 21-89 RE: IRS NOTICE CONCERNING TAXATION OF DISTRIBUTIONS

Attached is a copy of IRS Notice 89-25, which provides guidance concerning the taxation of distributions from qualified plans, section 403(b) arrangements and IRAs. The notice clarifies IRS Notices 87-13 and 87-16. (See Institute Memoranda to Pension Members Nos. 9-87 and 10-87, dated February 3, 1987.) The notice sets forth three alternative methods of computing the "series of substantially equal periodic payments" from an IRA or individual account plan exempt from the section 72(t) tax on early distributions under section 72(t)(2)(A)(iv). First, the participant may determine the annual payment using a method that would be acceptable for purposes of calculating the required minimum distribution under section 401(a)(9). Second, the participant may amortize the account balance over the life expectancy of the participant or the joint life and last survivor expectancy of the participant and the beneficiary at an interest rate not exceeding a reasonable rate on the date payments commence. Third, the participant may divide the account balance by an annuity factor derived using a reasonable mortality table and an interest rate not exceeding a reasonable rate on the date payments commence. The applicable annuity factor is the present value of an annuity of \$1 per year beginning at the participant's attained age in the first distribution year and continuing for the life of the participant. In addition, notice also advises that a distribution to a nonspouse alternate payee under a qualified domestic relations order may not be rolled over into an IRA by the alternate payee because the distribution would be includible in the gross income of the participant rather than in the gross income of the alternate payee. The IRS further states, however, that the participant may roll over such amounts by making a contribution to an eligible retirement plan if the requirements of section 402(a)(5) are otherwise satisfied. - 2 - The notice also addresses the withholding requirements for qualified plan distributions to nonspouse alternate payees, the effective date of section 72(t) for section 403(b) arrangements, and the tax treatment of distributions from an IRA when the participant's basis exceeds the value of the IRA. We will keep you informed of further developments. Kathy D. Ireland Assistant General Counsel Attachment