

MASSACHUSETTS PERAC—Taxation and Reporting Requirements Workbook

Benefit	Box 1 Gross Distribution	Box 2a Taxable amount	Box 2b Taxable amount not determined/ total distribution	Box 3 Capital Gains	Box 4 Federal taxes withheld	Box 5 Employee contributions	Box 7 Distribution code	Box 9a and 9b Percentage of Total Distribution (9a) Total Employee Contributions (9b)
Superannuation under age 59½ ¹	Total amount	Amount less after-tax basis recovery	Do not complete, unless final distribution, then <input checked="" type="checkbox"/> total distribution	N/A	Yes	Include any applicable after-tax basis recovery (Box 2a + Box 5 will equal Box 1)	2	If choose to report total employee contributions, do not include prior years recovered amounts. If final total distribution, only include in box 5.
Superannuation age 59½ and older	Total amount	Amount less after-tax basis recovery	Do not complete, unless final distribution, then <input checked="" type="checkbox"/> total distribution	N/A	Yes	Include any applicable after-tax basis recovery (Box 2a + Box 5 will equal Box 1)	7 ²	If choose to report total employee contributions, do not include prior years recovered amounts. If final total distribution, only include in box 5.

¹ We note that the 1099-R for superannuation provided in PERAC's May 16 correspondence referenced the "simplified general rule" (SGR). As also noted in the Reporting Memorandum, the appropriate rules for determining the appropriate amount of basis recovery have changed over the years, based upon the member's annuity starting date; for annuities starting after November 18, 1996, either the Simplified or Revised Simplified Method would apply. These methods are discussed in the Reporting Memorandum.

² Note: In the year the member turns 59½, two Form 1099-Rs would be issued because of the different coding, one coded 2 for amounts paid up to age 59½ and one coded 7 for amounts paid from 59½ and older.

<u>Benefit</u>	<u>Box 1</u> Gross Distribution	<u>Box 2a</u> Taxable amount	<u>Box 2b</u> Taxable amount not determined/ total distribution	<u>Box 3</u> Capital Gains	<u>Box 4</u> Federal taxes withheld	<u>Box 5</u> Employee contributions	<u>Box 7</u> Distribution code	<u>Box 9a and 9b</u> Percentage of Total Distribution (9a) Total Employee Contributions (9b)
Ordinary disability under age 55	Total amount	Total amount	Do not complete, unless final distribution, then <input checked="" type="checkbox"/> total distribution	N/A	Yes	\$0	3 or 2 ³	Do not complete.
Ordinary disability age 55 up to 59½ ⁴	Total amount	Amount less after-tax basis recovery	Do not complete, unless final distribution, then <input checked="" type="checkbox"/> total distribution	N/A	Yes	Include any applicable after-tax basis recovery (Box 2a + Box 5 will equal Box 1)	3 or 2	If choose to report total employee contributions, do not include prior years recovered amounts. If final total distribution, only include in box 5.
Ordinary disability age 59½ and older	Total amount	Amount less after-tax basis recovery	Do not complete, unless final distribution, then <input checked="" type="checkbox"/> total distribution	N/A	Yes	Include any applicable after-tax basis recovery (Box 2a + Box 5 will equal Box 1)	7 ⁵	If choose to report total employee contributions, do not include prior years recovered amounts. If final total distribution, only include in box 5.

³ Note: As discussed in Reporting Memorandum, technically code 3 should only be used if the disability definition of Code Section 72(m)(7) is satisfied, although some systems use a code 3 for all disability benefits. If a distinction is made, code 2 would still be appropriate prior to age 59 ½ because of the 10% penalty exception for substantially equal lifetime periodic payments.

⁴ On the 1099-R example provided by PERAC for ordinary disability, over age 55, we want to note that we agree that basis recovery (under the applicable method) would begin at age 55, but at age 59½ we think that the Box 7 code should be changed to 7.

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Accidental disability under age 55	Total amount ⁶	Annuity amount only	Do not complete, unless final distribution, then <input type="checkbox"/> total distribution	N/A	Yes	\$0	3 or 2	Do not complete.
Accidental disability age 55 up to 59½	Total amount ⁶	Annuity amount less after-tax basis recovery	Do not complete, unless final distribution, then <input checked="" type="checkbox"/> total distribution	N/A	Yes	Include any applicable after-tax basis recovery	3 or 2	If choose to report total employee contributions, do not include prior years recovered amounts. If final total distribution, only include in box 5.
Accidental disability age 59½ and older	Total amount ⁶	Annuity amount less after-tax basis recovery	Do not complete, unless final distribution, then <input checked="" type="checkbox"/> total distribution	N/A	Yes	Include any applicable after-tax basis recovery	7	If choose to report total employee contributions, do not include prior years recovered amounts. If final total distribution, only include in box 5.

⁵ Note: In the year the member turns 59½, two Form 1099-Rs would be issued because of the different coding, one coded 3 or 2 for amounts up to age 59½ and one coded 7 for amounts paid from 59½ and older. The Box 7 coding is determined based upon the member's age (as it keys off the 10% penalty application), not by the minimum retirement age and availability of basis recovery.

⁶ As noted on the 1099-R example provided by PERAC, while technically the amount of the non-taxable disability benefit does not have to be reported on the Form 1099-R, we generally recommend including it in Box 1 for the member's aid and records.

<u>Benefit</u>	<u>Box 1</u> Gross Distribution	<u>Box 2a</u> Taxable amount	<u>Box 2b</u> Taxable amount not determined/ total distribution	<u>Box 3</u> Capital Gains	<u>Box 4</u> Federal taxes withheld	<u>Box 5</u> Employee contributions	<u>Box 7</u> Distribution code	<u>Box 9a and 9b</u> Percentage of Total Distribution (9a) Total Employee Contributions (9b)
Active member death survivorship benefit (Sec. 12(2)(d) and Sec. 12B) ⁷	Total amount	Amount less after-tax basis recovery	Do not complete, unless final distribution, then <input checked="" type="checkbox"/> total distribution	N/A	Yes	Include any applicable after-tax basis recovery (Box 2a + Box 5 will equal Box 1)	4	If choose to report total employee contributions, do not include prior years recovered amounts. If final total distribution, only include in box 5.
Survivor option C allowance (2/3 retiree's allowance) (Sec. 12(2)(c)) ⁸	Total amount	Amount less after-tax basis recovery	Do not complete, unless final distribution, then <input checked="" type="checkbox"/> total distribution	N/A	Yes	Include any applicable after-tax basis recovery (Box 2a + Box 5 will equal Box 1)	4	If choose to report total employee contributions, do not include prior years recovered amounts. If final total distribution, only include in box 5.
Survivorship benefit Sec. 101 (surviving spouse for retiree/death – not for accidental disabilitant death)	Total amount	Amount less after-tax basis recovery	Do not complete, unless final distribution, then <input checked="" type="checkbox"/> total distribution	N/A	Yes	Include any applicable after-tax basis recovery (Box 2a + Box 5 will equal Box 1)	4	If choose to report total employee contributions, do not include prior years recovered amounts. If final total distribution, only include in box 5.

⁷ On the Form 1099-R example provided by PERAC, the notes indicate that only a spouse can recover any remaining basis. However, recovery of any remaining basis is now permissible regardless of whether the beneficiary is the spouse.

⁸ This line shows results for non-accidental situation.

<u>Benefit</u>	<u>Box 1</u> Gross Distribution	<u>Box 2a</u> Taxable amount	<u>Box 2b</u> Taxable amount not determined/ total distribution	<u>Box 3</u> Capital Gains	<u>Box 4</u> Federal taxes withheld	<u>Box 5</u> Employee contributions	<u>Box 7</u> Distribution code	<u>Box 9a and 9b</u> Percentage of Total Distribution (9a) Total Employee Contributions (9b)
Spouse's survivorship death benefit Sec. 101 (if paid to spouse of accidental disabilitant) ⁹	Total amount	\$0	Do not complete, unless final distribution, then <input checked="" type="checkbox"/> total distribution	N/A	N/A	N/A	4	If final total distribution, only include in box 5.
Survivorship pension benefit Sec. 9 (accidental death due to job-related injury)	Total amount	\$0 (this is pension benefit only)	Do not complete, unless final distribution, then <input checked="" type="checkbox"/> total distribution	N/A	N/A	N/A	4	N/A
Refund to beneficiary or survivor Sec. 9 (accidental death due to job related injury) <u>Cashout</u>	Total amount	Amount less after-tax basis recovery	Do not complete, unless final distribution, then <input checked="" type="checkbox"/> total distribution ¹⁰	May be applicable	Yes (20% mandatory)	Include any applicable after-tax basis recovery	4	If choose to report total employee contributions, do not include prior years recovered amounts. If final total distribution, only include in box 5.

⁹ This line is applicable solely to an accidental disabilitant's spouse. The private letter ruling we are submitting will request a ruling confirming this result.

¹⁰ While the notes on the Form 1099-R example provided by PERAC indicate that an option is to check Box 2b, taxable amount not determined, we think that it rarely should be the case that the taxable amount is not determined.

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Refund to beneficiary or survivor Sec. 9 (accidental death due to job related injury) <u>Rollover</u>	Total amount	\$0 unless rollover to Roth IRA, where taxable amount will be reported	Do not complete, unless final distribution, then <input checked="" type="checkbox"/> total distribution	N/A	\$0 unless rollover to Roth IRA and elect to withhold	Include any applicable after-tax basis recovery amounts rolled over	4, G	If choose to report total employee contributions, do not include prior years recovered amounts. If final total distribution, only include in box 5.
Survivorship pension benefit Sec. 100 (accidental death in line of duty – police/fire)	Total amount	\$0 (this is only pension benefit)	Do not complete, unless final distribution, then <input checked="" type="checkbox"/> total distribution	N/A	\$0	N/A	4	N/A
Refund to beneficiary or survivor Sec. 100 (accidental death) <u>Cashout</u>	Total amount	Amount less after-tax basis recovery	Do not complete, unless final distribution, then <input checked="" type="checkbox"/> total distribution	N/A	\$0 unless rollover to Roth IRA and elect to withhold	Include any applicable after-tax basis recovery amounts rolled over	4, G	If choose to report total employee contributions, do not include prior years recovered amounts. If final total distribution, only include in box 5.
Refund (cashout) to member under age 59½	Total amount	Amount less after-tax basis recovery	<input checked="" type="checkbox"/> total distribution	N/A	Yes (20% mandatory)	Include any applicable after-tax basis recovery	1 or 2 ¹¹	N/A

¹¹ If member was at least 55 (age 50 for public safety officer) in the year of separation, this should be code 2 (this was not noted on the Form 1099-R example provided by PERAC).

<u>Benefit</u>	<u>Box 1</u> Gross Distribution	<u>Box 2a</u> Taxable amount	<u>Box 2b</u> Taxable amount not determined/ total distribution	<u>Box 3</u> Capital Gains	<u>Box 4</u> Federal taxes withheld	<u>Box 5</u> Employee contributions	<u>Box 7</u> Distribution code	<u>Box 9a and 9b</u> Percentage of Total Distribution (9a) Total Employee Contributions (9b)
Refund (cashout) to member age 59½ or older	Total amount	Amount less after-tax basis recovery	<input checked="" type="checkbox"/> total distribution	May be applicable	Yes (20% mandatory)	Include any applicable after-tax basis recovery	7	N/A
Refund to member (direct rollover) ¹²	Total amount	\$0 <u>unless</u> rollover to Roth IRA, where taxable amount will be reported	<input checked="" type="checkbox"/> total distribution	N/A	\$0 <u>unless</u> rollover to Roth IRA and elect to withhold	Include any applicable after-tax basis recovery amounts rolled over	G	N/A
Refund of active member account to beneficiary (cash-out) ¹³	Total amount	Amount less after-tax basis recovery	<input checked="" type="checkbox"/> total distribution	May be applicable	Yes	Include any applicable after-tax basis recovery	4	N/A
Refund of active member account to beneficiary (rollover by spouse or non-spouse) ¹⁴	Total amount	\$0 <u>unless</u> spouse rolls over to Roth IRA, where taxable amount will be reported	<input checked="" type="checkbox"/> total distribution	May be applicable	\$0 <u>unless</u> spouse rolls over to Roth IRA and elects to withhold	Include any applicable after-tax basis recovery amounts rolled over	4, G ¹⁵	N/A

CIRCULAR 230 DISCLOSURE: Except to the extent that this advice concerns the qualification of any qualified plan, to ensure compliance with recently-enacted U.S. Treasury Department Regulations, we are now required to advise you that, unless otherwise expressly indicated, any federal tax advice contained in this communication, including any attachments, is not intended or written by us to be used, and cannot be used, by anyone for the purpose of avoiding federal tax penalties that may be imposed by the federal government or for promoting, marketing or recommending to another party any tax-related matters addressed herein.

¹² Please note that if the rollover is made to a Roth IRA the tax reporting will be different, although code G is used for all direct rollovers.

¹³ In reviewing the notes on the Form 1099-R provided by PERAC, there would not be a code "4H" as even Roth IRA rollovers are coded G, and a non-spouse beneficiary may rollover to an inherited IRA (also coded 4G).

¹⁴ Spouse has same rollover rights as the member. A non-spouse beneficiary may do a direct rollover only to an inherited IRA.

¹⁵ All direct rollovers from qualified plans are coded G; code H does not apply to rollovers from qualified plans to Roth IRAs.