



TaxNewsFlash

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Rev. Rul. 2020-24: Withholding and reporting requirements; payments from qualified plans to state's unclaimed property funds

The IRS released an advance version of Rev. Rul. 2020-24 providing that payments that an individual taxpayer has accrued in a qualified retirement plan, but that are remitted to a state unclaimed property fund, are subject to federal income tax withholding and reporting.

Read [Rev. Rul. 2020-24](#) [PDF 101 KB]

Background

Employer M is the plan administrator of Plan X—a qualified retirement plan under section 401(a) that does not include designated Roth accounts under section 402A, that does not hold employer securities, or that does not provide benefits as compensation for injuries or sickness (section 104) or amounts received under accident and health plans (section 105).

An individual taxpayer (a U.S. person) has an accrued benefit in Plan X with a value of \$900, but has not made a withholding election under section 3405 with respect to her benefit, and has no investment in the contract within the meaning of section 72 with respect to her benefit.

In 2020, the taxpayer's accrued benefit (net of any applicable withholding) is paid to a state's unclaimed property fund—a fund under which a claim for property may be made by an owner.

At issue is whether the payment of the taxpayer's accrued benefit is subject to federal tax withholding under section 3405 and whether it is also subject to reporting under section 6047.

Rev. Rul. 2020-24

The IRS concluded in the revenue ruling that none of the statutory exceptions from treatment as a designated distribution in section 3405(e)(1)(B) applies to the payment of the taxpayer's accrued benefit from Plan X, and therefore, the payment—including the amount withheld—is a designated

distribution. Accordingly, the payment is subject to federal income tax withholding under section 3405(d).

The revenue ruling explains that, in general, there are exceptions provided by section 3405(e)(1)(B)(i), (iii), and (iv) regarding the treatment as a designated distribution with respect to amounts that are wages, amounts that are subject to withholding on nonresident aliens and foreign corporations, and distributions described in section 404(k)(2) relating to dividends on employer securities. None of these exceptions applies.

Further, the revenue ruling notes it is not reasonable for the employer to believe that the payment of any portion of the taxpayer's accrued benefit from Plan X is not includible in gross income.

Regarding the issues concerning reporting, the revenue ruling explains that under the 2020 instructions to Form 1099-R, a Form 1099-R must be filed for each person to whom a designated distribution of \$10 or more has been made, and the total amount of the distribution (before income tax or other withholding) must be reported in Box 1 of that form. In addition, under those instructions, the federal income tax withheld must be reported in Box 4 of the Form 1099-R.

The IRS concluded that the Plan X payment of the taxpayer's accrued benefit—including both the amount sent to the state's unclaimed property fund and the amount withheld—is a designated distribution under section 3405(e)(1) that exceeds the reporting threshold for a designated distribution of \$10.

The revenue ruling provides that Employer M is required to report that designated distribution in Box 1, and the federal income tax withheld in Box 4, of the Form 1099-R for 2020.

Lastly, Rev. Rul. 2020-24 provides transition relief. Under that relief, a person will not be treated as failing to comply with these withholding and reporting requirements 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.

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