

[\(484\) 574-8782](tel:4845748782)

Torrillo & Associates

Benefit Plan Audit Specialists

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Plan Withholding Requirement For State Unclaimed Funds



Under [Revenue Ruling 2020-24](#), the Internal Revenue Service has ruled that a qualified retirement plan must withhold federal income tax from retirement payments it makes

to a state unclaimed property fund and that it must report the payments on Form 1099-R (Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.).

As a result of this ruling, the IRS issued [Revenue Procedure 2020-46](#), which added distribution made to a state unclaimed property fund as a new reason to the list of reasons a taxpayer can use to self-certify eligibility for a waiver of the 60-day rollover requirement for certain eligible retirement plans. This revenue procedure is effective October 16, 2020.

Retirement Payments to an Unclaimed Property Fund

Facts.

Employer M is the plan administrator of Plan X, a qualified retirement plan under Code Sec. 401(a) that does not hold employer securities. Individual C, a U.S. person with a calendar year tax year, has an accrued benefit in Plan X with a value of \$900, has not made a withholding election under Code Sec. 3405 with respect to her benefit, and has no investment in the contract within the meaning of Code Sec. 72 with respect to her benefit. In 2020, Individual C's accrued benefit (net of any applicable withholding) is paid to the State J unclaimed property fund, a fund under which a claim for property may be made by an owner.

Withholding is required.

IRS concluded that none of the exceptions to withholding apply under the facts presented. In addition, IRS concluded that it is not reasonable for Employer M to believe that the payment of any portion of Individual C's accrued benefit from Plan X is not includible in gross income.

Therefore the payment, including the amount withheld, is a designated distribution. Accordingly, the payment is subject to federal income tax withholding under Code Sec. 3405(d).

Reporting is also required.



The Plan X payment of Individual C's accrued benefit, including both the amount sent to the State J unclaimed property fund and the amount withheld, is a designated distribution under Code Sec. 3405(e)(1) that exceeds the reporting threshold. Accordingly, 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.



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Who We Are

Torrillo & Associates, LLC specializes in employee benefit plan audits including 401k audits, 403b audits, pension plan audits, and other retirement plan audits. We are licensed in 10 states including Pennsylvania, New Jersey, Delaware, New York and Florida. We are also able to practice in additional states that have passed firm mobility.

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