

Tax on Lump-Sum Distributions

(From Qualified Plans of Participants Born Before January 2, 1936)

▶ Attach to Form 1040 or Form 1041.

Name of recipient of distribution

Identifying number

Part I Complete this part to see if you can use Form 4972

		Yes	No
1 Was this a distribution of a plan participant's entire balance (excluding deductible voluntary employee contributions and certain forfeited amounts) from all of an employer's qualified plans of one kind (pension, profit-sharing, or stock bonus)? If "No," do not use this form	1		
2 Did you roll over any part of the distribution? If "Yes," do not use this form	2		
3 Was this distribution paid to you as a beneficiary of a plan participant who was born before January 2, 1936?	3		
4 Were you (a) a plan participant who received this distribution, (b) born before January 2, 1936, and (c) a participant in the plan for at least 5 years before the year of the distribution? If you answered "No" to both questions 3 and 4, do not use this form.	4		
5a Did you use Form 4972 after 1986 for a previous distribution from your own plan? If "Yes," do not use this form for a 2003 distribution from your own plan	5a		
b If you are receiving this distribution as a beneficiary of a plan participant who died, did you use Form 4972 for a previous distribution received for that participant after 1986? If "Yes," do not use the form for this distribution	5b		

Part II Complete this part to choose the 20% capital gain election (see instructions)

6 Capital gain part from Form 1099-R, box 3	6		
7 Multiply line 6 by 20% (.20) ▶	7		
If you also choose to use Part III, go to line 8. Otherwise, include the amount from line 7 in the total on Form 1040, line 41, or Form 1041, Schedule G, line 1b, whichever applies.			

Part III Complete this part to choose the 10-year tax option (see instructions)

8 Ordinary income from Form 1099-R, box 2a minus box 3. If you did not complete Part II, enter the taxable amount from Form 1099-R, box 2a.	8		
9 Death benefit exclusion for a beneficiary of a plan participant who died before August 21, 1996	9		
10 Total taxable amount. Subtract line 9 from line 8	10		
11 Current actuarial value of annuity from Form 1099-R, box 8. If none, enter -0-	11		
12 Adjusted total taxable amount. Add lines 10 and 11. If this amount is \$70,000 or more, skip lines 13 through 16, enter this amount on line 17, and go to line 18	12		
13 Multiply line 12 by 50% (.50), but do not enter more than \$10,000	13		
14 Subtract \$20,000 from line 12. If line 12 is \$20,000 or less, enter -0-	14		
15 Multiply line 14 by 20% (.20)	15		
16 Minimum distribution allowance. Subtract line 15 from line 13	16		
17 Subtract line 16 from line 12	17		
18 Federal estate tax attributable to lump-sum distribution	18		
19 Subtract line 18 from line 17. If line 11 is zero, skip lines 20 through 22 and go to line 23	19		
20 Divide line 11 by line 12 and enter the result as a decimal (rounded to at least three places).	20		
21 Multiply line 16 by the decimal on line 20	21		
22 Subtract line 21 from line 11	22		
23 Multiply line 19 by 10% (.10)	23		
24 Tax on amount on line 23. Use the Tax Rate Schedule in the instructions	24		
25 Multiply line 24 by ten (10). If line 11 is zero, skip lines 26 through 28, enter this amount on line 29, and go to line 30	25		
26 Multiply line 22 by 10% (.10)	26		
27 Tax on amount on line 26. Use the Tax Rate Schedule in the instructions	27		
28 Multiply line 27 by ten (10)	28		
29 Subtract line 28 from line 25. Multiple recipients, see instructions ▶	29		
30 Tax on lump-sum distribution. Add lines 7 and 29. Also include this amount in the total on Form 1040, line 41, or Form 1041, Schedule G, line 1b, whichever applies ▶	30		

General Instructions

Section references are to the Internal Revenue Code.

Purpose of Form

Use Form 4972 to figure the tax on a qualified lump-sum distribution (defined below) you received in 2003 using the 20% capital gain election, the 10-year tax option, or both. These are special formulas used to figure a separate tax on the distribution that may result in a **smaller** tax than if you reported the taxable amount of the distribution as ordinary income.

You pay the tax **only once**, for the year you receive the distribution, not over the next 10 years. The separate tax is added to the regular tax figured on your other income.

Related Publications

Pub. 575, Pension and Annuity Income

Pub. 721, Tax Guide to U.S. Civil Service Retirement Benefits

Pub. 939, General Rule for Pensions and Annuities

What Is a Qualified Lump-Sum Distribution?

It is the distribution or payment in 1 tax year of a plan participant's entire balance from all of an employer's qualified plans of one kind (for example, pension, profit-sharing, or stock bonus plans) in which the participant had funds. The participant's entire balance does not include deductible voluntary employee contributions or certain forfeited amounts. The participant **must** have been born before January 2, 1936.

Distributions upon death of the plan participant. If you received a qualifying distribution as a beneficiary after the participant's death, the participant must have been born before January 2, 1936, for you to use this form for that distribution.

Distributions to alternate payees. If you are the spouse or former spouse of a plan participant who was born before January 2, 1936, and you received a qualified lump-sum distribution as an alternate payee under a qualified domestic relations order, you can use Form 4972 to make the 20% capital gain election and use the 10-year tax option to figure your tax on the distribution.

See **How To Report the Distribution** on this page.

Distributions That Do Not Qualify for the 20% Capital Gain Election or the 10-Year Tax Option

The following distributions are not qualified lump-sum distributions and **do not** qualify for the 20% capital gain election or the 10-year tax option.

- A distribution that is partially rolled over to another qualified plan or an IRA.
- Any distribution if an earlier election to use either the 5- or 10-year tax option had been made after 1986 for the same plan participant.
- U.S. Retirement Plan Bonds distributed with the lump sum.
- A distribution made during the first 5 tax years that the participant was in the plan, unless it was paid because the participant died.
- The current actuarial value of any annuity contract included in the lump sum (the payer's statement should show this amount, which you use only to figure tax on the ordinary income part of the distribution).
- A distribution to a 5% owner that is subject to penalties under section 72(m)(5)(A).
- A distribution from an IRA.
- A distribution from a tax-sheltered annuity (section 403(b) plan).
- A distribution of the redemption proceeds of bonds rolled over tax free to a qualified pension plan, etc., from a qualified bond purchase plan.
- A distribution from a qualified plan if the participant or his or her surviving spouse previously received an eligible rollover distribution from the same plan (or another plan of the employer that must be combined with that plan for the lump-sum distribution rules) and the previous distribution was rolled over tax free to another qualified plan or an IRA.
- A distribution from a qualified plan that received a rollover after 2001 from an IRA (other than a conduit IRA), a governmental section 457 plan, or a section 403(b) tax-sheltered annuity on behalf of the plan participant.
- A distribution from a qualified plan that received a rollover after 2001 from another qualified plan on behalf of that plan participant's surviving spouse.
- A corrective distribution of excess deferrals, excess contributions, excess aggregate contributions, or excess annual additions.
- A lump-sum credit or payment from the Federal Civil Service Retirement System (or the Federal Employees' Retirement System).

How To Report the Distribution

If you can use Form 4972, attach it to **Form 1040** (individuals) or **Form 1041** (estates or trusts). The payer should have given you a **Form 1099-R** or other statement that shows the amounts needed to complete Form 4972. The following choices are available.

20% capital gain election. If there is an amount in Form 1099-R, box 3, you can use Part II of Form 4972 to apply a 20% tax rate to the capital gain portion. See **Capital Gain Election** on page 3.

10-year tax option. You can use Part III to figure your tax on the lump-sum distribution using the 10-year tax option whether or not you make the 20% capital gain election.

Where to report. Report amounts from your Form 1099-R either directly on your tax return (Form 1040 or 1041) or on Form 4972.

• If you **do not** use **any** part of Form 4972, report the entire amount from Form 1099-R, box 1 (Gross distribution), on Form 1040, line 16a, and the taxable amount on line 16b (or on Form 1041, line 8). If your pension or annuity is fully taxable, enter the amount from Form 1099-R, box 2a (Taxable amount), on Form 1040, line 16b; **do not** make an entry on line 16a.

• If you **do not** use Part III of Form 4972, but you do use Part II, report only the ordinary income portion of the distribution on Form 1040, lines 16a and 16b (or on Form 1041, line 8). The ordinary income portion is the amount from Form 1099-R, box 2a, minus the amount from box 3 of that form.

• If you use Part III of Form 4972, do not include any part of the distribution on Form 1040, lines 16a and 16b (or on Form 1041, line 8).

The entries in other boxes on Form 1099-R may also apply in completing Form 4972.

• Box 6 (Net unrealized appreciation in employer's securities). See **Net unrealized appreciation (NUA)** on page 3.

• Box 8 (Other). Current actuarial value of an annuity.

If applicable, get the amount of Federal estate tax paid attributable to the taxable part of the lump-sum distribution from the administrator of the deceased's estate.

How Often You May Use Form 4972

After 1986, you may use Form 4972 only once for each plan participant. If you receive more than one lump-sum distribution for the same participant in 1 tax year, you must treat all those distributions the same way. Combine them on a single Form 4972.

If you make an election as a beneficiary of a deceased participant, it does not affect any election you can make for qualified lump-sum distributions from your own plan. You can also make an election as the beneficiary of more than one qualifying person.

Example. Your mother and father died and each was born before January 2, 1936. Each had a qualified plan of which you are the beneficiary. You also received a qualified lump-sum distribution from your own plan and you were born before January 2, 1936. You may make an election for each of the distributions; one

for yourself, one as your mother's beneficiary, and one as your father's. It does not matter if the distributions all occur in the same year or in different years. File a separate Form 4972 for each participant's distribution.

Note. An earlier election on Form 4972 or Form 5544 for a distribution before 1987 does not prevent you from making an election for a distribution after 1986 for the same participant, provided the participant was under age 59½ at the time of the pre-1987 distribution.

When You May File Form 4972

You can file Form 4972 with either an original or amended return. Generally, you have 3 years from the later of the due date of your tax return or the date you filed your return to choose to use any part of Form 4972.

Capital Gain Election

If the distribution includes a capital gain, you can (a) make the 20% capital gain election in Part II of Form 4972 or (b) treat the capital gain as ordinary income.

Only the taxable amount of distributions resulting from pre-1974 participation qualifies for capital gain treatment. The capital gain amount should be shown in Form 1099-R, box 3. If there is an amount in Form 1099-R, box 6 (net unrealized appreciation (NUA)), part of it will also qualify for capital gain treatment. Use the NUA Worksheet on this page to figure the capital gain part of NUA if you make the election to include NUA in your taxable income.

You may report the ordinary income portion of the distribution on Form 1040, line 16b (or Form 1041, line 8) or you may figure the tax using the 10-year tax option. The ordinary income portion is the amount from Form 1099-R, box 2a, minus the amount from box 3 of that form.

Net unrealized appreciation (NUA). Normally, NUA in employer securities received as part of a lump-sum distribution is not taxable until the securities are sold. However, you can elect to include NUA in taxable income in the year received.

The total amount to report as NUA should be shown in Form 1099-R, box 6. Part of the amount in box 6 will qualify for capital gain treatment if there is an amount in Form 1099-R, box 3. To figure the total amount subject to capital gain treatment including the NUA, complete the NUA Worksheet on this page.

Specific Instructions

Name of recipient of distribution and identifying number. At the top of Form 4972, fill in the name and identifying number of the recipient of the distribution.

If you received more than one qualified distribution in 2003 for the same plan participant, add them and figure the tax on

the total amount. If you received qualified distributions in 2003 for more than one participant, file a separate Form 4972 for the distributions of each participant.

If you and your spouse are filing a joint return and each has received a lump-sum distribution, complete and file a separate Form 4972 for each spouse's election, combine the tax, and include the combined tax in the total on Form 1040, line 41.

If you are filing for a trust that shared the distribution only with other trusts, figure the tax on the total lump sum first. The trusts then share the tax in the same proportion that they shared the distribution.

Multiple recipients of a lump-sum distribution. If you shared in a lump-sum distribution from a qualified retirement plan when not all recipients were trusts (a percentage will be shown in Form 1099-R, boxes 8 and/or 9a), figure your tax on Form 4972 as follows. (Box numbers used below are from Form 1099-R.)

Step 1. Complete Form 4972, Parts I and II. If you make the 20% capital gain election in Part II and also elect to include NUA in taxable income, complete the NUA Worksheet below to determine the amount of NUA that qualifies for capital gain treatment. Then, skip Step 2 and go to Step 3.

Step 2. Use this step **only** if you **do not elect to include NUA** in your taxable income or if you do not have NUA.

• If you are not making the capital gain election, divide the amount in box 2a by your percentage of distribution in box 9a. Enter this amount on Form 4972, line 8.

• If you are making the capital gain election, subtract the amount in box 3 from the amount in box 2a. Divide the result by your percentage of distribution in box 9a. Enter the result on Form 4972, line 8.

• Divide the amount in box 8 by the percentage in box 8. Enter the result on Form 4972, line 11. Then, skip Step 3 and go to Step 4.

Step 3. Use this step **only** if you **elect to include NUA** in your taxable income.

• If you are not making the capital gain election, add the amount in box 2a to the amount in box 6. Divide the result by your percentage of distribution in box 9a. Enter the result on Form 4972, line 8.

• If you are making the capital gain election, subtract the amount in box 3 from the amount in box 2a. Add to the result the amount from line F of your NUA Worksheet. Then, divide the total by your percentage of distribution in box 9a. Enter the result on Form 4972, line 8.

• Divide the amount in box 8 by the percentage in box 8. Enter the result on Form 4972, line 11.

Step 4. Complete Form 4972 through line 28.

Step 5. Complete the following worksheet to figure the entry for Form 4972, line 29:

- A. Subtract line 28 from line 25
- B. Enter your percentage of the distribution from box 9a
- C. Multiply line A by line B. Enter here and on Form 4972, line 29. Also, write "MRD" on the dotted line next to line 29

NUA Worksheet (keep for your records)

- A. Enter the amount from Form 1099-R, box 3 A. _____
- B. Enter the amount from Form 1099-R, box 2a B. _____
- C. Divide line A by line B and enter the result as a decimal (rounded to at least three places) C. _____
- D. Enter the amount from Form 1099-R, box 6 D. _____
- E. Capital gain portion of NUA. Multiply line C by line D E. _____
- F. Ordinary income portion of NUA. Subtract line E from line D F. _____
- G. Total capital gain portion of distribution. Add lines A and E. Enter here and on Form 4972, line 6. On the dotted line next to line 6, write "NUA" and the amount from line E above. G. _____

Death Benefit Worksheet (keep for your records)

- A. Enter the amount from Form 1099-R, box 3, or, if you are including NUA in taxable income, the amount from line G of the NUA Worksheet A. _____
- B. Enter the amount from Form 1099-R, box 2a, plus, if you are including NUA in taxable income, the amount from Form 1099-R, box 6 B. _____
- C. Divide line A by line B and enter the result as a decimal (rounded to at least three places) C. _____
- D. Enter your share of the death benefit exclusion* D. _____
- E. Multiply line D by line C E. _____
- F. Subtract line E from line A. Enter here and on Form 4972, line 6 F. _____

*Applies only for participants who died before August 21, 1996. If there are multiple recipients of the distribution, the allowable death benefit exclusion must be allocated among the recipients in the same proportion that they share the distribution.

Part II

See **Capital Gain Election** on page 3 before completing Part II.

Line 6. Leave this line blank if your distribution does not include a capital gain amount or you are not making the 20% capital gain election, and go to Part III.

Generally, enter on line 6 the amount from Form 1099-R, box 3. However, if you elect to include NUA in your taxable income, use the NUA Worksheet on page 3 to figure the amount to enter. If you are taking a **death benefit exclusion** (for a participant who died before August 21, 1996), use the Death Benefit Worksheet on page 3 to figure the amount to enter on line 6. The remaining allowable death benefit exclusion should be entered on line 9 if you choose the 10-year tax option.

If any Federal estate tax was paid on the lump-sum distribution, you must decrease the capital gain amount by the amount of estate tax applicable to it. To figure this amount, you must complete line C of the Death Benefit Worksheet on page 3, even if you do not take the death benefit exclusion. Multiply the total Federal estate tax paid on the lump-sum distribution by the decimal on line C of the Death Benefit Worksheet. The result is the portion of the Federal estate tax applicable to the capital gain amount. Then, use that result to reduce the amount in Form 1099-R, box 3, if you do not take the death benefit exclusion, or reduce line F of the Death Benefit Worksheet if you do. Enter the remaining capital gain on line 6. If you elected to include NUA in taxable income, subtract the portion of Federal estate tax applicable to the capital gain amount from the amount on line G of the NUA Worksheet. Enter the result on line 6. Enter the remainder of the Federal estate tax on line 18.

Note. If you take the death benefit exclusion and Federal estate tax was paid on the capital gain amount, the capital gain amount must be reduced by both the procedures discussed above to figure the correct entry for line 6.

Part III

Line 8. If Form 1099-R, box 2a, is blank, you must first figure the taxable amount. For details on how to do this, see Pub. 575.

If you made the 20% capital gain election, enter only the ordinary income portion of the distribution on this line. The ordinary income portion is the amount from Form 1099-R, box 2a, minus the amount from box 3 of that form. Add the amount from line F of the NUA Worksheet if you included NUA capital gain in the 20% capital gain election.

If you did not make the 20% capital gain election and did not elect to include NUA in taxable income, enter the amount from Form 1099-R, box 2a. If you did not make the 20% capital gain election but did elect to include NUA in your taxable income, add the amount from Form 1099-R, box 2a, to the amount from Form 1099-R, box 6. Enter the total on line 8. On the dotted line next to line 8, write "NUA" and the amount of NUA included.

Note. Community property laws do not apply in figuring tax on the amount you report on line 8.

Line 9. If you received the distribution because of the plan participant's death and the participant died before August 21, 1996, you may be able to exclude up to \$5,000 of the lump sum from your gross income. If there are multiple recipients of the distribution not all of whom are trusts, enter on line 9 the full remaining allowable death benefit exclusion (after the amount taken against the capital gain portion of the distribution by all recipients—see the instructions for line 6) without allocation among the recipients. (The exclusion is in effect allocated among the recipients through the computation under **Multiple recipients of a lump-sum distribution** on page 3.) This exclusion applies to the beneficiaries or estates of common-law employees, self-employed individuals, and shareholder-employees who owned more than 2% of the stock of an S corporation. Pub. 939 gives more information about the death benefit exclusion.

Enter the allowable death benefit exclusion on line 9. But see the instructions for line 6 if you made a capital gain election.

Line 18. A beneficiary who receives a lump-sum distribution because of a plan participant's death must reduce the taxable part of the distribution by any Federal estate tax paid on the lump-sum distribution. Do this by entering on line 18 the Federal estate tax attributable to the lump-sum distribution. Also see the instructions for line 6.

Lines 24 and 27. Use the following Tax Rate Schedule to complete lines 24 and 27.

Tax Rate Schedule

If the amount on line 23 or 26 is:		Enter on line 24 or 27:		Of the amount over—
Over	But not over—			
\$ 0	\$1,190	- - - -	11%	\$ 0
1,190	2,270	\$130.90 +	12%	1,190
2,270	4,530	260.50 +	14%	2,270
4,530	6,690	576.90 +	15%	4,530
6,690	9,170	900.90 +	16%	6,690
9,170	11,440	1,297.70 +	18%	9,170
11,440	13,710	1,706.30 +	20%	11,440
13,710	17,160	2,160.30 +	23%	13,710
17,160	22,880	2,953.80 +	26%	17,160
22,880	28,600	4,441.00 +	30%	22,880
28,600	34,320	6,157.00 +	34%	28,600
34,320	42,300	8,101.80 +	38%	34,320
42,300	57,190	11,134.20 +	42%	42,300
57,190	85,790	17,388.00 +	48%	57,190
85,790	- - - -	31,116.00 +	50%	85,790

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The time needed to complete this form will vary depending on individual circumstances. The estimated average time is:

Recordkeeping	52 min.
Learning about the law or the form	19 min.
Preparing the form	1 hr., 11 min.
Copying, assembling, and sending the form to the IRS	20 min.

If you have comments concerning the accuracy of these time estimates or suggestions for making this form simpler, we would be happy to hear from you. See the instructions for the tax return with which this form is filed.

