

Reg. Section 54.4974-2

Excise tax on accumulations in qualified retirement plans

Q-1. Is any tax imposed on a payee under any qualified retirement plan or any eligible deferred compensation plan (as defined in section 457(b) [26 USCS § 457(b)]) to whom an amount is required to be distributed for a taxable year if the amount distributed during the taxable year is less than the required minimum distribution?

A-1. Yes, if the amount distributed to a payee under any qualified retirement plan or any eligible deferred compensation plan (as defined in section 457(b) [26 USCS § 457(b)]) for a calendar year is less than the required minimum distribution for such year, an excise tax is imposed on such payee under section 4974 [26 USCS § 4974] for the taxable year beginning with or within the calendar year during which the amount is required to be distributed. The tax is equal to 50 percent of the amount by which such required minimum distribution exceeds the actual amount distributed during the calendar year. Section 4974 [26 USCS § 4974] provides that this tax shall be paid by the payee. For purposes of section 4974 [26 USCS § 4974], the term required minimum distribution means the minimum distribution amount required to be distributed pursuant to section 401(a)(9), 403(b)(10), 408(a)(6), 408(b)(3), or 457(d)(2) [26 USCS § 401(a)(9), 403(b)(10), 408(a)(6), 408(b)(3), or 457(d)(2)], as the case may be, and the regulations thereunder. Except as otherwise provided in A-6 of this section, the required minimum distribution for a calendar year is the required minimum distribution amount required to be distributed during the calendar year. A-6 of this section provides a special rule for amounts required to be distributed by an employee's (or individual's) required beginning date.

Q-2. For purposes of section 4974 [26 USCS § 4974], what is a qualified retirement plan?

A-2. For purposes of section 4974 [26 USCS § 4974], each of the following is a qualified retirement plan—

- (a) A plan described in section 401(a) [26 USCS § 401(a)] which includes a trust exempt from tax under section 501(a) [26 USCS § 501(a)];
- (b) An annuity plan described in section 403(a) [26 USCS § 403(a)];
- (c) An annuity contract, custodial account, or retirement income account described in section 403(b) [26 USCS § 403(b)];
- (d) An individual retirement account described in section 408(a) [26 USCS § 408(a)] (including a Roth IRA described in section 408A [26 USCS § 408A]);
- (e) An individual retirement annuity described in section 408(b) [26 USCS § 408(b)] (including a Roth IRA described in section 408A [26 USCS § 408A]); or

- (f) Any other plan, contract, account, or annuity that, at any time, has been treated as a plan, account, or annuity described in paragraphs (a) through (e) of this A-2, whether or not such plan, contract, account, or annuity currently satisfies the applicable requirements for such treatment.

Q-3. If a payee's interest under a qualified retirement plan is in the form of an individual account, how is the required minimum distribution for a given calendar year determined for purposes of section 4974 [26 USCS § 4974]?

A-3.

- (a) General rule. If a payee's interest under a qualified retirement plan is in the form of an individual account and distribution of such account is not being made under an annuity contract purchased in accordance with A-4 of § 1.401(a)(9)-6, the amount of the required minimum distribution for any calendar year for purposes of section 4974 [26 USCS § 4974] is the required minimum distribution amount required to be distributed for such calendar year in order to satisfy the minimum distribution requirements in § 1.401(a)(9)-5 as provided in the following (whichever is applicable)—
 - (1) Section 401(a)(9) [26 USCS § 401(a)(9)] and §§ 1.401(a)(9)-1 through 1.401(a)(9)-5 and 1.401(a)(9)-7 through 1.401(a)(9)-9 in the case of a plan described in section 401(a) [26 USCS § 401(a)] which includes a trust exempt under section 501(a) [26 USCS § 501(a)] or an annuity plan described in section 403(a) [26 USCS § 403(a)];
 - (2) Section 403(b)(10) [26 USCS § 403(b)(10)] and § 1.403(b)-6(e) (in the case of an annuity contract, custodial account, or retirement income account described in section 403(b) [26 USCS § 403(b)]);
 - (3) Section 408(a)(6) or (b)(3) [26 USCS § 408(a)(6) or (b)(3)] and § 1.408-8 (in the case of an individual retirement account or annuity described in section 408(a) or (b) [26 USCS § 408(a) or (b)]); or
 - (4) Section 457(d) [26 USCS § 457(d)] in the case of an eligible deferred compensation plan (as defined in section 457(b) [26 USCS § 457(b)]).
- (b) Default provisions. Unless otherwise provided under the qualified retirement plan (or, if applicable, the governing instrument of the qualified retirement plan), the default provisions in A-4(a) of § 1.401(a)(9)-3 apply in determining the required minimum distribution for purposes of section 4974 [26 USCS § 4974].
- (c) Five-year rule. If the 5-year rule in section 401(a)(9)(B)(ii) [26 USCS § 401(a)(9)(B)(ii)] applies to the distribution to a payee, no amount is required to be distributed for any calendar year to satisfy the applicable enumerated section in paragraph (a) of this A-3 until the calendar year which contains the date 5 years after the date of the employee's death. For the calendar year which contains the date 5 years after the employee's death, the required minimum distribution amount required to be distributed to satisfy the

applicable enumerated section is the payee's entire remaining interest in the qualified retirement plan.

Q-4. If a payee's interest in a qualified retirement plan is being distributed in the form of an annuity, how is the amount of the required minimum distribution determined for purposes of section 4974 [26 USCS § 4974]?

A-4. If a payee's interest in a qualified retirement plan is being distributed in the form of an annuity (either directly from the plan, in the case of a defined benefit plan, or under an annuity contract purchased from an insurance company), the amount of the required minimum distribution for purposes of section 4974 [26 USCS § 4974] will be determined as follows:

- (a) **Permissible annuity distribution option.** A permissible annuity distribution option is an annuity contract (or, in the case of annuity distributions from a defined benefit plan, a distribution option) which specifically provides for distributions which, if made as provided, would for every calendar year equal or exceed the minimum distribution amount required to be distributed to satisfy the applicable section enumerated in paragraph (a) of A-2 of this section for every calendar year. If the annuity contract (or, in the case of annuity distributions from a defined benefit plan, a distribution option) under which distributions to the payee are being made is a permissible annuity distribution option, the required minimum distribution for a given calendar year will equal the amount which the annuity contract (or distribution option) provides is to be distributed for that calendar year.
- (b) **Impermissible annuity distribution option.** An impermissible annuity distribution option is an annuity contract (or, in the case of annuity distributions from a defined benefit plan, a distribution option) under which distributions to the payee are being made that specifically provides for distributions which, if made as provided, would for any calendar year be less than the minimum distribution amount required to be distributed to satisfy the applicable section enumerated in paragraph (a) of A-3 of this section. If the annuity contract (or, in the case of annuity distributions from a defined benefit plan, the distribution option) under which distributions to the payee are being made is an impermissible annuity distribution option, the required minimum distribution for each calendar year will be determined as follows:
 - (1) If the qualified retirement plan under which distributions are being made is a defined benefit plan, the minimum distribution amount required to be distributed each year will be the amount which would have been distributed under the plan if the distribution option under which distributions to the payee were being made was the following permissible annuity distribution option:
 - (i) In the case of distributions commencing before the death of the employee, if there is a designated beneficiary under the impermissible annuity distribution option for purposes of section 401(a)(9) [26 USCS § 401(a)(9)], the permissible annuity distribution option is the joint and survivor annuity option under the plan for the lives of the employee and the designated beneficiary that provides for the greatest level amount payable to the employee determined on an annual basis. If the plan does not provide such an option or there is no designated beneficiary under the

impermissible distribution option for purposes of section 401(a)(9) [26 USCS § 401(a)(9)], the permissible annuity distribution option is the life annuity option under the plan payable for the life of the employee in level amounts with no survivor benefit.

- (ii) In the case of distributions commencing after the death of the employee, if there is a designated beneficiary under the impermissible annuity distribution option for purposes of section 401(a)(9) [26 USCS § 401(a)(9)], the permissible annuity distribution option is the life annuity option under the plan payable for the life of the designated beneficiary in level amounts. If there is no designated beneficiary, the 5-year rule in section 401(a)(9)(B)(ii) [26 USCS § 401(a)(9)(B)(ii)] applies. See paragraph (b)(3) of this A-4. The determination of whether or not there is a designated beneficiary and the determination of which designated beneficiary's life is to be used in the case of multiple beneficiaries will be made in accordance with § 1.401(a)(9)-4 and A-7 of § 1.401(a)(9)-5. If the defined benefit plan does not provide for distribution in the form of the applicable permissible distribution option, the required minimum distribution for each calendar year will be an amount as determined by the Commissioner.
- (2) If the qualified retirement plan under which distributions are being made is a defined contribution plan and the impermissible annuity distribution option is an annuity contract purchased from an insurance company, the minimum distribution amount required to be distributed each year will be the amount that would have been distributed in the form of an annuity contract under the permissible annuity distribution option under the plan determined in accordance with paragraph (b)(1) of this A-4 for defined benefit plans. If the defined contribution plan does not provide the applicable permissible annuity distribution option, the required minimum distribution for each calendar year will be the amount that would have been distributed under an annuity described in paragraph (b)(2)(i) or (ii) of this A-4 purchased with the employee's or individual's account used to purchase the annuity contract that is the impermissible annuity distribution option.
- (i) In the case of distributions commencing before the death of the employee, if there is a designated beneficiary under the impermissible annuity distribution option for purposes of section 401(a)(9) [26 USCS § 401(a)(9)], the annuity is a joint and survivor annuity for the lives of the employee and the designated beneficiary which provides level annual payments and which would have been a permissible annuity distribution option. However, the amount of the periodic payment which would have been payable to the survivor will be the applicable percentage under the table in A-2(c) of § 1.401(a)(9)-6 of the amount of the periodic payment which would have been payable to the employee or individual. If there is no designated beneficiary under the impermissible distribution option for purposes of section 401(a)(9) [26 USCS § 401(a)(9)], the annuity is a life annuity for the life of the employee with no survivor benefit which provides level annual payments and which would have been a permissible annuity distribution option.

- (ii) In the case of a distribution commencing after the death of the employee, if there is a designated beneficiary under the impermissible annuity distribution option for purposes of section 401(a)(9) [26 USCS § 401(a)(9)], the annuity option is a life annuity for the life of the designated beneficiary which provides level annual payments and which would have been a permissible annuity distribution option. If there is no designated beneficiary, the 5-year rule in section 401(a)(9)(B)(ii) [26 USCS § 401(a)(9)(B)(ii)] applies. See paragraph (b)(3) of this A-4. The amount of the payments under the annuity contract will be determined using the interest rate and actuarial tables prescribed under section 7520 [26 USCS § 7520] determined using the date determined under A-3 of § 1.401(a)(9)-3 when distributions are required to commence and using the age of the beneficiary as of the beneficiary's birthday in the calendar year that contains that date. The determination of whether or not there is a designated beneficiary and the determination of which designated beneficiary's life is to be used in the case of multiple beneficiaries will be made in accordance with § 1.401(a)(9)-4 and A-7 of § 1.401(a)(9)-5.
- (3) If the 5-year rule in section 401(a)(9)(B)(ii) [26 USCS § 401(a)(9)(B)(ii)] applies to the distribution to the payee under the contract (or distribution option), no amount is required to be distributed to satisfy the applicable enumerated section in paragraph (a) of this A-4 until the calendar year which contains the date 5 years after the date of the employee's death. For the calendar year which contains the date 5 years after the employee's death, the required minimum distribution amount required to be distributed to satisfy the applicable enumerated section is the payee's entire remaining interest in the annuity contract (or under the plan in the case of distributions from a defined benefit plan).
 - (4) If the plan provides that the required beginning date for purposes of section 401(a)(9) [26 USCS § 401(a)(9)] for all employees is April 1 of the calendar year following the calendar year in which the employee attained age 70 1/2 in accordance with paragraph A-2(e) of § 1.401(a)(9)-2, the required minimum distribution for each calendar year for an employee who is not a 5-percent owner for purposes of this section will be the lesser of the amount determined based on the required beginning date as set forth in A-2(a) of § 1.401(a)(9)-2 or the required beginning date under the plan. Thus, for example, if an employee dies after attaining age 70 1/2, but before April 1 of the calendar year following the calendar year in which the employee retired, and there is no designated beneficiary as of September 30 of the year following the employee's year of death, required minimum distributions for calendar years after the calendar year containing the employee's date of death may be based on either the applicable distribution period provided under either the 5-year rule of A-1 of § 1.401(a)(9)-3 or the employee's remaining life expectancy as set forth in A-5(c)(3) of § 1.401(a)(9)-5.

Q-5. If there is any remaining benefit with respect to an employee (or IRA owner) after any calendar year in which the entire remaining benefit is required to be distributed under section

401(a)(9) [26 USCS § 401(a)(9)], what is the amount of the required minimum distribution for each calendar year subsequent to such calendar year?

A-5. If there is any remaining benefit with respect to an employee (or IRA owner) after the calendar year in which the entire remaining benefit is required to be distributed, the required minimum distribution for each calendar year subsequent to such calendar year is the entire remaining benefit.

Q-6. With respect to which calendar year is the excise tax under section 4974 [26 USCS § 4974] imposed in the case in which the amount not distributed is an amount required to be distributed by April 1 of a calendar year (by the employee's or individual's required beginning date)?

A-6. In the case in which the amount not paid is an amount required to be paid by April 1 of a calendar year, such amount is a required minimum distribution for the previous calendar year, i.e., for the employee's or the individual's first distribution calendar year. However, the excise tax under section 4974 [26 USCS § 4974] is imposed for the calendar year containing the last day by which the amount is required to be distributed, i.e., the calendar year containing the employee's or individual's required beginning date, even though the preceding calendar year is the calendar year for which the amount is required to be distributed. There is also a required minimum distribution for the calendar year which contains the employee's or individual's required beginning date. Such distribution is also required to be made during the calendar year which contains the employee's or individual's required beginning date.

Q-7. Are there any circumstances when the excise tax under section 4974 [26 USCS § 4974] for a taxable year may be waived?

A-7.

- a. Reasonable cause. The tax under section 4974(a) [26 USCS § 4974(a)] may be waived if the payee described in section 4974(a) [26 USCS § 4974(a)] establishes to the satisfaction of the Commissioner the following --
 - (1) The shortfall described in section 4974(a) [26 USCS § 4974(a)] in the amount distributed in any taxable year was due to reasonable error; and
 - (2) Reasonable steps are being taken to remedy the shortfall.
- b. Automatic waiver. The tax under section 4974 [26 USCS § 4974] will be automatically waived, unless the Commissioner determines otherwise, if --
 - (1) The payee described in section 4974(a) [26 USCS § 4974(a)] is an individual who is the sole beneficiary and whose required minimum distribution amount for a calendar year is determined under the life expectancy rule described in § 1.401(a)(9)-3 A-3 in the case of an employee's or individual's death before the employee's or individual's required beginning date; and

- (2) The employee's or individual's entire benefit to which that beneficiary is entitled is distributed by the end of the fifth calendar year following the calendar year that contains the employee's or individual's date of death.