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1099-R Says “You Owe Tax” - What Happened To Your 2020 IRA RMD Rollover?

Julie Jason, JD, LLM Contributor

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2020 was an eventful year when it came to IRA required minimum distributions (RMDs), especially for those who took their RMDs before the March 2020 suspension was enacted. Then came rollover relief.

But what if early bird 2020 “RMD-ers” receive Form 1099-Rs reporting the RMD as taxable, even if rolled over?

Unnerving Form 1099-R

It can be unnerving for a taxpayer who timely rolled over his or her 2020 RMD to receive Form 1099-R reporting a taxable distribution after doing a rollover. [Form 1099-R](#) is used by custodians to report distributions from retirement plans, profit-sharing plans, individual retirement arrangements, annuities and pensions, among others.

2020 RMDs Were Suspended In March

Some people were “left out” when the Coronavirus Aid, Relief, and Economic Security (CARES) Act was signed into law in late March of 2020. [They had taken their RMDs earlier in the year](#), before the 2020 RMD suspension became law.

In June 2020, the IRS fixed the problem by issuing [Notice 2020-51](#), that clarified that people who took their RMDs in 2020 could redeposit them provided it was accomplished by Aug. 31, 2020.

So should you be worried if you redeposited the RMD before the deadline, yet your Form 1099-R leaves the impression that you kept the money? Not if you made the redeposit on time (technically a “rollover” permitted under new tax rules that apply only to 2020 RMDs).

Did You Rollover? How To Proceed

If you do your taxes with an accountant, you’ll be providing him or her your Form 1099-R, but that’s only part of the story. Also provide your IRA statement showing the redeposited RMD. If your tax return is on extension, you’ll provide the accountant [IRS Form 5498](#). Form 5498, which reports contributions, will be issued by your IRA custodian later in the year, before May 31, which is the form issuer’s deadline. No matter which way you go, keep Form 5498 with your tax records.

I asked CPA [Thomas Filomeno, a partner in Marcum LLP’s Hartford, Connecticut, office](#), to share some additional insights, with the caveat that tax returns are specific to individual taxpayers. Marcum is a national accounting and advisory firm. Always consult with your own tax adviser before taking any actions.

Not All 1099-R’s Lead To Taxes

Filomeno pointed out that while the receipt of a 1099-R usually indicates taxable income, it doesn’t always. Form 1099-R indicates that the taxpayer received a distribution. But, even though the form may indicate a taxable amount in box 2a, that doesn’t necessarily mean that it

is taxable for a very good reason: recipients of the distribution have the option to roll it over to an IRA.

I think it helps to think of the 1099-R as reflecting the first step of the process, the distribution (in this case, the 2020 RMD). The second part is the rollover, which calls for a contribution report on Form 5498 (in this case, the RMD rollover).

The Problem With 2020 RMDs

Normally, a rollover has to take place within a 60-day window. Due to the timing of the CARES Act's waiver of 2020 RMDs, early bird RMD-ers would have been unable to undo their 2020 RMDs without relief.

[The relief came in June 2020.](#) IRS Notice 2020-51 extended the 60-day period to Aug. 31, 2020.

A Taxing Dilemma

Let's assume a person we'll call "Sandy" took her RMD of \$75,000 from her IRA in January of 2020; the Form 1099-R she just received from her IRA custodian reported \$75,000 in box 1 (gross distribution). That's the figure she will use to carry over to her [Form 1040](#) (line 4a) as her distribution.

Sandy's 1099-R also reported a figure for box 2a (taxable amount), which also shows \$75,000. That's the locus of the taxpayer's confusion: "How can the \$75,000 be taxable if I rolled it over in time?"

Time to Call Your Accountant

That's the point to call your accountant. He or she would advise how to handle your specific situation. In this illustration, with no other distributions other than the one \$75,000 RMD taken in January and rolled over in July, Sandy's accountant would not use the \$75,000 figure reported on Form 1040, since that figure does not reflect the \$75,000 rollover that occurred later in time.

Sandy's Form 1040 would reflect a taxable amount of zero on Line 4b since she rolled over the RMD before Aug. 31, 2020, pursuant to special 2020 rollover rules. (RMDs cannot normally be rolled over.) According to Filomeno, Sandy would write "Rollover" in the space to the left of line 4b. (Note that you would use lines 5a and 5b if the RMD was taken from a 401(k).)

Again, the best way to think of the special 2020 RMD rollover is to look at the transaction in two parts: 1) the RMD distribution, which calls for IRS Form 1099-R, and 2) the rollover contribution, which is reported on IRS Form 5498.

Fidelity Investments, recently named as America's No. 1 IRA provider, produces millions of tax-reporting forms for its customers. A spokesperson confirmed that an IRA customer would receive both a 1099-R for the RMD and a Form 5498 for the amount redeposited (assuming, of course, that the rollover took place at Fidelity).

Your Accountant

If you are in the position of this taxpayer, I caution you to review how to report the RMD and the rollover with your accountant or tax adviser. His or her job will be reconciling the withdrawals with any 1099-R, 5498 and 1040 filings.

What about taxpayers who missed the Aug. 31 deadline? Is all lost?

They may still be able to avoid tax on the distribution.

Coronavirus-Related Distribution

Filomeno explained that if the distribution (up to \$100,000) is considered a "[Coronavirus-Related Distribution](#)," the income tax can be paid over a three-year period by including a third of the distribution into income each year. What is a Coronavirus-Related Distribution? Examples include: 1) the taxpayer, spouse or dependent is diagnosed with COVID-19; 2) the taxpayer suffers adverse financial consequences due to being quarantined, furloughed, laid off, or had

hours reduced due to COVID-19; 3) the taxpayer had a business he or she owned or operated that was closed, or business was reduced due to COVID-19.

Filomeno pointed out that there may be relief for taxpayers whose economic situations improved enough so they could pay the Coronavirus-Related Distribution back to the plan. Coronavirus-Related Distributions can be rolled back to the qualified plan or IRA that made the distribution within the three-year period from the date of distribution. In this case, any tax paid prior to the year the funds are transferred back to the plan can be recovered through amended returns. Again, check with your tax adviser for more information.

A Similar Situation?

If you have you run across a similar situation with your RMD or Form 1099-R, tell me your story at forbes@juliejason.com.

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Julie Jason, JD, LLM