



## Lesson Plan

### Income – Retirement Income

Time Required: 15 minutes

Introduction	Objectives	Topics
This lesson will help tax preparers identify and report the taxable portion of the taxpayer's retirement income.	Identify how retirement income is reported to the taxpayer using Form 1099-R series.	 Retirement Income Documents
	Calculate the taxable portion of different types of retirement income.	 Retirement Plan Distributions Taxable IRA Distributions Reporting IRA Distributions
	Determine how to report retirement income on the tax return.	Taxable Pensions and Annuities Other Retirement Income Issues
	Determine when an adjustment to withholding should be made.	 When to Adjust Withholding

### Key Terms

**Annuity:** A series of payments under a contract from an insurance company, a trust company, or an individual. Annuity payments are made at regular intervals over a period of more than one full year.

**After-tax Contributions:** After-tax means the employee paid taxes on the money when it was contributed, i.e., the taxpayer has a cost basis in the plan.

**Before-tax Contributions:** Before-tax simply means that the employee did not pay taxes on the money at the time it was contributed, i.e., the taxpayer has no cost basis in the plan.

**Excludable Income:** Income that is not included in the taxpayer's gross income and therefore exempt from federal income tax. Certain income may be exempt from tax but must be reported on the tax return.

**Form W-4P:** Withholding Certificate for Pension or Annuity Payments. The form allows taxpayers to tell payers the correct amount of federal income tax to withhold from payments.

**Form W-4R:** Withholding Certificate for Nonperiodic Payments and Eligible Rollover Distributions. The form allows taxpayers to tell payers the correct amount of federal income tax to withhold from their nonperiodic payment or eligible rollover distribution from an employer retirement plan, annuity (including a commercial annuity), or individual retirement arrangement (IRA).

**Form W-4V:** Voluntary Withholding Request, filed by taxpayers (or estates) who are recipients of social security benefits and want to request withholding from their payments from the Social Security Administration.

**Individual Retirement Arrangement (IRA):** A tax-sheltered retirement savings plan set up by the taxpayer.

**Lump-Sum Distribution:** A lump-sum distribution is the distribution or payment within one tax year of an employee's entire balance from all qualified pension, stock bonus, or profit-sharing plans that the employer maintains.

**Railroad Retirement Benefits (RRBs):** Benefits paid to railroad retirees covered by the Railroad Retirement Act. The RRA has two components. Tier 1 is the equivalent of social security benefits and Tier 2 is like an employer's pension plan.

**Required Minimum Distribution (RMD):** The amount that must be distributed each year from a retirement plan or IRA.

**Retirement Income:** Retirement income can include social security benefits as well as any benefits from annuities, retirement or profit sharing plans, insurance contracts, IRAs, etc. Retirement income may be fully or partially taxable.

**Rollover:** Generally, a rollover is a tax-free distribution to the taxpayer from one retirement account (traditional IRA or employer's pension plan) that rolls over into another qualified retirement account within 60 days.

**Simplified Method:** This method is used to calculate the tax-free portion of each pension or annuity payment.

## Teacher Tips

### Guidelines for Lesson

Guideline	Instructor Notes	Presentation Aids
Lesson background info	<b>Review</b> the online demo of TaxSlayer on Income.	<b>TaxSlayer® Demo:</b> From the Practice Lab, select: <ul style="list-style-type: none"> <li>• TaxSlayer IRS training</li> <li>• Click the appropriate demo</li> </ul>
Provide details and engage the students	<p><b>Discuss</b> all tips and cautions in detail.</p> <p><b>Ask</b> students to read and/or role-play examples and sample interviews.</p> <p><b>Review</b> answers to each exercise; ask students how they arrived at their answers.</p>	<p><b>Internet:</b> Link &amp; Learn Taxes (L&amp;LT) Income – Retirement Income; Form 1040</p>

## Topic-specific Tips

Topic Name	Instructor Notes	Presentation Aids
Introduction	<p><b>Review</b> lesson objectives.</p> <p><b>Point out</b> that this lesson is one of the nine lessons on income.</p> <p><b>Review</b> list of references.</p> <p><b>State</b> the presentation time.</p> <p><b>Remind</b> students this lesson does not cover social security benefits or tier 1 railroad retirement benefits (this is covered in another lesson).</p> <p><b>Remind</b> students when reviewing Form 13614-C with taxpayers to clarify the type of retirement plan (i.e., whether the income was before-tax or after-tax dollars).</p> <p><b>Discuss</b> key terms used in this lesson.</p> <p><b>Direct</b> students to Pub 4012, Table A – Examples of Taxable Income and point out types of retirement income.</p>	<p><b>Visuals:</b></p> <p><a href="#">Form 1040</a>, Page 1 Income section</p> <p><a href="#">Form 13614-C</a>, Page 2</p> <p>Forms <a href="#">1099-R</a>, <a href="#">5329</a>, <a href="#">8606</a></p> <p><a href="#">Pub 4012</a>, Tab D, Income: Table A – Examples of Taxable Income</p> <p><a href="#">Pub 575</a>, Pension and Annuity Income</p> <p><a href="#">Pub 590-B</a>, Distributions from Individual Retirement Arrangements (IRAs)</p> <p><b>Internet:</b></p> <p>YouTube video: <a href="#">How IRAs Help to Increase Your Retirement Savings</a></p> <p>YouTube video: <a href="#">IRA Investment Decisions – What You Need to Know</a></p>
Retirement Income Documents	<p><b>Use</b> the Landing Page questions to prompt students to share what they know about retirement income.</p> <p><b>Review</b> L&amp;LT topic Retirement Income Documents.</p> <p><b>Ask</b> students to identify forms used to report retirement income.</p> <p><b>Ask</b> students what they know about the Form 1099-R series.</p> <p><b>Emphasize</b> that Basic certified volunteers can complete the return only if the taxable amount is indicated on Form 1099-R. The Advanced level covers computing the taxable amount.</p> <p><b>Direct</b> students to Pub 4012, IRA/Pension Distributions.</p>	<p><b>Visuals:</b></p> <p>Student Landing Page questions</p> <p><a href="#">Form 1099-R</a>, box 7 and 2a</p> <p><a href="#">Form 5329</a></p> <p><a href="#">Form 1040</a></p> <p><a href="#">Pub 4012</a>, Tab D, Income: Form 1099-R</p> <p><b>Internet:</b></p> <p>L&amp;LT Retirement Income, Retirement Income Documents</p>

**Remind** students that any amount from box 4 of Forms 1099-R, CSA- and CSF-1099-R is entered in the Payments section of the return.

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Retirement Plan Distributions

**Review** L&LT topic Retirement Plan Distributions.

**Visuals:**

[Form 1099-R](#)

**Remind** students that, if the payer did not include the taxable amount in box 2a of Forms 1099-R, CSA- or CSF-1099-R, or if the taxpayer has Form RRB 1099-R, they will have to compute the taxable portion of the distribution.

[Pub 4012](#), Tab D, Income: Form 1099-R

**Internet:**

L&LT Retirement Income, Retirement Plan Distributions

**Emphasize** the difference between before-tax and after-tax contributions, and how the difference determines if the distribution is taxable.

**Review** the table regarding taxable and nontaxable contributions and distributions in this topic.

**Direct** students to [Pub 4012](#), IRA/Pension Distributions.

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Taxable IRA Distributions

**Review** L&LT topic Taxable IRA Distributions.

**Visuals:**

[Form 1040](#), Page 1 Income section

**Ask:** What is the difference between distributions from Roth IRA and a traditional IRA? **Answer:** Generally, Roth IRA distributions are tax-free if requirements are met. Traditional IRA distributions may be fully or partially taxable.

[Form 8606](#), Nondeductible IRAs

[Pub 590-B](#), Is the Distribution from Your Roth IRA?

**Emphasize:** Distributions from SIMPLE and SEP IRAs are in scope for VITA/TCE, because they are taxable and are generally reported on the return just like taxable traditional IRA distributions. **Note:** Distributions from SIMPLE IRAs in the first two years (distribution code S) can only be rolled over tax-free into other SIMPLE IRAs. Taxable SIMPLE IRA rollovers are out of scope for VITA/TCE.

<p>Reporting IRA Distributions</p>	<p><b>Review</b> L&amp;LT topic Reporting IRA Distributions.</p> <p><b>Direct</b> students to the explanations of the codes for Form 1099-R.</p> <p><b>Emphasize</b> that distributions that are rolled over directly into other qualified plans (code G) or paid to the taxpayer and rolled over to another qualified plan or retirement account within 60 days is not taxable.</p> <p><b>Direct</b> students to Pub 4012, Form 1099-R Rollover.</p> <p><b>Remind</b> students that if there is a direct rollover of a designated Roth account distribution to a Roth IRA, the distribution code for Form 1099-R will be code H. If the distribution does not meet the tax-free rollover requirements, all or part may be taxable; refer the taxpayer to a professional tax preparer.</p> <p><b>Demonstrate</b> reporting IRA distributions using TaxSlayer</p>	<p><b>Visuals:</b>  <a href="#">Form 1040</a>  <a href="#">Form 1099-R</a>  <a href="#">Pub 4012</a>, Tab D, Income: Form 1099-R Rollovers  <a href="#">Pub 590-B</a></p> <p><b>Internet:</b>  Tax Topics: <a href="#">Rollovers from Retirement Plans</a></p> <p><b>TaxSlayer Demo:</b>  Link to Form 1099-R</p>
<p>Taxable Pensions and Annuities</p>	<p><b>Review</b> L&amp;LT topic Taxable Pensions and Annuities.</p> <p><b>Ask:</b> When are pension or annuity payments fully taxable? See topic for answer.</p> <p><b>Caution</b> students that taxpayers who have been using the General Rule (instead of the Simplified Method) to figure the taxable portion of their pension or annuity payment should be referred to a professional tax preparer.</p> <p><b>Emphasize</b> that the ages of both taxpayers must be used with a joint/survivor annuity.</p> <p><b>Ask:</b> What is the difference between reporting disability income from a retirement plan when the taxpayer</p>	<p><b>Visuals:</b>  <a href="#">Form 1099-R</a></p> <p>Form CSA 1099-R  Form RRB 1099-R</p> <p><a href="#">Form 1040 Instructions</a>, Simplified Method Worksheet  <a href="#">Pub 4012</a>, Tab D, Income: Form 1099-R  Pub 575</p>

has reached minimum retirement age in contrast to a taxpayer who has not reached minimum retirement age? **Answer:** Disability income payments received after the taxpayer reaches minimum retirement age is treated as a pension (Form 1040). Disability income payments received before minimum retirement age are treated as **wages** (Form 1040).

Other Retirement Income Issues

**Review** L&LT topic Other Retirement Income Issues.

**Visuals:**

[Form 5329](#)

**Remind** students that lump sum distributions are reported on Form 1099-R. Certain lump sum distributions with code A qualify for special tax treatment. Taxpayers with this situation should be referred to a professional tax preparer.

[Form 1099-R](#)

[Pub 4012](#), Tab D, Income: Form 1099-R Simplified Method

**Remind** students about the following codes on Form 1099-R:

- 1: Early distribution – the additional tax may be applicable if no exception applies
- 2: Early distribution – exception applies
- 3: Disability
- 4: Death

When to Adjust Withholding

**Review** L&LT topic When to Adjust Withholding.

**Visuals:**

[Form W-4P](#)

**Point out** that, if a taxpayer owes \$1,000 or more in federal taxes, the volunteer should discuss the taxpayer’s withholding and estimated tax options.

[Form W-4R](#)

[Form W-4V](#)

[Pub 505](#)

**Internet:**

L&LT Retirement Income, When to Adjust Withholding

[IRS Withholding Estimator](#)

Skills Workout

**Review** the Skills Workout with the class.

**Visuals:**

**Review** the items that are out of scope for the VITA/TCE program.

L&LT Retirement Income, Click Certification Warm Up icon to review the exercises

References	
Form 1040	<a href="#">Form 1040</a>
Form 1040 Instructions	<a href="#">Form 1040 Instructions</a>
Form 13614-C	<a href="#">Form 13614-C</a> , Intake/Interview & Quality Review Sheet, Page 2, Part III
Pub 4012	<a href="#">Pub 4012</a> , Volunteer Resource Guide, Tab D, Income: Table A – Examples of Taxable Income Form 1099-R Form 1099-R Simplified Method
Form 1099-R	<a href="#">Form 1099-R</a> , Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.
Form 5329	<a href="#">Form 5329</a> , Additional Taxes on Qualified Plans (Including IRAs) and Other Tax-Favored Accounts
Form W-4P	<a href="#">Form W-4P</a> , Withholding Certificate for Pension or Annuity Payments
Form W-4R	<a href="#">Form W-4R</a> , Withholding Certificate for Nonperiodic Payments and Eligible Rollover Distributions.
Form W-4V	<a href="#">Form W-4V</a> , Voluntary Withholding Request
Form W-2	<a href="#">Form W-2</a> , Wage and Tax Statement
Pub 505	<a href="#">Pub 505</a> , Tax Withholding and Estimated Tax
Pub 575	<a href="#">Pub 575</a> , Pension and Annuity Income
Pub 590-B	<a href="#">Pub 590-B</a> , Distributions from Individual Retirement Arrangements (IRAs)

### Recommended Classroom Activities



**Skills  
Workout**



**Certification  
Warm Up**



**Media: Videos  
& Audio**



**TaxSlayer  
Tutorial**



**Job Aids**



**Practice  
Lab**



**Skills Workout: Link & Learn Taxes Retirement Income**

Click Skills Workout to access Link & Learn Taxes Retirement Income.



### Certification Warm Up – Summary Exercise

Click Certification Warm Up to access the exercises in Link & Learn Taxes Retirement Income.



### Media: Video & Audio for Lesson

These videos explain the benefits of having an IRA.

- YouTube video: How IRAs Help to Increase Your Retirement Savings  
[http://www.youtube.com/watch?v=Oq\\_Hj7tdZM0](http://www.youtube.com/watch?v=Oq_Hj7tdZM0)
- YouTube video: IRA Investment Decisions – What You Need to Know  
<http://www.youtube.com/watch?v=5-u3r3SEKIE>



### TaxSlayer Tips and Resources for Lesson

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TaxSlayer Training Video [Entering Basic Income, Part 2](#)

Practice Lab Tutorial

From the [Practice Lab](#):

1. Enter the universal password (if you do not have the password, you can request it from your site coordinator or SPEC relationship manager).
  2. Sign in to Practice Lab or create an account.
  3. Select the appropriate tutorial.
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Job Aids

### ITA and FAQs for Lesson

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Interactive Tax Assistant

Interactive Tax Assistant

<https://www.irs.gov/help/ita/is-my-pension-or-annuity-payment-taxable>

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Tax Topics

Rollovers from Retirement Plans

<http://www.irs.gov/taxtopics/tc413.html>

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Tax Topics

Pensions and Annuities

<http://www.irs.gov/taxtopics/tc410.html>

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Other

FAQs - Retirement Plans Frequently Asked Questions

<https://www.irs.gov/retirement-plans/retirement-plans-frequently-asked-questions-faqs>

IRS Withholding Estimator

<https://www.irs.gov/individuals/tax-withholding-estimator>

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### Practice Lab

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Practice Lab

<https://vita.taxslayerpro.com/IRSTraining>

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