

Form 1099-R

Frequently Asked Questions

This document is to provide clarity regarding IRS Form 1099-R, and is based on Lincoln's interpretation of current federal and state regulations.

Lincoln Financial Group cannot provide tax advice. Please direct questions regarding tax filing to your tax professional.

What is a Form 1099-R?

The Form 1099-R is used to report any distributions (\$10.00 or more) from pensions, annuities, retirement plans, profit sharing plans, 457(b) Governmental plans, IRAs and insurance contracts, regardless of whether federal or state income taxes are withheld. This form is also used to report Roth IRA conversions, 1035 Exchanges, Qualified Rollovers, and reportable ownership changes.

If changes are made to your 1099-R, prior to Lincoln filing with the IRS, the 'Corrected (if checked)' box will remain blank. If changes are made after Lincoln files with the IRS, a 'X' will show in the 'Corrected (if checked)' box.

How Do I Review my 1099-R?

The Form 1099-R will be mailed by January 31st of each year. The Form 1099-R may also be available online by registering at www.lfg.com.

Why did I receive more than one Form 1099-R?

You may receive more than one Form 1099-R if you received distributions from more than one contract, you moved from one state of residence to another, or if the distributions that you requested required different distribution codes (refer to the distribution code section (Box 7) of your Form 1099-R).

Below are two examples of common distribution codes:

1. Code '1' or Code '7' depending on age:

If you were under age 59 ½ at the beginning of the year and took distributions, and then turned age 59 ½ during the year, you will receive one Form 1099-R with distribution code 1 for the distributions you took during the portion of the year that you were under age 59 ½. If you took distributions during the year after you turned age 59 ½, you will receive a second Form 1099-R with distribution code 7 for those distributions.

2. Code 'D' for taxable distributions from non-qualified annuities:

If you take multiple distributions throughout the year and some had taxable gain and others did not, this would cause two 1099-R Forms to be generated. The distributions that included taxable gain would include a numeric distribution code in Box 7 followed by the letter 'D'. The other distributions that did not include any taxable gain and are considered return of cost basis would have only a numeric distribution code in Box 7.

What is Cost Basis and how is it determined?

Cost basis is the total amount of after-tax dollars contributed to a non-qualified annuity less the amount of any prior non-taxable distributions from the contract. The cost basis is reported in Box 5 (Employee Contributions) of Form 1099-R. There are two types of cost basis for non-qualified annuities:

1. Pre-TEFRA cost basis is cost basis established before August 14, 1982. This type of cost basis will be withdrawn from an annuity before any gain (taxable amount) is withdrawn.

2. Post-TEFRA cost basis is cost basis established on or after August 14, 1982. This type of cost basis is not withdrawn from an annuity until all gain has been withdrawn.

Generally, qualified annuities do not have cost basis because the funds contributed to qualified annuities are pre-tax and are 100% includible in gross income when distributed.

Lincoln obtains the cost basis for your contract in the following ways:

1. When a non-qualified annuity is funded with a personal check, the full amount of the check is classified as cost basis.

2. If funds are received from a mutual fund, brokerage account, savings account or CD, Lincoln will record the full amount as cost basis.

3. If Lincoln receives non-qualified funds through a 1035 Exchange from another company, we rely on that company to provide us with the remaining cost basis amount. If the other company does not provide any cost basis information, Lincoln must record \$0.00 as the cost basis.

Following is an example of how Lincoln reports cost basis.

Lincoln received a 1035 Exchange of \$50,000.00, with \$45,000.00 reported as Post-TEFRA cost basis. At the time of a \$10,000.00 distribution, the contract value was \$53,000.00.

The Form 1099-R would have a Gross Distribution (Box 1) of \$10,000.00, a Taxable Amount (Box 2a) of \$8,000.00, and an Employee Contribution (Box 5) of \$2,000.00.

Why is Box 2a (Taxable amount) on my Form 1099-R blank?

Your non-qualified annuity is funded with after-tax funds, which make up the cost basis portion of your annuity. If your distributions are 100% cost basis, then the taxable amount of the distribution is \$0.00, then Box 2a of your Form 1099-R will be blank. Also, the taxable amount will be blank for distributions that are 1035 exchanged to another contract.

Your qualified annuity is generally funded with pre-tax funds. Thus, all distributions will include taxable amounts. However, there may be some instances where the Box 2a taxable amount will be blank. For example, the taxable amount will be blank for distributions rolled over to another qualified contract.

What are Serial Annuities?

All non-qualified annuity contracts issued after October 21, 1988, by the same company to the same policyholder during any calendar year will be treated as one annuity contract for purposes of determining the amount of any distribution that is includable in income (gain). At the time of a distribution from a serial annuity, all annuity contracts are considered in aggregate when determining the taxable amount and cost basis.

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