

## Important Tax Information About Payments From Your TSP Account

Before you decide how to receive the money in your Thrift Savings Plan (TSP) account, you should review the important information in this notice. Although the TSP can assist you with your withdrawal, we cannot provide tax advice. Because tax rules are complex, you may wish to speak with a tax advisor before you make any withdrawal decisions.

You can find more specific information on the tax treatment of payments from qualified employer plans like the TSP in IRS Publication 575, *Pension and Annuity Income*, IRS Publication 590, *Individual Retirement Arrangements (IRAs)*, and IRS Publication 721, *Tax Guide to U.S. Civil Service Retirement Benefits*. (See page 4, Resources.)

### 1. Federal Income Tax Withholding

Your contributions to the TSP were tax-deferred. This means you have not yet paid taxes on your contributions, any agency contributions, or earnings. Instead, you will owe taxes when you receive a payment (distribution) from your account. We report all TSP distributions to the Internal Revenue Service (IRS), and to you, on IRS Form 1099-R, *Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.*

We must withhold for Federal income tax from payments we make to you unless you are allowed to request reduced or no withholding. For purposes of IRS withholding, there are three types of payments: **eligible rollover distributions, periodic payments, and non-periodic payments**. The chart on the next page describes the withholding rates and the rules that apply to each type of TSP payment. If you are eligible to change the standard withholding elections (for example, to fully cover your tax liability), you must file IRS Form W-4P, *Withholding Certificate for Pension or Annuity Payments*, **with** your withdrawal request.

Note that if you elect a “mixed withdrawal” (e.g., an annuity and a single payment), each type of distribution is treated separately and may be subject to different tax withholding rules.

We do not withhold for state or local income tax. However, we do report, on IRS Form 1099-R, all TSP distributions to your state

of residence at the time of the payment (if that state has an income tax). You may need to pay state and local income taxes on your payment. See a tax advisor or state or local tax officials for specific information.

**Special note for members of the uniformed services:** TSP accounts for members of the uniformed services may include contributions from pay that is subject to the combat zone tax exclusion. That pay, earned in a combat zone, is exempt from Federal income tax. Consequently, TSP contributions from that pay are also tax-exempt. However, the earnings on those contributions are taxable when they are distributed. Therefore, if you receive a payment from an account that has both tax-deferred and tax-exempt contributions, your distribution will be paid in the same proportions as your tax-deferred and tax-exempt balances, and the TSP will report the tax-exempt portion separately on IRS Form 1099-R.

**Special note regarding annuities:** Payments you receive from an annuity that the TSP purchases for you are also subject to tax withholding. You will receive information from the annuity provider about making a withholding election.

### 2. Transferring or Rolling Over Your TSP Distribution

Some payments from the TSP may be transferred or rolled over to a traditional individual retirement account (IRA), an eligible

employer plan, or a Roth IRA. Such payments, called “eligible rollover distributions,” are identified on the chart.

**An eligible employer plan** includes a plan qualified under section 401(a) of the Internal Revenue Code, such as a section 401(k) plan, profit-sharing plan, defined benefit plan, stock bonus plan, and money purchase plan; a section 403(a) annuity plan; a section 403(b) tax-sheltered annuity; and a section 457(b) plan maintained by a governmental employer.

**A traditional IRA** is any IRA that is not a Roth IRA, a SIMPLE IRA, or an education IRA. Before-tax money that is transferred from the TSP to a traditional IRA is not subject to tax until it is withdrawn from the IRA.

**A Roth IRA** accepts only after-tax dollars, but provides tax-free growth. You are not eligible for a Roth transfer if either of the following conditions applies: (1) your modified adjusted gross income is over \$100,000 or (2) you are married and file a separate return. Further, you must pay taxes on the funds you transfer to a Roth IRA; the tax liability is incurred for the year of the transfer.

No IRA or eligible employer plan is required to accept a transfer or rollover. Before you decide to transfer or roll over your TSP account, you should find out whether your IRA or plan accepts transfers or rollovers, whether the IRA or plan has a minimum amount it will accept, and, in the case of a Roth IRA, whether you are eligible to make the transfer.

If your payment is an eligible rollover distribution, you may ask the TSP to transfer part or all of the payment directly to your IRA or plan. If you receive an eligible rollover distribution directly, you may deposit (roll over) the payment into your traditional IRA, eligible employer plan, or Roth IRA yourself. Depending on the type of plan, a withdrawal from it may be subject to different tax treatment and plan rules (such as different spousal consent rules) than a distribution from the TSP.

If you choose to have the TSP **transfer** part or all of your eligible rollover distribution:

- Your transfer to a traditional IRA or eligible employer plan will not be taxed in the current year and no income tax will be withheld. Your payment will be taxed when you withdraw it from the traditional IRA or the eligible plan.
- The entire amount of your transfer to a Roth IRA will be taxed in the current year. No income tax will be withheld at the time of the transfer. (You may need to pay estimated taxes to mitigate your tax liability.)
- If you are over age 70½ and a portion of your payment is a required minimum distribution, that

portion cannot be transferred. Instead, it will be paid directly to you after 10% has been deducted for Federal income tax withholding. This rule also applies if you are receiving monthly payments and elect to receive a final single payment that includes a required minimum distribution.

If the TSP pays an eligible rollover distribution **directly to you**, and you decide to do a “**rollover**” to a traditional IRA or eligible employer plan:

- You will receive only 80% of the taxable amount of the payment, because we are required to withhold 20% for Federal income tax.
- Your full payment will be taxed in the current year unless you roll over part or all of it within 60 days after you receive the payment.
- You can roll over all or part of the payment to your traditional IRA or plan. The amount rolled over will not be taxed until you take it out of the IRA or plan. However, if you want to roll over 100% of the payment, you must replace the 20% that was withheld with your own funds. If you roll over only the portion you received, you will be taxed on the 20% that was withheld and not rolled over.

You may be able to roll over your payment into a Roth IRA; the full amount rolled over will be taxed in the current year.

**Special note for members of the uniformed services:** TSP tax-exempt balances (i.e., tax-exempt contributions from pay earned in a combat zone) may be transferred or rolled over into a traditional IRA or a Roth IRA or transferred to certain eligible employer plans, but only if the IRA or plan certifies that it accepts tax-exempt balances. If the IRA or plan does not accept tax-exempt money, that amount will be paid directly to you. Check with your IRA trustee or plan administrator to see if the funds will be accepted.

### 3. Other Tax Rules

#### *Repayment of plan loans*

If you separate from Federal service with an outstanding TSP loan and you do not repay the entire loan by the established deadline, we must declare a taxable distribution of your outstanding loan balance before we can process your withdrawal request.

To avoid current tax (and, if applicable, an additional 10% penalty tax, as discussed on page 4), you may deposit part or all of the taxable loan distribution amount into an IRA or an eligible employer plan — using your personal funds — within 60 days of the date of the taxable distribution.

This rollover rule does not apply to taxable loan distributions declared while you are still employed.

### ***Additional 10% penalty tax if you are under age 59½***

If you receive a TSP distribution before you reach age 59½, in addition to the regular income tax, you may have to pay an early withdrawal penalty tax equal to 10% of any portion of the distribution not transferred or rolled over. The additional 10% tax generally does not apply to payments that are:

- Paid after you separate from service during or after the year you reach age 55;
- Made because you are totally and permanently disabled;\*
- Paid as substantially equal payments over your life expectancy;
- Annuity payments;
- Ordered by a domestic relations court;
- Made because of death; or
- Made in a year you have deductible medical expenses that exceed 7.5% of your adjusted gross income.\*

### **Special note for members of the uniformed services:**

The penalty tax does not apply to that portion of a TSP distribution (including the taxable distribution of a loan) which represents tax-exempt contributions from pay earned in a combat zone.

Relief from the 10% early withdrawal penalty is available to eligible Reservists called to duty for more than 179 days. The Reservist must have been activated after September 11, 2001, but before December 31, 2007, **and** must have received his or her distribution from the TSP during the period beginning on the date of the order or call and ending at the close of the active duty period. The Reservist may also be eligible to repay the distribution to an IRA (not the TSP). Legislation is pending that would extend the eligibility period. Participants should consult with their tax advisors, legal assistance officers, or the IRS regarding this relief.

### ***Changing your monthly payments***

Participants receiving monthly payments may change the amount annually. If you elect either to change the fixed dollar amount of your payments or to change from payments based on life expectancy to a fixed dollar amount, the withholding from your payment may change. The withholding rules will be determined according to whether

your new payments are eligible rollover distributions or periodic payments (based on your account balance at the time the payment changes).

In addition, changing from monthly payments based on life expectancy to a fixed monthly payment amount may make you liable for the 10% penalty tax on the payments you previously received, if you do so within 5 years of beginning your payments or before you are age 59½. To learn more, see IRS Publication 575, *Pension and Annuity Income*.

### ***Required minimum distribution if you are over 70½***

If you are over age 70½ and are separated from Federal service, you must either withdraw your entire TSP account or begin receiving monthly payments by April 1 of the year following the year you turned 70½. In addition, this April 1 date is the deadline for the TSP to start to distribute the IRS “required minimum distribution,” a minimum amount of the money in your account which you must receive each year. For more information, see the TSP tax notice “Important Tax Information About Your TSP Withdrawal and Required Minimum Distributions.”

### ***Special tax treatment if you were born before January 2, 1936***

If you were born before January 2, 1936, and you receive your entire account in a lump sum distribution, you can make a one-time election to calculate the amount of the tax on the distribution by using the 10-year tax option and using 1986 tax rates. The 10-year tax option often reduces the tax you owe. To learn more, see IRS Publication 575, *Pension and Annuity Income*.

### ***Rules for nonresident aliens or beneficiaries of nonresident aliens***

Special tax withholding rules apply to TSP payments made to nonresident aliens and beneficiaries of nonresident aliens. To learn more, see the TSP tax notice “Tax Treatment of Thrift Savings Plan Payments to Nonresident Aliens and Their Beneficiaries.”

## **4. Resources**

TSP publications are available from the TSP Web site, [www.tsp.gov](http://www.tsp.gov), or from the TSP by calling the TSP toll free at 1-877-968-3778 (TDD: 1-877-847-4385). Outside the U.S. and Canada, please call 404-233-4400 (not toll free). You can also send a fax to 1-866-817-5023 or write to the TSP at the address on the TSP Web site.

IRS publications are available from your local IRS office, on the IRS Web site at [www.irs.gov](http://www.irs.gov), or by calling 1-800-TAX-FORMS.

\*The TSP cannot certify to the IRS that you meet these exemption requirements when your taxes are reported. Therefore, you must provide the justification to the IRS when you file your taxes.

# Tax Treatment for TSP Payments

Type of TSP Payment	Type of Payment for IRS Purposes	May I Transfer or Roll Over the Payment? <sup>1</sup>	What Is the Withholding Rate?	May I Increase Withholding (using IRS Form W-4P <sup>2</sup> )?	May I Decrease Withholding (using IRS Form W-4P <sup>2</sup> )?	May I Waive Withholding (using IRS Form W-4P <sup>2</sup> )?
Single payment full withdrawal after separation	Eligible rollover distribution	Yes	20% mandatory	Yes — complete line 3	No	No
Monthly payments for less than 10 years (requested dollar amount) <sup>3</sup>	Eligible rollover distribution	Yes	20% mandatory	Yes — complete line 3	No	No
Monthly payments for 10 years or more (requested dollar amount) <sup>4</sup>	Periodic payments	No	As if married with 3 dependents	Yes — complete line 2 to change exemption and line 3 for additional dollar amount	Yes — complete line 2	Yes — complete line 1
Monthly payments based on the IRS life expectancy table <sup>4</sup>	Periodic payments	No	As if married with 3 dependents	Yes — complete line 2 to change exemption and line 3 for additional dollar amount	Yes — complete line 2	Yes — complete line 1
Automatic cash-out (less than \$200)	Eligible rollover distribution	Rollover only	None	Not applicable	Not applicable	Not applicable
Partial withdrawal after separation	Eligible rollover distribution	Yes	20% mandatory	Yes — complete line 3	No	No
Required minimum distribution payments <sup>5</sup>	Non-periodic payments	No	10%	Yes — complete line 3	No	Yes — complete line 1
Final single payment after a series of monthly payments	Eligible rollover distribution	Yes	20% mandatory	Yes — complete line 3	No	No
Age-based in-service withdrawal	Eligible rollover distribution	Yes	20% mandatory	Yes — complete line 3	No	No
Financial hardship in-service withdrawal	Non-periodic payment	No	10%	Yes — complete line 3	No	Yes — complete line 1
Loan taxable distribution — default by separation	Eligible rollover distribution	Rollover only (using personal funds)	We cannot withhold because the money was already paid to you	Not applicable	Not applicable	Not applicable
Loan taxable distribution — default while still employed	Non-periodic payment	No	We cannot withhold because the money was already paid to you	Not applicable	Not applicable	Not applicable
Court order payment to a current or former spouse	Eligible rollover distribution	Yes	20% mandatory	Yes — complete line 3	No	No
Court order payment not to a current or former spouse	Non-periodic payment	No	10%	Yes — complete line 3	No	Yes — complete line 1
Death benefit to a spouse beneficiary	Eligible rollover distribution	Yes	20% mandatory	Yes — complete line 3	No	No
Death benefit to a non-spouse beneficiary	Non-periodic payment	May only be transferred to an “inherited” IRA	10%	Yes — complete line 3	No	Yes — complete line 1
<b>Annuity purchase</b>	Not reported to the IRS by the TSP; payments will be reported for tax purposes by the annuity provider					

<sup>1</sup> There are rules, and in the case of Roth IRAs, certain restrictions, that determine a participant’s eligibility to make the transfer or rollover. See “Transferring or Rolling Over Your TSP Distribution” on pages 1 and 3 for more information.

<sup>2</sup> Be sure to complete, sign, and date IRS Form W-4P, “Withholding Certificate for Pension or Annuity Payments,” before you submit it to the TSP with your withdrawal request.

<sup>3</sup> If the payment is satisfying the IRS required minimum distribution amount, it is treated as a non-periodic payment. See the “Required minimum distribution payments” section of this chart.

<sup>4</sup> Payments are treated as periodic even if they are satisfying the IRS required minimum distribution amount.

<sup>5</sup> Required minimum distributions are not treated as non-periodic payments (for IRS purposes) if they are part of monthly payments that are expected to be paid over 10 or more years or are part of monthly payments that are based on the IRS life expectancy table. In these cases, taxes are based on withholding for a married person with 3 dependents, under the IRS withholding rules for periodic payments.