

# Important Tax Information About Thrift Savings Plan Death Benefit Payments

Before you receive a death benefit payment from the Thrift Savings Plan (TSP), you should review the important information in this notice. Although the TSP can assist you in receiving your payment, we cannot provide tax advice. Because tax rules are complex, you may wish to speak with a tax advisor before you make any decisions that might have tax consequences.

## 1. Income Tax Withholding and Reporting

Contributions to the TSP are generally tax-deferred. This means the participant did not pay taxes on his or her own contributions, any agency contributions, or earnings. As a consequence, you will owe taxes when you receive a death benefit payment from a TSP 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 unless the IRS allows the beneficiary to request that there be no withholding. The Federal income tax withholding and transfer and rollover rules that apply to a death benefit payment depend upon whether the payment is made to the surviving spouse or to someone else.

The chart below applies to payments made after January 1, 2010. It describes the withholding rates and indicates whether you can change or waive the withholding amount. If you want to change the standard withholding, you must file IRS Form W-4P, Withholding Certificate for Pension or Annuity Payments, with the TSP before the death benefit payment is disbursed.

We do not withhold for state or local income tax. However, on IRS Form 1099-R, we do report 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 tax on your payment. Your tax advisor or state or local tax officials can explain any potential tax obligations.

## 2. Transferring or Rolling Over a Payment

Your options for transferring or rolling over a TSP death benefit payment depend upon whether you are the surviving spouse of the deceased participant or a beneficiary other than the surviving spouse.

*If you are the surviving spouse*, you may be able to ask the TSP to transfer all or a portion of your payment to a traditional individual retirement account (IRA), eligible employer plan, or Roth IRA. If you receive the payment directly, you may be able to deposit (roll over) the payment into a traditional IRA, eligible employer plan, or Roth IRA yourself.

A **traditional IRA** is any IRA that is **not** a Roth IRA, a SIMPLE IRA, or an education IRA.

An **eligible employer plan** includes a plan qualified under section 401(a) of the Internal Revenue Code (I.R.C.), 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; a section 457(b) plan maintained by a governmental employer; and the TSP.

A **Roth IRA** accepts only after-tax dollars, but provides tax-free growth. You are not eligible

Type of TSP Payment	Type of Payment for IRS Purposes	May Payments Be Transferred or Rolled Over?	What Is the Withholding Rate?*	May Withholding Be Increased (Using IRS Form W-4P**)?	May Withholding Be Decreased (Using IRS Form W-4P**)?	May Withholding Be Waived (Using IRS Form W-4P**)?
<b>Death benefit to a surviving spouse</b>	Eligible roll-over distribution	Yes***	20% (unless transferred)	Yes—complete line 3	No	No
<b>Death benefit to someone other than a surviving spouse</b>	Eligible roll-over distribution	May only be transferred into an "inherited" IRA	20% (unless transferred)	Yes—complete line 3	No	No

\* Applies to payments of \$200 or more received in a single year.

\*\* If you are receiving death benefit payments from both a civilian TSP account and a uniformed services TSP account, you must submit a separate IRS Form W-4P for each payment.

\*\*\* You can transfer or roll over a payment into a traditional IRA, eligible employer plan, or Roth IRA.

for a Roth transfer if either one 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.

Before you decide to transfer or roll over your payment, you should find out whether your IRA or plan accepts transfers or rollovers and whether the IRA or plan has a minimum amount it will accept. You should also familiarize yourself with the plan or IRA. The tax treatment and plan rules for withdrawals from the plan to which you transfer or roll over the distribution may be different from those of the TSP.

If you are a surviving spouse and you have your own TSP account, you may roll over — or ask the TSP to transfer — the death benefit payment into your TSP account.

If you choose to have the TSP **transfer** all or part of the death benefit payment:

- No income tax will be withheld at time of transfer.
- If your transfer is to a traditional IRA or eligible employer plan, it will be taxed at the time you withdraw it from that IRA or plan.
- If your transfer is to a Roth IRA, the entire amount will be taxed for the year of the transfer. You may need to pay estimated taxes to mitigate your tax liability.

If the TSP pays a death benefit payment directly to you, and you subsequently 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 if you do not complete the rollover within 60 days of receiving the payment from the TSP.
- 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.

*If you are a beneficiary other than the surviving spouse*, you may be able to request that the TSP transfer all or part of your death benefit payment directly to an “inherited” IRA. The I.R.C. allows individuals and, in some cases, trusts (but not estates) to transfer death benefits to an inherited IRA. A trust must satisfy the conditions specified in Treas. Reg. § 1.401(a)(9)-4, Q&A 5. An inherited IRA is an IRA established specifically for the purpose of transferring money inherited from a plan such as the TSP. Inherited IRAs may provide significant tax benefits since the required distribution for the IRA can generally be spread across the lifetime of the beneficiary. However, the rules governing inherited IRAs are complicated, and there are restrictions. So *before* you make a decision to transfer

money from the TSP to such an IRA, we strongly recommend that you discuss the details of your transfer with your tax advisor or your IRA provider. You may not roll over a TSP death benefit paid directly to you into any type of IRA or plan.

If you choose to have the TSP **transfer** all or part of the payment to an inherited IRA:

- Your transfer 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 inherited IRA.
- The tax treatment and plan rules for withdrawals from the inherited IRA to which you transfer the distribution may be different from those of the TSP.

### 3. Note About Uniformed Services Accounts

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 tax-exempt contributions, the TSP will report the tax-exempt portion separately on IRS Form 1099-R.

TSP tax-exempt contributions may be transferred or rolled over into a traditional IRA, an “inherited” IRA, or a Roth IRA, or transferred to certain eligible employer plans, but only if the IRA or plan certifies that it will accept tax-exempt money. If the IRA or plan does not accept tax-exempt money, that amount will be paid directly to you.

Tax-exempt contributions in a uniformed services TSP account may not be transferred into your own civilian TSP account if you have one.

### 4. Ten-Year Tax Option

If the participant was born before January 2, 1936, you may be eligible to calculate the amount of the tax on the death benefit payment by using the 10-year tax option, which will often reduce the tax you owe. To learn more, see IRS Publication 575, *Pension and Annuity Income*, and IRS Form 4972, *Tax on Lump Sum Distributions*.

### 5. Rules for Nonresident Aliens and Their Beneficiaries

Special tax withholding rules apply to payments the TSP makes to nonresident aliens and beneficiaries of nonresident aliens. See the TSP tax notice “Tax Treatment of Thrift Savings Plan Payments to Nonresident Aliens and Their Beneficiaries.”

### 6. Resources

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