

Publications

IRS Provides Guidance on Pension Plan Payment Basis Errors

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The IRS recently issued LTR 201021042 (“the LTR”). The LTR provides important guidance on how to correct tax reporting errors due to a plan’s failure to take into account a participant’s after-tax contributions in reporting annuity payments received from a Code Sec. 401(a) tax-qualified plan. Specifically, the LTR addresses the proper basis recovery where a Form 1099-R incorrectly stated that the taxable amount in box 2a was the gross amount paid to the participant, and a participant failed to exclude any portion of the payments from taxation on his or her Form 1040. As more fully described below, the IRS’s correction methodology does not permit the making of participants “whole,” which highlights the need for careful plan administration. Please see the attached article for a further discussion.