

# INTERNAL REVENUE SERVICE ISSUES REVENUE RULING ADDRESSING TAX AND REPORTING CONSEQUENCES OF UNCASHED DISTRIBUTION CHECKS FROM QUALIFIED RETIREMENT PLANS

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A retirement plan participant's failure to cash a distribution check is commonplace and gives rise to certain responsibilities on the part of the plan administrator. In Revenue Ruling 2019-19, the Internal Revenue Service analyses the taxation, withholding and reporting obligations associated with uncashed distribution checks from tax qualified retirement plans.

The Revenue Ruling discusses a fact pattern where a distribution of \$900 is required to be made from a tax qualified retirement to a plan participant in 2019. The plan administrator withholds required tax from the distribution and mails a check for the remainder to the participant. The participant receives, but does not cash the check and makes no rollover contribution of any portion of the distribution.

The IRS states that the amount distributed is includable in the participant's gross income in the year the distribution is made, pursuant to Code Section 72. The individual cannot exclude the amount from gross income under Section 402(a) merely by failing to cash the check received in 2019. The reason for the participant's failure to cash the check (e.g., lost, destroyed, returned) is immaterial to the IRS' conclusion.

Next, the IRS confirms that the participant's failure to cash the distribution check does not alter the plan administrator's obligation to withhold tax from the distribution under Code Section 3405. Finally, the IRS states that the participant's failure to cash the distribution check does not alter or defer the plan administrator's obligation to report the distribution amount and tax withheld on Form 1099-R for the tax year in which the distribution was made.

While this guidance is welcome, the IRS's position is not unexpected given the well-established doctrine of constructive receipt. The Revenue Ruling notes that the IRS continues to analyze issues related to uncashed checks, including situations involving missing participants. This may foreshadow that the IRS will issue future guidance concerning a retirement plan administrator's obligation to locate and make distributions to missing participants.

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