

ST15-24 Roth IRAs Code J or T Not Taxable

The distribution code T shown in a 1099-R box 7 signifies a “Roth IRA distribution, exception applies”. The distribution code J in a 1099-R box 7 signifies an “Early distribution from a Roth IRA”. There are situations where an IRA custodian will use codes J or T rather than code Q which signifies a non-taxable distribution. The process below defines what a qualified distribution is and how to make a code J or T non-taxable.

Roth IRA Qualified Distribution

A qualified distribution is any payment or distribution from your Roth IRA that meets the following requirements:

- It is made after the 5-year period beginning with the first taxable year for which a contribution was made to a Roth IRA set up for your benefit, and
- The payment or distribution is:
 - Made on or after the date you reach age 59 1/2,
 - Made because you are disabled,
 - Made to a beneficiary or to your estate after your death – OUT OF SCOPE, or
 - Made to pay up to \$10,000 (lifetime limit) of certain qualified first-time homebuyer amounts -OUT OF SCOPE

Steps to take

Discuss with the taxpayer that the distribution as coded in the 1099R will be taxable.

- If in fact it is not a qualified distribution, the return is OUT OF SCOPE.
- If the taxpayer feels it is a qualified distribution as defined above, there are two options.
 - Go back to the custodian of the IRA and have them change the 1099-R box 7 to Code Q or
 - We can enter it as a code J or T and change it to non-taxable. The taxpayer must be made aware that if challenged by the IRS they would have to show proof that the distribution was a qualified distribution and not taxable.

Process for making a code J or T non-taxable

1. Enter the 1099-R as you would normally and put Code J or T in box 7. An 8606 will appear in the tree and be red. Do not open the 8606.
2. Go to the “Exclusion Worksheet” in the lower portion of the 1099-R.
3. Enter the distribution amount from box 1 of the 1099-R into line 5 “Excludable amount due to a tax-free exchange; as calculated in a previous year; or by law, is specifically tax-exempt”.
4. Check that the amount from box 1 is not shown as taxable on line 1040 line 16b and NJ 1040 line 19a.
5. The 8606 should no longer be red in the tree