

HOW TO REPORT FEDERAL TAX WITHHOLDING FROM RETIREMENT PLAN DISTRIBUTIONS

The following information is for general informational purposes only. For complete information on withholding procedures, you should refer to the separate instructions for Form 945 or to IRS Publications 15 (*CIRCULAR E, EMPLOYER'S TAX GUIDE*) and 15-A (*EMPLOYER'S SUPPLEMENTAL TAX GUIDE*), available at www.irs.gov. Please consult with your tax advisor to the extent you feel necessary.

IRS regulations set forth the reporting and remitting procedures for non-payroll withholding. Non-payroll withholdings include Retirement Plans.

Federal withholding from retirement plan distribution payments is classified as a 945 tax withholding and must be reported on Form 945. Benetech does not prepare Form 945 to report federal withholding, your CPA or tax advisor can assist with preparing and filing of Form 945.

1) **Federal Income Tax Withholding for Retirement Plan Distribution Payments**

Generally, retirement plan sponsors must withhold 20% of an "eligible rollover" benefit distribution as Federal Income Tax, unless the recipient elects to have the distribution paid as a direct rollover to an "eligible retirement plan" or an IRA. This type of tax withholding falls under the Pension, Annuities and IRA distribution definition of non-payroll withholding and is reported on Form 945 annually. Additionally, all income tax withholding reported on Form 1099 or W-2G must also be reported on Form 945.

2) **Deposits of Federal Income Tax Withholding**

Income tax withheld from a benefit distribution may not be deposited with payroll taxes. Deposit of non-payroll (Form 945) income tax withholding ***must be made electronically***. You may use the Electronic Federal Tax Payment System (EFTPS) to make these payments. If you have not previously done so, you may enroll and pay taxes by visiting www.eftps.gov.

You should combine all Form 945 taxes for deposit purposes. Therefore, if you have more than one retirement plan with benefit distribution income tax withholding, you must deposit and report the payments together.

It is important that all deposits be made timely. If amounts that must be withheld are not withheld or are not deposited or paid to the United States Treasury, a penalty may apply.

3) **Determining When to Deposit Taxes**

There are two deposit schedules – **monthly** or **semiweekly** – for deposit of withheld income tax. These schedules tell you when a deposit must be made. You are responsible for determining which of the two deposit schedules you must use, prior to the beginning of each calendar year.

- **Monthly Depositor**

You are a monthly depositor for Form 945 if the total tax reported on line 3 of your 2021 Form 945 was \$50,000 or less. (The lookback period for 2023 is calendar year 2021.) If you are a monthly depositor and have unpaid withholding of \$100,000 or more on any day during the calendar month, your deposit schedule changes to semiweekly for the remainder of the year and for the following year.

A monthly depositor must deposit taxes withheld on payments made during a month by the 15th day of the following month.

- **Semiweekly Depositor**

You are a semiweekly depositor for Form 945 if the total tax reported on line 3 of your 2021 Form 945 exceeded \$50,000. (The lookback period for 2023 is calendar year 2021.)

A semiweekly depositor must deposit taxes withheld on payments made Wednesday, Thursday or Friday by the following Wednesday. Taxes on payments made Saturday, Sunday, Monday or Tuesday must be deposited by the following Friday.

4) **Reporting Income Tax Withholding on Form 945**

All non-payroll items, including withholding for benefit distributions, are reported on Form 945 (Annual Return of Withheld Federal Income Tax). **Form 945 is an ANNUAL tax return, due on or before January 31st.** However, if you deposited all taxes for the year on or before the due date, you have until February 10th to file Form 945. Your return is considered timely filed if it is properly addressed and mailed First-Class or sent by an IRS designated private delivery service on or before the due date. If the due date for filing a return falls on a Saturday, Sunday, or legal holiday, you may file the return on the next business day.