



Mandatory 20% Backup Withholding from a Lump-Sum 401k Distribution

Please Note: If your company uses Charles Schwab as its 401k asset custodian in a PCRA-based 401k Easy, you are in luck. Schwab (through its Paying Agent service) will prepare and send the required forms and monies to the IRS on your company's behalf. Schwab will prepare and send Form 1099-R, withhold the mandatory 20% backup, and send the backup funds to the IRS along with Form 945, thus alleviating you, the Plan Sponsor, from these administrative tasks. As Plan Sponsor, you are responsible for calculating the 20% backup withholding and providing Schwab with the information.

If a former employee has requested his or her 401k distribution be in the form of a "lump sum," the IRS requires the employer to calculate and deduct 20% of the distribution and send it to the IRS. The remaining 80% is sent by check to the former employee.

The 20% withheld must be reported to the IRS using **Form 945 (Sample Attached)**. All the backup withholding taxes collected from former employees must be sent to the IRS using **Form 945-V (Sample Attached)**.

The employer must also send **Form 1099-R** to all ex-employees who took lump-sum distributions during the year. Please note that the custodian of the company's 401k plan will handle preparing and sending Form 1099-R to the ex-employees in most cases. The employer is responsible for submitting supporting **Form 1096** to the IRS. The plan's custodian may prepare this form on behalf of the employer is authorized to do so.

For 401k balances above \$5000, the plan sponsor must obtain the former employee's consent before initiating a lump-sum distribution. The plan sponsor may undertake Lump-sum distributions for amounts less than \$5000 without the former employee's approval, but 20% backup withholding rules still apply.

Annual Return of Withheld Federal Income Tax

► For withholding reported on Forms 1099 and W-2G.
► For more information on income tax withholding, see Pub. 15 and Pub. 15-A.
► Go to www.irs.gov/Form945 for instructions and the latest information.

OMB No. 1545-1430

2019

Type or Print	Name (as distinguished from trade name) Smith Industries	Employer identification number (EIN) 12-121212	If the address is different from the prior return, check here. ►
	Trade name, if any Smith Industries		
	Address (number and street) 123 Oak Street		
	City or town, state or province, country, and ZIP or foreign postal code Anytown, CA. 12345		

If you don't have to file returns in the future, check here ► ☐ and enter the final payment date. ►

1	Federal income tax withheld from pensions, annuities, IRAs, gambling winnings, etc.	1	3546
2	Backup withholding	2	
3	Total taxes. If \$2,500 or more, this must equal line 7M below or Form 945-A, line M	3	3546
4	Total deposits for 2019, including overpayment applied from a prior year and overpayment applied from Form 945-X	4	0
5	Balance due. If line 3 is more than line 4, enter the difference and see the separate instructions.	5	3546
6	Overpayment. If line 4 is more than line 3, enter the difference ► \$		

Check one: ☐ Apply to next return. ☐ Send a refund.

- **All filers:** If line 3 is less than \$2,500, **don't** complete line 7 or Form 945-A.
- **Semiweekly schedule depositors:** Complete Form 945-A and check here..... ► ☐
- **Monthly schedule depositors:** Complete line 7, entries A through M, and check here..... ► ☐

7 Monthly Summary of Federal Tax Liability. (Don't complete if you were a semiweekly schedule depositor.)								
	Tax liability for the month			Tax liability for the month			Tax liability for month	
A January . . .			F June			K November . . .		546
B February . . .			G July	1000		L December . . .		
C March			H August	1000		M Total liability for the year (add lines A through L)		
D April			I September . . .	1000				3546
E May			J October					

Third-Party Designee	Do you want to allow another person to discuss this return with the IRS? See separate instructions. Yes. Complete the following. No.		
	Designee's name ► Smith	Phone no. ► 123-121212	Personal identification number (PIN) ► <input type="text"/>

Sign Here	Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements. To the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.		
	Signature ►	Print Your Name and Title ► Smith, President	Date ►

Paid Preparer Use Only	Print/Type preparer's name	Preparer's signature	Date	Check <input type="checkbox"/> if self-employed	PTIN
	Firm's name ►			Firm's EIN ►	
	Firm's address ►			Phone no.	

Form 945-V, Payment Voucher

Purpose of Form

Complete Form 945-V if you're making a payment with Form 945. We will use the completed voucher to credit your payment more promptly and accurately, and to improve our service to you.

Making Payments With Form 945

To avoid a penalty, make your payment with your 2019 Form 945 **only if**:

- Your total taxes for the year (Form 945, line 3) are less than \$2,500 and you're paying in full with a timely filed return, or
- You're a monthly schedule depositor making a payment in accordance with the Accuracy of Deposits Rule. See section 11 of Pub. 15 for details. In this case, the amount of your payment may be \$2,500 or more.

Otherwise, you must make deposits by electronic funds transfer. See section 11 of Pub. 15 for deposit instructions. Don't use Form 945-V to make federal tax deposits.



Use Form 945-V when making any payment with Form 945. However, if you pay an amount with Form 945 that should've been deposited, you may be subject to a penalty. See Deposit Penalties in section 11 of Pub. 15.

Specific Instructions

Box 1—Employer identification number (EIN). If you don't have an EIN, you may apply for one online by visiting the IRS website at www.irs.gov/EIN. You may also apply for an EIN by faxing or mailing Form SS-4 to the IRS. If you haven't received your EIN by the due date of Form 945, write "Applied For" and the date you applied in this entry space.

Box 2—Amount paid. Enter the amount paid with Form 945.

Box 3—Name and address. Enter your name and address as shown on Form 945.

- Enclose your check or money order made payable to "United States Treasury." Be sure to enter your EIN, "Form 945," and "2019" on your check or money order. Don't send cash. Don't staple Form 945-V or your payment to the return (or to each other).

- Detach Form 945-V and send it with your payment and Form 945 to the address provided in the Instructions for Form 945.

Note: You must also complete the entity information above line A on Form 945.

Detach Here and Mail With Your Payment and Form 945.			
Form 945-V		Payment Voucher	
Department of the Treasury Internal Revenue Service		OMB No. 1545-1430	
		2019	
▶ Don't staple this voucher or your payment to Form 945.			
1 Enter your employer identification number (EIN). 12-121212		2 Enter the amount of your payment . . . ▶ Make your check or money order payable to "United States Treasury" Dollars 3546 Cents	
		3 Enter your business name (individual name if sole proprietor). Smith Industries	
		Enter your address. 123 Oak Street	
		Enter your city or town, state or province, country, and ZIP or foreign postal code. Anytown, CA USA	

Mandatory 20% backup withholding is reported and remitted to IRS using Form 945

Depositing and Reporting Withheld Taxes

Report income tax withholding from pensions, annuities, and governmental Internal Revenue Code section 457, (b) plans on Form 945, Annual Return of Withheld Federal Income Tax. Do not report these liabilities on Form 941. You must furnish the recipients and the IRS with Form 1099-R, Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.

Deposit withholding from pensions and annuities combined with any other nonpayroll withholding reported on Form 945 (e.g., backup withholding). Do not combine the Form 945 deposits with deposits for payroll taxes reported on Form 941 or NRA. Withholding taxes reported on Form 1042 Circular E and the separate Instructions for Form 945. Include information on the deposit rules for Form 945.

Employer must furnish former employee with Form 1099-R to document the mandatory backup withheld