

TAX INFORMATION ABOUT THRIFT SAVINGS PLAN
DEATH BENEFIT PAYMENTS

The Federal income tax withholding and rollover rules for Thrift Savings Plan (TSP) death benefits depend upon whether the payment is made to the surviving spouse or to someone else.

Benefits for Surviving Spouse: A death benefit payment to a surviving spouse is considered an eligible rollover distribution. The following tax withholding rules apply:

- a. There is mandatory tax withholding of 20 percent on all eligible rollover distributions of \$200 or more paid in a single year. The 20 percent is tax withholding, not actual tax due; therefore, when the surviving spouse files an annual Federal income tax return, he or she may be entitled to a refund of a portion of this amount, or may be required to pay an additional amount.
- b. A surviving spouse can avoid the 20 percent withholding on all or any portion of an eligible rollover distribution by asking the TSP to transfer that amount to a “traditional” Individual Retirement Account (IRA) or to an eligible employer plan. However, the recipient cannot avoid the 20 percent withholding on any amount that he or she elects to receive directly, even if the payment is then rolled over to a traditional IRA or eligible employer plan.
- c. A surviving spouse may elect to have an amount withheld in addition to the 20 percent withholding by completing line 3 of Internal Revenue Service (IRS) Form W-4P, Withholding Certificate for Pension or Annuity Payments. The recipient should submit this form to the TSP Service Office. Lines 1 and 2 for the IRS Form W-4P are not valid elections for this type of payment.
- d. There is no mandatory withholding if the total death benefit payment to the surviving spouse is less than \$200. However, the recipient can still elect withholding for a death benefit payment of less than \$200 by completing line 3 of IRS Form W-4P.

Benefits to Person Other Than a Surviving Spouse: A death benefit payment to a person who is not the surviving spouse of the deceased participant is treated as a non-periodic payment for Federal income tax withholding purposes. TSP will withhold 10 percent for Federal income tax from the payment, unless the TSP Service Office receives a IRS Form W-4P from the recipient. If the recipient submits an IRS W-4P they may elect:

- a. To have no Federal income tax withheld by completing line 1 of the W-4P; or
- b. To have an amount withheld in addition to the 10 percent by completing line 3 of W-4).

Line 2 of Form W-4P is not a valid election for this type of payment.

Beneficiaries of Non-Resident Aliens: A nonresident alien is an individual who is neither a U.S. citizen nor a resident alien in the United States. A resident alien is a non-citizen who is or was a lawful permanent resident of the United States during any part of a calendar year. An alien may also be considered a U.S. resident if the individual meets the IRS “substantial presence” test for a calendar year. Information on residency status and the test for residency may be obtained from IRS Publication 515, Withholding of Tax on Nonresident Aliens and Foreign Corporations, or IRS Publication 519, U.S. Tax Guide for Aliens.

Other Tax Withholding Information: If you do not have enough Federal income tax withheld from your payment, you may be responsible for paying estimated tax. You may also incur penalties under the IRS estimated tax rules if your withholding and estimated tax payments are not sufficient. If you elected to have no taxes withheld (by submitting IRS Form W-4P) and you decide before the payment is made that you want taxes withheld, you may revoke your prior decision by completing another Form W-4P and writing “Revoked” on Line 1 of the form. Taxes will then be withheld at the rate set by law. You may also request additional withholding by completing line 3 of the W-4P and the total amount of the withholding equals or exceeds the amount of your payment, your entire payment will be withheld. The TSP does not withhold for state, city, county or other local income tax. Therefore, you should consult your tax advisor or relevant state or local taxing authorities regarding any potential tax obligations.

Transferring or Rolling Over a TSP Payment: If you are a surviving spouse receiving a TSP death benefit payment, all or any part of it can either be transferred or rolled over to a traditional IRA or to an eligible employer plan. This permits you to postpone paying tax on that amount until you withdraw the money from the IRA or the plan. However, distributions from the IRA or plan to which the transfer or rollover is made may be subject to different plan rules and tax consequences from those that apply to distributions from the TSP. Before making the transfer or rollover, you should consult with the administrator of the IRA or plan that is to receive your distribution.

If you are also currently a TSP participant (active or separated), your payment may be transferred into your TSP account. If you are separated from service, however, you must not be receiving monthly payments.

A transfer occurs when you instruct the TSP to send all or part of your payment directly to a traditional IRA or to an eligible employer plan instead of issuing it to you. Mandatory 20 percent Federal income tax withholding does not apply to an amount the TSP transfers directly to a traditional IRA or eligible employer plan; however, it does apply to any payment made to you, even if you later roll it over.

A rollover occurs when the TSP makes a distribution you (which includes the amount of the payment you receive plus the amount of tax withheld) and you deposit any part of that distribution into a traditional IRA or eligible employer plan within 60 days of the date

you receive it. In deciding whether to choose a transfer or a rollover, you should consider the following:

- a. You must pay Federal income tax on any part of the payment that you do not transfer or roll over.
- b. Because all eligible rollover distributions of \$200 or more made directly to you are subject to a mandatory 20 percent withholding, you must pay Federal income tax on the amount withheld for taxes, even if you roll over the amount you receive unless you deposit personal funds into your traditional IRA or eligible employer plan equal to the amount withheld.

Therefore, if you do not want to use personal funds to make up the withheld amount, you should choose to have the TSP transfer the death benefit payment to your traditional IRA or eligible employer plan directly, instead of rolling it over to your IRA or plan yourself. If you are not the surviving spouse of the deceased participant, you cannot transfer or rollover your TSP death benefit payment.