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Back to Basics: IRS Issues Ruling About Failure to Cash a Distribution Check from a Qualified Retirement Plan

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In Revenue Ruling 2019-19, the IRS answered three basic questions about the consequences of an individual's failure to cash a distribution check from a qualified retirement plan. Uncashed checks arise in a number of contexts and questions on the taxation of uncashed checks should be carefully considered.

In the hypothetical posed by the IRS, Individual A received a fully taxable distribution check from a qualified retirement plan in 2019. Individual A took no action with respect to the distribution check (and did not make a rollover contribution with respect to any portion of the distribution check). The IRS confirmed the following consequences:

- Gross income inclusion: As expected, the IRS confirmed that the amount of the distribution is includible in Individual A's gross income in 2019, explaining that Individual A's failure to cash the distribution check does not permit her to exclude the amount from gross income. The IRS noted that, for purposes of the revenue ruling, it is irrelevant what actually happens to the check (*e.g.*, whether Individual A keeps the check, sends it back, destroys it, or cashes it in a subsequent year). This conclusion makes it clear that recipients are not allowed to manipulate the year of income inclusion by simply holding distribution checks until a later tax year.

- Withholding and reporting obligations: The IRS confirmed that the plan administrator's obligation to withhold tax under IRC § 3405(d)(2) from Individual A's distribution is not altered by Individual A's failure to cash the distribution check. Likewise, the plan administrator is required to report the distribution to Individual A on a Form 1099-R for 2019. Because the plan administrator is usually unaware of precisely when a distribution check is cashed, altering the plan administrator's withholding and reporting obligations to align with the time the check is cashed, rather than when the check is issued, would prove very burdensome for plan administrators.

Perhaps the most interesting part of this ruling is the final sentence, in which the IRS alludes to continuing to analyze issues arising in other situations involving uncashed checks – "including situations involving missing individuals with benefits under those plans." So stay tuned for (potential) further guidance from the IRS regarding missing participants.

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