

IRS Addresses Withholding and Reporting Obligations for Uncashed Retirement Plan Distribution Checks

EBIA Weekly (July 24, 2025)

Rev. Rul. 2025-15 (July 16, 2025)

Available at <https://www.irs.gov/pub/irs-drop/rr-25-15.pdf>

The IRS has issued a revenue ruling that addresses federal tax withholding and reporting when a distribution check from a tax-qualified retirement plan (such as a 401(k) plan) is not cashed. In the scenario described by the IRS, the value of the participant's accrued benefit was \$800, and the participant had not made a withholding election and had no investment in the contract (i.e., no portion was nontaxable). (The IRS noted that the plan did not include designated Roth accounts or employer securities.) The employer, which was also the plan administrator, made a distribution by withholding the applicable amount of federal income tax, remitting that amount to the IRS, and mailing the participant a check for the remainder (i.e., the accrued benefit less the withheld amount). The check was not cashed within six months, so the employer canceled it and mailed a second check in the amount of the accrued benefit (at the time of the second check) less applicable withholding. The revenue ruling addressed the possibility of an adjustment or refund relating to the amount withheld and remitted with respect to the first check, withholding obligations relating to the second check, and reporting obligations for each check.

While adjustments are available for certain tax overpayments, the IRS explained that here, the employer had withheld and paid the appropriate amount relating to the initial distribution. Similarly, refunds may be available if the amount remitted to the IRS exceeded the amount withheld, but that was not the case here. Accordingly, no adjustment or refund was available. Regarding the second check, the IRS explained that if, at the time the second check was issued, the participant's accrued benefit was less than or equal to the amount of the first check, no withholding would be required for the second check. If, however, the accrued benefit at that time was greater, the excess would be a separate distribution subject to withholding.

Reporting on Form 1099-R is generally required for retirement plan distributions unless the aggregate distributions to the individual for the year total less than \$10. Accordingly, Form 1099-R reflecting the total amount of the distribution, the taxable amount, and the tax withheld must be filed with respect to the initial distribution. No Form 1099-R would be required for the second check if the participant's accrued benefit at that time was less than or equal to the amount of the first check. If the accrued benefit at that time was greater, Form 1099-R must be used to report the excess over the amounts reported on the Form 1099-R for the first check.

EBIA Comment: The IRS's conclusions are consistent with prior guidance on the plan administrator's withholding and reporting obligations when distribution checks are uncashed, with additional clarity provided regarding issuance of a second check. For more information, see EBIA's 401(k) Plans manual at Sections XIV.J ("General Income Tax and Withholding Rules on Plan Distributions") and XIV.R ("Reporting Distributions on Form 1099-R").

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