

CITY OF GRAND RAPIDS
INCOME TAX DEPARTMENT
POLICY STATEMENT

Taxability of a
Traditional IRA Rollover to a Roth IRA
Under the Grand Rapids Income Tax Ordinance

Distributions from a traditional IRA rolled over to a Roth IRA are taxable income under the Grand Rapids Income Tax Ordinance unless the distribution qualifies as income not subject to under:

1. Section 32(b) of the Ordinance, MCL 141.632(b), as a pension and retirement benefits; or
2. Public Law 104-95 (4USC § 114) as retirement income of a nonresident.

Section 32(b) of the Ordinance states that pension and retirement benefits are not subject to tax. The Michigan Department of Treasury has defined the term “pension and retirement benefits” to include IRA distributions:

1. Received after age 59½;
2. Received in a series of equal periodic payments for life as described by Section 72(t)(2)(A)(iv) of the Internal Revenue Code;
3. Benefits received due to a disability; and
4. Benefits received by a surviving spouse if the decedent qualified to receive the benefit under number 1, 2 or 3 above at the time of death.

The City of Grand Rapids follows the Michigan Department of Treasury definition of the term “pension and retirement benefits.”

The Grand Rapids City Attorney issued an opinion that Public Law 104-95 (4USC § 114) applies the Grand Rapids income tax at the City Boundary. Public Law 104-95 states that “[n]o state may impose an income tax on any retirement income of an individual who is not a resident of such state.” An IRA distribution qualifies as retirement income under Public Law 104-95. Therefore, an IRA distribution to a nonresident of Grand Rapids is not subject to tax under the Ordinance.

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PENSION & RETIREMENT BENEFITS

City of Grand Rapids – Income Tax Department

Taxability of Pension and Retirement benefits under the Grand Rapids Income Tax Ordinance.

Under the Grand Rapids Income Tax Ordinance qualifying distributions of pension and retirement benefits are not taxable. Retirement plans include private and public employer plans, and individual plans such as IRA's. To be considered a qualified distribution not taxable under the Ordinance, several requirements must be met. For employer plans, an employee generally must have retired under the provisions of the plan, the pension benefits must be paid from a retirement trust fund, and the payment must be made to either the employee or a surviving spouse. (Payments made to a surviving spouse are only deductible if the employee qualified to exclude the income at the time of death.)

If you received a pension or retirement benefit payment, you also received a Form 1099R. There is a box on Form 1099R, box 7, titled "Distribution code(s)." Look in the "Distribution code(s)" box for the code that describes the condition under which the pension or retirement benefit was paid.

This chart describes the distribution codes and their taxability under the Grand Rapids Income Tax Ordinance.

Form 1099R Distribution Codes	Does the distribution code qualify the income as non taxable under the Grand Rapids Income Tax Ordinance, or is the income taxable?
1 - Early distribution, no known exception.	Taxable.
2 - Early distribution, exception applies.	Taxable, unless part of a series of mainly equal periodic payments made for the life of the employee or the joint lives of the employee and their beneficiary. Distributions from a 457 plan (a kind of deferred compensation plan) are taxable.
3 - Disability.	Not Taxable.
4 - Death.	Not Taxable, for surviving spouse only and only if the decedent qualified for to receive a normal distribution under Distribution Code 7 at the time of death. Taxable, for all other beneficiaries. Taxable , if paid as a death benefit payment made by an employer but not made as part of a pension, profit sharing or retirement plan.
5 - Prohibited transaction	Taxable.
6 - Section 1035 exchange. the exchange of life insurance, endowment insurance and annuity contracts	Taxable.
7 - Normal distribution. <ul style="list-style-type: none"> • normal distribution from a plan, • distribution from a traditional IRA, if the participant is at least 59½, • Roth conversion if the participant is at least age 59½, • distribution from a life insurance, annuity, or endowment contract 	Not Taxable.
8 - Excess contribution plus earnings/excess deferrals (and/or earnings) taxable in 2005.	Taxable.
9 - Cost of current life insurance protection	Taxable.
A - Eligible for 10-year option	Not taxable
B - Roth account distribution	Not taxable
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Form 1099R Distribution Codes	Does the condition qualify the income as non taxable under the Grand Rapids Income Tax Ordinance?
D - Excess contributions taxable in 2004	Taxable
E - Excess annual additions	Taxable
F - Charitable gift annuity	Not taxable
G - Direct rollover to a qualified plan or an IRA	Not taxable
J - Distribution from Roth IRA	Not taxable
L - Loans treated as distributions	Taxable
N - Recharacterized IRA contribution, 2005 in 2006	Not taxable
P - Excess contributions in 2005	Taxable
Q - Qualified distribution from Roth IRA	Not taxable
R - Recharacterized IRA contribution, 2006 in 2006	Not taxable
S - Early distributions from SIMPLE IRA	Taxable
T - Roth IRA distribution, exception applies	Not taxable
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