**Internal Revenue Service**

Department of the Treasury

200131035

Washington, DC 20224

Significant Index No. 72.20-04

Person to Contact:

Telephone Number:

Refer Reply to:

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Date:

MAY 11 2001

In re: Request for ruling on behalf of

This letter is in response to your request, dated September 16, 2000, in which you asked for a ruling as to whether certain proposed distributions from three individual retirement accounts (IRAs) owned by you are part of a series of substantially equal periodic payments and are therefore not subject to the 10 percent additional tax imposed under section 72(t) of the Internal Revenue Code (Code). The ruling request was amended by you in telephone calls with of our office on January 24, 2001, and on March 21, 2001, to modify the methodology used to calculate distributions for 2001 and subsequent years.

According to the facts as stated, you plan to retire and want to start receiving distributions from three IRAs owned by you (IRAs 1, 2, and 3), beginning in 2001. You will attain age 52 in 2001. You want to avoid the additional 10 percent tax, imposed under section 72(t)(1) on early distributions, by using the exception provided in section 72(t)(2)(A)(iv) of the Code for substantially equal periodic payments. An annual distribution amount for 2001 will be calculated by amortizing the aggregated account balances of IRA 1, IRA 2, and IRA 3 as of December 31, 2000, over the number of years equal to the joint and last survivor life expectancy for you and your wife, obtained from Table VI of section 1.72-9 of the Income Tax Regulations (as set forth in Table II of IRS Publication 590), using an interest rate of 6.36 percent. The same annual distribution amount will be distributed in subsequent years. All distributions will be taken from one or more of IRAs 1, 2, or 3.

Ruling Requested

Based on these facts, you have requested the following ruling.

The proposed method of determining periodic payments satisfies one of the methods described in Notice 89-25 and results in substantially equal periodic payments within the meaning of section 72(t)(2)(A)(iv) of the Code, and such payments will not be subject to the additional tax of section 72(t)(1) unless the requirements of section 72(t)(4) are not met.

234

Applicable Law

Section 408(d) of the Internal Revenue Code provides that amounts paid or distributed out of an individual retirement plan must be included in gross income by the payee or distributee in the manner provided under section 72 of the Code.

Section 72 of the Internal Revenue Code provides rules for determining how amounts received as annuities, endowments, or life insurance contracts and distributions from qualified plans are to be taxed.

Section 72(t) of the Internal Revenue Code was added to the Code by the Tax Reform Act of 1986 (TRA '86), effective generally for taxable years beginning after December 31, 1986. Section 72(t)(1) provides for the imposition of an additional 10 percent tax on early distributions from qualified plans, including IRAs. The additional tax is imposed on that portion of the distribution that is includible in gross income.

Section 72(t)(2)(A)(iv) of the Code provides that section 72(t)(1) shall not apply to distributions which are part of a series of substantially equal periodic payments (not less frequently than annually) made for the life (or life expectancy) of the employee or the joint lives (or joint life expectancies) of such employee and his beneficiary.

Section 72(t)(4) of the Code imposes the additional limitation on distributions excepted from the 10 percent tax by section 72(t)(2)(A)(iv), that if the series of payments is subsequently modified (other than by reason of death or disability) before the later of (1) the close of the 5-year period beginning with the date of the first payment, and (2) the employee's attainment of age 59 1/2, then the taxpayer's tax for the first taxable year in which such modification occurs shall be increased by an amount determined under regulations, equal to the tax that would have been imposed except for the section 72(t)(2)(A)(iv) exception, plus interest for the deferral period.

Section 1.72-9 of the Income Tax Regulations (Regulations) provides tables that are to be used in connection with computations under section 72 and the regulations thereunder. Included in this section are tables giving life expectancies for one life (Table V) and joint life and last survivor expectancies for two lives (Table VI).

Notice 89-25, 1989-1 C.B. 662, provides guidance, in the form of questions and answers, on certain provisions of the Tax Reform Act of 1986 (TRA '86). In the absence of regulations on section 72(t) of the Code, this notice provides guidance with respect to the exception to the tax on premature distributions provided under section 72(t)(2)(A)(iv). Q&A-12 of Notice 89-25 provides three methods for determining substantially equal periodic payments for purposes of section 72(t)(2)(A)(iv) of the Code. Two of these methods involve the use of an interest rate assumption

that must be an interest rate that does not exceed a reasonable interest rate on the date payments commence.

Proposed Methodology

The proposed method for determining periodic payments described in the ruling request, as modified, is to calculate an end-of-year annual distribution amount for 2001 by amortizing the total of the aggregated account balances of IRA 1, IRA 2, and IRA 3 as of December 31, 2000, over a term certain equal to the joint and last survivor life expectancy for you and your wife, obtained from Table VI of section 1.72-9 of the Income Tax Regulations (as set forth in part in Table II of Appendix E in IRS Publication 590) using the ages attained by you and your wife in 2001, using an interest rate equal to 6.36 percent (110 percent of the annual long-term applicable federal rate used for purposes of Code section 1274(d), in effect for January 2001). The same annual distribution amount will be distributed in subsequent years. All distributions will be taken from one or more of IRAs 1, 2, or 3, and only from these IRAs.

Conclusion

The life expectancy and interest rate used are such that they do not result in the circumvention of the requirements of sections 72(t)(2)(A)(iv) and 72(t)(4) of the Code (through the use of an unreasonable life expectancy or an unreasonably high interest rate).

Accordingly, we conclude that the proposed method (as modified) of determining periodic payments satisfies one of the methods described in Notice 89-25 and results in substantially equal periodic payments within the meaning of section 72(t)(2)(A)(iv) of the Code, and such payments will not be subject to the additional tax of section 72(t) unless the requirements of section 72(t)(4) are not met.

This ruling is directed only to the individual that requested it. Section 6110(k)(3) of the Code provides that it may not be used or cited by others as precedent.

Sincerely yours,

Martin L. Pippins

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236