In-plan roth rollover account	
IRR Contributions ($10,000 of which was nontaxable)	$100,000
Earnings on the IRR account	$ 6,000
Total IRR account balance	$106,000

roth deferral account	
IRR Contributions ($10,000 of which was nontaxable)	$ 80,000
Earnings on the IRR account	$ 24,000
Total IRR account balance	$104,000

Total designated Roth account balance at the time of distribution	$210,000
Step 1: Determine the maximum amount available for an in-service distribution. (Pete hasn't reached a distributable event in his Roth deferral account.)	$106,000
Step 2: Determine the total earnings in the entire designated Roth account. ($6,000 in the IRR plus $24,000 in the Roth deferral account.)	$ 24,000
Step 3: Determine the total balance in the designated Roth account. ($106,000 in the IRR plus $104,000 in the Roth deferral account.)	$104,000

Step 4: Apply the pro-rata basis recovery calculation of §72 on the distribution amount of $106,000 to determine the taxable amount of the requested distribution as follows:
$106,000 (distribution) X $30,000 (total earnings)/$210,000 (total account balance) = $15,143 taxable amount of the $106,000 distribution

Step 5: Determine the return of basis allocable to the IRR account.
$106,000 (distribution) - $15,143 (taxable amount) = $90,857 return of basis from the IRR

Step 6: Pete determines the amount of the distribution subject to the 10 percent premature tax:

$ 90,000	taxable amount of his original IRR (due to income acceleration)
+15,143	taxable amount of the distribution based on the pro-rata recovery rules
$105,143	amount subject to the 10 percent premature tax
$ 10,514	amount of the premature tax reported on his 2010 Form 1040 (Pete may need to file Form 5329 with his tax return.)

At the time of the IRR, the $90,000 was exempt from the 10 percent premature tax. However, since he took a distribution from his IRR account before five years had lapsed, he's subject to the 10 percent recapture tax on his original taxable IRR. He also owes the 10 percent tax on the taxable amount of the distribution of $15,143.

Step 7: Pete determines the amount remaining of the original IRR, if any, that can be spread into his 2011 and 2012 gross income:

$90,000	original taxable IRR
($90,000)	accelerated into his 2010 gross income due to the distribution
$ 0	remaining for the two-year spread

Step 8: The $106,000 distribution is reported on a 2010 Form 1099-R by entering $106,000 in Box 1; $15,143 in Box 2a; $90,857 in Box 5; Code B in Box 7.

As set forth in the facts of this example, he also receives a 2010 Form 1099-R reporting the original IRR showing $100,000 Box 1; $90,000 Box 2a; $10,000 Box 5; Code G Box 7.

Pete must file a 2010 Form 8606 reporting the original IRR, the distribution, income acceleration, and the 10 percent recapture amount.

Step 9: After the $106,000 distribution, Pete still has $9,143 allocated to his IRR account because the $90,857 return of basis is allocated solely to the IRR account. For purposes of separate recordkeeping on Pete's Roth deferral account and his IRR account, his separate account balances now look like this immediately after the $106,000 distribution:

In-plan Roth Rollover Account	
IRR remaining basis	$ 9,143
Earnings on the IRR account	$ 0
Total remaining IRR account balance	$ 9,143
Roth Deferral Account	
Total Roth deferrals after the distribution	$ 80,000
Earnings on the Roth deferral account	$ 14,857
Total Roth deferral account balance	$ 94,857

Total designated Roth account balance after the distribution:	$104,000