



# THRIFT SAVINGS PLAN FINANCIAL HARDSHIP IN-SERVICE WITHDRAWAL REQUEST

TSP-76

Before requesting a financial hardship in-service withdrawal, **read the information and instructions in this package carefully.** You should also read the booklet *TSP In-Service Withdrawals* and the tax notice, Important Tax Information About TSP In-Service Withdrawal Payments. Complete information about hardship withdrawals and the tax consequences are detailed in the booklet and tax notice which are available on the TSP Web site ([www.tsp.gov](http://www.tsp.gov)), from your agency personnel office, or from the TSP Service Office: **TSP Service Office, National Finance Center, P.O. Box 61500, New Orleans, LA 70161-1500.**

If you have questions, call the ThriftLine at 1-TSP-YOU-FRST (1-877-968-3778) or the TDD at 1-TSP-THRIFT5 (1-877-847-4385). Outside the U.S. and Canada, please call 1-504-255-8777.

The impact a financial hardship in-service withdrawal has on your retirement savings is significant. For example, you permanently deplete your retirement savings by the amount of your withdrawal plus any future earnings you could have received on that amount. The withdrawal is subject to Federal income tax and, if you are younger than age 59½ when you take the withdrawal, it may be subject to an early withdrawal penalty tax. In addition, you cannot contribute to the TSP for 6 months following your withdrawal. If you are a FERS employee, this means that you will also not receive any matching contributions during that time. Thus, if you are in pay status and are eligible for a TSP loan, you may want to consider taking a loan rather than a withdrawal.

Make a copy of the completed form for your records and mail your request to the TSP Service Office at the address above.

## DETERMINING FINANCIAL HARDSHIP

You have a financial hardship if you have an immediate and significant financial need that necessitates a distribution from your TSP account. To receive a hardship withdrawal, your need must arise out of **one or more** of the following situations:

- 1) On a recurring basis, **your monthly cash flow is negative.** That means that your net income is less than your ordinary monthly household expenses. (This situation does not apply if you are in Chapter 13 bankruptcy.) OR
- 2) You have incurred (or will incur within the next 6 months) one of the following extraordinary expenses, which you have not paid and for which you will not be reimbursed, for example, by insurance.
  - **Medical expenses** payable by you, your spouse, or your dependents which would be deductible by you for Federal income tax purposes without regard to any income limitation on deductibility. These expenses include, but are not limited to, expenses for physician visits, prescription drugs, hospitalization, and eye-glasses. Medical expenses also include the cost of structural changes to your home required for medical care, or the installation of special equipment necessary to accommodate an incapacitated person (for example, a wheelchair ramp or a chair lift). Medical expenses do **not** include health insurance premiums.
  - The cost of making repairs to or for replacement of property due to a **personal casualty loss** that would be deductible by you for Federal income tax purposes, but without regard to any income limitation on deductibility or the fair market value of the property or the number of loss-producing events. Personal casualty loss includes, but is not limited to, damage, destruction, or loss of property resulting from a sudden, unexpected or unusual event such as flood, earthquake, hurricane, fire, tornado, or theft.
  - **Legal expenses for attorney fees and court costs associated with separation or divorce.** Court-ordered payments to a spouse or former spouse (e.g., alimony or property settlement, child support payments, costs of obtaining prepaid legal services, and other coverage for legal services) are not allowed.

## QUALIFYING FOR A FINANCIAL HARDSHIP IN-SERVICE WITHDRAWAL

To qualify for a financial hardship withdrawal from your TSP account:

- You must have a financial hardship as described above, and certify to that effect.
- You must be a current Federal employee. (This includes employees who are in nonpay status.)
- Your TSP account must contain at least \$1,000 of your own contributions and earnings on those contributions. You cannot request less than \$1,000, nor can you request more than your hardship.) If your employee contributions and earnings are less than your requested amount but are at least \$1,000, you will be paid the lesser amount.
- You cannot have received a financial hardship in-service withdrawal within 6 months of the time your current request is processed.
- You cannot have a pending application for an age-based in-service withdrawal or a TSP loan.

## TERMINATING YOUR CONTRIBUTIONS

When your financial hardship withdrawal is made, the TSP will instruct your agency to terminate your employee contributions (if any) for 6 months. If you are a FERS employee, this means that any Agency Matching Contributions will also stop. However, as long as you are in pay status, you will continue to receive your Agency Automatic (1%) Contributions. At the end of this 6-month period, you can ask your agency to resume your contributions — they will **not** resume automatically.

## TAX WITHHOLDING ON YOUR PAYMENT

The Internal Revenue Service (IRS) considers financial hardship withdrawals to be “non-periodic payments” for Federal income tax purposes. The TSP must withhold 10% of your withdrawal unless you submit IRS Form W-4P, Withholding Certificate for Pension or Annuity Payments, with this application. It is available from the TSP Web site, the TSP Service Office, and the IRS.

# Worksheet to Determine Negative Cash Flow

You can complete this worksheet to help you determine if you have a negative cash flow and the amount of the negative cash flow. Use the instructions at the bottom of this page to help you complete the items. If you are married, you must include financial information for yourself and your spouse. **Do not submit this worksheet with your request.**

A.	Allowance for ordinary monthly household expenses: Determine your gross monthly income as explained in the instructions, then enter the amount on the line provided. Find the factor for your monthly income and family size. Enter the factor and multiply it by the amount of your gross monthly income. Round to the nearest whole dollar.	Total Monthly Income	Family Size		
			1 or 2	3 or 4	5 or more
		Less than \$1,250	.85	.90	.90
		\$1,250 – 1,666	.70	.80	.80
		\$1,667 – 2,499	.60	.65	.70
		\$2,500 – 3,332	.50	.55	.60
		\$3,333 – 4,166	.40	.50	.50
		\$4,167 – 5,832	.40	.45	.50
		\$5,833 or more	.30	.35	.40

  

	Gross Monthly Income	x	Factor	=	_____	<b>A</b>
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**B.** Enter your monthly scheduled household expenses: (See instructions.) \_\_\_\_\_ **B**

**C.** Enter your total monthly household expenses by adding Lines A and B. \_\_\_\_\_ **C**

**D.** Enter the total net monthly income: (See instructions.) \_\_\_\_\_ **D**

**E.** Subtract Line D from Line C to determine if you have a negative cash flow.  
If Line C is less than Line D, you do not have a negative cash flow. (See instructions.) \_\_\_\_\_ **E**

**F.** Multiply Line E by 6 months to determine your hardship amount due to negative cash flow: \_\_\_\_\_ x 6 = \_\_\_\_\_ **F**

## Information and Instructions for the Worksheet:

- A.** The allowance for ordinary household expenses takes into account ordinary monthly recurring expenses (e.g., food, clothing, household operations, entertainment, education, health insurance premiums), including expenses frequently charged to credit cards.
- If you are in **pay status**, determine the **gross** monthly income by adding your gross monthly pay and any other monthly income (such as child support) for you (and, if applicable, your spouse). Your gross pay is your pay before taxes and any other deductions are taken out.
- If you are in **nonpay status**, determine your **gross** monthly income by using your annual salary shown on your earnings and leave statement. Divide this amount by 12 and then add any other monthly income for you (and, if applicable, your spouse).
- If any income for you or your spouse is not monthly, you will need to calculate the monthly amount. For example, if you are paid 26 times a year (biweekly), multiply the biweekly amount by 26 and divide by 12.
- B.** Your monthly scheduled household expenses include your rent or mortgage, real estate tax, your homeowner's or renter's insurance, and monthly household utilities (if these items are paid separately from your mortgage or rent), household dependent care (including household help due to illness or injury) and any expenses you pay for alimony, maintenance, or child support. You should also include any installment loan payments (other than those related to a TSP loan). Do not include credit cards or charge accounts or any interest charges on them. These items are taken into consideration in your allowance for ordinary monthly household expenses.
- C.** Add Lines A and B to determine your total monthly household expenses.
- D.** To calculate the **net** monthly income for you, and, if applicable, your spouse, add the monthly amounts for Federal, state, and local income tax withholding, OASDI (Social Security)/Medicare, and monthly Federal retirement deduction (i.e., FERS or CSRS). If your spouse has any other type of monthly retirement plan deductions or makes monthly TSP contributions, also add in those items. Subtract this total from the gross monthly income you provided in A and enter the result on Line D.
- E.** If the number shown on Line C is less than the number shown on Line D, you do not have a negative cash flow. You are not eligible for a hardship withdrawal because of negative cash flow. You do not need to complete Line F. Otherwise, subtract the number on Line D from Line C. Enter this number on Line E.
- F.** Multiply the number on Line E by 6 to determine the hardship amount that you may be eligible to request due to negative cash flow.



# THRIFT SAVINGS PLAN FINANCIAL HARDSHIP IN-SERVICE WITHDRAWAL REQUEST

**TSP-76**

**I.  
INFORMATION  
ABOUT YOU**

1. Name \_\_\_\_\_  
Last First Middle
2. \_\_\_\_\_ - \_\_\_\_\_ - \_\_\_\_\_      3. (\_\_\_\_\_) \_\_\_\_\_ - \_\_\_\_\_  
Social Security Number Daytime Phone (Area Code and Number)
4. Address \_\_\_\_\_  
Street address or box number
5. City \_\_\_\_\_      6. \_\_\_\_\_      7. \_\_\_\_\_  
State/Country Zip Code

**II.  
WITHDRAWAL  
REQUEST**

The amount you request must be \$1,000 or more and cannot be more than the dollar amount that will relieve the hardship indicated in Item 9.

8. Amount of withdrawal you are requesting      \$ \_\_\_\_\_ .00
9. Reason(s) you are requesting a financial hardship withdrawal. (See "Determining Financial Hardship" in the instructions, then check all that apply.)
- Negative monthly cash flow       Medical expenses
- Legal expenses for separation or divorce       Personal casualty loss

**III.  
SPOUSE  
INFORMATION**

10. Are you married (even if separated from your spouse)?  
 Yes (Complete this section.)       No (Skip to Section VI.)
11. \_\_\_\_\_      12. \_\_\_\_\_ - \_\_\_\_\_ - \_\_\_\_\_  
Spouse's Name Last First Middle Spouse's Social Security Number

**IV.  
FOR MARRIED  
CSRS  
PARTICIPANTS  
ONLY**

13.  Check here if your spouse's address is the same as your address above. (If not, complete Items 14-17.)
14. Spouse's Address \_\_\_\_\_  
Street address or box number
15. City \_\_\_\_\_      16. \_\_\_\_\_      17. \_\_\_\_\_  
State/Country Zip Code
18.  Check here if you do not know your spouse's address.

**V.  
FOR MARRIED  
FERS  
PARTICIPANTS  
ONLY**

Your spouse must consent to your withdrawal. His or her signature must be notarized.  
**Spouse's Consent:** By signing below, I consent to this financial hardship in-service withdrawal from my spouse's Thrift Savings Plan account.

19. \_\_\_\_\_      20. \_\_\_\_\_  
Spouse's Signature Date Signed

**Notarization of Spouse's Signature:**

21. On this \_\_\_\_\_ day of \_\_\_\_\_, \_\_\_\_\_, the person who signed Item 19 above, who is known to or was identified by me, personally appeared and acknowledged to me that he or she signed this form. In witness thereof, I have signed below on this date.

[seal]

My commission expires: \_\_\_\_\_  
Notary Public's Signature

\_\_\_\_\_  
Jurisdiction

22. **Participant:**  Check here if you cannot obtain your spouse's signature.

**VI.  
REQUEST  
FOR DIRECT  
DEPOSIT**

23. \_\_\_\_\_      24. \_\_\_\_\_  
Name of Financial Institution Routing Number (Must be 9 digits.)
25. Type of Account     Checking     Savings      26. \_\_\_\_\_  
Account Number

**VII.  
YOUR  
CERTIFICATION**

I agree to the conditions for a financial hardship withdrawal stated on this form. I certify that I have a financial hardship, as described in the instructions to this form, and that the dollar amount of this request does not exceed the actual amount of my financial hardship. I further certify that the information I have provided in this withdrawal request is true and complete to the best of my knowledge. **Warning:** Any intentional false statement in this application or willful misrepresentation concerning it is a violation of law that is punishable by a fine of as much as \$10,000 or imprisonment for as long as 5 years, or both (18 U.S.C. 1001).

27. \_\_\_\_\_      28. \_\_\_\_\_  
Participant's Signature Date Signed

## INFORMATION AND INSTRUCTIONS

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### I. INFORMATION ABOUT YOU

**1 – 7:** Complete this section. **Unless you choose direct deposit, a check for your financial hardship withdrawal will be mailed to the address in your TSP account record.** If that address is not correct, have your agency personnel or payroll

office correct your address **before** you request a withdrawal. The TSP **will not** use the address that you provide on your financial hardship withdrawal request to change your TSP account address or to mail your check.

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### II. WITHDRAWAL REQUEST

**8:** You may not request less than \$1,000. The maximum withdrawal amount depends on the amount of your own contributions and earnings. If your employee contributions and earnings are less than your requested amount but are at least \$1,000, you will be paid the lesser amount.

The amount you request here cannot exceed the total of the amount associated with the hardship reason(s) you indicate in **Item 9**.

**9:** Indicate the reason or reasons for your financial hardship. After completing the form, you will have to, by signing this form, certify to the validity of the

information you are providing. If you are requesting a hardship withdrawal due to negative monthly cash flow, we recommend that you use the Worksheet to Determine Negative Cash Flow provided in this package. This will help you determine whether you have a negative cash flow and the amount you may be eligible to request. If you are in Chapter 13 bankruptcy, you cannot request a hardship due to negative cash flow. This is because the court has shielded you against a negative cash flow position.

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### III. SPOUSE INFORMATION

Spouses' rights apply to all in-service withdrawal requests. If you are a married FERS employee, this means that your spouse must consent to your financial hardship in-service withdrawal. If you are a married CSRS employee, the TSP must notify your spouse before your financial hardship withdrawal can be made.

**10 – 12: (FERS and CSRS participants)** — You must complete **Item 10**, and, if married, provide your spouse's name and Social Security number in **Items 11 and 12**. Otherwise, the TSP may not be able to process your request.

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### IV. FOR MARRIED CSRS PARTICIPANTS ONLY

**13 – 18:** If your spouse's address is the same as your address entered in **Items 4 – 7** of Section I, check the box in **Item 13** and proceed to Section VI. Otherwise, provide your spouse's address in **Items 14 – 17**. If you do not know the whereabouts of your

spouse, check **Item 18** and submit Form TSP-16, Exception to Spousal Requirements, with the documentation required for that form. You should submit Form TSP-16 with your withdrawal request.

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### V. FOR MARRIED FERS PARTICIPANTS ONLY

**19 – 22:** If you are a married FERS participant, your spouse must give written consent to the withdrawal by signing and dating **Items 19 and 20**. In addition, your spouse's signature must be notarized in **Item 21**. The notary must provide all of the requested information and place his or her seal or stamp by this item.

If you cannot obtain your spouse's signature because his or her whereabouts are unknown or you believe that exceptional circumstances apply, check **Item 22** and submit Form TSP-16, Exception to Spousal Requirements, along with the documentation required for that form. You should submit Form TSP-16 with your withdrawal request.

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### VI. REQUEST FOR DIRECT DEPOSIT

**23 – 26:** Your financial hardship withdrawal will be mailed to you at the address in your TSP record unless you indicate that you would like the withdrawal to be sent directly to your checking or savings account. Direct deposit by electronic funds transfer (EFT) is a safer method than sending a check. Also, lost, stolen, damaged, or misdirected

checks could take 6 weeks or longer to replace. If you want to have your withdrawal sent by EFT, provide the requested information in **Items 23 – 26**. If you do not know the routing number of your financial institution (**Item 24**), contact your financial institution for this information. The TSP will make your payment directly to your financial institution.

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### VII. YOUR CERTIFICATION

**27 – 28:** Read the certification carefully. By signing this section you are agreeing to the conditions stated in this package and certifying that you have a genuine financial hardship of no less than the requested amount, as explained in the introductory information, "Determining Financial Hardship."

Before signing this request, keep in mind that your employee contributions, if any (and any matching contributions, if you are a FERS employee), will be **terminated for 6 months** after your withdrawal has been paid.

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**PRIVACY ACT NOTICE.** We are authorized to request this information under 5 U.S.C. chapter 84. Executive Order 9397 authorizes us to ask for your Social Security number, which will be used to identify your account. We will use the information you provide on this form to process your request for a financial hardship withdrawal. This information may be shared with other Federal agencies for statistical, auditing, or archiving purposes. In addition, we may share the information with law enforcement agencies investigating a violation of civil or criminal law, or agen-

cies implementing a statute, rule, or order. It may be shared with congressional offices, private sector audit firms, spouses, former spouses, and beneficiaries, and their attorneys. We may also disclose relevant portions of the information to appropriate parties engaged in litigation. You are not required by law to provide this information, but if you do not provide it, we will not be able to process your request for a financial hardship withdrawal.



# Important Tax Information About TSP In-Service Withdrawal Payments

Except as noted below for uniformed services accounts, amounts paid to you from your Thrift Savings Plan (TSP) account are taxable income to you for Federal income tax purposes in the year in which payment is made. This notice summarizes the tax rules that apply to TSP in-service withdrawals, i.e., age-based (age 59½ or older) and financial hardship withdrawals. To see how these tax rules apply to your TSP payment, **read this notice carefully.**

We are required by law to provide you with this notice; however, because the tax rules are complex, you may wish to consult a tax advisor before you make any decision that might be affected by them.

## ***Special Note for Uniformed Services Accounts***

TSP accounts for members of the uniformed services may include contributions from combat zone pay. Combat zone pay is exempt from Federal income taxes; therefore, TSP contributions from combat zone pay are also exempt from Federal income taxes when they are subsequently distributed from a uniformed services TSP account. (This is not true for the earnings attributable to contributions from combat zone pay; all earnings are taxable when they are distributed from the TSP account.)

The TSP will make all payments from a uniformed services account on a *pro rata* basis from both taxable and tax-exempt balances. A payment made from a uniformed services TSP account will therefore include taxable and tax-exempt balances if the account includes contributions from combat zone pay. Internal Revenue Service (IRS) Form 1099-R, Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc., which the TSP provides you, will separately state the total amount of your distribution and the amount of your taxable distribution. (*See Section 3 of this notice.*)

Unless otherwise noted, the following discussion applies only to the taxable portion of an in-service withdrawal.

## **1. Tax Withholding**

### ***Age-Based Withdrawals***

Age-based in-service withdrawals are the only TSP payments made to participants before they separate from Federal civilian service or the uniformed services which are considered **eligible rollover distributions**, and

the following Federal income tax withholding rules apply. (**The TSP does not withhold amounts for state or local income tax.**)

- The mandatory tax withholding on eligible rollover distributions of \$200 or more paid in a single year is 20%. The 20% is tax withholding, not actual tax due; therefore, when you file your annual Federal income tax return, you may be entitled to a refund of a portion of this amount, or you may be required to pay an additional amount.
- You can avoid withholding on all or any portion of your eligible rollover distribution by asking the TSP to transfer that amount to a “traditional IRA” or an eligible employer plan.<sup>1</sup> However, you **cannot** avoid the mandatory 20% withholding on any amount that you elect to receive directly (including payments made by electronic funds transfer (EFT) to your personal checking or savings account), even if you then roll it over to a traditional IRA or an eligible employer plan. (*See Section 2 of this notice.*)
- You may elect to have an amount withheld in addition to the 20% withholding by completing Line 3 of IRS Form W-4P, Withholding Certificate for Pension or Annuity Payments, and submitting it to the TSP Service Office along with your in-service withdrawal request.<sup>2</sup> Line 1 and Line 2 are not valid elections for this type of payment.

### ***Financial Hardship Withdrawals***

A financial hardship in-service withdrawal is a **non-periodic payment** and cannot be transferred or rolled over to a traditional IRA or an eligible employer plan. The TSP will withhold 10% for Federal income tax from financial hardship in-service withdrawal payments unless the TSP Service Office receives IRS Form W-4P, Withholding Certificate for Pension or Annuity Payments, from you.<sup>2</sup> If you submit Form W-4P, you may elect:

<sup>1</sup> A “traditional IRA” is an individual retirement account described at § 408(a) of the Internal Revenue Code (I.R.C.) or an individual retirement annuity described at I.R.C. § 408(b). (It does not include a Roth IRA, a SIMPLE IRA, or a Coverdell Education Savings Account (formerly known as an education IRA).) An “eligible employer plan” includes a plan qualified under I.R.C. § 401(a), including a § 401(k) plan, profit-sharing plan, defined benefit plan, stock bonus plan, and money purchase plan; an I.R.C. § 403(a) annuity plan; an I.R.C. § 403(b) tax-sheltered annuity; and an eligible I.R.C. § 457(b) plan maintained by a governmental employer.

<sup>2</sup> If you have both a civilian TSP account and a uniformed services TSP account, you must submit a separate IRS Form W-4P for each account.

- to have no Federal income tax withheld, by completing Line 1 of Form W-4P; or
- to have an amount withheld in addition to the 10%, by completing Line 3 of Form W-4P.

**Note:** Line 2 of Form W-4P is not a valid election for this type of distribution.

## 2. Transferring or Rolling Over Your Age-Based In-Service Withdrawal

All or any part of your age-based in-service withdrawal can either be transferred or rolled over to a traditional IRA or an eligible employer plan. This permits you to postpone paying tax on that amount until you withdraw the money from the IRA or plan. However, distributions from the IRA or plan to which the transfer or rollover was made may be subject to different plan rules (such as spousal consent) and tax consequences from those that apply to distributions from the TSP. Before making the transfer, you should consult with the administrator of the IRA or plan that is to receive your distribution.

A **transfer** occurs when you instruct the TSP to send all or part of your distribution to a traditional IRA or an eligible employer plan instead of issuing it directly to you. Mandatory 20% Federal income tax withholding does not apply to an amount that the TSP transfers to a traditional IRA or an eligible employer plan; **however, it does apply to any payment made directly to you (or to your personal checking or savings account via EFT), even if you then roll it over.**

A **rollover** occurs when the TSP makes a distribution to you (which includes the amount of the payment you receive plus the amount of tax withheld) and you deposit any part of that distribution into a traditional IRA or an eligible employer plan within 60 days of the date you receive it.

In deciding whether to choose a transfer or a rollover, you should consider the following:

- You must pay Federal income tax on any part of the payment that you do not transfer or roll over.
- Because all eligible rollover distributions of \$200 or more made directly to you (or to your personal checking or savings account via EFT) are subject to mandatory 20% withholding, you must pay Federal income tax on the amount withheld for taxes — even if you roll over the amount you receive — unless you deposit personal funds equal to the amount withheld into a traditional IRA or an eligible employer plan. (If you do this, you may receive a refund of taxes withheld, but you cannot wait until you receive a refund of the withheld amount to complete a rollover.)

Therefore, if you do not want to use personal funds to make up the amount withheld, you should choose to have the TSP transfer your payment to a traditional IRA or an eligible employer plan instead of rolling it over to your IRA or plan yourself.

## *Special Note for Uniformed Services Accounts*

Tax-exempt balances (i.e., contributions from combat zone pay) may be transferred or rolled over into a traditional IRA or transferred into certain eligible employer plans, but only if the IRA or plan accepts tax-exempt balances. Although an age-based withdrawal will be distributed to you based on the proportion of taxable and tax-exempt balances in your account, if you choose to transfer a portion of the withdrawal, the taxable balance will be transferred to your IRA or plan first. Tax-exempt money will be transferred only if the taxable portion of your withdrawal does not satisfy the percentage that you elect to transfer to your IRA or plan. Any tax-exempt money in your withdrawal that cannot be transferred will be paid directly to you (or to your checking or savings account, if you so elect).

You may only transfer (not roll over) a tax-exempt balance to an eligible employer plan. The only types of eligible employer plans that can accept a transfer of tax-exempt balances from the TSP are plans qualified under I.R.C. § 401(a) and I.R.C. § 403(a) annuity plans; however, a plan is not legally required to accept such a transfer.

You cannot first transfer or roll over a tax-exempt balance into a traditional IRA and later transfer or roll over that amount into an employer plan. If you transfer or roll over a tax-exempt balance into a traditional IRA, it is your responsibility to keep track of the amount of these contributions and report that amount to the IRS on the appropriate form so that the nontaxable amount of any future distribution(s) can be determined.

Tax-exempt balances in a uniformed services TSP account may not be transferred into a civilian TSP account.

## 3. Tax Reporting

The TSP will report to the IRS all payments that are made directly to you (or to your personal checking or savings account via EFT), as well as all transfers made to traditional IRAs or eligible employer plans. The TSP will also report TSP payments and transfers to the state in which your TSP account record shows you resided (or, for members of the uniformed services, your state of legal residence as reported by your payroll office) at the time payment was made, if that state has an income tax.

In January of the year that follows your payment, the TSP will send you IRS Form 1099-R, Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc. You should include the taxable amount reported on Form 1099-R as income on your individual income tax return for the year in which payment was made. **Be sure your agency and/or service keeps your TSP account address up to date so that you receive the form and other important information about your account.**

#### 4. Early Withdrawal Penalty Tax

Under the Internal Revenue Code, an early withdrawal penalty tax of 10% is imposed on the amount of an in-service withdrawal payment that you receive directly from the TSP (including any tax withholding) **before you become age 59½**. Thus, if you request a financial hardship withdrawal and are younger than age 59½, the penalty tax will apply to you. The penalty tax is in addition to the ordinary income tax that you pay on TSP payments.

The early withdrawal penalty tax does not apply to TSP distributions used for the payment of medical expenses which would be deductible under the Internal Revenue Code. (See IRS Form 5329, Additional Taxes on Qualified Plans (Including IRAs) and Other Tax-Favored Accounts.)

#### ***Special Note for Uniformed Services Accounts***

The early withdrawal penalty tax does not apply to that portion of your withdrawal which represents contributions from combat zone pay.

#### 5. Ten-Year Tax Option

If the payment you receive from the TSP qualifies as an **eligible lump sum distribution**, you may be able to lower the income tax you pay by using the **10-year tax option**.

An **eligible lump sum distribution** is one in which your total TSP account balance (if you have two accounts, your civilian and uniformed services TSP accounts, including tax-exempt balances, if any) is distributed to you within one tax year (the calendar year, for most taxpayers), regardless of whether this occurs in one or more payments. With the **10-year tax option**, your eligible lump sum distribution is taxed as if it were paid to you over 10 tax years.

The following rules apply to the 10-year tax option:

- The 10-year tax option is available only if you were age 50 before January 1, 1986.

- You must have been an **active participant** in the TSP for at least five years before the year in which your distribution is made. You are considered an active participant during a year if either you or your agency made a contribution to your TSP account during that year.
- You must use the 10-year tax option for all eligible lump sum distributions that you receive in the same tax year. This includes a withdrawal of your entire TSP account after separation and any taxable loan distribution. It also includes an eligible lump sum distribution from any plan described in I.R.C. § 401(a) or § 403(a) which is maintained by another employer.
- You can use the 10-year tax option only once in your lifetime.
- You must use the tax rates in effect in 1986.
- If you transfer or roll over all or any part of your distribution, you cannot use the 10-year tax option.

You can elect the 10-year tax option by filing IRS Form 4972, Tax on Lump Sum Distributions, with your annual income tax return.

#### 6. Saver's Tax Credit

If you participate in the TSP during tax years 2002 through 2006, you may be eligible for a tax credit of up to \$1,000 on your Federal income tax return for each year you contribute to the plan. However, the amount of the tax credit may be offset by any taxable and nontaxable distributions, including in-service withdrawal payments, paid directly to you from the TSP. This benefit, called the Saver's Tax Credit, is available to participants with an adjusted gross income of no more than \$50,000 if married filing jointly, \$37,500 if head of household, or \$25,000 if single or married filing separately. For more information about this tax credit, consult your tax advisor or refer to IRS Publication 553, *Highlights of 2001 Tax Changes*.

#### 7. TSP Service Office Information

If you have any questions regarding this notice, please contact the TSP Service Office at 1-877-968-3778 (TDD: 1-877-847-4385). Outside the U.S. and Canada, please call 1-504-255-8777. You can also write to:

TSP Service Office  
National Finance Center  
P.O. Box 61500  
New Orleans, LA 70161-1500