**8562. Are distributions from retirement accounts and qualified plans included in net investment income?**

No. Although distributions from qualified plans often include earnings generated by traditional investment income, i.e., dividends and interests, distributions from qualified retirement plans are not included in net investment income and thus are not subject to the net investment income tax.[[1]](#footnote-1) This includes distributions from qualified plans pursuant to:

(1) IRC Section 401(a) (qualified pension, stock bonus or profit-sharing plans);

(2) IRC Section 403(a) (qualified annuity plans);

(3) IRC Section 403(b) (tax-sheltered annuities);

(4) IRC Section 408 (individual retirement accounts);

(5) IRC Section 408A (Roth IRAs); and

(6)IRC Section 457(b) (deferred compensation plans of state and local governments or tax-exempt organizations).

Deemed distributions under IRC Section 72(p) (loans from a qualified employer plan) are also excluded under this rule.[[2]](#footnote-2) Additionally, amounts distributed from a qualified plan to purchase life insurance by the plan participant are not included in net investment income.[[3]](#footnote-3)

**8562.02 If a taxpayer converts a traditional IRA to a Roth IRA, does a taxable distribution take place that would subject the converted funds to the investment income tax?**

In addition to actual retirement plan distributions (See Q8562) that are excluded from net investment income, the final regulations also make it clear that deemed distributions from retirement plans are also excluded. For example, a rollover of funds from a traditional IRA into a Roth IRA never actually received by the taxpayer is nonetheless treated as a distribution for income tax purposes. Similar to actual retirement distributions, the IRA/Roth conversion deemed distribution is excluded from net investment income; and, thus, is not subject to the net investment income tax.[[4]](#footnote-4)

1. . IRC Sec. 1411(c)(5), Treas. Reg. 1.1411-8(a). [↑](#footnote-ref-1)
2. . Treas. Reg. §1.1411-8(b)(2). [↑](#footnote-ref-2)
3. . Treas. Reg. §1.1411-8(b)(3). [↑](#footnote-ref-3)
4. . Treas. Reg. §1.1411-8(b)(2). [↑](#footnote-ref-4)