

# NON-TAXABLE PORTION OF YOUR CITY OF TALLAHASSEE PENSION PAYMENT

## **Simplified Method (“Safe Harbor Calculation”)**

This publication provides a summary of the information found in IRS Publication 575, “Pension and Annuity Income.” It shows how the City of Tallahassee determines what portion of your City of Tallahassee monthly pension is *not* taxable using the Simplified Method.

When you receive your City of Tallahassee pension, a portion of the payment may not be subject to federal income tax (may *not* be taxable). Your member contributions determine how much of your pension payment is subject to federal income tax.

There are two types of City of Tallahassee Pension Plan member contributions: contributions that *were* previously taxed, and contributions that were *not*.

## **Contributions that WERE previously taxed**

Prior to October 1984, the money you used to pay your City of Tallahassee Pension Plan contributions was included in your taxable income. Therefore, if you made City of Tallahassee Pension Plan member contributions before 1984, the money used to pay those contributions had already been subject to federal income tax.

In addition, if you made a payment to the City of Tallahassee Pension Plan to purchase past service credit or to reinstate service credit (repay a refund), in most cases the money used to make those payments had already been subject to federal income tax.

These contributions and payments are considered “previously taxed” because you’ve already paid tax on the money used to make them, and you do not have to pay tax on them again.

**Note:** If you rolled over money from an IRA or other tax-deferred retirement plan to purchase past service, those payments are not considered previously taxed, and the above does not apply.

## **Contributions that were NOT previously taxed (“tax-deferred contributions”)**

If you made contributions to City of Tallahassee Pension Plan in or after September 1984, the money used to pay those contributions has not been subject to federal income tax. This means the member contributions your employer deducted from your pay checks were not reported as taxable income.

When you receive your pension payment, that payment consists primarily of your tax-deferred contributions, your employer(s) contributions, and investment returns. Therefore, most of your pension will be reported as taxable (subject to federal income tax) when you receive your IRS form 1099-R each January.

## **Determining the tax-free portion of a pension**

The IRS developed a method of determining the tax-free portion of a retirement pension, referred to as the “Simplified Method” or “Safe Harbor.” The Simplified Method provides a dollar amount of each monthly payment that is not subject to federal income tax.

The dollar amount is determined by dividing the total amount of your previously taxed contributions (you can find this amount on your City of Tallahassee Benefit Summary) by the number of pension payments you can expect to receive.

Under the Simplified Method, you would use the IRS table shown below to determine the number of pension payments you can expect to receive.

**First, determine the number of payments you can expect to receive**

***Marital status and date your pension was effective...***

Your age when pension began	<i>Single or Married</i>		<i>Married</i>	
	<b>Before Nov 20, 1996</b>	<b>After Nov 20, 1996</b>	<b>After Nov 20, 1996 through Dec 31, 1997</b>	<b>After Dec 31, 1997</b>
55 and under	300	360	360	<i>See table below to determine the number of payments</i>
56-60	260	310	310	
61-65	240	260	260	
66-70	170	210	210	
71 or older	120	160	160	

**If effective after December 31, 1997, and married...**

and the pension is payable over the lives of more than one individual, then combine the ages of you and your spouse when your pension began. Then locate the number of anticipated payments in the table below:

<i>Combined Age of Annuitants</i>	<i>Number of Anticipated Payments</i>
110 and under	410
More than 110 but not more than 120	360
More than 120 but not more than 130	310
More than 130 but not more than 140	260
More than 140	210

**SECOND, calculate using the Simplified Method**

The Simplified Method allows you to calculate the amount of your monthly pension payment that is not subject to federal income tax. This amount would be determined as follows:

$$\frac{\text{Amount of previously taxed contributions (from your Benefit Summary)}}{\text{Number of monthly payments (from IRS tables above)}} = \text{Dollar amount of monthly pension not subject to federal income tax}$$

**For Example:**

\$4,275.19 in previously taxed contributions and you are expected to receive 260 payments

\$4,275.19 divided by 260 = \$16.44 of each pension payment is **not** subject to federal income tax

If you have any further questions, please call us at (850) 891-8343.