

PENSION & RETIREMENT BENEFITS

City of Walker – Income Tax Department

Taxability of Pension and Retirement benefits under the Walker Income Tax Ordinance.

Under the Walker Income Tax Ordinance qualifying distributions from pension and retirement benefits are not taxable. Retirement plans include private and public employer plans, and individual plans such as IRA's. To be considered a qualified distribution not taxable under the Ordinance, several requirements must be met. For employer plans, an employee generally must have retired under the provisions of the plan, the pension benefits must be paid from a retirement trust fund, and the payment must be made to either the employee or a surviving spouse. (Payments made to a surviving spouse are only deductible if the employee qualified to exclude the income at the time of death.)

If you received a pension or retirement benefit payment, you also received a Form 1099R. There is a box on Form 1099R (box 7) titled "Distribution code(s)". Look in the "Distribution code(s)" box for the number that describes the condition under which the pension or retirement benefit was paid.

This chart describes the distribution codes and their taxability under the Walker Income Tax Ordinance.

Form 1099R Distribution Codes	Does the condition qualify the income as non taxable under the Walker Income Tax Ordinance?
1 - Early distribution, no known exception.	Taxable.
2 - Early distribution, exception applies.	Taxable, unless part of a series of mainly equal periodic payments made for the life of the employee or the joint lives of the employee and their beneficiary. Distributions from a 457 plan (a kind of deferred compensation plan) are taxable.
3 - Disability.	Not Taxable.
4 - Death.	Not Taxable, for surviving spouse only and only if the decedent would have also qualified for a normal distribution under Distribution Code 7 at the time of death. Taxable, for all other beneficiaries. Taxable , if paid as a death benefit payment made by an employer but not made as part of a pension, profit sharing, or retirement plan.
5 - Prohibited transaction	Taxable.
6 - Section 1035 exchange. the exchange of life insurance, endowment insurance and annuity contracts	Taxable.
7 - Normal distribution. <ul style="list-style-type: none"> • normal distribution from a plan, • distribution from a traditional IRA, if the participant is at least 59½, • Roth conversion if the participant is at least age 59½, • distribution from a life insurance, annuity, or endowment contract 	Not Taxable.
8 - Excess contribution plus earnings/excess deferrals (and/or earnings) taxable in 2005.	Taxable.
9 - Cost of current life insurance protection	Taxable.
A - Eligible for 10-year option	Not taxable.
B - Roth account distribution	Not taxable.

Form 1099R Distribution Codes	Does the condition qualify the income as non taxable under the Walker Income Tax Ordinance?
E - Excess annual additions	Taxable.
F - Charitable gift annuity	Not taxable.
G - Direct rollover to a qualified plan or an IRA	Not taxable.
H – Direct rollover of designated ROTH to ROTH	Not taxable.
J - Distribution from Roth IRA	Not taxable.
L - Loans treated as distributions	Taxable.
N - Recharacterized IRA contribution for 2012	Not taxable.
P - Excess contributions in 2011	Taxable.
Q - Qualified distribution from Roth IRA	Not taxable.
R - Recharacterized IRA contribution for 2011	Not taxable.
S - Early distributions from SIMPLE IRA	Taxable.
T - Roth IRA distribution, exception applies	Not taxable.
U – Dividends distributed from and ESOP	Taxable.
W – Charges/payments for qualified LT care contracts under combined arrangements	Not Taxable.
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