

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

Form 1099R Distribution Codes	Does the condition qualify the income as non taxable under the Walker Income Tax Ordinance?
C – Reportable death benefits under Sec. 6050Y	Not taxable.
D – Annuity payments from nonqualified annuities	Not taxable.
E – Distributions under EPCRS.	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.
K – Distribution of IRA assets without FMV	Not taxable.
L - Loans treated as distributions	Taxable.
M – Qualified plan loan offset	Taxable.
N - Recharacterized IRA contribution for 2020	Not taxable.
P - Excess contributions in 2019	Taxable.
Q - Qualified distribution from Roth IRA	Not taxable.
R - Recharacterized IRA contribution for 2019	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.