



Department of the Treasury  
Internal Revenue Service

**Publication 575**

Cat. No. 15142B

# Pension and Annuity Income

For use in preparing  
**2008** Returns



**Get forms and other information  
faster and easier by:**

**Internet** [www.irs.gov](http://www.irs.gov)

## Contents

<b>What's New for 2008</b> .....	<b>2</b>
<b>What's New for 2009</b> .....	<b>2</b>
<b>Reminders</b> .....	<b>2</b>
<b>Introduction</b> .....	<b>2</b>
<b>General Information</b> .....	<b>3</b>
Variable Annuities .....	4
Section 457 Deferred Compensation Plans .....	5
Disability Pensions .....	5
<b>Insurance Premiums for Retired Public         Safety Officers</b> .....	<b>6</b>
Railroad Retirement Benefits .....	6
Withholding Tax and Estimated Tax .....	9
<b>Cost (Investment in the Contract)</b> .....	<b>10</b>
<b>Taxation of Periodic Payments</b> .....	<b>10</b>
Fully Taxable Payments .....	11
Partly Taxable Payments .....	11
<b>Taxation of Nonperiodic Payments</b> .....	<b>14</b>
Figuring the Taxable Amount .....	14
Loans Treated as Distributions .....	17
Transfers of Annuity Contracts .....	18
Lump-Sum Distributions .....	19
<b>Rollovers</b> .....	<b>26</b>
<b>Special Additional Taxes</b> .....	<b>30</b>
Tax on Early Distributions .....	30
Tax on Excess Accumulation .....	32
<b>Survivors and Beneficiaries</b> .....	<b>33</b>
<b>Hurricane-Related Relief</b> .....	<b>34</b>
Qualified Hurricane Distributions .....	34
<b>Relief for Kansas Disaster Area</b> .....	<b>36</b>
Qualified Recovery Assistance Distributions .....	36
<b>Relief for Midwestern Disaster Areas</b> .....	<b>37</b>
Qualified Disaster Recovery Assistance Distribution .....	38
Taxation of Qualified Disaster Recovery Assistance Distributions .....	38
Repayment of Qualified Disaster Recovery Assistance Distributions .....	38
Amending Your Return .....	39
Repayment of Qualified Distributions for the Purchase or Construction of a Main Home .....	39
Loans From Qualified Plans .....	40
<b>How To Get Tax Help</b> .....	<b>40</b>
<b>Simplified Method Worksheet</b> .....	<b>43</b>
<b>Index</b> .....	<b>44</b>

## Insurance Premiums for Retired Public Safety Officers

If you are an eligible retired public safety officer (law enforcement officer, firefighter, chaplain, or member of a rescue squad or ambulance crew), you can elect to exclude from income distributions made from your eligible retirement plan that are used to pay the premiums for accident or health insurance or long-term care insurance. The premiums can be for coverage for you, your spouse, or dependents. The distribution must be made directly from the plan to the insurance provider. You can exclude from income the smaller of the amount of the insurance premiums or \$3,000. You can only make this election for amounts that would otherwise be included in your income. The amount excluded from your income cannot be used to claim a medical expense deduction.

An eligible retirement plan is a governmental plan that is:

- a qualified trust,
- a section 403(a) plan,
- a section 403(b) annuity, or
- a section 457(b) plan.

If you make this election, reduce the otherwise taxable amount of your pension or annuity by the amount excluded. The amount shown in box 2a of Form 1099-R does not reflect this exclusion. Report your total distributions on Form 1040, line 16a; Form 1040A, line 12a; or Form 1040NR, line 17a. Report the taxable amount on Form 1040, line 16b; Form 1040A, line 12b; or Form 1040NR, line 17b. Enter "PSO" next to the appropriate line on which you report the taxable amount.

If you are retired on disability and reporting your disability pension on line 7 of Form 1040 or Form 1040A, or line 8 of Form 1040NR, include only the taxable amount on that line and enter "PSO" and the amount excluded on the dotted line next to the applicable line.

## Railroad Retirement Benefits

Benefits paid under the Railroad Retirement Act fall into two categories. These categories are treated differently for income tax purposes.

The first category is the amount of tier 1 railroad retirement benefits that equals the social security benefit that a railroad employee or beneficiary would have been entitled to receive under the social security system. This part of the tier 1 benefit is the social security equivalent benefit (SSEB) and you treat it for tax purposes like social security benefits. If you received, repaid, or had tax withheld from the SSEB portion of tier 1 benefits during 2008, you will receive Form RRB-1099, Payments by the Railroad Retirement Board (or Form RRB-1042S, Statement for Nonresident Alien Recipients of Payments by the Railroad Retirement Board, if you are a nonresident alien) from the U.S. Railroad Retirement Board (RRB).

For more information about the tax treatment of the SSEB portion of tier 1 benefits and Forms RRB-1099 and RRB-1042S, see Publication 915.

The second category contains the rest of the tier 1 railroad retirement benefits, called the non-social security equivalent benefit (NSSEB). It also contains any tier 2 benefit, vested dual benefit (VDB), and supplemental annuity benefit. Treat this category of benefits, shown on Form RRB-1099-R, as an amount received from a qualified employee plan. This allows for the tax-free (nontaxable) recovery of employee contributions from the tier 2 benefits and the NSSEB part of the tier 1 benefits. (The NSSEB and tier 2 benefits, less certain repayments, are combined into one amount called the Contributory Amount Paid on Form RRB-1099-R.) Vested dual benefits and supplemental annuity benefits are non-contributory pensions and are fully taxable. See *Taxation of Periodic Payments*, later, for information on how to report your benefits and how to recover the employee contributions tax free. Form RRB-1099-R is used for U.S. citizens, resident aliens, and nonresident aliens.

**Nonresident aliens.** A nonresident alien is an individual who is not a citizen or a resident alien of the United States. Nonresident aliens are subject to mandatory U.S. tax withholding unless exempt under a tax treaty between the United States and their country of legal residency. A tax treaty exemption may reduce or eliminate tax withholding from railroad retirement benefits. See *Tax withholding* next, for more information.

If you are a nonresident alien and your tax withholding rate changed or your country of legal residence changed during the year, you may receive more than one Form RRB-1042S or Form RRB-1099-R. To determine your total benefits paid or repaid and total tax withheld for the year, you should add the amounts shown on all forms you received for that year. For information on filing requirements for aliens, see Publication 519, U.S. Tax Guide for Aliens. For information on tax treaties between the United States and other countries that may reduce or eliminate U.S. tax on your benefits, see Publication 901, U.S. Tax Treaties.

**Tax withholding.** For SSEB payments received, get Form W-4V, Voluntary Withholding Request, from the IRS and file it with the RRB to request or change your income tax withholding. For NSSEB, tier 2, VDB, and supplemental annuity payments received, use Form RRB W-4P, Withholding Certificate for Railroad Retirement Payments, to elect, revoke, or change your income tax withholding. If you are a nonresident alien or a U.S. citizen living abroad, you should provide Form RRB-1001, Nonresident Questionnaire, to the RRB to furnish citizenship and residency information and to claim any treaty exemption from U.S. tax withholding. Nonresident U.S. citizens cannot elect an exempt withholding status on payments delivered outside of the U.S.

**Help from the RRB.** To request an RRB form or to get help with questions about an RRB benefit, you should contact your nearest RRB field office if you reside in the United States (call 1-877-772-5772 for the nearest field office) or U.S. consulate/Embassy if you reside outside the United States. You can visit the RRB on the Internet at [www.rrb.gov](http://www.rrb.gov).

**Form RRB-1099-R.** The following discussion explains the items shown on Form RRB-1099-R. The amounts shown on this form are before any deduction for: