



VITA/TCE Volunteer Tax Alert (VTA)

Thank you for volunteering and for your dedication to top QUALITY service!

VTA Number	VTA - 2014 – 02									
Date Issued	March 7, 2014									
Tax Law Topic	Disability Income									
Issue identified Causing Inaccurate Returns	This alert explains how to report disability payments reported on Form 1099-R <i>Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.</i> , for a taxpayer that is retired and has not reached the minimum retirement age.									
General Rule	Taxpayers' disability pension benefits received under the employer's disability retirement plan are earned income until the minimum retirement age is reached. The minimum retirement age (determined by the employer) is generally the earliest age a taxpayer could have received a pension or annuity from their employer if he/she was not disabled. This earned income treatment does not apply to social security disability income reported on Form SSA-1099, Social Security Benefits Statement.									
How to Report	<p>Qualified disability income reported on Form 1099-R with a Distribution Code 3 in Box 7, is reported as earned income wages on line 7 of Form 1040, until the minimum retirement age is met.</p> <p>When entering Form 1099-R with a distribution Code 3 in Box 7 of Form 1099-R, volunteer preparers using TaxWise®, must check the “Check if disability and the taxpayer is disabled” box below box 7 (regardless of age). Since taxpayers under age 65 may qualify for Earned Income Credit (EIC), TaxWise will automatically enter the disability income on Form 1040 line 7 if the taxpayer is under age 65.</p> <p>Beginning on the <i>day after reaching the minimum retirement age</i> (per the employer), these payments are taxable as unearned pension income and are no longer reported as wages. Once the taxpayer reaches age 65, TaxWise will enter the taxable pension payments on Form 1040, lines 16a and 16b.</p> <div data-bbox="511 1325 1372 1598" data-label="Form"><table border="1"><tr><td>7 Codes 3</td><td>IRA / SEP/ Simple <input type="checkbox"/></td><td>8 Other <input type="text" value="0"/> % <input type="text" value="0"/></td></tr><tr><td colspan="2">Check if disability and the taxpayer is disabled <input checked="" type="checkbox"/></td><td></td></tr><tr><td colspan="2">Check to force Form 5329 <input type="checkbox"/></td><td></td></tr></table></div> <p>Important: If the box is checked and the taxpayer is under age 65, the taxpayer is also considered for EIC. However, if not appropriately checked, EIC will be disallowed even if the taxpayer qualifies.</p>	7 Codes 3	IRA / SEP/ Simple <input type="checkbox"/>	8 Other <input type="text" value="0"/> % <input type="text" value="0"/>	Check if disability and the taxpayer is disabled <input checked="" type="checkbox"/>			Check to force Form 5329 <input type="checkbox"/>		
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Resources	<ul style="list-style-type: none">• Publication 4012, <i>VITA/TCE Volunteer Resource Guide</i>, page D-19• Publication 17, <i>Your Federal Income Tax -- For Individuals</i>• Publication 575, <i>Pension and Annuity Income</i>									
Accuracy Rate	Quality Statistical Sample (QSS) 95% as of 03-01-2014 SPEC Shopping 50% as of 03-01-2014									

For question, please discuss them with your site coordinator or IRS SPEC relationship manager