

# **ARE YOU AWARE THAT RETIRED POLICE OFFICERS AND FIREFIGHTERS ARE ENTITLED TO A \$3,000 EXEMPTION FROM THEIR TAXABLE INCOME?**

*For additional information see IRS Publication 575, Cat. No. 15142B. Pension and Annuity Income: For use in preparing 2011 returns. (Provided below).*

*Publication 575 provides Public Safety Officers with a legitimate income exemption that has been in effect for years, but you have to know how to complete form 1040, and in some cases it is not easy.*

*The first problem is that the 1099-R form provided to COA retirees by Zenith American Solutions (Formerly ABPA or ASI) does NOT report the insurance amount.*

*The amount provided in box 5 (Employee Contributions or insurance premiums), is not insurance premiums but rather is the calculated amount based on your lifetime contributions to the pension, that is amortized and deducted from that years earnings. This is the difference between box 1 (Gross Distribution ) and box 2a (Taxable Amount).*

*Unfortunately, Zenith American Solutions (Formerly ABPA, formerly ASI) the third party administrator for our pension benefits, does NOT provide the actual amount that was paid from our pension benefits to the City of Atlanta to cover our health insurance. For most of us the annual health insurance premiums exceed the \$3000 maximum amount, however, it is important for recently retired police officers and firefighters to keep close track of the health insurance premiums to maximize the income excluded in accordance with IRS Publication 575. Note that there is a \$3,000 max deduction.*

*To assist our members we are providing this information as well as the source links so you can verify the information and take appropriate action.*

*DISCLAIMER: We are not tax advisors, and if you have ANY questions I recommend you address them to your tax preparer or to the IRS. Please don't ask me for additional information. It is all in the IRS publication and link provided below, all I can do is refer you back to this source document.*

*I hope this has been helpful in allowing you to claim the legitimate income exclusion provided by law.*

*Lou Arcangeli*

*Board Member and Past President, Atlanta Pension Funds Membership Association*

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**IRS Publication 575** (excerpted text is provided below in *green*)

## ***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.”

SOURCE: [http://www.irs.gov/publications/p575/ar02.html#en\\_US\\_2011\\_publink1000226714](http://www.irs.gov/publications/p575/ar02.html#en_US_2011_publink1000226714)

And

<http://www.irs.gov/pub/irs-pdf/p575.pdf>

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*Apparently TurboTax handles this income exclusion in a detailed and accurate manner, and people using TurboTax can e-file without problem. However other tax software programs are more problematic.*

*H&R Block provide information and describes how to file correctly, however the process cannot be used to e-file, as it requires handwriting on the tax document. H&R Block online tax help describes the required “work-around” for their tax software at this link: [http://www.hrblock.com/tax-answers/services/jsp/article.jsp?article\\_id=56975](http://www.hrblock.com/tax-answers/services/jsp/article.jsp?article_id=56975). Text is provided below in green”*

## **I'm a retired police officer. Can I exclude taxable income due to payment of health care premiums?**

You can exclude up to \$3,000 per year of qualified distributions from your gross income if:

- You're an eligible retired public-safety officer.
- You choose to have qualified health-insurance premiums deductions.
- The deductions are from amounts distributed by an eligible government plan.
- The distributions are paid directly to the insurer.

Qualified health-insurance premiums include:

- Premiums for accident and health insurance
- Qualified long-term care insurance contracts

These are premiums for you, your spouse, and dependents.

You can exclude the distribution from your gross income to some extent. To do so, the total distributions can't be more than the qualified health insurance premiums.

If you retire before you reach normal retirement age, you're not eligible for this provision. This is true unless you retired because of disability.

To claim the exclusion, enter the total distribution on Form 1040, line 16a. Enter the taxable amount on line 16b. Then, enter PSO next to line 16b.

*End of H&R Block instructions.*

*What H&R Block doesn't tell you is that subtracting \$3,000 from line 16b requires you to highlight the amount, then click override, then enter the correct taxable amount. Further, this displays the amount in red, and eliminates the opportunity to e-file your return. Also, to "enter PSO next to line 16b" can only be done by writing on the printed completed tax form before mailing it to the IRS. Whew, I think I'll use TurboTax next year!*

*DISCLAIMER: We are not tax advisors, and if you have ANY questions I recommend you address them to your tax preparer or to the IRS.*

*I hope this has been helpful in allowing you to claim the legitimate income exclusion provided by law to retired Public Safety Officers.*

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