

**Line of Duties Injuries
Disability Pensions
Form 1099-R reporting
Notice 1036-P**

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BASIC CHARACTERISTICS OF LODI (line of duty injuries)

- Payments made under a statute “in the nature of workers’ compensation” to employees of state and local governments *injured in the course of employment.*

Taxability of LODI

- Per Final Regs. § 31.3121(a)(2)-1 and 31.3121(d)(1), LODI payments not taxed for FICA or Medicare.
- Per Final Regs. §1.104-1(b), LODI payments excluded from gross income if made under workers' compensation law (includes payments made pursuant to statute "in the nature of a workers' compensation act").

Other payments are reportable

- State temporary disability insurance law
- Sickness or accident NOT under workers' compensation or LODI
- Non-occupational sickness or accident

EXAMPLE - LODI

- Employee work-related injury
- Local ordinance pays full salary for work-related injury (e.g., Public Employees Disability Act)
- In nature of workers' compensation
- Excluded from FICA wages

EXAMPLE – NOT LODI

- Employee work-related injury
- Local ordinance pays full salary *whether or not injury is work-related*
- Ordinance not “in nature of workers’ compensation”
- Included in FICA wages

ILLINOIS STATUTES

- LODI covered in Illinois Compiled Statutes
 - 40 ILCS 5/3-114.1 for police officers
 - 40 ILCS 5/4-110 for fire fighters
- LODI also covered in the Public Employee Disability Act of Illinois Compiled Statutes
 - 5 ILCS 345/1

Disability Retirement Payments CAUTIONS:

- Disability retirement payments NOT in line of duty subject to rules for federal income tax withholding from pension and annuities
- Payments based on age of employee, length of service, or prior contributions NOT payments in nature of workers' compensation.
- These payments are reported on Form 1099-R.

Form 1099-R REMINDER:

- Remember: Do NOT reduce taxable portion of pension for payment of qualified health and long-term care insurance premiums for retired public safety officers on Form 1099-R.
 - See: CAUTION re: Box 2a. Taxable Amount in 2009 Instructions for Forms 1099-R and 5498.

Reporting \$3,000 Exclusion

- Retired public safety officers report exclusion on Form 1040 (or Form 1040A or Form 1040EZ).
- Total distributions from pensions and annuities - Form 1040, line 16a; Form 1040A, line 12a; Form 1040NR, line 17a.
- Taxable amount is shown on Form 1040, line 16b; Form 1040A, line 12b,; Form 1040NR, line 17b.

Reporting \$3,000 Exclusion

- Retired public safety officer shows the taxable amount from Form 1099-R minus the amount excluded.
- Retired public safety officer enters “PSO” next to the appropriate line on Form 1040 where the taxable amount is reported.
- See Publication 575 for specific instructions.

Notice 1036-P

- Concerns that new withholding rates might cause pensioners to be under withheld at end of year)
- Offers optional procedures for those making pension payments to offset withholding reductions for Making Work Pay Credit

QUESTIONS?



FEDERAL, STATE, LOCAL
GOVERNMENTS

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