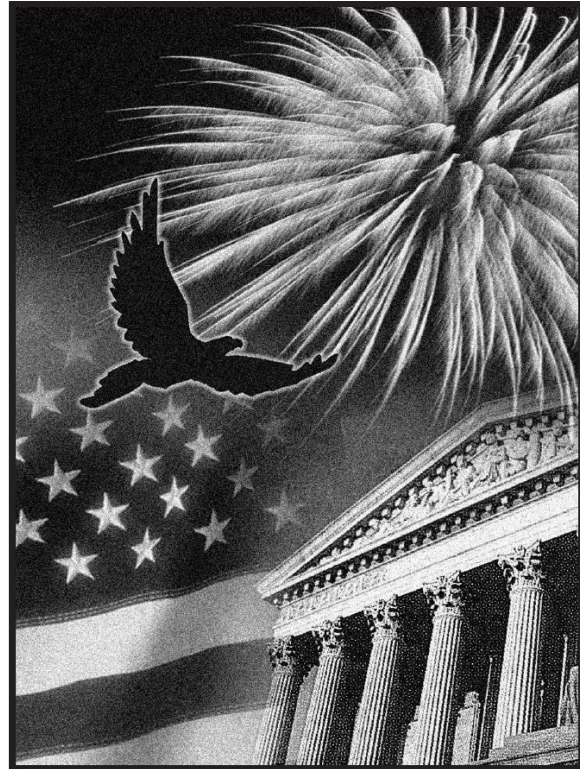


# Publication 554

## Tax Guide for Seniors

For use in preparing **2023** Returns

Volume 1 of 2



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## Future Developments

For the latest information about developments related to Pub. 554, such as legislation enacted after it was published, go to [IRS.gov/Pub554](https://www.irs.gov/pub554).

## What's New

**Coronavirus-related distributions.** The repayment period for a coronavirus-related distribution made on or after January 1, 2020, and before December 31, 2020, ended on December 31, 2023. If you made repayments in 2023 and/or you didn't completely repay the distribution by December 31, 2023, see Form 8915-F.

## **Increase in required minimum**

**distribution age.** If you reach age 72 in 2023 or later and have funds in a traditional IRA (including a SEP and SIMPLE IRA) the required beginning date for your first required minimum distribution is April 1 of the year following the year in which you turn 73.

**Exception to the 10% additional tax for early distributions.** The exception to the 10% additional tax for early distributions include the following.

- Distributions from a retirement plan in connection with federally declared disasters.
- Distributions from a retirement plan made to someone who is terminally ill.
- Distributions to certain firefighters who meet the age or years of service requirement.

See Form 5329 and Pub 590-B for more information.

## **Standard deduction amount increased.**

For 2023, the standard deduction amount has been increased for all filers. The amounts are:

- Single or Married filing separately—\$13,850.
- Married filing jointly or Qualifying surviving spouse—\$27,700.
- Head of household—\$20,800.

## **Alternative minimum tax exemption**

**increased.** The AMT exemption amount has increased to \$81,300 (\$126,500 if married filing jointly or qualifying surviving spouse; \$63,250 if married filing separately).

**Earned income credit.** The maximum amount of income you can earn and still get the credit has changed. You may be able to take the credit if you earn less than:

- \$17,640 (\$24,210 if married filing jointly), don't have a qualifying child, and are at least 25 years old and under age 65;

- \$46,560 (\$53,120 if married filing jointly), and you have one qualifying child;
- \$52,918 (\$59,478 if married filing jointly), and you have two qualifying children; or
- \$56,838 (\$63,398 if married filing jointly), and you have three or more qualifying children.

For more information, see [Earned Income Credit](#), later.

**Standard mileage rate.** For 2023, the standard mileage rate allowed for operating expenses for a car when you use it for medical reasons is 22 cents a mile.

## **Reminders**

**Qualified disaster tax relief.** Special rules provide for tax-favored withdrawals and repayments from certain retirement plans for taxpayers who suffered economic loss as a result of a qualified disaster. See Form 8915-F, Qualified Disaster Retirement Plan



Distributions and Repayments, for more information.

**Maximum age for traditional IRA contributions.** The age restriction for contributions to a traditional IRA has been eliminated.

**Form 1040-SR.** Form 1040-SR, U.S. Tax Return for Seniors, was introduced in 2019. You can use this form if you are age 65 or older at the end of 2023. The form generally mirrors Form 1040. However, the Form 1040-SR has larger text and some helpful tips for older taxpayers. See the Instructions for Form 1040 for more information.

**Tax return preparers.** Choose your preparer carefully. If you pay someone to prepare your return, the preparer is required, under the law, to sign the return and fill in the other blanks in the Paid Preparer Use Only area of your return. Remember, however, that you are still responsible for the accuracy of every

item entered on your return. If there is any underpayment, you are responsible for paying it, plus any interest and penalty that may be due.

**Third party designee.** You can check the “Yes” box in the Third Party Designee area of your return to authorize the IRS to discuss your return with your preparer, a friend, a family member, or any other person you choose. This allows the IRS to call the person you identified as your designee to answer any questions that may arise during the processing of your return. It also allows your designee to perform certain actions. See your income tax return instructions for details.

**Employment tax withholding.** Your wages are subject to withholding for income tax, social security tax, and Medicare tax even if you are receiving social security benefits.

**Social security benefits information.**

Social security beneficiaries may quickly and

easily obtain various information from the Social Security Administration's (SSA's) website with a *my Social Security* account, including getting a replacement SSA-1099 or SSA-1042S. For more information, go to [SSA.gov/myaccount](https://www.ssa.gov/myaccount). See [Obtaining social security information](#), later.

**Photographs of missing children.** The Internal Revenue Service is a proud partner with the [National Center for Missing & Exploited Children® \(NCMEC\)](#). Photographs of missing children selected by the Center may appear in this publication on pages that would otherwise be blank. You can help bring these children home by looking at the photographs and calling 800-THE-LOST (800-843-5678) if you recognize a child.

## **Introduction**

The purpose of this publication is to provide a general overview of selected topics that are of interest to older taxpayers. This publication

will help you determine if you need to file a return and, if so, what items to report on your return. Each topic is discussed only briefly, so you will find references to other free IRS publications that provide more detail on these topics if you need it.

[Table I](#) has a list of questions you may have about filing your federal tax return. To the right of each question is the location of the answer in this publication. Also, at the back of this publication, there is an index to help you search for the topic you need.

While most federal income tax laws apply equally to all taxpayers, regardless of age, there are some provisions that give special treatment to older taxpayers. The following are some examples.

- ***Higher gross income threshold for filing.*** You must be age 65 or older at the end of the year to get this benefit. You are considered age 65 on the day before your 65th birthday. Therefore, you are

considered age 65 at the end of the year if your 65th birthday is on or before January 1 of the following year.

- ***Higher standard deduction.*** If you don't itemize deductions, you are entitled to a higher standard deduction if you are age 65 or older at the end of the year. You are considered age 65 at the end of the year if your 65th birthday is on or before January 1 of the following year.
- ***Credit for the elderly or the disabled.*** If you qualify, you may benefit from the credit for the elderly or the disabled. To determine if you qualify and how to figure this credit, see [Credit for the Elderly or the Disabled](#), later.

**Return preparation assistance.** The IRS wants to make it easier for you to file your federal tax return. You may find it helpful to visit a Volunteer Income Tax Assistance (VITA), Tax Counseling for the Elderly (TCE),

or American Association of Retired Persons (AARP) Tax-Aide site near you.

***Volunteer Income Tax Assistance and Tax Counseling for the Elderly.*** These programs provide free help for low-income taxpayers and taxpayers age 60 or older to prepare and file their returns. For the VITA/TCE site nearest you, contact your local IRS office. For more information, see [\*Preparing and filing your tax return.\*](#) under *How To Get Tax Help*.

***AARP Tax-Aide.*** AARP Foundation Tax-Aide offers free tax preparation and has more than 5,000 locations in neighborhood libraries, malls, banks, community centers, and senior centers annually during the filing season. Visit [\*AARP.org/TaxAide\*](http://AARP.org/TaxAide) or call 888-OUR-AARP (888-687-2277) for more information.

**Comments and suggestions.** We welcome your comments about this publication and suggestions for future editions.

You can send us comments through [IRS.gov/FormComments](https://www.irs.gov/FormComments). Or, you can write to the Internal Revenue Service, Tax Forms and Publications, 1111 Constitution Ave. NW, IR-6526, Washington, DC 20224.

Although we can't respond individually to each comment received, we do appreciate your feedback and will consider your comments and suggestions as we revise our tax forms, instructions, and publications.

**Don't** send tax questions, tax returns, or payments to the above address.

***Getting answers to your tax questions.*** If you have a tax question not answered by this publication or the *How To Get Tax Help* section at the end of this publication, go to the IRS Interactive Tax Assistant page at [IRS.gov/ Help/ITA](https://www.irs.gov/Help/ITA) where you can find topics by using the search feature or viewing the categories listed.

***Getting tax forms, instructions, and publications.*** Go to [IRS.gov/Forms](https://www.irs.gov/forms) to download current and prior-year forms, instructions, and publications.

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Table I.

## **What You Should Know About Federal Taxes**

**Note.** The following is a list of questions you may have about filling out your federal income tax return. To the right of each question is the location of the answer in this publication.



<b>What I Should Know</b>	<b>Where To Find the Answer</b>
Do I need to file a return?	See <a href="#">chapter 1</a> .
Is my income taxable or nontaxable?  If it is nontaxable, must I still report it?	See <a href="#">chapter 2</a> .
How do I report benefits I received from the Social Security Administration or the Railroad Retirement Board?  Are these benefits taxable?	See <a href="#">Social Security and Equivalent Railroad Retirement Benefits</a> in chapter 2.

<p>Must I report the sale of my home?</p> <p>If I had a gain, is any part of it taxable?</p>	<p>See <a href="#"><u>Sale of Home</u></a> in chapter 2.</p>
<p>What are some of the items that I can deduct to reduce my income?</p>	<p>See chapters <a href="#"><u>3</u></a> and <a href="#"><u>4</u></a>.</p>
<p>How do I report the amounts I set aside for my IRA?</p>	<p>See <a href="#"><u>Individual Retirement Arrangement Contributions and Deductions</u></a> in chapter 3.</p>
<p>Would it be better for me to claim the standard deduction or itemize my deductions?</p>	<p>See <a href="#"><u>chapter 4</u></a>.</p>

What are some of the credits I can claim to reduce my tax?	See <a href="#">chapter 5</a> for discussions on the credit for the elderly or the disabled, the child and dependent care credit, and the earned income credit.
Must I make estimated tax payments?	See <a href="#">chapter 6</a> .
How do I contact the IRS or get more information?	See <a href="#">chapter 7</a> .

# 1.

## 2023 Filing Requirements

If income tax was withheld from your pay, or if you qualify for a refundable credit (such as the earned income credit, the additional child tax credit, or the American opportunity credit), you should file a return to get a refund even if you aren't otherwise required to file a return.



*Don't file a federal income tax return if you don't meet the filing requirements and aren't due a refund. If you need assistance to determine if you need to file a federal income tax return for 2023, go to [IRS.gov/ITA](https://www.irs.gov/ita) and use the Interactive Tax Assistant (ITA).*

## General Requirements

If you are a U.S. citizen or resident alien, you must file a return if your gross income for the year was at least the amount shown on the

appropriate line in [Table 1-1](#). For other filing requirements, see your tax return instructions or Pub. 501. If you were a nonresident alien at any time during the year, the filing requirements that apply to you may be different from those that apply to U.S. citizens. See Pub. 519.

Table 1-1.

## 2023 Filing Requirements Chart for Most Taxpayers

**Note.** You must file a return if your gross income was at least the amount shown in the last column.

<b>IF your filing status is. . .</b>	<b>AND at the end of 2023 you were . . . *</b>	<b>THEN file a return if your gross income** was at least. . .</b>
single	under 65	\$13,850
	65 or older	\$15,700
head of household	under 65	\$20,800
	65 or older	\$22,650

married filing jointly***	under 65 (both spouses)	\$27,700
	65 or older (one spouse)	\$29,200
	65 or older (both spouses)	\$30,700
married filing separately	any age	\$5
qualifying surviving spouse	under 65	\$27,700
	65 or older	\$29,200

\*If you were born before January 2, 1959, you are considered to be age 65 or older at the end of 2023. (If your spouse died in 2023 or if you are preparing a return for someone who died in 2023, see Pub. 501.)

\*\*Gross income means all income you receive in the form of money, goods, property, and

services that isn't exempt from tax, including any income from sources outside the United States or from the sale of your main home (even if you can exclude part or all of it). It also includes gains, but not losses, reported on Form 8949 or Schedule D. Gross income from a business means, for example, the amount on Schedule C, line 7, or Schedule F, line 9. But, in figuring gross income, don't reduce your income by any losses, including any loss on Schedule C, line 7, or Schedule F, line 9. **Don't** include any social security benefits unless (a) you are married filing separately and you lived with your spouse at any time in 2023, or (b) one-half of your social security benefits plus your other gross income and any tax-exempt interest is more than \$25,000 (\$32,000\* if married filing jointly). If (a) or (b) applies, see the Instructions for Form 1040 or Pub. 915 to figure the taxable part of social security benefits you must include in gross income.



\*\*\*If you didn't live with your spouse at the end of 2023 (or on the date your spouse died) and your gross income was at least \$5, you must file a return regardless of your age.

**Gross income.** Gross income is all income you receive in the form of money, goods, property, and services that isn't exempt from tax. If you are married and live with your spouse in a community property state, half of any income defined by state law as community income may be considered yours. States with community property laws include Arizona, California, Idaho, Louisiana, Nevada, New Mexico, Texas, Washington, and Wisconsin. A registered domestic partner in Nevada, Washington, or California must generally report half the combined community income of the individual and their domestic partner. For more information about community property, see Pub. 555.

For more information on what to include in gross income, see [chapter 2](#).

***Self-employed persons.*** If you are self-employed in a business that provides services (where the production, purchase, or sale of merchandise isn't an income-producing factor), gross income from that business is the gross receipts. If you are self-employed in a business involving manufacturing, merchandising, or mining, gross income from that business is the total sales minus the cost of goods sold. In either case, you must add any income from investments and from incidental or outside operations or sources. See Pub. 334.

**Dependents.** If you could be claimed as a dependent by another taxpayer (that is, you meet the dependency tests in Pub. 501), special filing requirements apply. See Pub. 501.

## **Decedents**

A personal representative of a decedent's estate can be an executor, administrator, or

anyone who is in charge of the decedent's property.

If you are acting as the personal representative of a person who died during the year, you may have to file a final return for that decedent. You also have other duties, such as notifying the IRS that you are acting as the personal representative. Form 56, Notice Concerning Fiduciary Relationship, is available for this purpose.

When you file a return for the decedent, either as the personal representative or as the surviving spouse, you should enter "DECEASED," the decedent's name, and the date of death across the top of the tax return.

If no personal representative has been appointed by the due date for filing the return, the surviving spouse (on a joint return) should sign the return and enter in the signature area "Filing as surviving spouse."

For more information, see Pub. 559.

**Surviving spouse.** If you are the surviving spouse, the year your spouse died is the last year for which you can file a joint return with that spouse. After that, if you don't remarry, you must file as a qualifying surviving spouse, head of household, or single. For more information about each of these filing statuses, see Pub. 501.

If you remarry before the end of the year in which your spouse died, a final joint return with the deceased spouse can't be filed. You can, however, file a joint return with your new spouse. In that case, the filing status of your deceased spouse for their final return is married filing separately.



*The level of income that requires you to file an income tax return changes when your filing status changes (see [Table 1-1](#)). Even if you and your deceased spouse weren't required to file a return for several years, you may have to file a return*

for tax years **after** the year of death. For example, if your filing status changes from filing jointly in 2022 to single in 2023 because of the death of your spouse, and your gross income is \$17,500 for both years, you must file a return for 2023 even though you didn't have to file a return for 2022.

## **2.**

# **Taxable and Nontaxable Income**

Generally, income is taxable unless it is specifically exempt (not taxed) by law. Your taxable income may include compensation for services, interest, dividends, rents, royalties, income from partnerships, estate or trust income, gain from sales or exchanges of property, and business income of all kinds.

Under special provisions of the law, certain items are partially or fully exempt from tax. Provisions that are of special interest to older taxpayers are discussed in this chapter.

## **Compensation for Services**

Generally, you must include in gross income everything you receive in payment for personal services. In addition to wages, salaries, commissions, fees, and tips, this

includes other forms of compensation such as fringe benefits and stock options.

You don't need to receive the compensation in cash for it to be taxable. Payments you receive in the form of goods or services must generally be included in gross income at their fair market value.

**Volunteer work.** Don't include in your gross income amounts you receive for supportive services or reimbursements for out-of-pocket expenses under any of the following volunteer programs.

- Retired Senior Volunteer Program (RSVP).
- Foster Grandparent Program.
- Senior Companion Program.
- Service Corps of Retired Executives (SCORE).

**Unemployment compensation.** You must include in income all unemployment

compensation you or your spouse (if married filing jointly) received.

**More information.** See Pub. 525, for more detailed information on specific types of income.

## **Retirement Plan Distributions**

This section summarizes the tax treatment of amounts you receive from traditional individual retirement arrangements (IRAs), employee pensions or annuities, and disability pensions or annuities. A traditional IRA is any IRA that isn't a Roth or SIMPLE IRA. A Roth IRA is an individual retirement plan that can be either an account or an annuity and features nondeductible contributions and tax-free distributions. A SIMPLE IRA is a tax-favored retirement plan that certain small employers (including self-employed individuals) can set up for the benefit of their employees. More detailed information can be



found in Pub. 590-A, Pub. 590-B, and Pub. 575.

## **Individual Retirement Arrangements (IRAs)**

In general, distributions from a traditional IRA are taxable in the year you receive them. Exceptions to the general rule are rollovers, tax-free withdrawals of contributions, and the return of nondeductible contributions. These are discussed in Pub. 590-B.



*If you made nondeductible contributions to a traditional IRA, you must file Form 8606, Nondeductible IRAs. If you don't file Form 8606 with your return, you may have to pay a \$50 penalty. Also, when you receive distributions from your traditional IRA, the amounts will be taxed unless you can show, with satisfactory evidence, that nondeductible contributions were made.*

**Early distributions.** Generally, early distributions are amounts distributed from your traditional IRA account or annuity before you are age 59½, or amounts you receive when you cash in retirement bonds before you are age 59½. You must include early distributions of taxable amounts in your gross income. These taxable amounts are also subject to an additional 10% tax unless the distribution qualifies for an exception. For purposes of the additional 10% tax, an IRA is a qualified retirement plan. For more information about this tax, see [Tax on Early Distributions](#) under *Pensions and Annuities*, later.

**After age 59 1/2.** After you reach age 59 1/2, you can receive distributions from your traditional IRA without having to pay the 10% additional tax.

## Required Distributions

### **General required minimum distribution**

**rule.** If you are the owner of a traditional IRA, you must generally receive the entire balance in your IRA or start receiving periodic distributions from your IRA by April 1 of the year following the year in which you reach age 73 (72 for those individuals who reach age 72 before January 1, 2023). See *When Must You Withdraw Assets? (Required Minimum Distributions)* in Pub. 590-B. If distributions from your traditional IRA(s) are less than the required minimum distribution for the year, you may have to pay an excise tax for that year on the amount not distributed as required. For more information about this tax, see [Tax on Excess Accumulation](#) under *Pensions and Annuities*, later. See also *Excess Accumulations (Insufficient Distributions)* in Pub. 590-B.

## **Pensions and Annuities**

Generally, if you didn't pay any part of the cost of your employee pension or annuity, and your employer didn't withhold part of the cost of the contract from your pay while you worked, the amounts you receive each year are fully taxable. However, see [\*Insurance Premiums for Retired Public Safety Officers\*](#), later.

If you paid part of the cost of your pension or annuity plan (see [\*Cost\*](#), later), you can exclude part of each annuity payment from income as a recovery of your cost (investment in the contract). This tax-free part of the payment is figured when your annuity starts and remains the same each year, even if the amount of the payment changes. The rest of each payment is taxable. However, see [\*Insurance Premiums for Retired Public Safety Officers\*](#), later.

You figure the tax-free part of the payment using one of the following methods.

- ***Simplified Method.*** You must generally use this method if your annuity is paid under a qualified plan (a qualified employee plan, a qualified employee annuity, or a tax-sheltered annuity plan or contract). You can't use this method if your annuity is paid under a nonqualified plan.
- ***General Rule.*** You must use this method if your annuity is paid under a nonqualified plan. You generally can't use this method if your annuity is paid under a qualified plan.



*Contact your employer or plan administrator to find out if your pension or annuity is paid under a qualified or nonqualified plan.*

You determine which method to use when you first begin receiving your annuity, and you

continue using it each year that you recover part of your cost.

**Exclusion limit.** If your annuity starting date is after 1986, the total amount of annuity income you can exclude over the years as a recovery of the cost can't exceed your net cost (figured without any reduction for a refund feature). Any unrecovered cost at your (or the last annuitant's) death is allowed as an "other itemized deduction" on the final return of the decedent.

If you contributed to your pension or annuity and your annuity starting date is before 1987, you can continue to take your monthly exclusion for as long as you receive your annuity. If you chose a joint and survivor annuity, your survivor can continue to take the survivor's exclusion figured as of the annuity starting date. The total exclusion may be more than your cost.

**Cost.** Before you can figure how much, if any, of your pension or annuity benefits are taxable, you must determine your cost in the plan (your investment in the contract). Your total cost in the plan includes everything that you paid. It also includes amounts your employer contributed that were taxable to you when paid. However, see [\*Foreign employment contributions\*](#), later.

From this total cost, subtract any refunded premiums, rebates, dividends, unrepaid loans, or other tax-free amounts you received by the later of the annuity starting date or the date on which you received your first payment.

***Annuity starting date.*** The annuity starting date is the later of the first day of the first period for which you received a payment from the plan or the date on which the plan's obligations became fixed.



*The amount of your contributions to the plan may be shown in box 9b of any Form 1099-R, Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc., that you receive.*

***Foreign employment contributions.*** If you worked abroad, certain amounts your employer paid into your retirement plan that weren't includible in your gross income may be considered part of your cost. For details, see *Foreign employment contributions* in Pub. 575.

***Withholding.*** The payer of your pension, profit-sharing, stock bonus, annuity, or deferred compensation plan will withhold income tax on the taxable part of amounts paid to you. However, you can choose not to have tax withheld on the payments you receive, unless they are eligible rollover distributions. (These are distributions that are eligible for rollover treatment but aren't paid



directly to another qualified retirement plan or to a traditional IRA.) See *Withholding Tax and Estimated Tax and Rollovers* in Pub. 575 for more information.

For payments other than eligible rollover distributions, you can tell the payer how much to withhold by filing a Form W-4P, Withholding Certificate for Periodic Pension or Annuity Payments.

**Simplified Method.** Under the Simplified Method, you figure the tax-free part of each annuity payment by dividing your cost by the total number of anticipated monthly payments. For an annuity that is payable over the lives of the annuitants, this number is based on the annuitants' ages on the annuity starting date and is determined from a table. For any other annuity, this number is the number of monthly annuity payments under the contract.

***Who must use the Simplified Method.*** You must use the Simplified Method if your annuity starting date is after November 18, 1996, and you meet both of the following conditions.

1. You receive your pension or annuity payments from a qualified plan.
2. On your annuity starting date, at least one of the following conditions applies to you.
  - a. You are under age 75.
  - b. You are entitled to less than 5 years of guaranteed payments.

If your annuity starting date is after July 1, 1986, and before November 19, 1996, and you previously chose to use the Simplified Method, you must continue to use it each year that you recover part of your cost. You could have chosen to use the Simplified Method if your annuity is payable for your life (or the lives of you and your survivor

annuitant) and you met both of the conditions listed above.

***Guaranteed payments.*** Your annuity contract provides guaranteed payments if a minimum number of payments or a minimum amount (for example, the amount of your investment) is payable even if you and any survivor annuitant don't live to receive the minimum. If the minimum amount is less than the total amount of the payments you are to receive, barring death, during the first 5 years after payments begin (figured by ignoring any payment increases), you are entitled to less than 5 years of guaranteed payments.

***Who can't use the Simplified Method.*** You can't use the Simplified Method and must use the General Rule if you receive pension or annuity payments from:

- A nonqualified plan, such as a private annuity, a purchased commercial annuity, or a nonqualified employee plan; or

- A qualified plan if you are age 75 or older on your annuity starting date and you are entitled to at least 5 years of guaranteed payments (defined above).

In addition, you had to use the General Rule for either circumstance described above if your annuity starting date is after July 1, 1986, and before November 19, 1996. You also had to use it for any fixed-period annuity. If you didn't have to use the General Rule, you could have chosen to use it. You also had to use the General Rule for payments from a qualified plan if your annuity starting date is before July 2, 1986, and you didn't qualify to use the Three-Year Rule.

If you had to use the General Rule (or chose to use it), you must continue to use it each year that you recover your cost.

Unless your annuity starting date was before 1987, once you have recovered all of your nontaxable investment, all of each remaining payment you receive is fully taxable. Once

your remaining payments are fully taxable, there is no longer a concern with the General Rule or Simplified Method.

Complete information on the General Rule, including the actuarial tables you need, is contained in Pub. 939.

***How to use the Simplified Method.***

Complete the Simplified Method Worksheet in the Instructions for Form 1040 or Instructions for Form 1040-NR, or in Pub. 575 to figure your taxable annuity for 2023. Be sure to keep the completed worksheet; it will help you figure your taxable annuity next year.

To complete line 3 of the worksheet, you must determine the total number of expected monthly payments for your annuity. How you do this depends on whether the annuity is for a single life, multiple lives, or a fixed period. For this purpose, treat an annuity that is payable over the life of an annuitant as payable for that annuitant's life even if the annuity has a fixed-period feature or also

provides a temporary annuity payable to the annuitant's child under age 25.



*You don't need to complete line 3 of the worksheet or make the computation on line 4 if you received annuity payments last year and used last year's worksheet to figure your taxable annuity. Instead, enter the amount from line 4 of last year's worksheet on line 4 of this year's worksheet.*

***Single-life annuity.*** If your annuity is payable for your life alone, use Table 1 at the bottom of the worksheet to determine the total number of expected monthly payments. Enter on line 3 the number shown for your age on your annuity starting date. This number will differ depending on whether your annuity starting date is before November 19, 1996, or after November 18, 1996.

***Multiple-lives annuity.*** If your annuity is payable for the lives of more than one annuitant, use Table 2 at the bottom of the

worksheet to determine the total number of expected monthly payments. Enter on line 3 the number shown for the annuitants' combined ages on the annuity starting date. For an annuity payable to you as the primary annuitant and to more than one survivor annuitant, combine your age and the age of the youngest survivor annuitant. For an annuity that has no primary annuitant and is payable to you and others as survivor annuitants, combine the ages of the oldest and youngest annuitants. Don't treat as a survivor annuitant anyone whose entitlement to payments depends on an event other than the primary annuitant's death.

However, if your annuity starting date is before 1998, don't use Table 2 and don't combine the annuitants' ages. Instead, you must use Table 1 at the bottom of the worksheet and enter on line 3 the number shown for the primary annuitant's age on the annuity starting date. This number will differ

depending on whether your annuity starting date is before November 19, 1996, or after November 18, 1996.

***Fixed-period annuities.*** If your annuity doesn't depend in whole or in part on anyone's life expectancy, the total number of expected monthly payments to enter on line 3 of the worksheet is the number of monthly annuity payments under the contract.

***Line 6.*** The amount on line 6 should include all amounts that could have been recovered in prior years. If you didn't recover an amount in a prior year, you may be able to amend your returns for the affected years.



*Be sure to keep a copy of the completed worksheet; it will help you figure your taxable annuity in later years.*

***Example.*** Kris Smith, age 65, began receiving retirement benefits in 2023, under a joint and survivor annuity. Kris' annuity



starting date is January 1, 2023. The benefits are to be paid over the joint lives of Kris and their spouse, Pat, age 65. Kris had contributed \$31,000 to a qualified plan and had received no distributions before the annuity starting date. Kris is to receive a retirement benefit of \$1,200 a month, and Pat is to receive a monthly survivor benefit of \$600 upon Kris' death.

Kris must use the Simplified Method to figure their taxable annuity because the payments are from a qualified plan and they are under age 75. You can find a blank version of this worksheet in Pub. 575.

**Survivors of retirees.** Benefits paid to you as a survivor under a joint and survivor annuity must be included in your gross income in the same way the retiree would have included them in gross income.

If you receive a survivor annuity because of the death of a retiree who had reported the

annuity under the Three-Year Rule, include the total received in your income. The retiree's cost has already been recovered tax free.

If the retiree was reporting the annuity payments under the General Rule, you must apply the same exclusion percentage the retiree used to your initial payment called for in the contract. The resulting tax-free amount will then remain fixed. Any increases in the survivor annuity are fully taxable.

If the retiree was reporting the annuity payments under the Simplified Method, the part of each payment that is tax free is the same as the tax-free amount figured by the retiree at the annuity starting date. See [\*Simplified Method\*](#), earlier.

**How to report.** If you file Form 1040, 1040-SR, or 1040-NR, report your total annuity on line 5a, and the taxable part on line 5b. If

your pension or annuity is fully taxable, enter it on line 5b. Don't make an entry on line 5a.

**Example.** You are a Form 1040 or 1040-SR filer and you received monthly payments totaling \$1,200 (12 months x \$100) during 2023 from a pension plan that was completely financed by your employer. You had paid no tax on the payments that your employer made to the plan, and the payments weren't used to pay for accident, health, or long-term care insurance premiums (as discussed later under [Insurance Premiums for Retired Public Safety Officers](#)). The entire \$1,200 is taxable. You include \$1,200 only on Form 1040 or 1040-SR, line 5b.

**Joint return.** If you file a joint return and you and your spouse each receive one or more pensions or annuities, report the total of the pensions and annuities on line 5a of Form 1040, 1040-SR, or 1040-NR. Report the total of the taxable parts on line 5b of Form 1040, 1040-SR, or 1040-NR.

**Form 1099-R.** You should receive a Form 1099-R for your pension or annuity. Form 1099-R shows your pension or annuity for the year and any income tax withheld. You should receive a Form W-2, Wage and Tax Statement, if you receive distributions from certain nonqualified plans.



*You must attach Forms 1099-R or Forms W-2 to your 2023 tax return if federal income tax was withheld.*

*Generally, you should be sent these forms by January 31, 2024.*

## **Nonperiodic Distributions**

If you receive a nonperiodic distribution from your retirement plan, you may be able to exclude all or part of it from your income as a recovery of your cost. Nonperiodic distributions include cash withdrawals, distributions of current earnings (dividends) on your investment, and certain loans. For information on how to figure the taxable amount of a nonperiodic distribution, see

## *Taxation of Nonperiodic Payments in Pub. 575.*



*The taxable part of a nonperiodic distribution may be subject to an additional 10% tax. See [Tax on Early Distributions](#), later.*

**Lump-sum distributions.** If you receive a lump-sum distribution from a qualified employee plan or qualified employee annuity and the plan participant was born before January 2, 1936, you may be able to elect optional methods of figuring the tax on the distribution. The part from active participation in the plan before 1974 may qualify as capital gain subject to a 20% tax rate. The part from participation after 1973 (and any part from participation before 1974 that you don't report as capital gain) is ordinary income. You may be able to use the 10-year tax option (explained in Pub. 575) to figure tax on the ordinary income part.

**Form 1099-R.** If you receive a total distribution from a plan, you should receive a Form 1099-R. If the distribution qualifies as a lump-sum distribution, box 3 shows the capital gain part of the distribution. The amount in box 2a, Taxable amount, minus the amount in box 3, Capital gain, is the ordinary income part.

**More information.** For more detailed information on lump-sum distributions, see Pub. 575 or Form 4972, Tax on Lump-Sum Distributions.

## **Tax on Early Distributions**

Most distributions you receive from your qualified retirement plan and nonqualified annuity contracts before you reach age 59 1/2 are subject to an additional tax of 10%. The tax applies to the taxable part of the distribution.

For this purpose, a qualified retirement plan is:

- A qualified employee plan (including a qualified cash or deferred arrangement (CODA) under Internal Revenue Code section 401(k)),
- A qualified employee annuity plan,
- A tax-sheltered annuity plan (section 403(b) plan),
- An eligible state or local government section 457 deferred compensation plan (to the extent that any distribution is attributable to amounts the plan received in a direct transfer or rollover from one of the other plans listed here or an IRA), or
- An IRA.



*You may have to pay a 25%, rather than a 10%, additional tax if you receive distributions from a SIMPLE IRA before you are age 59 1/2. See Pub. 560.*

**General exceptions to tax.** There are a number of exceptions to the early distribution

tax. Some general exceptions include, but are not limited to, distributions:

- Made as part of a series of substantially equal periodic payments (made at least annually) for your life (or life expectancy) or the joint lives (or joint life expectancies) of you and your designated beneficiary (if from a qualified retirement plan, the payments must begin after separation from service),
- Made because you are totally and permanently disabled,
- Made on or after the death of the plan participant or contract holder, or
- Made because you separated from service in or after the year you reach age 55.

**Reporting tax.** If you owe the tax on early distributions, you must generally attach Form 5329, Additional Taxes on Qualified Plans (Including IRAs) and Other Tax-Favored



Accounts, to your 2023 income tax return. If you don't have to file a 2023 income tax return, you may file Form 5329 by itself. See the Instructions for Form 5329. In addition, you don't have to attach Form 5329 to your income tax return if distribution code 1 (early distribution, no known exception) is correctly shown in box 7 of all your Forms 1099-R, and you owe the additional tax on each Form 1099-R. Instead, multiply the taxable part of the early distribution by 10% (0.10), or 25% (0.25) if applicable, and enter the result on Schedule 2 (Form 1040), line 8. See the instructions for Schedule 2 (Form 1040), line 8, for more information about reporting the early distribution tax.

## **Tax on Excess Accumulation**

To make sure that most of your retirement benefits are paid to you during your lifetime, rather than to your beneficiaries after your death, the payments that you receive from qualified retirement plans must begin no later

than your required beginning date. Unless the rule for 5% owners applies, this is generally April 1 of the year that follows the later of:

- The calendar year in which you reach age 73, or
- The calendar year in which you retire from employment with the employer maintaining the plan.

However, your plan may require you to begin to receive payments by April 1 of the year that follows the year in which you reach age 73, even if you haven't retired.

For this purpose, a qualified retirement plan includes:

- A qualified employee plan,
- A qualified employee annuity plan,
- An eligible section 457 deferred compensation plan,

- A tax-sheltered annuity plan (section 403(b) plan) (for benefits accruing after 1986), or
- An IRA.



*An excess accumulation is the undistributed remainder of the required minimum distribution that was left in your qualified retirement plan.*

**5% owners.** If you are a 5% owner, see Pub. 575 for more information on distribution dates.

**Amount of tax.** If you don't receive the required minimum distribution, you may be subject to an additional tax. See Pub. 590-B and the Instructions for Form 5329 for more information.

**Form 5329.** You must file a Form 5329 if you owe a tax because you didn't receive a minimum required distribution from your qualified retirement plan.

**Additional information.** For more detailed information on the tax on excess accumulation, see Pub. 575.

## **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 who is retired because of disability or because you reached normal retirement age), you can elect to exclude from income distributions made from your eligible retirement plan that are used to pay the premiums for coverage by an accident or health plan or a long-term care insurance contract. The premiums can be for coverage for you, your spouse, or dependent(s). The distribution must be from the plan maintained by the employer from which you retired as a public safety officer. The distribution can be made directly from the plan to the provider of the accident or health plan or long-term care

insurance contract, or the distribution can be made to you to pay to the provider of the accident or health plan or long-term care insurance contract. You can exclude from income the lesser of the amount of the premiums paid or \$3,000. You can make this election only for amounts that would otherwise be included in your income. The amount excluded from your income can't be used to claim a medical expense deduction.

An eligible retirement plan is a governmental plan that is a:

- Qualified trust,
- Section 403(a) plan,
- Section 403(b) annuity, or
- Section 457(b) plan.



*If you received a distribution from your eligible retirement plan, and you used part of that distribution to pay premiums for an accident or health plan or*

*long-term care insurance contract, you can still exclude from income only the lesser of the amount of the premiums paid or \$3,000. The rest of the distribution is taxable to you and should be reported as follows.*

If you make this election, reduce the otherwise taxable amount of your pension or annuity by the amount excluded. The taxable amount shown in box 2a of any Form 1099-R that you receive doesn't reflect the exclusion. Report your total distributions on Form 1040, 1040-SR, or 1040-NR, line 5a. Report the taxable amount on Form 1040, 1040-SR, or 1040-NR, line 5b. Enter "PSO" next to the appropriate line on which you report the taxable amount.

## **Railroad Retirement Benefits**

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

**Social security equivalent benefits.** 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 is treated for tax purposes like social security benefits. (See [\*Social Security and Equivalent Railroad Retirement Benefits\*](#), later.)

**Non-social security equivalent benefits.** The second category contains the rest of the tier 1 benefits, called the non-social security equivalent benefit (NSSEB). It also contains any tier 2 benefit, vested dual benefit (VDB), and supplemental annuity benefit. This category of benefits is treated 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. VDBs and supplemental annuity benefits are non-contributory pensions and are fully taxable.

**More information.** For more information about railroad retirement benefits, see Pub. 575.

## **Military Retirement Pay**

Military retirement pay based on age or length of service is taxable and must be included in income as a pension on Form 1040, 1040-SR, or 1040-NR, lines 5a and 5b. But, certain military and government disability pensions that are based on a percentage of disability from active service in the U.S. Armed Forces of any country generally aren't taxable. For more information, including information about veterans' benefits and insurance, see Pub. 525.



# **Social Security and Equivalent Railroad Retirement Benefits**

This discussion explains the federal income tax rules for social security benefits and equivalent tier 1 railroad retirement benefits.

Social security benefits include monthly retirement, survivor, and disability benefits. They don't include supplemental security income (SSI) payments, which aren't taxable.

Equivalent tier 1 railroad retirement benefits are the part of tier 1 benefits that a railroad employee or beneficiary would have been entitled to receive under the social security system. They are commonly called the social security equivalent benefit (SSEB) portion of tier 1 benefits.

If you received these benefits during 2023, you should have received a Form SSA-1099 or Form RRB-1099 (Form SSA-1042S or Form RRB-1042S if you are a nonresident alien) showing the amount of the benefits.

# **Social Security Information**

## **Obtaining social security information.**

Social security beneficiaries may quickly and easily obtain various information from the SSA's website with a *my Social Security* account to:

- Keep track of your earnings and verify them every year,
- Get an estimate of your future benefits if you are still working,
- Get a letter with proof of your benefits if you currently receive them,
- Change your address,
- Start or change your direct deposit,
- Get a replacement Medicare card, and
- Get a replacement SSA-1099 or SSA-1042S for the tax season.

For more information and to set up an account, go to [SSA.gov/myaccount](https://ssa.gov/myaccount).

## **Are Any of Your Benefits Taxable?**

**Note.** When the term “benefits” is used in this section, it applies to both social security benefits and the SSEB portion of tier 1 railroad retirement benefits.

To find out whether any of your benefits may be taxable, compare the base amount for your filing status (explained later) with the total of:

- One-half of your benefits; plus
- All your other income, including tax-exempt interest.

When making this comparison, don't reduce your other income by any exclusions for:

- Interest from qualified U.S. savings bonds,
- Employer-provided adoption benefits,
- Foreign earned income or foreign housing,  
or

- Income earned in American Samoa or Puerto Rico by bona fide residents.

**Figuring total income.** To figure the total of one-half of your benefits plus your other income, use [Worksheet 2-A](#).

If that total amount is more than your base amount, part of your benefits may be taxable.

If you are married and file a joint return for 2023, you and your spouse must combine your incomes and your benefits to figure whether any of your combined benefits are taxable. Even if your spouse didn't receive any benefits, you must add your spouse's income to yours to figure whether any of your benefits are taxable.

Worksheet 2-A. **A Quick Way To Check if Your Benefits May Be Taxable**

Keep for Your Records 

<b>A.</b> Enter the amount from <b>box 5</b> of all your Forms SSA-1099 and RRB-1099. Include the full amount of any lump-sum benefit payments received in 2023, for 2023 and earlier years. (If you received more than one form, combine the amounts from box 5 and enter the total.) .....	<b>A.</b> _____
<b>Note.</b> If the amount on line A is zero or less, stop here; none of your benefits are taxable this year.	
<b>B.</b> Enter one-half of the amount on line A .....	<b>B.</b> _____
<b>C.</b> Enter your taxable pensions, wages, interest, dividends, and other taxable income .....	<b>C.</b> _____
<b>D.</b> Enter any tax-exempt interest income (such as interest on municipal bonds) plus any exclusions from income for: • Interest from qualified U.S. savings bonds, • Employer-provided adoption benefits, • Foreign earned income or foreign housing, or • Income earned in American Samoa or Puerto Rico by bona fide residents .....	<b>D.</b> _____
<b>E.</b> Add lines B, C, and D and enter the total .....	<b>E.</b> _____
<b>F.</b> If you are: • Married filing jointly, enter \$32,000; • Single, head of household, qualifying surviving spouse, or married filing separately and you lived apart from your spouse for all of 2023, enter \$25,000; or • Married filing separately and you lived with your spouse at any time during 2023, enter -0- .....	<b>F.</b> _____
<b>G.</b> Is the amount on line F less than or equal to the amount on line E? <input type="checkbox"/> <b>No.</b> None of your benefits are taxable this year. <input type="checkbox"/> <b>Yes.</b> Some of your benefits may be taxable. To figure how much of your benefits are taxable, see <a href="#">Which worksheet to use</a> under <i>How Much Is Taxable</i> .	

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*If the only income you received during 2023 was your social security or the SSEB portion of tier 1 railroad retirement benefits, your benefits generally aren't taxable and you probably don't have to file a return. If you have income in addition to your benefits, you may have to file a return even if none of your benefits are taxable.*

## **Base Amount**

Your base amount is:

- \$25,000 if you are single, head of household, or qualifying surviving spouse;
- \$25,000 if you are married filing separately and lived apart from your spouse for all of 2023;
- \$32,000 if you are married filing jointly; or
- \$0 if you are married filing separately and lived with your spouse at any time during 2023.

## **Repayment of Benefits**

Any repayment of benefits you made during 2023 must be subtracted from the gross benefits you received in 2023. It doesn't matter whether the repayment was for a benefit you received in 2023 or in an earlier year. If you repaid more than the gross benefits you received in 2023, see [Repayments More Than Gross Benefits](#), later.

Your gross benefits are shown in box 3 of Form SSA-1099 or Form RRB-1099. Your repayments are shown in box 4. The amount in box 5 shows your net benefits for 2023 (box 3 minus box 4). Use the amount in box 5 to figure whether any of your benefits are taxable.

## **Tax Withholding and Estimated Tax**

You can choose to have federal income tax withheld from your social security and/or the SSEB portion of your tier 1 railroad retirement benefits. If you choose to do this, you must



complete a Form W-4V, Voluntary Withholding Request.

If you don't choose to have income tax withheld, you may have to request additional withholding from other income, or pay estimated tax during the year. For details, see Pub. 505, or the Instructions for Form 1040-ES, Estimated Tax for Individuals.

## **How Much Is Taxable?**

If part of your benefits is taxable, how much is taxable depends on the total amount of your benefits and other income. Generally, the higher that total amount, the greater the taxable part of your benefits.

**Maximum taxable part.** The taxable part of your benefits usually can't be more than 50%. However, up to 85% of your benefits can be taxable if either of the following situations applies to you.

- The total of one-half of your benefits and all your other income is more than \$34,000 (\$44,000 if you are married filing jointly).
- You are married filing separately and lived with your spouse at any time during 2023.

If you are a nonresident alien, 85% of your benefits are taxable. However, this income is exempt under some tax treaties.

**Which worksheet to use.** A worksheet to figure your taxable benefits is in the Instructions for Form 1040. However, you will need to use a different worksheet(s) if any of the following situations applies to you.

1. You contributed to a traditional IRA and you or your spouse were covered by a retirement plan at work. In this situation, you must use the special worksheets in Pub. 590-A to figure both your IRA deduction and your taxable benefits.

2. Situation (1) doesn't apply and you take one or more of the following exclusions.
- Interest from qualified U.S. savings bonds (Form 8815, Exclusion of Interests From Series EE and IU.S. Savings Bonds Issued After 1989).
  - Employer-provided adoption benefits (Form 8839, Qualified Adoption Expenses).
  - Foreign earned income or housing (Form 2555, Foreign Earned Income).
  - Income earned in American Samoa (Form 4563, Exclusion of Income for Bona Fide Residents of American Samoa) or Puerto Rico by bona fide residents.

In these situations, you must use Worksheet 1 in Pub. 915, to figure your taxable benefits.

3. You received a lump-sum payment for an earlier year. In this situation, also complete Worksheet 2 or 3 and Worksheet 4 in Pub. 915. See [Lump-Sum Election](#), later.

## **How To Report Your Benefits**

If part of your benefits is taxable, you must use Form 1040, 1040-SR, or 1040-NR.

### **Reporting on Form 1040 or 1040-SR.**

Report your net benefits (the amount in box 5 of your Form SSA-1099 or Form RRB-1099) on line 6a and the taxable part on line 6b. If you are married filing separately and you lived apart from your spouse for all of 2023, also enter "D" to the right of the word "benefits" on line 6a.

**Reporting on Form 1040-NR.** Report 85% of the total amount of your benefits (box 5 of your Form SSA-1042S or Form RRB-1042S) in the appropriate column of Schedule NEC (Form 1040-NR), line 8.

**Benefits not taxable.** Report your net benefits (the amount in box 5 of your Form SSA-1099 or Form RRB-1099) on Form 1040 or 1040-SR, line 6a. Enter -0 on Form 1040 or 1040-SR, line 6b. If you are married filing separately and you lived apart from your spouse for all of 2023, also enter "D" to the right of the word "benefits" on Form 1040 or 1040-SR, line 6a.

## **Lump-Sum Election**

You must include the taxable part of a lump-sum (retroactive) payment of benefits received in 2023 in your 2023 income, even if the payment includes benefits for an earlier year.



*This type of lump-sum benefit payment shouldn't be confused with the lump-sum death benefit that both the SSA and Railroad Retirement Board (RRB) pay to many of their beneficiaries. No part of the lump-sum death benefit is subject*

*to tax. For more information about the lump-sum death benefit, visit the SSA website at [SSA.gov](https://www.ssa.gov), and use keyword: "death benefit."*

Generally, you use your 2023 income to figure the taxable part of the total benefits received in 2023. However, you may be able to figure the taxable part of a lump-sum payment for an earlier year separately, using your income for the earlier year. You can elect this method if it lowers your taxable benefits. See Pub. 915 for more information.

## **Repayments More Than Gross Benefits**

In some situations, your Form SSA-1099 or Form RRB-1099 will show that the total benefits you repaid (box 4) are more than the gross benefits (box 3) you received. If this occurred, your net benefits in box 5 will be a negative figure (a figure in parentheses) and none of your benefits will be taxable. If you receive more than one form, a negative figure

in box 5 of one form is used to offset a positive figure in box 5 of another form for that same year.

If you have any questions about this negative figure, contact your local SSA office or your local U.S. RRB field office.

**Joint return.** If you and your spouse file a joint return, and your Form SSA-1099 or RRB-1099 has a negative figure in box 5 but your spouse's doesn't, subtract the box 5 amount on your form from the box 5 amount on your spouse's form. You do this to get your net benefits when figuring if your combined benefits are taxable.

**Repayment of benefits received in an earlier year.** If the total amount shown in box 5 of all of your Forms SSA-1099 and RRB-1099 is a negative figure, you may be able to take an itemized deduction for the part of this negative figure that represents

benefits you included in gross income in an earlier year.

The deduction must be more than \$3,000 and you have to follow some special instructions. See Pub. 915 for those instructions.

## **Sickness and Injury Benefits**

Generally, you must report as income any amount you receive for personal injury or sickness through an accident or health plan that is paid for by your employer. If both you and your employer pay for the plan, only the amount you receive that is due to your employer's payments is reported as income. However, certain payments may not be taxable to you. Some of these payments are discussed later in this section. Also, see *Military and Government Disability Pensions and Other Sickness and Injury Benefits* in Pub. 525.

**Cost paid by you.** If you pay the entire cost of an accident or health plan, don't include



any amounts you receive from the plan for personal injury or sickness as income on your tax return. If your plan reimbursed you for medical expenses you deducted in an earlier year, you may have to include some, or all, of the reimbursement in your income.

## **Disability Pensions**

If you retired on disability, you must include in income any disability pension you receive under a plan that is paid for by your employer. You must report your taxable disability payments as wages on Form 1040, 1040-SR, or 1040-NR, line 1h, until you reach minimum retirement age. Minimum retirement age is generally the age at which you can first receive a pension or annuity if you aren't disabled.



*If you were age 65 or older by the end of 2023 or you were retired on permanent and total disability and received taxable disability income, you may*

*be able to claim the credit for the elderly or the disabled. See [Credit for the Elderly or the Disabled](#), later. For more information on this credit, see Pub. 524.*

Beginning on the day after you reach minimum retirement age, payments you receive are taxable as a pension or annuity. Report the payments on Form 1040, 1040-SR, or 1040-NR, lines 5a and 5b. For more information on pensions and annuities, see Pub. 575.

**Note.** Don't include in your income disability payments you receive for injuries incurred as a direct result of terrorist attacks or military action directed against the United States (or its allies), whether outside or within the United States. For more information, see *Terrorist attacks* in Pub. 525.

**Retirement and profit-sharing plans.** If you receive payments from a retirement or profit-sharing plan that doesn't provide for

disability retirement, don't treat the payments as a disability pension. The payments must be reported as a pension or annuity.

**Accrued leave payment.** If you retire on disability, any lump-sum payment you receive for accrued annual leave is a salary payment. The payment isn't a disability payment. Include it in your income in the tax year you receive it.

## **Long-Term Care Insurance Contracts**

In most cases, long-term care insurance contracts are treated as accident and health insurance contracts. Amounts you receive from them (other than policyholder dividends or premium refunds) are generally excludable from income as amounts received for personal injury or sickness. However, the amount you can exclude may be limited. Long-term care insurance contracts are discussed in more detail in Pub. 525.

## Workers' Compensation

Amounts you receive as workers' compensation for an occupational sickness or injury are fully exempt from tax if they are paid under a workers' compensation act or a statute in the nature of a workers' compensation act. The exemption also applies to your survivors. The exemption, however, doesn't apply to retirement plan benefits you receive based on your age, length of service, or prior contributions to the plan, even if you retired because of an occupational sickness or injury.



*If part of your workers' compensation reduces your social security or equivalent railroad retirement benefits, that part is considered social security (or equivalent railroad retirement) benefits and may be taxable. For a discussion of the taxability of these benefits, see [Social Security and Equivalent Railroad Retirement Benefits](#), earlier.*

**Return to work.** If you return to work after qualifying for workers' compensation, salary payments you receive for performing light duties are taxable as wages.

## **Other Sickness and Injury Benefits**

In addition to disability pensions and annuities, you may receive other payments for sickness or injury.

**Federal Employees' Compensation Act (FECA).** Payments received under this Act for personal injury or sickness, including payments to beneficiaries in case of death, aren't taxable. However, you are taxed on amounts you receive under this Act as continuation of pay for up to 45 days while a claim is being decided. Report this income on Form 1040, 1040-SR, or 1040-NR, line 1a. Also, pay for sick leave while a claim is being processed is taxable and must be included in your income as wages.



*If part of the payments you receive under FECA reduces your social security or equivalent railroad retirement benefits, that part is considered social security (or equivalent railroad retirement) benefits and may be taxable. For a discussion of the taxability of these benefits, see [Social Security and Equivalent Railroad Retirement Benefits](#), earlier.*

**Other compensation.** Many other amounts you receive as compensation for sickness or injury aren't taxable. These include the following amounts.

- Benefits you receive under an accident or health insurance policy on which either you paid the premiums or your employer paid the premiums but you had to include the amount of employer-paid premiums in your income.
- Compensatory damages you receive for physical injury or physical sickness,

whether paid in a lump sum or in periodic payments.

- Disability benefits you receive for loss of income or earning capacity as a result of injuries under a no-fault car insurance policy.
- Compensation you receive for permanent loss or loss of use of a part or function of your body, for your permanent disfigurement, or for such loss or disfigurement suffered by your spouse or dependent(s). This compensation must be based only on the injury and not on the period of your absence from work. These benefits aren't taxable even if your employer pays for the accident and health plan that provides these benefits.

## **Life Insurance Proceeds**

Life insurance proceeds paid to you because of the death of the insured person aren't taxable unless the policy was turned over to

you for a price. This is true even if the proceeds were paid under an accident or health insurance policy or an endowment contract issued on or before December 31, 1984. However, interest income received as a result of life insurance proceeds may be taxable.

**Proceeds not received in installments.** If death benefits are paid to you in a lump sum or other than at regular intervals, include in your income only the benefits that are more than the amount payable to you at the time of the insured person's death. If the benefit payable at death isn't specified, include in your income the benefit payments that are more than the present value of the payments at the time of death.

**Proceeds received in installments.** If you receive life insurance proceeds in installments, you can exclude part of each installment from your income.



To determine the excluded part, divide the amount held by the insurance company (generally, the total lump-sum payable at the death of the insured person) by the number of installments to be paid. Include anything over this excluded part in your income as interest.

***Installments for life.*** If, as the beneficiary under an insurance contract, you are entitled to receive the proceeds in installments for the rest of your life without a refund or period-certain guarantee, figure the excluded part of each installment by dividing the amount held by the insurance company by your life expectancy. If there is a refund or period-certain guarantee, the amount held by the insurance company for this purpose is reduced by the actuarial value of the guarantee.

***Surviving spouse.*** If your spouse died before October 23, 1986, and insurance proceeds paid to you because of the death of your spouse are received in installments, you can exclude, in any year, up to \$1,000 of the

interest included in the installments. If you remarry, you can continue to take the exclusion.

**Surrender of policy for cash.** If you surrender a life insurance policy for cash, you must include in income any proceeds that are more than the cost of the life insurance policy. In general, your cost (or investment in the contract) is the total of premiums that you paid for the life insurance policy, less any refunded premiums, rebates, dividends, or unrepaid loans that weren't included in your income. You should receive a Form 1099-R showing the total proceeds and the taxable part. Report these amounts on Form 1040, 1040-SR, or 1040-NR, lines 5a and 5b.

## **Endowment Contract Proceeds**

An endowment contract is a policy that pays you a specified amount of money on a certain date unless you die before that date, in which case the money is paid to your designated

beneficiary. Endowment proceeds paid in a lump sum to you at maturity are taxable only if the proceeds are more than the cost of the policy. To determine your cost, subtract from the total premiums (or other consideration) paid for the contract any amount that you previously received under the contract and excluded from your income. Include in your income the part of the lump-sum payment that is more than your cost.

Endowment proceeds that you choose to receive in installments instead of a lump-sum payment at the maturity of the policy are taxed as an annuity. The tax treatment of an annuity is explained in Pub. 575. For this treatment to apply, you must choose to receive the proceeds in installments before receiving any part of the lump sum. This election must be made within 60 days after the lump-sum payment first becomes payable to you.

## **Accelerated Death Benefits**

Certain amounts paid as accelerated death benefits under a life insurance contract or viatical settlement before the insured's death are generally excluded from income if the insured is terminally or chronically ill.

However, see [Exception](#), later. For a chronically ill individual, accelerated death benefits paid on the basis of costs incurred for qualified long-term care services are fully excludable. Accelerated death benefits paid on a per diem or other periodic basis without regard to the costs are excludable up to a limit.

In addition, if any portion of a death benefit under a life insurance contract on the life of a terminally or chronically ill individual is sold or assigned to a viatical settlement provider, the amount received is also excluded from income. Generally, a viatical settlement provider is one who regularly engages in the business of buying or taking assignment of

life insurance contracts on the lives of insured individuals who are terminally or chronically ill.

To report taxable accelerated death benefits made on a per diem or other periodic basis, you must file Form 8853, Archer MSAs and Long-Term Care Insurance Contracts, with your return.

**Terminally or chronically ill defined.** A

terminally ill person is one who has been certified by a physician as having an illness or physical condition that can reasonably be expected to result in death within 24 months from the date of the certification. A chronically ill person is one who isn't terminally ill but has been certified (within the previous 12 months) by a licensed health care practitioner as meeting either of the following conditions.

- The person is unable to perform (without substantial help) at least two activities of

daily living (eating, toileting, transferring, bathing, dressing, and continence) for a period of 90 days or more because of a loss of functional capacity.

- The person requires substantial supervision to protect themselves from threats to health and safety due to severe cognitive impairment.

**Exception.** The exclusion doesn't apply to any amount paid to a person other than the insured if that other person has an insurable interest in the life of the insured because the insured:

- Is a director, officer, or employee of the other person; or
- Has a financial interest in the business of the other person.

## **Sale of Home**

You may be able to exclude from income any gain up to \$250,000 (\$500,000 on a joint

return in most cases) on the sale of your main home. Generally, if you can exclude all of the gain, you don't need to report the sale on your tax return. You can choose not to take the exclusion by including the gain from the sale in your gross income on your tax return for the year of the sale.

**Main home.** Usually, your main home is the home you live in most of the time and can be a:

- House,
- Houseboat,
- Mobile home,
- Cooperative apartment, or
- Condominium.

### **Repaying the first-time homebuyer**

**credit.** If you purchased your home in 2008 and claimed the first-time homebuyer credit, you must continue repaying the credit with

your 2023 tax return. If you are required to repay the credit because you sold the home or it otherwise ceased to be your main home in 2023, you must generally repay the balance of the unpaid credit with your 2023 return. See the Instructions for Form 5405, Repayment of the First-Time Homebuyer Credit, for more information and exceptions.

## **Maximum Amount of Exclusion**

You can generally exclude up to \$250,000 of the gain (other than gain allocated to periods of nonqualified use) on the sale of your main home if all of the following are true.

- You meet the ownership test.
- You meet the use test.
- During the 2-year period ending on the date of the sale, you didn't exclude gain from the sale of another home.

**Joint returns.** You may be able to exclude up to \$500,000 of the gain (other than gain



allocated to periods of nonqualified use) on the sale of your main home if you are married and file a joint return and meet the requirements listed in the discussion of the special rules for joint returns, later, under [\*Married Persons\*](#).

**Reduced exclusion.** Even if you don't meet the requirements described above, you can still claim an exclusion in some cases.

Generally, you must have sold the home due to a change in place of employment, health, or unforeseen circumstances. The maximum amount you can exclude will be reduced. See Pub. 523 for more information.

**Expatriation tax.** You can't exclude gain from the sale of your home if you are subject to the expatriation tax. See Pub. 519 for more information about the expatriation tax.

## **Ownership and Use Tests**

To claim the exclusion, you must meet the ownership and use tests. These tests

generally require that during the 5-year period ending on the date of the sale, you must have:

- Owned the home for at least 2 years (the ownership test), and
- Lived in the home as your main home for at least 2 years (the use test). The 2 years of residence can fall anywhere within the 5-year period, and it doesn't need to be a single block of time.

**Exception to use test for individuals with a disability.** There is an exception to the use test if, during the 5-year period before the sale of your home:

- You become physically or mentally unable to care for yourself, and
- You owned and lived in your home as your main home for a total of at least 1 year.

If you qualify for this exception, you are considered to live in your home during any

time that you own the home and live in a facility (including a nursing home) that is licensed by a state or political subdivision to care for persons in your condition.

If you meet this exception to the use test, you still have to meet the 2-out-of-5-year ownership test to claim the exclusion.

**Exception to ownership test for property acquired in a like-kind exchange.** If you acquired your main home in a like-kind exchange, you must own the home for 5 years before you qualify for the exclusion. This special 5-year ownership rule continues to apply to the home even if you give it to another person. A like-kind exchange is an exchange of property held for productive use in a trade or business or for investment in which no gain or loss is recognized. See Pub. 523 for more information.

**Period of nonqualified use.** Generally, the gain from the sale or exchange of your main

home won't qualify for the exclusion to the extent that the gain is allocated to periods of nonqualified use. Nonqualified use is any period after December 31, 2008, during which the property isn't used as the main home. See Pub. 523 for more information.

## **Married Persons**

Generally, if the home you sold counts as your main home and you are a married person filing separately, the first \$250,000 of gain isn't taxable if all of the following are true.

- You meet the ownership test.
- You meet the use test.
- During the 2-year period ending on the date of the sale, you didn't exclude gain from the sale of another home.

You may be able to exclude up to \$500,000 of the gain (other than gain allocated to periods of nonqualified use) on the sale of your main home if you are married and file a joint return

and meet the requirements for joint returns discussed under [Special rules for joint returns](#) next.

**Special rules for joint returns.** You can exclude up to \$500,000 of the gain on the sale of your main home if all of the following are true.

- You are married and file a joint return for the year.
- Either you or your spouse meets the ownership test.
- Both you and your spouse meet the use test.
- During the 2-year period ending on the date of the sale, neither you nor your spouse exclude gain from the sale of another home.

**Sale of home by surviving spouse.** If your spouse died and you didn't remarry before the date of sale, you are considered to have

owned and lived in the property as your main home during any period of time when your spouse owned and lived in it as a main home.

If you meet all of the following requirements, you may qualify to exclude up to \$500,000 of any gain from the sale or exchange of your main home in 2023.

- The sale or exchange took place no more than 2 years after the date of death of your spouse.
- You haven't remarried.
- You and your spouse met the use test at the time of your spouse's death.
- You or your spouse met the ownership test at the time of your spouse's death.
- Neither you nor your spouse excluded gain from the sale of another home during the last 2 years.

**Home transferred from spouse.** If your home was transferred to you by your spouse

(or former spouse if the transfer was incident to divorce), you are considered to have owned it during any period of time when your spouse owned it.

**Use of home after divorce.** You are considered to have used property as your main home during any period when:

- You owned it, and
- Your spouse or former spouse is allowed to live in it under a divorce or separation instrument and uses it as their main home.

## **Business Use or Rental of Home**

You may be able to exclude gain from the sale of a home that you have used for business or to produce rental income.

However, you must meet the ownership and use tests. See Pub. 523 for more information.

**Recapturing depreciation.** If you used all or part of your home for business or rental after

May 6, 1997, you may need to pay back (recapture) some or all of the depreciation you were entitled to take on your property when you sell it. See Pub. 523 for more information.

## **Reporting the Sale**

Don't report the 2023 sale of your main home on your tax return unless:

- You received Form 1099-S, Proceeds From Real Estate Transactions;
- You have a gain and you don't qualify to exclude all of it;
- You have a gain and you choose not to exclude it; or
- You have a loss from the sale that is deductible.



*A loss from the sale of your home, or the personal part of your home if it was also used for business or to produce rental income, isn't deductible.*



If any of the above apply, report the sale on Part I or Part II of Form 8949 as a short-term or long-term transaction, depending on how long you owned the home. If you used your home for business or to produce rental income, you may have to use Form 4797, Sales of Business Property, to report the sale of the business or rental part. See Pub. 523 for more information.

## **Reverse Mortgages**

A reverse mortgage is a loan where the lender pays you (in a lump sum, a monthly advance, a line of credit, or a combination of all three) while you continue to live in your home. With a reverse mortgage, you retain title to your home. Depending on the plan, your reverse mortgage becomes due with interest when you move, sell your home, reach the end of a pre-selected loan period, or die. Because reverse mortgages are considered loan advances and not income, the amount you receive isn't taxable. Any interest

(including original interest discount) accrued on a reverse mortgage isn't deductible home mortgage interest. See Pub. 936 for more information.

## **Other Items**

The following items are generally excluded from taxable income. You shouldn't report them on your return, unless otherwise indicated as taxable or includible in income.

**Gifts and inheritances.** In most cases, property you receive as a gift, bequest, or inheritance isn't included in your income. However, if property you receive this way later produces income such as interest, dividends, or rents, that income is taxable to you. If property is given to a trust and the income from it is paid, credited, or distributed to you, that income is also taxable to you. If the gift, bequest, or inheritance is the income from property, that income is taxable to you.

**Veterans' benefits.** Don't include in your income any veterans' benefits paid under any law, regulation, or administrative practice administered by the Department of Veterans Affairs (VA). See Pub. 525.

**Public assistance benefits.** Other items that are generally excluded from taxable income also include the following public assistance benefits.

***Welfare benefits.*** Don't include in your income benefit payments from a public welfare fund based upon need, such as payments due to blindness. However, you must include in your income any welfare payments that are compensation for services or that are obtained fraudulently.

***Payments from a state fund for victims of crime.*** Don't include in your income payments from a state fund for victims of crime if the payments are in the nature of

welfare payments. Don't deduct medical expenses that are reimbursed by such a fund.

***Mortgage assistance payments.*** Payments made under section 235 of the National Housing Act for mortgage assistance aren't included in the homeowner's income. Interest paid for the homeowner under the mortgage assistance program can't be deducted.

Also, mortgage payments provided under the Department of Housing and Urban Development's Emergency Homeowners' Loan Program (EHLPP), state housing finance authorities receiving funds allocated from the Housing Finance Agency Innovation Fund for the Hardest-Hit Housing Markets (HFA Hardest Hit Fund), or other similar state programs receiving funding from the EHLPP are excluded from income. See Form 1098-MA, Mortgage Assistance Payments, and its instructions for details.

***Payments to reduce cost of winter energy use.*** Payments made by a state to qualified people on the basis of need to reduce their cost of winter energy use aren't taxable.

***Nutrition Program for the Elderly.*** Food benefits you receive under the Nutrition Program for the Elderly aren't taxable. If you prepare and serve free meals for the program, include in your income as wages the cash pay you receive, even if you are also eligible for food benefits.

***Reemployment Trade Adjustment Assistance (RTAA).*** Payments you receive from a state agency under RTAA must be included in your income. The state must send you Form 1099-G, Certain Government Payments, to advise you of the amount you should include in income. The amount should be reported on Schedule 1 (Form 1040), line 8z.

**Persons with disabilities.** If you have a disability, include in income compensation you receive for services you perform unless the compensation is otherwise excluded. However, don't include in income the value of goods, services, and cash that you receive, not in return for your services, but for your training and rehabilitation because you have a disability. Excludable amounts include payments for transportation and attendant care, such as interpreter services for the deaf, reader services for the blind, and services to help individuals with an intellectual disability do their work.

**Medicare.** Medicare benefits received under title XVIII of the Social Security Act aren't includible in the gross income of the individuals for whom they are paid. This includes basic (Part A (Hospital Insurance Benefits for the Aged)) and supplementary (Part B (Supplementary Medical Insurance Benefits for the Aged)).