

Publication 721

Tax Guide to U.S. Civil Service Retirement Benefits

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. 721, such as legislation enacted after it was published, go to [IRS.gov/Pub721](https://www.irs.gov/pub721).

What's New

Qualified disaster distributions. The 10% additional tax on early distributions doesn't apply to qualified distributions made in connection with federally declared disasters. See Forms 8915-C, 8915-D, and 8915-F, as applicable, for more details.

Distributions to terminally ill individuals. The 10% additional tax on early distributions doesn't apply to distributions made to terminally ill individuals.

Increase in age for mandatory distributions. Individuals that reach age 72 on January 1, 2023, or later may delay distributions until April 1 of the year following the year in which they turn age 73.

Expanded exception to the tax on early distributions from a governmental plan (including both governmental defined benefit and governmental defined contribution plans) for qualified public safety employees. For distributions made after December 29, 2022, the exception to the tax on early distributions is expanded as follows:

- The definition of qualified public safety employee is expanded to include corrections officers and forensic security employees who are employees of state and local governments; and
- Qualified public safety employees may receive distributions without the application of the additional tax once they

complete 25 years of service under the plan or attain age 50 (whichever is earlier).

See *Qualified public safety employees* under *Tax on Early Distributions* in Pub. 575, *Pension and Annuity Income*, for more information.

Reminders

Extended rollover period for qualified plan loan offsets in 2018 or later. For distributions made in tax years beginning after December 31, 2017, you have until the due date (including extensions) for your tax return for the tax year in which the offset occurs to roll over a qualified plan loan offset amount. For more information, see *Plan loan offset* under *Time for making rollover* in Pub. 575.

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

Distributions in the case of a birth or adoption of a child. The 10% additional tax on early distributions doesn't apply to qualified birth or adoption distributions.

Phased retirement. The phased retirement program was signed into law by the Moving Ahead for Progress in the 21st Century Act. This program allows eligible employees to begin receiving annuity payments while working part time. For more information about phased retirement, go to OPM.gov and click on the Retirement tab and then [*Phased Retirement*](#). For information on how the tax-free portion (recovery of investment in the contract) of your phased retirement benefits is figured, see Notice 2016-39, available at IRS.gov/irb/2016-26 [*IRB#NOT-2016-39*](#).

For additional guidance, see the Benefits Administration Letter 19-102, dated May 20, 2019, available at [OPM.gov/retirement-services/publications-forms/benefitsadministration-letters/2019/19-102.pdf](https://www.opm.gov/retirement-services/publications-forms/benefitsadministration-letters/2019/19-102.pdf).

Roth Thrift Savings Plan (TSP) balance.

You may be able to contribute to a designated Roth account through the TSP known as the Roth TSP. Roth TSP contributions are after-tax contributions, subject to the same contribution limits as the traditional TSP. Qualified distributions from a Roth TSP aren't included in your income. See *Thrift Savings Plan* in Part II for more information.

Rollovers. You can roll over certain amounts from the CSRS, FERS, or TSP to a qualified retirement plan or an IRA. See *Rollover Rules* in Part II.

Rollovers by surviving spouse. You may be able to roll over a distribution you receive as the surviving spouse of a deceased

employee or retiree into a qualified retirement plan or an IRA. See Rollover Rules in Part II.

Thrift Savings Plan (TSP) beneficiary participant accounts. If you are the spouse beneficiary of a decedent's TSP account, you have the option of leaving the death benefit payment in a TSP account in your own name (a beneficiary participant account). The amounts in the beneficiary participant account are neither taxable nor reportable until you choose to make a withdrawal, or otherwise receive a distribution from the account.

Benefits for public safety officer's survivors. A survivor annuity received by the spouse, former spouse, or child of a public safety officer killed in the line of duty will generally be excluded from the recipient's income. For more information, see Dependents of public safety officers in Part IV.

Uniformed services Thrift Savings Plan (TSP) accounts.

If you have a uniformed services TSP account, it may include contributions from combat pay. This pay is tax exempt and contributions attributable to that pay are tax exempt when they are distributed from the uniformed services TSP account. However, any earnings on those contributions are subject to tax when they are distributed. See *Roth TSP balance*, discussed later, to get more information about Roth contributions. The statement you receive from the TSP will separately state the total amount of your distribution and the amount of your taxable distribution for the year. If you have both a civilian and a uniformed services TSP account, you should apply the rules discussed in this publication separately to each account. You can get more information from the TSP website, [TSP.gov](https://www.tsp.gov), or the TSP Service Office.

Photographs of missing children. The IRS 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 1-800-THE-LOST (1-800-843-5678) if you recognize a child.

Introduction

This publication explains how the federal income tax rules apply to civil service retirement benefits received by retired federal employees (including those disabled) or their survivors. These benefits are paid primarily under the Civil Service Retirement System (CSRS) or the Federal Employees' Retirement System (FERS).

Tax rules for annuity benefits. Part of the annuity benefits you receive is a tax-free recovery of your contributions to the CSRS or

FERS. The rest of your annuity benefits are taxable. If your annuity starting date is after November 18, 1996, you must use the Simplified Method to figure the taxable and tax-free parts. If your annuity starting date is before November 19, 1996, you generally could have chosen to use the Simplified Method or the General Rule. See Part II, Rules for Retirees.

Thrift Savings Plan (TSP). The TSP provides federal employees with the same savings and tax benefits that many private employers offer their employees. This plan is similar to 401(k) plans offered by the private sector. You can defer tax on part of your pay by having it contributed to your traditional balance in the plan. The contributions and earnings on them aren't taxed until they are distributed to you. Also, the TSP offers a Roth TSP option. Contributions to this type of balance are after tax, and qualified

distributions from the account are tax free.
See *Thrift Savings Plan* in Part II.

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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Useful Items

You may want to see:

Publication

- ☐ **524** Credit for the Elderly or the Disabled
- ☐ **575** Pension and Annuity Income
- ☐ **590-A** Contributions to Individual Retirement Arrangements (IRAs)
- ☐ **590-B** Distributions from Individual Retirement Arrangements (IRAs)
- ☐ **939** General Rule for Pensions and Annuities

Form (and Instructions)

- ☐ **CSA 1099-R** Statement of Annuity Paid
- ☐ **CSF 1099-R** Statement of Survivor Annuity Paid
- ☐ **W-4P** Withholding Certificate for Periodic Pension or Annuity Payments

- **W-4R** Withholding Certificate for Nonperiodic Payments and Eligible Rollover Distributions
- **1099-R** Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.
- **5329** Additional Taxes on Qualified Plans (Including IRAs) and Other Tax-Favored Accounts

Part I General Information

This part of the publication contains information that can apply to most recipients of civil service retirement benefits.

Refund of Contributions

If you leave federal government service or transfer to a job not under the CSRS or FERS and you aren't eligible for an immediate annuity, you can choose to receive a refund of the money in your CSRS or FERS retirement account. The refund will include

both regular and voluntary contributions you made to the fund, plus any interest payable.

If the refund includes only your contributions, none of the refund is taxable. If it includes any interest, the interest is taxable unless you roll it over directly into another qualified plan or a traditional individual retirement arrangement (IRA). If you don't have the Office of Personnel Management (OPM) transfer the interest to an IRA or other plan in a direct rollover, tax will be withheld at a 20% rate. See *Rollover Rules* in Part II for information on how to make a rollover.



Interest isn't paid on contributions to the CSRS for service after 1956 unless your service was for more than 1 year but not more than 5 years. Therefore, many employees who withdraw their contributions under the CSRS don't get interest and don't owe any tax on their refund.

If you don't roll over interest included in your refund, it may qualify as a lump-sum distribution eligible for capital gain treatment or the 10-year tax option if the plan participant was born before January 2, 1936. If you separate from service before the calendar year in which you reach age 55 (or before the earlier of age 50 or completing 25 years of service under the plan if you are a qualified public safety employee), it may be subject to an additional 10% tax on early distributions. For more information, see *Lump-Sum Distributions and Tax on Early Distributions* in Pub. 575.

Tax Withholding and Estimated Tax

The CSRS or FERS annuity you receive is subject to federal income tax withholding, unless you choose not to have tax withheld. OPM will tell you how to make the choice. The choice for no withholding remains in effect until you change it. These withholding rules also apply to a disability annuity, whether

received before or after minimum retirement age.

If you choose not to have tax withheld, or if you don't have enough tax withheld, you may have to make estimated tax payments.



You may owe a penalty if the total of your withheld tax and estimated tax doesn't cover most of the tax shown on your return. Generally, you will owe the penalty for 2024 if the additional tax you must pay with your return is \$1,000 or more and more than 10% of the tax to be shown on your 2024 return. For more information, including exceptions to the penalty, see Pub. 505, Tax Withholding and Estimated Tax.

Form CSA 1099-R. Form CSA 1099-R is mailed to you by OPM each year. It will show any tax you had withheld. Attach a copy of Form CSA 1099-R to your tax return if any federal income tax was withheld.



You can also view and download your Form CSA 1099-R by visiting the OPM website at servicesonline.opm.gov.

To log in, you will need your retirement CSA claim number, your social security number, and your password.

Choosing no withholding on payments outside the United States. The choice for no withholding generally can't be made for annuity payments to be delivered outside the United States and its territories.

To choose no withholding if you are a U.S. citizen or resident alien, you must provide OPM with your home address in the United States or its territories. Otherwise, OPM has to withhold tax. For example, OPM must withhold if you provide a U.S. address for a nominee, trustee, or agent (such as a bank) to whom the benefits are to be delivered, but you don't provide your own U.S. home address.

If you don't provide a home address in the United States or its territories, you can choose not to have tax withheld only if you certify to OPM that you aren't a U.S. citizen, a U.S. resident alien, or someone who left the United States to avoid tax. But if you so certify, you may be subject to the 30% flat (or lower treaty) rate withholding that applies to nonresident aliens. For details, see Pub. 519, U.S. Tax Guide for Aliens.

Withholding certificate. If you give OPM a Form W-4P for withholding on periodic pension or annuity payments, or Form W-4R for withholding on nonperiodic payments, you can choose not to have tax withheld or you can choose to have tax withheld. You can't choose to have no tax withheld from eligible rollover distributions. The amount of federal income tax withheld depends on which form you need to complete. See the instructions for each form for more information. If you don't complete Form W-4P, then for a payee

who received a first periodic payment in 2023, OPM must withhold as if you were a single filer who made no entries in Step 2, Step 3, and Step 4 of Form W-4P. For the default 2023 withholding for a payee who first received a periodic payment before 2023, see *Payee fails to furnish Form W-4P or provides an incorrect SSN on Form W-4P*, in Pub. 15-T. If you don't complete Form W-4R, then for a nonperiodic payment, OPM must withhold federal income tax at 10%, for an eligible rollover distribution, the default withholding rate is 20%.



To change the amount of withholding or stop withholding go to the OPM website at servicesonline.opm.gov.

You will need your retirement CSA or CSF claim number and password. If you do not have a password, call or write OPM's Retirement Information Office.



You can also change the amount of tax withholding or stop withholding, by calling OPM's Retirement

Information Office at 1-888-767-6738. No special form is needed. You will need your retirement CSA or CSF claim number and your social security number when you call. If you have TTY/TDD equipment, call 711.

Withholding from certain lump-sum payments.

If you leave the federal government before becoming eligible to retire and you apply for a refund of your CSRS or FERS contributions, or you die without leaving a survivor eligible for an annuity, you or your beneficiary will receive a distribution of your contributions to the retirement plan plus any interest payable. Tax will be withheld at a 20% rate on the interest distributed.

However, tax will not be withheld if you have OPM transfer (roll over) the interest directly to your traditional IRA or other qualified plan. If you have OPM transfer (roll over) the

interest directly to a Roth IRA, the entire amount will be taxed in the current year. Because no income tax will be withheld at the time of the transfer, you may want to increase your withholding or pay estimated taxes. See *Rollover Rules* in Part II. If you receive only your contributions, no tax will be withheld.

Withholding from Thrift Savings Plan (TSP) payments. Generally, a distribution that you receive from the TSP is subject to federal income tax withholding. The amount withheld is:

- 20% if the distribution is an eligible rollover distribution;
- 10% if it is a nonperiodic distribution other than an eligible rollover distribution; or
- Determined using the instructions and tables provided in Pub. 15-T, based on

information you provide on Form W-4P, if it is a periodic distribution.

However, you can usually choose not to have tax withheld from TSP payments other than eligible rollover distributions. By January 31 after the end of the year in which you receive a distribution, the TSP will issue Form 1099-R showing the total distributions you received in the prior year and the amount of tax withheld.

For a detailed discussion of withholding on distributions from the TSP, see the TSP publication Tax Rules about TSP Payments and Distributions. Both these publications are available on the TSP website at [TSP.gov/forms](https://www.tsp.gov/forms).

Estimated tax. Generally, you must make estimated tax payments for 2024 if you expect to owe at least \$1,000 in tax for 2024 (after subtracting your withholding and credits) and you expect your withholding and your credits to be less than the smaller of:

- 90% of the tax to be shown on your income tax return for 2024, or
- 100% of the tax shown on your 2023 income tax return (110% of that amount if the adjusted gross income shown on the return was more than \$150,000 (\$75,000 if your filing status for 2024 will be married filing separately)). The return must cover all 12 months.

You don't have to pay estimated tax for 2024 if you were a U.S. citizen or resident alien for all of 2023 and you had no tax liability for the full 12-month 2023 tax year.

Pub. 505 and Form 1040-ES contain information that you can use to help you figure your estimated tax payments.

Filing Requirements

If your gross income, including the taxable part of your annuity, is less than a certain amount, you generally don't have to file a federal income tax return for that year. The

gross income filing requirements for the tax year are in the Instructions for Form 1040.

Children. If you are the surviving spouse of a federal employee or retiree and your monthly annuity check includes a survivor annuity for one or more children, each child's annuity counts as their own income (not yours) for federal income tax purposes.

If your child can be claimed as a dependent, treat the taxable part of their annuity as unearned income when applying the filing requirements for dependents.

Form CSF 1099-R. Form CSF 1099-R will be mailed by January 31 after the end of each tax year. It will show the total amount of the annuity you received in the past year. It should also show, separately, the survivor annuity for a child or children. Only the part that is each individual's survivor annuity should be shown on that individual's Form 1040 or 1040-SR.

If your Form CSF 1099-R doesn't separately show the amount paid to you for a child or children, attach a statement to your return, along with a copy of Form CSF 1099-R, explaining why the amount shown on the tax return differs from the amount shown on Form CSF 1099-R.



You can also view and download your Form CSF 1099-R by visiting the OPM website at servicesonline.opm.gov.

To log in, you will need your retirement CSF claim number and password.



You may request a Summary of Payments, showing the amounts paid to you for your child(ren), from OPM by calling OPM's Retirement Information Office at 1-888-767-6738. You will need your CSF claim number and your social security number when you call.

Taxable part of annuity. To find the taxable part of a retiree's annuity when applying the filing requirements, see the discussion in Part

II, Rules for Retirees, or Part III, Rules for Disability Retirement and Credit for the Elderly or the Disabled, whichever applies. To find the taxable part of each survivor annuity when applying the filing requirements, see the discussion in Part IV, Rules for Survivors of Federal Employees, or Part V, Rules for Survivors of Federal Retirees, whichever applies.

Part II Rules for Retirees

This part of the publication is for retirees who retired on nondisability retirement.



If you retired on disability before you reached your minimum retirement age, see Part III, Rules for Disability Retirement and Credit for the Elderly or the Disabled. However, on the day after you reach your minimum retirement age, use the rules in this section to report your disability retirement and begin recovering your cost.

Annuity statement. The statement you received from OPM when your CSRS or FERS annuity was approved shows the commencing date (the annuity starting date), the gross monthly rate of your annuity benefit, and your total contributions to the retirement plan (your cost). You will use this information to figure the tax-free recovery of your cost.

Annuity starting date. If you retire from federal government service on a regular annuity, your annuity starting date is the commencing date on your annuity statement from OPM. If something delays payment of your annuity, such as a late application for retirement, it doesn't affect the date your annuity begins to accrue or your annuity starting date.

Gross monthly rate. This is the amount you were to get after any adjustment for electing a survivor's annuity or for electing the lump-sum payment under the alternative annuity option (if either applies) but before any

deduction for income tax withholding, insurance premiums, etc.

Your cost. Your monthly annuity payment contains an amount on which you have previously paid income tax. This amount represents part of your contributions to the retirement plan. Even though you didn't receive the money that was contributed to the plan, it was included in your gross income for federal income tax purposes in the years it was taken out of your pay.

The cost of your annuity is the total of your contributions to the retirement plan, as shown on your annuity statement from OPM. If you elected the alternative annuity option, it includes any deemed deposits and any deemed redeposits that were added to your lump-sum credit. (See *Lump-sum credit* under *Alternative Annuity Option*, later.)

If you repaid contributions that you had withdrawn from the retirement plan earlier, or if you paid into the plan to receive full credit

for service not subject to retirement deductions, the entire repayment, including any interest, is a part of your cost. You can't claim an interest deduction for any interest payments. You can't treat these payments as voluntary contributions; they are considered regular employee contributions.

Recovering your cost tax free. How you figure the tax-free recovery of the cost of your CSRS or FERS annuity depends on your annuity starting date.

- If your annuity starting date is before July 2, 1986, either the 3-Year Rule or the General Rule(both discussed later) applies to your annuity.
- If your annuity starting date is after July 1, 1986, and before November 19, 1996, you could have chosen to use either the General Rule or the Simplified Method (discussed later).

- If your annuity starting date is after November 18, 1996, you must use the Simplified Method.

Under both the General Rule and the Simplified Method, each of your monthly annuity payments is made up of two parts: the tax-free part that is a return of your cost, and the taxable part that is the amount of each payment that is more than the part that represents your cost (unless such payment is used for purposes discussed under Distributions Used To Pay Insurance Premiums for Public Safety Officers, later). The tax-free part is a fixed dollar amount. It remains the same, even if your annuity is increased. Generally, this rule applies as long as you receive your annuity. However, see Exclusion limit, later.

Choosing a survivor annuity after retirement. If you retired without a survivor annuity and report your annuity under the Simplified Method, don't change your tax-free

monthly amount even if you later choose a survivor annuity.

If you retired without a survivor annuity and report your annuity under the General Rule, you must figure the tax-free part of your annuity using a new exclusion percentage if you later choose a survivor annuity and take reduced annuity payments. To figure the new exclusion percentage, reduce your cost by the amount you previously recovered tax free. Figure the expected return as of the date the reduced annuity begins. For details on the General Rule, see Pub. 939.

Canceling a survivor annuity after retirement. If you retired with a survivor annuity payable to your spouse upon your death and you notify OPM that your marriage has ended, your annuity might be increased to remove the reduction for a survivor benefit. The increased annuity doesn't change the cost recovery you figured at the annuity

starting date. The tax-free part of each annuity payment remains the same.



For more information about choosing or canceling a survivor annuity after retirement, contact OPM's Retirement Information Office at 1-888-767-6738.

Exclusion limit. Your annuity starting date determines the total amount of annuity payments that you can exclude from income over the years.

Annuity starting date after 1986. If your annuity starting date is after 1986, the total amount of annuity income that you (or the survivor annuitant) can exclude over the years as a return of your cost can't exceed your total cost. Annuity payments you or your survivors receive after the total cost in the plan has been recovered are generally fully taxable.

Example. Your annuity starting date is after 1986 and you exclude \$100 a month under the Simplified Method. If your cost is \$12,000, the exclusion ends after 10 years (120 months). Thereafter, your entire annuity is generally fully taxable.

Annuity starting date before 1987. If your annuity starting date is before 1987, you can continue to take your monthly exclusion figured under the General Rule or Simplified Method for as long as you receive your annuity. If you chose a joint and survivor annuity, your survivor can continue to take that same exclusion. The total exclusion may be more than your cost.

Deduction of unrecovered cost. If your annuity starting date is after July 1, 1986, and the cost of your annuity hasn't been fully recovered at your (or the survivor annuitant's) death, a deduction is allowed for the unrecovered cost. The deduction is claimed on your (or your survivor's) final tax

return as an "Other Itemized Deduction." If your annuity starting date is before July 2, 1986, no tax benefit is allowed for any unrecovered cost at death.

Simplified Method

If your annuity starting date is after November 18, 1996, you must use the Simplified Method to figure the tax-free part of your CSRS or FERS annuity. (OPM has figured the taxable amount of your annuity shown on your Form CSA 1099-R using the Simplified Method.) You could have chosen to use either the Simplified Method or the General Rule if your annuity starting date is after July 1, 1986, but before November 19, 1996. The Simplified Method doesn't apply if your annuity starting date is before July 2, 1986.

Under the Simplified Method, you figure the tax-free part of each full monthly payment by dividing your cost by a number of months based on your age. This number will differ

depending on whether your annuity starting date is before November 19, 1996, or after November 18, 1996. If your annuity starting date is after 1997 and your annuity includes a survivor benefit for your spouse, this number is based on your combined ages.

Worksheet A. Use Worksheet A (near the end of this publication) to figure your taxable annuity. Be sure to keep the completed worksheet. It will help you figure your taxable amounts for later years.



Instead of Worksheet A, you can generally use the Simplified Method Worksheet in the Instructions for Form 1040 to figure your taxable annuity. However, you must use Worksheet A and Worksheet B in this publication if you chose the alternative annuity option, discussed later.

Line 2. See Your cost, earlier, for an explanation of your cost in the plan. If your annuity starting date is after November 18, 1996, and you chose the alternative annuity

option (explained later), you must reduce your cost by the tax-free part of the lump-sum payment you received.

Line 3. The number you enter on line 3 is the appropriate number from Table 1 or 2 representing approximate life expectancies in months. If your annuity starting date is after 1997, use:

- Table 1 for an annuity without a survivor benefit, or
- Table 2 for an annuity with a survivor benefit.

If your annuity starting date is before 1998, use Table 1.

Line 6. If you received contributions tax free before 2023, the amount previously recovered tax free that you must enter on line 6 is the total amount from line 10 of last year's worksheet. If your annuity starting date is before November 19, 1996, and you chose the alternative annuity option, this

amount includes the tax-free part of the lump-sum payment you received.

Example. Bill Smith retired from the federal government on March 31, 2023, under an annuity that will provide a survivor benefit for his wife, Kathy. His annuity starting date is April 1, 2023, the annuity is paid in arrears, and he received his first monthly annuity payment on May 1, 2023. He must use the Simplified Method to figure the tax-free part of his annuity benefits.

Bill's monthly annuity benefit is \$1,000. He had contributed \$31,000 to his retirement plan and had received no distributions before his annuity starting date. At his annuity starting date, he was 65 and Kathy was 57.

Bill's completed Worksheet A is shown later. To complete line 3, he used Table 2 at the bottom of the worksheet and found that 310 is the number in the second column opposite the age range that includes 122 (his and Kathy's combined ages). Bill keeps a copy of

the completed worksheet for his records. It will help him (and Kathy, if she survives him) figure the taxable amount of the annuity in later years.

Bill's tax-free monthly amount is \$100. (See line 4 of the worksheet.) If he lives to collect more than 310 monthly payments, he will generally have to include in his gross income the full amount of any annuity payments received after 310 payments have been made.

If Bill doesn't live to collect 310 monthly payments and his wife begins to receive monthly payments, she will also exclude \$100 from each monthly payment until 310 payments (Bill's and hers) have been collected. If she dies before 310 payments have been made, an "Other Itemized Deduction" will be allowed for the unrecovered cost on her final income tax return.

General Rule

If your annuity starting date is after November 18, 1996, you can't use the General Rule to figure the tax-free part of your CSRS or FERS annuity. If your annuity starting date is after July 1, 1986, but before November 19, 1996, you could have chosen to use either the General Rule or the Simplified Method. If your annuity starting date is before July 2, 1986, you could have chosen to use the General Rule only if you couldn't use the 3-Year Rule.

Under the General Rule, you figure the tax-free part of each full monthly payment by multiplying the initial gross monthly rate of your annuity by an exclusion percentage. Figuring this percentage is complex and requires the use of actuarial tables. For these tables and other information about using the General Rule, see Pub. 939.

3-Year Rule

If your annuity starting date was before July 2, 1986, you probably had to report your annuity using the 3-Year Rule. Under this rule, you excluded all the annuity payments from income until you fully recovered your cost. After your cost was recovered, all payments became fully taxable. You can't use another rule to again exclude amounts from income.

The 3-Year Rule was repealed for retirees whose annuity starting date is after July 1, 1986.

Alternative Annuity Option

If you are eligible, you may choose an alternative form of annuity. If you make this choice, you will receive a lump-sum payment equal to your contributions to the plan and a reduced monthly annuity. You are eligible to make this choice if you meet all of the following requirements.

- You are retiring, but not on disability.
- You have a life-threatening illness or other critical medical condition.
- You don't have a former spouse entitled to court-ordered benefits based on your service.

If you aren't eligible or don't choose this alternative annuity, you can skip the following discussion and go to *Federal Gift Tax*, later.

Lump-Sum Payment

The lump-sum payment you receive under the alternative annuity option generally has a tax-free part and a taxable part. The tax-free part represents part of your cost. The taxable part represents part of the earnings on your annuity contract. Your lump-sum credit (discussed later) may include a deemed deposit or redeposit that is treated as being included in your lump-sum payment even though you don't actually receive such amounts. Deemed deposits and redeposits,

which are described later under Lump-sum credit, are taxable to you in the year of retirement. Your taxable amount may therefore be more than the lump-sum payment you receive.

You must include the taxable part of the lump-sum payment in your income for the year you receive the payment unless you roll it over into another qualified plan or an IRA. If you don't have OPM transfer the taxable amount to an IRA or other plan in a direct rollover, tax will be withheld at a 20% rate. See Rollover Rules, later, for information on how to make a rollover.



OPM can make a direct rollover only up to the amount of the lump-sum payment. Therefore, to defer tax on the full taxable amount if it is more than the payment, you must add funds from another source.

The taxable part of the lump-sum payment doesn't qualify as a lump-sum distribution eligible for capital gain treatment or the 10-year tax option. It may also be subject to an additional 10% tax on early distributions if you separate from service before the calendar year in which you reach age 55, even if you reach age 55 in the year you receive the lump-sum payment. For more information, see *Lump-Sum Distributions* and *Tax on Early Distributions* in Pub. 575.

Worksheet B. Use Worksheet B (near the end of this publication) to figure the taxable part of your lump-sum payment. Be sure to keep the completed worksheet for your records.

To complete the worksheet, you will need to know the amount of your lump-sum credit and the present value of your annuity contract.

Worksheet A. **Simplified Method for Bill Smith**

Keep for Your Records 

See the instructions in Part II of this publication under [Simplified Method](#).


1. Enter the total pension or annuity payments received this year. Also, add this amount to the total for Form 1040, 1040-SR, or 1040-NR, line 5a	1. \$ 8,000
2. Enter your cost in the plan at the annuity starting date, plus any death benefit exclusion.* See Your cost in Part II, <i>Rules for Retirees</i> , earlier	2. 31,000
Note. If your annuity starting date was before this year and you completed this worksheet last year, skip line 3 and enter the amount from line 4 of last year's worksheet on line 4 below (even if the amount of your pension or annuity has changed). Otherwise, go to line 3.	
3. Enter the appropriate number from Table 1 below. But if your annuity starting date was after 1997 and the payments are for your life and that of your beneficiary, enter the appropriate number from Table 2 below	3. 310
4. Divide line 2 by the number on line 3	4. 100
5. Multiply line 4 by the number of months for which this year's payments were made. If your annuity starting date was before 1987, enter this amount on line 8 below and skip lines 6, 7, 10, and 11. Otherwise, go to line 6	5. 800
6. Enter any amounts previously recovered tax free in years after 1986. This is the amount shown on line 10 of your worksheet for last year	6. 0
7. Subtract line 6 from line 2	7. 31,000
8. Enter the smaller of line 5 or line 7	8. 800
9. Taxable amount for year. Subtract line 8 from line 1. Enter the result, but not less than zero. Also, add this amount to the total for Form 1040 or 1040-SR, line 5b. If you are a nonresident alien, enter this amount on line 1 of Worksheet C. If your Form CSA 1099-R or Form CSF 1099-R shows a larger amount, use the amount figured on this line instead. If you are a retired public safety officer, see Distributions Used To Pay Insurance Premiums for Public Safety Officers in Part II before entering an amount on your tax return or Worksheet C, line 1	9. \$ 7,200
10. Was your annuity starting date before 1987?	
<input type="checkbox"/> Yes.  Don't complete the rest of this worksheet.	
<input checked="" type="checkbox"/> No. Add lines 6 and 8. This is the amount you have recovered tax free through 2023. You will need this number if you need to fill out this worksheet next year	10. 800
11. Balance of cost to be recovered. Subtract line 10 from line 2. If zero, you will not have to complete this worksheet next year. The payments you receive next year will generally be fully taxable	11. \$ 30,200

Table 1 for Line 3 Above		
IF your age on your annuity starting date was . . .	AND your annuity starting date was—	
	before November 19, 1996, THEN enter on line 3 . . .	after November 18, 1996, THEN enter on line 3 . . .
55 or under	300	360
56–60	260	310
61–65	240	260
66–70	170	210
71 or over	120	160

Table 2 for Line 3 Above	
IF the annuitants' combined ages on your annuity starting date were . . .	THEN enter on line 3 . . .
110 or under	410
111–120	360
121–130	310
131–140	260
141 or over	210

* A death benefit exclusion of up to \$5,000 applies to certain benefits received by survivors of employees who died before August 21, 1996.

Worksheet B. **Lump-Sum Payment for David Brown**
See the instructions in Part II of this publication
under [Alternative Annuity Option](#).

Keep for Your Records 

1. Enter your lump-sum credit (your cost in the plan at the annuity starting date)	1.	\$ 31,000
2. Enter the present value of your annuity contract	2.	155,000
3. Divide line 1 by line 2	3.	0.20
4. Tax-free amount. Multiply line 1 by line 3. (Caution: Don't include this amount on line 6 of Worksheet A in this publication.)	4.	\$ 6,200
5. Taxable amount (net cost in the plan). Subtract line 4 from line 1. Include this amount in the total on Form 1040, 1040-SR, or 1040-NR, line 5b. Also, enter this amount on line 2 of Worksheet A in this publication	5.	\$ 24,800

Lump-sum credit. Generally, this is the same amount as the lump-sum payment you receive (the total of your contributions to the retirement system). However, for purposes of the alternative annuity option, your lump-sum credit may also include deemed deposits and redeposits that OPM advanced to your retirement account so that you are given credit for the service they represent. Deemed deposits (including interest) are for federal employment during which no retirement contributions were taken out of your pay. Deemed redeposits (including interest) are for any refunds of retirement contributions that you received and didn't repay. You are treated as if you had received a lump-sum payment equal to the amount of your lump-sum credit and then had made a repayment to OPM of the advanced amounts.

Present value of your annuity contract.

The present value of your annuity contract is figured using actuarial tables provided by the IRS.



If you are receiving a lump-sum payment under the alternative annuity option, you can write to the address below to find out the present value of your annuity contract.

Internal Revenue Service

Attn: Actuarial Group 2

TE/GE SE:T:EP:RA:T:A2

NCA-629

1111 Constitution Ave. NW

Washington, DC 20224-0002

Example. David Brown retired from the federal government in 2023, 1 month after his 55th birthday. He had contributed \$31,000 to his retirement plan and chose to receive a lump-sum payment of that amount under the alternative annuity option. The

present value of his annuity contract is \$155,000.

The tax-free part and the taxable part of the lump-sum payment are figured using Worksheet B, as shown in the completed worksheet. The taxable part (\$24,800) is also his net cost in the plan, which is used to figure the taxable part of his reduced annuity payments. See Reduced Annuity, later.

Lump-sum payment in installments. If you choose the alternative annuity option, you will usually receive the lump-sum payment in one installment. The overall tax treatment is explained at the beginning of this discussion.

How to report. Add any actual or deemed payment of your lump-sum credit (defined earlier) to the total for Form 1040, 1040-SR, or 1040-NR, line 5a. Add the taxable amount to the total for Form 1040, 1040-SR, or 1040-NR, line 5b, unless you roll over the taxable

part to your traditional IRA or a qualified retirement plan.

Reduced Annuity

If you have chosen to receive a lump-sum payment under the alternative annuity option, you will also receive reduced monthly annuity payments. These annuity payments each will have a tax-free and a taxable part. To figure the tax-free part of each annuity payment, you must use the Simplified Method (Worksheet A). For instructions on how to complete the worksheet, see Worksheet A under *Simplified Method*, earlier.

To complete Worksheet A, line 2, you must reduce your cost in the plan by the tax-free part of the lump-sum payment you received. Enter as your net cost on line 2 the amount from Worksheet B, line 5. Don't include the tax-free part of the lump-sum payment with other amounts recovered tax free (Worksheet A, line 6) when limiting your total exclusion to your total cost.

Example. The facts are the same as in the example for David Brown in the preceding discussion. In addition, David received 10 annuity payments in 2023 of \$1,200 each. Using Worksheet A, he figures the taxable part of his annuity payments. He completes line 2 by reducing his \$31,000 cost by the \$6,200 tax-free part of his lump-sum payment. His entry on line 2 is his \$24,800 net cost in the plan (the amount from Worksheet B, line 5). He doesn't include the tax-free part of his lump-sum payment on Worksheet A, line 6. An example of David's filled-in Worksheet A is shown in this publication.



Reemployment after choosing the alternative annuity option. *If you chose this option when you retired and then you were reemployed by the federal government before retiring again, your Form CSA 1099-R may show only the amount of your contributions to your retirement plan*

during your reemployment. If the amount on the form doesn't include all your contributions, disregard it and use your total contributions to figure the taxable part of your annuity payments.

Annuity starting date before November 19, 1996. If your annuity starting date is before November 19, 1996, and you chose the alternative annuity option, the taxable and tax-free parts of your lump-sum payment and your annuity payments are figured using different rules. Under those rules, you don't reduce your cost in the plan (Worksheet A, line 2) by the tax-free part of the lump-sum payment. However, you must include that tax-free amount with other amounts previously recovered tax free (Worksheet A, line 6) when limiting your total exclusion to your total cost.

Federal Gift Tax

If, through the exercise or nonexercise of an election or option, you provide an annuity for

your beneficiary at or after your death, you have made a gift. The gift may be taxable for gift tax purposes. The value of the gift is equal to the value of the annuity.

Joint and survivor annuity. If the gift is an interest in a joint and survivor annuity where only you and your spouse can receive payments before the death of the last spouse to die, the gift will generally qualify for the unlimited marital deduction. This will eliminate any gift tax liability with regard to that gift.

If you provide survivor annuity benefits for someone other than your current spouse, such as your former spouse, the unlimited marital deduction will not apply. This may result in a taxable gift.

More information. For information about the gift tax, see Form 709, United States Gift (and Generation-Skipping Transfer) Tax Return, and its instructions.

Retirement During the Past Year

If you have recently retired, the following discussions covering annual leave, voluntary contributions, and community property may apply to you.

Annual leave. A payment for accrued annual leave received on retirement is a salary payment. It is taxable as wages in the tax year you receive it.

Voluntary contributions. Voluntary contributions to the retirement fund are those made in addition to the regular contributions that were deducted from your salary. They also include the regular contributions withheld from your salary after you have the years of service necessary for the maximum annuity allowed by law. Voluntary contributions aren't the same as employee contributions to the Thrift Savings Plan. See *Thrift Savings Plan*, later.

Additional annuity benefit. If you choose to receive an additional annuity benefit from your voluntary contributions, it is treated separately from the annuity benefit that comes from the regular contributions deducted from your salary. This separate treatment applies for figuring the amounts to be excluded from, and included in, gross income. It doesn't matter that you receive only one monthly check covering both benefits. Each year, you will receive a Form CSA 1099-R that will show how much of your total annuity received in the past year was from each type of benefit.

Figure the taxable and tax-free parts of your additional monthly benefits from voluntary contributions using the rules that apply to regular CSRS and FERS annuities, as explained earlier.

Refund of voluntary contributions. If you choose to receive a refund of your voluntary contributions plus accrued interest, the

interest is taxable to you in the tax year it is distributed unless you roll it over to a traditional IRA or another qualified retirement plan. If you don't have OPM transfer the interest to a traditional IRA or other qualified retirement plan in a direct rollover, tax will be withheld at a 20% rate. See *Rollover Rules*, later. The interest doesn't qualify as a lump-sum distribution eligible for capital gain treatment or the 10-year tax option. It may also be subject to an additional 10% tax on early distributions if you separate from service before the calendar year in which you reach age 55 (or before the earlier of age 50 or completing 25 years of service under the plan if you are a qualified public safety employee). For more information, see *Lump-Sum Distributions and Tax on Early Distributions* in Pub. 575.

Worksheet A. Simplified Method for David Brown

Keep for Your Records 

See the instructions in Part II of this publication under [Simplified Method](#).

1. Enter the total pension or annuity payments received this year. Also, add this amount to the total for Form 1040, 1040-SR, or 1040-NR, line 5a

1. \$ 12,000

2. Enter your cost in the plan at the annuity starting date, plus any death benefit exclusion.* See [Your cost](#) in Part II, *Rules for Retirees*, earlier

2. 24,800

Note. If your annuity starting date was **before this year** and you completed this worksheet last year, skip line 3 and enter the amount from line 4 of last year's worksheet on line 4 below (even if the amount of your pension or annuity has changed). Otherwise, go to line 3.

3. Enter the appropriate number from Table 1 below. But if your annuity starting date was after 1997 and the payments are for your life **and** that of your beneficiary, enter the appropriate number from Table 2 below

3. 360

4. Divide line 2 by the number on line 3

4. 68.89

5. Multiply line 4 by the number of months for which this year's payments were made. If your annuity starting date was **before** 1987, enter this amount on line 8 below and skip lines 6, 7, 10, and 11. Otherwise, go to line 6

5. 688.90

6. Enter any amounts previously recovered tax free in years after 1986. This is the amount shown on line 10 of your worksheet for last year

6. 0

7. Subtract line 6 from line 2

7. 24,800


8. Enter the **smaller** of line 5 or line 7

8. 688.90

9. **Taxable amount for year.** Subtract line 8 from line 1. Enter the result, but not less than zero. Also, add this amount to the total for Form 1040 or 1040-SR, line 5b. If you are a nonresident alien, enter this amount on line 1 of Worksheet C. If your Form CSA 1099-R or Form CSF 1099-R shows a larger amount, use the amount figured on this line instead. If you are a retired public safety officer, see [Distributions Used To Pay Insurance Premiums for Public Safety Officers](#) in Part II before entering an amount on your tax return or Worksheet C, line 1

9. \$ 11,311.10

10. Was your annuity starting date before 1987?

☐ **Yes.**  Don't complete the rest of this worksheet.

☒ **No.** Add lines 6 and 8. This is the amount you have recovered tax free through 2023. You will need this number if you need to fill out this worksheet next year

10. 688.90

11. **Balance of cost to be recovered.** Subtract line 10 from line 2. If zero, you will not have to complete this worksheet next year. The payments you receive next year will generally be fully taxable

11. \$ 24,111.10

Table 1 for Line 3 Above		
IF your age on your annuity starting date was . . .	AND your annuity starting date was—	
	before November 19, 1996, THEN enter on line 3 . . .	after November 18, 1996, THEN enter on line 3 . . .
55 or under	300	360
56–60	260	310
61–65	240	260
66–70	170	210
71 or over	120	160

Table 2 for Line 3 Above	
IF the annuitants' combined ages on your annuity starting date were . . .	THEN enter on line 3 . . .
110 or under	410
111–120	360
121–130	310
131–140	260
141 or over	210

* A death benefit exclusion of up to \$5,000 applies to certain benefits received by survivors of employees who died before August 21, 1996.

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Community property laws. State community property laws apply to your annuity. These laws will affect your income tax only if you file a return separately from your spouse.

Generally, the determination of whether your annuity is separate income (taxable to you) or community income (taxable to both you and your spouse) is based on your marital status and domicile when you were working. Regardless of whether you are now living in a community property state or a noncommunity property state, your current annuity may be community income if it is based on services you performed while married and domiciled in a community property state.

At any time, you have only one domicile even though you may have more than one home. Your domicile is your fixed and permanent legal home that you intend to use for an indefinite or unlimited period, and to which, when absent, you intend to return. The

question of your domicile is mainly a matter of your intentions as indicated by your actions.

If your annuity is a mixture of community income and separate income, you must divide it between the two kinds of income. The division is based on your periods of service and domicile in community and noncommunity property states while you were married.

For more information, see Pub. 555, Community Property.

Reemployment After Retirement

If you retired from federal service and are later rehired by the federal government as an employee, you can continue to receive your annuity during reemployment. The employing agency will usually pay you the difference between your salary for your period of reemployment and your annuity. This amount is taxable as wages. Your annuity will

continue to be taxed just as it was before. If you are still recovering your cost, you continue to do so. If you have recovered your cost, the annuity you receive while you are reemployed is generally fully taxable.

Nonresident Aliens

The following special rules apply to nonresident alien federal employees performing services outside the United States and to nonresident alien retirees and beneficiaries. A nonresident alien is an individual who isn't a citizen or a resident alien of the United States.

Special rule for figuring your total contributions. Your contributions to the retirement plan (your cost) also include the government's contributions to the plan to a certain extent. You include government contributions that wouldn't have been taxable to you at the time they were contributed if they had been paid directly to you. For example, government contributions wouldn't

have been taxable to you if, at the time made, your services were performed outside the United States. Thus, your cost is increased by these government contributions, and the benefits that you, or your beneficiary, must include in income are reduced.

This method of figuring your total contributions doesn't apply to any contributions the government made on your behalf after you became a citizen or a resident alien of the United States.

Limit on taxable amount. There is a limit on the taxable amount of payments received from the CSRS, the FERS, or the TSP by a nonresident alien retiree or nonresident alien beneficiary. Figure this limited taxable amount by multiplying the otherwise taxable amount by a fraction. The numerator of the fraction is the retiree's total U.S. Government basic pay, other than tax-exempt pay for services performed outside the United States.

The denominator is the retiree's total U.S. Government basic pay for all services.

Basic pay includes regular pay plus any standby differential. It doesn't include bonuses, overtime pay, certain retroactive pay, uniform or other allowances, or lump-sum leave payments.

To figure the limited taxable amount of your CSRS or FERS annuity or your TSP distributions, use Worksheet C. (For an annuity, first complete Worksheet A in this publication.)

Worksheet C. **Limited Taxable Amount for Nonresident Alien**



Keep for Your Records

- 1.** Enter the otherwise taxable amount of the CSRS or FERS annuity (from line 9 of Worksheet A or from Form CSA 1099-R or CSF 1099-R) or TSP distributions (from Form 1099-R) **1.** _____
- 2.** Enter the total U.S. Government basic pay **other than** tax-exempt pay for services performed outside the United States **2.** _____
- 3.** Enter the total U.S. Government basic pay for all services **3.** _____

4. Divide line 2 by line 3 **4.** _____

5. Limited taxable amount.

Multiply line 1 by line 4.

Enter this amount on Form

1040-NR, line 5b **5.** _____

Example 1. You are a nonresident alien who performed all services for the U.S. Government abroad as a nonresident alien. You retired and began to receive a monthly annuity of \$200. Your total basic pay for all services for the U.S. Government was \$100,000. All of your basic pay was tax exempt because it wasn't U.S. source income.

The taxable amount of your annuity using Worksheet A in this publication is \$720. You are a nonresident alien, so you figure the limited taxable amount of your annuity using Worksheet C as follows.

Worksheet C. **Limited Taxable Amount for Nonresident Alien—Example 1**



Keep for Your Records

- | | | |
|---|-----------|----------------|
| 1. Enter the otherwise taxable amount of the CSRS or FERS annuity (from line 9 of Worksheet A or from Form CSA 1099-R or CSF 1099-R) or TSP distributions (from Form 1099-R) | 1. | <u>\$720</u> |
| 2. Enter the total U.S. Government basic pay other than tax-exempt pay for services performed outside the United States | 2. | <u>0</u> |
| 3. Enter the total U.S. Government basic pay for all services | 3. | <u>100,000</u> |

4. Divide line 2 by line 3	4.	<u>0</u>
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5. Limited taxable amount.

Multiply line 1 by line 4.

Enter this amount on Form

1040-NR, line 5b	5.	<u>0</u>
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Example 2. You are a nonresident alien who performed services for the U.S. Government as a nonresident alien both within the United States and abroad. You retired and began to receive a monthly annuity of \$240.

Your total basic pay for your services for the U.S. Government was \$120,000; \$40,000 was for work done in the United States and \$80,000 was for your work done in a foreign country. The part of your total basic pay for your work done in a foreign country was tax exempt because it wasn't U.S. source income.

The taxable amount of your annuity figured using Worksheet A in this publication is \$1,980. You are a nonresident alien, so you

figure the limited taxable amount of your annuity using Worksheet C as follows.

Worksheet C. **Limited Taxable Amount for Nonresident Alien—Example 2**



Keep for Your Records

- | | |
|---|--------------------------|
| 1. Enter the otherwise taxable amount of the CSRS or FERS annuity (from line 9 of Worksheet A or from Form CSA 1099-R or CSF 1099-R) or TSP distributions (from Form 1099-R) | 1. <u>\$1,920</u> |
| 2. Enter the total U.S. Government basic pay other than tax-exempt pay for services performed outside the United States | 2. <u>40,000</u> |

3.	Enter the total U.S. Government basic pay for all services	3.	<u>120,000</u>
4.	Divide line 2 by line 3	4.	<u>0.333</u>
5.	Limited taxable amount. Multiply line 1 by line 4. Enter this amount on Form 1040-NR, line 5b	5.	<u>659</u>

Thrift Savings Plan (TSP)

Generally, all of the money in your TSP account is taxed as ordinary income when you receive it. (However, see Roth TSP balance and Uniformed services TSP accounts next.) This is because neither the contributions to your traditional TSP balance nor its earnings have been included previously in your taxable income. The way that you withdraw your account balance determines when you must pay the tax.

Roth TSP balance. The TSP also offers a Roth TSP option, which allows you to make after-tax contributions into your TSP account. This means Roth TSP contributions are included in your income. The contribution limits are the same as the traditional TSP. You can elect to have part or all of your TSP contributions designated as a Roth TSP. Agency contributions will be part of your traditional TSP balance. Also, you can't roll over any portion of your traditional TSP into your Roth TSP.

Qualified distributions from your Roth TSP aren't included in income. This applies to both your contributions to the account and income earned on that account. A qualified distribution is generally a distribution that is:

- Made after a 5-tax-year period of participation; and
- Made on or after the date you reach age 59^{1/2}, made to a beneficiary or your

estate on or after your death, or attributable to your being disabled.

For more information, go to the TSP website, [TSP.gov](https://www.tsp.gov), or the TSP Service Office. See Pub. 575 for more information about designated Roth accounts.

Uniformed services TSP accounts. If you have a uniformed services TSP account that includes contributions from combat pay, the distributions attributable to those contributions are tax exempt. However, any earnings on those contributions to a traditional TSP balance are subject to tax when they are distributed. See *Roth TSP balance*, discussed previously, to get more information about Roth contributions. The statement you receive from the TSP will separately state the total amount of your distribution and the amount of your taxable distribution for the year. You can get more information from the TSP website, [TSP.gov](https://www.tsp.gov), or the TSP Service Office.

Direct rollover by the TSP. If you ask the TSP to transfer any part of the money in your account, from traditional contributions and earnings, to a traditional IRA or other qualified retirement plan, the tax on that part is deferred until you receive payments from the traditional IRA or other plan. However, see the following Note for a discussion on direct rollovers by the TSP of Roth contributions and earnings. Also, see Rollover Rules, later.

Direct rollover by the TSP to a Roth IRA. If you ask the TSP to transfer any part of the money in your account, from traditional contributions and earnings, to a Roth IRA, the amount transferred will be taxed in the current year. However, see the following Note for a discussion on direct rollovers by the TSP of Roth contributions and earnings.

Also, see Rollovers to Roth IRAs, later, for more information.

Note. A direct rollover of your Roth contributions and earnings in your TSP account if certain conditions are met (see Roth TSP balance, earlier) to a Roth 401(k), Roth 403(b), Roth 457(b), or Roth IRA aren't subject to tax when they are transferred or when you receive payments from those accounts at a later date. This is because you already paid tax on those contributions. You can't roll over Roth contributions and earnings in your TSP account to a traditional IRA.

TSP annuity. If you ask the TSP to buy an annuity with the money in your account from traditional contributions and earnings, the annuity payments are taxed when you receive them. The payments aren't subject to the additional 10% tax on early distributions, even if you are under age 55 when they begin. However, there is no tax on the annuity payments if the annuity is purchased using the money in your account from Roth contributions and earnings if certain

conditions are met. See Roth TSP balance, earlier. This is because you already paid tax on those contributions.

Cash withdrawals. If you withdraw any of the money in your TSP account from traditional contributions and earnings, it is generally taxed as ordinary income when you receive it unless you roll it over into a traditional IRA or other qualified plan. (See Rollover Rules, later.) If you receive your entire TSP account balance in a single tax year, you may be able to use the 10-year tax option to figure your tax if the plan participant was born before January 2, 1936. See *Lump-Sum Distributions* in Pub. 575 for details. However, there is no tax if you withdraw money in your TSP account from Roth contributions and earnings if certain conditions are met. See Roth TSP balance, earlier.

If you receive a single payment or you choose to receive your account balance in monthly payments over a period of less than 10 years, the TSP must generally withhold 20% for federal income tax. If you choose to receive your account balance in monthly payments over a period of 10 or more years or a period based on your life expectancy, withholding is determined using the instructions and tables provided in Pub. 15-T, based on information you provide on Form W-4P. If you don't submit Form W-4P then for a payee who received a first periodic payment in 2023, the TSP must withhold as if you were a single filer who made no entries in Step 2, Step 3, and Step 4 of Form W-4P. For the default 2023 withholding for a payee who first received a periodic payment before 2023, see *Payee fails to furnish Form W-4P or provides an incorrect SSN on Form W-4P*, in Pub. 15-T. See also *Withholding from Thrift Savings Plan payments*, earlier, under *Tax Withholding and Estimated Tax* in Part I. However, there is no

withholding requirement for amounts withdrawn from your TSP account that is from Roth contributions and earnings if certain conditions are met. See *Roth TSP balance*, earlier, for a discussion of those conditions.

Tax on early distributions. Any money paid to you from your TSP account before you reach age 59^{1/2} may be subject to an additional 10% tax on early distributions. However, this additional tax doesn't apply in certain situations, including any of the following.

- You receive the distribution and separate from government service during or after the calendar year in which you reach age 55.
- You are a qualified public safety employee and you have completed at least 25 years of service under the plan or have attained 50 years of age (whichever is earlier).

- You choose to receive your account balance in substantially equal payments (not less than yearly) based on your life expectancy.
- You are totally and permanently disabled.
- You receive amounts from your Roth contributions that represent a return of your cost (after-tax money). The earnings may be subject to the 10% tax depending on whether you met certain conditions.

See Roth TSP balance, earlier.

Note. Changes to the initial distribution method or amount under the equal payment exception may result in a recapture tax.

For more information, see *Tax on Early Distributions* in Pub. 575.

Outstanding loan. If the TSP declares a distribution from your account because money you borrowed hasn't been repaid when you separate from government service, your account is reduced and the amount of the

distribution (your unpaid loan balance and any unpaid interest), from traditional contributions and earnings, is taxed in the year declared. The distribution may also be subject to the additional 10% tax on early distributions. However, the tax will be deferred if you make a rollover contribution to a traditional IRA or other qualified plan equal to the declared distribution amount. See Rollover Rules, later.

If you withdraw any money from your TSP account in that same year, the TSP must withhold income tax of 20% of the total of the declared distribution and the amount withdrawn. However, no withholding is required for portions of the distribution that is from Roth contributions and earnings if certain conditions are met. See Roth TSP balance, earlier.

More information. For more information about the TSP, see Summary of the Thrift Savings Plan. Also, see Tax Rules about TSP

Payments and Distributions. These publications are available on the TSP website at [TSP.gov/forms](https://www.tsp.gov/forms). You may also call the TSP at 877-968-3778. For participants who are deaf, hard of hearing, or have a speech disability, dial 711 from any telephone.

Rollover Rules

If you withdraw cash or other assets from a qualified retirement plan in an eligible rollover distribution, you can generally defer tax on the distribution by rolling it over to another qualified retirement plan, a traditional IRA, or, after 2 years of participation in a SIMPLE IRA sponsored by your employer, a SIMPLE IRA under that plan. You don't include the amount rolled over in your income, and you can't take a deduction for it. The amount rolled over is taxed later as the new program pays that amount to you. If you roll over amounts into a traditional IRA, later distributions of these amounts from the traditional IRA don't qualify for the capital

gain or the 10-year tax option. However, capital gain treatment or the 10-year tax option will be restored if the traditional IRA contains only amounts rolled over from a qualified plan and these amounts are rolled over from the traditional IRA into a qualified retirement plan. To qualify for the capital gain treatment or 10-year tax option, the plan participant must have been born before January 2, 1936.

You can also roll over a distribution from a qualified retirement plan into a Roth IRA. Although the transfer of a distribution into a Roth IRA is considered a rollover for Roth IRA purposes, it isn't a tax-free transfer unless you are rolling over amounts from Roth contributions and earnings. See *Rollovers to Roth IRAs*, later, for more information.

Rollovers to SIMPLE retirement accounts.

You can roll over amounts from a qualified retirement plan or an IRA into a SIMPLE retirement account as follows.

1. During the first 2 years of participation in a SIMPLE retirement account, you may roll over amounts from one SIMPLE retirement account into another SIMPLE retirement account.
2. After the first 2 years of participation in a SIMPLE retirement account, you may roll over amounts from a SIMPLE retirement account, a qualified retirement plan, or an IRA into a SIMPLE retirement account.

Qualified retirement plan. For this purpose, a qualified retirement plan is generally:

- A qualified employee plan,
- A qualified employee annuity,
- A tax-sheltered annuity plan (403(b) plan), or
- An eligible state or local government section 457 deferred compensation plan.

The CSRS, FERS, and TSP are considered qualified retirement plans.

Distributions eligible for rollover

treatment. If you receive a refund of your CSRS or FERS contributions when you leave government service, you can roll over any interest you receive on the contributions. You can't roll over any part of your CSRS or FERS annuity payments.

You can roll over a distribution of any part of your TSP account balance except:

1. A distribution of your account balance that you choose to receive in (typically monthly, but not less frequently than annually) payments over:
 - a. Your life expectancy,
 - b. The joint life expectancies of you and your beneficiary, or
 - c. A period of 10 years or more;

2. A required minimum distribution generally beginning at age 73;
3. A declared distribution because of an unrepaid loan, if you haven't separated from government service (see *Outstanding loan* under *Thrift Savings Plan*, earlier); or
4. A hardship distribution.

In addition, a distribution to your beneficiary isn't generally treated as an eligible rollover distribution. However, see *Qualified domestic relations order (QDRO)*, *Rollovers by surviving spouse*, and *Rollovers by nonspouse beneficiary*, later.

Direct rollover option. You can choose to have OPM or the TSP transfer any part of an eligible rollover distribution directly to another qualified retirement plan that accepts rollover distributions or to a traditional IRA or Roth IRA.

There is an automatic rollover requirement for mandatory distributions. A mandatory distribution is a distribution made:

- Without your consent; and
- Before you reach age 62 or normal retirement age, whichever is later.

The automatic rollover requirement applies if the distribution is more than \$1,000 and is an eligible rollover distribution. You can choose to have the distribution paid directly to you or rolled over directly to your traditional or Roth IRA or another qualified retirement plan. If you don't make this choice, OPM will automatically roll over the distribution into an IRA of a designated trustee or issuer.

No tax withheld. If you choose the direct rollover option or have an automatic rollover, no tax will be withheld from any part of the distribution that is directly paid to the trustee of the other plan. However, if the rollover is to a Roth IRA, you may want to choose to

have tax withheld because any amount rolled over is generally included in income. Any part of the eligible rollover distribution paid to you is subject to withholding at a 20% rate. Direct rollover amounts from Roth contributions and earnings don't have tax withheld because you already paid tax on those amounts.

Payment to you option. If an eligible rollover distribution is paid to you, OPM or the TSP must withhold 20% for income tax even if you plan to roll over the distribution to another qualified retirement plan, or traditional or Roth IRA. However, the full amount is treated as distributed to you even though you actually receive only 80%. You must generally include in income any part (including the part withheld) that you don't roll over within 60 days to another qualified retirement plan or to a traditional IRA.

Rollovers to Roth IRAs are generally included in income. Eligible rollover distributions that are from Roth contributions don't have tax

withheld because you already paid tax on those amounts.

If you leave government service before the calendar year in which you reach age 55 and are under age 59^{1/2} when a distribution is paid to you, you may have to pay an additional 10% tax on any part, including any tax withheld, that you don't roll over. If you are a qualified public safety employee and you have completed at least 25 years of service under the plan or have attained 50 years of age (whichever is earlier), the additional tax doesn't apply to you.

Distributions from Roth contributions will not be subject to the 10% additional tax because they are a return of your cost (after-tax money). Earnings from those contributions may be subject to the 10% additional tax if certain conditions aren't met. See *Roth TSP balance*, earlier. Also, see *Tax on Early Distributions* in Pub. 575.

Exception to withholding. Withholding from an eligible rollover distribution paid to you isn't required if the distributions for your tax year total less than \$200.

Partial rollovers. A lump-sum distribution may qualify for capital gain treatment or the 10-year tax option if the plan participant was born before January 2, 1936. See *Lump-Sum Distributions* in Pub. 575. However, if you roll over any part of the distribution, the part you keep doesn't qualify for this special tax treatment.

Rolling over more than amount received. If you want to roll over more of an eligible rollover distribution than the amount you received after income tax was withheld, you will have to add funds from some other source (such as your savings or borrowed amounts).

Example. You left government service at age 53. On February 3, 2023, you receive an eligible rollover distribution of \$10,000 from

your TSP account, which is from traditional contributions and earnings. The TSP withholds \$2,000, so you actually receive \$8,000. If you want to roll over the entire \$10,000 to postpone including that amount in your income, you will have to get \$2,000 from some other source and add it to the \$8,000 you actually received.

If you roll over only \$8,000, you must include in your income the \$2,000 not rolled over. Also, you may be subject to the 10% additional tax on the \$2,000.

Time for making rollover. You must generally complete the rollover of an eligible rollover distribution paid to you by the 60th day following the day on which you receive the distribution.

The IRS may waive the 60-day requirement where the failure to do so would be against equity or good conscience, such as in the event of a casualty, disaster, or other event beyond your reasonable control. There are

three ways to obtain a waiver of the 60-day requirement.

- You qualify for an automatic waiver.
- You self-certify that you met the requirements of a waiver.
- You request and receive a letter ruling under the appropriate IRS Revenue Procedure. This Revenue Procedure is generally published in the first Internal Revenue Bulletin of the year.

For more information about requesting a waiver of the 60-day rollover requirement, rollovers permitted between the various types of retirement plans (including IRAs), and other topics regarding rollovers, see *Rollovers* in Pub. 590-A. For information about the extended rollover period for a qualified plan loan offset, see *Plan loan offset* under *Time for making rollover* in Pub. 575.

A letter ruling isn't required if a financial institution receives the rollover funds during the 60-day rollover period, you follow all procedures required by the financial institution, and, solely due to an error on the part of the financial institution, the funds aren't deposited into an eligible retirement account within the 60-day rollover period.

Frozen deposits. If an amount distributed to you becomes a frozen deposit in a financial institution during the 60-day period after you receive it, the rollover period is extended. An amount is a frozen deposit if you can't withdraw it because of either:

- The bankruptcy or insolvency of the financial institution, or
- Any requirement imposed by the state in which the institution is located because of the bankruptcy or insolvency (or threat of it) of one or more financial institutions in the state.

The 60-day rollover period is extended by the period for which the amount is a frozen deposit and doesn't end earlier than 10 days after the amount is no longer a frozen deposit.

Qualified domestic relations order

(QDRO). You may be able to roll over tax free all or part of a distribution you receive from the CSRS, the FERS, or the TSP under a court order in a divorce or similar proceeding. You must receive the distribution as the government employee's spouse or former spouse (not as a nonspousal beneficiary). The rollover rules apply to you as if you were the employee. You can roll over the distribution if it is an eligible rollover distribution (described earlier) and it is made under a QDRO or, for the TSP, a qualifying order.

A QDRO or qualifying order is a judgment, decree, or order relating to payment of child support, alimony, or marital property rights. The payments must be made to a spouse,

former spouse, child, or other dependent of a participant in the plan.

The order must contain certain information, including the amount or percentage of the participant's benefits to be paid to each payee. It can't require the plan to pay benefits in a form not offered by the plan, nor can it require the plan to pay increased benefits.

A distribution that is paid to a child or dependent under a QDRO or a qualifying order is taxed to the plan participant.

Rollovers by surviving spouse. You may be able to roll over tax free all or part of the CSRS, FERS, or TSP distribution you receive as the surviving spouse of a deceased employee or retiree. The rollover rules apply to you as if you were the employee or retiree. You can generally roll over the distribution into a qualified retirement plan or an IRA. An amount rolled over to a Roth IRA isn't tax free unless you are rolling over amounts from

Roth contributions and earnings. See *Rollovers to Roth IRAs*, later.

A distribution paid to a beneficiary other than the employee's surviving spouse is generally not an eligible rollover distribution. However, see *Rollovers by nonspouse beneficiary* next.

Rollovers by nonspouse beneficiary. You may be able to roll over tax free all or a portion of a distribution you receive from the CSRS, FERS, or TSP of a deceased employee or retiree if you are a designated beneficiary (other than a surviving spouse) of the employee or retiree. The distribution must be a direct trustee-to-trustee transfer to your IRA that was set up to receive the distribution. The transfer will be treated as an eligible rollover distribution and the IRA will be treated as an inherited IRA. An amount rolled over to a Roth IRA isn't tax free. See *Rollovers to Roth IRAs*, later. For information on inherited IRAs, see Pub. 590-A.

How to report. On your Form 1040, 1040-SR, or 1040-NR, report the total distributions from the CSRS, FERS, or TSP on line 5a. Report the taxable amount of the distributions (total distribution less the amount rolled over) on line 5b. Also, enter “Rollover” next to line 5b. If the rollover was made to a Roth IRA, see *Rollovers to Roth IRAs*, later, for reporting the rollover on your return.

Written explanation to recipients. The TSP or OPM must provide a written explanation to you within a reasonable period of time before making an eligible rollover distribution to you. It must tell you about all of the following.

- Your right to have the distribution paid tax free directly to another qualified retirement plan or to a traditional IRA.
- The requirement to withhold tax from the distribution, unless it is from your Roth contributions and earnings, if it isn't directly rolled over.

- The nontaxability of any part of the distribution that you roll over within 60 days after you receive the distribution.
- Other qualified retirement plan rules that apply, including those for lump-sum distributions, alternate payees, and cash or deferred arrangements.
- How the distribution rules of the plan to which you roll over the distribution may differ in their restrictions and tax consequences from the rules that apply to the plan making the distribution.

Note. Rollovers to Roth IRAs aren't tax free and are included in income unless it is from your Roth contributions and earnings. See *Rollovers to Roth IRAs*, later.

Reasonable period of time. The TSP or OPM must provide you with a written explanation no earlier than 90 days and no later than 30 days before the distribution is made. However, you can choose to have the

TSP or OPM make a distribution less than 30 days after the explanation is provided, as long as the following two requirements are met.

- You have the opportunity, for at least 30 days after the explanation is provided, to consider whether or not you want to make a direct rollover.
- The information you receive clearly states that you have the right to have 30 days to make a decision.

Contact the TSP or OPM if you have any questions about this information.

Rollovers to Roth IRAs

You can roll over distributions directly from the CSRS, FERS, and TSP to a Roth IRA.

You must include in your gross income distributions from the CSRS, FERS, and TSP that you would have had to include in income if you hadn't rolled them over into a Roth IRA. You don't include in gross income any part of

a distribution that is a return of contributions that were taxable to you when paid. In addition, the 10% tax on early distributions doesn't apply.

Any amount, which is from traditional TSP contributions and earnings, rolled over to a Roth IRA is subject to the same rules for converting a traditional IRA into a Roth IRA. For more information, see *Converting From Any Traditional IRA Into a Roth IRA* in chapter 1 of Pub. 590-A.

How to report. A rollover to a Roth IRA isn't a tax-free distribution unless you are rolling over after-tax contributions you made such as your Roth contributions and earnings. Report a rollover from a qualified retirement plan to a Roth IRA on Form 1040, 1040-SR, or 1040-NR, lines 5a and 5b.

Enter the total amount of the distribution before income tax or deductions were withheld on Form 1040, 1040-SR, or 1040-NR, line 5a. This amount is shown in box 1 of

Form 1099-R. From this amount, subtract any contributions (usually shown in box 5 of Form 1099-R) that were taxable to you when made. From that result, subtract the amount of any qualified rollover from a designated Roth account. Enter the remaining amount, even if zero, on Form 1040, 1040-SR, or 1040-NR, line 5b.



If you must include any amount in your income, you may have to increase your withholding or make estimated tax payments. See Pub. 505.

Choosing the right option. Table 1 may help you decide which distribution option to choose. Carefully compare the effects of each option.