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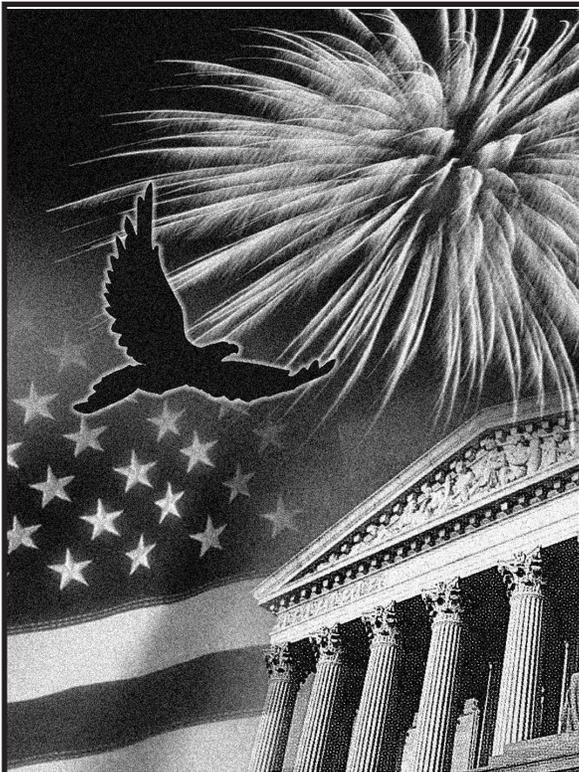


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Tax Guide to U.S. Civil Service Retirement Benefits

For use in preparing
2020 Returns



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What's New

Qualified coronavirus-related distributions. The additional tax on early distributions doesn't apply to qualified coronavirus-related distributions. See Form 8915-E for more details.

Temporary waiver of required minimum distributions. For calendar year 2020, required minimum distributions are waived.

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

Withdrawals in the case of a birth or adoption of a child. The 10% additional tax on early distributions does not apply to qualified birth or adoption distributions.

Increase in age for mandatory distributions. Individuals that reach age 70½ on January 1, 2020, or later may delay distributions until April 1 of the year following the year in which they turn age 72.

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, Pension and Annuity Income.

Disaster tax relief. Special rules apply to the use of retirement funds by qualified individuals who suffered an economic loss because of a disaster.

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).

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](https://www.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](https://www.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/benefits-administration-letters/2019/19-102.pdf](https://www.opm.gov/retirement-services/publications-forms/benefits-administration-letters/2019/19-102.pdf).

Expanded exception to the tax on early distributions from a governmental plan for qualified public safety employees. For tax years beginning after December 31, 2015, in addition to those employees described in *Qualified public safety employees under Tax on Early Distributions* in Pub. 575, the definition is expanded to include the following.

- Federal law enforcement officers.
- Federal customs and border protection officers.
- Federal firefighters.
- Air traffic controllers.
- Nuclear materials couriers.
- Members of the U.S. Capitol Police.
- Members of the Supreme Court Police.
- Diplomatic security special agents of the U.S. Department of State.

In addition, the exception to the tax is extended to distributions from governmental defined contribution plans, as well as governmental defined benefit plans.

See *Tax on Early Distributions* in Pub. 575 for more information.

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 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 private sector 401(k) plans. 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 your suggestions for future editions.

You can send us comments through [IRS.gov/FormComments](#). Or, you can write to: 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 as we revise our tax forms, instructions, and publications. We can't answer tax questions sent to the above address.

Tax questions. If you have a tax question not answered by this publication or [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](#) where you can find topics using the search feature or by viewing the categories listed.

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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 Pension or Annuity Payments
- 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

See [How To Get Tax Help](#) at the end of this publication for information about getting publications and forms.

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 you separate from service before the calendar year in which you reach age 55, 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.



A lump-sum distribution is eligible for capital gain treatment or the 10-year tax option only if the plan participant was born before January 2, 1936.

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 2021 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 2021 return. For more information, including exceptions to the penalty, see chapter 4 of 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. File a copy of Form CSA 1099-R with 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 possessions.

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 possessions. 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 possessions, 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 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, you can choose not to have tax withheld or you can choose to have tax withheld. The amount of tax withheld depends on your marital status, the number of withholding allowances, and any additional amount you designate to be withheld. If you don't make either of these choices, OPM must withhold as if you were married with three withholding allowances.



To change the amount of tax withholding or to stop withholding, call 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 1-855-887-4957.



You can also change the amount of withholding or stop withholding online by visiting 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.

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
- An amount determined as if you were married with three withholding allowances, unless you submit a withholding certificate (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 Important Tax Information About Payments From Your TSP Account, available from your agency personnel office or from the TSP.



The above document is also available in the "Forms & Publications" section of the TSP website at TSP.gov.

Estimated tax. Generally, you must make estimated tax payments for 2021 if you expect to owe at least \$1,000 in tax for 2021 (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 2021, or

- 100% of the tax shown on your 2020 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 2021 will be married filing separately)). The return must cover all 12 months.

You don't have to pay estimated tax for 2021 if you were a U.S. citizen or resident alien for all of 2020 and you had no tax liability for the full 12-month 2020 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 Forms 1040 and 1040-SR.

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 his or her own income (not yours) for federal income tax purposes.

If your child can be claimed as a dependent, treat the taxable part of his or her 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 Survi-](#)

[vors 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 Forms 1040 and 1040-SR, or the Instructions for Form 1040-NR 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 2020, 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, 2020, under an annuity that will provide a survivor benefit for his wife, Kathy. His annuity starting date is April 1, 2020, the annuity is paid in arrears, and he received his first monthly annuity payment on May 1, 2020. 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



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

<p>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</p>	<p>1. <u> </u> \$ 8,000</p>
<p>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</p> <p>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.</p>	<p>2. <u> </u> 31,000</p>
<p>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</p>	<p>3. <u> </u> 310</p>
<p>4. Divide line 2 by the number on line 3</p>	<p>4. <u> </u> 100</p>
<p>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</p>	<p>5. <u> </u> 800</p>
<p>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</p>	<p>6. <u> </u> 0</p>
<p>7. Subtract line 6 from line 2</p>	<p>7. <u> </u> 31,000</p>
<p>8. Enter the smaller of line 5 or line 7</p>	<p>8. <u> </u> 800</p>
<p>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</p>	<p>9. <u> </u> \$ 7,200</p>
<p>10. Was your annuity starting date before 1987?</p> <p><input type="checkbox"/> Yes. Don't complete the rest of this worksheet.</p> <p><input checked="" type="checkbox"/> No. Add lines 6 and 8. This is the amount you have recovered tax free through 2020. You will need this number if you need to fill out this worksheet next year</p>	<p>10. <u> </u> 800</p>
<p>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</p>	<p>11. <u> </u> \$ 30,200</p>

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.

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.

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 2020, one 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 below. 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.

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

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 2020 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 1 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. For more information, see [Lump-Sum Distributions](#) and [Tax on Early Distributions](#) in Pub. 575.

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

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

<p>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</p>	1. \$ 12,000	
<p>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</p> <p>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.</p>	2. 24,800	
<p>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</p>	3. 360	
<p>4. Divide line 2 by the number on line 3</p>	4. 68.89	
<p>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</p>	5. 688.90	
<p>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</p>	6. 0	
<p>7. Subtract line 6 from line 2</p>	7. 24,800	
<p>8. Enter the smaller of line 5 or line 7</p>	8. 688.90	
<p>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</p>	9. \$ 11,311.10	
<p>10. Was your annuity starting date before 1987?</p> <p><input type="checkbox"/> Yes.  Don't complete the rest of this worksheet.</p> <p><input checked="" type="checkbox"/> No. Add lines 6 and 8. This is the amount you have recovered tax free through 2020. You will need this number if you need to fill out this worksheet next year</p>		10. 688.90
<p>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</p>	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.

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 Forms 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 Forms CSA 1099-R or CSF 1099-R) or TSP distributions (from Form 1099-R)	1.	\$	720
2. Enter the total U.S. Government basic pay other than tax-exempt pay for services performed outside the United States	2.		0
3. Enter the total U.S. Government basic pay for all services	3.		100,000
4. Divide line 2 by line 3	4.		0
5. Limited taxable amount. Multiply line 1 by line 4. Enter this amount on Form 1040-NR, line 5b	5.		0

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 Forms CSA 1099-R or CSF 1099-R) or TSP distributions (from Form 1099-R)	1.	\$	1,980
2. Enter the total U.S. Government basic pay other than tax-exempt pay for services performed outside the United States	2.		40,000
3. Enter the total U.S. Government basic pay for all services	3.		120,000
4. Divide line 2 by line 3	4.		0.333
5. Limited taxable amount. Multiply line 1 by line 4. Enter this amount on Form 1040-NR, line 5b	5.		659

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 cost in 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 59½, 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](#), 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](#), 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. 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.



To qualify for the 10-year tax option, the plan participant must have been born before January 2, 1936.

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, the payments are subject to withholding as if you are married with three withholding allowances, unless you submit a withholding certificate. 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 59½ 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 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*, a TSP publication distributed to all federal employees. Also, see *Important Tax Information About Payments From Your TSP Account*, and *Special Tax Withholding Rules for Thrift Savings Plan Payments to Nonresident Aliens*, which are available from your agency personnel office or from the TSP by calling 1-TSP-YOU-FRST (1-877-968-3778), and for participants who are deaf, hard of hearing, or have a speech disability, by calling 1-TSP-THRIFT5 (1-877-847-4385).



The above documents are also available on the TSP website at TSP.gov. Select "Forms & Publications."

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 72 (required minimum distributions are waived for calendar year 2020);
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 59½ 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. However, 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, 2020, 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.

Table 1. Comparison of Payment to You Versus Direct Rollover

Affected Item	Result of a Payment to You	Result of a Direct Rollover
Withholding	The payer must withhold 20% of the taxable part.	There is no withholding. However, you may want to choose withholding on a rollover from your traditional contributions and earnings to a Roth IRA.
Additional tax	If you are under age 59½, a 10% additional tax may apply to the taxable part (including an amount equal to the tax withheld) that isn't rolled over.	There is no 10% additional tax. See Tax on early distributions , earlier.
When to report as income	Any taxable part (including the taxable part of any amount withheld) not rolled over is income to you in the year paid.	Any taxable part isn't income to you until later distributed to you from the new plan or IRA. However, see Rollovers to Roth IRAs , earlier, for an exception.

Distributions Used To Pay Insurance Premiums for Public Safety Officers

If you are an eligible retired public safety officer (law enforcement officer, firefighter, chaplain, or member of a rescue squad or ambulance crew), you can elect to exclude from income distributions made from an eligible retirement plan that are used to pay the premiums for accident or health insurance or long-term care insurance. The premiums can be for coverage for you, your spouse, or dependents. The distribution must be made directly from the plan to the insurance provider. You can exclude from income the smaller of the amount of the insurance premiums or \$3,000. You can only make this election for amounts that would otherwise be included in your income. The amount excluded from your income can't be used to claim a medical expense deduction.

For this purpose, an eligible retirement plan is a governmental plan that is:

- A qualified trust,
- A section 403(a) plan,
- A section 403(b) annuity, or
- A section 457(b) plan.

The CSRS and FERS are considered eligible retirement plans.

How to report. If you make this election, reduce the otherwise taxable amount of your annuity by the amount excluded. The taxable annuity shown on Form CSA 1099-R doesn't reflect this 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.

If you are retired on disability and reporting your disability pension on line 1 of Form 1040 or 1040-SR; or line 1a of Form 1040-NR, include only the taxable amount on that line and enter "PSO" and the amount excluded on the dotted line next to the applicable line.

How To Report Benefits

If you received annuity benefits that aren't fully taxable, report the total received for the year on Form 1040, 1040-SR, or 1040-NR, line 5a. Also, include on that line the total of any other pension plan payments (even if fully taxable, such as those from the TSP) that you received during the year in addition to the annuity. Report the taxable amount of these total benefits on Form 1040, 1040-SR, or 1040-NR, line 5b. However, if you use Form 4972, Tax on Lump-Sum Distributions, to report the tax on any amount, don't include that amount on line 5a or 5b. Instead, follow the Form 4972 instructions.

If you received only fully taxable payments from your retirement, the TSP, or other pension plan, report on Form 1040, 1040-SR, or 1040-NR, line 5b, the total received for the year (except for any amount reported on Form 4972). No entry is required on Form 1040, 1040-SR, or 1040-NR, line 5a.

Part III Rules for Disability Retirement and Credit for the Elderly or the Disabled

This part of the publication is for federal employees and retirees who receive disability benefits under the CSRS, the FERS, or other federal programs. It also explains the tax credit available to certain taxpayers because of age or disability.

Disability Annuity

If you retired on disability, the disability annuity you receive from the CSRS or FERS is taxable as wages until you reach minimum retirement age, as explained in this section. However, beginning on the day after you reach [minimum retirement age](#), your payments are treated as a retirement annuity and you can begin to recover the cost of your annuity under the rules discussed earlier in [Part II, Rules for Retirees](#).

If you find that you could have started your recovery in an earlier year for which you have already filed a return, you can still start your recovery of contributions in that earlier year. To do so, file an amended return for that year and each succeeding year for which you have already filed a return. Generally, an amended return for any year must be filed within 3 years after the due date for filing your original return for that year.

Minimum retirement age. This is the age at which you could first receive an annuity were you not disabled. This is generally based on your age and length of service.

Retirement under the Civil Service Retirement System (CSRS). In most cases, under the CSRS, the minimum combinations of age and service for retirement are:

- Age 55 with 30 years of service;
- Age 60 with 20 years of service;
- Age 62 with 5 years of service; or
- For service as a law enforcement officer, firefighter, nuclear materials courier, or air traffic controller, age 50 with 20 years of covered service.

Retirement under the Federal Employees Retirement System (FERS). In most cases, the minimum age for retirement under the FERS is between ages 55 and 57 with at least 10 years of service. With at least 5 years of service, your minimum retirement age is age 62. Your minimum retirement age with at least 10 years of service is shown in Table 2.

Table 2. FERS Minimum Retirement Age (MRA) With 10 Years of Service

IF you were born in . . .	THEN your MRA is . . .
1947 or earlier	55 years.
1948	55 years, 2 months.
1949	55 years, 4 months.
1950	55 years, 6 months.
1951	55 years, 8 months.
1952	55 years, 10 months.
1953 to 1964	56 years.
1965	56 years, 2 months.
1966	56 years, 4 months.
1967	56 years, 6 months.
1968	56 years, 8 months.
1969	56 years, 10 months.
1970 or later	57 years.

For service as a law enforcement officer, member of the Capitol or Supreme Court Police, firefighter, nuclear materials courier, or air traffic controller, the minimum retirement age is age 50 with 20 years of covered service or any age with 25 years of covered service.

How to report. You must report all your disability annuity payments received before minimum retirement age on Form 1040 or 1040-SR, line 1; or Form 1040-NR, line 1a.

Disability annuity payments received after you reach that age are reported as discussed under [How To Report Benefits](#), earlier in Part II.

Withholding. For income tax withholding purposes, a disability annuity is treated the same as a nondisability annuity. This treatment also applies to disability payments received before minimum retirement age even though these payments are shown as wages on your return. See [Tax Withholding and Estimated Tax](#) in Part I.

Other Benefits

The tax treatment of certain other benefits is explained in this section.

Federal Employees' Compensation Act (FECA). FECA payments you receive for personal injuries or sickness resulting from the performance of your duties are like workers' compensation. They are tax exempt and aren't treated as disability income or annuities. However, payments you receive while your claim is being processed, including pay while on sick leave and continuation of pay for up to 45 days, are taxable.

Sick pay or disability payments repaid. If you repay sick leave or disability annuity payments you received and included in income in an earlier year to be eligible for non-taxable FECA benefits for that period, you can't deduct the amount you repay.

If you repay sick leave or disability annuity payments in the same year you receive them, the repayment reduces your taxable sick leave pay or disability annuity.

Terrorist attack. Disability payments for injuries incurred as a direct result of a terrorist attack directed against the United States (or its allies) aren't included in income. For more information about payments to survivors of terrorist attacks, see Pub. 3920, Tax Relief for Victims of Terrorist Attacks.

Military actions. Disability payments for injuries incurred as a direct result of a military action involving the Armed Forces of the United States and resulting from actual or threatened violence or aggression against the United States or any of its allies aren't included in income.

Disability resulting from military service injuries. If you received tax-exempt benefits from the Department of Veterans Affairs for personal injuries resulting from active service in the U.S. Armed Forces and later receive a CSRS or FERS disability annuity for disability arising from the same injuries, you can't treat the disability annuity payments as tax-exempt income. They are subject to the rules described earlier under [Disability Annuity](#).

Payment for unused annual leave. If you retire on disability, any payment for your unused annual leave is taxed as wages in the tax year you receive the payment.

Credit for the Elderly or the Disabled

You can take the credit for the elderly or the disabled if:

- You are a qualified individual, and
- Your income isn't more than certain limits.

You are a qualified individual for this credit if you are a U.S. citizen or resident alien and, at the end of the tax year, you are:

1. Age 65 or older; or
2. Under age 65, retired on permanent and total disability, and
 - a. Received taxable disability income, and
 - b. Didn't reach [mandatory retirement age](#) (defined later) before the tax year.

You are retired on permanent and total disability if:

- You were permanently and totally disabled when you retired, and
- You retired on disability before the close of the tax year.

Even if you don't retire formally, you may be considered retired on disability when you have stopped working because of your disability.

Permanently and totally disabled. You are permanently and totally disabled if you can't engage in any substantial gainful activity because of your physical or mental condition. A physician must certify that the condition has lasted or can be expected to last continuously for 12 months or more, or that the condition can be expected to result in death. See [Physician's statement](#) next. Substantial gainful activity is the performance of significant duties over a reasonable period of time while working for pay or profit, or in work generally done for pay or profit.

Physician's statement. If you are under age 65, you must have your physician complete a statement certifying that you were permanently and totally disabled on the date you retired. You must keep this statement for your tax records. For this purpose, you can use the Physician's Statement in the Instructions for Schedule R (Form 1040).

Mandatory retirement age. This is the age set by your employer at which you would have had to retire if you hadn't become disabled. There is no mandatory retirement age for most federal employees. However, there is a mandatory retirement age for the following federal employees.

- An air traffic controller appointed after May 15, 1972, by the Department of Transportation or the Department of Defense must generally retire by the last day of the month in which he or she reaches age 56.
- A federal firefighter, law enforcement officer, nuclear materials courier, or member of the Capitol or Supreme Court Police who is otherwise eligible for immediate retirement must generally retire by the last day of

the month in which he or she reaches age 57 or, if later, completes 20 years of service.

Figuring the credit. If you figure the credit yourself, first fill out the front of Schedule R (Form 1040). Next, fill out Part III of the schedule.

If you want the IRS to figure your tax and credits, including the credit for the elderly or the disabled, see the Instructions for Schedule R (Form 1040).

More information. For detailed information about this credit, see Pub. 524, Credit for the Elderly or the Disabled.

Part IV Rules for Survivors of Federal Employees

This part of the publication is for survivors of federal employees. It explains how to treat amounts you receive because of the employee's death. If you are the survivor of a federal retiree, see [Part V](#).

Employee earnings. Salary or wages earned by a federal employee but paid to the employee's survivor or beneficiary after the employee's death are income in respect of the decedent. This income is taxable to the survivor or beneficiary. This treatment also applies to payments for accrued annual leave.

Dependents of public safety officers. The Public Safety Officers' Benefits program, administered through the Bureau of Justice Assistance (BJA), provides a tax-free death benefit to eligible survivors of public safety officers whose death is the direct and proximate result of a traumatic injury sustained in the line of duty. The death benefit isn't includible in the decedent's gross estate for federal estate tax purposes or the survivor's gross income for federal income tax purposes.

A public safety officer is a law enforcement officer, firefighter, or member of a public rescue squad or ambulance crew. In certain circumstances, a chaplain killed in the line of duty is also a public safety officer. The chaplain must have been responding to a fire, rescue, or police emergency as a member or employee of a fire or police department.

This program can pay survivors an emergency interim benefit of up to \$3,000 if it finds that the death of the public safety officer is one for which a final benefit will probably be paid. If there is no final payment, the recipient of the interim benefit is liable for repayment. However, the BJA may not require all or part of the repayment if it will cause a hardship. If that happens, that amount is tax free.



For more information on this program, you may contact the BJA by calling 1-888-744-6513.



Additional information about this program is also available on the BJA website at [BJA.gov](#).

FERS Death Benefit

You may be entitled to a special FERS death benefit if you were the spouse of an active FERS employee who died after at least 18 months of federal service. At your option, you can take the benefit in the form of a single payment or in the form of a special annuity payable over a 3-year period.

The tax treatment of the special death benefit depends on the option you choose and whether a FERS survivor annuity is also paid.

If you choose the single payment option, use the following rules.

- If a FERS survivor annuity isn't paid, at least part of the special death benefit is tax free. The tax-free part is an amount equal to the employee's FERS contributions.
- If a FERS survivor annuity is also paid, all of the special death benefit is taxable. You can't allocate any of the employee's FERS contributions to the special death benefit.

If you choose the 3-year annuity option, at least part of each monthly payment is tax free. Use the following rules.

- If a FERS survivor annuity isn't paid, the tax-free part of each monthly payment is an amount equal to the employee's FERS contributions divided by 36.
- If a FERS survivor annuity is also paid, allocate the employee's FERS contributions between the 3-year annuity and the survivor annuity. Make the allocation in the same proportion that the expected return from each annuity bears to the total expected return from both annuities. Divide the amount allocated to the 3-year annuity by 36. The result is the tax-free part of each monthly payment of the 3-year annuity.

CSRS or FERS Survivor Annuity

If you receive a CSRS or FERS survivor annuity, you can recover the employee's cost tax free. The employee's cost is the total of the retirement plan contributions that were taken out of his or her pay.

How you figure the tax-free recovery of the cost depends on your annuity starting date. This is the day after the date of the employee's death. The methods to use are the same as those described near the beginning of Part II under [Recovering your cost tax free](#).

The following discussions cover only the Simplified Method. You can use this method if your annuity starting date is after July 1, 1986. You must use this method if your annuity starting date is after November 18, 1996. Under the Simplified Method, each of your monthly annuity payments is made up of two parts: the tax-free part that is a return of the employee's cost and the taxable part that is the amount of each payment that is more than the part that represents the employee's cost. The tax-free part remains the same, even if your annuity is increased. However, see [Exclusion limit](#), later.

Surviving spouse with no children receiving annuities. Under the Simplified Method, you figure the tax-free part of each full monthly annuity payment by dividing the employee's 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. To use the Simplified Method, complete [Worksheet A](#). Specific instructions for Worksheet A are given in Part II under [Simplified Method](#).

Example. Diane Green, age 48, began receiving a \$1,500 monthly CSRS annuity in March 2020 upon the death of her husband. Her husband was a federal employee when he died. She received 10 payments in 2020. Her husband had contributed \$36,000 to the retirement plan.

Diane must use the Simplified Method. Her completed [Worksheet A](#) is shown later. To complete line 3, she used Table 1 at the bottom of the worksheet and found that 360 is the number in the last column opposite the age range that includes her age. Diane keeps a copy of the completed worksheet for her records. It will help her figure her taxable annuity in later years.

Diane's tax-free monthly amount is \$100 (line 4 of her worksheet). If she lives to collect more than 360 payments, the payments after the 360th will be fully taxable. If she dies before 360 payments have been made, an "Other Itemized Deduction" will be allowed for the unrecovered cost on her final income tax return.

Surviving spouse with child. If the survivor benefits include both a life annuity for the surviving spouse and one or more temporary annuities for the employee's children, an additional step is needed under the Simplified Method to allocate the monthly exclusion among the beneficiaries correctly.

Figure the total monthly exclusion for all beneficiaries by completing lines 2 through 4 of [Worksheet A](#) as if only the surviving spouse received an annuity. Then, to figure the monthly exclusion for each beneficiary, multiply line 4 of the worksheet by a fraction. For any beneficiary, the numerator of the fraction is that beneficiary's monthly annuity, and the denominator is the total of the monthly annuity payments to all the beneficiaries.

The temporary annuity is payable to the child until the child reaches a specified age in the plan, which can't be older than 25. The ending of a child's temporary annuity doesn't affect the total monthly exclusion figured under the Simplified Method. The total exclusion merely needs to be reallocated at that time among the remaining beneficiaries. If only the surviving spouse is left drawing an annuity, the surviving spouse is entitled to the entire monthly exclusion as figured in the worksheet.

Example. The facts are the same as in the [example for Diane Green](#) in the preceding discussion, except that the Greens had a son, Robert, who was age 15 at the time of his father's death. Robert is entitled to a \$500-per-month temporary annuity until he reaches age 18 (age 22, if he remains a full-time student and doesn't marry), as specified by the plan.



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

<p>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</p>	1. \$ 15,000
<p>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</p> <p>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.</p>	2. 36,000
<p>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</p>	3. 360
<p>4. Divide line 2 by the number on line 3</p>	4. 100
<p>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</p>	5. 1,000
<p>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</p>	6. 0
<p>7. Subtract line 6 from line 2</p>	7. 36,000
<p>8. Enter the smaller of line 5 or line 7</p>	8. 1,000
<p>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</p>	9. \$ 14,000
<p>10. Was your annuity starting date before 1987?</p> <p><input type="checkbox"/> Yes. Don't complete the rest of this worksheet.</p> <p><input checked="" type="checkbox"/> No. Add lines 6 and 8. This is the amount you have recovered tax free through 2020. You will need this number if you need to fill out this worksheet next year</p>	10. 1,000
<p>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</p>	11. \$ 35,000

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.

In completing Worksheet A (not shown), Diane fills out the entries through line 4 exactly as shown in the filled-in worksheet for the earlier example. That is, she includes on line 1 only the amount of the annuity she herself received and she uses on line 3 the 360 factor for her age. After arriving at the \$100 monthly exclusion on line 4, however, Diane allocates it between her own annuity and that of her son.

To find how much of the monthly exclusion to allocate to her own annuity, Diane multiplies the \$100 monthly exclusion by the fraction \$1,500 (her monthly annuity) over \$2,000 (the total of her \$1,500 and Robert's \$500 annuities). She enters the result, \$75, just below the entry space for line 4. She completes the worksheet by entering \$750 on lines 5 and 8, and \$14,250 on line 9.

A second Worksheet A (not shown) is completed for Robert's annuity. On line 1, he enters \$5,000 as the total annuity received. Lines 2, 3, and 4 are the same as those on his mother's worksheet. In allocating the \$100 monthly exclusion on line 4 to his annuity, Robert multiplies it by the fraction \$500 over \$2,000. His resulting monthly exclusion is \$25. His exclusion for the year (line 8) is \$250, and his taxable annuity for the year (line 9) is \$4,750.

Diane and Robert only need to complete lines 10 and 11 on a single worksheet to keep track of their unrecovered cost for next year. These lines are exactly as shown in the [filled-in Worksheet A for the earlier example](#).

When Robert's temporary annuity ends, the computation of the total monthly exclusion will not change. The only difference will be that Diane will then claim the full exclusion against her annuity alone.

Surviving child only. A method similar to the Simplified Method can also be used to figure the taxable and nontaxable parts of a temporary annuity for a surviving child when there is no surviving spouse annuity. To use this method, divide the deceased employee's cost by the number of months from the child's annuity starting date until the date the child will reach age 22. The result is the monthly exclusion. (However, the monthly exclusion can't be more than the monthly annuity payment. You can carry over unused exclusion amounts to apply against future annuity payments.)

More than one child. If there is more than one child entitled to a temporary annuity (and no surviving spouse annuity), divide the cost by the number of months of payments until the date the youngest child will reach age 22. This monthly exclusion must then be allocated among the children in proportion to their monthly annuity payments, like the exclusion shown in the previous example.

Disabled child. If a child otherwise entitled to a temporary annuity was permanently disabled at the annuity starting date (and there is no surviving spouse annuity), that child is treated for tax purposes as receiving a lifetime annuity, like a surviving spouse. The child must complete line 3 of [Worksheet A](#) using a number in Table 1 at the bottom of the worksheet corresponding to the child's age at the annuity starting date. If more than one child is entitled to a temporary annuity, an allocation like the one

shown under [Surviving spouse with child](#), earlier, must be made to determine each child's share of the exclusion.

Exclusion limit. If your annuity starting date is after 1986, the most that can be recovered tax free is the cost of the annuity. Once the total of your exclusions equals the cost, your entire annuity is taxable. If your annuity starting date is before 1987, the tax-free part of each whole monthly payment remains the same each year you receive payments—even if you outlive the number of months used on line 3 of the Simplified Method Worksheet. The total exclusion may be more than the cost of the annuity.

Deduction of unrecovered cost. If the annuity starting date is after July 1, 1986, and the annuitant's death occurs before all the cost is recovered tax free, the unrecovered cost can be claimed as an "Other Itemized Deduction" for the annuitant's last tax year.

Survivors of Slain Public Safety Officers

Generally, if you receive survivor annuity payments as the spouse, former spouse, or child of a public safety officer killed in the line of duty, you can exclude the payments from your income. The annuity is excludable to the extent that it is due to the officer's service as a public safety officer. Public safety officers include law enforcement officers, firefighters, chaplains, ambulance crew members, and rescue squad members. The provision applies to a chaplain killed in the line of duty after September 10, 2001. The chaplain must have been responding to a fire, rescue, or police emergency as a member or employee of a fire or police department.

The exclusion doesn't apply if your actions were a substantial contributing factor to the death of the officer. It also doesn't apply if:

- The death was caused by the intentional misconduct of the officer or by the officer's intention to cause his or her own death,
- The officer was voluntarily intoxicated at the time of death, or
- The officer was performing his or her duties in a grossly negligent manner at the time of death.



The special death benefit paid to the spouse of a FERS employee (see [FERS Death Benefit](#), earlier) isn't eligible for this exclusion.

Lump-Sum CSRS or FERS Payment

If a federal employee dies before retiring and leaves no one eligible for a survivor annuity, the estate or other beneficiary will receive a lump-sum payment from the CSRS or FERS. This single payment is made up of the regular contributions to the retirement fund plus accrued interest, if any, to the extent not already paid to the employee.

The beneficiary is taxed, in the year the lump sum is distributed or made available, only on the amount of any

accrued interest. The taxable amount, if any, generally can't be rolled over into an IRA or other plan and is subject to federal income tax withholding at a 10% rate. However, a nonspousal beneficiary making a transfer described under [Rollovers by nonspouse beneficiary](#) under *Rollover Rules* in Part II can roll over any taxable amount. In addition, the payment 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 the beneficiary also receives a lump-sum payment of unrecovered voluntary contributions plus interest, this treatment applies only if the payment is received within the same tax year. For more information, see *Lump-Sum Distributions* in Pub. 575.

Lump-sum payment at end of survivor annuity. If an annuity is paid to the federal employee's survivor and the survivor annuity ends before an amount equal to the deceased employee's contributions plus any interest has been paid out, the rest of the contributions plus any interest will be paid in a lump sum to the employee's estate or other beneficiary. Generally, this beneficiary will not have to include any of the lump sum in gross income because, when it is added to the amount of the annuity previously received that was excludable, it will still be less than the employee's total contributions.

Any unrecovered cost is allowed as an "Other Itemized Deduction" on the final return of the annuitant.

To figure the taxable amount, if any, use [Worksheet D](#).

Worksheet D. Lump-Sum Payment at End of Survivor Annuity

Keep for Your Records



1. Enter the lump-sum payment	1.	_____
2. Enter the amount of annuity previously received tax free	2.	_____
3. Add lines 1 and 2	3.	_____
4. Enter the employee's total cost	4.	_____
5. Taxable amount. Subtract line 4 from line 3. Enter the result, but not less than zero	5.	_____

The taxable amount, if any, generally can't be rolled over into an IRA or other plan and is subject to federal income tax withholding at a 10% rate. However, a nonspousal beneficiary making a transfer described under [Rollovers by nonspouse beneficiary](#) under *Rollover Rules* in Part II can roll over any taxable amount. In addition, the payment 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 the beneficiary also receives a lump-sum payment of unrecovered voluntary contributions plus interest, this treatment applies only if the payment is received within the same tax year. For more information, see *Lump-Sum Distributions* in Pub. 575.

Example. At the time of your brother's death in December 2019, he was employed by the federal

government and had contributed \$45,000 to the CSRS. His widow received \$6,600 in survivor annuity payments before she died in 2020. She had used the Simplified Method for reporting her annuity and properly excluded \$1,000 from gross income.

Only \$6,600 of the guaranteed amount of \$45,000 (your brother's contributions) was paid as an annuity, so the balance of \$38,400 was paid to you in a lump sum as your brother's sole beneficiary. You figure the taxable amount of this payment as follows.

Worksheet D. Lump-Sum Payment at End of Survivor Annuity—Example

Keep for Your Records



1. Enter the lump-sum payment	1.	\$	38,400
2. Enter the amount of annuity previously received tax free	2.		1,000
3. Add lines 1 and 2	3.		39,400
4. Enter the employee's total cost	4.		45,000
5. Taxable amount. Subtract line 4 from line 3. Enter the result, but not less than zero	5.		0

Voluntary contributions. If a CSRS employee dies before retiring from government service, voluntary contributions to the retirement fund can't be used to provide an additional annuity to the survivors. Instead, the voluntary contributions plus any accrued interest will be paid in a lump sum to the estate or other beneficiary. The beneficiary must generally include any interest received in income for the year distributed or made available. However, if the beneficiary is the employee's surviving spouse (or someone other than the employee's spouse making a transfer described under [Rollovers by nonspouse beneficiary](#) under *Rollover Rules* in Part II), the interest can be rolled over. See also [Rollovers by surviving spouse](#) under *Rollover Rules* in Part II.

The interest, if not rolled over, is generally subject to federal income tax withholding at a 20% rate (or 10% rate if the beneficiary isn't the employee's surviving spouse). 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;
- Regular annuity benefits can't be paid under the retirement system; and
- The beneficiary also receives a lump-sum payment of the regular contributions plus interest within the same tax year as the voluntary contributions.

For more information, see *Lump-Sum Distributions* in Pub. 575.

Thrift Savings Plan (TSP)

The payment you receive as the beneficiary of a decedent's TSP account is fully taxable except for the portion that is from Roth contributions and earnings if certain

conditions are met. See [Roth TSP balance](#), earlier. However, if you are the decedent's surviving spouse (or someone other than the employee's spouse making a transfer described under [Rollovers by nonspouse beneficiary](#) under [Rollover Rules](#) in Part II), you can generally roll over the payment tax free. If you don't choose a direct rollover of the decedent's TSP account, mandatory 20% income tax withholding will apply unless it is from Roth contributions. See [Roth TSP balance](#), earlier. For more information, see [Rollover Rules](#) in Part II. If you are neither the surviving spouse nor someone other than the employee's spouse making a transfer described above, the payment isn't eligible for rollover treatment. The TSP will withhold 10% of the payment for federal income tax, unless you gave the TSP a Form W-4P to choose not to have tax withheld.

If the entire TSP account balance is paid to the beneficiaries in the same calendar year, it may qualify as a lump-sum distribution eligible for the 10-year tax option if the plan participant was born before January 2, 1936. See [Lump-Sum Distributions](#) in Pub. 575 for details. Also, see Important Tax Information About Thrift Savings Plan Death Benefit Payments, which is available from the TSP.

Beneficiary participant account. A beneficiary participant account will be established for a spouse beneficiary. The money in the account isn't subject to federal income tax until it is withdrawn. However, the portion that is from Roth contributions and earnings, if certain conditions are met, will not be subject to tax. See [Roth TSP balance](#), earlier, for a discussion of the conditions. For more information on beneficiary participant accounts, see Death Benefits, Information for Participants and Beneficiaries, available from the TSP.



Both of the above TSP documents are available on the TSP website at [TSP.gov](https://www.tsp.gov). Select "Forms & Publications."



CAUTION If you receive a payment from a uniformed services TSP account that includes contributions from combat pay, see [Uniformed services Thrift Savings Plan \(TSP\) accounts](#) under Reminders near the beginning of this publication.

Federal Estate Tax

Form 706, United States Estate (and Generation-Skipping Transfer) Tax Return, must be filed for the estate of a citizen or resident alien of the United States who died in 2020 if the gross estate is more than \$11,580,000. Included in this \$11,580,000 are any adjusted taxable gifts made by the decedent after 1976 and the specific exemption allowed for gifts by the decedent after September 8, 1976, and before 1977.

The gross estate generally includes the value of all property beneficially owned by the decedent at the time of death. Examples of property included in the gross estate are salary or annuity payments that had accrued to an employee or retiree, but which weren't paid before death, and the balance in the decedent's TSP account.

The gross estate also usually includes the value of the death and survivor benefits payable under the CSRS or the FERS. If the federal employee died leaving no one eligible to receive a survivor annuity, the lump sum (representing the employee's contribution to the retirement system plus any accrued interest) payable to the estate or other beneficiary is included in the employee's gross estate.

Marital deduction. The estate tax marital deduction is a deduction from the gross estate of the value of property that is included in the gross estate but that passes, or has passed, to the surviving spouse. Generally, there is no limit on the amount of the marital deduction. Community property passing to the surviving spouse qualifies for the marital deduction.

More information. For more information, see Pub. 559, Survivors, Executors, and Administrators.

Part V Rules for Survivors of Federal Retirees

This part of the publication is for survivors of federal retirees. It explains how to treat amounts you receive because of the retiree's death. If you are the survivor of a federal employee, see [Part IV](#).

Decedent's retirement benefits. Retirement benefits accrued and payable to a CSRS or FERS retiree before death, but paid to you as a survivor, are taxable in the same manner and to the same extent these benefits would have been taxable had the retiree lived to receive them.

CSRS or FERS Survivor Annuity

CSRS or FERS annuity payments you receive as the survivor of a federal retiree are fully or partly taxable under either the General Rule or the Simplified Method.

Cost recovered. If the retiree reported the annuity under the 3-Year Rule and recovered all of the cost tax free, your survivor annuity payments are fully taxable. This is also true if the retiree had an annuity starting date after 1986, reported the annuity under the General Rule or the Simplified Method, and had fully recovered the cost tax free.

General Rule. If the retiree was reporting the annuity under the General Rule, figure the tax-free part of the annuity using the same exclusion percentage that the retiree used. Apply the exclusion percentage to the amount specified as your survivor annuity at the retiree's annuity starting date. Don't apply the exclusion percentage to any cost-of-living increases made after that date. Those increases are fully taxable. For more information about the General Rule, see Pub. 939.

Simplified Method. If the retiree was reporting the annuity under the Simplified Method, your tax-free monthly amount is the same as the retiree's monthly exclusion ([Worksheet A](#), line 4). This amount remains fixed even if the monthly payment is increased or decreased. A cost-of-living increase in your survivor annuity payments doesn't change the amount you can exclude from gross income.

Exclusion limit. If the retiree's annuity starting date was before 1987, you can exclude the tax-free amount from all the annuity payments you receive. This includes any payments received after you recover the cost tax free.

If the retiree's annuity starting date is after 1986, you can exclude the tax-free amount only until you recover the cost tax free. The annuity payments you receive after you recover the annuity cost tax free are fully taxable.

Deduction of unrecovered cost. If the annuity starting date is after July 1, 1986, and the survivor annuitant's death occurs before all the cost is recovered tax free, the unrecovered cost can be claimed as an "Other Itemized Deduction" for the annuitant's last tax year.

Surviving spouse with child. If the survivor benefits include both a life annuity for the surviving spouse and one or more temporary annuities for the retiree's children, the tax-free monthly amount that would otherwise apply to the life annuity must be allocated among the beneficiaries. To figure the tax-free monthly amount for each beneficiary, multiply it by a fraction. The numerator of the fraction is the beneficiary's monthly annuity, and the denominator of the fraction is the total of the monthly annuity payments to all the beneficiaries.

Example. John retired in 2018 and began receiving a \$1,147 per month CSRS retirement annuity with a survivor annuity payable to his wife, Kate, upon his death. He reported his annuity using the Simplified Method. Under that method, \$150 of each payment he received was a tax-free recovery of his \$45,000 cost. John received a total of 22 monthly payments and recovered \$3,300 of his cost tax free before his death in 2020. At John's death, Kate began receiving an annuity of \$840 per month and their children, Sam and Lou, began receiving temporary annuities of \$330 each per month. Kate must allocate the \$150 tax-free monthly amount among the three annuities.

To find how much of the monthly exclusion to allocate to her own annuity, Kate multiplies the \$150 tax-free monthly amount by the fraction $\frac{\$840}{\$840 + \$330 + \$330}$ (her monthly annuity over \$1,500 (the total of her \$840, Sam's \$330, and Lou's \$330 monthly annuities)). Her resulting monthly exclusion is \$84. In allocating the \$150 monthly exclusion to each child's annuity, the \$150 is multiplied by the fraction $\frac{\$330}{\$840 + \$330 + \$330}$ (each child's monthly annuity) over \$1,500. Each child's resulting monthly exclusion is \$33.

Beginning with the month in which either child is no longer eligible for an annuity, as specified in the plan, Kate will reallocate the \$150 monthly exclusion to her own annuity by multiplying the \$150 by the fraction $\frac{\$840}{\$840 + \$330 + \$330}$ (the total of her \$840 and her other child's \$330 monthly annuities). Her resulting monthly exclusion is

\$108. In reallocating the \$150 monthly exclusion to the other child's annuity, the \$150 is multiplied by the fraction $\frac{\$330}{\$840 + \$330 + \$330}$ over \$1,170. The other child's resulting monthly exclusion is \$42.

Surviving child only. If the survivor benefits include only a temporary annuity for the retiree's child, allocate the unrecovered cost over the number of months from the date the annuity started until the child reaches age 22. If more than one temporary annuity is paid, allocate the cost over the number of months until the youngest child reaches age 22, and allocate the tax-free monthly amount among the annuities in proportion to the monthly annuity payments.

Lump-Sum CSRS or FERS Payment

If a deceased retiree has no beneficiary eligible to receive a survivor annuity, and the deceased retiree's annuity ends before an amount equal to the deceased retiree's contributions plus any interest has been paid out, the rest of the contributions plus any interest will be paid in a lump sum to the estate or other beneficiary. The estate or other beneficiary will rarely have to include any part of the lump sum in gross income. The taxable amount is figured by using [Worksheet E](#).

Worksheet E. Lump-Sum Payment at End of Retiree's Annuity (With No Survivor Annuity)

Keep for Your Records



1. Enter the lump-sum payment	1.	_____
2. Enter the amount of annuity received tax free by the retiree	2.	_____
3. Add lines 1 and 2	3.	_____
4. Enter the total cost	4.	_____
5. Taxable amount. Subtract line 4 from line 3. Enter the result, but not less than zero	5.	_____

The taxable amount, if any, generally can't be rolled over into an IRA or other plan and is subject to federal income tax withholding at a 10% rate. However, a non-spousal beneficiary making a transfer described under [Rollovers by nonspouse beneficiary](#) under *Rollover Rules* in Part II can roll over any taxable amount. In addition, the payment 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 the beneficiary also receives a lump-sum payment of unrecovered voluntary contributions plus interest, this treatment applies only if the payment is received within the same tax year. For more information, see *Lump-Sum Distributions* in Pub. 575.

Voluntary Contributions

If you receive an additional survivor annuity benefit from voluntary contributions to the CSRS, treat it separately from the annuity that comes from regular contributions. Each year, you will receive a Form CSF 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 survivor annuity benefit from voluntary contributions using the same rules that apply to regular CSRS and FERS survivor annuities, as explained earlier under [CSRS or FERS Survivor Annuity](#).

Lump-sum payment. Figure the taxable amount, if any, of a lump-sum payment of the retiree's unrecovered voluntary contributions plus any interest using the rules that apply to regular lump-sum CSRS or FERS payments, as explained earlier under [Lump-Sum CSRS or FERS Payment](#).

Thrift Savings Plan (TSP)

If you receive a payment from the TSP account of a deceased federal retiree, the payment is fully taxable except for the portion that is from Roth contributions and earnings if certain conditions are met. See [Roth TSP balance](#), earlier. However, if you are the retiree's surviving spouse (or someone other than the retiree's spouse making a transfer described under [Rollovers by nonspouse beneficiary](#) under *Rollover Rules* in Part II), you can generally roll over the otherwise taxable payment tax free. If you don't choose a direct rollover of the TSP account, mandatory 20% federal income tax withholding will apply unless it is from your Roth contributions. See [Roth TSP balance](#), earlier. For more information, see [Rollover Rules](#) in Part II. If you are neither the surviving spouse nor someone other than the retiree's spouse making a transfer described above, the payment isn't eligible for rollover treatment. The TSP will withhold 10% of the payment for federal income tax, unless you gave the TSP a Form W-4P to choose not to have tax withheld.

If the retiree chose to receive his or her account balance as an annuity, the payments you receive as the retiree's survivor are fully taxable when you receive them, whether they are received as annuity payments or as a cash refund of the remaining value of the amount used to purchase the annuity. However, the portion that is from

Roth contributions and earnings, if certain conditions are met, will not be subject to tax. See [Roth TSP balance](#), earlier.

Beneficiary participant account. A beneficiary participant account will be established for a spouse beneficiary. The money in the account isn't subject to federal income tax until it is withdrawn. The portion withdrawn that is from Roth contributions and earnings, if certain conditions are met, will not be subject to tax. See [Roth TSP balance](#), earlier, for a discussion on the conditions. For more information on beneficiary participant accounts, see *Death Benefits, Information for Participants and Beneficiaries*, available from the TSP.



If you receive a payment from a uniformed services TSP account that includes contributions from combat pay, see [Uniformed services Thrift Savings Plan \(TSP\) accounts](#) under Reminders near the beginning of this publication.

Federal Estate Tax

A federal estate tax return may have to be filed for the estate of the retired employee. See [Federal Estate Tax](#) in Part IV.

Income Tax Deduction for Estate Tax Paid

Any income that a decedent had a right to receive and could have received had death not occurred and that wasn't properly includible in the decedent's final income tax return is treated as income in respect of a decedent. This includes retirement benefits accrued and payable to a retiree before death, but paid to you as a survivor.

If the federal estate tax was paid on the decedent's estate and you are required to include income in respect of a decedent in your gross income for any tax year, you can deduct the portion of the federal estate tax that is from the inclusion in the estate of the right to receive that amount. For this purpose, if the decedent died after the annuity starting date, the taxable portion of a survivor annuity you receive (other than a temporary annuity for a child) is considered income in respect of a decedent.

For more information, see *Income in Respect of a Decedent* in Pub. 559.

Worksheets A and B

This section contains blank Worksheets A and B for you to use for your own calculations.

DRAFT AS OF

Worksheet A. Simplified Method

Keep for Your Records 

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

<p>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</p> <p>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</p> <p>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.</p> <p>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</p> <p>4. Divide line 2 by the number on line 3</p> <p>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</p> <p>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</p> <p>7. Subtract line 6 from line 2</p> <p>8. Enter the smaller of line 5 or line 7</p> <p>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</p> <p>10. Was your annuity starting date before 1987?</p> <p><input type="checkbox"/> Yes.  Don't complete the rest of this worksheet.</p> <p><input type="checkbox"/> No. Add lines 6 and 8. This is the amount you have recovered tax free through 2020. You will need this number if you need to fill out this worksheet next year</p> <p>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</p>	<p>1. _____</p> <p>2. _____</p> <p>3. _____</p> <p>4. _____</p> <p>5. _____</p> <p>6. _____</p> <p>7. _____</p> <p>8. _____</p> <p>9. _____</p> <p>10. _____</p> <p>11. _____</p>
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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

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.	_____
2. Enter the present value of your annuity contract	2.	_____
3. Divide line 1 by line 2	3.	_____
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.	_____
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.	_____

How To Get Tax Help

If you have questions about a tax issue, need help preparing your tax return, or want to download free publications, forms, or instructions, go to [IRS.gov](#) and find resources that can help you right away.

Preparing and filing your tax return. After receiving your wage and earning statements (Form W-2, W-2G, 1099-R, 1099-MISC) from all employers and interest and dividend statements from banks (Forms 1099), you can find free options to prepare and file your return on [IRS.gov](#) or in your local community if you qualify.

The Volunteer Income Tax Assistance (VITA) program offers free tax help to people with low-to-moderate incomes, persons with disabilities, and limited-English-speaking taxpayers who need help preparing their own tax returns. The Tax Counseling for the Elderly (TCE) program offers free tax help for all taxpayers, particularly those who are 60 years of age and older. TCE volunteers specialize in answering questions about pensions and retirement-related issues unique to seniors.

You can go to [IRS.gov](#) to see your options for preparing and filing your return, which include the following.

- **Free File.** Go to [IRS.gov/FreeFile](#) to see if you qualify to use brand-name software to prepare and *e-file* your federal tax return for free.
- **VITA.** Go to [IRS.gov/VITA](#), download the free IRS2Go app, or call 800-906-9887 to find the nearest VITA location for free tax return preparation.
- **TCE.** Go to [IRS.gov/TCE](#), download the free IRS2Go app, or call 888-227-7669 to find the nearest TCE location for free tax return preparation.

Employers can register to use Business Services Online. The SSA offers online service for fast, free, and secure online W-2 filing options to CPAs, accountants, enrolled agents, and individuals who process Forms W-2, Wage and Tax Statement, and Forms W-2c, Corrected Wage and Tax Statement. Employers can go to [SSA.gov/employer](#) for more information.



Getting answers to your tax questions. On [IRS.gov](#), get answers to your tax questions any-time, anywhere.

- Go to [IRS.gov/Help](#) for a variety of tools that will help you get answers to some of the most common tax questions.
- Go to [IRS.gov/ITA](#) for the Interactive Tax Assistant, a tool that will ask you questions on a number of tax law topics and provide answers. You can print the entire interview and the final response for your records.
- Go to [IRS.gov/Forms](#) to search for our forms, instructions, and publications. You will find details on 2019 tax changes and hundreds of interactive links to help you find answers to your questions.
- You may also be able to access tax law information in your electronic filing software.

Tax reform. Tax reform legislation affects individuals, businesses, tax-exempt and government entities. Go to [IRS.gov/TaxReform](#) for information and updates on how this legislation affects your taxes.

IRS social media. Go to [IRS.gov/SocialMedia](#) to see the various social media tools the IRS uses to share the latest information on tax changes, scam alerts, initiatives, products, and services. At the IRS, privacy and security are paramount. We use these tools to share public information with you. **Don't** post your social security number or other confidential information on social media sites. Always protect your identity when using any social networking site.

The following IRS YouTube channels provide short, informative videos on various tax-related topics in English, Spanish, and ASL.

- [Youtube.com/irsvideos](#).
- [Youtube.com/irsvideosmultilingua](#).
- [Youtube.com/irsvideosASL](#).

Watching IRS videos. The IRS Video portal ([IRSVideos.gov](#)) contains video and audio presentations for individuals, small businesses, and tax professionals.

Getting tax information in other languages. For taxpayers whose native language isn't English, we have the

following resources available. Taxpayers can find information on IRS.gov in the following languages.

- [Spanish \(IRS.gov/Spanish\)](#).
- [Chinese \(IRS.gov/Chinese\)](#).
- [Korean \(IRS.gov/Korean\)](#).
- [Russian \(IRS.gov/Russian\)](#).
- [Vietnamese \(IRS.gov/Vietnamese\)](#).

The IRS Taxpayer Assistance Centers (TACs) provide over-the-phone interpreter service in over 170 languages, and the service is available free to taxpayers.

Getting tax forms and publications. Go to [IRS.gov/Forms](#) to view, download, or print all of the forms, instructions, and publications you may need. You can also download and view popular tax publications and instructions (including the 1040 and 1040-SR instructions) on mobile devices as an eBook at no charge at [IRS.gov/eBooks](#). Or you can go to [IRS.gov/OrderForms](#) to place an order and have them mailed to you within 10 business days.

Access your online account (individual taxpayers only). Go to [IRS.gov/Account](#) to securely access information about your federal tax account.

- View the amount you owe, pay online, or set up an online payment agreement.
- Access your tax records online.
- Review the past 24 months of your payment history.
- Go to [IRS.gov/SecureAccess](#) to review the required identity authentication process.

Using direct deposit. The fastest way to receive a tax refund is to combine direct deposit and IRS *e-file*. Direct deposit securely and electronically transfers your refund directly into your financial account. Eight in 10 taxpayers use direct deposit to receive their refund. The IRS issues more than 90% of refunds in less than 21 days.

Getting a transcript or copy of a return. The quickest way to get a copy of your tax transcript is to go to [IRS.gov/Transcripts](#). Click on either “Get Transcript Online” or “Get Transcript by Mail” to order a copy of your transcript. If you prefer, you can order your transcript by calling 800-908-9946.

Using online tools to help prepare your return. Go to [IRS.gov/Tools](#) for the following.

- The [Earned Income Tax Credit Assistant \(IRS.gov/EITCAssistant\)](#) determines if you’re eligible for the EIC.
- The [Online EIN Application \(IRS.gov/EIN\)](#) helps you get an employer identification number.
- The [Tax Withholding Estimator \(IRS.gov/W4app\)](#) makes it easier for everyone to pay the correct amount of tax during the year. The Estimator replaces the Withholding Calculator. The redesigned tool is a convenient, online way to check and tailor your withholding. It’s more user-friendly for taxpayers, including re-

tirees and self-employed individuals. The new and improved features include the following.

- Easy to understand language;
 - The ability to switch between screens, correct previous entries, and skip screens that don’t apply;
 - Tips and links to help you determine if you qualify for tax credits and deductions;
 - A progress tracker;
 - A self-employment tax feature; and
 - Automatic calculation of taxable social security benefits.
- The [First Time Homebuyer Credit Account Look-up \(IRS.gov/HomeBuyer\)](#) tool provides information on your repayments and account balance.
 - The [Sales Tax Deduction Calculator \(IRS.gov/SalesTax\)](#) figures the amount you can claim if you itemize deductions on Schedule A (Form 1040 or 1040-SR), choose not to claim state and local income taxes, and you didn’t save your receipts showing the sales tax you paid.

Resolving tax-related identity theft issues.

- The IRS doesn’t initiate contact with taxpayers by email or telephone to request personal or financial information. This includes any type of electronic communication, such as text messages and social media channels.
- Go to [IRS.gov/IDProtection](#) for information.
- If your SSN has been lost or stolen or you suspect you’re a victim of tax-related identity theft, visit [IRS.gov/IdentityTheft](#) to learn what steps you should take.

Checking on the status of your refund.

- Go to [IRS.gov/Refunds](#).
- The IRS can’t issue refunds before mid-February 2020 for returns that claimed the EIC or the ACTC. This applies to the entire refund, not just the portion associated with these credits.
- Download the official IRS2Go app to your mobile device to check your refund status.
- Call the automated refund hotline at 800-829-1954.

Making a tax payment. The IRS uses the latest encryption technology to ensure your electronic payments are safe and secure. You can make electronic payments online, by phone, and from a mobile device using the IRS2Go app. Paying electronically is quick, easy, and faster than mailing in a check or money order. Go to [IRS.gov/Payments](#) to make a payment using any of the following options.

- [IRS Direct Pay](#): Pay your individual tax bill or estimated tax payment directly from your checking or savings account at no cost to you.

- **[Debit or Credit Card](#)**: Choose an approved payment processor to pay online, by phone, and by mobile device.
- **[Electronic Funds Withdrawal](#)**: Offered only when filing your federal taxes using tax return preparation software or through a tax professional.
- **[Electronic Federal Tax Payment System](#)**: Best option for businesses. Enrollment is required.
- **[Check or Money Order](#)**: Mail your payment to the address listed on the notice or instructions.
- **[Cash](#)**: You may be able to pay your taxes with cash at a participating retail store.
- **[Same-Day Wire](#)**: You may be able to do same-day wire from your financial institution. Contact your financial institution for availability, cost, and cut-off times.

What if I can't pay now? Go to [IRS.gov/Payments](https://www.irs.gov/Payments) for more information about your options.

- Apply for an **[online payment agreement \(IRS.gov/OPA\)](https://www.irs.gov/OPA)** to meet your tax obligation in monthly installments if you can't pay your taxes in full today. Once you complete the online process, you will receive immediate notification of whether your agreement has been approved.
- Use the **[Offer in Compromise Pre-Qualifier](https://www.irs.gov/OIC)** to see if you can settle your tax debt for less than the full amount you owe. For more information on the Offer in Compromise program, go to [IRS.gov/OIC](https://www.irs.gov/OIC).

Checking the status of an amended return. Go to [IRS.gov/WMAR](https://www.irs.gov/WMAR) to track the status of Form 1040-X amended returns. Please note that it can take up to 3 weeks from the date you filed your amended return for it to show up in our system, and processing it can take up to 16 weeks.

Understanding an IRS notice or letter. Go to [IRS.gov/Notices](https://www.irs.gov/Notices) to find additional information about responding to an IRS notice or letter.

Contacting your local IRS office. Keep in mind, many questions can be answered on [IRS.gov](https://www.irs.gov) without visiting an IRS Tax Assistance Center (TAC). Go to [IRS.gov/LetUsHelp](https://www.irs.gov/LetUsHelp) for the topics people ask about most. If you still need help, IRS TACs provide tax help when a tax issue can't be handled online or by phone. All TACs now provide service by appointment so you'll know in advance that you can get the service you need without long wait times. Before you visit, go to [IRS.gov/TACLocator](https://www.irs.gov/TACLocator) to find the nearest TAC, check hours, available services, and appointment options. Or, on the IRS2Go app, under the Stay Connected tab, choose the Contact Us option and click on "Local Offices."

The Taxpayer Advocate Service (TAS) Is Here To Help You

What Is TAS?

TAS is an **independent** organization within the IRS that helps taxpayers and protects taxpayer rights. Their job is to ensure that every taxpayer is treated fairly and that you know and understand your rights under the [Taxpayer Bill of Rights](#).

How Can You Learn About Your Taxpayer Rights?

The Taxpayer Bill of Rights describes 10 basic rights that all taxpayers have when dealing with the IRS. Go to [TaxpayerAdvocate.IRS.gov](https://www.TaxpayerAdvocate.IRS.gov) to help you understand **[what these rights mean to you](#)** and how they apply. These are **your** rights. Know them. Use them.

What Can TAS Do For You?

TAS can help you resolve problems that you can't resolve with the IRS. And their service is free. If you qualify for their assistance, you will be assigned to one advocate who will work with you throughout the process and will do everything possible to resolve your issue. TAS can help you if:

- Your problem is causing financial difficulty for you, your family, or your business;
- You face (or your business is facing) an immediate threat of adverse action; or
- You've tried repeatedly to contact the IRS but no one has responded, or the IRS hasn't responded by the date promised.

How Can You Reach TAS?

TAS has offices **[in every state, the District of Columbia, and Puerto Rico](#)**. Your local advocate's number is in your local directory and at [TaxpayerAdvocate.IRS.gov/Contact-Us](https://www.TaxpayerAdvocate.IRS.gov/Contact-Us). You can also call them at 877-777-4778.

How Else Does TAS Help Taxpayers?

TAS works to resolve large-scale problems that affect many taxpayers. If you know of one of these broad issues, please report it to them at [IRS.gov/SAMS](https://www.irs.gov/SAMS).

TAS also has a website, [Tax Reform Changes](https://www.TaxReformChanges), which shows you how the new tax law may change your future tax filings and helps you plan for these changes. The information is categorized by tax topic in the order of the IRS Form 1040 or 1040-SR. Go to [TaxChanges.us](https://www.TaxChanges.us) for more information.

TAS for Tax Professionals

TAS can provide a variety of information for tax professionals, including tax law updates and guidance, TAS programs, and ways to let TAS know about systemic problems you've seen in your practice.

Low Income Taxpayer Clinics (LITCs)

LITCs are independent from the IRS. LITCs represent individuals whose income is below a certain level and need

to resolve tax problems with the IRS, such as audits, appeals, and tax collection disputes. In addition, clinics can provide information about taxpayer rights and responsibilities in different languages for individuals who speak English as a second language. Services are offered for free or a small fee. To find a clinic near you, visit [IRS.gov/LITC](https://www.irs.gov/LITC) or see IRS Pub. 4134, [Low Income Taxpayer Clinic List](#).

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October 20, 2020



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