Form **2440**
Department of the Treasury
Internal Revenue Service

Disability Income Exclusion (Sick Pay)

(Applies Only to Disabled Retirees Under Age 65)

▶ Attach to Form 1040. ▶ See Instructions on back.

1977

Name(s) as shown on Form 1040	Social Security Number

See Instruction E for Requirements of Proof of Permanent and Total Disability

	Date retired (if after December 31, 1976, also enter in space next to (ii) box on physician's statement.)	Name of Employer and Payer, if other than employer
Yourself		
Spouse		

	Joint return filers use column A for wife and column B for husband. All other filers use column B only. A	B
1 Total disability payments received this taxable year		
2 *(i)* Multiply $100 times the number of weeks for which disability payments equal or exceed $100. Enter total		
(ii) For each week (if any) for which the actual amount of disability payments received is less than $100, enter total amount received for such weeks		
(iii) In the case of payments received for a short period of less than a week, enter the lesser of the actual disability payments received for such short period or the maximum exclusion allowable for such short period (see Instruction B)		
(iv) Total (add lines (i), (ii), and (iii))		
3 Total (add amounts on line 2 (iv))		
4 Adjusted gross income before disability income exclusion (sick pay) (Form 1040, line 29). If this amount is $15,000 or less, enter amount from line 3 on line 7		
5 Maximum adjusted gross income before phaseout (see Instruction C)	$15,000.00	
6 Subtract line 5 from line 4		
7 Disability income exclusion (sick pay) (subtract line 6 from line 3). Enter here and on Form 1040, line 30		

Read Instructions on back before detaching.

Form **2440** (1977)

Physician's Certification of Permanent and Total Disability

▶ **Attach to Form 2440**

Name of disabled taxpayer	Social security number

I certify that the above named taxpayer was (check only one box—see Instruction A):

(i) ☐ Permanently and totally disabled on January 1, 1976, or January 1, 1977.

(ii) ☐ Permanently and totally disabled on the date taxpayer retired. Date retired ▶

Name of physician

Physician's address

Physician's signature	Date

Instructions for Physician's Certification

A. Date Permanently or Totally Disabled.—

Check the (i) box if taxpayer retired before January 1, 1977.

Check the (ii) box if taxpayer retired after December 31, 1976. The date entered by the taxpayer should be the date on which the taxpayer ceased active employment because of this disability.

B. Definition of Permanent and Total Disability.—Permanent and total disability means that a taxpayer is unable to engage in any substantial gainful activity by reason of any medically determined physical or mental impairment which can be expected to result in death or which has lasted or can be expected to last for a continuous period of a year or more. The substantial gainful activity referred to is not limited to the activity, or comparable activity, in which the taxpayer engaged prior to retirement on disability.

Instructions

A. Who May Exclude Disability Income.—For taxable years beginning after December 31, 1976, you will be eligible to claim the "disability income exclusion" on disability payments you receive instead of wages only if all the following requirements are satisfied:

(1) You have not reached age 65 before the close of the taxable year,

(2) You retired on disability, and, when you retired, were permanently and totally disabled,

(3) At the beginning of the taxable year you have not reached mandatory retirement age (generally the age at which you would have been required to retire under your employer's retirement program had you not become disabled), and

(4) You have not made an irrevocable election not to claim the disability income exclusion (see Instruction F).

If you retired before January 1, 1977, and either retired on disability or were entitled to retire on disability, and on January 1, 1976, or January 1, 1977, were permanently and totally disabled, you will be considered to have met the requirement of A(2).

B. Limitations.—The amount of disability payments that you may exclude cannot exceed the lesser of a weekly rate of $100 or your actual weekly payment.

To determine your actual weekly payment, you must convert disability income paid on a non-weekly basis into weekly rates of payment. Determine your disability income weekly rate as follows:

If you are paid on the basis of a:

(1) *Weekly pay period,* this is the weekly rate.

(2) *Biweekly pay period,* the weekly rate is one-half of the biweekly rate.

(3) *Semimonthly pay period,* the weekly rate is the semimonthly rate multiplied by 24 and divided by 52.

(4) *Monthly pay period,* the weekly rate is the monthly rate multiplied by 12 and divided by 52.

(5) *Other pay period,* the weekly rate is the annual rate divided by 52.

The exclusion of disability payments received for a period of less than a week is limited to your daily exclusion multiplied by the number of days in the week for which you receive disability payments. Your daily exclusion is the lesser of $100 divided by the number of days in your normal workweek or your daily rate of disability pay. For example, if your normal workweek is Monday through Friday, your daily exclusion is the lesser of $20 ($100 ÷ 5) or your daily rate of disability pay. Assuming that $20 is the lesser of the two, and your retirement from work became effective as of the close of business on a Tuesday, your exclusion for the first week will be $60 ($20 × 3).

Payments for such short periods may be received when one of the following events occurs after the first day of the taxpayer's normal workweek: (a) the disability retirement commences; (b) the taxpayer reaches mandatory retirement age in a taxable year prior to the taxable year in which such taxpayer attains age 65; or (c) the taxpayer dies.

If you reach mandatory retirement age during the taxable year, do not claim the exclusion for any days after you reach mandatory retirement age.

On a return where one taxpayer is entitled to the disability income exclusion, the maximum exclusion is $5,200. On a joint return where both spouses are entitled to the disability income exclusion, the maximum exclusion is $10,400.

C. Maximum Adjusted Gross Income Before Phaseout.—If your adjusted gross income determined before the disability income exclusion (Form 1040, line 29) exceeds $15,000, you must reduce the disability income exclusion by the excess of your adjusted gross income over $15,000. On a return where only one taxpayer is entitled to the maximum disability income exclusion, the exclusion would be phased out entirely if the amount on Form 1040, line 29, is $20,200 or more. On a joint return where both spouses are entitled to the maximum disability income exclusion, the exclusion would be phased out entirely if the amount on Form 1040, line 29, is $25,400 or more.

D. Filing Requirements for Married Couples.—If you are married at the close of the taxable year, you are allowed the disability income exclusion only if you and your spouse file a joint return, unless you and your spouse have not lived together at any time during the taxable year.

E. Permanent and Total Disability.—You are permanently and totally disabled only if you are unable to engage in any substantial gainful activity by reason of any medically determined physical or mental impairment which can be expected to result in death or which has lasted or can be expected to last for a continuous period of a year or more.

If you retired on disability before January 1, 1977, you must submit a certificate from a qualified physician attesting to your permanent and total disability on January 1, 1976, or January 1, 1977.

If you retired on disability during 1977, you must submit a certificate from a qualified physician attesting to your permanent and total disability at the time you retired on disability.

A physician's certification with the required information is provided for you on Form 2440. Detach the physician's certification from the form before having it filled in by your physician. After the certification has been filled in by your physician, attach it to Form 2440 for submission with your tax return.

F. Election Not to Exclude Disability Income.—Before the time you start to report your disability payments under an applicable pension or annuity rule, you may not apply any of your pension or annuity cost against your disability payments. However, if (1) you retired on disability before January 1, 1977, and on December 31, 1975, or December 31, 1976, were entitled to exclude any amount with respect to such retirement disability payments from gross income as sick pay, or (2) you are eligible for the disability income exclusion; you may make an irrevocable election not to claim the disability income exclusion. If you make a valid irrevocable election, you should report your disability payments under an applicable pension or annuity rule, which allows you to apply your cost against your disability payments. The election is applicable for the year of election (but may not be made for a year prior to 1976) and all subsequent years.

To make the election, attach a statement to your tax return that (1) states you elect not to claim the disability income exclusion and will report your disability payments under an applicable pension or annuity rule, and (2) sets forth your qualifications for making the election. If you retired in 1977, you must also attach a certificate from a qualified physician attesting to your total and permanent disability at the time of your retirement. This election is not available to disability retirees who retired after December 31, 1976, and whose disability payments are not eligible for the disability income exclusion.

The irrevocable election not to exclude your disability payments will allow you to begin recovering your annuity cost immediately. This may be beneficial in the following situations:

(1) The exclusion phaseout substantially decreases or eliminates your disability income exclusion;

(2) You believe that you will not live long enough to benefit from recovering your annuity cost at age 65 or at your annuity starting date;

(3) The election will cause the amounts you receive to be considered retirement income (provided you have reached minimum retirement age) on which you may be entitled to a credit for the elderly.

G. How to Report Your Disability Retirement Income on Form 1040.—Report your total disability payments received during your taxable year as income from wages on Form 1040, line 8. Determine the amount of your disability income exclusion on Form 2440 and enter on Form 1040, line 30. This procedure should be followed until you reach mandatory retirement age, the beginning of the taxable year in which you attain the age of 65, or the taxable year for which you make the irrevocable election discussed in instruction F, whichever is earlier. During this period, you cannot offset any of your annuity cost against your disability payments. When you reach the earlier of mandatory retirement age or the beginning of the taxable year in which you attain the age of 65, you will begin to report the total amount of your disability payments under an applicable pension or annuity rule. For further information see Instructions for Schedule E (Form 1040), Part I, Pension and Annuity Income and Schedules R&RP (Form 1040), Credit for the Elderly.

H. Additional Information.—You will find **Publication 522,** Tax Information on Disability Payments, helpful in explaining the exclusion.

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