

Disability Pensions

The age of taxpayer receiving disability pension benefits determines whether the payments are required to appear as pension and annuity income (Form 1040 line 16) or as wages on (Form 1040 line 7). If the employee is under the employer's minimum retirement age, it should be reported as wage income. If so, the taxpayer becomes eligible for tax credits/adjustments to income associated with earned income. The taxpayer does not start to recover any after-tax basis until it is taxed as a pension. If the employee is over the employer's minimum retirement age, benefits are treated as pension and annuity income which is not classified as earned income.

Disability pensions are generally recognized when the 1099-R form, box 7 contains a Code 3.

Some employers report disability income on form 1099-R regardless of the taxpayer's age. TaxSlayer Software will accept moving disability pension benefits to 1040 line 7 at any age. Therefore, counselors must confirm the employer's minimum retirement age before taking steps in the software to ensure the income is properly reflected as either wages or retirement income.

The minimum retirement age for large employers generally begin after age 55 but vary from employer to employer. Taxpayers must check with their employer to determine if they have reached the minimum age or not.

The minimum retirement age for employees covered by Federal Employee Retirement System (FERS) depends upon the employee's age. Employees born between 1953 and 1964 have a minimum retirement age of 56. After 1964, the minimum retirement age ramps up by two months for each calendar year after 1964 until the year 1970 at which time the minimum retirement age remains 57.

The minimum retirement age for Railroad retirement (tier 2) depends upon years of service. Workers with 30 or more years of service may begin receiving a reduced retirement benefit at age 60. Workers with fewer than 30 years of railroad service may begin receiving a reduced benefit after age 62.

If a 1099-R form, box 7 contains a code 3 and the taxpayer has not reached the employer minimum retirement age, move the disability pension to 1040 Line 7. Enter all 1099-R information into TaxSlayer, scroll down and check the appropriate box under the Rollover or Disability section.

Rollover or Disability

- Check here if all/part of the distribution was rolled over, and enter the rollover amount.
- Check here to report on Form 1040, Line 7 (Distribution code must be a "3")

TaxSlayer will warn that the taxpayer must satisfy the minimum retirement age requirement before continuing to the next entry. Confirm the disability income now appears on 1040 Line 7 and not 1040 Line 16.

