



Disability benefit payments

Tax Letter No. 6 Rev. 10/08

How to report your IMRF disability benefits for state and federal income taxes

This letter will explain how IMRF disability benefit payments are taxed and how to report IMRF disability benefit payments on your federal and Illinois 1040 tax forms.

Illinois state income tax

It is our opinion that all IMRF disability benefits, both temporary and total and permanent, are exempt from Illinois income taxes. We base this opinion on Illinois statutes 35 ILCS 5/203 (a)(2)(F) which provides that distributions under any disability plan for employees of governmental units shall not be included in the taxpayer's adjusted gross income.

This means you do not report your IMRF disability benefit payments as income on your state income tax return. To our knowledge, there has never been a ruling on this provision of the Illinois Income Tax Act as it applies to IMRF disability benefit payments.

In January, IMRF mails you IRS Form 1099-R showing the amount of disability benefits you received the previous year. The disability benefits shown on the 1099-R from IMRF can be entered as a deduction on your Illinois 1040 tax form. This is done by entering the amount of disability benefits you received onto line 5 of your Illinois tax return. You may also wish to attach a copy of this letter to your tax return as a way to provide the state with an explanation of the deduction.

Federal income tax

IMRF disability payments *are* subject to federal income tax because your employer pays the entire cost of those payments. IMRF members do not contribute anything toward the cost of their disability benefit coverage. Therefore, your IMRF disability benefit payments must be reported on your federal income tax return: IRS form 1040 or 1040-A.

However, if you receive disability benefit payments from an insurance policy and *you pay the insurance premiums*, those payments are not taxable.

Generally, disability payments are reported on the line for "Wages" on the IRS 1040 or 1040A, until you reach retirement age. After retirement age, the payments should be reported on the pension line of the IRS tax form (line 16 on IRS Form 1040 or line 12 on IRS Form 1040A). The earliest you can retire and receive an IMRF pension is age 55.

If you are totally and permanently disabled

If you are totally and permanently disabled, you may be eligible for a tax credit. For additional information about the tax credit, you can call 1 (800) TAX-FORM (829-3676). You may download IRS publication 524 at www.irs.gov or call 1-800-TAX-FORM to request a copy be mailed to you. Additionally, you may choose to contact a tax advisor.