Box 5 on your 1099-R—non-taxable payments

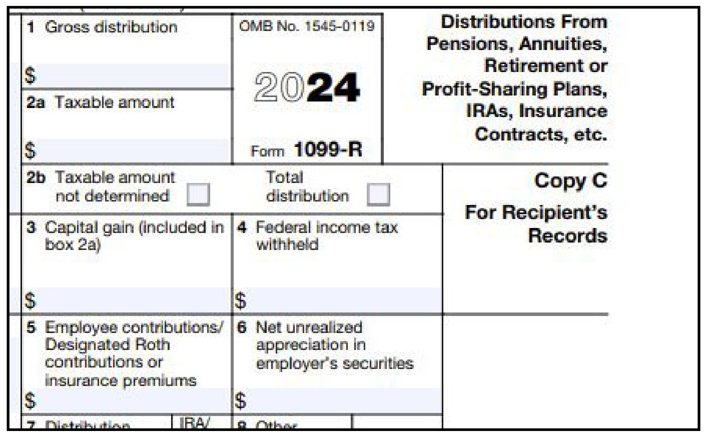
Part of the confusion regarding Box 5 on IRS Form 1099-R comes from the title the IRS has assigned to the box: “Employee contributions/Designated Roth contributions or insurance premiums.” Some people think we are deducting this amount from our payments; others have asked about insurance. However, the amount shown in Box 5 is *not* a deduction.

The easy explanation

To put it simply, Box 1 shows everything we paid to you last year.

Of that amount:

- Box 2a is the taxable portion
- Box 5 is the portion that is not taxable


1 Gross distribution
$
2a Taxable amount
$
OMB No. 1545-0119
2024
Form 1099-R
Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.
2b Taxable amount not determined
Total distribution
Copy C
For Recipient’s Records
3 Capital gain (included in box 2a)
$
4 Federal income tax withheld
$
5 Employee contributions/ Designated Roth contributions or insurance premiums
$
6 Net unrealized appreciation in employer’s securities
$

Note: In previous years the 1099-R you received from IMRF had “Non-taxable amount” as the title of Box 5. Although the title of Box 5 has changed, the amount in Box 5 continues to show the non-taxable portion of what IMRF paid to you.

The rest of the story

If you made IMRF member contributions since 1984, the money used to pay those contributions has *not* been subject to federal income tax. The member contributions were deducted from your pay checks without being taxed. Therefore, you have not been taxed on those contributions.

However, if you made IMRF member contributions *before* 1984, the money used to pay those contributions *has been* subject to federal income tax.

In addition, if you’ve made a payment to IMRF to purchase past service credit or to reinstate service credit, in most cases the money used to make *those* payments has already been subject to federal income tax. These contributions and payments are considered “previously taxed” because you’ve already paid tax on the money used to make them.

To avoid taxing these amounts twice, the IRS allows us to report what portion of the payment is taxable:

Lump sum payments

For "Lump Sum" payments, such as a refund, the taxable amount is the gross amount less any portion that represents a return of previously taxed contributions.

Monthly pension payments

For monthly pension payments, the taxable amount is the gross amount minus a *portion* of the previously taxed amount. IMRF calculates the previously taxed amount using the "Simplified General Rule" or the "General Rule" and life expectancy tables from the IRS. The result is a "recovery" that extends over your expected lifetime or over the joint life of you and your spouse (if applicable). (**Note**: Pensions that started before 1987 followed different rules.)

The portion of your payment(s) that is not taxable is shown in Box 5 of the 1099-R. It is this amount that the IRS considers a return of your previously taxed contributions. If you subtract the amount in Box 2a (Taxable amount) from the amount in Box 1 (Gross distribution), you will end up with the amount shown in Box 5.

We hope that this answers your questions. If not, please call us at the number below.