Box 5 on your 1099R: “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 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, and Box 5 is the portion that is not taxable.

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 paychecks 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.)
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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.