



# THE PENSION RESOURCE CENTER, LLC

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## MEMORANDUM

**SUBJECT: Tax Credit Filing Information**  
For Retiree Health and Dental Insurance Under the Pension Protection Act of  
2006 Health Insurance Premium Tax Credit

**DATE:** January 29, 2008

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This memorandum contains all the specific instructions that we are aware of on the proper filing for the tax credit for health insurance premiums under the Pension Protection Act of 2006. The legislation is relatively new and many questions remain unanswered. Technical adjustments within the law are expected and the only guidance offered so far by the Internal Revenue Service on the technical details on the filing of taxes to take advantage of the tax credit is within the attached e-mail.

*It is imperative to note that this is a federal tax credit, NOT a benefit offered by the City or the Pension Plan. The Board of Trustees and the Plan Administrator have already provided you with all the information available regarding this credit. FOR ANY ADDITIONAL INFORMATION REGARDING ANY TAX CREDIT THAT YOU MIGHT BE ELIGIBLE FOR, YOU'LL NEED TO CONTACT YOUR PERSONAL TAX ADVISOR OR FINANCIAL PLANNER. You should bear in mind that this legislation is relatively new and only affects a very small segment of the general population so many advisors may not yet be very knowledgeable in this matter.*

*Should you require any additional information regarding the completion of the enclosed Election/Deduction Authorization Form, please feel free to contact the Plan Administrator at (800) 206-0116 or (561) 624-3277.*

**RETAIN FOR YOUR RECORDS  
IMPORTANT FILING INSTRUCTIONS**

# 2007



Department of the Treasury  
Internal Revenue Service

## Instructions for Forms 1099-R and 5498

Section references are to the Internal Revenue Code unless otherwise noted.

You can get the general instructions from the IRS website at [www.irs.gov](http://www.irs.gov) or call 1-800-TAX-FORM (1-800-829-3676).

### What's New

#### Form 1099-R

**Certain qualified distributions.** A TIP has been added on page R-1 to indicate that there is no special reporting for qualified charitable distributions, qualified HSA distributions, or payments of qualified health and long-term care insurance premiums for retired public safety officers. Recipients of these distributions claim the associated tax benefits on their own income tax returns. However, trustees and issuers may use Distribution Code 2 to indicate an exception to the additional tax on early distributions for payments of qualified health and long-term care insurance premiums for retired public safety officers. See the *Guide to Distribution Codes* on page R-11.

**Nonspouse designated beneficiaries.** Notice 2007-7 provides guidance on provisions in the Pension Protection Act of 2006 regarding the tax treatment of certain distributions to nonspouse designated beneficiaries. See *Direct Rollovers* on page R-3; *Automatic rollovers* on page R-3; and the TIP on page R-4 under *Explanation to Recipients Before Eligible Rollover Distributions (Section 402(f) Notice)*.

**Section 402(f) notice requirements.** Guidance is provided under new Regulations section 1.402(f)-1 in meeting the requirements to furnish section 402(f) notices electronically. Also, the Pension Protection Act of 2006 extended the period for providing the notice for certain plans. See Notice 2007-7, Section VIII, and *Explanation to Recipients Before Eligible Rollover Distributions (Section 402(f) Notice)* on page R-4.

#### Form 5498

**Special catch-up contributions.** Information for reporting catch-up contributions under section 219(b)(5)(C) has been added under *Special reporting for 2007* on page R-13.

**Qualified charitable distributions.** Notice 2007-7 provides guidance on the treatment of qualified charitable distributions. See the *Note* on page R-13.

**Nonspouse designated beneficiaries.** Guidance on reporting for IRAs of nonspouse designated beneficiaries has been added to *Inherited IRAs* on page R-14.

**Qualified reservist distributions.** Reporting instructions have been added on page R-14 under *Repayment of qualified reservist distributions*.

**Blank box.** Instructions regarding the use of the blank box to the left of box 10 for reporting certain contributions have been added on page R-15.

#### Reminders

In addition, see the 2007 General Instructions for Forms 1099, 1098, 5498, and W-2G for information on:

- Backup withholding
- Electronic reporting requirements
- Penalties
- Who must file (nominee/middleman)
- When and where to file
- Taxpayer identification numbers
- Statements to recipients
- Corrected and void returns
- Other general topics

#### Specific Instructions for Form 1099-R

File Form 1099-R, Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc., for each person to whom you have made a designated distribution or are treated as having made a distribution of \$10 or more from profit-sharing or retirement plans, any IRAs, annuities, pensions, insurance contracts, survivor income benefit plans, permanent and total disability payments under life insurance contracts, charitable gift annuities, etc.

Also, report on Form 1099-R death benefit payments made by employers that are not made as part of a pension, profit-sharing, or retirement plan. See box 1 on page R-6.

Reportable disability payments made from a retirement plan must be reported on Form 1099-R.

Generally, do not report payments subject to withholding of social security and Medicare taxes on this form. Report such payments on Form W-2, Wage and Tax Statement.

Generally, do not report amounts totally exempt from tax, such as workers' compensation and Department of Veterans Affairs (VA) payments. However, if part of the distribution is taxable and part is nontaxable, report the entire distribution.

**TIP** *There is no special reporting for qualified charitable distributions described in section 408(d)(8), for qualified HSA funding distributions described in section 408(d)(9), or for the payment of qualified health and long-term care insurance premiums for retired public safety officers described in section 402(l).*

**Military retirement annuities.** Report payments to military retirees or payments of survivor benefit annuities on Form 1099-R. Report military retirement pay awarded as a property settlement to a former spouse under the name and taxpayer identification number (TIN) of the recipient, not that of the military retiree.

**Governmental section 457(b) plans.** Report on Form 1099-R, not Form W-2, income tax withholding and distributions from a governmental section 457(b) plan maintained by a state or local government employer. Distributions from a governmental section 457(b) plan to a participant or beneficiary include all amounts that are paid from the plan. For more information, see Notice 2003-20 which is on page 894 of Internal Revenue Bulletin 2003-19, available at [www.irs.gov/pub/irs-irbs/irb03-19.pdf](http://www.irs.gov/pub/irs-irbs/irb03-19.pdf). Also see *Section 457(b) plan distributions* on page R-10 for information on distribution codes.

**Nonqualified plans.** Report any reportable distributions from commercial annuities. Report distributions to employee plan participants from section 409A nonqualified deferred compensation plans including nongovernmental section 457(b) plans on Form W-2, not on Form 1099-R; for nonemployees, these payments are reportable on Form 1099-MISC. However, report distributions to beneficiaries of deceased plan participants on Form 1099-R. See box 1 on page R-6.

**Section 404(k) dividends.** Generally, distributions from an employee stock ownership plan (ESOP), including a tax credit ESOP, are reported on Form 1099-DIV, Dividends and Distributions. However, if the distribution is a total distribution and contains section 404(k) dividends, report these dividends on Form 1099-R.

**Charitable gift annuities.** If cash or capital gain property is donated in exchange for a charitable gift annuity, report

RE The 2007 1099R and 1040 Forms and PPA.TXT  
The 2007 1099R and 1040 Forms and PPAFrom: Erickson Robert A  
[Robert.A.Erickson@irs.gov]  
Sent: Monday, June 11, 2007 3:52 PM  
To: Tarr, Paul  
Cc: Sottile Sue M  
Subject: RE: The 2007 1099R and 1040 Forms and PPA

Here are the answers:

- 1) Should the 2007 1099R (Box 2a) taxable amount reflect the reduction of taxable income by any qualified medical deductions taken pre-tax for safety members (up to \$3,000.00 under PPA)? No.
- 2) Are there any new boxes on the 2007 1099R form? No. See the 2007 form at <http://www.irs.gov/pub/irs-pdf/f1099r.pdf>. If not, are any of the 1099R boxes to include PPA related deductions? No.
- 3) Will there be a line on the 1040 form for the retiree to put their total ytd medical premium payment amount? No. Instead, the retiree must reduce the taxable amount on line 16b by the amount of the exclusion and enter "PSO" next to that line. Will this be how the retiree will report that they are due a deduction up to \$3,000.00? Yes, the above method will indicate that the exclusion (deduction) was claimed.
- 4) Would the retirement fund need to provide the up to \$3,000.00 deduction amount to the safety payees? No, there is no requirement to do so, although it would be helpful. Would they need to provide the ytd medical premium amount to the safety payees? No, there is no requirement to do so, although it would be helpful.
- 5) Are there any new forms that will be associated with these new deductions for safety retirees? No.

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From: Tarr, Paul [mailto:Paul.TarrIV@irs.com]  
Sent: Monday, June 11, 2007 4:30 PM  
To: Erickson Robert A  
Subject: The 2007 1099R and 1040 Forms and PPA

Bob,

My name is Paul Tarr and I work for Levi, Ray & Shoup Inc. in the PensionGold Retirement Solutions group. We are an IT company that creates software products for public retirement funds. Our main products calculate and process benefit payouts to retirees, many of whom are public safety officers. Our systems also produce copies of the Form 1099-R to report their annual income. I was hoping that you could clarify a few things regarding the 2007 1099R and 1040 forms and the impact of the Pension Protection Act of 2006 (PPA).

RE The 2007 1099R and 1040 Forms and PPA.TXT

- 1) Should the 2007 1099R (Box 2a) taxable amount reflect the reduction of taxable income by any qualified medical deductions taken pre-tax for safety members (up to \$3,000.00 under PPA)?
- 2) Are there any new boxes on the 2007 1099R form? If so, what amounts should be in those boxes? If not, are any of the 1099R boxes to include PPA related deductions?
- 3) Will there be a line on the 1040 form for the retiree to put their total ytd medical premium payment amount? Will this be how the retiree will report that they are due a deduction up to \$3,000.00?
- 4) Would the retirement fund need to provide the up to \$3,000.00 deduction amount to the safety payees? Would they need to provide the ytd medical premium amount to the safety payees?
- 5) Are there any new forms that will be associated with these new deductions for safety retirees?

Thanks in advance for answering my questions.

Paul Tarr

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