



# Tax Guide for the Retiree

This brochure is intended for individuals who recently retired or have retirement plans in their near future

## **WHAT DIFFERENCES ARE THERE IN REPORTING MY RETIREMENT INCOME AND MY INCOME (EARNED) DURING MY WORK CAREER?**

When you received your Form W-2, Wage and Tax Statement prior to retirement, you reported your wages on an individual income tax return, such as Form 1040, U.S. Individual Income Tax Return. You also may have received self-employment income on Form 1099-NEC, Nonemployee Compensation, if you were a contractor/subcontractor or if you performed independent projects or services. You reported your income by attaching a Schedule C, Profit or Loss From Business (Sole Proprietor) and Schedule SE, Self-employment Tax to your Form 1040. After you formally retire, you would do the same if you continue to receive these types of income.

When retired, you may receive a Form SSA-1099 for social security benefits and/or a Form 1099-R for pension income. You will include these types of retirement income on your Form 1040, in addition to any other income you may have received during the tax year.

## **WHAT TYPES OF INCOME ARE TAXABLE?**

The types of income which are taxable include, but are not limited to: military retirement pay, all or part of pensions and annuities, all or part of Individual Retirement Accounts (IRA), unemployment compensation, gambling income, bonuses and awards for outstanding work, alimony or prizes. A portion of your social security benefits may be taxable based on your other income and filing status.

For additional information see [Publication 525, Taxable and Non-taxable Income](#)

## **WHAT TYPES OF INCOME ARE NON-TAXABLE?**

Some income is not subject to tax. A few examples are veteran's benefits, disability pay for certain military or government related incidents, worker's compensation, and cash rebates from a dealer or manufacturer of an item you purchase.

For additional information see [Publication 525, Taxable and Non-taxable Income](#)

## **WHY IS MY PENSION INCOME TAXED?**

Your pension will be reported on a Form 1099-R, Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc. Form 1099-R will show you how much you contributed to the plan and how much tax was withheld. Your pension could be fully or partially taxable depending on how the money was put into the pension plan. If all the money was contributed by the employer or the money was not taxed before going into the plan (pre-tax), it would be taxable. When your contributions (basis) to the plan are from already-taxed dollars (after-tax), that part is not taxed, but must be recovered over your life expectancy. For new retirees, you will generally use the "simplified method" to compute the taxable portion of your pension. The worksheet to determine the taxable and non-taxable portion of your pension and annuity income is in the Instructions for Form 1040 and Form 1040-SR.

For additional information see [Publication 575, Pension and Annuity Income](#).

## CAN MY PENSION BE TAKEN OUT AS ONE LUMP-SUM PAYMENT?

If you withdraw the full amount in your pension account, part or all will be taxable in the year received. You may want to consider rolling it over into another pension plan or a traditional IRA to avoid paying a large amount of tax in one year.

**NOTE:** Before withdrawing any funds from a retirement account (IRA, 401-K, Thrift Savings, etc.), consult with a tax professional to understand potential tax consequences.

## WHEN AM I REQUIRED TO WITHDRAW MONEY FROM MY RETIREMENT ACCOUNTS?

Your required minimum distribution (RMD) is the minimum amount you must withdraw from your account each year. You generally have to start taking withdrawals from your IRA, SEP IRA, SIMPLE IRA, or retirement plan account when you reach age 72 (70½ if you reach 70½ before January 1, 2020). However, the first payment can be delayed until April 1 of 2020 if you turn 70½ in 2019. If you reach 70½ in 2020, you have to take your first RMD by April 1 of the year after you reach the age of 72. For all subsequent years, including the year in which you were paid the first RMD by April 1, you must take the RMD by December 31 of the year.

Roth IRAs do not require withdrawals until after the death of the owner.

For additional information see [Publication 575, Pension & Annuity Income](#) and [Publication 590-B, Distributions for Individual Retirement Arrangements \(IRAs\)](#).

**NOTE:** The RMD rule is waived for tax year 2020 under the Coronavirus Aid, Relief, and Economic Security (CARES) Act.

## HOW DO I DETERMINE HOW MUCH OF MY SOCIAL SECURITY IS TAXABLE?

Compare the base amount found in [Publication 915](#), Social Security and Equivalent Railroad Retirement Benefits, to the total of one-half of your social security benefits plus all of your other income (including tax-exempt income). If the base amount exceeds your income computation, then your social security is non-taxable. For the most complete calculation, you should use the worksheets found in Publication 915 or the instruction books for the 1040 series.

## I AM RETIRED AND RECEIVE SOCIAL SECURITY, BUT I HAVE NOW TAKEN A PART TIME JOB. WHY ARE THEY TAKING SOCIAL SECURITY TAXES OUT OF MY PAY?

The Federal Insurance Contribution Act, or FICA, provides for a Federal System of old-age, survivors, disability, and hospital insurance. The old-age, survivors, and disability insurance part is financed by the social security tax. Generally, employee wages are subject to social security and Medicare taxes regardless of the employee's age or whether he or she is receiving social security benefits.

## WILL TAXES BE WITHHELD FROM MY INCOME OR WILL I HAVE TO MAKE ESTIMATED TAX PAYMENTS?

Our tax law provides for a pay-as-you-go system which requires taxes to be paid on income as it is received. There are two ways which taxes are typically paid:

**Tax Withholding** – You can request federal tax be withheld from your pension, social security, unemployment compensation, etc., by submitting the appropriate following form to the payer of the income:

- **Form W-4**, Employee's Withholding Certificate - Used for wages and military retirement pay
- **Form W-4P**, Withholding Certificate for Pension or Annuity Payments - Used for pensions and annuities
- **Form W-4V**, Voluntary Withholding Request - Used for social security, unemployment compensation, and railroad retirement income

To ensure you do not have too much or too little income tax withheld use the [Tax Withholding Estimator](#). You may use the results of this program to complete the appropriate withholding form.

**Estimated Tax Payment** – If you have not paid enough federal tax through withholding or receive income that is not subject to withholding, you should make estimated tax payments. Use the worksheet in Form 1040-ES, Estimated Taxes for Individuals to figure the amount of estimated taxes to pay to Internal Revenue Service (IRS). You can mail a check or money order with Form 1040-ES voucher or make a payment through one of the online payment options. Paying online is convenient and secure and helps make sure we get your payments on time. To pay your taxes online or for more information, go to [IRS.gov/Payments](https://irs.gov/Payments).

Estimated tax payments are due each year on April 15th, June 15th, September 15th, and January 15th of the following year.

*Example:* John realizes that selling his mutual funds in December resulted in a large gain. He can estimate the effect of that gain and pay the amount by January 15th, to avoid a penalty.

**NOTE:** If you do not make sufficient and timely federal tax payments, you could incur an estimated tax penalty.

For additional information see [Publication 505, Tax Withholding and Estimated Tax](#).

## WHERE CAN I CHANGE MY WITHHOLDING IF I'M A MILITARY RETIREE?

There are two ways to change your withholding. You can call the Retiree Pay customer service number at Defense Finance and Accounting Service (DFAS) at 1-800-321-1080 or you can make changes online via DFAS's myPay secure web-based pay management system. The myPay system lets active duty military, National Guard and Reserve members, some federal government civilian employees, and military retirees and annuitants quickly change pay information like federal and state withholding. If you are a myPay account holder, log in at <https://mypay.dfas.mil>. If you want to set up a new account or need help with your existing account, call the myPay customer service center at 1-877-363-3677.

## ADDITIONAL INFORMATION

For a free paper copy of any listed form or publication, place an [order online](#) or call 1-800-829-3676 (1-800-TAX-FORM).

For additional questions about your tax responsibilities, utilize the [Interactive Tax Assistant](#) (ITA). The ITA tool is a tax law resource that takes you through a series of questions and provides you with responses to tax law questions. If a specific topic isn't covered by the tool, then try the [Tax Topics](#) application or call 1-800-829-1040.

## PUBLICATIONS THAT MAY BE OF ASSISTANCE:

- [Publication 501](#), Dependents, Standard Deduction, and Filing Information
- [Publication 554](#), Tax Guide for Seniors
- [Publication 560](#), Retirement Plans for Small Business
- [Publication 721](#), Tax Guide to U.S. Civil Service Retirement Benefits
- [Publication 939](#), General Rule for Pensions and Annuities

## FREE TAX RETURN ASSISTANCE

Volunteer Income Tax Assistance (VITA) and Tax Counseling for the Elderly (TCE) Sites offer free tax return preparation to individuals having low to moderate income. To find free tax help near you, call IRS at 800-906-9887 or AARP TaxAide at 1-888-227-7669.