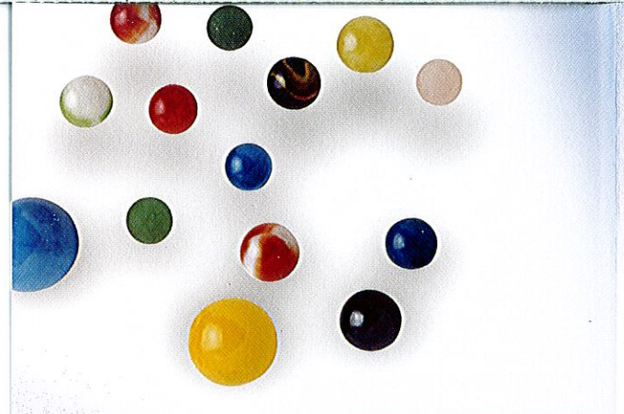
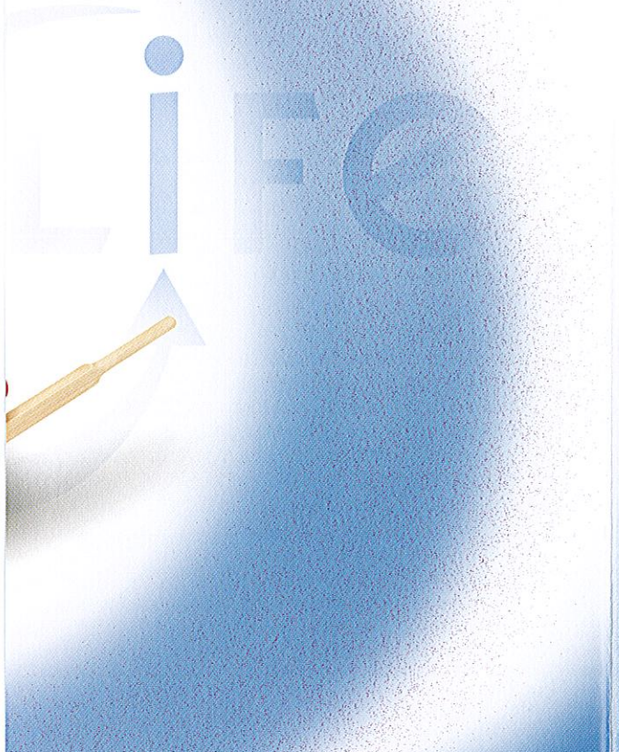




for additional Information

All the forms and publications mentioned in this publication can be found on the Internal Revenue Service Internet site (**www.irs.gov**).

For a free paper copy of any listed form or publication, please call 1-800-829-3676 (1-800-TAX-FORM).

For additional questions about your tax responsibilities, you can call 1-800-829-1040.

Publications that may be of assistance:

- **Publication 505**, Tax Withholding and Estimated Tax
- **Publication 525**, Taxable and Nontaxable Income
- **Publication 575**, Pension and Annuity Income
- **Publication 915**, Social Security and Equivalent Railroad Retirement Benefits
- **Publication 501**, Exemptions, Standard Deduction, and Filing Information
- **Publication 554**, Older Americans' Tax Guide
- **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
- **Form 1040**, U. S. Individual Income Tax Return
- **Form 1040A**, U. S. Individual Income Tax Return
- **Schedule SE**, Self-Employment Tax
- **Form 1040-ES**, Estimated Tax for Individuals
- **Schedule C**, Profit or Loss From Business
- **Schedule C-EZ**, Net Profit From Business

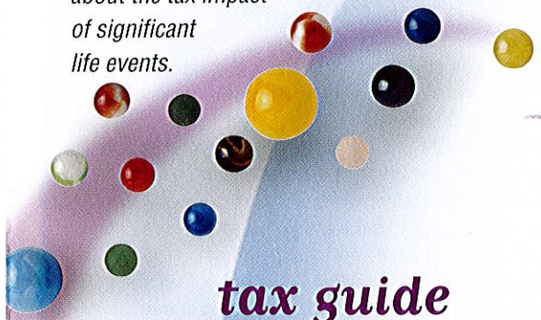
FREE TAX RETURN ASSISTANCE

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 **1-800-829-1040** or AARP TaxAide at **1-888-227-7669.**

IRS Department of the Treasury Internal Revenue Service
Publication 4190 (Rev. 7-2005)
Catalog Number 36562Z

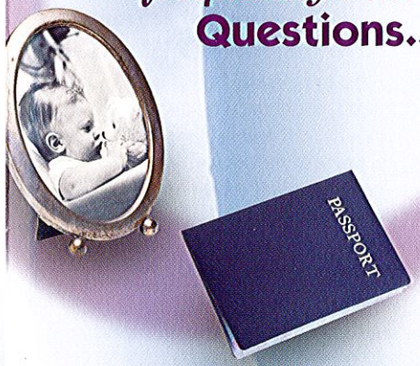
the Life Cycle *series*

A series of informational publications designed to educate taxpayers about the tax impact of significant life events.



tax guide for the Retiree

frequently asked Questions...



Tax Benefits and Credits

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

WHAT DIFFERENCES ARE THERE IN REPORTING MY RETIREMENT INCOME AND MY INCOME DURING MY WORK CAREER?

When you received your Form W-2 prior to retirement, you reported your wages on an individual income tax return, such as Form 1040. You also may have received self-employment income on Form 1099-MISC, Miscellaneous Income, if you were a contractor/sub-contractor or if you performed independent projects or services. You reported your income by attaching a Schedule C or C-EZ to your Form 1040 and your self-employment tax on Schedule SE. 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 and/or a Form 1099-R for pension income, in addition to wages or self-employment income. These types of retirement income are reported on either the Form 1040 or 1040A.

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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), social security benefits that exceed the base amount for the filing status, unemployment compensation, gambling income, bonuses and awards for outstanding work, alimony, and prizes.

For additional information see Publication 525.

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WHAT TYPES OF INCOME ARE NONTAXABLE?

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.

WHY ARE MY PENSION AND SOCIAL SECURITY TAXED?

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, it would be taxable. When your contribution to the plan is from already-taxed dollars, that part is not taxed, but must be recovered over your life expectancy. There are worksheets in the instruction books for versions of Form 1040, including Form 1040 A. Social security can be either not taxed or partially taxed, depending on your other income and filing status.

For additional information see Publication 575 or 915.

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TAX WITHHOLDING AND 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 for wages and military retirement pay
  - Form W-4P for pensions and annuities
  - Form W-4V for social security, unemployment compensation, and railroad retirement income

To ensure you do not have too much or too little income tax withheld from your pay, use the search engine on **www.irs.gov** and input the word "calculator". Click on the "IRS Withholding Calculator" link and fill in the information that applies to you. You may use the results of this program to complete the Form W-4.

- **Estimated Tax Payments** - If you have not paid enough federal tax through withholding, you should make estimated tax payments to the Internal Revenue Service (IRS). This can be done by completing a quarterly payment voucher (Form 1040 ES) and mailing it to the IRS.

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

To calculate your estimated tax payments, you can use the worksheet with Form 1040 ES. 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.

For additional information see Publication 505.

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RETIREE QUESTIONS AND ANSWERS:

Q. 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?

A. 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.

Q. How do I determine how much of my social security is taxable?

A. 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.

Q. How will I know how much of my pension is taxable?

A. Your pension will be reported on a Form 1099R. Form 1099R will show you how much you contributed to the plan and how much tax was withheld. For new retirees, you will generally use the "simplified method" to compute the taxable portion of your pension. (See Publication 575, Pension and Annuity Income). Generally your contributions to the plan are not taxable as long as they were subject to taxation when they were deposited to the plan.

Q. What if I take my pension out in a lump-sum payment?

A. If you take the full payment out, it 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 (Thrift Savings, IRA, etc.), always consult a specialist to ascertain the tax consequences.

Q. I am a military retiree. Where can I go to change my withholding?

A. 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 *my*Pay secure web-based pay management system. The *my*Pay 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 *my*Pay 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 *my*Pay customer service center at 1-877-363-3677.