

## Pension & Retirement Benefits

Qualifying distributions from pension and retirement benefits are not taxable. Retirement plans include private and public employer plans, and individual plans such as IRA's.

To be considered a qualified distribution not taxable under the City of Port Huron Income Tax Ordinance, several requirements must be met:

- The employee retired under the provisions of the Plan
- The pension benefits must be paid from the retirement trust fund
- The payment must be made to either the employee or surviving spouse
  - Payments made to a surviving spouse are a qualified distribution only if the employee qualified to exclude the income at the time of death.

**Please refer to the Form 1099R Distribution Codes below to determine taxability:**

**Code 1** – Early distribution, no known exception – **Taxable**

**Code 2** – Early distribution, exception applies

- **Taxable - unless part of a series of mainly equal, periodic payments made for the life of the employee or the joint lives of the employee and their beneficiary**
- **Taxable - distributions from a 457 Plan**

**Code 3** – Disability – **Not Taxable**

**Code 4** – Death

- **Not taxable - for a surviving spouse** only and only **if the decedent would have also qualified for a normal distribution** under Code 7 at the time of death
- **Taxable - for all other beneficiaries**
- **Taxable - if paid as a death benefit payment** made by an employer, but not made as part of a pension, profit sharing, or retirement plan

**Code 5** – Prohibited transaction – **Taxable**

**Code 6** – Section 1035 Exchange- **Taxable**

**Code 7** – Normal Distribution

- **Not taxable – normal distribution** as defined by the Plan
- **Not Taxable** – distribution from a **traditional IRA** if the participant is at least **age 59 ½**
- **Not Taxable – Roth conversion** if the participant is at least **age 59 ½**
- **Not Taxable** – distribution from a **life insurance, annuity, or endowment contract**