

**SUMMARY OF MAJOR CHANGES TO
DOD 7000.14-R, VOLUME 7B, CHAPTER 41
“RETIRED SERVICEMAN’S FAMILY PROTECTION
PLAN - TAXABILITY OF ANNUITIES”**

Substantive revisions are denoted by a ★ preceding the section, paragraph, table
or figure that includes the revision

PARAGRAPH	EXPLANATION OF CHANGE/REVISION	EFFECTIVE DATE
410201, 410202	★ Interim change R11-03 makes administrative changes by changing the Denver site to the Cleveland site.	August 28, 2003

TABLE OF CONTENTS

RETIRED SERVICEMAN’S FAMILY PROTECTION PLAN - TAXABILITY OF ANNUITIES

4101	FEDERAL INCOME TAX	
4102	FEDERAL INCOME TAX WITHHOLDING (FITW)	
★	410201	General Provisions
★	410202	Notice Requirements
	410203	One-Time Payments
4103	INCOME EXCLUSION	
4104	ADJUSTMENT TO TAXABLE ANNUITIES	
4105	FEDERAL ESTATE TAX	
4106	STATE TAXATION	
4107	FURTHER TAX INFORMATION	

CHAPTER 41

**RETIRED SERVICEMAN'S FAMILY PROTECTION
PLAN - TAXABILITY OF ANNUITIES**4101 FEDERAL INCOME TAX

Annuities paid under the Retired Serviceman's Family Protection Plan (RSFPP) are taxable for federal income tax purposes. Refunds for coverage premiums are taxable income to the annuitant. The refund of premiums may result from administrative error, corrections of record, late receipt of withdrawal request, or youngest child attaining age 18. See Table 53-1 for exceptions on the taxability of the annuities.

4102 FEDERAL INCOME TAX WITHHOLDING (FITW)

★ 410201. General Provisions. RSFPP annuity payments are subject to federal income tax withholding (FITW). An annuitant has the right to elect no withholding. In the absence of such an election, or if the annuitant does not otherwise submit a withholding certificate, the DFAS Site will withhold on a "married-three exemptions" basis.

★ 410202. Notice Requirements. The DFAS Cleveland Site must advise the annuitant of the withholding requirement and the right to elect "no withholding", when making the first payment to the annuitant. Thereafter, the DFAS Cleveland Site must send an annual notice to the annuitant of the right to elect no withholding, to revoke an election, or to submit a new withholding certificate. An annuitant also may submit a withholding certificate at any time to elect no withholding, revoke such election, or request any rate of withholding.

410203. One-Time Payments. RSFPP annuity payments, other than the regular monthly entitlement, are subject to FITW at the rate of 20 percent unless the annuitant has elected no withholding.

4103 INCOME EXCLUSION

410301. The annuitant may exclude from gross income:

A. Premiums for coverage deducted from retired pay before January 1, 1966, not previously excluded from the member's retired pay.

B. The amount of direct remittance for any RSFPP premiums not previously excluded from the member's retired pay.

410302. In addition, the annuitant may exclude from the RSFPP annuity gross income an amount, not to exceed \$5,000, if the member retired on disability and dies prior to attaining retirement age. Reference Public Law 89-365 (reference (ez)).

4104 ADJUSTMENT TO TAXABLE ANNUITIES

Reserved.

4105 FEDERAL ESTATE TAX

The value of the annuity at the time of the member's death may be subject to federal estate tax if any portion of the cost was paid by direct remittance, or if the value of the annuity exceeds the amount that may be excluded from the gross estate. The DFAS may furnish the annuitant the current annuity amount and/or a summary of annual payments, and total cost paid (separate totals for deductions and direct remittances). For a computation of the amount of an annuity that will be subject to the tax, if any, the executor of the member's estate may write:

Internal Revenue Service
Chief, Estate and Gift Tax Branch
Attn: CC:IND:E
1111 Constitution Avenue, NW
Washington DC 20224

4106 STATE TAXATION

Whether RSFPP annuities are subject to state inheritance or income tax and the method of calculating such tax depend upon the laws of the state concerned. However, the TD Form W-2P (Recipients of Annuities, Pensions, or Retired Pay) information is furnished to the appropriate state tax authority.

4107 FURTHER TAX INFORMATION

Survivors should be advised that further information concerning taxation of RSFPP annuities may be obtained from the District Director of Internal Revenue or the state tax authority.

RETIRED SERVICEMAN’S FAMILY PROTECTION PLAN - TAXABILITY OF ANNUITIES

4101 - FEDERAL INCOME TAX

ASD Memo, December 8, 1990

4102 - FEDERAL INCOME TAX WITHHOLDING (FITW)

26 U.S.C. 3402(o)(3)

4103 - INCOME EXCLUSION

410301.B 26 U.S.C. 101(b)(2)(d)

4105 - FEDERAL ESTATE TAX

26 CFR 20.2039-2(c)(1)
26 U.S.C. 2039(c)
Rev Rul 72-332, 1972-2, CB 527
Rev Rul 75-176, 1975, CB 300