

## CHAPTER 9

## TAXABILITY OF ANNUITIES

**80901. Federal Income Tax**

Annuities paid under the RSFPP are taxable for federal income tax purposes. Refunds for cost of coverage are taxable income to the annuitant. The refund of cost may result from administrative error, corrections of record, late receipt of withdrawal request, or youngest child attaining age 18. See table 9-11-1 for exceptions on the taxability of the annuities.

**80902. Federal Income Tax Withholding (FITW)**

a. **General Provisions.** RSFPP annuity payments are income subject to 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 - Denver Center will withhold on a "married-three exemptions" basis. The annuitant may use TD Form W-4P or any substitute form furnished by the payer.

b. **Notice Requirements.** The DFAS-Denver Center 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-Denver Center must provide 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 may also submit a withholding certificate at any time to elect no withholding, revoke such election, or request any rate of withholding.

c. **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.

**80903. Income Exclusion**

a. The annuitant may exclude from gross income:

(1) Cost of coverage deducted from retired pay before 1 Jan 1966, not previously excluded from the member's retired pay.

(2) Amount of direct remittance for the cost of coverage not previously excluded from the member's retired pay.

b. 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, 8 Mar 1961.

**80904. Adjustment to Taxable Annuities**

Reserved.

**80905. 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 retired pay activity 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

**80906. 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 information is furnished to the appropriate state tax authority.

**80907. Further Tax Information**

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

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