LACERA
Los Angeles County Employees Retirement Association
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TAXABILITY OF A LACERA DISABILITY RETIREMENT ALLOWANCE

If your disability retirement is approved by the Board of Retirement, your monthly retirement allowance from LACERA will be your "paycheck." Generally, you must pay federal and state income taxes on your LACERA allowance.

When you retire, you will have the opportunity to elect federal and state tax withholding from your LACERA allowance to meet your personal income tax obligations. If you do not make an election, LACERA must withhold as if you are married and claiming three exemptions.

Please consult your professional tax advisor for assistance with your decisions regarding tax withholding and tax filing. LACERA cannot offer tax or legal advice.

Service-Connected Disability Retirement

You may be eligible for **special tax exclusions** if you receive a Service-Connected Disability (SCD) Retirement.

If you receive an SCD Retirement, an amount equal to 50% of your final compensation may be excludable from your gross income for federal tax purposes, as provided by Section 104(a)(1) of the Internal Revenue Code. The amount of any cost-of-living adjustment (COLA) attributable to that amount also may be excludable. Any remaining allowance amount or COLA will be taxable. Upon your death, your surviving spouse or minor child would be eligible for this tax exclusion if he or she is eligible to receive a continuing allowance from LACERA.

This information is based on a 1976 IRS Private Letter Ruling for Ventura County. See the excerpt of this ruling (on reverse) for more detailed information.

Note: If you receive a **"Heart Presumption"** SCD Retirement (under Government Code Section 31720.5), you **may not be eligible** for this tax exclusion. You may discuss this matter with your Disability Retirement Specialist once your case has been assigned.

LACERA cannot offer tax or legal advice.
Please consult with your professional tax advisor regarding the correct tax withholding and tax filing for your individual circumstances.

Form 1099-R

Each year, at the end of January, LACERA will mail you a **Form 1099-R**, which reports your LACERA retirement income for the previous year. You will use the 1099-R for your federal and state income tax preparation, just as you used a Form W-2 when you were working.

The 1099-R will show the total taxable and non-taxable amounts you received in your LACERA allowance for the year. The Taxable Amount will appear in Box 2a.

Important: Keep in mind that you may be required to file a tax return even if you do not owe any taxes. Generally, filing requirements are based on your filing status, age, and amount of gross income for the year. See IRS Publication 501 ("Exemptions, Standard Deduction and Filing Information") or your professional tax advisor for assistance.

The following text is an excerpt from an IRS Private Letter Ruling issued to Ventura County Employees' Retirement Association (VCERA). While most IRS private letter rulings apply only to the agency or entity to whom the ruling is addressed, VCERA and LACERA are both governed by the County Employees Retirement Law of 1937, commencing with California Government Code section 31450. LACERA provides this excerpt for members and their survivors as background information concerning the taxability of disability payments. Please consult with your professional tax advisor. LACERA cannot offer tax or legal advice.

EXCERPT
Internal Revenue Service (IRS) Private Letter Ruling Issued to Ventura County

September 23, 1976

Internal Revenue Code (IRC) Section 104(a)(1)

Based on the applicable law, it is held as follows:

1. The provisions in the County Retirement Law providing for disability retirement in the case of service-connected sickness or injury constitute a statute "in the nature of a workmen's compensation act" within the meaning of section 104(a)(1) of the Code.

2. Disability payments received by members of the retirement fund for service-connected injury or sickness are excludable from gross income under section 104(a)(1) of the Code. Where a member is eligible for either an allowance based on years of service or a service-connected disability allowance, and elects to receive the former because it is higher, then only the portion that does not exceed one-half of his final compensation (as provided by section 31727.4 of the Plan) is excludable under section 104(a)(1). The remainder is excludable from gross income in the extent permitted under section 105(d)* until the members reach their mandatory retirement ages.

3. Payments received by a surviving spouse or children on account of a member who dies of service-connected causes are excludable from gross income under section 104(a)(1) of the Code. Whether the member died before or after retirement is immaterial.

However, under section 31787 of the Plan, where the surviving spouse or children of a deceased member has the right to elect to receive benefits under section 31787 or one of the alternate options under section 31780 of the Plan, only that amount which is equal to one-half of the member's final compensation is regarded in the nature of and in lieu of workmen's compensation and is excludable from gross income under section 104(a)(1) of the Code. Any amount in excess of one-half of the member's final compensation is excludable from gross income only to the extent that it constitutes a death benefit under section 101(b)** of the Code, or a recovery of contributions under section 72 of the Code.

The amount to which the exclusion of section 101(b)** applies is the amount by which the present value of the annuity exceeds the larger of the amounts contributed by the member or the amounts that he had a nonforfeitable right to receive before his death. (Section 1.101-2(e)(1)(iii)(a) of the regulations.) This excludable amount, valued as of the date of the member's death, is not to exceed $5,000.00 under section 101(b)(2)(A) of the Code. For purposes of section 72 of the Code, the amount thus determined is treated as consideration paid by the employee in computing the exclusion ratio applicable to each annuity payment. (Sections 1.101-2(e)(1)(iv) and 1.72-8(b) of the regulations.)

4. Disability payments received by members of the retirement fund for disability that is not incurred in the performance of duty are excludable from gross income to the extent provided by section 105(d)* of the Code until such time the members reach their individual mandatory retirement ages. Payments received by a surviving spouse or children on account of a member who dies of nonservice connected causes are excludable to the extent provided by section 101(b)** and 72 of the Code.

The fact that members of the retirement fund may be eligible for benefits under the California Workmen's Compensation Law shall in no way limit the application of section 104(a)(1) of the Code to amounts paid under the County Retirement Law.

* IRC Section 105(d) was repealed in 1983.

** IRC Section 101(b) was repealed in 1996.