



# City of Austin Police Retirement System

## MEMORANDUM

TO: All Retired Austin Police Officers who have their insurance premiums deducted from their pension check.

FROM: Austin Police Retirement System

RE: Public Safety Officer exclusion from gross income of up to \$3,000 for qualified health insurance premiums

DATE: January 24, 2008

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The IRS recently released on its website new tax forms, instructions and publications for the 2007 tax year. Of interest to all retired Austin Police Officers who have their insurance premiums deducted from their pension check.

Beginning with the 2007 tax year, public safety officers should report their total pension distributions on line 16a of Form 1040. Assuming that the officer qualifies for the insurance premium exclusion, the \$3,000 exclusion should be recognized in line 16b for the Form 1040, where the public safety officer should write the initials "PSO" next to the taxable amount received.

According to the newly published 1040 Instructions for 2007, page 22:

If you are an eligible public safety officer (law enforcement officer, firefighter, Chaplin, or member of a rescue squad or ambulance crew) you can elect to exclude from income distributions made from your eligible retirement plan that are used to pay the premiums for accident or health insurance or long term-care insurance. The premiums can be for coverage for you, your spouse, or dependents. The distribution must be made directly from the plan to the insurance provider. You can exclude from income the smaller of the amount of the insurance premiums or \$3,000. You can only make this election for amounts that would otherwise be included in your income.

If you make this election, reduce the otherwise taxable amount of your pension or annuity by the amount excluded. The amount shown in box 2a of Form 1099-R does not reflect the exclusion. Report your total distributions on line 16a and the taxable amount on line 16b. Enter "PSO" next to line 16b.

For those who don't use Form 1040, the exclusion should be reported as follows:

- Form 1040A
  - line 12a (report the total pension distribution)
  - line 12b (report the taxable amount and enter the initials "PSO")
- Form 1040NR - line 17 a (report the total pension distribution)
  - line 17b (report the taxable amount and enter the initials "PSO")

Retired Austin Police Officers can find the total amount they paid for health insurance premiums in 2007 on their December 2007 pay stub. If another copy is needed, please contact the Pension Office at (512) 416-7672.