Income Tax - Pension Annuity

What type of retirement income qualifies for the pension-annuity subtraction?

To qualify for the pension/annuity income tax subtraction, a payment must be:

- 1. a retirement benefit that is a periodic payment attributable to personal services performed by an individual prior to his retirement from employment and which arose from:
    - a. an employer-employee relationship;
    - b. service in the uniformed services of the United States;
    - c. contributions to a retirement plan that are deductible (deferred) for federal income tax purposes.

- 2. a lump sum distribution from a pension or profit sharing plan to the extent such distribution qualifies for the federal tax averaging computation;
- 3. a distribution from an individual retirement arrangement or a self-employed retirement account to the extent such distribution is not deemed to be a premature distribution for federal income tax purposes (A premature distribution is one on which the taxpayer is required to pay a federal penalty tax);
- 4. amounts received from a privately-purchased (non-employment related) annuity;
- 5. Social Security benefits.

Premature distributions, regardless of the source, do not qualify for the subtraction.

Disability retirement payments and nonqualified deferred compensation benefits received by persons 55 years of age or older qualify for the pension subtraction even if such payments may be reported as wages for federal income tax purposes. However, such payments received by persons under 55 years of age do not qualify for the pension subtraction.