



\$3,000 Tax Exclusion for ISP Police Retirees

The Pension Protection Act of 2006 allows an eligible Indiana State Police sworn retiree to deduct up to \$3,000 from taxable income each year on their annual

IRS Form 1040 federal tax filing. It's not a deduction or exemption; it reduces taxable income so less taxes are paid.

Who is eligible? Retired public safety officers (PSO) who are receiving an unreduced pension from a qualified governmental plan, and who have health insurance premiums deducted from the pension.

What is the definition of "Public Safety Officer?" The Federal government definition, per the Omnibus Crime Control and Safe Streets Act of 1968 (42 U.S.C. 3796b(9)(A)) includes, but is not limited to police, firefighters, corrections, parole, chaplains, and rescue squad members.

What is a "qualified governmental plan?" The Indiana State Police Pension Trust Plan is a qualified trust plan under Section 401(a) of the Internal Revenue Code.

What is an "unreduced pension?" To qualify for this exclusion, retirees must have reached retirement age. Retirees in the 1987 Pension Plan who retired with 25 years of service or more have an unreduced pension. Retirees in the Pre-87 Pension Plan who retired with at least 20 years of service and attained at least 45 years of age at retirement have an unreduced pension. Retirees of either plan who did not meet the years of service requirement but attained age 55 at retirement have an unreduced pension.

What are the requirements? Retirees must participate in the ISP health insurance program and have premiums deducted out of their pension payment that is not reimbursed by any program. The amount excluded can't be used to claim a medical expense deduction. The health insurance coverage can be for the retiree, spouse and dependents. Retirees may deduct up to \$3,000 or the amount paid in the year, whichever is less. A surviving spouse who is not an eligible PSO is not eligible to continue the exclusion on the surviving spouse pension.

How do I do this? Talk to your tax preparer and tell them that you are an eligible retired public safety officer. Retirees will need their 1099R tax form **and** the last pay stub of the year to prove the amount of health insurance premiums paid for the year.

Who has the final word in determining eligibility? It is the responsibility of each individual to substantiate his or her eligibility. The individual's responsibility also applies in the case of an IRS audit. Eligibility will ultimately be made by the IRS.

Where can I get more information? The instructions for Form 1040, Line 5b includes a section "Insurance Premiums for Retired Public Safety Officers" as does IRS Publication 575 "Pension and Annuity Income." The Indiana State Police website also has additional information at the "Retiree Information" site. If you have any further questions, contact HR at 317-232-8275, Toll free in Indiana 800-622-4995.