DEPARTMENT OF STATE REVENUE

Information Bulletin #70
Income Tax
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SUBJECT: Disability Income Deduction

REFERENCE: IC 6-3-2-9

INTRODUCTION
There is a deduction from adjusted gross income for persons retired on disability who are permanently and totally disabled.

I. QUALIFICATIONS
To qualify for the deduction, an individual must be (1) retired on disability before the end of the taxable year and (2) permanently and totally disabled at the time of retirement.

II. PERMANENTLY AND TOTALLY DISABLED
An individual is permanently and totally disabled if the individual is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment that can be expected to result in death or that has lasted or can be expected to last for a continued period of not less than 12 months.

III. PROOF OF DISABILITY
For the purposes of IC 6-3-2-9(c), a person may furnish proof of permanent and total disability by including any of the following documents with the person's adjusted gross income tax return. Failure to provide proof of disability will result in disallowing the deduction. The following documents are acceptable to the Department to determine that a person is permanently and totally disabled:

(1) A properly executed Schedule IT-2440;
(2) A copy of a properly executed Physician's Statement (contained in Schedule R of the Internal Revenue Service Form 1040);
(3) A copy of any properly executed document, utilized by any agency of the United States or the State of Indiana, which requires at least the same information as the Physician's Statement of Permanent and Total Disability contained in the IT-2440; or
(4) A properly executed document or documents showing that the person received federal supplemental security income (SSI) during the tax year.

IV. COMPUTATION OF DISABILITY DEDUCTION
STEP 1: Determine the amount received by the individual during the taxable year through an accident and health plan for personal injury or sickness to the extent that:
(A) These amounts are attributable to contributions by the individual's employer that were not includable in the individual's gross income or are paid by the employer; and
(B) These amounts constitute wages or payments in lieu of wages for a period during which the employee is absent from work because of permanent and total disability.
STEP 2: Determine for each week of the taxable year the amount by which each payment referred to in STEP 1 exceeds $100; then add these amounts.
STEP 3: Determine the amount by which the individual's federal adjusted gross income for the taxable year, as defined by Section 62 of the Internal Revenue Code, exceeds $15,000.
STEP 4: Subtract from the amount determined in STEP 1 the amount determined in STEP 2 and the amount determined in STEP 3.
The remainder is the individual's allowable disability income deduction. This amount should be inserted in the section for Indiana modifications to adjusted gross income on Form IT-40.

Any questions concerning the disability income deduction may be directed to the Individual Income Tax Section of the Tax Administration Division at (317) 232-2240.

John Eckart
Commissioner

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