Rhode Island Department of Revenue
Division of Taxation

RHODE ISLAND PERSONAL INCOME TAX GUIDE:

MODIFICATION FOR INCOME FROM PENSIONS, 401(K) PLANS, ANNUITIES, AND OTHER SUCH SOURCES

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Table of Contents

Introduction

A Rhode Island personal income tax modification applies for income from private-sector pensions, government pensions, 401(k) plans, 403(b) plans, military retirement pay, annuities, and other such sources.

Approved by the Rhode Island General Assembly, and signed into law by Rhode Island Governor Gina M. Raimondo on June 24, 2016, it applies for tax years beginning on or after January 1, 2017.[1]

The modification first appeared in tax forms and instructions during the 2018 filing season, covering tax year 2017.

How does it work? In a nutshell, you are eligible for the tax break if you clear all three of the following hurdles:

1) Your federal adjusted gross income (AGI) includes taxable income from pensions, 401(k) plans, annuities, and/or other such sources (see partial list on right side of this page);

2) You have reached "full retirement age" as defined by the Social Security Administration; and

3) Your federal AGI is below a certain amount. (When the law was enacted, the threshold was $80,000 for someone who is single, $100,000 for a married couple filing a joint return. But the amounts have increased with inflation[2])

If you are eligible, up to $15,000 of your federally taxable income from pensions, 401(k) plans, annuities, or other such sources will escape Rhode Island personal income tax.

Assuming that you are eligible and are in the 3.75 percent Rhode Island personal income tax bracket, the new provision could save you approximately $563 in Rhode Island personal income tax.

What counts?

What counts for purposes of Rhode Island's modification involving income from pensions, annuities, and other sources?

"Income" for purposes of this modification includes, but is not limited to, income from the following that is properly included in your federal adjusted gross income:

- 401(k) plans
- 403(b) plans
- 457(b) plans
- private-sector pensions
- military retirement pay
- state government pensions
- local government pensions
- annuities
- federal government pensions

[1] See Rhode Island Public Law 2016, ch. 142, art. 13, § 16, codified at Rhode Island General Laws § 44-30-12. The modification first appeared on Division of Taxation forms in early 2018, covering the 2017 tax year.

[2] Amounts are subject to annual adjustment for inflation for tax years beginning on or after January 1, 2018, as required under Rhode Island General Laws § 44-30-12.

The following pages provide information, including examples, on how the new modification works and how it might apply to you.

There's a separate section in this guide for each of the three hurdles mentioned on the previous page: one involves the source of your income, one involves your age, and one involves your AGI.[3]

Note: Before you prepare your own tax return, or you prepare a return for someone else, please be sure to check the latest forms and instructions posted by the Rhode Island Division of Taxation to make sure you are using up-to-date information involving this tax break: www.tax.ri.gov.

[3] This publication revises and supersedes Rhode Island Division of Taxation Publication 2019-01 and Publication 2017-01. Revisions were prompted, in part, by annual inflation adjustments and by changes to federal tax forms and federal tax publications.

Section 1: Source of income

It's sometimes called the "pension/annuity" tax break. However, those aren't the only sources of income that qualify for the tax break.

There are many other sources of income involving retirement savings that count.

At-a-glance table

The following table provides an at-a-glance summary of some items that count, and some items that do not count, for purposes of Rhode Island's pension/annuity income modification under Rhode Island General Laws § 44-30-12.

Pension and annuity income: What counts, what doesn't

In general, if you have income from one or more sources listed in the first column below, and that income is included in your federal adjusted gross income (AGI), it will count for purposes of Rhode Island's modification for pension/annuity income. Although federal rules govern federal returns, the Division of Taxation as a convenience provides the following partial list of what does and doesn't count as taxable pension/annuity income for purposes of Rhode Island's modification:

Income from the following counts:	***Income from the following does <u>not</u> count:***
Private and government pensions	Individual retirement accounts (IRAs)
Annuities	Corrective distributions [1]
401(k) plans	Completed rollovers [2]
403(b) plans	SEP-IRAs
457(b) plans	SIMPLE-IRAs
Military retirement pay	
Life insurance annuity contracts	
Profit-sharing plans	

[1] Corrective distributions (including earnings) of excess salary deferrals or excess contributions to retirement plans.
[2] Completed direct rollovers from an employer's qualified retirement plan (QRP) to another QRP or to an IRA or simplified employee pension (SEP).
Note: The taxable portion of one's pension/annuity income is reported for the 2019 tax year on line 4d of U.S. Form 1040 or line 4d of U.S. Form 1040-SR. See also IRS Publication 575, "Pension and Annuity Income." Rhode Island's tax break for pension/annuity income applies for tax years beginning on or after January 1, 2017, and various eligibility rules apply.

Individual retirement accounts (IRAs)

Note that income from individual retirement accounts (IRAs) does not count for purposes of the Rhode Island pension/annuity tax break – whether that income is from a traditional IRA, Roth IRA, SEP-IRA, or other type of IRA.

Computer software; the federal return

More than 80 percent of Rhode Island personal income tax returns are prepared and electronically filed ("e-filed"), using computer tax-preparation software.

Thus, for most tax preparers and taxpayers, the computer will "figure out" which sources of income will count for purposes of this Rhode Island tax break.

Still, it helps to know about some of the nuts and bolts of the tax break, if only to make sure that your tax-preparation software is working correctly. Also, those who prepare their returns on paper need to know how the tax break works, too.

Pension/annuity income and Form 1099-R

For purposes of Rhode Island's tax break involving income from pensions, 401(k) plans, and other such sources, you must determine the source of the income, and whether the income is taxable at the federal level.

Fortunately, this isn't difficult in most cases. The amount that you receive in any given year from a pension, a 401(k) plan, a 403(b) plan, an annuity, or other such source is reported by the payer on a special form.

In other words, the organization that distributed the amount to you during the calendar year must, shortly after the close of that year, send a record of that distribution to you and to the IRS. It's typically done on Form 1099-R. (The full title of Form 1099-R is: "Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.")

What's taxable?

The determination of what represents federally taxable income from pensions and annuities is made at the federal level.

However, the Division of Taxation in this publication is providing some general guidance, including examples, to tax preparers and taxpayers as an aid in compliance.

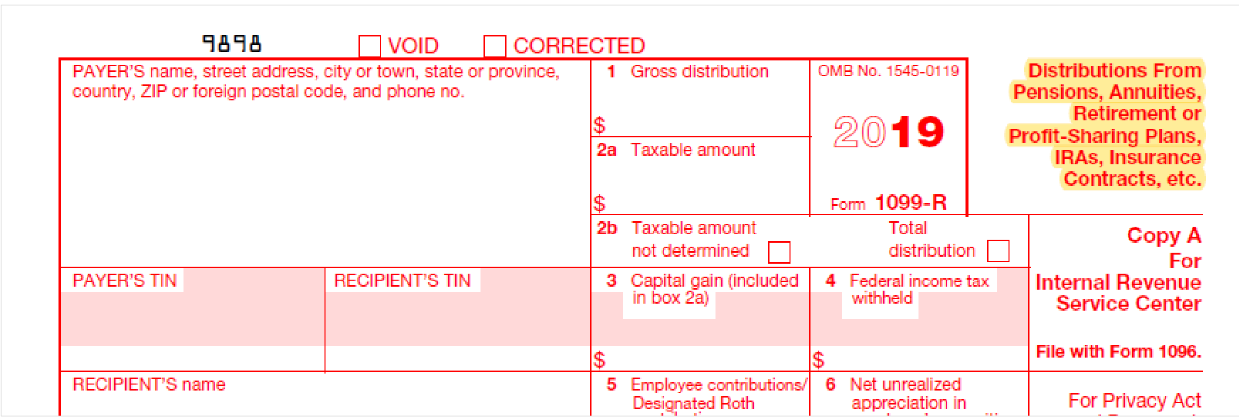
(When it comes to federal tax matters, taxpayers should consult their tax professional, the Internal Revenue Service, and/or federal tax law, federal tax cases, and federal regulations.)

By looking at your copy of Form 1099-R, you should be able to tell at a glance the source of the income. For example, if the Form 1099-R shows a distribution from an IRA, it doesn't count for purposes of Rhode Island's tax break. However, if the Form 1099-R shows a distribution from a pension, or a 401(k) plan, or other such source, it does count for purposes of the Rhode Island tax break.

You also should be able to tell from your Form 1099-R (and/or other sources) what portion of the distribution is taxable for federal tax purposes – and therefore will count for purposes of the Rhode Island tax break.

For example, if the income shown on your Form 1099-R must be included on line 4d (as well as line 4c) of your U.S. Form 1040 or U.S. Form 1040-SR, it counts for purposes of the Rhode Island tax break – unless it's IRA income, which does not count. The instructions on your Form 1099-R will be helpful in this regard.

(A portion of U.S. Form 1099-R, for the 2019 tax year, is shown below, with the form's title highlighted in yellow)


9898
VOID
CORRECTED
PAYER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and phone no.
1 Gross distribution
$
2a Taxable amount
$
OMB No. 1545-0119
2019
Form 1099-R
Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.
2b Taxable amount not determined
Total distribution
Copy A For Internal Revenue Service Center
PAYER'S TIN
RECIPIENT'S TIN
3 Capital gain (included in box 2a)
$
4 Federal income tax withheld
$
File with Form 1096.
RECIPIENT'S name
5 Employee contributions/ Designated Roth
6 Net unrealized appreciation in
For Privacy Act

Shortcut available

As noted, elsewhere in this publication, distributions from pensions, annuities, 401(k) plans, 403(b) plans, governmental 457(b) plans, and military retirement pay count as "pension and/or annuity income" for purposes of Rhode Island's pension/annuity income modification under Rhode Island General Laws § 44-30-12.

But most taxpayers will not need to search through federal and state tax laws to find answers to their questions. There is a shortcut.

The Rhode Island legislation that created the Rhode Island tax break described in this publication uses the term "pension and/or annuity income" – a reference to a line which is on U.S. Form 1040 (and on U.S. Form 1040-SR). That provides a shortcut for tax preparation purposes, too: Whatever income is included on that particular line is included for purposes of Rhode Island's modification.

Thus, whatever you properly include as taxable pension income and/or taxable annuity income on that line on your federal income tax return (whether U.S. Form 1040 or U.S. Form 1040-SR) counts for purposes of Rhode Island's new tax break.

Look at line 4d on your federal income tax return. All taxable distributions properly included on line 4d of your U.S. Form 1040 or line 4d of your or U.S. Form 1040-SR, in accordance with federal tax law and federal tax regulations, count for purposes of Rhode Island's modification on pension/annuity income.

When you prepare your federal income tax return, or you have someone prepare it for you, chances are it will be either U.S. Form 1040 or the new form that's intended mainly for those 65 or older – U.S. Form 1040-SR.

The screenshot below highlights line 4c and line 4d of U.S. Form 1040 ("U.S. Individual Income Tax Return") for the 2019 tax year. All taxable income properly included on line 4d, in accordance with federal tax law and federal tax regulations, counts for purposes of Rhode Island's modification on pension/annuity income.

	1	Wages, salaries, tips, etc. Attach Form(s) W-2				1
	2a	Tax-exempt interest	2a		b Taxable interest. Attach Sch. B if required	2b
Standard Deduction for—	3a	Qualified dividends	3a		b Ordinary dividends. Attach Sch. B if required	3b
• Single or Married filing separately, $12,200	4a	IRA distributions	4a		b Taxable amount	4b
• Married filing jointly or Qualifying widow(er), $24,400	c	Pensions and annuities	4c		d Taxable amount	4d
• Head of household, $18,350	5a	Social security benefits	5a		b Taxable amount	5b
	6	Capital gain or (loss). Attach Schedule D if required. If not required, check here ▶ ☐				6
	7a	Other income from Schedule 1, line 9				7a
	b	Add lines 1, 2b, 3b, 4b, 4d, 5b, 6, and 7a. This is your **total income** ▶				7b
	8a	Adjustments to income from Schedule 1, line 22				8a

✓ Keep in mind that income from line 4a and line 4b represents income from IRA distributions – and that does not count for purposes of Rhode Island's modification on pension/annuity income.

U.S. Form 1040-SR

The screenshot below highlights the top portion of U.S. Form 1040-SR ("U.S. Tax Return for Seniors"). Taxpayers officially began using it during the tax-filing season which began in January 2020. (Rhode Island forms have been updated to include line references to U.S. Form 1040-SR.)

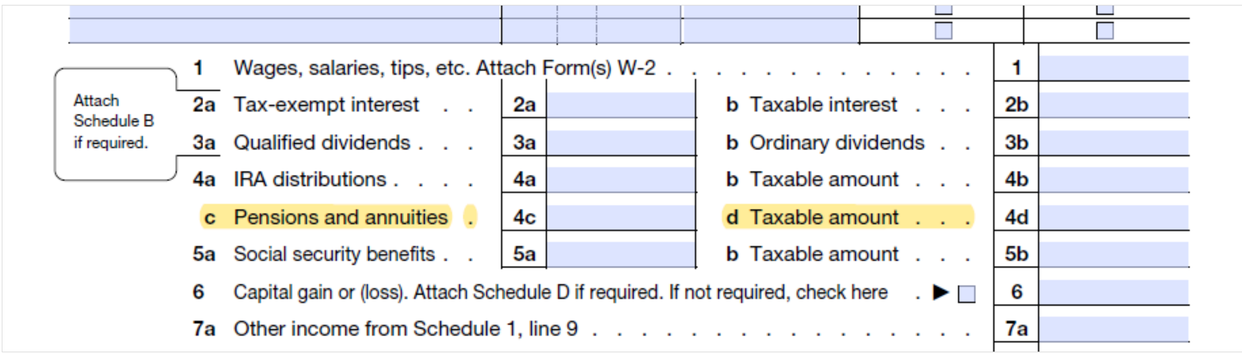
U.S. Form 1040-SR features larger print and a standard deduction chart with a goal of making it easier for older Americans to read and use. Under federal law, taxpayers age 65 or older have the option to use U.S. Form 1040-SR instead of the usual U.S. Form 1040. Form 1040-SR, when printed, features larger font and better readability. The form allows income reporting from other sources common to seniors such as investment income, Social Security, and distributions from qualified retirement plans, annuities, or similar deferred-payment arrangements.

Form **1040-SR** Department of the Treasury—Internal Revenue Service (99) **U.S. Tax Return for Seniors** **2019** OMB No. 1545-0074 IRS Use Only—Do not write or staple in this space.

Filing Status Check only one box.
☐ Single ☐ Married filing jointly ☐ Married filing separately (MFS)
☐ Head of household (HOH) ☐ Qualifying widow(er) (QW)
If you checked the MFS box, enter the name of spouse. If you checked the HOH or QW box, enter the child's name if the qualifying person is a child but not your dependent. ▶

Your first name and middle initial	Last name	**Your social security number**
If joint return, spouse's first name and middle initial	Last name	**Spouse's social security number**
Home address (number and street). If you have a P.O. box, see instructions.	Apt. no.	**Presidential Election Campaign** Check here if you, or your spouse if filing jointly, want $3 to go to this fund. Checking a box below will not change your
City, town or post office, state, and ZIP code. If you have a foreign address, also complete spaces below (see instructions).		

If you are using U.S. Form 1040-SR, income from your pensions, annuities, and other such sources is entered on line 4c. The taxable portion of that income is entered on line 4d. (Please see highlights in screenshot below.) All taxable income properly included on line 4d, in accordance with federal tax law and federal tax regulations, counts for purposes of Rhode Island's modification on pension/annuity income.



Attach Schedule B if required.	1	Wages, salaries, tips, etc. Attach Form(s) W-2				1
	2a	Tax-exempt interest	2a		b Taxable interest	2b
	3a	Qualified dividends	3a		b Ordinary dividends	3b
	4a	IRA distributions	4a		b Taxable amount	4b
	c	Pensions and annuities	4c		d Taxable amount	4d
	5a	Social security benefits	5a		b Taxable amount	5b
	6	Capital gain or (loss). Attach Schedule D if required. If not required, check here ▶ ☐				6
	7a	Other income from Schedule 1, line 9				7a

✓ Keep in mind that income from line 4a and line 4b represents income from IRA distributions and that does not count for purposes of Rhode Island's modification on pension/annuity income.

Here's another way to look at it: To determine what income qualifies for purposes of Rhode Island's modification involving income from pensions, 401(k) plans, annuities, or other such sources, look to see how much income is listed on line 4d of your U.S. Form 1040 or line 4d of your U.S. Form 1040-SR. Up to $15,000 of that amount qualifies under Rhode Island's modification.

Please note that, for convenience, some screenshots in this publication, and the associated line references, involve federal tax forms for certain tax years. The form and line references may be different for future tax years.

EXAMPLE

Noah is a retired federal government employee. He receives income from a federal government pension. A Form 1099-R is sent to him each year showing, among other things, the taxable portion of his federal government pension. He enters the amount of that taxable portion on line 4d on his federal income tax return. The amount counts as "pension and/or annuity income" for purposes of Rhode Island's new tax break. (Noah still must clear all other required hurdles to actually qualify for Rhode Island's new tax break, including those involving age and income, as described elsewhere in this publication.)

EXAMPLE

Emma is retired from a business. She regularly withdraws money from a 401(k) plan. A Form 1099-R is sent to her each year showing, among other things, the taxable portion of her 401(k) plan distributions. She enters the amount of that taxable portion on line 4d on her federal income tax return. The amount counts as "pension and/or annuity income" for purposes of Rhode Island's new tax break. (Emma still must clear all other required hurdles to qualify for Rhode Island's new tax break, including those involving age and income, as described elsewhere in this publication.)

EXAMPLE

When Liam retired from a corporation, he chose to transfer everything from his retirement savings plan at work directly into an Individual Retirement Account (IRA). At around the time he turned 70, he began making regular withdrawals from his IRA.

Each January, the IRA custodian sends a Form 1099-R to him and to the IRS, showing, among other things, the total amount of those withdrawals. He reports the withdrawal information as "IRA distributions" on the appropriate line of his federal income tax return. Liam is not eligible for Rhode Island's new tax break because the break does not apply to IRA withdrawals (also known as "distributions").

That is the case even if Liam clears all other required hurdles for Rhode Island's new tax break, as described elsewhere in this publication. (This example assumes that Liam has no income from pensions, annuities, 401(k) plans, or other such sources. He may be eligible for a separate Rhode Island tax break involving Social Security benefits, depending on his circumstances.)

Following are some related points:

- Taxable distributions must be reported by you as income on your federal return even if a distribution is not shown on a Form 1099-R.
- If a distribution on your Form 1099-R is shown as "Taxable amount not determined", you must determine the taxable amount.
- Certain distributions shown on Form 1099-R do not count for purposes of Rhode Island's pension/annuity income modification, including IRA distributions.

- Only taxable distributions properly included in line 4d of your federal income tax return, in accordance with federal tax law and federal tax regulations, count for purposes of Rhode Island's modification on pension/annuity income.

In summary

When it comes to federal tax matters, consult your tax professional, the Internal Revenue Service, and/or federal tax laws, federal tax regulations, and federal tax cases.

However, as a general rule, income from the following sources – that is taxed at the federal level – is eligible for Rhode Island's tax break involving pensions/annuities (assuming you meet all of the requirements as described elsewhere in this publication, including the rules involving age and income threshold):

- 401(k) plans
- 403(b) plans
- Private-sector pension plans (from within Rhode Island or elsewhere)
- State government pension plans (State of Rhode Island or another state)
- Local government pension plans (from within Rhode Island or elsewhere)
- Civil Service Retirement System (CSRS)
- Federal Employees Retirement System (FERS)
- foreign pension plans
- Section 457(b) plans
- Federal Thrift Savings Plan (TSP)

(Note: The list above is for illustration purposes only and is not all-inclusive.)

Section 2: 'Full retirement age'

To qualify for Rhode Island's modification for pension/annuity income, you must have reached full retirement age. Full retirement age is determined based on Social Security rules. At one time, full retirement age was deemed to be age 65. However, your full retirement age for Social Security purposes now depends on your year of birth. Please see the following table for more information.

At-a-glance table

The following table provides an at-a-glance summary of the rules regarding Social Security full retirement age for purposes of Rhode Island's pension/annuity income modification under Rhode Island General Laws § 44-30-12.

Pension and annuity income: Finding your 'full retirement age'

"Full retirement age" for Social Security purposes used to be age 65. Nowadays, however, your "full retirement age" depends on when you were born, as the following shows.

If you were born in . . .	***Your "full retirement age" is:***
1943-1954	66
1955	66 and two months
1956	66 and four months
1957	66 and six months
1958	66 and eight months
1959	66 and ten months
1960 or later	67

Note: If you were born on January 1 of any year, refer to previous year in table. For married couple filing joint return, "full retirement age" test applies to each spouse. If only one spouse has reached full retirement age, Rhode Island pension/annuity income modification applies only to that spouse's taxable pension/annuity income.

EXAMPLE

Olivia, 70, is single and retired. She is eligible for Rhode Island's new tax break involving pension and annuity income because she has already reached full retirement age (as defined by Social Security rules). Whether Olivia can actually claim the new tax break will depend on whether she meets the other requirements of the provision, including the amount of her income and what type of income she has in retirement.

EXAMPLE

William, 64, is single and retired. During his working years, he was employed as a public schoolteacher. The school district did not participate in Social Security. Thus, William did not contribute to Social Security. He did contribute to the municipal pension plan, which provides him with pension benefits in retirement. William is not eligible for Rhode Island's new tax break involving pension and annuity income because he has not reached full retirement age under Social Security Administration rules.

> *Note*: Even though William did not contribute to Social Security, he is still subject to the "full retirement age" test for purposes of the new Rhode Island tax break – and that test is based on Social Security Administration rules. Once William does reach full retirement age, he will be eligible for Rhode Island's new tax break involving pension and annuity income (his municipal schoolteacher pension counts), assuming that he passes the program's income test.

Section 3: Adjusted gross income (AGI)

Income is one of the key factors in determining whether you qualify for Rhode Island's personal income tax modification for income from military retirement pay; federal, state, and local government pensions; 401(k) and other employer-sponsored retirement-savings plans; and other such sources.

Which income limit applies to you depends on your filing status – and the income limits are subject to an annual adjustment based on inflation.

The adjusted figures are typically posted just before the start of the tax-filing season. Therefore, as you begin the filing season, make sure to check the most current version of the Rhode Island Form RI-1040 and instructions to make sure you are using the correct income limits.

For example, when the tax break first took effect, for the 2017 tax year, the income limits worked as follows:

- If you were single, your federal AGI had to be less than $80,000.
- If you were married and filing a joint return, your federal AGI had to be less than $100,000.

("Federal AGI" is a number found on your federal income tax return, usually on the first page.)

At-a-glance table

The following table provides an at-a-glance summary of the rules regarding the income limits for purposes of Rhode Island's pension/annuity income modification under Rhode Island General Laws § 44-30-12, based on inflation-adjusted numbers for the 2019 tax year.

Pension and annuity income: Threshold for 2019 tax year	
YOU MAY QUALIFY FOR THE MODIFICATION IF YOUR INCOME FALLS BELOW A CERTAIN AMOUNT . . .	
You file your return as:	*Your federal AGI is:*
▪ single, head of household	Less than $83,450
▪ married filing jointly, or qualifying widow, or qualifying widower	Less than $104,350
▪ married filing separately	Less than $83,475
Note: First column refers to filing status on your Rhode Island personal income tax return. For a married couple filing a joint Rhode Island return, income threshold applies to couple's combined federal adjusted gross income (AGI). By statute, income thresholds are adjusted annually for inflation for tax years beginning on or after January 1, 2018. For purposes of Rhode Island's modification for income from pensions, 401(k) plans, annuities, and other such sources, filing status on your Rhode Island return must be the same as filing status on your federal return.	

EXAMPLE

Sophia, 82, is single. For 2019, she has $75,000 in federal adjusted gross income. She is eligible for Rhode Island's new tax break involving 403(b)/pension/annuity income because her $75,000 in federal adjusted gross income is below the $83,450 limit for someone who is single.

EXAMPLE

James, 72, and Isabella, 68, are married, retired, and file a joint personal income tax return. For 2019, they have a total of $175,000 in federal adjusted gross income. They are not eligible for the tax break because their federal adjusted gross income exceeds the $104,350 limit which applies for a married couple filing a joint income tax return.

Section 4: Additional examples

In reviewing the following examples, please keep in mind the three-part test involved in the pension/annuity income modification:

1) At least some of your pension and/or annuity income must be taxed at the federal level;
2) You must have reached "full retirement age" based on Social Security Administration rules; and
3) Your federal adjusted gross income must be below a certain amount. The amount is subject to an annual adjustment for inflation. (For the 2019 tax year, the limit is $83,450 if the filing status on your Rhode Island return is single or head of household; $83,475 if your filing status is married filing separately; $104,350 if your filing status is married filing jointly or qualifying widow or widower.)

EXAMPLE # 1

Benjamin, 65, is single. For 2019, he has $50,000 in federal adjusted gross income, which is made up of the following:

- $10,000 in taxable Social Security benefits
- $20,000 in IRA distributions (withdrawals)
- $20,000 from a defined benefit pension plan

Note: Benjamin does not qualify for Rhode Island's pension/annuity income modification. That is because he has cleared only two of the three main hurdles of the tax break. He has pension/annuity income taxable at the federal level (only his income from a defined benefit pension plan counts for this purpose). His $50,000 in federal adjusted gross income falls below the threshold (which, for someone like Benjamin, who is single, is $83,450). However, because Benjamin is 65 years old, he has not reached "full retirement age" as defined by Social Security rules.

EXAMPLE # 2

Mia, 72, who is single, had $1,000 in interest income from Rhode Island municipal bonds in 2019. Her income also consisted of the following:

- $15,000 from taxable Social Security retirement benefits
- $20,000 in taxable military retirement pay
- $20,000 in taxable IRA distributions
- $24,500 in taxable 401(k) plan distributions.

Note: Mia qualifies for Rhode Island's pension/annuity income modification. She has reached full retirement age, some of her 401(k) plan distributions and military retirement pay counts for purposes of the taxable income test, and her federal AGI is $79,500, which is shy of the $83,450 limit. Her $1,000 in interest income from Rhode Island municipal bonds is free of federal and Rhode Island income tax, so it does not count as part of her federal adjusted gross income. (Also, under a separate provision of Rhode Island General Laws, which is not the subject of this publication, her taxable Social Security benefits will escape Rhode Island tax.)

EXAMPLE # 3

Jacob, 72, who is single, has $38,000 in federal adjusted gross income for 2019, which is made up of the following:

- $15,000 from taxable Social Security retirement benefits
- $10,000 in taxable military retirement pay
- $8,000 in taxable IRA distributions
- $5,000 in taxable 401(k) plan distributions.

Note: Jacob qualifies for the tax break involving pension and/or annuity income. He passes the "full retirement age" test, and his overall income is below the applicable threshold (which is $83,450 for 2019 for someone who is single).

His $10,000 in taxable military retirement pay and $5,000 in taxable distributions from a 401(k) plan will count for purposes of Rhode Island's pension/annuity income modification – and will escape Rhode Island tax.

In addition, under a separate provision of Rhode Island General Laws (which is not the subject of this publication), his $15,000 in taxable Social Security benefits will escape Rhode Island tax.

Thus, in this example, in 2019, of his $38,000 in federal adjusted gross income, only his $8,000 in taxable IRA distributions would end up being reported as income for Rhode Island purposes, and none would be taxed because it would be covered by his standard deduction.

Note

In the example at left, some of Jacob's income counts for purposes of Rhode Island's new tax break on pension/401(k)/403(b) income, but some does not.

Income from the following does count:

- military retirement pay
- 401(k)

Income from the following does not count:

- IRA
- Social Security benefits*

* A separate section of Rhode Island tax law provides a personal income tax break for Social Security benefits under certain circumstances.

EXAMPLE # 4

Michael, 68, and Charlotte, 67, are married and file a joint return. They have federal adjusted gross income of $95,000 for 2019, which is made up of the following:

- $50,000 in wages from Michael's job.
- $25,000 in Michael's taxable military retirement pay.
- $20,000 in taxable distributions from Charlotte's 401(k) plan distributions.

Note: Michael and Charlotte qualify for the tax break involving pension and/or annuity income because they pass all three tests:

1.) They have some pension and/or annuity income that is taxed at the federal level (his taxable military retirement pay and her withdrawals from a 401(k) plan);
2.) Each of them is of full retirement age as defined by the Social Security Administration; and
3.) Their income falls below the $104,350 limit for a married couple filing a joint return.

Michael and Charlotte have a total of $45,000 in federally taxable pension/annuity income. Under the new Rhode Island tax modification for pension/annuity income, the $15,000 limit applies on a per-person basis. So in this example, $15,000 of his military retirement pay, and $15,000 of her 401(k) plan distributions, count for purposes of the tax break. Thus, $30,000 of the couple's pension/annuity income will be tax-free for Rhode Island purposes.

EXAMPLE # 5

Elijah, 68, and Abigail, 67, are married and file a joint return. They have federal adjusted gross income of $95,000 for 2019, which is made up of the following:

- $50,000 in wages from Elijah's job.
- $25,000 in Elijah's taxable military retirement pay.
- $17,000 in taxable distributions from Elijah's 401(k) plan.
- $3,000 in taxable distributions from Abigail's 403(b) plan distributions.

Note: Elijah and Abigail qualify for the tax break involving pension and/or annuity income because they pass all three tests:
1.) They have pension and/or annuity income that is taxed at the federal level: his taxable military retirement pay, distributions from his 401(k) plan, and distributions from her 403(b) plan;
2.) Elijah and Abigail both have reached full retirement age as defined by the Social Security Administration; and
3.) Their income falls below the $104,350 limit for a married couple filing a joint return.

All of Abigail's $3,000 in taxable distributions from her 403(b) plan qualify for the tax break involving pension and/or annuity income. However, only the first $15,000 of Elijah's taxable pension/annuity income qualifies. That is because the statutory limit of $15,000 applies per person. Thus, in this example, Elijah and Abigail are able to reduce, by a combined total of $18,000, the amount of their income that will be subject to Rhode Island personal income tax.

EXAMPLE # 6

Ethan, 69, and Emily, 68, are married and file a joint return. They have federal adjusted gross income of $105,000 for the 2019 tax year, which is made up of the following:

- $75,000 in wages from his job
- $20,000 in her taxable military retirement pay
- $4,000 in taxable distributions from his 403(b) plan
- $6,000 from her part-time job.

Note: Ethan and Emily are married. If they file a joint federal and Rhode Island return, they would not qualify for the tax break involving pensions, annuities, and other such income, because the couple's $105,000 in federal adjusted gross income exceeds the program's $104,350 limit which applies for a married couple filing a joint return for 2019.

However, if he files his own return, and she files her own return, each using the "married filing separately" filing status, each could qualify for the tax break involving income from pensions, annuities, and other such sources. That's because the income "limit" under the program is $83,475 (for 2019) for someone who is married filing separately; he would qualify, based on his $79,000 in income, and she would qualify, based on her $26,000 in income.

If someone wants to use the "married filing separately" status, the person must use it on his or her federal return and on his or her Rhode Island return. So, in this example, Ethan would have to use the "married filing separately" filing status on his federal and Rhode Island returns, and Emily would have to use the "married filing separately" filing status on her federal and Rhode Island returns. Their tax advisor would have to explain to them that there are many disadvantages – and some advantages – to electing the "married filing separately" filing status, and what this would mean for their tax and financial picture.

Example # 7

Harper, 75, who is single, has $40,000 in federal adjusted gross income for 2019, which is made up of the following:

- $20,000 from taxable Social Security retirement benefits
- $10,000 from traditional IRA withdrawals
- $10,000 from a part-time job.

  Note: Harper does not qualify for Rhode Island's pension/annuity income modification because none of Harper's income is deemed to be taxable pension/annuity income at the federal level. For purposes of this particular tax break, one must have pension and/or annuity income that is taxed at the federal level – income from sources such as a 401(k) plan, 403(b) plan, pension, military retirement pay, or annuity. In this example, neither the Social Security benefits, IRA withdrawals, nor the money from the part-time job counts.

  However, under a separate provision of Rhode Island General Laws (which is not the subject of this publication), all $20,000 of Harper's federally taxable Social Security retirement benefits will escape Rhode Island personal income tax.

Reminder

To qualify for Rhode Island's personal income tax modification for income from 401(k) plans, pensions, annuities, and other such sources, you must clear three hurdles:

- At least some of your pension and/or annuity income must be taxed at the federal level;
- You must have reached "full retirement age" based on Social Security Administration rules; and
- Your federal adjusted gross income must be below a certain amount – which for 2019 is $83,450 if the filing status on your Rhode Island return is single or head of household; $83,475 if your filing status is married filing separately; $104,350 if your filing status is married filing jointly or qualifying widow or widower.

(Note: The dollar amounts are subject to an annual inflation adjustment. The amounts listed above are for the 2019 tax year. For other tax years, check the Form RI-1040 and related instructions at the start of the tax-filing season.)

Example # 8

Ethan, 68, and Emma, 64, are married and file a joint return. For 2019, their federal income tax return shows federal adjusted gross income of $40,000 from the following sources:

- $30,000 in wages from part-time jobs

- $8,000 in taxable income from his military retirement pay
- $2,000 in taxable income from his 401(k)

Note: The couple's $40,000 in federal adjusted gross income for 2019 falls below the $104,350 limit for Rhode Island's tax break on pension and/or annuity income, so they pass that test.

The couple's federal adjusted gross income includes taxable income from pension and/or annuity income (in this example, military retirement pay and the 401(k) plan distributions), so they pass that test.

However, only Ethan has reached full retirement age as defined by the Social Security Administration; Emma has not. Thus, only his portion of the couple's overall pension and/or annuity income is eligible for the break. In this example, the answer is straightforward: Only Ethan has pension and/or annuity income, so 100 percent of the taxable portion of his pension and/or annuity income will qualify for the new exclusion. In other words, in this example, all of Ethan's $8,000 in taxable military retirement pay and all of Ethan's $2,000 in taxable income from his 401(k) plan, for a total of $10,000, is excluded from the couple's income for purposes of Rhode Island's new tax break. (That total of $10,000 falls below the annual $15,000 limit per person.)

EXAMPLE # 9

Ethan, 68, and Emma, 64, are married and file a joint return. For 2019, their federal income tax return shows federal adjusted gross income $80,000 from the following sources:

- $35,000 in taxable Social Security benefits
- $25,000 in wages from part-time jobs
- $20,000 in taxable income from her retirement plan.

Note: The couple's $80,000 in federal adjusted gross income for 2019 falls below the $104,350 limit (for a married couple filing a joint return) for Rhode Island's tax break on pension and/or annuity income, so they pass that test.

The couple's federal adjusted gross income includes taxable income from pension and/or annuity income (in this example, $20,000 in taxable income from her retirement plan), so they pass that test.

However, only Ethan has reached full retirement age as defined by the Social Security Administration; Emma has not. Thus, only his portion of the couple's overall pension and/or annuity income is eligible for the break. But in this example, the calculation is straightforward: Only Emma has pension and/or annuity income, and she's not eligible for the new tax break due to her age, so the couple does not qualify for the new tax break on pension/401(k)/annuity income.

However, under a separate section of the law, involving another, separate tax break (which is not the subject of this publication), their federally taxable Social Security benefits will escape Rhode Island tax.

Example # 10

Ethan, 68, and Emma, 64, are married and file a joint return. For 2019, their federal income tax return shows federal adjusted gross income $90,000 from the following sources:

- $50,000 in wages from part-time jobs
- $10,000 in taxable Social Security benefits
- $10,000 in taxable IRA withdrawals
- $8,000 in taxable income from his military retirement pay
- $2,000 in taxable income from her 401(k)
- $5,500 in taxable distributions from his annuity
- $4,500 in taxable distributions from her 403(b) plan

Step by step

In Example # 10 at left, only his military retirement pay and annuity payments are eligible for the tax break, because only he has reached full retirement age. The comprehensive example also shows that the couple is eligible for a separate tax break, involving Social Security benefits.

Note: The couple's $90,000 in federal adjusted gross income for 2019 falls below the $104,350 limit (for a married couple filing a joint return) for Rhode Island's tax break on pension and/or annuity income, so they pass that test. The couple's federal adjusted gross income includes taxable income from pension and/or annuity income (in this example, military retirement pay, 401(k) plan, annuity, and 403(b) plan), so they pass that test.

Treatment of income in this example

Type of taxable income:	*Count for pension/401(k) tax break?*
$50,000 wages from part-time jobs	No
$10,000 Social Security benefits	No
$10,000 IRA distributions	No
$8,000 military retirement pay (his)	Yes
$2,000 401(k) distributions (hers)	No*
$5,500 annuity income (his)	Yes
$4,500 403(b) plan distributions (hers)	No*

* These distributions normally would count, but she has not reached full retirement age, so her income does not qualify.

However, only Ethan has reached full retirement age as defined by the Social Security Administration; Emma has not. Thus, only his portion of the couple's overall pension and/or annuity income is eligible for the break.

- In this example, only Ethan qualifies. Furthermore, only $13,500 of his income qualifies – his $8,000 in military retirement pay, and his $5,500 in annuity income. Because $13,500 is less than the program's $15,000 limit per person for pension/401(k)/annuity income, the couple may claim the entire $13,500 reduction on their Rhode Island return.

Nontaxable income

What if your gross pension/401(k)/annuity income includes federally nontaxable income? It is excluded for federal tax purposes, and it is excluded for Rhode Island tax purposes, too.

So, do not include it in your calculations for purposes of Rhode Island's modification involving income from pensions, 401(k) plans, annuities, and other such sources.

SOCIAL SECURITY IMPACT

Under a separate section of the law, the couple also determines the impact of a tax break involving Social Security benefits. In general, to qualify for that break, you must clear three hurdles:

- Your federal AGI includes taxable income from Social Security benefits (old-age benefits, which are sometimes called retirement benefits; wife's benefits; husband's benefits; widow's benefits; or widower's benefits);
- You have reached "full retirement age" as defined by the Social Security Administration; and
- Your federal AGI is below a certain amount. The amount depends on your filing status and is also subject to an annual adjustment for inflation. For example, for the 2019 tax year, the limit is $85,150 for someone whose filing status for Rhode Island tax purposes is single, head of household, or married filing separately. For a married couple filing a joint Rhode Island return for 2019, the limit is $106,400.[4] (Note

[4] By statute, the thresholds for the Rhode Island personal income tax break involving taxable Social Security income are subject to annual adjustment to reflect inflation. If an increase is called for in any given year, it shall be reflected on tax forms and instructions in time for the coming filing season.

that the income limits for the Social Security tax break are not the same as those that apply for the tax break involving pensions, annuities, and other income sources.)

If you clear all three hurdles, the amount of your income that is taxed by Rhode Island will be reduced by the amount of your Social Security benefits that are taxed at the federal level. (Thus, the tax break is actually a modification decreasing federal adjusted gross income for Rhode Island tax purposes.)

In the case of a married couple filing a joint return, the "full retirement age" test applies to each spouse. So if only one spouse is of full retirement age, only that spouse's portion of the couple's Social Security benefits overall will be taken into account for purposes of the modification.

In this example, the couple has $10,000 in taxable Social Security benefits as shown on the first page of their federal income tax return. Of that, $6,000 is attributable to Ethan. (Because only Ethan has reached full retirement age, only his benefits are eligible for the tax break on Social Security benefits.)

» Therefore, in this example, $19,500 of the couple's income escapes Rhode Island personal income tax – including $13,500 in 401(k)/pension/annuity income, and $6,000 in Social Security benefits. Assuming, for convenience, a 3.75 percent Rhode Island personal income tax rate, the couple saves approximately $731 in Rhode Island personal income tax.

Tax break in this example for retirement income	
Type of income escaping Rhode Island tax:	*Amount:*
Pension/401(k)/annuity income	$ 13,500
Social Security benefits	6,000
Total:	$ 19,500

» As the example shows, in a number of cases, taxpayers will qualify for both tax breaks: the new one involving pension/401(k)/annuity income, and the older one involving Social Security benefits. Don't confuse the two tax breaks – each has its own rules. But don't forget that you may qualify for both, depending on your income, your age, and other factors.

Section 5: The law

Rhode Island's personal income tax break for income from 403(b) plans, pensions, military retirement pay, 401(k) plans, and other such sources, is the result of legislation enacted in 2016. The legislation applies for tax years beginning on or after January 1, 2017.

The tax break, in the form of a modification reducing income for Rhode Island tax purposes, is codified at Rhode Island General Laws § 44-30-12. It is reproduced (in part) below.

Rhode Island General Laws § 44-30-12

(9) Modification for up to fifteen thousand dollars ($15,000) of taxable retirement income from certain pension plans or annuities.

(i) For tax years beginning on or after January 1, 2017, a modification shall be allowed for up to fifteen thousand dollars ($15,000) of taxable pension and/or annuity income that is included in federal adjusted gross income for the taxable year:

(A) For a person who has attained the age used for calculating full or unreduced social security retirement benefits who files a return as an unmarried individual, head of household, or married filing separate whose federal adjusted gross income for such taxable year is less than the amount used for the modification contained in § 44-30-12(c)(8)(i)(A) an amount not to exceed $15,000 of taxable pension and/or annuity income includable in federal adjusted gross income; or

(B) For a married individual filing jointly or individual filing qualifying widow(er) who has attained the age used for calculating full or unreduced social security retirement benefits whose joint federal adjusted gross income for such taxable year is less than the amount used for the modification contained in § 44-30-12(c)(8)(i)(B) an amount not to exceed $15,000 of taxable pension and/or annuity income includable in federal adjusted gross income.

(ii) Adjustment for inflation. The dollar amount contained by reference in §§ 44-30-12(c)(9)(i)(A) and 44-30-12(c)(9)(i)(B) shall be increased annually for tax years beginning on or after January 1, 2018 by an amount equal to:

(A) Such dollar amount contained by reference in §§ 44-30-12(c)(9)(i)(A) and 44-30-12(c)(9)(i)(B) adjusted for inflation using a base tax year of 2000, multiplied by;

(B) The cost-of-living adjustment with a base year of 2000.

(iii) For the purposes of this section, the cost-of-living adjustment for any calendar year is the percentage (if any) by which the consumer price index for the preceding calendar year exceeds the consumer price index for the base year. The consumer price index for any calendar year is the average of the consumer price index as of the close of the twelve-month (12) period ending on August 31, of such calendar year.

(iv) For the purpose of this section, the term "consumer price index" means the last consumer price index for all urban consumers published by the department of labor. For the purpose of this section, the revision of the consumer price index which is most consistent with the consumer price index for calendar year 1986 shall be used.

(v) If any increase determined under this section is not a multiple of fifty dollars ($50.00), such increase shall be rounded to the next lower multiple of fifty dollars ($50.00). In the case of a married individual filing a separate return, if any increase determined under this section is not a multiple of twenty-five dollars ($25.00), such increase shall be rounded to the next lower multiple of twenty-five dollars ($25.00).

All names used for examples in this publication are drawn from Social Security Administration list of most popular names, 2016.
Cover photo, of Rhode Island State House in Providence, by Rhode Island Division of Taxation.