



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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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 on June 24, 2016, the modification applies for tax years beginning on or after January 1, 2017.¹

How does this modification work? In summary, a portion of your income is exempt from taxation in Rhode Island if you satisfy all of the following:

- 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.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 be excluded as income subject to Rhode Island Personal Income Tax.

Assuming that you are eligible and are in the 3.75% Rhode Island personal income tax bracket, the provision could save you approximately \$563 in Rhode Island Personal Income Tax.

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

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 sources that is properly included in your federal adjusted gross income (AGI):

- 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
- federal Thrift Savings Plans

¹ See Rhode Island Public Law 2016, ch. 142, art. 13, § 16, codified at R. I. Gen Laws § 44-30-12.

² When the law was enacted, the threshold was \$80,000 for someone who is single and \$100,000 for a married couple filing a joint return. The amounts have increased with inflation. Amounts are subject to annual adjustment for inflation for tax years beginning on or after January 1, 2018, as required under R.I.Gen Laws [§ 44-30-12](#).

There is a separate section in this guide for each of the three requirements 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 and the correct forms. All forms and instructions can be found on the Division's website: <https://tax.ri.gov/forms/individual-tax-forms/personal-income-tax-forms>

Coming for Tax Year 2023

Of note in preparation for your 2023 taxes is a change to taxation of military pensions in Rhode Island. For tax years beginning January 1, 2023, military service pensions will be exempted from Rhode Island Personal Income Tax.

The addition of subsection 11 to [R.I. Gen. Laws § 44-30-12](#) allows for a modification reducing federal AGI for taxpayers receiving military service pensions. When filing Rhode Island Personal Income Tax, a taxpayer will be able to subtract the amount of the military service pension benefits that were included in their federal AGI. The balance after the modification would then be their modified federal adjusted income for Rhode Island tax purposes.

For tax years beginning January 1, 2023, an amendment to provisions related to private sector pensions, government pensions, 401(k) plans, 403(b) plans, and other such sources has also been enacted. This amendment increased the amount of taxable pension and/or annuity income that can be exempted from Rhode Island personal income tax from \$15,000 to \$20,000 starting with tax year 2023. This modification continues to be applied on an individual basis, meaning that for tax year 2023 joint filers may qualify for a combined total modification of \$40,000.

More to come on these topics and how they should be applied solely or in combination, in next year's publication.

³ This publication revises and supersedes Rhode Island Division of Taxation Publication 2022-01, Publication 2021-02, Publication 2020-01, 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

Rhode Island's modification for retirement income is sometimes called the "pension/annuity" modification. However, those are not the only sources of income that qualify.

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

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 R. I. Gen 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 does not 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 2022 tax year on line 5b of U.S. Form 1040, line 5b of U.S. Form 1040-NR, or line 5b of U.S. Form 1040-SR. See also IRS Publication 575, "Pension and Annuity Income." Rhode Island's tax modification 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) (line 4a/4b) does not count for purposes of the Rhode Island pension/annuity modification - whether that income is from a traditional IRA, Roth IRA, SEP-IRA, or other type of IRA.

Computer software; the federal return

Approximately 90% 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 software will determine which sources of income will count for purposes of this Rhode Island Personal Income Tax modification.⁴

For informational purposes, and for those who prepare their returns on paper, below is helpful information regarding how the modification works.

Pension/annuity income and Form 1099-R

For purposes of Rhode Island’s modification 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 is not 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. That is 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.”

By looking at your copy of Form 1099-R, you should immediately be able to tell the source of the income. For example, if the Form 1099-R shows a distribution from an IRA, that does not count for purposes of Rhode Island’s retirement income modification. 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 retirement income modification.

You also should be able to tell from your Form 1099-R (and/or other sources)

What is taxable?

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

In this publication, the Division of Taxation provides 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.

⁴ When preparing returns via tax-preparation software, it is important to check the calculations, inclusions, and exclusions, to ensure accuracy. Software is a helpful tool. Taxpayers are responsible for the accuracy of all returns, including those prepared by software and tax professionals.

what portion of the distribution is taxable for federal tax purposes - and therefore will count for purposes of the Rhode Island retirement income modification.

For example, if the income shown on your Form 1099-R must be included on line 5b of your U.S. Form 1040 or U.S. Form 1040-SR, it counts for purposes of the Rhode Island retirement income modification. IRA income 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 2022 tax year, is shown below, with the form's title highlighted in yellow.

9898		<input type="checkbox"/> VOID <input type="checkbox"/> CORRECTED		OMB No. 1545-0119		Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.
PAYER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone no.		1 Gross distribution		2022 Form 1099-R		
		2a Taxable amount				
		2b Taxable amount not determined <input type="checkbox"/>		Total distribution <input type="checkbox"/>		Copy A For Internal Revenue Service Center File with Form 1096. For Privacy Act and Paperwork
PAYER'S TIN	RECIPIENT'S TIN	3 Capital gain (included in box 2a)		4 Federal income tax withheld		
RECIPIENT'S name		5 Employee contributions/ Designated Roth contributions or		6 Net unrealized appreciation in employer's securities		

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 R. I. Ge Laws § 44-30-12.

Taxpayers do not necessarily need comb 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 retirement income modification 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 properly 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 retirement income modification.

Look at line 5b on your federal income tax return for the 2022 tax year. All

taxable distributions properly included on line 5b of your U.S. Form 1040 for 2022, or line 5b of your U.S. Form 1040-SR for 2022, 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, typically it will be either U.S. Form 1040 or the form that is intended mainly for those 65 or older - U.S. Form 1040-SR.

The screenshot below highlights line 5a and line 5b of U.S. Form 1040 ("U.S. Individual Income Tax Return") for the 2022 tax year. All taxable income properly included on line 5b, in accordance with federal tax law and federal tax regulations, counts for purposes of Rhode Island's modification on pension/annuity income.

Attach Sch. B if required.	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	
Standard Deduction for—	5a	Pensions and annuities	5a		b	Taxable amount	5b	
	6a	Social security benefits	6a		b	Taxable amount	6b	

✓ Note 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 following screenshot highlights the top portion of U.S. Form 1040-SR ("U.S. Tax Return for Seniors") for the 2022 tax year. 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.

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 a standard deduction chart with a goal of making it easier for older Americans to read and use. 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 U.S. Tax Return for Seniors		2022	OMB No. 1545-0074	IRS Use Only—Do not write or staple in this space.
Filing Status <input type="checkbox"/> Single <input type="checkbox"/> Married filing jointly <input type="checkbox"/> Married filing separately (MFS) <input type="checkbox"/> Head of household (HOH) <input type="checkbox"/> Qualifying surviving spouse (QSS) <small>Check only one box. If you checked the MFS box, enter the name of your spouse. If you checked the HOH or QSS box, enter the child's name if the qualifying person is a child but not your dependent:</small>				
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 <small>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 tax or refund.</small> <input type="checkbox"/> You <input type="checkbox"/> Spouse
City, town, or post office. If you have a foreign address, also complete spaces below.		State	ZIP code	
Foreign country name		Foreign province/state/county	Foreign postal code	

If you are using U.S. Form 1040-SR, income from your pensions, annuities, and other such sources is entered on line 5. The taxable portion of that income is entered on line 5b (please see highlights in the following screenshot). All taxable income properly included on line 5b, in accordance with federal tax law and federal tax regulations, counts for purposes of Rhode Island's modification on pension/annuity income.

Income <small>Attach Form(s) W-2 here. Also attach Forms W-2G and 1099-R if tax was withheld. If you did not get a Form W-2, see instructions.</small>	1a	Total amount from Form(s) W-2, box 1 (see instructions)		1a			
	b	Household employee wages not reported on Form(s) W-2		1b			
	c	Tip income not reported on line 1a (see instructions)		1c			
	d	Medicaid waiver payments not reported on Form(s) W-2 (see instructions)		1d			
	e	Taxable dependent care benefits from Form 2441, line 26		1e			
	f	Employer-provided adoption benefits from Form 8839, line 29		1f			
	g	Wages from Form 8919, line 6		1g			
	h	Other earned income (see instructions)		1h			
	i	Nontaxable combat pay election (see instructions) 1i					
	z	Add lines 1a through 1h		1z			
<small>Attach Schedule B if required.</small>	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	
	5a	Pensions and annuities	5a		b Taxable amount	5b	
	6a	Social security benefits	6a		b Taxable amount	6b	
	c	If you elect to use the lump-sum election method, check here (see instructions) <input type="checkbox"/>					
	7	Capital gain or (loss). Attach Schedule D if required. If not required, check here <input type="checkbox"/>				7	

✓ Note: 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.

In summary: 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 5b of your U.S. Form 1040 or line 5b 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 #1

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 5b on his federal income tax return. The amount counts as "pension and/or annuity income" for purposes of Rhode Island's modification.

Noah still must clear all other requirements to qualify for Rhode Island's modification, including those involving age and income, as described elsewhere in this publication.

EXAMPLE #2

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 5b on her federal income tax return. The amount counts as "pension and/or annuity income" for purposes of Rhode Island's modification.

Emma still must clear all other requirements to qualify for Rhode Island's tax modification, including those involving age and income, as described elsewhere in this publication.

EXAMPLE #3

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 modification because the modification does not apply to IRA withdrawals (also known as “distributions”).

That is the case even if Liam clears all other requirements for Rhode Island’s modification, 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 modification involving Social Security benefits, depending on his circumstances.

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 5b 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 modification involving pensions/annuities, assuming you meet all of the requirements as described elsewhere in this publication, including the rules involving age and income threshold. Such income includes:

- 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. Your full retirement age for Social Security purposes depends on your year of birth.⁵ 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 is based 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” requirement applies to each spouse. If only one spouse has reached full retirement age, the Rhode Island pension/annuity income modification applies only to that spouse’s taxable pension/annuity income.	

EXAMPLE #1

Olivia, 70, is single and retired. She is of eligible age for Rhode Island’s modification involving pension and annuity income. She has already reached full retirement age as defined by Social Security rules. Whether Olivia qualifies to take the modification 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.

⁵ 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.

EXAMPLE #2

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 modification 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" requirement for purposes of the Rhode Island retirement income modification and that requirement is based on Social Security Administration rules. Once William does reach full retirement age, he will be eligible for Rhode Island's modification involving pension and annuity income (his municipal schoolteacher pension counts), assuming that he meets all other requirements.

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. These 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.

The passage of the Fiscal Year 2023 budget brought a change to the calculation of the income limits for tax year 2022. This change instituted an adjustment to the inflation calculation of these income limits to bring them in line with the income limits of the Social Security modification mentioned elsewhere in this guide. The Social Security modification, though similar, was instituted in the statute one year prior to the pension and annuity retirement modification. For this reason, the income limits differed each year. However, this one-year adjustment will now align these amounts each year moving forward.

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 R. I. Gen Laws § 44-30-12, based on inflation-adjusted numbers for the 2022 tax year.

Pension and annuity income: Threshold for 2022 tax year	
You may qualify for the modification if your income falls below a certain amount as seen below.	
You file your return as:	Your federal AGI is:
■ single, head of household	\$95,800 or less
■ married filing jointly, or qualifying widow, or qualifying widower	\$119,750 or less
■ married filing separately	\$95,800 or less
<small>Note: First column refers to filing status on your Rhode Island Personal Income Tax return. For 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.</small>	

EXAMPLE #1

Sophia, 82, is single. For 2022, she has \$75,000 in federal AGI. She is eligible for Rhode Island's modification involving 403(b)/pension/annuity income because her \$75,000 federal AGI is below the \$95,800 limit for someone who is single.

EXAMPLE #2

James, 72, and Isabella, 68, are married, retired, and file a joint Personal Income Tax return. For 2022, they have a total of \$175,000 in federal AGI. They are not eligible for the retirement income modification because their federal AGI exceeds the \$119,750 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 requirements 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 AGI must be below a certain amount. The amount is subject to an annual adjustment for inflation.
 - For the 2022 tax year, the limit is \$95,800 if the filing status on your Rhode Island return is single, head of household, or married filing separately; \$119,750 if your filing status is married filing jointly or qualifying widow or qualifying widower.

EXAMPLE # 1

Benjamin, 65, is single. For 2022, he has \$50,000 in federal AGI, 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 factors of the tax modification. 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 AGI falls below the threshold (which, for someone like Benjamin, who is single, is \$95,800). 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 2022. 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

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 requirement, and her federal AGI is \$79,500, which is shy of the \$95,800 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 AGI.

Also, under a separate provision of Rhode Island General Laws, which is not the subject of this publication, her taxable Social Security benefits will not be subject to Rhode Island tax.

EXAMPLE # 3

Jacob, 72, who is single, has \$38,000 in federal AGI for 2022, 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.

Jacob qualifies for the modification involving pension and/or annuity income. He meets the "full retirement age" requirement, and his overall income is below the applicable threshold (which is \$95,800 for 2022 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 not be subject to Rhode Island Tax. In addition, under a separate provision of Rhode Island General Laws, his \$15,000 in taxable Social Security benefits will not be subject to Rhode Island tax.

Thus, in this example, in 2022, of his \$38,000 in federal AGI, only his \$8,000 in taxable IRA distributions would end up being Jacob's Modified AGI and would not be taxed because it most likely 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 modification on Pension/401(k)/403(b) 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 modification for Social Security benefits under certain circumstances.

EXAMPLE # 4

Michael, 68, and Charlotte, 67, are married and file a joint return. They have federal AGI of \$95,000 for 2022, 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

Michael and Charlotte qualify for the modification involving pension and/or annuity income because they satisfy all three requirements for the application of the modification:

- 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 \$119,750 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 Rhode Island modification for pension/annuity income, the \$15,000 limit applies on a per-person basis. 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 modification. 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 AGI of \$95,000 for 2022, 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.

Elijah and Abigail qualify for the modification involving pension and/or annuity income because they meet all three requirements for the modification:

- 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 \$119,750 limit for a married couple filing a joint return.

All of Abigail's \$3,000 in taxable distributions from her 403(b) plan qualifies for the modification 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 the amount of their income that will be subject to Rhode Island Personal Income Tax by a combined total of \$18,000.

EXAMPLE # 6

Ethan, 69, and Emily, 68, are married and file a joint return. They have federal AGI of \$120,000 for the 2022 tax year, which is made up of the following:

- \$79,000 in wages from his job
- \$20,000 in her taxable military retirement pay
- \$4,000 in taxable distributions from his 403(b) plan
- \$7,000 from her part-time job
- \$10,000 in interest income from municipal bonds in his name

Ethan and Emily are married. If they file a joint federal and Rhode Island return, they would not qualify for the modification involving pensions, annuities, and other such income because the couple's \$120,000 in federal AGI exceeds the program's \$119,750 limit which applies for a married couple filing a joint return for 2022.

If Ethan files his own return, and Emily files her own return, each using the "married filing separately" filing status, each could qualify for the retirement income modification. This would be because the income cap for this modification for tax year 2022 for an individual who is married filing separately is \$95,800; he would qualify, based on his \$93,000 in income, and she would qualify, based on her \$27,000 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 in addition to some advantages, there are many disadvantages 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 AGI for 2022, 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

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 modification, 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 the 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 not be subject to 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 of the following:

- 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 2022 is \$95,800 if the filing status on your Rhode Island return is single, head of household or married filing separately; \$119,750 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 2022 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 2022, their federal income tax return shows federal AGI 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)

The couple's \$40,000 in federal AGI for 2021 falls below the \$119,800 limit for Rhode Island's modification on pension and/or annuity income, so they meet that requirement in determining eligibility for the modification.

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

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 modification. In this example, the answer is straightforward: Only Ethan has pension and/or annuity income, so 100% of the taxable portion of his pension and/or annuity income will qualify for the 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 tax modification. That total of \$10,000 falls below the annual \$15,000 limit per person.

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.

EXAMPLE # 9

Ethan, 68, and Emma, 64, are married and file a joint return. For 2022, their federal income tax return shows federal AGI \$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 Emma's retirement plan.

The couple's \$80,000 in federal AGI for 2022 falls below the \$119,800 limit

(for a married couple filing a joint return) for Rhode Island's modification on pension and/or annuity income, so they meet that requirement.

The couple's federal AGI includes taxable income from pension and/or annuity income (in this example, \$20,000 in taxable income from her retirement plan), so they meet that requirement.

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 modification. But in this example, the calculation is straightforward: only Emma has pension and/or annuity income, and she's not eligible for the modification due to her age, so the couple does not qualify for the modification on pension/401(k)/annuity income.

However, under a separate section of the law, involving another, separate tax modification, the federally taxable Social Security benefits may not be subject to Rhode Island tax.

EXAMPLE # 10

Ethan, 68, and Emma, 64, are married and file a joint return. For 2022, their federal income tax return shows federal AGI \$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

The couple's \$90,000 in federal AGI for 2022 falls below the \$119,800 limit (for a married couple filing a joint return) for Rhode Island's modification on pension and/or annuity income, so they meet that requirement. The couple's federal AGI 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 meet that requirement.

Step by step

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

Treatment of income in this example

Type of taxable income:	Count for pension/401(k) tax modification?
\$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 modification.

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.

Social Security impact

Under a separate section of the law, the couple also determines the impact of a tax modification involving Social Security benefits. In general, to qualify for that modification, you must satisfy the following:

- 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 2022 tax year, the limit is \$95,800 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 2022, the limit is \$119,750.⁶

Note: The income limits for the Social Security tax modification are the same as those that apply for the tax modification involving pensions, annuities, and other income sources beginning with tax year 2022 due to a legislative change included in Fiscal Year 2023 Budget legislation.

⁶ By statute, the thresholds for the Rhode Island Personal Income Tax modification 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.

If you satisfy all three of the above requirements, 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 modification decreases federal AGI 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. 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 modification on Social Security benefits.

- Therefore, in this example, \$19,500 of the couple’s income is exempt from 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% Rhode Island Personal Income Tax rate, the couple saves approximately \$731 in Rhode Island Personal Income Tax.

Tax modification 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 modifications: the newer one involving pension/401(k)/annuity income, and the older one involving Social Security benefits. Be careful not to confuse the two modifications - each has its own rules. You may qualify for both, depending on your income, your age, and other factors.

Section 5: The law

Rhode Island's Personal Income Tax modification 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.

For Tax Year 2022, if the taxpayer meets all requirements, he or she may reduce federal AGI, for Rhode Island tax purposes, by up to \$15,000 of federally taxable pension/401(k)/403(b)/annuity income via the Rhode Island modification.

For **Tax Year 2023** the amount exempted from tax under the modification will increase. At that time, if the taxpayer meets all requirements, he or she may reduce federal AGI, for Rhode Island tax purposes, by up to \$20,000 of federally taxable pension/401(k)/403(b)/annuity income via the Rhode Island modification.

For more details on this modification, see [R. I. Gen Laws § 44-30-12](#), as amended, which is reproduced (in part) below.

R. I. Gen Laws § 44-30-12

9) Modification of taxable retirement income from certain pension plans or annuities.

(i) For tax years beginning on or after January 1, 2017, until the tax year beginning January 1, 2022, a modification shall be allowed for up to fifteen thousand dollars (\$15,000), and for tax years beginning on or after January 1, 2023, a modification shall be allowed for up to twenty thousand dollars (\$20,000), 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 subsection (c)(8)(i)(A) of this section an amount not to exceed \$15,000 for tax years beginning on or after January 1, 2017, until the tax year beginning January 1, 2022, and an amount not to exceed twenty thousand dollars (\$20,000) for tax years beginning on or after January 1, 2023, of taxable pension and/or annuity income includible 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 subsection (c)(8)(i)(B) of this section an amount not to exceed \$15,000 for tax years beginning on or after January 1, 2017, until the tax

year beginning January 1, 2022, and an amount not to exceed twenty thousand dollars (\$20,000) for tax years beginning on or after January 1, 2023, of taxable pension and/or annuity income includible in federal adjusted gross income.

(ii) Adjustment for inflation. The dollar amount contained by reference in subsections (c)(9)(i)(A) and (c)(9)(i)(B) of this section 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 subsections (c)(9)(i)(A) and (c)(9)(i)(B) of this section 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).

(vi) For tax years beginning on or after January 1, 2022, the dollar amount contained by reference in subsection (c)(9)(i)(A) shall be adjusted to equal the dollar amount contained in subsection (c)(8)(i)(A), as adjusted for inflation, and the dollar amount contained by reference in subsection(c)(9)(i)(B) shall be adjusted to equal the dollar amount contained in subsection (c)(8)(i)(B), as adjusted for inflation;

This publication contains an informal, plain-language summary of matters involving Rhode Island personal income tax. Nothing contained in this publication in any way alters or otherwise changes any provisions of Rhode Island statutes, regulations, or formal rulings. Anyone with further questions regarding Rhode Island personal income tax should contact the Rhode Island Division of Taxation's Personal & Corporate Income Tax unit by phone at (401) 574-8829 (option #3), or by email: <mailto:Tax.Assist@tax.ri.gov>. The Division's website is: <http://www.tax.ri.gov>.

All names used for examples in this publication are drawn from the Social Security Administration list of most popular names, 2016.
Cover photo, of a couple browsing a photo album, stock image courtesy of Microsoft.