

\$3,000 Exclusion For Retired Public Safety Officers

Section 845(a) of the Pension Protection Act of 2006 added Internal Revenue Code Section 402(1), effective as of January 1, 2007. Section 402(1) provides an exclusion up to \$3,000 annually from gross income for federal income tax purposes for distributions from eligible government plans which are used to pay the qualified health insurance premiums of an eligible retired public safety officer.

In order to qualify for the exclusion, the retiree must have separated from service by reason of disability or after attainment of the normal retirement age under the government plan and, as of the date of separation, must have been a public safety officer employed by an employer which participates in the government plan.

For purposes of Section 402(1), a public safety officer means an individual serving a public agency in an official capacity, with or without compensation, as a law enforcement officer, a firefighter, a chaplain or as a member of a rescue squad or ambulance.

The favorable tax treatment under Section 402(1) is not available unless the eligible retired public safety officer elects to have the government plan deduct an amount from the retiree's pension or account to pay the qualifying health insurance premiums.

The exclusion is only available to the eligible retired public safety officer. Amounts deducted from distributions to surviving spouses or dependents to pay health insurance premiums do not qualify for the exclusion.

CalPERS and County Act of 1937 pensions are eligible government plans for purposes of Section 402(1). However per IRS instructions, the Form 1099-R issued annually to report a retiree's retirement allowance will not contain any information as to the amounts withheld for the payment of health insurance premiums and will not indicate whether the retiree qualifies as an eligible retired public safety officer. Qualifying retirees may only claim the exclusion on their Federal income tax return in accordance with the instructions which accompany their tax returns.

Please note that the above exclusion for eligible retired public safety officers is administered by the IRS. Any questions about the exclusion should be directed to the IRS or your tax advisor. Additional information is also available in Section VI of IRS Notice 2007-7 which may be accessed on the internet at <http://www.irs.gov/pub/irs-drop/n-07-07.pdf>.

IRC Section 402(1)

Section 402(1), which was added by § 845(a) of PPA '06, provides for an exclusion from gross income for distributions from certain retirement plans (referred to in this notice as "Eligible Government Plans") used to pay qualified health insurance premiums of an eligible retired public safety officer. The exclusion applies with respect to an eligible retired public safety officer who elects to have qualified health insurance premiums deducted from amounts distributed from an Eligible Government Plan and paid directly to the insurer. Qualified health insurance premiums include premiums for accident and health insurance or qualified long-term care insurance contracts for the eligible retired public safety officer and his or her spouse and dependents. The distribution is excluded from gross income to the extent that the aggregate amount of the distributions does not exceed the amount used to pay the qualified health insurance premiums of the eligible retired public safety officer and his or her spouse and dependents. An "Eligible Government Plan" is a governmental plan described in § 414(d) that is either: a § 401(a), § 403(a), or § 403(b) plan; or an eligible governmental plan under § 457(b). Section 402(1) applies to distributions in taxable years beginning after December 31, 2006.

Label

(See instructions.)

Use the IRS label. Otherwise, please print or type.

Label Here

For the year Jan. 1–Dec. 31, 2008, or other tax year beginning 2008, ending 20
Your first name and initial Last name
If a joint return, spouse's first name and initial Last name
Home address (number and street). If you have a P.O. box, see instructions. Apt. no.
City, town or post office, state, and ZIP code. If you have a foreign address, see instructions.

Your social security number

Spouse's social security number

You must enter your SSN(s) above.

Checking a box below will not change your tax or refund

Presidential Election Campaign Check here if you, or your spouse if filing jointly, want \$3 to go to this fund (see instructions) You Spouse

Filing Status

Check only one box.

- 1 Single
2 Married filing jointly (even if only one had income)
3 Married filing separately. Enter spouse's SSN above and full name here.
4 Head of household (with qualifying person). (See instr.) If the qualifying person is a child but not your dependent, enter this child's name here.
5 Qualifying widow(er) with dependent child (see instructions)

Exemptions

If more than four dependents, see instructions.

6a Yourself. If someone can claim you as a dependent, do not check box 6a
6b Spouse
6c Dependents: (1) First name Last name (2) Dependent's social security number (3) Dependent's relationship to you (4) X if qualifying child for child tax credit (see instr.)
6d Total number of exemptions claimed

Boxes checked on 6a and 6b: 2
No. of children on 6c who:
lived with you
did not live with you due to divorce or separation (see instructions)
Dependents on 6c not entered above
Add numbers on lines above: 2

Income

Attach Form(s) W-2 here. Also attach Forms W-2G and 1099-R if tax was withheld.

If you did not get a W-2, see instructions.

Enclose, but do not attach, any payment. Also, please use Form 1040-V.

Table with 2 columns: Description and Amount. Rows include: 7 Wages, salaries, tips, etc. Attach Form(s) W-2 (60,279); 8a Taxable interest (1,404); 8b Tax-exempt interest (0); 9a Ordinary dividends (0); 9b Qualified dividends (0); 10 Taxable refunds, credits, or offsets of state and local income taxes (0); 11 Alimony received (0); 12 Business income or (loss) (-12,340); 13 Capital gain or (loss) (0); 14 Other gains or (losses) (0); 15a IRA distributions (0); 15b Taxable amount (0); 16a Pensions and annuities (100,918); 16b Taxable amount (97,301); 17 Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E (0); 18 Farm income or (loss) (0); 19 Unemployment compensation (0); 20a Social security benefits (0); 20b Taxable amount (0); 21 Other income (0); 22 Add the amounts in the far right column for lines 7 through 21. This is your total income (146,644)

Adjusted Gross Income

Table with 2 columns: Description and Amount. Rows include: 23 Educator expenses (0); 24 Certain business expenses of reservists, performing artists, and fee-basis government officials (0); 25 Health savings account deduction (0); 26 Moving expenses (0); 27 One-half of self-employment tax (0); 28 Self-employed SEP, SIMPLE, and qualified plans (0); 29 Self-employed health insurance deduction (0); 30 Penalty on early withdrawal of savings (0); 31a Alimony paid b Recipient's SSN (0); 32 IRA deduction (0); 33 Student loan interest deduction (0); 34 Tuition and fees deduction (21); 35 Domestic production activities deduction (0); 36 Add lines 23 through 31a and 32 through 35 (21); 37 Subtract line 36 from line 22. This is your adjusted gross income (146,623)