

SCHEDULE P

Form 740
42A740-P

Revenue Cabinet

KENTUCKY
PENSION INCOME EXCLUSION

Attach to Form 740, 740-NP or 741.

Use this form to calculate excludable retirement income.

2002

Enter name(s) as shown on tax return.

Your Social Security Number

Complete this schedule and file with Form 740 if:

- 1. your taxable pension and retirement income from all sources is greater than \$38,775; and
(a) you are retired from the federal government, the Commonwealth of Kentucky or a Kentucky local government; or
(b) you receive supplemental U.S. Railroad Retirement Board benefits.
2. you file Form 4972-K, Tax on Lump-Sum Distributions.

All others, STOP, you do not need to complete Schedule P. See instructions for Schedule M, line 10.

PART I—EXEMPT RETIREMENT INCOME (Do Not Include Income From Deferred Compensation Plans)

- 1. Enter on line (a) or (b) the amount of federal, Kentucky state and Kentucky local government pension income attributable to service credit earned before January 1, 1998, and supplemental U.S. Railroad Retirement Board benefits included on federal Form 1040, line 16(b) (Form 1040A, line 12(b)). Also include federal or Kentucky disability retirement income attributable to service credit earned before January 1, 1998.

(a) If date of retirement is before January 1, 1998, enter here.

Table with 4 columns: Names of Payers, Date of Retirement, A. Spouse, B. Yourself. Includes a Total row.

(b) If date of retirement is after December 31, 1997, see the instructions.

Table with 6 columns: Names of Payers, Date of Retirement, Taxable Pension, Exempt Percentage, A. Spouse, B. Yourself. Includes a Total row.

(c) Add lines 1(a) and 1(b) (c)

PART II—OTHER RETIREMENT INCOME (Not Included in Line 1(c))

Table with 4 columns for entering other retirement income not included in line 1(c).

PART III—TOTAL TO BE EXCLUDED THIS YEAR

Table with 4 columns for calculating the total to be excluded this year.

Joint filers—Combine lines 4(a) and 4(b) and enter on appropriate form.

STOP Stop here unless you have a lump-sum distribution reported on Form 4972-K.

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Form 4972-K Filers—If line 3 is less than \$38,775, enter the amount on Form 4972-K, Part II, line 2.

INSTRUCTIONS—SCHEDULE P

New in 2002—The pension exclusion is 100 percent or \$38,775, whichever is less. Retirees of previously exempt retirement systems of the federal government, Commonwealth of Kentucky, or any Kentucky local government must compute the amount of pension income attributable to service credit earned after December 31, 1997. This amount will be included with other nonexempt pension sources in Part II.

Types of Income Subject to Exclusion—All pension and retirement income paid under a written retirement plan is eligible for exclusion. This includes pensions, annuities, IRA accounts, 401(k) and similar deferred compensation plans, death benefits, and other similar accounts or plans. As a general rule, if the income is reported on the federal income tax return, Form 1040, line 15(b) or 16(b); Form 1040A, line 11(b) or 12(b); Form 4972; or is a disability retirement benefit or deferred compensation distribution reported on Form 1040, line 7 or 1040A, line 7, then it qualifies for the exclusion.

Form 740-NP filers report only pension income received while a resident of Kentucky.

LINE-BY-LINE INSTRUCTIONS

Column A, Column B—This exclusion is for each taxpayer. A husband and wife must compute and claim their own exclusion, regardless of filing status.

PART I—Exempt Retirement Income—Enter the federally taxable portion of pension income paid by the federal government, by the Commonwealth of Kentucky, or by any Kentucky local government. Also include supplemental U.S. Railroad Retirement Board benefits reported on Form 1040, line 16(b) (Form 1040A, line 12(b)) and federal or Kentucky disability retirement income included on federal Form 1040, line 7 (Form 1040A, line 7). Do not include income from deferred compensation plans in Part I.

Use Line 1(a) if retired before January 1, 1998, to report fully exempt pension benefits.

Use Line 1(b) if retired after December 31, 1997, to compute the amount of pension income attributable to service credits earned before January 1, 1998. Multiply the taxable pension by the exempt percentage, enter the result (exempt amount) in Column A or Column B. **Use the worksheet below to compute the exempt percentage in the year of retirement.**

Note: Subtract the exempt amount from the taxable pension amount and include the difference with other retirement income in Part II.

PART II—Other Retirement Income, Line 2—Enter the amount reported on federal Form 1040 or 1040A of non-lump-sum pension and retirement income not reported on line 1(c). Also include amounts from Schedule M, line 6 (Form 740-NP, line 45) that reflect pension and IRA bases differences.

PART III—Total to Be Excluded This Year, Line 3—Enter the lesser of the amount on line 2 or \$38,775.

Line 4—Enter the total of lines 1(c) and 3. This is your pension income exclusion. Enter on line 4 and as follows: Schedule M, line 10; Form 740-NP, line 42(b); or Form 741, page 1, line 11.

DEFINITIONS—For use with Schedule P and the worksheet below.

Service Credit—Number of months (years) used by your retirement system to determine retirement benefits.

Purchased Service Credit—Voluntary purchases of service credit as allowed by your retirement system (i.e., military service or prior service with the same or similar system). **Note:** Purchased time is credited based on the dates of service.

Purchased Service Credit Under Internal Revenue Code 415(n)—Internal Revenue Code 415(n) allows for the purchase of up to five years of service credit not otherwise purchasable under the plan.



If you retired in 2002 or have not computed your exempt percentage in prior years, complete this worksheet. Keep this worksheet in your records because the percentage will be used this year and in future years to determine the amount of exempt retirement income. **Note:** This percentage must be calculated for each pension.



Worksheet for Federal, Kentucky State and Kentucky Local Government Retirees Who Retired After 12/31/97

Complete this worksheet to determine what percentage of your pension income is exempt. If your retirement system has computed the exempt amount (earned before January 1, 1998), enter the amount on page 1, line 1(b), column A or B. If your retirement system has computed the exempt percentage, **enter the exempt percentage on page 1, line 1(b) in the exempt percentage column.** Use a separate worksheet for each governmental pension. Retain this worksheet with your tax records. **Use the percentage on line 4 to compute the exempt portion of your pension in future years.**

1. Enter total months of service credit including purchased service
2. Enter months of service credit earned after 12/31/97. Include sick leave credited at date of retirement, and service credit from purchase of military and other service earned after 12/31/97. Do not include purchased service credit under IRC 415(n)
3. Subtract line 2 from line 1. Total months of service before January 1, 1998
4. Divide line 3 by line 1. Enter here and on page 1, line 1(b), in the exempt percentage column
Use this percentage to determine the amount of pension attributable to service earned before 1/1/98.