



KENTUCKY PENSION INCOME EXCLUSION

➤ Enclose with Form 740, 740-NP or 741

Enter name(s) as shown on tax return. Your Social Security Number Do You Need to File Schedule P? No Did you receive taxable pension or retirement You do not need to File Schedule P income greater than \$31,110? Yes Yes Is your date of retirement before January 1, 1998? Are you retired from the federal government, the Commonwealth of Kentucky, or a Kentucky local **Yes** ∕ No government? Complete Part I(1)(a). Your entire pension No attributable to service credit earned before Since your date of January 1, 1998, is completely excludable retirement is after Yes above the \$31,110. December 31, 1997, have Did you receive supplemental (Tier 2) U.S. Railroad you calculated your Retirement Board benefits? No exempt percentage? Calculate your exempt percentage using No the worksheet attached or the Schedule P caluclator is available at: Yes You do not need to file Schedule P. You are limited www.revenue.ky.gov/Individual Complete Part I(1)(b) of to \$31,110 in excludable retirement. Once you have calculated your exempt Schedule P and enter exempt percentage you may complete Part I(1)(b). percentage. PART I - EXEMPT RETIREMENT INCOME (Do Not Include Income From Deferred Compensation Plans) 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 (Tier 2) U.S. Railroad Retirement Board benefits included on federal Form 1040 or 1040-SR, line 5(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. Date A. Spouse B. Yourself Names of Payers of Retirement იი 00 იი 00 Total ➤ 00 00 (b) If date of retirement is after December 31, 1997, see the instructions. Date Taxable Exempt Yourself Spouse Names of Payers of Retirement Percentage Pension 00 00 00 00_ 00 00 Total ➤ 00 00 (c) Add lines 1(a) and 1(b)..... იი 00 PART II—OTHER RETIREMENT INCOME (Amounts Not Included in Line 1(c)) Enter the total of taxable retirement income not included in line 1(c) above as reported on federal Form 1040 or 1040-SR, line 4(b) or 5(b). Also report other disability retirement 00 00 income or deferred compensation included on federal Form 1040 or 1040-SR, line 1 PART III-TOTAL TO BE EXCLUDED THIS YEAR Enter the lesser of line 2 or \$31,110..... იი 00 3 3

Add lines 1(c) and 3. Enter here and on Schedule M, line 9 (Form 740-NP, page 4,

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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 or 1040-SR, line 4(b) or 5(b); Form 4972; or is a disability retirement benefit or deferred compensation distribution reported on Form 1040, line 1, 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 taxpayer and spouse 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 (Tier 2) U.S. Railroad Retirement Board benefits reported on Form 1040 or 1040-SR, line 5(b) and federal or Kentucky disability retirement income included on federal Form 1040, line 1. 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 of non-lump-sum pension and retirement income not reported on line 1(c). Also include amounts from Schedule M, line 5 (Form 740-NP, page 4, line 16) 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 \$31,110.

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 9; Form 740-NP, page 4, line 10(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 (Air-time)—Certain retirement plans allow for the purchase of up to five years of service credit unrelated to prior work history. These purchases are commonly known as air-time. Air-time is not included in total service earned after December 31, 1997, regardless of when purchased.

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



Complete this worksheet only if you retired in 2021 or have not computed your exempt percentage in prior years. Keep this worksheet in your records. The percentage will be used this year and in future years to determine the amount of exempt retirement income. For assistance calculating your exempt percentage you may visit www.revenue.ky.gov

Complete this worksheet to determine what percentage of your pension income is exempt. This percentage must be calculated for each pension.

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......
- 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.