

# Form 1099-R: Treating Disability Income as Earned Income

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## Background

When a taxpayer is receiving disability income (reported on Form 1099-R) and the taxpayer is younger than minimum retirement age, that income is generally treated as wage income on Form 1040. This means that it is considered earned income and can be used for EITC computation as well as for the additional child tax credit.

To qualify:

- The income must be received under an employer’s disability retirement plan.
- The income must be taxable.
- The taxpayer must be under the “minimum retirement age”, which is the earliest age that the taxpayer could have received a pension if the taxpayer were not disabled.

Payments received under a disability insurance plan paid for by the taxpayer do not qualify to be treated as earned income.

**Note:** Always review Form 1099-R carefully to verify that all codes listed are in scope for VITA. (See “About Form 1099-R: Scope, Codes, & Distribution Exceptions.”)

## How to Assist the Taxpayer

Be on the lookout for a taxpayer with 1099-R income with distribution code 3 (total and permanent disability) — particularly if the taxpayer seems too young to be retired or has checked the disabled box on Form 13614-C. In these circumstances, the preparer should ask questions to determine how the income should be reported.

Scenario: Marjorie, single, age 42, arrived at the tax site in a motorized wheelchair. She had \$20,000 income on a Form 1099-R with distribution code 3. She retired on disability in 2014 and is qualified to treat the Form 1099-R income as earned income. This translated to some EITC and a bigger refund.

Reporting in TaxSlayer:

1. In TaxSlayer, navigate to **Federal Section**→**Income**→**1099-R, RRB-1099, RRB-1099-R, SSA-1099**→**Add or Edit a 1099-R**.
2. Enter the information from the taxpayer’s Form 1099-R in the **Form 1099-R** screen.
3. Check the box next to **Check here to report on Form 1040, Line 1 (Distribution code must be a “3”)**. Doing so will reclassify the disability income as wages on Form 1040. It will be considered earned income in the calculation of some credits.

### Rollover or Disability

Check here if all/part of the distribution was rolled over, and enter the rollover amount.

Check here to report on Form 1040, Line 1 (Distribution code must be a “3”)