

Income Tax and Retroactive Service-Connected Disability Rating by the Department of Veteran Affairs (VA)

If you retire from the USCG or NOAA based on years of service and are later awarded a retroactive service-connected disability rating by the VA, your retirement pay for the retroactive period is excluded from income up to the amount of VA disability benefits that you would have been entitled to receive. The Form 1099R reports the entire distribution because the income, when paid, was taxable under the law.

A corrected Form 1099R will not be issued by the Coast Guard. This policy is contained in the DOD Financial Management Regulations, Vol 7B <<http://www.defenselink.mil/comptroller/fmr/07b/index.html>> and also is stated in the IRS Instructions for Form 1099R <<http://www.irs.gov/pub/irs-pdf/i1099r.pdf>>, which directs that the entire income distribution will be reported if a part is taxable and a part is not taxable.

Retirees who are affected by the policy should be advised that they need to report the amount of their retired pay on line 16a of the IRS 1040 or line 12a of IRS 1040A then on line 16b of the 1040 or line 12b of the 1040A, enter the taxable amount computed by subtracting from the retired pay the amount of VA compensation for the most recently completed tax year which ended on December 31. The Retiree must attach appropriate copies of the Form 1099R and the VA Award Letter to claim a refund of taxes paid on the excludable amount.

You may also claim a refund of any taxes paid on an excludable amount in previous years by filing an amended return on Form 1040X, subject to Statute of Limitations. For further information on retroactive VA awards, see IRS Publication 525 <<http://www.irs.gov/pub/irs-pdf/p525.pdf>>, page 16 which provides information on what you need to do to adjust prior year returns.