

# New York State Tax Treatment of Payments From Service Award Programs

The following is an excerpt from the New York State Tax Law, which became effective April 1, 2014:

Article 22, Part 2

§612(c)(41)

(c) Modifications reducing federal adjusted gross income. There shall be subtracted from federal adjusted gross income:

(41) The amount of any award paid to a volunteer firefighter or volunteer ambulance worker from a length of service defined contribution plan or defined benefit plan as provided for in articles eleven-A, eleven-AA, eleven-AAA and eleven-AAAA of the general municipal law, to the extent that such award is includable in gross income for federal income tax purposes; provided, however, that such award is not distributed in the form of a lump sum distribution, as defined in subparagraph (A) of paragraph four of subsection (e) of section four hundred two of the internal revenue code and taxed under section six hundred three of this article; and provided, further, that such award is not distributed to a taxpayer who has not attained the age of fifty-nine and one-half years.

**What does this mean for you? In order for a LOSAP distribution to be exempt from NYS income tax:**

- The taxpayer receiving the distribution must be at least age 59 ½ on the date of the distribution.
- The distribution must not be in the form of a lump sum.
  - DC Plans – a lump sum means a total distribution of the entire account balance in one tax year. To avoid NYS income tax, the account balance must be paid over two or more tax years. These installment payments are not considered lump sums.
  - DB Plans – if your program allows you to take an actuarially equivalent lump sum at entitlement age instead of monthly payments, *the lump-sum payment will be taxable*. Please consider this when making your selection.
  - Post-Entitlement Age – our tax attorney advises that since all post-entitlement age benefits are credited after the initial date of distribution, they are not considered lump sums even if they are paid as a single amount and are therefore not subject to NYS income tax.
- At this time we assume that despite the use of the terminology *volunteer firefighter or volunteer ambulance worker* in the statute, we believe the intent is that even payments to beneficiaries of deceased volunteers or to individuals who are no longer volunteers, are also eligible for this exemption.
- Please refer to new NY State Tax Form IT-225, where this exemption would be taken under Schedule B, as Subtraction S-130. Please refer to the instructions for more details.
- For more detailed information please visit [www.penflexinc.com](http://www.penflexinc.com) or scan code on the right.



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