

**Information on
United States Income Taxes
For United Nations Retirees**

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Contents

Section	Paragraph	Page
I. Introduction	1	2
II. Non-resident alien or resident alien	4	2
III. Non-taxable amount of monthly pension	8	4
IV. Withdrawal settlement (full lump sum)	14	6
V. Examples	16	6
VI. Social Security/Self employment tax	20	7

Annexes

I. Effective date of income tax liability for former G-4 visa holders	9
II. Examples:	
a) U.S. citizen /resident alien	10
b) Non-resident alien, G-4 visa	10
c) U.S. citizen/resident alien and non-resident alien, G-4 visa	11
III. Frequently Asked Questions	13

Disclaimer: This document has been prepared to assist UN System retirees determine their U.S. income tax liabilities because U.S. income tax laws are very complicated. Robert L. Smith and AFICS(NY) cannot take any legal or other responsibility for the material presented or the interpretations made in the document which is intended solely to be helpful to UN System retirees cope with U.S. income tax issues of special relevance to them.

I - Introduction

1. The purpose of this document is to provide guidance and assistance to UN retired staff members who may be liable for payment of United States income taxes. This document is a revision of a previous document prepared by Robert L. Smith and issued in December 2002. While references are made to UN retirees, this information normally may be read as applicable to retirees from other International Organizations.

2. It may be noted that a Guide to National Taxation of United Nation's Joint Staff Pension Fund Benefits, with Special Reference to United States Taxes (JSPF/G.11/Rev.8) was issued by the United Nations Joint Staff Pension Fund (UNJSPF) in 1994. However, that document has become out-of-date in certain respects, particularly as to examples of solutions to selected tax situations. The UNJSPF document, which was prepared under the direction of the late Mr. Paul Szasz; UN Office of Legal Affairs, contains important interpretations of current U.S. tax laws and directives applicable to UN officials. Care has been taken to ensure that such interpretations or positions are reflected in the present document.

3. It has been found that whatever document may be prepared on these matters, additional personal assistance and guidance is often required. As the United Nations is unable to provide such assistance on income tax matters, certain members of AFICS(NY) who are retired have undertaken to provide such help as a service to UN retirees. Phone AFICS(NY) for further information at 212-963-2943 or enquire at the AFICS(NY) office, DC1-0580.

II - Non-Resident Alien or Resident Alien

4. Problems frequently arise in determining the status of a G-4 visa holder who retires in the United States and remains there after retirement, usually seeking a Permanent Resident Visa. There are two tests for determining that a former non-resident alien has become a resident alien. Each operates independently and each has equal weight. These tests are the Substantial Presence test and the Permanent Residence Visa test. More information is given in Annex I. The first test, which is least understood, has 183 days physical presence as the trigger point for being treated as a resident alien. Days are counted as follows (excluding any time in the U.S. on a G-4 visa):

<u>Days present</u>	<u>Multiple</u>
Current year	1
First preceding year	1/3

Second preceding year	1/6
Example-resident alien test for current year -	
Current year-----	126 days x 1 = 126 days
First preceding year-----	126 days x 1/3 = 42 days
Second preceding year-----	126 days x 1/6 = <u>21 days</u>
-----Total-----189 days-----	

Under the Substantial Presence test, the individual is deemed to be physically present 189 days in respect of the current year and qualified as a resident alien for that year (For further details see IRS Publication 519, U.S. Tax Guide for Aliens). The date on which the status of resident alien begins may or may not be 1 January. It depends on the date in the current year on which physical presence began (for a minimum of 31 days) or the effective date of the Permanent Resident Visa.

5. An individual holding a G-4 Visa who retired before 1 July of the year and then remained in the U.S. for the balance of the year would normally qualify under the Substantial Presence test as a resident alien from the date of retirement. However, an individual who retired after 2 July holding a G-4 visa up to the date of retirement could not reach 183 days physical presence in the year of retirement and would be a non-resident alien for the retirement year unless a Permanent Resident Visa was acquired effective some date in the second half of the year. The effective date of the Permanent Resident Visa would fix the effective date of changing to resident alien status in this example. However, assuming no Permanent Resident Visa was acquired during the year of retirement and the individual stayed in the U.S. continuously during the following year, the effective date of resident alien status would be 1 January of the following year under the Substantial Presence test.

6. During the period when a retired UN staff member is a non-resident alien, form 1040NR is normally the proper tax return to file. A non-resident alien would not pay income taxes on a lump sum payment nor on the monthly UN pension as it is income from non-U.S. sources. A non-resident alien is also exempt from tax on bank interest, which includes interest or dividends from a Credit Union. Taxes are payable on U.S. source income, such as dividends, earned income and rental income. However, there may be a tax treaty between the U.S. and the country of nationality that affects the taxes of a non-resident alien. It should be noted that a non-resident alien filing form 1040NR may not file a joint income tax return.

4. A resident alien is taxed on essentially the same basis as a U.S. citizen and uses the tax form 1040. In cases where an individual was a non-resident alien for part of the year and a resident alien for the other part, it may be necessary to file form 1040NR for part of the year and form 1040 for the other part.

III. Non-taxable Amount of Monthly Pension

8. Two methods of calculating the non-taxable amount of monthly UN pension have been used in the past: the General Rule and the Simplified Method. However, for pensions starting after 18 November 1996, if all three of the following conditions apply (which will be the usual situation with UN pensions) the Simplified Method must be used:

- 1) The payments are 1) for your life, or 2) your life and that of a beneficiary;
- 2) The payments are from a "qualified" pension plan; and
- 3) At the time the pension payments began, you were under age 75.

9. The fixed monthly tax-exempt amount is determined under the Simplified Method by dividing the contribution to the pension by the divisors established for this purpose. The contribution to the pension varies according to your status while serving as a UN staff member, as follows:

<u>UN Staff Member Status</u>	<u>Contribution to the Pension</u>
a) U.S. Citizen or resident alien for whole career	Your actual contribution <u>to the UN Pension Fund during your career</u> including contributions for periods of leave without pay.
b) Non-resident alien, G-4 or exempt status for whole career	Your actual contribution, plus the Organization's contribution during your whole career.
c) Part of career as non-resident alien and part as U.S. citizen or resident alien	Your actual contribution for your whole career, plus the Organization's contribution while you were on G-4, or exempt status

10. The divisors according to a pension starting date are as follows:

<u>Age*</u>	<u>Single or Married</u> <u>1/1/86 to 18/11/96</u>	<u>Single or Married</u> <u>19/11/96 to 12/31/97</u>	<u>Single only</u> <u>1/1/98 to present</u>
55 or under	300	360	360
56 to 60	260	310	310
61 to 65	240	260	260
66 to 70	170	210	210
71 & over	120	160	160

* age reached at retirement.

The following revised divisor figures were introduced effective 1/1/98 for cases when pension payments are for your life and that of your beneficiary (usually a surviving spouse):

<u>Combined Ages at Pension</u> <u>Starting Date - Retiree and Spouse</u>	<u>Divisor</u> <u>1/1/98 to present</u>
110 or under	410
111 to 120	360
121 to 130	310
131 to 140	260
141 and over	210

11. The figures given represent the number of months that the fixed non-taxable monthly amounts is available if no partial lump sum were taken at retirement. If you received up to a one-third lump sum payment, you in effect received up to one-third of your pension entitlement and used up to one-third of your non-taxable months of credit. For example, if on retirement at age 62, you received a one-third lump sum, you would have used one-third of 260 months or 86⅔ months, leaving 173⅓ months or 14.44 years, from the date of retirement. Thereafter the monthly UN pension payable to a UN retiree or a survivor would be fully taxable i.e., after 14.44 years.

12. The non-taxable amount of monthly pension payable to a retiree applies equally to an eligible survivor, without change in the non-taxable amount, until all the months of eligibility have been used. Any unused amount of the contribution credit remaining after the death of the retiree and any beneficiary may be claimed on the final U.S. income tax return, in schedule A. of U.S. tax form 1040

13. Monthly UN pension payments of present UN retirees are paid in arrears, i.e., at the beginning of the second month of retirement. Thus, for a pension payment effective on 1 January, the first monthly pension payment would be made at the beginning of

February. Such a UN retiree would have 11 months of monthly pension income to report for the first year. Similarly, a UN retiree with a pension beginning on 1 July will have only 5 months of pension payments the first year and 5 months of the non-taxable amount to be deducted. The first month of payment of a cost-of-living pension adjustment effective 1 April would be received with the May pension payment.

IV - Withdrawal Settlement (full lump sum)

14. This subject will not be covered in detail in this document. Such a withdrawal settlement is a full lump sum withdrawal for persons leaving the Organization before retirement age with 5 years of pensionable service or more. Some of the tax problems of normal UN retirees do not arise. However, this election should be considered very carefully. The better alternative may well be to leave the funds in the UN Pension Fund and take a deferred benefit. You will receive cost of living adjustments on your benefits at age 55 and over and will be awarded a regular UN pension at your normal age of retirement. Whether the full lump sum is or is not taxable may also be a factor to consider.

15. It appears that the usual taxable lump sum withdrawal case at this time would be a U.S. citizen or resident alien with at least 5 years of UN service who was separated at a relatively young age. In such a case, the lump sum payment, less the contribution credit, calculated as for any other participant, would be subject to regular U.S. income taxes. Advantage might be taken of the provisions for rollover to an IRA. It should be noted that if an individual were not a U.S. citizen or resident alien at the time of retirement, any lump sum payment would be tax exempt.

V - Examples of taxation of monthly pension benefits

16. Annex II of this document provides examples of the taxation of monthly UN pensions received by U.S. citizens, resident aliens and non-resident aliens, using the Simplified Method. You should normally find that your case is covered by one of these examples.

17. In all cases, the resulting tax-free monthly pension is the amount to be taken into account in determining the monthly taxable pension, reported on the annual tax form 1040, line 16b. The percentage of pension elected to be taken as a lump sum, one-third for example, decreases the number of months the non-taxable amount is available (See para. 11 on page 6 above).

18. An important point was developed in the note under one of the examples in the Guide issued by the UNJSPF. It pertained to a UN staff member who was not a resident or citizen of the U.S. at retirement, who remained outside the U.S. for a period of time

after retirement, before entering or reentering the U.S. The view, as expressed in the Guide, was that all the calculations of the U.S. monthly non-taxable amounts should be made the same as for an individual retiring in the U.S. The total non-taxable credit on the monthly pension would be deemed to have been used from the date of retirement, including the time the retiree was outside the U.S.

19. It is important to note that the normal disability pension benefit paid by the UN Pension Fund is fully taxable, like any other U.S. taxable income. However, when the individual reaches the normal retirement age (60 or 62 in the UN) the payments to the individual do not change in amount but are thereafter treated as a retirement pension for tax purposes. The monthly tax-exempt amount would be calculated by dividing the contribution to the pension (as per Para. 8 above) by the factor according to the age at retirement. For example, if age 60 and single, divide by 310.

VI U.S. Social Security/Self-employment tax

V Staff members of the United Nations

20. Staff members of the UN who are liable to pay U.S. income tax are treated as self-employed for U.S. income tax purposes and may be subject to the Self-Employment tax. For all practical purposes this is the same as the Social Security tax. The term Social Security is often used in referring to the Self-Employment tax; any eventual benefits are payable by the U.S. Social Security Administration.

21. In the early years of the UN, earnings of staff members liable to pay U.S. income tax were not subject to U.S. Social Security taxes. However, U.S. legislation effective 1 January 1960 brought within the Social Security system certain earnings of U.S. citizens, along with some employees of Embassies, Consulates and Missions, which were not previously covered by the system. Under provisions of the new legislation, all non-U.S. citizens, regardless of visa status, were excluded from Social Security coverage. Earnings of U.S. citizens for services performed outside the U.S. were also excluded from U.S. Social Security coverage.

22. U.S. employers withhold the employee's share of the Social Security tax on payroll earnings while paying a matching amount to the Social Security fund. Self-employed U.S. taxpayers, on the other hand, report and pay the combined total of these two amounts on their tax return.

23. For a period after 1 January 1960 staff members eligible for U.S. Social Security coverage were responsible for paying the total employer/employee taxes. However, following a review of the matter within the Secretariat, it was decided that the U.S.

income tax reimbursement would include the normal employer's share. The rationale was that this would be equivalent to the treatment of employees in the U.S. outside the United Nations. It is interesting to note that for the first six years after 1 January 1960, the U.S. Social Security/Self-Employment taxes were payable on earnings up to \$4,800, while for 1999 this figure was \$72,600. In addition, a 2.9% tax for Medicare was payable on 1999 earnings above that amount.

24. When UN retirees, who are U.S. citizens, receive short-term UN appointments with the status of staff members, their earnings, if \$400 or more, for service in the U.S. are subject to Social Security taxes, as well as income tax reimbursement, the same as for regular staff members.

25. Some retirees are given Special Service or Consultant contracts, which constitute a form of self-employment without staff member status. Such persons are subject to the normal U.S. income tax rules on such UN earnings. When subject to U.S. Social Security taxes they pay the normal self-employment taxes.

26. It should be noted that a non-resident alien is never subject to self-employment taxes. Resident aliens who are not staff members must pay the Social Security tax under the same conditions that apply to U.S. citizens. Unlike the case of a U.S. citizen who is a UN staff member, a U.S. citizen who is not a UN staff member pays the applicable self-employment tax for services outside the United States. According to IRS Publication 54, "If you are a self-employed U.S. citizen or resident abroad you generally are subject to the Social Security/Self-Employment tax" (c). This is so even though your earnings may be subject to the Foreign Income Exclusion.

27. If you are employed by a non-UN employer (i.e. by a private employer) outside the United States, the rules are different but your private employer should determine the applicability of Social Security taxes (See IRS publication 54, Tax Guide for U.S. Citizens and Resident Aliens Abroad, page 9, 1998).

28. Some retirees are now finding that the amount of U.S. Social Security benefit they receive when they apply for it is less than was anticipated. This is happening for UN retirees more recently as the U.S. Social Security Administration has been applying a law that was adopted some 20 years ago for U.S. civil servants and is deemed applicable to UN retirees. Therefore, the U.S. Social Security benefit is calculated under a formula that normally allows a higher percentage benefit for early years of service than for later years. The rationale is to improve the benefit otherwise granted for those with shorter service and in greater need. The revised U.S. Social Security law provides that if a staff member was building up pension benefits during a period when there was no contribution to U.S. Social Security (such as a U.S. citizen serving the UN outside the United States), then the increased normal U.S. Social Security credit for the early years would be reduced. Some

credit is given for the early years but not at the augmented rate.

ANNEX I

EFFECTIVE DATE OF INCOME TAX LIABILITY FOR FORMER G-4 VISA HOLDER

1. The effective date of income tax liability for a former G-4 Visa holder is determined in accordance with the Substantial Presence test, described in Para. 4 of the main document and/or the effective date of the Permanent Resident Visa. These two rules are applicable independently and either may govern, standing alone.
2. **Substantial Presence Rule.** For a UN staff member retiring during the first half of the year and remaining in the United States, after retirement, for 183 days or more, U.S. income taxes would apply as from the beginning of the first 31 continuous days of presence. The 183 days total figure could not be met when the first day of presence as a UN retiree was 3 July or later; hence, the rule could not apply for the year of retirement. The retiree would continue as a non-resident alien for the retirement year, provided no Permanent Resident Visa had been issued.
3. **Effective Date of Permanent Resident Visa.** In normal circumstances, all income is taxed like that of a U.S. citizen as of the effective date of the Permanent Resident Visa. Cases have arisen when the Waiver of UN Privileges and Immunities had not been signed with the U.S. Immigration Service when the Permanent Resident Visa was obtained. In such cases, for the UN earnings as a short-term staff member, the UN would not agree to reimburse any income taxes. Earnings on a UN Special Service Agreement are taxed as an independent contractor's outside income, not as UN earnings and are not affected by the signing of the waiver.

ANNEX II

EXAMPLES

U.S. Citizen or Resident Alien

1. Taxpayer was a U.S. citizen or resident alien on an Permanent Resident Visa, or a combination of the two, who had served as a staff member in a UN International Organization and retired on 1 July 2000 at age 60, with a spouse age 58. The total contribution to the UN Pension Fund made by the staff member was \$75,000.
2. The tax-exempt portion of the monthly pension calculated according to the Simplified Method was as follows:

UN Staff member's contribution	\$75,000	<u>\$75,000</u>	= \$208.33 per month
Divisor (combined age 118)	= 360	380	(\$2,500 per annum)

(see para. 10 on pages 5 & 6 above)

3. The UN staff member elected to take one-third of the pension as a lump sum, which had the following effect:
 - (a) One-third of the \$75,000 credit or \$25,000 was available as a reduction in the income tax on the lump sum, and
 - (b) The number of months of tax credit available was reduced by one-third from 360 to 240 months.
4. If the UN staff member had been single on the date of retirement, the divisor under the Simplified Method would have been 310 (see para. 10 on pages 5 & 6 above)

Non-resident Aliens/G-4 Visa

5. Taxpayer was a non-U.S. citizen who had served, in exempt status, as a staff member in a UN International Organization on a G-4 visa or on an International Organization post (in another country) where a G-4 visa was not applicable. The staff member retired on 1 August 2000 at age 62, with a spouse age 63, and received a one-third lump sum payment which would not be taxable. The total contribution made to the UN Pension Fund by the UN staff member was \$70,000. In addition, the UN staff member received credit for the Organization's contribution of \$140,000 under the provision of Internal Revenue Code 72(F)(2), which provides that if the Organization's

contribution would not have been subject to income taxation if paid directly to the staff member rather than to the UN Pension Fund, then it would be treated as a credit.

6. The tax-exempt portion of the monthly pension, calculated according to the Simplified Method, would be as follows:

UN Staff Member's contribution	\$70,000	
Organization's contribution	<u>\$140,000</u>	
Total contribution credit	\$210,000	
Total credit	\$210,000 =	\$677.42 per month (\$8,129.03 per annum)
Divisor (combined ages)	310 (see para. 10 on pages 5 & 6 above)	

Non-resident Alien/G-4 Visa and Resident Alien/U.S. Citizen

7. Taxpayer Mary Jones entered service in a UN International Organization as a Resident Alien in the General Service category. After a period of some 15 years, she was promoted to the Professional category, at which time she gave up her U.S. Permanent Resident Visa and was granted a G-4 Visa in exempt status. Mary was single and retired on 1 September 2000 at age 62, after having served for 17 years in the Professional category. During the period she served in the General Service category as a Resident Alien, she contributed \$30,000 to the UN Pension Fund. While serving on a G-4 Visa as a Professional, she contributed \$50,000 to the UN Pension Fund and the Organization contributed \$100,000, for which she would have received credit under the terms of Internal Revenue Code 72(F)(2), as described in the previous example. Thus, Mary's total credit towards tax-exempt pension was \$30,000 + \$50,000 + \$100,000, or \$180,000. The tax-exempt portion of the monthly pension calculated according to the Simplified Method was as follows:

Total credit	\$180,000 =	\$692.31 per month
Divisor (age 62)	260	(\$8,307.68 per annum)
(see para. 10 on pages 5 & 6 above)		

Mary did not elect to take a lump sum and thus would receive this credit for 260 months, in retirement.

8. In the event that the situation had been reversed, in that Mary had first served for a period of time in exempt status, eligible to receive credit for the Organization's contribution to the UN Pension Fund, followed by a period of service on a U.S. Permanent Resident Visa, a similar calculation would be made of the tax exempt pension under the Simplified Method, taking account of the credit while in exempt status plus the credit as a resident alien.

9. The main purpose of this example is to show that it cannot be assumed that the visa status at retirement prevailed for the whole career. In such cases of two-part service, it would

be necessary for the UN retiree to determine the contribution while a UN staff member during each period of service. It would not be enough to know the total contribution during the full career. The UN Pension Fund Secretariat has advised that as it is very time consuming for them to obtain this information from the Archives, UN retirees concerned should first make a serious effort to obtain the information from their own records, as provided to them by the UN Pension Fund during their career.

ANNEX III**FREQUENTLY ASKED QUESTIONS**

1. **Is the pension of a UN retiree taxable in the United States?** UN monthly pensions received by all U.S. citizens or resident aliens are always taxable wherever the UN retiree is living, in the U.S. or elsewhere. Such UN pensions are also taxable for non-resident aliens who qualify as resident aliens, for tax purposes, under the Substantial Presence test (see paragraph 4-7). Otherwise, a non-resident alien is not taxed on the UN monthly pension.
2. **Do UN retirees who pay U.S. taxes have to pay quarterly estimated taxes?** All U.S. taxpayers have to pay estimated taxes four times a year – April 15, June 15, September 15, and January 15. Many taxpayers simply forget or do not know about this requirement and as a result may face penalties when they file their tax return. In order to avoid penalties, the payments must be spread evenly over the tax year and must in total equal 90% of the current year's actual taxes or 100% of the previous year's taxes paid.
3. **Should I place my lump sum in a rollover to an Individual Retirement Account (IRA)?** Some UN retirees have gotten into trouble when mistakenly placing their lump sum into a rollover (IRA) as the IRA is taxable only when the funds are withdrawn. You should not elect a rollover IRA if (a) you are a U.S. non-resident alien whose lump sum is tax exempt or (b) if the tax on the lump sum will be reimbursed by the Organization. Only consider a rollover of the PART OF THE IRA that is taxable and the tax on that part is your responsibility.
4. **Will the UN reimburse the tax on my lump sum?** If you were a UN staff member before 1980, the UN will reimburse any income taxes on your lump sum withdrawal. If you joined the UN on or after 1 January 1980, you are responsible for any income taxes on the lump sum that you received.
5. **Do UN retirees who are U.S. taxpayers have to pay tax on special service agreements?** UN retirees must pay taxes on their special service agreements (as consultants or contractors) with the UN, including the estimated taxes. Many UN retirees either do not think about it or because the payment was not reported to the IRS they believe that the income is not taxable. However, as they are no longer in the status of UN officials, they are normally taxable regardless of visa status. In addition, they are required to pay social security taxes, if such income exceeds \$400 a year (See para. 25 on page 9 above).

6. **What taxes are payable on outside income by a U.S. non-resident alien who has not qualified as a resident alien under the Substantial Presence test?** Bank interest, including Credit Union dividends, is never taxable in that case nor is the monthly UN pension. However, stock dividends, capital gains and rental income from sources within the U.S. are taxable using form 1040NR. A tax treaty between the home country and the U.S. may affect the amount of such taxes.

7. **What is the effect of not having signed the Waiver of UN Privileges and Immunities?** UN staff members who are non-resident aliens have been granted certain privileges and immunities under U.S. law such that they are exempt from U.S. income taxes on their UN earnings as UN staff members. When such staff retire and receive a Permanent Resident Visa, they normally are required to sign a waiver of their tax exemption rights. However, although they have retired and received a Permanent Resident Visa, if they have not signed the Waiver of their Privileges and Immunities, they still remain in tax-exempt status on UN earnings. If they should then receive a short-term appointment with the UN with status as a staff member, the immunity from income taxes stands and the UN will not reimburse such taxes if levied. Such retirees should, of course, make arrangements to sign the waiver as soon as it becomes known that they have not signed.

8. **Does the calculated amount of monthly tax-free pension ever exceed the actual UN pension?** It has been found in the case of a retiree who had served the entire career as an Assistant Secretary-General that the tax-free monthly pension amount was greater than the actual pension. The excess would be carried over to extend the period during which the pension was tax-free.

9. **How long will a person be eligible to receive a monthly tax exemption on his or her UN pension?** It differs according to the date of retirement as follows:

1. Prior to 1 July 1986: those who retired from the UN prior to 1 July 1986 who took the one-third lump sum used up all of their credit for tax-free pension under the Three-Year Rule, which applied up to 1 July 1986. However, those retiring from the UN prior to that date that did not take a lump sum payment would have been eligible for an annual tax-free amount of pension under the General Rule with no time limit. Those who did not to exercise this option and now want to establish this annual credit at this late date could only submit amended U.S. tax returns for the past three years.
2. From 1 July 1986 to 31 December 1986: those who retired during this period were eligible for a tax-free pension credit calculated under the General Rule or the newly established Simplified Method without a time limit.

3. From 1 January 1987: the General Rule continued to be available for a considerable time after 1 January 1987 but has now been abolished except for limited special circumstances. The Simplified Method, which was established effective 1 July 1986, was considered to be more favorable and is the method normally used during this period and at present. When the tax-free credit established at retirement has been used or deemed to have been totally used for retirements from 1 January 1986 and onwards, the exempt pension credit ends. Some UN retirees in this time period category have now reached that point, e.g., with a UN pension effective 1 May 1987 and taking a one third lump sum, the retiree's tax credit was exhausted by November 2001.

Additional information to supplement the above information provided as an answer to Question 9 above on how long a UN retiree will be eligible to receive a monthly amount of tax-free pension (calculated according to the Simplified Method) is required for UN staff who worked on a U.S. G-4 Visa.

- a) The total tax-free credit upon retirement for G-4 Visa holders is based upon the total of the contribution that you made to the UN Pension Fund, plus the Organization's contribution to the UN Pension Fund on your account if you worked on a U.S. G-4 Visa or the equivalent. The monthly credit for income tax purposes as a UN retiree was a flat amount established on the basis of the Simplified Method as at the date of retirement. The total months of credit is the divisor used in the Simplified Method.
- b) Example, U.S. G-4 Visa holder, retired 1 January 1989, age 60
- | | |
|--|----------------|
| <u>Amount of tax-free credit</u> | |
| Staff member's contribution to the UN Pension Fund | ----\$100,000 |
| Organization's contribution to the UN Pension Fund | ----\$200,000 |
| Total contribution to the UN Pension Fund | -----\$300,000 |

Monthly income tax credit, Simplified Method

$$\frac{\$300,000}{260} = \$1153.84 \text{ per month}$$

260

The figure of 260 months is taken from the U.S. IRS table explaining the Simplified Method. Instructions for applying the Simplified Method are contained in the IRS Instruction Booklet for Form 1040, page 26 for the year 2002.

- c) Therefore, if you did not receive a lump sum pension payment at the time of retirement you will receive the credit for 260 months. However, if you took a one third lump sum payment at the time of retirement, the 260 months figure is reduced by one third, leaving a balance of 173.3 months. If you had retired on 1 January 1998 at age 60 with a spouse at age 58 the divisor would be 360 months from the IRS table.

Monthly credit, Simplified Method

$$\frac{\$300,000}{360} = \$833.33 \text{ per month}$$

The effect of taking or not taking a lump sum pension payment would be the same as is explained above. It should be noted that the monthly amount of tax-free pension payment excluded from U.S. income tax never changes, whether being used by you or subsequently by your spouse.

10. I understand that there is a rule under U.S. tax law which provides that on the sale of a residence, up to \$250,000 of the gain, if single, or \$500,000 if married, may be excluded, under certain conditions from the capital gains tax. Does this same rule apply to someone selling a residence who is a foreign national? Yes, it does apply to a foreign national just the same as for a U.S. citizen. However, the buyer of the residence from a foreign national must withhold 10% of the sales price of the residence, if more than \$300,00 and forward the 10% amount withheld to the U.S. IRS along with Form 8288 and Form 8288A (Statement of Withholding on Disposition by a foreign Person of a Real Property Interest). To obtain credit for the withholding the foreign national seller must attach an IRS receipted copy of Form 8288A to a U.S. income tax return (1040NR) or application for early refund filed with the IRS, e.g., when no tax is payable on the sale.

11. Why was my actual U.S. Social Security benefit lower than the estimated amount prior to my retirement? The formula for calculating Social Security benefits provides a higher percentage benefit in respect of the early years of service than for later years, e.g., starting with 95% of the Social Security base income. This procedure is designed to benefit those persons with relatively short working periods at a low income. However, the Social Security rules also provide that if a retiree had periods of service when not contributing to Social Security but building up pension benefits in another plan such as a U.S. national on a UN mission, the higher rate of Social Security benefit will be reduced.

12. What income must I declare on my tax return? If you are a U.S. citizen or resident alien, you must declare not only income from U.S. sources but also any income from non-U.S. sources. If you are a non-resident alien, you are only required to report income from

U.S. Income Tax Form W-8 (See Annex V) is used to certify to the payer of certain interest, dividends and brokerage amounts that you are a non-resident alien or an exempt foreign person, not subject to U.S. withholding tax by the payer of such items. This action only relieves the payer of these amounts from withholding an amount from the payments of interests, dividends on brokerage amounts. It does not alter the liability of the non-resident alien individual to submit and pay U.S. income taxes on such income on the basis of Form 1040NR.

U.S. sources.

13. Am I entitled to any exclusion from taxation on my UN pension from New York State (NYS)? If you were 59½ years old before 1 January of any given year, you can deduct the pension income included in your federal Adjusted Gross Income, not to exceed \$20,000. If you became 59½ during the year, you can deduct only the amount received after you became 59½ but not more than \$20,000. In addition, any pension received from NYS, a local government or the U.S. government is exempt from NYS income tax without a dollar limit and regardless of your age.

14. I understand that benefits received from the UN Pension Fund are considered to be a non-U.S. source of income. What are the implications of this consideration with respect to filing U.S. income taxes? Non-resident aliens are taxed only on U.S. source income (unless they waive such limitation). Thus, since their UN pension payments are considered to have derived from non-U.S. sources, such income from UN pension payments would be tax exempt. U.S. citizens and resident aliens are taxed on their worldwide income. Thus all of their pension payments would be taxable, including those received from an International Organization.

15. I am a non-resident alien in the U.S. serving as an official of an International Organization on a G-4 Visa. My spouse is a U.S. citizen (or resident alien). May we file a joint U.S. income tax return? Yes, you. However, you should attach a statement to the U.S. income tax return along the following lines:

“I, John J. Jones, am a non-resident alien working on a G-4 Visa as an official of an International Organization. My spouse, Anna A. Jones, is a U.S. citizen and I elect to file a joint U.S. income tax return, reporting our worldwide income, except for income that I received from an International Organization, which is exempt from U.S. income tax. See IRS Code Sec. 983 (a); IRS Rev. ruling 79-246; IRS Code Sec. 247 (a & b); and IRS Code Sec. 6013 (g)”.

In anticipation of filing a joint U.S. income tax return, it is recommended that the non-resident alien spouse also file IRS Form W-7; “Application for Individual Taxpayer Identification Number” to be used in place of a Social Security number.

16 What are the purposes of the U.S. Income Tax Forms W-7 and W-8? Every individual in the United States that is required to file an income tax return, such as 1040 or 1040NR is required to have a taxpayer identification number. A U.S. Social Security number can be used for that purpose but if one does not have and are not eligible to obtain a U.S. Social Security number, the Form W-7 (See Annex IV) can be used to apply for an IRS Individual Taxpayer Identification Number.