

SCHEDULE 2440W

Wisconsin Department of Revenue

Enclose with Wisconsin Form 1 or 1NPR

Disability Income Exclusion

(Applies Only to Disabled Retirees Under Age 65) See instructions on back.

2007

Legal name(s) shown on Form 1 or Form 1NPR Your social security number

Date you retired Employer's name (also give payer's name, if other than employer) Yourself Spouse

Table with columns (1) YOURSELF and (2) SPOUSE. Rows 1-8 for disability pay calculations, and row 9 for physician's statement checkbox.

Physician's Statement of Permanent and Total Disability

Please complete and return to the person named below.

Name of disabled person

I certify that the person named above was (check only one box - please see instructions below)

- (1) Permanently and totally disabled on January 1, 1976, or January 1, 1977.
(2) Permanently and totally disabled on the date he or she retired. Date retired

Physician's name Physician's address

Physician's signature Date

Instructions for Statement

Taxpayer

Please fill in your name. If you retired after December 31, 1976, fill in your retirement date in the space after box (2).

Physician

Box (1) applies to taxpayers who retired before January 1, 1977. Box (2) applies to taxpayers who retired after December 31, 1976.

What is Permanent and Total Disability?

A person is permanently and totally disabled when - He or she cannot engage in any substantial gainful activity because of a physical or mental condition; and A physician determines that the disability (a) has lasted or can be expected to last continuously for at least a year; or (b) can be expected to lead to death.

General Instructions

A. Purpose of Schedule – Persons who receive disability income may be able to exclude a portion of it from their taxable income. Complete this schedule to determine the amount, if any, of your exclusion.

B. What is Disability Income – Generally, disability income is the total amount you were paid under your employer's accident and health plan or pension plan instead of wages for the time you were absent from work because of permanent and total disability. However, any payment you received from a plan that does not provide for disability retirement is not disability income.

C. Who Can Exclude Disability Income – You can take the exclusion for 2007 if you meet ALL these tests:

- You received disability income which is not otherwise exempt from Wisconsin tax.
- You were not yet 65 when your 2007 tax year ended. (If you were born on January 1, 1943, you are considered to be age 65 at the end of 2007.)
- You retired on disability and were permanently and totally disabled when you retired. (See Instruction D, What is Permanent and Total Disability? and instructions for Physician's Statement.)
- On January 1, 2007, you had not yet reached the age when your employer's retirement program would have required you to retire.
- You did not in any year prior to 1984 choose to treat your disability income as a pension instead of taking the exclusion.
- If you were married at the end of 2007, you must file a joint return.
- You were a Wisconsin resident when you received the disability income.

If you meet these tests, you can take the exclusion until the earliest of the following dates:

- (1) The first day of the tax year in which you turn 65. (If you were born on January 1, 1943, you are considered to be age 65 at the end of 2007.)
- (2) The day you reach the age when your employer's retirement program would have required you to retire.

D. What is Permanent and Total Disability? – A person is permanently and totally disabled when:

- He or she cannot engage in any substantial gainful activity because of a physical or mental condition; and
- A physician determines that the condition (1) has lasted or can be expected to last continuously for at least a year; or (2) can be expected to lead to death.

The examples below show substantial gainful activity. In such cases, the disability income exclusion cannot be taken.

Example 1: Sue, who was a sales clerk, retired on disability. She now works as a full-time babysitter at the minimum wage. Although Sue does different work, she babysits on ordinary terms for the minimum wage. She cannot take the exclusion because she is engaged in a substantial gainful activity.

Example 2: Mary, president of the XYZ Corporation, retired on disability because of terminal illness. On her doctor's advice, she works part-time as a manager and is paid more than the minimum wage. Her employer sets her days and hours. Although Mary's illness is terminal and she works part-time, the work is done at her employer's convenience. She is considered engaged in a substantial gainful activity and cannot take the exclusion.

The following example shows a person who might not be considered to be engaged in a substantial gainful activity.

Example: John, who retired on disability, took a job with a former employer on a trial basis. The purpose of the job was to see if John could do the work. The trial period lasted for some time during which John was paid at a rate equal to the minimum wage. Because of John's disability,

he was given only light duties of a nonproductive, make-work nature. Unless the activity is both substantial and gainful, John is not engaged in a substantial gainful activity. The activity was gainful because John was paid at a rate at or above the minimum wage. However, the activity was not substantial because the duties were of a nonproductive, make-work nature. More facts are needed to establish John's ability to engage in a substantial gainful activity.

Specific Instructions

Lines 2a and 2b – You can exclude either your actual weekly disability pay or \$100 a week, whichever is less. The following table shows how to figure your weekly disability pay.

| Pay period | Your weekly pay is the following part of what you receive each pay period |
|-------------------|---|
| Weekly | All |
| Every 2 weeks ... | Half |
| Twice a month ... | Multiply your pay by 24, and divide the result by 52 |
| Each month | Multiply your pay by 12, and divide the result by 52 |
| Other | Divide your yearly pay by 52 |

Line 2c – If you received disability pay for part of a week, follow the steps below.

Step 1. Divide \$100 by the number of days a week you normally worked before you retired.

Step 2. Divide the disability pay you received by the number of days it covered in that week.

Step 3. Compare the Step 1 and Step 2 amounts. The smaller amount is your daily rate. Your exclusion for the week is based on it.

Step 4. Multiply your daily rate by the number of days you received disability pay in the short week. The result is your exclusion for that week.

Step 5. Add your exclusion for that week to your exclusion for any other short weeks. Fill in the total on line 2c.

Disability payments are made for part of a week when one of the following happens after the first day of the taxpayer's normal workweek:

- (1) The disability retirement begins.
- (2) The disability retirement ends because the taxpayer reaches required retirement age.
- (3) The taxpayer dies.

Line 5 – Generally, the most a person can exclude is \$5,200. This exclusion goes down, dollar for dollar, by any amount over \$15,000 on line 5a.

Generally, no exclusion is left if line 5a is –

- \$20,200 or more, and one person could take the exclusion.
- \$25,400 or more, and both husband and wife could take the exclusion.

Physician's Statement – If you did not check the box on line 9 of Schedule 2440W, you must have your physician complete a statement of permanent and total disability. You can use the statement on Schedule 2440W for this purpose. However, if you are filing federal Schedule R and your physician completed a Physician's Statement for use with that form, you may submit a copy of that statement instead of completing the physician's statement on Schedule 2440W.

If both husband and wife take the exclusion, each must file a statement.

If you retired on disability before January 1, 1977, the physician's statement must show that you were permanently and totally disabled on January 1, 1976, or January 1, 1977.

If you retired on disability after 1976, the physician's statement must show that you were permanently and totally disabled when you retired.

If the Department of Veterans Affairs (VA) certifies that you are permanently and totally disabled, you can file VA Form 21-0172 instead of the physician's statement. VA Form 21-0172 must be signed by a person authorized by the VA to do so. You can get VA Form 21-0172 from your local VA regional office.