

27. Survivor Annuities for those retiring before January 1, 1998 will never be subject to Kentucky income tax. For those retiring after January 1, 1998, a portion of their retirement representing how much time they worked after January 1, 1998 will be added with any other retirement pay they may receive. See state tax instructions.
28. See OR under "Other Considerations".
29. Up to \$12,500 exemption for single filers; up to \$12,000 for married filing separately; up to \$24,000 for married filing jointly, and up to \$19,000 for head of household.

Federal/State Tax Treatment of Uniformed Services Annuities

Nonresident Alien SBP/SSBP/RCSBP/RSFPP Tax: Nonresident alien Uniformed Services annuities beneficiaries living in foreign countries are subject to a withholding tax by the United States on their monthly SBP/SSBP/RCSBP/RSFPP payment (26 U.S. Code 1441a). The withholding tax rate is 30 percent of the payable annuity and is not refundable.

The tax levy is not part of SBP/SSBP/RCSBP/RSFPP laws but results from individual tax treaties between the U.S. government and various foreign countries. The 30 percent is a fixed tax that must be withheld by the paying Defense Finance and Accounting Service (DFAS) — Denver Center for DoD personnel or the respective pay centers for non-DoD personnel.

However, tax treaties with individual countries can reduce this 30 percent tax rate. The Internal Revenue Service (IRS) has determined that the payment of SBP, SSBP, RCSBP, or RSFPP is not subject to federal income tax withholding (FITW) if the payment is to a person who resides in and is a citizen of a country that has an income tax treaty to which the United States of America is a party. Based on available information, the countries with these tax treaties are Australia, Belgium, Cyprus, Egypt, Finland, France, Germany, Iceland, Korea, Morocco, Netherlands, Norway, Pakistan, Romania, Thailand, Tobago, Trinidad, and the United Kingdom. For Italy, if the SBP recipient is an Italian national, the SBP annuity is not taxable. If the recipient is not an Italian national, the annuity is taxable.

To secure the exemption from FITW based upon a treaty or tax convention, the nonresident alien annuitant must file Treasury Form 1001, "Ownership, Exemption or Reduced Rate Certificate." For more information, please review IRS Publication 776, Table 6-1 and contact DFAS — Denver Center or the respective pay center or consult a legal assistance officer at a nearby military installation. For more information on the overall nonresident alien tax, write to the Assistant Commissioner for Internal Affairs (Internal Revenue Service), Attn: IN:C:TPS, 950 L'Enfant Plaza, S.W., Washington, DC 20024-2123.

Gift Tax

- The election upon retirement by a uniformed services retiree to provide for a survivor benefit annuity is not considered a transfer subject to the gift tax where the election is made under a retirement plan described in