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**BULLETIN NUMBER 2008-01**

TO: All County Trustees, City Collecting Officials, and Tax Relief Staff  
FROM: John C. E. Allen, Staff Attorney  
DATE: November 5, 2008  
RE: **HOW INCOME IS COUNTED FOR TAX RELIEF AND TAX FREEZE**

This bulletin is meant to supersede any and all other previous communications regarding how income is to be determined. If there is a conflict between this bulletin and any other previous or subsequent communication, this bulletin will prevail unless a subsequent communication specifically references this bulletin. Please find attached a bullet point outline of this bulletin.

**Income sources where the gross amount is counted**

When determining income, the gross amount of the following income sources is to be counted unless there is a specific deduction provided: social security payments after the medicare deduction, social security disability, supplemental security income, retirement and pension benefits after deduction of healthcare insurance premiums, veteran's benefits, worker's compensation, unemployment compensation, salaries and wages, alimony, total interest and total dividends. Also, the gross amount of an annuity, minus any healthcare insurance premiums, is to be counted.

As an example, line 16a (pension and annuities) of a 1040 or line 12a (pension and annuities) of a 1040A would be used. However, you will need the 1099-R to determine if any healthcare insurance premiums need to be deducted from the gross amount. Only those healthcare insurance premiums that are found on the 1099-R are permitted to be deducted.

**PLEASE NOTE:** Annuities will be counted the same as pensions. Therefore, if the taxpayer is receiving periodic payments from an annuity, then the gross amount, minus the healthcare insurance premiums, is to be counted. However, if the taxpayer received a one-time lump sum payment from an annuity or the distribution from an annuity is the result of a non-taxable transfer from one account to another, then only include the amount taxable (i.e., use line 16b of a 1040 or line 12b of a 1040A).

**Income sources where only the net income or loss after expenses is counted**

Only include the net income or loss after expenses for the following sources of income: business, farm, rental property, estate settlement, sale of securities, or other comparable source. Documentation of the loss must be provided (i.e., losses must be claimed on the federal income tax return).

**Income sources that are not considered income and are not to be counted**

The following sources are not considered income and are not to be counted: gain or loss from the sale of a principal residence, AFDC, child support, food stamps, and VA aid and attendance. In addition, any portion of social security income, social security equivalent railroad retirement benefits, and veterans

entitlements required to be paid to a nursing home for nursing home care by federal regulations are not considered income to an owner who relocates to a nursing home.

### **Income sources where only the taxable portion is counted**

If there is a source which is not specified above, then use the federal income tax requirements for determining income. If the source or part of the source is considered income by the IRS, then it will be counted. For example, include only the taxable portion of an IRA as this source is not specified above. Rollovers are counted only to the extent that such rollover is taxable (i.e., use line 15b of a 1040 or line 11b of a 1040A).

**PLEASE NOTE:** Money received from a reverse mortgage is not considered income by the IRS and therefore would not be counted as income for tax relief or tax freeze.

### **Adjusted Gross Income**

If an amount is included in the adjusted gross income, then it is to be counted unless the income source is specifically excluded by statute or rule – see, e.g., *Income sources that are not considered income and are not to be counted* above.

### **Examples**

The following examples are to be used for illustration purposes only and are not intended to address every situation that may be encountered when determining income.

#### **EXAMPLE 1**

Applicant A has the following income sources: \$20,000 social security with \$1,000 medicare deduction; \$15,000 veteran's benefit; \$5,000 net gain from a business; and \$10,000 in child support. Applicant A is permitted to deduct the \$1,000 medicare from the \$20,000 social security giving Applicant A a total of \$19,000 of social security. The \$15,000 veteran's benefit is counted along with the \$5,000 net gain from a business. However, the \$10,000 in child support is not counted as child support is specifically a source that is not considered income. Therefore, the total income amount attributed to Applicant A is \$39,000.

#### **EXAMPLE 2**

Applicant B has the following income sources: \$15,000 social security; \$50,000 rollover to a Roth IRA where the entire \$50,000 is considered taxable (i.e., the \$50,000 is found on line 15b of a 1040 or line 11b of a 1040A); and \$10,000 pension benefit with \$500 healthcare insurance premium. The entire \$15,000 of social security is included. The entire \$50,000 of the rollover will be counted as it is considered income by federal income tax requirements. Only \$9,500 of the pension benefit is included as the applicant is permitted to deduct the \$500 healthcare insurance premium from the pension benefit. Therefore, the total income amount attributed to Applicant B is \$74,500.

#### **EXAMPLE 3**

Applicant C has the following income sources: \$12,000 social security; \$50,000 gain from the sale of a principal residence; \$5,000 gain from an estate settlement; \$10,000 veteran's benefit; and \$5,000 alimony. Assuming that Applicant C does not have a medicare deduction for the social security, the entire \$12,000 would be counted. The \$50,000 gain from the sale of a principal residence is not considered income and therefore would not be counted. The \$5,000 gain from the estate settlement would be counted. The entire veteran's benefit of \$10,000 and the entire \$5,000 of alimony are counted. Therefore, the total income amount attributed to Applicant C is \$32,000.

**EXAMPLE 4**

Applicant D has the following income sources: \$10,000 social security; \$500 total interest; \$10,000 from a traditional IRA where the \$10,000 is included as taxable income; and \$10,000 from a Roth IRA where none of the \$10,000 is considered income. The entire \$10,000 of social security is counted. Also, the entire \$500 of interest is counted. However, when determining what to count for the traditional IRA and the Roth IRA, only count the income found in line 15b of a 1040 or line 11b of a 1040A. In this example, only \$10,000 would be counted because the money from the traditional IRA is considered income and the income from the Roth IRA is not considered income. Therefore, the total income amount attributed to Applicant D is \$20,500.

If you have any further questions, please feel free to by phone at (615) 401-7787 or by e-mail at [John.C.Allen@state.tn.us](mailto:John.C.Allen@state.tn.us).

**ATTACHMENT FOR BULLETIN NUMBER 2008-01**  
**BULLET POINT OUTLINE FOR DETERMINING INCOME FOR**  
**TAX RELIEF AND TAX FREEZE**

❖ **GROSS AMOUNT IS COUNTED**

- Social Security Payments after the medicare deduction
- Social security disability
- Supplemental security income
- Retirement and pension benefits after deduction of healthcare insurance premiums
- Veteran's benefits
- Worker's compensation
- Unemployment compensation
- Salaries and wages
- Alimony
- Total interest
- Total dividends
- Annuities

**NOTE:** The gross amount of a pension or an annuity is counted. However, if the pension or annuity is a one-time lump sum payment or is the result of a non-taxable transfer, then only the taxable portion is counted.

❖ **NET INCOME OR NET LOSS IS COUNTED**

- Business
- Farm
- Rental Property
- Estate Settlement
- Sale of securities
- Or other comparable source

❖ **ITEMS NOT CONSIDERED INCOME**

- Gain or loss from the sale of a principal residence
- AFDC
- Child Support
- Food Stamps
- VA aid and attendance

❖ **OTHER SOURCES OF INCOME NOT SPECIFICALLY MENTIONED ABOVE**

- Use federal income tax requirements for determining income.

❖ **THE USE OF AGI**

- If the amount is included in AGI, it is counted as income – except for those items specifically excluded.