



**OFFICE OF THE COMPTROLLER**  
**DEPARTMENT OF BANKING AND FINANCE**  
**STATE OF FLORIDA**  
**TALLAHASSEE**  
**32399-0350**

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May 23, 2001

IN REPLY REFER TO:  
DBFBP 01-11

TO: AGENCIES ADDRESSED

FROM: DIANA FLAGG, CHIEF  
BUREAU OF STATE PAYROLLS

SUBJECT: TAXABILITY OF EMPLOYER PURCHASED  
RETIREMENT CREDITS FOR EMPLOYEES

The Bureau of State Payrolls (BOSP) has become aware that there are differing opinions as to the taxability of payments to the Division of Retirement by employing agencies, on behalf of agency employees, for the purchase of retirement service credits. The following information is provided to assist agencies with determining the taxability of such payments and provide procedures for reporting taxable values to the BOSP.

The Florida Retirement System (FRS) is a defined benefit plan qualified under 26 U.S.C. Section 401(a). Since 1975, the FRS has been a non-contributory plan. The FRS provides that eligible members may purchase extra retirement credits for in-state and out-of-state public employment and other types of eligible employment (Sections 121.1115 and 121.1122 F.S.).

Employee Purchased Retirement Service Credit

The purchase of in-state or out-of-state retirement service credit by an employee is not a taxable event and is not reportable to the Bureau of State Payrolls or the Internal Revenue Service. Employee contributions that are paid back as a portion of the retirement benefit are exempt from income tax. The FRS reports the annual exempt amount on Form 1099-R.

Employer Purchased Retirement Service Credit

The employing agency may purchase an eligible employee's in-state or out-of-state retirement service credit subject to agency head approval and budget authority. The payment to the FRS for the purchase of retirement service credit by an employing agency is gross income to the employee in the year of the purchase and is subject to federal withholding and FICA taxes. Employer purchased retirement service credits, paid back as a portion of the retirement benefit, are treated as employee contributions and are exempt from income taxes. The FRS reports the annual exempt amount on Form 1099-R.

Reporting Employer Purchased Retirement Service Credit

Agencies providing this non-cash benefit must report the taxable value for tax reporting and remitting to the Internal Revenue Service. The taxable value includes the amount paid by the agency to the FRS for the service credit, plus gross-up for employee withholding and FICA taxes paid by the agency. Earning Code 9142 has been assigned for this non-cash fringe benefit.

The taxable value should be reported to the BOSP Employee Records Section, providing the details of the transaction and the agency 29 digit FLAIR disbursement account code. The BOSP will produce the employee record

adjustments and journal transfers for the taxes. This reporting procedure should be followed until August, 2001 when the On-Line Non-Cash Adjustments System will accept Earning Code 9142.

Beginning in August 2001, these taxable transactions should be reported utilizing the On-Line Non-Cash Adjustments System. This system is accessed through the Payroll Main Menu (PYRL); refer to Payroll Preparation Manual, Volume V Section 8. This section of the payroll manual provides instructions on how to add and approve selected non-cash adjustments. The agency's FLAIR account code is required for the gross-up and payment of employment taxes.

Questions concerning the taxation of employer purchased retirement credits should be directed to Ernest Thompson at e-mail: [ethompson@mail.dbf.state.fl.us](mailto:ethompson@mail.dbf.state.fl.us), or telephone SUNCOM 210-9432, or (850)410-9432. Questions concerning the input of taxable values into the On-Line Non-Cash Adjustments System should be directed to Janet Joiner (BOSP Employee Records Section) at e-mail: [jjoiner@mail.dbf.state.fl.us](mailto:jjoiner@mail.dbf.state.fl.us), or telephone SUNCOM 210-9435, or (850)410-9435.

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