



L. JOYCE HAMPERS
COMMISSIONER

The Commonwealth of Massachusetts

Department of Revenue

Leverett Saltonstall Building,

100 Cambridge Street, Boston 02204

June 11, 1981

You request a ruling with respect to the income taxation of retirement benefits paid to a former employee of the Town of _____ under the provisions of the Commonwealth of Massachusetts Retirement Systems dealing with employees who are veterans.

Certain veterans who complete thirty years of service with the Commonwealth or its subdivisions are entitled to a non-contributory pension under General Laws Chapter 32, Section 58. Under Section 58B of Chapter 32, those qualifying for Section 58 pensions may elect to receive a smaller annual amount in consideration for the continuance of two-thirds of this reduced pension after the pensioner's death for the benefit of a surviving spouse or beneficiary.

Veterans who elect to receive a non-contributory veterans pension also receive a return of their contributions, plus interest, under Section 25 of Chapter 32.

Massachusetts gross income is federal gross income with certain modifications. (M.G.L. c. 62, s. 2). Chapter 62, Section 3(B)(a)(4) permits a deduction from Massachusetts adjusted gross income for all sums deducted from wages as contributions to an annuity, pension, endowment or retirement fund of the United States government, the Commonwealth or any political subdivision thereof. Amounts received from such contributory pensions are not subject to taxation. (M.G.L. c. 62, s. 2(a)(2)(E)). In general, non-contributory government

June 11, 1981

pensions are subject to Massachusetts income taxation.

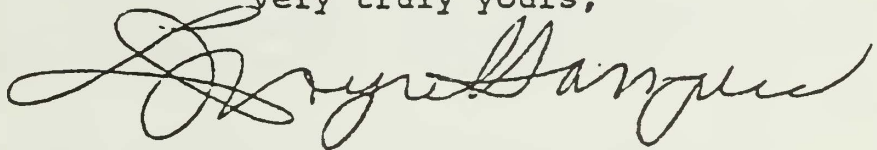
Under Chapter 62, Sections 2 and 4, interest other than interest on Massachusetts savings deposits is Part A income taxable at the rate of 10%.

Based on the foregoing it is ruled that:

1. A non-contributory government pension, received by a retired employee of the Town of _____ or an eligible beneficiary, is includible in the Massachusetts gross income of the employee or beneficiary in the taxable year in which the pension is paid or otherwise made available to such employee or beneficiary.

2. The retired employee is not taxable on the return of his contributions but is taxable on the accrued interest which was paid to him with his contributions. Such interest is taxable at the rate of 10%.

Very truly yours,



Commissioner of Revenue

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LR 81-51