Contact ETF

Visit us online at etf.wi.gov
Find Wisconsin Retirement System benefits information, forms and publications, benefit calculators, educational offerings, e-mail and other online resources.

Call us toll free at 1-877-533-5020 or 608-266-3285 (local Madison)

Benefit specialists are available 7:00 a.m. to 5:00 p.m. (CST) Monday-Friday
Self-Service: Order forms and brochures, change your address information or tax withholding 24 hours a day, 7 days a week.
Wisconsin Relay Service for hearing and speech impaired: 7-1-1
1-800-947-3529 (English), 1-800-833-7813 (Spanish)

Write or Return Forms
P.O. Box 7931
Madison, WI 53707-7931

Visit by Appointment
801 West Badger Road
Madison, WI 53713
7:45 a.m. to 4:30 p.m.
# Tax Liability on WRS Benefits

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Taxation of Your WRS Benefit

The booklet provides general information about the income tax liability on your Wisconsin Retirement System benefits. The tax treatment of WRS benefits is generally similar for federal and Wisconsin income tax purposes.

- Your WRS benefit is not subject to Social Security or Medicare taxes.
- There are a few exceptions such as retirement payments received by certain beneficiaries and teachers, who are exempt for Wisconsin income tax purposes but not for federal purposes. See the Payments Exempt from Wisconsin Income Tax section on page 10.

If you are not a resident of Wisconsin, you are not required to pay Wisconsin income tax. You should check with the tax department in your state for information on your state tax liability.

Required Contributions

Your benefit is taxable as income; however, a small portion may be exempt from income taxes.

- **Taxable Portion of Your Payment**: Because your regular employee contributions are made pre-tax, you will pay income taxes on the portion of your annuity or lump sum that is based on those contributions.* You will also pay taxes on the portion that is based on the matching employer contributions.

- **Tax-Exempt Portion of Your Payment**: If you contributed after-tax dollars to your WRS account, that amount has already been taxed and will not be taxed again. This amount is called your investment in contract (IIC). It is shown at the bottom of the Employee Required Contributions section on your annual Statement of Benefits (ET-7365).

* The exception would be employee-required contributions made post-tax pursuant to a collective bargaining agreement or contract.

Employee After-Tax Additional Contributions

If you made additional contributions, part of your WRS benefit will be taxable and part will be exempt from taxation.

- **Tax-Exempt Portion of Your Payment**: Your actual contribution has already been taxed, so the portion of your payment attributable to that amount will be tax-exempt.
- **Taxable Portion of Your Payment**: The portion of your payment attributable to investment earnings will be taxable. For additional contributions that are annuitized, the taxable portion is prorated over your life expectancy.

Tax-Deferred Additional Contributions Under Section 403(b) of the Internal Revenue Code

Before January 1, 2009, employees of certain school districts and other educational institution employers could make additional contributions from pre-tax earnings. Your entire payment from these contributions will be taxable.

If you receive a disability annuity, contact your tax advisor, the Internal Revenue Service (IRS) or the Wisconsin Department of Revenue for information about possible special tax treatment of your disability annuity.
Taxation of Monthly Annuities

When you apply for your annuity, be sure to complete the income tax withholding information on the retirement application.

The federal and Wisconsin tax withholding tables at etf.wi.gov/retirees.htm will help you decide how much to have withheld.

**State of Wisconsin Tax Withholding:**
Wisconsin income tax withholding is voluntary. If you do not specify how you want taxes withheld, ETF will not withhold anything.

- If you elect Wisconsin tax withholding according to the tax tables, your Wisconsin tax withholding amount will automatically adjust when the tax tables change or the amount of your annuity changes.

- If you choose to have a specific amount withheld, your amount will not be automatically adjusted when the amount of your annuity changes. If you want the amount to change, you must make the change yourself (see Changing Your Withholding, below).

If you do not have Wisconsin income tax withheld and you are a resident of Wisconsin, you may be required to make estimated tax payments. Generally, if you would have to pay $200 or more with your Wisconsin income tax return, you must prepaid your tax each year by making estimated tax payments. You can obtain further information from any Wisconsin Department of Revenue office.

**Federal Tax Withholding**
Federal income tax withholding is voluntary, however, if you do not specify how you want taxes withheld, federal regulations require ETF to withhold according to the tax tables assuming that you are married with three exemptions.

If you have federal tax withheld, your withholding must be based on the IRS tax tables; you cannot request a specific dollar amount.

- However, you may elect federal tax withholding according to the tax tables plus an additional amount.

- Unless you specifically elect not to have federal taxes withheld, the withholding amount will be automatically updated when the tax tables change or your gross payment changes.

**Increased Withholding on Certain Payments**
Income tax on the following may be withheld at a higher rate:

- retroactive increases
- back pay such as the final calculation
- first payment to a disability annuitant
- first payment to an alternate payee. An alternate payee is a WRS employee’s former spouse who is awarded a percentage of his or her WRS account and/or annuity by a Qualified Domestic Relations Order (QDRO).

Federal tax laws require 25% withholding on retroactive increases and back payments. Wisconsin laws require 4.6% to 6.75%.

**Withholding on Payments from an Annuity Certain**
An annuity certain is an annuity that pays a specific monthly amount for a set period of time. You may choose to take an annuity certain on your additional contributions but not on your required contributions.

- Unless you do a direct rollover into an eligible employer plan or an IRA, ETF must withhold 20% of the taxable portion of monthly payments from annuities certain of less than ten years.

- If you take an annuity certain before turning 59½, you may be assessed state and federal penalties. Please contact a tax advisor, the Wisconsin DOR or the IRS for information.

If you begin an annuity certain of less than ten years in the year in which you reach age 70½ or later, a portion of your benefit is a required minimum distribution (RMD) under federal law.

- Federal taxes will be withheld at 10% on the RMD amount unless you indicate otherwise; the mandatory 20% withholding applies only to the
portion of your benefit in excess of that amount.

- You cannot rollover the required RMD amount. The RMD must first be distributed to you as taxable income and the remainder can be rolled over tax deferred.

(See page 6 for more information on the required minimum distribution.)

**Changing Your Withholding**

You have three options for changing your withholding:

- Use the ETF Retiree Monthly Tax Withholding Calculator to determine how much you would like withheld from your payment for taxes. You can also use this calculator to print a tax withholding election form to submit to ETF. Access the calculator at [https://trust.ETF.state.wi.us/ETFTaxCalculator/calculator.do](https://trust.ETF.state.wi.us/ETFTaxCalculator/calculator.do).

- Call us toll-free at 1-877-533-5020 or 608-266-3285 locally to update your withholding over the phone.

- Fax or mail a completed *Income Tax Withholding Election* form (ET-4310), found online at [eff.wi.gov](http://eff.wi.gov).

**1099-R Statement:**

By January 31, ETF will send you a 1099-R form showing the amount of income tax withheld, the total amount of your benefit and the taxable portion of your benefit for the prior year. You will need it when you file your income tax forms.

If you have more than one WRS annuity account (for example, you receive an annuity from both your own WRS account and as a beneficiar y of another account), you will receive a separate annual 1099-R tax statement for each of your annuity accounts. The 1099-R forms will be mailed in separate envelopes and may arrive on different days.
If you do not roll over your lump sum payment, ETF must withhold 20% of the taxable portion of your payment for federal income tax. ETF does not withhold state taxes from lump sum payments. See the Rollovers section on page 7 for more information regarding rollovers.

**Early Distribution Tax**

If you are younger than age 59½, you may be subject to a 10% additional income tax penalty on early distributions for any payment from the WRS (including amounts withheld for income tax) that you do not rollover, unless an exception applies. This tax is in addition to the regular income tax on the payment not rolled over.

- When there is a federal additional tax, you may also owe an additional state tax, depending on the state you live in. In Wisconsin, the additional tax is 33% of the federal 10%, so it is 3.33% of the taxable gross benefit.

- Contact your tax advisor or the IRS for details about possible exemptions from this tax, such as for death benefits, payments made to an alternate payee pursuant to a QDRO or withdrawals due to total and permanent disability.

**1099-R Statement:**

Once your lump sum payment has been direct deposited, ETF will send a 1099-R form showing the amount of income tax withheld, the total amount of your benefit and the taxable portion of your benefit. You will need this form when you file your income tax forms.
If you are no longer working under the WRS, you must receive a disbursement known as the required minimum distribution (RMD) each year beginning with the year in which you reach age 70½.

- ETF will notify you in the year you turn 69½ of your options to apply for your benefits, rollover your benefits to another qualified plan or to defer your benefits until March 1 of the calendar year you reach 71½.

- If you do not respond by December 31 of the year you reach 69½, ETF must make an automatic distribution of the entire account balance on or after the next January 1. This could result in a tax consequence or an effective date or type of payment that you do not want. It is important for you to contact ETF before an automatic distribution is required.

- If you do not take your RMD by April 1 in the year you turn 71½, or by December 31 of the year you end employment (if you continued working under the WRS after you reached age 70½), you may be required to pay a federal tax of 50% of the RMD amount that you should have received during that tax year.

If your covered WRS employment will end when you are 70½ or older, you should request your WRS annuity estimate up to one year in advance and begin your benefit during that year. Contact the IRS or your tax advisor for more information on the RMD.
Rollovers

You may rollover all or part of your lump sum payment or annuity certain of less than ten years to:

• a traditional IRA [408(a)]

• a Roth IRA [408(b)]

• an eligible qualified employer plan, including plans under IRC sections 401(a), 401(k), Roth 401(k), 403(a), 403(b), Roth 403(b), 457(b) and Roth 457(b)

If you have questions on whether or not your WRS funds are eligible to be rolled over into another qualified plan, you should contact that plan administrator directly.

Your payment will be taxable in the year in which it is issued unless you decide within 60 days to roll it over into an eligible employer plan or IRA. If you do not do a direct rollover, ETF must withhold 20% of the taxable portion of your payment for federal income tax.

• You cannot rollover a lump sum benefit of less than $200. The 20% federal tax will not be withheld on the distribution.

• Alternate payees have the same rights as WRS employees to rollover their benefit.

There are two ways to do a rollover. You can do either a direct rollover or an indirect rollover.

• **Direct Rollover:** If you do a direct rollover, please complete the Authorization for Direct Rollover form (ET-7355) and return it to ETF along with your benefit application. ETF will make the payment payable directly to the receiving plan. ETF will send the check to you, and you must send it to the receiving plan.

• **Indirect Rollover:** To do an indirect rollover, you must deposit the funds into the receiving plan within 60 days of receiving the payment from ETF. If you do not rollover the entire amount of the payment, the portion not rolled over will be taxed and will be subject to the 10% additional income tax on early distributions if you are under age 59½ (unless an exception applies).
Your death benefit application will tell you if you are eligible to choose either a monthly or lump sum benefit, or if you are restricted to one method.

**Monthly Annuity Death Benefits**

Monthly death benefits are taxable except for the portion that has already been taxed. The non-taxable portion of the death benefit, if any, is based on several factors:

- the original non-taxable portion;
- the benefits already paid from the account; and
- if the deceased participant was an annuitant, the begin date of the original annuity and the option selected.

How your monthly non-taxable amount is calculated depends on whether or not you are a named joint survivor:

- For a death benefit paid to a named joint survivor, the monthly non-taxable portion continues to be reported as the non-taxable amount the same as it was for the WRS employee.
- For death benefits paid to other beneficiaries, the entire gross annuity will be reported as non-taxable until the non-taxable balance is zero. Once the non-taxable portion balance is zero, then the entire gross annuity is reported as taxable.

**State of Wisconsin Tax Withholding on Death Benefits**

Wisconsin income tax withholding is voluntary. If you do not specify how you want taxes withheld, ETF will not withhold anything.

- If you elect Wisconsin tax withholding according to the tax tables, your Wisconsin tax withholding amount will automatically adjust when the tax tables change or your annuity amount changes.
- If you choose to have a specific amount withheld, your amount will not be automatically adjusted when the amount of your annuity changes. If you want the amount to change, you must make the change yourself (see Changing Your Withholding on Page 4).

If you do not have Wisconsin income tax withheld and you are a resident of Wisconsin, you may be required to make estimated tax payments. Generally, if you would have to pay $200 or more with your Wisconsin income tax return, you must prepay your tax each year by making estimated tax payments. You can obtain further information from any Wisconsin Department of Revenue office.

**Federal Tax Withholding on Death Benefits**

Federal income tax withholding is voluntary, but if you do not specify how you want taxes withheld, federal regulations require ETF to withhold according to the tax tables assuming you are married with three exemptions.

- If you choose to have federal tax withheld, your withholding must be based on the IRS tax tables; you cannot request only a specific dollar amount. However, you may elect federal tax withholding according to the tax tables plus an additional amount.
- Unless you specifically elect not to have federal taxes withheld, the withholding amount will be automatically updated when the tax tables change or your gross payment changes.

**Lump Sum Death Benefits**

If you are eligible to rollover your benefit, and do not, ETF must withhold 20% of the taxable portion of your payment for federal income tax. ETF does not withhold state income taxes from a lump sum death benefit, so you may want to keep part of your payment for any state income tax that you will owe (if taxable by your state of residence).

**Rolling Over Lump Sum Death Benefits**

You may rollover your lump sum payment if you are:

- The spouse of the WRS account holder. This includes both opposite-sex and same-sex spouses.
- Not the spouse of the WRS account holder, and you are receiving this payment because that person named you on a beneficiary designation form filed with ETF.
• Not the spouse of the WRS account holder and you are receiving this payment as a beneficiary of that person under s. 40.02 (8) (a) 1. or 2., Wisconsin Statutes.

• A trust with specific, named beneficiaries who were named by the WRS account holder.

You may not rollover your lump sum payment if you are:

• Receiving this payment from the WRS account holder’s estate, either by the terms of a will or through intestacy under s. 852.01, Wisconsin Statutes.

• The beneficiary of someone who received this account from the WRS account holder.

Where you may rollover your lump sum depends on whether you are a spouse or a non-spouse beneficiary.

• If you are a spouse beneficiary, you may roll your lump sum death benefit into a traditional or Roth IRA, Section 403(b) tax-sheltered annuity, Section 457 governmental deferred compensation plan or other eligible employer plan.

• If you are a non-spouse beneficiary, you may only roll your lump sum death benefit into an inherited IRA.

You may not roll your lump sum payment into your own WRS account.
Payments Exempt from Wisconsin Taxes

Some payments received from the WRS are exempt from Wisconsin taxes. However, these payments are not exempt from federal taxes.

- Payments on the account of a person who was a member of the State Teachers Retirement System or the Milwaukee Teachers Retirement Fund as of December 31, 1963, or was retired from one of those retirement systems as of that date. This exemption also applies to a beneficiary of a person who was a member of one of those systems as of December 31, 1963, or was retired as of that date, and to an alternate payee under a QDRO if the former spouse qualified for the exemption.

- For tax years beginning on or after January 1, 2009, individuals who meet the age and income requirements may be eligible to subtract up to $5,000 in qualified retirement plan income from Wisconsin taxable income. Contact your tax advisor or the Wisconsin Department of Revenue for details.

For More Information

For more information about the taxation of retirement benefits, you should:

- contact your tax advisor,
- see IRS Publication 575, and/or
- contact the Wisconsin Department of Revenue or your state’s tax agency.

The Department of Employee Trust Funds does not discriminate on the basis of disability in the provision of programs, services or employment. If you are speech, hearing or visually impaired and need assistance, call toll free at 1-877-533-5020 or 608-266-3285 (local Madison). We will try to find another way to get the information to you in a usable form.

The Department of Employee Trust Funds has made every effort to ensure that this brochure is current and accurate. However, changes in the law or processes since the last revision to this brochure may mean that some details are not current. Please contact ETF if you have any questions about a particular topic in this brochure.

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