TAX LIABILITY ON WRS BENEFITS

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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.

Cover photo courtesy of the Wisconsin Department of Tourism.

Taxation of Your WRS Benefit

This brochure 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 some teachers, who are exempt from Wisconsin income tax purposes but not from federal purposes. See the "Payments Exempt from Wisconsin Income Tax" section.

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

Required Contributions
Your WRS retirement 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.

- *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-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.

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. The entire payment from these contributions will be taxable.

Disability Annuity
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

You will complete the income tax withholding on your retirement application when you apply for your annuity. Your application will include a IRS W-4P worksheet to help you determine your federal withholding. You can also use ETF's Income Tax Withholding Calculator or review the tax withholding tables online at etf.wi.gov/retirees.htm to 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 by completing the *Substitute W-4P Tax Withholding Certificate for Pension or Annuity Payments* (ET-4310) form.

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 $500 or more with your Wisconsin income tax return, you should prepay your tax each year by making estimated tax payments or have sufficient withholding to avoid underpayment interest. Find more information from the Wisconsin Department of Revenue at www.revenue.wi.gov.

Federal Tax Withholding
Generally, 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. U.S. citizens living abroad cannot choose "No Withholding;" federal withholding is mandatory.

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.
- ETF cannot accept more than 10 exemptions.

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

- retroactive increases.
- back pay, such as the final calculation.
- first payment to an alternate payee. An alternate payee is the former spouse or domestic partner of a WRS member who was awarded a percentage of the member's WRS account or annuity by a Qualified Domestic Relations Order (QDRO).

Withholding on Payments from an Annuity Certain

An annuity certain pays a set amount each month for a specific period of time, between 24 and 180 months. If you meet the requirements, you may elect to take an annuity certain from your additional contributions, *not* from your required contributions.

- Unless you do a direct rollover to an eligible employer plan or an IRA, ETF must withhold 20% (for federal taxes) of the taxable portion of monthly payments from an annuity certain of less than ten years.
- If you take an annuity certain before turning age 59½, you may be assessed state and federal tax penalties. Please contact a tax advisor, the Wisconsin Department of Revenue or the IRS for information.

If you begin an annuity certain of less than 10 years in the year in which you reach age 70½ or later, a portion of your benefit is considered 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 roll over the RMD amount. The RMD must first be distributed to you as taxable income and the remainder can be rolled over tax deferred.

(See the "Required Minimum Distribution" section for more information.)

Changing Your Withholding

To change your income tax withholding:

- Use the ETF Retiree Monthly Tax Withholding Calculator to help you determine how much to withhold from your annuity payment for taxes. Access the calculator at https://trust.etf.wi.gov/ETFTaxCalculator/calculator.do.
- Complete and return the *Substitute W-4P Tax Withholding Certificate for Pension or Annuity Payments* (ET-4310) form, available online or by contacting ETF. *Note*: Only pages 1-2 should be returned to ETF. The W-4P is for your reference only and should not be returned to ETF. ETF will not retain a copy of the W-4P if it is returned.

Retired Public Safety Officers

Since 2009, eligible, retired public safety officers may elect to have health and long-term care insurance premiums deducted from their WRS annuities, including insurance plans offered by providers other than the State of Wisconsin.

If the retired public safety officer meets federal eligibility requirements, they may be eligible for an annual income tax exclusion for insurance premiums paid by annuity deduction. A "public safety officer" is defined by federal law [26 USC 402 (l) (4) (c)] as an individual serving a public agency in an official capacity, with or without compensation, as a law enforcement officer, a firefighter, a chaplain, or as a member of a rescue squad or ambulance crew. ETF does not determine who is and who is not eligible for this federal tax exclusion.

For additional information about this program, see the Retirees section of the ETF website at etf.wi.gov and see the section, "Information for Retired Public Safety Officers."

Taxation of Lump-Sum Benefits

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.

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 roll over, unless an exception applies.

The 10% additional income tax does not apply to the following payments from the WRS:

- Payments made after you separate from service if you will be at least age 55 in the year of the separation.
- Payments that start after you separate from service if these payments are paid at least annually in equal or close to equal amounts over your life or life expectancy (or the lives or joint life expectancy of you and your beneficiary).
- Payments from a government-defined benefit pension plan made after you separate from service if you are a public safety employee as defined by federal law and you are at least age 50 in the year of the separation.
- Payments made due to disability.
- Corrective distributions of contributions that exceed tax law limitations.
- Payments after your death.
- Payments made directly to the government to satisfy a federal tax levy.
- Payments made under a qualified domestic relations order (QDRO).
- Payments up to the amount of your deductible medical expenses.
- Certain payments made while you are on active duty if you were a member of a reserve component called to duty after September 11, 2001 for more than 179 days.

If you are subject to an early distribution tax, 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 which state you live in. For Wisconsin, the additional tax is 33% of the federal 10%, so it is 3.3% of the taxable gross benefit.
- Contact your tax advisor or the IRS for details about the possible exemptions from this tax. (See the “Rollovers” section for more information.)

Annual Tax Statements

If you are receiving a monthly benefit payment, or have received a one-time lump-sum payment, ETF will provide information necessary for you to complete your tax return. You do not need to request this documentation.

1099-R Statement
If you are a U.S. Citizen or a resident alien, ETF will send you a 1099-R statement annually by January 31.

The 1099-R will provide:

- the annual gross amount of your benefit payment(s),
- the taxable portion of your WRS distribution(s) and
- the total amount withheld for life and health insurance premiums, and federal and Wisconsin state income taxes, if any.

If you have more than one WRS annuity account (for example, you receive an annuity from both your own WRS account and as a beneficiary of another account), you will receive a separate annual 1099-R tax statement for each of your accounts.

It is important that you file copies of all your 1099-R forms with your annual tax returns, if required by the taxing authority. The 1099-R forms will be mailed in separate envelopes and may arrive on different days.

If you are receiving monthly payments in the year in which you turn age 59½, IRS regulations require ETF to provide you with two 1099-R statements for that calendar year. One will reflect the income you received for the time you were under 59½ years of age. The other will reflect the income you received after you turned age 59½.

1042-S Statement
If you are not a U.S. citizen and you do not reside in the United States, ETF will send you a 1042-S statement annually by March 15, in lieu of a 1099-R.

W-2 Wage and Tax Statements
You may receive a W-2 statement from ETF if you are covered under the state group health insurance program and you receive a Wellness Incentive from your health plan. These incentives are taxed as ordinary income.

Required Minimum Distribution

If you are no longer working under the WRS and are not yet receiving a WRS retirement benefit, you must receive a disbursement known as a 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 age 69½ of your options to apply for your benefits, roll over your benefits to another qualified plan or defer your benefits until March 1 of the calendar year when you reach age 71½.
- If you do not respond by December 31 of the year you reach age 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, 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 age 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 age 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 roll over 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 roll over 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 roll over 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* (ET-7355) form and return it to ETF 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 roll over 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).

For additional information, see the *Federal Withholding Requirements & Rollover Options* (ET-7289) reference sheet, available online or from ETF.

Taxation of Death Benefits

If you are a beneficiary of a deceased WRS member, the death benefit application will indicate if you are eligible to choose either a monthly or lump-sum benefit, or if you are restricted to only one method of payment.

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 WRS member's monthly non-taxable portion continues to be reported as the non-taxable amount for the joint survivor.
- 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 WRS member's 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 $500 or more with your Wisconsin income tax return, you should prepay your tax each year by making estimated tax payments or have sufficient withholding to avoid underpayment interest.You can obtain further information from the Wisconsin Department of Revenue.

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.

Please note: ETF cannot accept more than 10 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 roll over 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).

Taxation of Death Benefits (continued)

Rolling Over Lump-Sum Death Benefits
You may roll over your lump-sum payment if you are:

- the spouse of the WRS account holder.
- 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 § 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 roll over 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 § 852.01, Wisconsin Statutes.
- the beneficiary of someone who received this account from the WRS account holder.

Where you may roll over 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 [408(a)] or Roth [408(b)] 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 from the account of a person who was a member of (or retired from) the State Teachers Retirement System or the Milwaukee Teachers Retirement Fund as of December 31, 1963 are exempt from Wisconsin taxes.
- This exemption also applies to:
    a. a beneficiary of a person who was a member of, or retired from, one of these systems as of December 31, 1963.
    b. an alternate payee (under a QDRO) if his or her former spouse or domestic partner qualified for this 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.

Contact ETF

etf.wi.gov

Find ETF-administered benefits information, forms, brochures, benefit calculators, educational offerings and other online resources. Stay connected with:

ETF E-Mail Updates

@wi_etf

1-877-533-5020 or 608-266-3285 (local Madison)

7:00 a.m. to 5:00 p.m. (CST), Monday-Friday

Benefit specialists are available to answer questions.

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