

STATE OF WISCONSIN
Department of Employee Trust Funds
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SECRETARY

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CORRESPONDENCE MEMORANDUM

DATE: August 27, 2012
TO: Employee Trust Funds Board
FROM: Mary Alice McGreevy, Compliance Officer
Office of Policy, Privacy and Compliance
SUBJECT: Tax Compliance Update

This memo is for informational purposes only. No Board action is required.

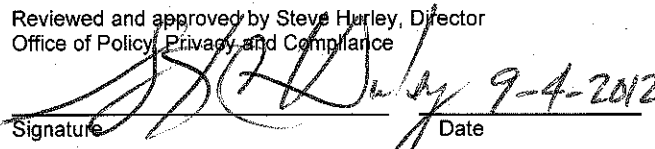
In June 2008, the Department of Employee Trust Funds (ETF) began the process of securing a favorable determination letter from the Internal Revenue Service (IRS) on behalf of the Wisconsin Retirement System (WRS). The letter was issued by the IRS on July 19, 2012. A favorable determination letter indicates that, in the opinion of the IRS, the terms of the plan conform to the requirements of Internal Revenue Code (IRC) Section 401(a), which governs retirement plans like the WRS.

WHAT DOES A FAVORABLE DETERMINATION LETTER MEAN FOR THE WRS?

A favorable determination letter means that the benefits provided by the WRS pursuant to the plan are eligible for continued favorable tax treatment. "Favorable tax treatment" allows WRS participants and their employers to defer compensation into the WRS' defined benefit plan, without being taxed on that compensation, until the benefits are paid. In addition, the determination letter:

- Assures ETF the WRS will not be required to pay tax on plan earnings;
- Allows ETF to use the IRS Self Correction Program (an easier method for addressing issues) for most plan mistakes or errors, without reporting to the IRS;
- Allows ETF to amend the plan with consolidated updates to conform to changes in federal law within a cycle, without being considered a "late amender" subject to fines; and

Reviewed and approved by Steve Hurley, Director
Office of Policy, Privacy and Compliance


Signature _____ Date 9-4-2012

Board	Mtg Date	Item #
ETF	9.20.12	6C

- Enables the State of Wisconsin Investment Board to more effectively respond to requests from managers and funds, which periodically request proof of the Wisconsin Retirement Trusts' qualification under IRC Section 401(a).

NEXT STEPS

The favorable determination letter is dependent upon ETF's timely adoption of the proposed amendments submitted with the request for the determination letter and the Voluntary Correction Program (VCP) filing. The amendments are:

- Certain technical statutory changes (ETF submitted a bill draft to the Legislative Reference Bureau during last legislative session);
- Administrative rule changes (a scope statement is being drafted and will be submitted prior to the beginning of the next legislative session); and
- Documentation of specific procedural changes (changes are being drafted).

ETF will notify the IRS when the required amendments have been adopted. This will fully complete the requirements of the VCP filing and determination letter.

The current determination letter expires January 31, 2014. ETF must reapply for a favorable determination letter during each successive filing period applicable to the WRS. These subsequent filings should be a simple process. Maintaining a current favorable determination letter will serve to assure retirees, participants, and employers that the plan is qualified and there will be no unfavorable tax consequences associated with deferring compensation into the WRS.

ETF staff will be available at the Board meeting to answer any questions you may have.