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Taxes on PERA Benefits

Includes a PERA Withholding Preference Form

**Colorado
Public
Employees'
Retirement
Association**

Revised March 2011

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This booklet will provide you with information about how Colorado PERA benefit recipients are affected by federal and Colorado State income tax laws.

A form to authorize or change your withholding is included in this booklet.

The discussion of cost recovery of tax-paid (or after-tax) amounts under “Federal Income Tax” below describes the method being used for current retirees. Tax requirements are continually changing, and different methods of recovery have been used over time.

Federal Income Tax

Colorado PERA benefits are subject to federal income tax. The taxable amount of your benefit will depend upon the tax-paid plus tax-deferred balances in your member contribution account at retirement.

- Under the PERA benefit structure, the tax-paid balance in your member contribution account is based on your member contributions made before July 1, 1984, and any tax-paid money you used to purchase service credit.
- Under the DPS benefit structure, the tax-paid balance in your member contribution account is based on your member contributions made before January 1, 1986, and any tax-paid money you used to purchase service credit.

If you have specific questions regarding your federal income tax return, contact the IRS (1-800-829-1040 or www.irs.gov) or consult with a tax adviser.

Since these amounts were already taxed, they reduce the taxable portion of your benefit.

Tax law has provided for a variety of methods to determine how those contributions are reportable. Colorado PERA uses the Internal Revenue Service’s “Simplified Method” to calculate the nontaxable portion of your benefit. Basically, the nontaxable dollars are prorated over a specific number of payments as shown in the IRS tables provided in this booklet and the nontaxable amount is disclosed annually on your 1099-R. For more information, contact the IRS for a copy of Publication 575, *Pension and Annuity Income*.

The table below applies to PERA benefit structure Option 1 and DPS benefit structure Option A benefits and shows the schedule for benefits effective December 1, 1996, and later.

Age at Retirement	Number of Payments
55 and under	360
56 to 60	310
61 to 65	260
66 to 70	210
over age 70	160

The table below applies to PERA benefit structure Options 2 or 3 and DPS benefit structure Options P2 or P3 and shows the schedule for benefits effective on or after January 1, 1998. It uses the combined ages of the retiree and the cobeneficiary on the effective date of retirement.

Combined Ages	Number of Payments
110 and under	410
111 to 120	360
121 to 130	310
131 to 140	260
more than 140	210

Disability Retirement

If you are receiving a disability retirement benefit, your entire benefit is taxable until you reach “minimum retirement age.” Colorado PERA uses the age at which you would first be eligible for reduced service retirement as “minimum retirement age.” For many disability retirees, service credit is projected to 20 years, thus minimum retirement age is 55.

If you made contributions prior to July 1, 1984, under the PERA benefit structure, or you made contributions prior to January 1, 1986, under the DPS benefit structure, and/or purchased service credit with after-tax money, the “Simplified Method” of calculation described on page 1 for determining the tax-free portion of your benefit becomes effective at your “minimum retirement age.”

If you are under age 65 and totally disabled, you may be eligible for a special federal income tax credit. To determine if you qualify for the credit, contact the IRS and get a copy of Schedule “R” and Publication 524, *Credit for the Elderly or the Disabled*.

Survivor Benefits

If you are a surviving spouse receiving a benefit, Colorado PERA calculates the tax-free portion of your benefit, if any, using the “Simplified Method.”

If you are receiving a child(ren)’s survivor benefit, your tax adviser would calculate cost recovery, if any, under the IRS’s “General Rule.”

Surviving spouses and qualified children who receive survivor benefits based upon the death of a State Trooper who was killed in the line of duty may be exempt from federal income tax. Consult a tax adviser to determine if you qualify for this exemption under Section 101(h) of the Internal Revenue Code. If you qualify for this exemption, please contact Colorado PERA so your withholding and tax reporting can be adjusted. Colorado PERA may request you submit documentation to demonstrate that you qualify for this exemption.

Federal Withholding Choices

You may instruct Colorado PERA to withhold an exact dollar amount from your monthly benefit or calculate your withholding based upon tax tables or a flat percentage. If Colorado PERA calculates your withholding, your taxable benefit (not your gross benefit) will be used in the calculation.

You may instruct Colorado PERA to—

- Not withhold federal tax from your benefit. If you choose this option, you may be responsible for paying estimated tax. Also, you may be subject to a penalty under the estimated tax rules if your withholding and estimated tax payments do not meet the required amounts. If you live in a foreign country, you cannot choose “no withholding.”

Answers to frequently asked questions about federal taxes are available in IRS Publication 4190, Tax Guide for the Retiree. Log on to www.irs.gov to view a copy or request a copy be mailed to you by calling 1-800-829-3676.

- Withhold federal tax based on your marital status and the number of withholding exemptions you choose.
- Calculate your withholding, plus withhold an additional specific dollar amount.
- Withhold an exact dollar amount.
- Withhold a flat percentage.

If you do not provide instructions, federal law requires Colorado PERA to withhold federal income tax at a rate for a married individual claiming three exemptions. This means there will be no withholding unless your monthly taxable benefit is more than \$1,583 in 2011. (This amount changes whenever federal withholding tables change, typically in January.)

While Colorado PERA may not be withholding money from your benefit for income tax, this does not mean your benefit will not be subject to federal income tax. For instance, in 2011, if you are age 65 or older, with a monthly benefit of \$1,100, and you are single with one exemption, using the standard deduction for age 65 and older, your taxable income will be about \$2,250. You will owe about \$225 in federal taxes.

You should examine your withholding each year to make sure you have enough taxes withheld so you will not have a tax penalty or be responsible for the payment of estimated tax.

The table below shows examples of federal income tax withholding if 100 percent of your pension income is taxable.

Federal Income Tax Withholding				
Taxable Monthly Income	\$1,000	\$1,500	\$2,000	\$2,500
Single with 1 Exemption	\$51.67	\$117.10	\$192.10	\$267.10
Married with 1 Exemption	\$3.37	\$53.37	\$103.37	\$159.20
Married with 2 Exemptions	\$0	\$22.53	\$72.53	\$122.53
Married with 3 Exemptions	\$0	\$0	\$41.70	\$91.70

Federal Tax Withholding for Benefit Recipients With a Foreign Address

If your address is outside of the United States, you must complete one of the following forms for federal income tax withholding:

- If you are a U.S. citizen (even though you reside outside of the United States) you must provide to Colorado PERA an IRS Form W-9, *Request for Taxpayer Identification Number and Certification*. The only purpose of this form is to gain your certification that you are a U.S. citizen; Colorado PERA is not requesting you obtain a new Taxpayer Identification Number.
- If you are a foreign person (a nonresident alien), you must provide to Colorado PERA an IRS Form W-8BEN, *Certificate of Foreign Status of Beneficial Owner for United States Tax Withholding* to:
 - Establish that you are a foreign person;
 - Claim that you are the beneficial owner of the income for which Form W-8BEN is being provided; and
 - Claim a reduced rate of, or exemption from, withholding as a resident of a foreign country with which the United States has an income tax treaty (if applicable).

Additional information is available from the IRS (1-800-829-1040 or www.irs.gov) in Publication 519 titled, *U.S. Tax Guide for Aliens*.

If we do not receive either the Form W-9 or W-8BEN, Colorado PERA is required by law to withhold 30 percent from any benefit payments you are to receive. If you should have any questions about your tax status, please contact your tax adviser.

Retired Public Safety Officers

The Pension Protection Act of 2006 permits eligible retired public safety officers to exclude up to \$3,000 of their qualified health insurance premiums from their gross federal taxable income each year, as long as the premiums are deducted from their retirement benefits. According to federal requirements, the responsibility of claiming the exclusion is up to the benefit recipient or retiree, so it is your responsibility to

claim the premium payments that were subtracted from your Colorado PERA benefit as a reduction in taxable income on your IRS Form 1040. The IRS Form 1099-R that you receive from Colorado PERA will not reflect the exclusion. Colorado PERA encourages you to consult with your tax adviser or the IRS if you have questions about this deduction.

Colorado State Income Tax

Colorado law excludes from Colorado State income tax total pension income up to \$20,000 per year per person for those retirees age 55 through 64, or \$24,000 for those retirees age 65 and over. The retiree's age on December 31 is used to determine the exclusion amount for that year. Pension income includes both PERA and DPS benefit structure benefits, Social Security payments, certain other retirement pensions, and distributions from Individual Retirement Accounts and tax-deferred savings plans. *You also qualify for the pension exclusion if you are receiving a survivor benefit, regardless of your age.*

If you have specific questions regarding your State income tax return, contact the Colorado Department of Revenue (303-238-7378 or www.taxcolorado.com) or consult with a tax adviser.

Colorado PERA can withhold Colorado State income tax if you request it. If your primary residence is outside the State of Colorado, you do not need to withhold Colorado State taxes. Colorado PERA does not withhold taxes for any other state.

Withholding for State income tax is not necessary if your taxable pension income is less than \$20,000 (or \$24,000 if you are age 65 or older), and you have little or no other taxable income. In this case, if you have taxes withheld, you will have to file a tax return to receive a refund of this money.

If your taxable pension income exceeds the exclusion amount listed above, or if you have significant other taxable income from which taxes are not withheld (for example, interest, rental income, etc.,) or you are a retiree under age 55 not eligible for the exclusion, you may want to have State income tax withheld from your benefit.

Contributions Between 1984 and 1986

Under the PERA benefit structure, during the period of July 1, 1984, through December 31, 1986, your contributions were tax-deferred for federal income tax purposes, but were taxable for State income tax purposes.

Under the DPS benefit structure, during the period of January 1, 1986, through December 31, 1986, your contributions were tax-deferred for federal income tax purposes, but were taxable for State income tax purposes.

Because of this difference, Colorado allows an additional exclusion beyond the \$20,000 (or \$24,000 if you are age 65 or older) in calculating your State income taxes if you made contributions during that period. **This adjustment will only affect you if your taxable pension income exceeds \$20,000 (or \$24,000 if you are age 65 or older) per year.**

Full details and the required worksheets are available from the Colorado Department of Revenue (303-238-7378) in the publication, *FYI—For Your Information: Subtraction from Income For Recipients of PERA or Denver Public Schools Retirement Benefits*.

State Withholding Choices

If you instruct Colorado PERA to withhold Colorado State income tax, you may choose from four methods (similar to the federal withholding choices described on pages 3 and 4). For calculated withholding, you must also choose between State tax tables that use the pension exclusion and those that do not use the exclusion.

Your marital status and the number of exemptions you have on file with Colorado PERA for federal withholding will be used to calculate State withholding.

You may instruct Colorado PERA to—

- Use one of the tax tables to calculate State income tax withholding.
- Use one of the tax tables to calculate State income tax withholding, plus withhold an additional specific dollar amount.
- Withhold an exact dollar amount.
- Withhold a flat percentage.

The table on the next page shows examples of State income tax withholding.

Colorado State Tax Withholding			
\$2,500/Monthly Pension Income	Using \$20,000 Exclusion	Using \$24,000 Exclusion	Not Using Exclusion
Single with 1 Exemption	\$16	\$1	\$93
Married with 1 Exemption	\$0	\$0	\$71
Married with 2 Exemptions	\$0	\$0	\$57
Married with 3 Exemptions	\$0	\$0	\$43

If you have Colorado State income taxes deducted from your benefit and later move out of state, you must instruct Colorado PERA to stop withholding State income taxes.

Tax Reporting

Each year Colorado PERA will send you an IRS Form 1099-R by January 31. This form is similar to the W-2 you received as an employee. It includes:

- Total benefits you received for the year.
- Total benefits that are taxable.
- Taxes withheld for the year.

Setting Up Your Withholding

If you are a new retiree, you should complete and return the *Withholding Preference Form* by the 15th of the month in which your first benefit payment will be issued. For most retiring members, this would be the month in which your retirement is effective. You may also complete the online form on the Colorado PERA Web site at www.copera.org using your PERA Personal Identification Number (PIN).

Without instructions from you, federal law requires Colorado PERA to withhold federal income tax at a rate for a married individual claiming three exemptions, and no State withholding will be taken.

If you will be receiving more than one month's benefit in your first payment, you might want to complete two *Withholding Preference Forms* with different instructions. One form would cover only your first benefit payment and the second would cover subsequent payments.

Changing Your Withholding

You can change your withholding status at any time. Colorado PERA must receive your instructions by the 15th of the month in which you want the change to be effective. Use the attached *Withholding Preference Form* or complete the online form using your PERA PIN.

Taxes withheld cannot be refunded later by Colorado PERA. If you have too much withheld during the year, you must file a tax return to receive a refund from the IRS or the Colorado Department of Revenue.

For More Information

- For questions about your federal income tax return, visit the IRS Web site at www.irs.gov or call 1-800-829-1040.
- For questions on your Colorado State return, visit the Colorado Department of Revenue Web site at www.colorado.gov/revenue or call 303-238-7378.
- Visit Colorado PERA's Web site at www.copera.org.
- Call Colorado PERA at 303-832-9550 or 1-800-759-PERA (7372).
- Visit the Colorado PERA offices at 1301 Pennsylvania Street in Denver or in Westminster at 1120 West 122nd Avenue.

This booklet provides general information about taxes on Colorado PERA benefits. Specific questions about your taxes should be directed to the Internal Revenue Service or to your personal tax consultant. PERA staff members cannot provide tax advice. Your rights, benefits, and obligations as a Colorado PERA member or benefit recipient are governed by Title 24, Article 51 of the Colorado Revised Statutes, and the Rules of the Colorado Public Employees' Retirement Association, which take precedence over any interpretations in this booklet.

Colorado Public Employees' Retirement Association

Mailing Address: PO Box 5800, Denver, CO 80217-5800

Office Locations: 1301 Pennsylvania Street, Denver
1120 W. 122nd Avenue, Westminster

303-832-9550 • 1-800-759-7372

www.copera.org

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Withholding Preference Form

Colorado Public Employees' Retirement Association
PO Box 5800, Denver, Colorado 80217-5800
303-832-9550 • 1-800-759-PERA (7372) • Fax: 303-863-3727 • www.copera.org



- Complete this form if you are a PERA benefit recipient and want to set up or change your income tax withholding. A PERA benefit recipient includes PERA and DPS benefit structure retirees, survivors, or disability retirees.
- You must include both your SSN and the deceased retiree or member's SSN if you are receiving a PERA benefit as a cobeneficiary of a deceased retiree or survivor of a deceased member.
- Once you complete this form, you may send the form to PERA at the address above or you may fax the form to the fax number listed above. Correctly completed *Withholding Preference Forms* received at PERA by the 15th of the month will be effective for that month.
- **It is very important you specify below, which account(s) to apply these changes.** If you have different withholding preferences for each account, you must complete a separate form for each.

Withholding Preferences (Check all that apply):

PERA Benefit Structure Account(s): My benefit My benefit as a cobeneficiary My benefit as a survivor
 DPS Benefit Structure Account(s): My benefit My benefit as a cobeneficiary My benefit as a survivor

Your SSN

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SSN of Deceased Member/Retiree

(if you are not the member)

--	--	--	--	--	--	--	--

Name of deceased Member/Retiree, if applicable _____
Last First

Your Name _____ Daytime Telephone (____) _____
Last First MI

Address _____
Street, Route, or Box Number City State ZIP Code

I understand that as a PERA benefit recipient, I am responsible for payment of income taxes, interest, and penalties if my federal or state income tax withholding is not sufficient. I also understand that PERA cannot refund any taxes withheld in error.

Signature _____ Date _____

Filing Status: Single Married Number of exemptions: _____

Federal Income Tax Withholding (Check One). If no instructions are given for your federal income tax withholding, PERA is required to withhold at the rate of a married individual claiming three exemptions.

- | | |
|---|--|
| 1. <input type="checkbox"/> Do not withhold federal income tax. | 3. <input type="checkbox"/> Withhold \$ _____ from my monthly benefit. |
| 2. <input type="checkbox"/> Calculate my federal income tax withholding in accordance with the IRS tax tables. (Optional) Withhold the calculated amount plus \$ _____. | 4. <input type="checkbox"/> Withhold _____ percent (%) from my monthly benefit (must be a whole percentage). |

Colorado State Income Tax Withholding (Check One). PERA does not withhold taxes for any other state. If your primary residence is outside the State of Colorado, you do not need to withhold Colorado State income taxes. If you have Colorado State income taxes deducted and move out of state, you must instruct PERA to stop deducting these taxes.

- | | |
|---|--|
| 1. <input type="checkbox"/> Do not withhold State income tax. | 3. <input type="checkbox"/> Withhold \$ _____ from my monthly benefit. |
| 2. Calculate my State income tax withholding using the Colorado tax tables:
<input type="checkbox"/> Without the pension exclusion (\$20,000 or \$24,000). See page 6.
(Optional) Withhold \$ _____ from my monthly benefit. | 4. <input type="checkbox"/> Withhold _____ percent (%) from my monthly benefit (must be a whole percentage). |
| <input type="checkbox"/> With the pension exclusion (\$20,000 or \$24,000). See page 6.
(Optional) Withhold \$ _____ from my monthly benefit. | |