TAXES ON PERA BENEFITS

INCLUDES A PERA *WITHHOLDING PREFERENCE FORM*

Revised June 2021

CONTENTS

OVERVIEW

This booklet provides 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

PERA benefits are subject to federal income tax. The taxable amount of your benefit will depend upon the tax-paid and 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 Denver Public Schools (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.

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

> 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 professional.

Tax law has provided for a variety of methods to determine how those contributions are reportable. PERA uses the IRS'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.*

PERA OPTION 1 AND DPS OPTIONS A OR B | For benefits effective December 1, 1996, or later

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

PERA OPTIONS 2 OR 3 AND DPS OPTIONS P2 OR P3 | For benefits effective on or after January 1, 1998

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

** Combined ages of retiree and cobeneficiary on effective date of retirement.*

DISABILITY RETIREMENT

If you are receiving a disability retirement benefit, your entire benefit is taxable until you reach "minimum retirement age." 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 2 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 request a copy of Schedule "R" (Form 1040) and Publication 524, *Credit for the Elderly or the Disabled.*

SURVIVOR BENEFITS

If you are a surviving spouse receiving a benefit, 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 professional 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 public safety officer who was killed in the line of duty may be exempt from federal income tax. Consult a tax professional 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 PERA so your withholding and tax reporting can be adjusted. PERA may request you submit documentation to demonstrate that you qualify for this exemption.

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

FEDERAL WITHHOLDING CHOICES

You may instruct PERA to withhold an exact dollar amount or flat percentage from your monthly benefit, or calculate your withholding based upon tax tables. (With the exception of an exact dollar amount calculation, federal taxes will be rounded to the nearest whole dollar.) If PERA calculates your withholding, your taxable benefit (not your gross benefit) will be used in the calculation.

Allowances: PERA uses the number of withholding allowances claimed by you on your *Withholding Preference Form* to determine how much federal income tax to withhold from your monthly benefit.

Exemptions: The number of exemptions claimed by you on your federal income tax return is used in the calculation to determine your taxable income.

You may instruct PERA to do one of the following:

» Not withhold federal tax from your benefit. If you choose this option, you may be responsible for paying estimated taxes. 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 this option. See "Federal Tax Withholding for Benefit Recipients With Foreign Addresses" on page 5 for more information.
» Withhold federal tax based on your marital status and the number of withholding allowances you choose. The calculated amount will be rounded to the nearest whole dollar.
» Calculate your withholding and withhold an additional specific dollar amount. The calculated portion of your withholding will be rounded to the nearest whole dollar before the additional dollar amount is added.
» Withhold an exact dollar amount.
» Withhold a flat percentage. The calculated amount will be rounded to the nearest whole dollar.

If you do not provide instructions, federal law requires PERA to withhold federal income tax at a rate for a married individual claiming three allowances. This means there will be no withholding unless your monthly taxable benefit is more than $2,096 in 2021. (This amount changes whenever federal withholding tables change, typically in January.)

While 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.

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

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

FEDERAL INCOME TAX WITHHOLDING

Taxable Monthly Income	$1,500	$2,000	$2,500	$3,000
Single with 1 Allowance	$81	$141	$201	$261
Married with 1 Allowance	$13	$63	$113	$163
Married with 2 Allowances	$0	$27	$77	$127
Married with 3 Allowances	$0	$0	$41	$91

FEDERAL TAX WITHHOLDING FOR BENEFIT RECIPIENTS WITH FOREIGN ADDRESSES

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 U.S.) you must provide to 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; PERA is not requesting you obtain a new Taxpayer Identification Number.
- If you are a foreign person (a nonresident non-citizen), you must provide to PERA a signed statement verifying the country of your current citizenship and the country of your current residence, and an IRS Form W-8BEN, *Certificate of Foreign Status of Beneficial Owner for United States Tax Withholding and Reporting,* to provide the following information:
  - 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 U.S. has an income tax treaty (if applicable).
- If federal withholding is required to be taken from your monthly benefit, the calculated amount will be rounded to the nearest whole dollar.

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

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

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, it is the responsibility of the retiree or benefit recipient to claim the exclusion for premium payments that were subtracted from their PERA benefit as a reduction in taxable income on their IRS Form 1040. The IRS Form 1099-R that is sent to the retiree or benefit recipient does not reflect this exclusion. PERA encourages the retiree or benefit recipient to consult with a tax professional or the IRS with 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.colorado.gov/tax) or consult with a tax professional.

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. PERA does not withhold taxes for any other state.

Withholding for Colorado 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, 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 Colorado 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 Colorado 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 Colorado state income tax purposes.

Because of this difference, Colorado allows a one-time 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).**

Full details and the required worksheets are available from the Colorado Department of Revenue (303-238-7378 or www.colorado.gov/tax) in the publication, *FYI Income 16: Subtraction from Income For Recipients of PERA or Denver Public Schools Retirement Benefits.*

STATE WITHHOLDING CHOICES

If you instruct PERA to withhold Colorado state income tax, you may choose from four methods (similar to the federal withholding choices described on page 4). For calculated withholding, you must also choose between Colorado state tax tables that use the pension exclusion and those that do not use the exclusion. In all cases, Colorado state tax withholding is rounded to the nearest whole dollar.

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

You may instruct PERA to do one of the following:

» Not withhold Colorado state income tax from your benefit.

» Use one of the tax tables, with or without the pension exclusion (see page 6), to calculate Colorado state income tax withholding.

» Use one of the tax tables, with or without the pension exclusion (see page 6), to calculate Colorado state income tax withholding, and withhold an additional specific dollar amount.

» Withhold an exact dollar amount.

» Withhold a flat percentage.

The table below shows examples of Colorado 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 Allowance	$8	$0	$83
Married with 1 Allowance	$0	$0	$53
Married with 2 Allowances	$0	$0	$37
Married with 3 Allowances	$0	$0	$21

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

TAX REPORTING

Each year, 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 and includes the following information:

» 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* included in this booklet 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 *Withholding Preference Form* online at www.copera.org using your User ID and password

Without instructions from you, federal law requires PERA to withhold federal income tax at a rate for a married individual claiming three allowances, 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 Form*s 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. 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 form online using your User ID and password.

Taxes withheld cannot be refunded later by 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.

> Even though PERA may withhold taxes from your benefit, you are responsible for any taxes owed to the IRS and/or to the state in which you reside.

This booklet provides general information about taxes on PERA benefits. Specific questions about your taxes should be directed to the IRS or to your personal tax consultant. PERA staff members cannot provide tax advice. Your rights, benefits, and obligations as a 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.

2/91 (REV 6-21) 7M

Contact PERA

Visit PERA's website at www.copera.org.

Call PERA's Customer Service Center at 1-800-759-7372.

PERA offices:
Denver
Lone Tree
Westminster

Send mail to PERA at
PO Box 5800
Denver, CO 80217-5800

Forms and publications can be found on PERA's website. Copies can also be requested by calling PERA's Customer Service Center.

Withholding Preference Form

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

Your SSN ☐☐☐ ☐☐ ☐☐☐☐

Complete this form and send to Colorado PERA at the address or fax number above if you are a PERA benefit recipient and want to set up or change your income tax withholding. Correctly completed forms received at PERA by the 15th of the month will be effective for that month. **This form can also be completed online at www.copera.org using your User ID and password.**

» **If you receive more than one PERA benefit, it is important to specify in the check boxes below to which account(s) these changes apply.** If you have different withholding preferences for each account, you must complete a separate form for each.

To which account(s) would you like your withholding preferences to apply? (Check all that apply)

PERA Benefit Structure Account(s): ❑ Retirement ❑ Cobeneficiary/Survivor ❑ Other:__________

DPS Benefit Structure Account(s): ❑ Retirement ❑ Cobeneficiary/Survivor ❑ Other:__________

Your Information

Your Name ____________________________
Last First MI

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

Daytime Telephone (_____)__________ Email Address ________________

Sign up for electronic delivery of PERA information? Yes ❑ No ❑

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.

Sign Here ➔ **Signature** ________________________ **Date** __________

Marital Status on Form W-4P: ❑ Single ❑ Married ❑ Married, but withhold at higher Single rate

Number of allowances:________

Federal Income Tax Withholding (Check one)

** Rounded to the nearest whole dollar.*

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 allowances.

1. ❑ Do not withhold federal income tax.
2. ❑ Calculate my federal income tax withholding in accordance with the IRS tax tables.*
   (Optional) Withhold the calculated amount plus $______ .
3. ❑ Withhold $__________ from my monthly benefit (must be a whole dollar amount).
4. ❑ 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. All withheld Colorado state income tax is rounded to the nearest whole dollar.

1. ❑ Do not withhold Colorado state income tax.
2. Calculate my Colorado state income tax withholding using the Colorado tax tables:
   ❑ **Without** the pension exclusion ($20,000 or $24,000). *See page 6.*
   (Optional) Withhold the calculated amount plus $ __________ from my monthly benefit.
   ❑ **With** the pension exclusion ($20,000 or $24,000). *See page 6.*
   (Optional) Withhold the calculated amount plus $ __________ from my monthly benefit.
3. ❑ Withhold $__________ from my monthly benefit (must be a whole dollar amount).
4. ❑ Withhold __________ percent (%) from my monthly benefit (must be a whole percentage).