

NEW YORK STATE TEACHERS' RETIREMENT SYSTEM
GENERAL INCOME TAX INFORMATION

TABLE OF CONTENTS

Taxes on Loans from the Annuity Savings Fund.....	1
(Tier 1 and 2 Members Only)	
Taxes on the Withdrawal of the Annuity Savings Fund at Retirement.....	2
(Tier 1 and 2 Members Only)	
Taxes on Death Benefits	3
Taxes and Withholding on Retirement Income.....	4
Taxes on Loans from the Required Contributions Fund.....	5
(Tier 3, 4, and 5 Members Only)	

**TAXES ON LOANS FROM THE
ANNUITY SAVINGS FUND****TIER I AND II
MEMBERS ONLY**

- Annuity Savings Funds consist primarily of contributions to this System (the non-taxable amount), and interest earned by those monies. The interest will be subject to Federal Income Tax when a loan issuance or loan default constitutes a taxable transaction.
- A taxable transaction occurs when a member
 - a. who has no outstanding loan is issued a loan so that the total of the member's outstanding loan balance is more than \$10,000 and exceeds one-half of the total contributions and interest and this result exceeds any pre-January 1, 1987 contributions; or
 - b. who has an outstanding loan is issued another loan and the existing loan plus the new loan exceeds the lesser of \$50,000 minus the difference between the new loan and the highest balance of the previous loan during the previous 12 months or one-half of the participant's total contributions and interest and this result exceeds any pre-January 1, 1987 contributions. An example would be a member who borrows an additional \$10,000 for a total loan balance of \$40,000 has a highest loan balance of \$39,000 would result in a distribution for income tax purposes of \$29,000; or
 - c. fails to make scheduled payments on a loan that is not collectible through payroll deduction and this loan balance exceeds any pre-January 1, 1987 contributions; or
 - d. defaults on a loan at retirement or upon withdrawal from this System and this loan balance exceeds any pre-January 1, 1987 contributions.
- If you participate in a tax-sheltered annuity or deferred compensation plan, this could affect the taxability of a loan at the time of issuance.
- If a taxable transaction occurs before age 59 1/2 and not at retirement, the taxable portion may also be an early distribution and may be subject to a 10% tax in addition to regular Federal income tax. A transaction that occurs as the result of retirement is not subject to the additional tax unless the retirement occurs before the age of 55.
- Members may "roll over" the taxable portion of a loan default at **retirement only** by depositing some or that entire amount in an IRA or other qualified account within sixty days of the date of the transaction.
- Members may "roll over" the non-taxable portion (if any) of a loan default at retirement by depositing some or all of that amount in an IRA within sixty days of the date of the transaction.
- All payments from this System are specifically exempt from New York State income tax.
- In January of each year the System will mail IRS Form 1099-R to all members who had a loan closeout or default or a taxable loan distribution in the previous calendar year.

For specific information about payments from this System, contact the Finance Department by writing or calling 1-800-348-7298, ext. 6120.

The information here is of a general nature and is not a representation or interpretation of the tax laws that are currently in effect. It is not intended to be used to determine any specific tax liability. Please consult with the Internal Revenue Service or a tax advisor for more information.

**TAXES ON THE WITHDRAWAL
OF THE ANNUITY SAVINGS
FUND AT RETIREMENT****TIER I AND II
MEMBERS ONLY**

- Annuity Savings Funds consist primarily of contributions to this System (the non-taxable amount), and interest earned by those monies. The interest is subject to Federal Income Tax when the Annuity Savings Fund is withdrawn at retirement.
- The portion of the withdrawal, which represents contributions to the Annuity Savings Fund and previously taxed interest, is the non-taxable amount. Interest earned by those contributions will be subject to Federal Income Tax upon withdrawal, unless "rolled over" (see below).
- In determining the taxable amount, any loan balance outstanding at the time of a total withdrawal at retirement is deducted from the gross amount of the withdrawal. While the taxable amount of the loan and refund are determined separately, the total is reportable as income in the year the refund is paid. Therefore, in some cases, the taxable amount of the transaction may exceed the amount of the refund.
- The taxable portion of a withdrawal of the Annuity Savings Fund which occurs at the time of retirement, is not an early distribution, and is not subject to an additional 10% Federal tax, provided retirement is not prior to age 55.
- Upon request the System will "roll over" all or any part of the taxable portion and non-taxable portion (if any) of a withdrawal from the Annuity. We will send the amount to be "rolled over" directly to an IRA or other qualified plan. Any portion of the taxable amount paid directly to the member will be subject to Federal income tax withholding at the rate of 20%. Any portion of the non-taxable amount not directly "rolled over" will be paid directly to the member. Any taxable amount or non-taxable amount included in an outstanding loan balance will not be included in a "direct rollover."
- Members may "roll over" the taxable amount of a withdrawal and any amount that becomes taxable because of a loan default, by depositing some or all of those amounts in an IRA or other qualified account within sixty days of the date of the transaction.
- Members may "roll over" the non-taxable amount (if any) of a withdrawal and loan default by depositing some or all of that amount in an IRA within sixty days of the date of the transaction.
- All payments from this System are specifically exempt from New York State income tax.
- In January of each year the System will mail IRS Form 1099-R to all members who had a loan closeout or default, or a refund in the previous calendar year.

For specific information about payments from this System, contact the Finance Department by writing or calling 1-800-348-7298, ext. 6120.

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TAXES ON DEATH BENEFITS

- A lump sum employer-funded death benefit may be paid to the designated beneficiary(ies) upon the death of a member in active teaching service or who is not in active teaching service but has at least ten years of credited service. The first \$50,000 of the employer-funded death benefit is considered to be group term life insurance for tax purposes and is not taxable. In addition, the return of a Tier 1 or 2 member's "non-taxable" contributions to an Annuity Savings Fund, the return of money contributed by a Tier 3 or 4 members before July 1, 1989, and certain payments made for the purchase of service credit are not taxable.
- Lump sum payments of an employer-funded death benefit (as defined above) in excess of \$50,000, and the return of the interest portion of a member's contributions and a Tier 3 or 4 member's contributions made after June 30, 1989, are fully reportable as taxable Federal income. Lump sum payments made to the beneficiary of a member who dies in retirement and elected an option providing for a lump sum payment are fully reportable as taxable Federal Income.
- Upon request the System will "roll over" all or any part of the taxable portion and non-taxable portion (if any) of a payment to a beneficiary who is a spouse of the decedent. We will send the amount to be "rolled over" directly to an IRA or other qualified plan. Any portion of the taxable amount paid directly to a beneficiary who is a spouse will be subject to Federal income tax withholding at the rate of 20%. Any portion of the non-taxable amount not "rolled over" will be paid directly to the spouse. A beneficiary who is not a spouse of the decedent may request Federal income tax withholding of 10% of the taxable amount.
- A beneficiary who is the spouse of the decedent may "roll over" any taxable amount received directly from the System by depositing it in an IRA (not including a Roth IRA) or other qualifying plan within sixty days of the date of the payment.
- A beneficiary who is the spouse may "roll over" any non-taxable amount received directly from the System by depositing some or that entire amount in an IRA within sixty days of the date of the transaction.
- A beneficiary who is a non-spouse may have all or any part of the taxable portion "rolled over" directly into a traditional IRA that is to be treated as an inherited IRA.
- Lump sum payments may be subject to alternative tax treatment if the decedent was age 50 or older as of January 1, 1986 and the entire amount is paid directly to the beneficiary. Such payments may be eligible for the ten-year averaging method and/or special capital gains treatment.
- All payments from this System are specifically exempt from New York State income tax.
- In January of each year the System will mail IRS Form 1099-R to all beneficiaries who received a payment in the previous calendar year.

For specific information about payments from this System, contact the Finance Department by writing or calling 1-800-348-7298, ext. 6120.

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TAXES AND WITHHOLDING ON RETIREMENT INCOME

- A monthly retirement benefit paid by this System to a retiree or to a beneficiary is specifically exempt from New York State income tax, but is taxable as a pension by the Internal Revenue Service and is reportable as income on Federal Income Tax Form 1040.
- Such payments may include an amount, to be excluded from taxable income, called a “cost of annuity.” This includes the balance of the amount contributed by a member (except for 414h contributions made by Tier 3 or 4 members after June 30, 1989) and the balance of any payments made for the purchase of service credit. The “cost of annuity” is returned tax-free to a member or beneficiary as a portion of each monthly payment. The portion to be excluded from taxation is determined by a calculation depending on the “cost of annuity” and the age of the member at the time of retirement.
- Information about the taxable amount of the monthly benefit is provided in the “Summary of Retirement Data,” which is sent to the member when the System has completed processing the retirement application.
- The IRS form W-4P, Withholding Election and Certificate are now part of the System’s retirement application. The form may also be obtained by request from the System or by downloading it from the Forms section of www.NYSTRS.org. The withholding election may be changed at any time. The retiree may elect the amount to be withheld, ask the System to determine the amount based on a marital status and number of claimed exemptions, or elect that no tax be withheld. If the System does not receive a completed form, the law requires withholding according to withholding tax tables as though the retiree were married and claimed three exemptions.
- All payments from this System are specifically exempt from New York State income tax.
- Taxes owed to another state cannot be withheld from payments from this System.
- In January of each year the System will mail IRS Form 1099-R to all retired members and beneficiaries who received monthly payments in the previous calendar year.

For specific information about payments from this System, contact the Finance Department by writing or calling 1-800-348-7298, ext. 6120.

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**TAXES ON LOANS FROM THE
REQUIRED CONTRIBUTIONS FUND****TIER 3, 4, and 5
MEMBERS ONLY**

- Tier 3 and 4 members are required or have been required to contribute 3% of reportable salary to this System. Tier 5 members are required to contribute 3.5% of reportable salary to this System. The Required Contributions Fund consists of:
 - the non-taxable portion: those contributions (if any) made prior to July 1, 1989, any amount taxed as the result of a previous transaction, and certain payments made for the purchase of service credit, and
 - the taxable portion: contributions made on or after July 1, 1989 (414h contributions) and interest earned by the total amount contributed.

The taxable portion becomes subject to Federal Income Tax whenever a taxable transaction occurs.

- A taxable transaction occurs when a member:
 - a. who has no outstanding loan is issued a loan so that the total of the member's outstanding loan balance is more than \$10,000 and exceeds one-half of the total contributions and interest; or
 - b. who has an outstanding loan is issued another loan and the existing loan plus the new loan exceeds the lesser of \$50,000 minus the difference between the new loan and the highest balance of the previous loan during the previous 12 months or one-half of the participant's total contributions and interest. An example would be a member who borrows an additional \$10,000 for a total loan balance of \$40,000 has a highest loan balance of \$39,000 would result in a distribution for income tax purposes of \$29,000; or
 - c. fails to make scheduled payments on a loan that is not collectible through payroll deduction; or
 - d. defaults on a loan at retirement or upon withdrawal from the System.
- If you participate in a tax-sheltered annuity or deferred compensation plan, this could affect the taxability of a loan at the time of issuance.
- If part of the Required Contributions Fund is non-taxable, part of any transaction will not be taxable and will represent the return of non-taxable funds.
- If a taxable transaction occurs before age 59 1/2, and not at retirement, the taxable portion may also be subject to a 10% tax in addition to regular Federal income tax. A transaction, which occurs as the result of retirement, such as default on a loan, is not subject to a penalty, unless the retirement occurs before the age of 55.
- If a portion of a loan payment is taxable when issued, the System will, upon request, withhold Federal income tax at the rate of 10% of the taxable amount.
- Members may "roll over" the taxable portion of a loan default at **retirement only** by depositing some or all amounts in an IRA or other qualified account within sixty days of the date of the transaction.
- Members may "roll over" the non-taxable portion (if any) of a loan default at retirement by depositing some or all of that amount in an IRA within sixty days of the date of the transaction.
- All payments from this System are specifically exempt from New York State income tax.
- In January of each year the System will mail IRS Form 1099-R to all members who incurred a taxable transaction in the previous calendar year.

For specific information about payments from this System, contact the Finance Department by writing or calling 1-800-348-7298, ext. 6120.

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