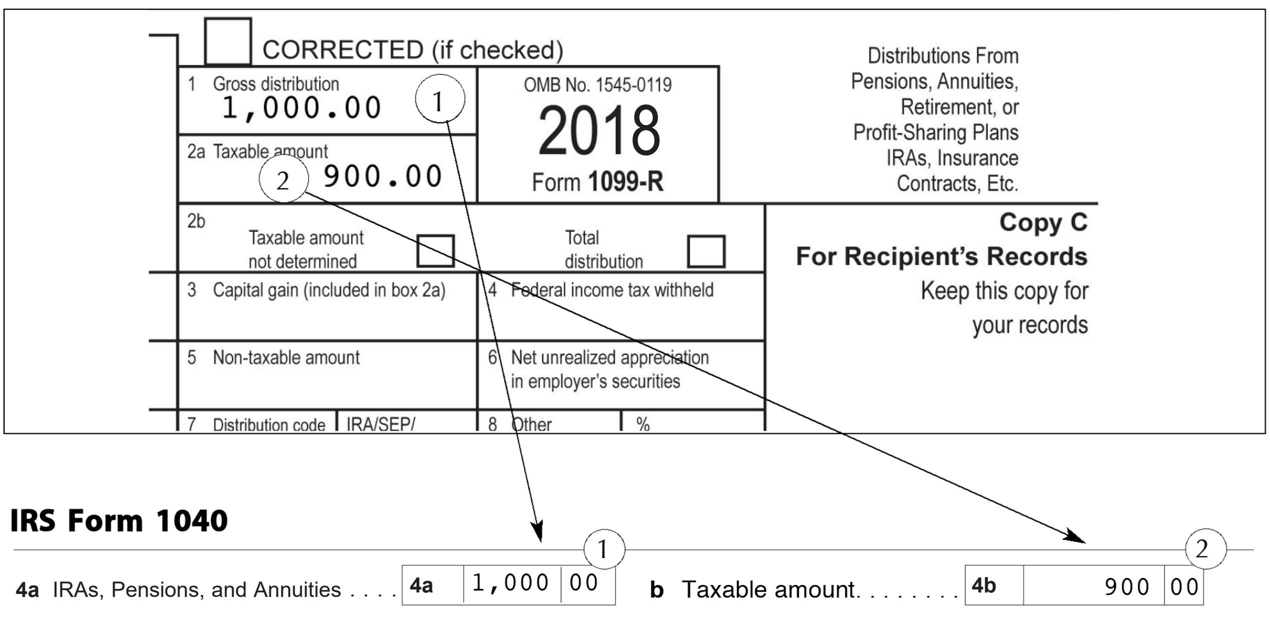
Reporting IMRF benefit payments

Each January IMRF mails you a 1099-R showing the gross and taxable amount of the payment(s) you received from IMRF during the previous year. You must report these payments on your federal income tax return. The type of payment(s) you receive affects how you report it.

This letter explains how to report retirement, disability, refund, and lump sum payments.

Retirement and surviving spouse benefit payments

Transfer the amounts shown on your 1099-R to your 1040 as indicated in the sample figure below:



Disability benefit payments

The IRS instructions for Form 1040 states that you should report your taxable disability income as wages on **line 1** Form 1040 (and **not** on line 4 as shown above), until you reach minimum retirement age. For IMRF members, the minimum retirement age is 55. Once you reach age 55, you would report your disability benefit payments as illustrated above. (IMRF disability is a taxable benefit because it is an employer paid benefit and not insurance.)

Refunds and lump sum payments

If you received a refund or lump sum payment from IMRF, how you received the payment determines how it should be reported on your tax forms. If you:

- Received the entire payment and no part was rolled over, complete the IRS form using the example under "Retirement and surviving spouse benefit payments" on page 1 of this letter. (Be sure to read below to see if your refund may be subject to an additional tax.)

- Received a payment where all or part of the taxable amount was a direct rollover (and you did not rollover any additional portion within 60 days of receiving the check), complete the IRS form using the example under "Retirement and surviving spouse benefit payments" on page 1 of this letter.

- Received a payment where all or part of the taxable amount was not rolled over, and within 60 days from the day you received the check, you rolled over all, or part, of the taxable portion:
  1. Subtract the additional amount you rolled over from the taxable amount (found on Form 1099-R, box 2a) of the refund.

  2. Enter the balance on line 4b on Form 1040. If you rolled over the entire refund or lump sum payment, the amount you enter will be zero.

Refunds may be subject to additional tax

If you did not roll over the entire taxable portion of your refund and no exception applies (see list of exceptions on next page), the amount that you kept is subject to an additional tax. This additional tax is separate from the usual income taxes.

Note: A "refund" is when you remove all of your contributions from your IMRF account. Any amount you received as part of a monthly retirement claim or as part of a death claim are not refunds subject to this additional tax.

Enter the additional tax (10% of the taxable amount that was not rolled over) on line 59 of IRS Form 1040, schedule 4, and write "No" to the left of line 59. (See example on next page.)

Example: if $900 of your refund was not rolled over, enter 10% ($90) on line 59.

No **59** Additional tax on IRAs, other qualified retirement **59** 90 00

Exceptions to the additional tax

The Internal Revenue Service imposes this 10 percent additional tax on the tax-deferred portion of a refund that was not rolled over, unless an exception applies. The most common exceptions are that you:

- Were age 59-1/2 or older when you receive the refund
- Rolled over the taxable amount into an IRA or other qualified retirement plan
- Have deductible medical expenses, received a return of spousal, ECO, and/or SLEP contributions as part of a normal retirement benefit

Other exceptions may apply. Please see IRS Publication 575, “Pension and Annuity Income”, or contact your tax advisor for additional information.

Previously Taxed Contributions

If your refund included “previously taxed member contributions”, that amount will be shown in box 5 of the 1099-R. This amount is not taxable and is not subject to a penalty tax. This amount was reported as income in a previous year(s) and the applicable income taxes have been paid on it. The taxable amount (box 2a on the 1099-R) is **already reduced** by this amount; **no additional subtraction should be made**.

IMRF on your Illinois tax return

The State of Illinois does not tax benefits paid from a retirement plan. To take advantage of this exemption, you must:

- Enter a subtraction on line 5 of the Illinois Form 1040

Step 3. **Base Income**

5. Income received from Social Security benefits and certain retirement plans if included in Step 2, Line 1. **Attach** federal page 1. 5 900.00

- Attach a copy of your Federal 1040 or 1040A showing that the amount(s) of your benefits payment(s) were included in your adjusted gross income

States other than Illinois

If your state has an income tax, check with the department of revenue in your state to determine how they tax payments from a retirement system.

Additional questions

If you have additional questions, please call an IMRF at the number below. You may also contact the IRS for additional income tax information at 1–800–829–1040, or visit their website at **www.irs.gov**.