

# Your TFFR Retirement Annuity and Taxes

## Is my retirement annuity taxable?

Yes. The monthly TFFR annuity payments you receive are subject to federal income tax withholding. TFFR uses the “IRS Simplified General Rule” to calculate the taxable and nontaxable portion of your retirement benefit.

Under this method, the tax-free portion of your annuity payment (previously taxed member contributions) is spread over a specified number of monthly payments determined by the IRS. The number of payments is based on your age as of your retirement date and the retirement option you select.

The following table shows the number of payments expected by the IRS and the formula used in calculating the nontaxable portion of your retirement benefit:

Retirement Option Selected Single Life Annuity 10 Year Certain and Life 20 Year Certain and Life		Retirement Option Selected 100% Joint and Survivor 50% Joint and Survivor	
Age of Recipient	Number of Monthly Payments	Combined Ages of Member and Beneficiary	Number of Monthly Payments
55 and under	360	Not more than 110	410
56 - 60	310	111-120	360
61 - 65	260	121-130	310
66 - 70	210	131-140	260
71 and over	160	More than 140	210

Previously Taxed Member Contributions

$$\frac{\text{Previously Taxed Member Contributions}}{\text{Number of monthly payments (based on your retirement age \& retirement option)}} = \text{Nontaxable portion of monthly benefit}$$

**Under the “IRS Simplified General Rule,” only a small fraction of each monthly benefit payment is determined to be nontaxable. The balance of the payment is immediately taxable.** The tax-free portion remains constant even if your monthly annuity payment changes due to adjustments. Once the previously taxed contributions are recovered by way of the monthly exclusion, 100% of your benefit becomes taxable.

The Administrative Office will determine your taxable income and transmit the information to you annually on a 1099R-tax form.

(over)

## **Is my retirement annuity subject to State income tax?**

Yes. For North Dakota residents, your monthly TFFR annuity payments are considered North Dakota taxable income. Therefore, you may elect to have North Dakota state income tax withheld from your monthly payment.

If you are not a North Dakota resident, benefits are taxable in the state in which you live. Our office cannot withhold state income tax for another state.

## **Can I have Federal and State income tax withheld from my monthly retirement annuity?**

Yes. At the time you retire, you must complete a W-4P tax form to inform TFFR of your income tax withholding election. You may choose:

1. No income tax withholding.
2. Income tax withholding based on tax tables (using marital status and number of allowances).
3. Income tax withholding based on tax tables **plus an additional dollar amount.**

The amount withheld may automatically change as the federal and state tax rates are adjusted each year.

Once you make an election, it will remain in effect until you change or revoke it. You must file a new Form W-4P to change your filing status and/or the number of allowances used in determining the amount being withheld from your monthly payment.

If you choose not to have tax withheld or do not have enough tax withheld, you may have to make estimated tax payments to the Internal Revenue Service (IRS). You may be subject to penalties if your payments of estimated tax and/or withholding are not sufficient.

If you do not complete Form W-4P, TFFR is required to withhold federal income tax as though you are married with three (3) withholding allowances. We are not required to withhold North Dakota state income tax.

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**This tax information only applies to service retirement payments. Special rules may apply for disability and survivor benefits.**

**Personal income tax questions should be directed to your accountant, tax advisor, or IRS center. IRS Publication 575 “Pension and Annuity Income;” and Publication 505 “Tax Withholding and Estimated Tax;” may also be helpful.**

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