Chicago Teachers' Pension Fund

Title III: Benefits

Chapter B: TBD

Article X: Taxation of Benefits

III.B/### **Tax On Monthly Survivor Annuity Payments.** Survivor benefits that are paid in the form of a monthly annuity are taxable income in the calendar year during which the beneficiary receives the benefit. However, if the Member's contributions for survivor benefits were made in whole or in part on an after-tax basis, a portion of each annuity payment to a surviving spouse is nontaxable until all of the after-tax contributions have been returned. The nontaxable portion of each monthly payment is determined by allocating a portion of the after-tax contributions to each annuity payment to be made during the expected payment period. Monthly payments are fully taxable after all of the after-tax contributions have been returned.

III.D/### **Tax Reporting for All CTPF Payments.** The Fund shall withhold taxes and other amounts in accordance with all applicable IRS regulations. The Fund will send Form 1099-R to the beneficiary and to the IRS reporting the amount paid (including direct rollovers) during a calendar year. In addition to showing the amount paid, the Form 1099-R will report the portion that is taxable, the amount of federal income tax withheld, if any, and any amount directly rolled over.

III.D/### **State Income Tax.** Monthly pension benefits, annuities, refunds, and death benefits received from CTPF are exempt from Illinois and municipal taxes.

III.D/### **Payment of Accumulated Contributions**

1. **General rule.** As a general rule, previously taxed accumulated retirement contributions returned to survivors of CTPF Members are excluded from taxable income. Contributions not previously taxed and interest on contributions are included in taxable income in the calendar year in which the beneficiary receives the contributions and interest. The taxable portion of the payment is treated the same as ordinary income, unless one of the following special tax treatments described applies.
2. **Special tax treatments.** The payment may be eligible for special tax treatments if it qualifies as a "lump-sum distribution." A lump-sum distribution is a payment, within one tax year, of the entire amount payable from CTPF on account of the deceased Member or annuitant. The special tax treatments are not available, however, if any portion of a distribution from CTPF has been rolled over into a qualified retirement plan. Additional

restrictions are described in the instructions to IRS Form 4972.

The special treatments available for payments that qualify as lump-sum distributions are:

A. Ten-year averaging. If the deceased had attained age 50 prior to January 1, 1986, the beneficiary may be able to elect to figure the tax on the payment using the 10-year averaging method using 1986 tax rates, instead of five-year averaging using current tax rates. Like the five-year averaging rules, 10-year averaging often reduces the tax owed.
B. Capital gain treatment. If the deceased had attained age 50 prior to January 1, 1986, the beneficiary may be able to elect to have the part of the payment that is attributable to the Member's pre-1974 membership (if any) taxed as long-term capital gain.