All lump sum payments from JRS/GARS are exempt from Illinois income tax, but are subject to federal income tax. The amount of the lump sum payment subject to income tax includes a member's contributions made after December 31, 1981, and interest credited on all contributions (see the Rollovers section). Form 1099-R will be issued in January following the year in which the payment is made.

Rollovers

The Internal Revenue Code permits you to defer federal income taxation and avoid withholding on a lump sum payment by "rolling-over" the payment.

The lump sum payment may be rolled over to another qualified employer plan that accepts rollovers, or to an IRA or Roth IRA. The non-taxable portion may be rolled over if you ask JRS/GARS to do a direct transfer. If the non-taxable portion of the lump sum is rolled over to another qualified plan or 403(b) plan, the plan must also agree to separately account for the non-taxable portion of the rollover. If you ask JRS/GARS to do a direct transfer rollover to a qualified employer plan, traditional IRA or 403(b), you may defer taxation on the taxable portion and avoid federal income tax withholding (special IRS rules apply). If you roll over to a Roth IRA, you will be taxed on the amount rolled over.

If you do not ask JRS/GARS to transfer the payment directly to another qualified employer plan, IRA or 403(b), 20% of the taxable payment will be withheld as federal income tax and the balance will be mailed to you (see the Federal Income Tax Withholding section). You may also be eligible to use the capital gains treatment, or the ten-year averaging method to determine your taxes.

If you do not ask JRS/GARS to do a direct transfer, you can still do a rollover of the payment to another qualified employer plan or IRA within 60 days of receiving the payment. You are permitted to rollover the entire payment, including the 20% that was withheld, but you will have to find other money to contribute to the IRA to replace the 20% withheld. You can also rollover the 80% you received, and be taxed on the 20% withheld from your payment. You or your spouse may not rollover the non-taxable portion of a lump sum payment to a 457 plan (Deferred Compensation).

If you apply for a lump sum payment that is eligible for rollover, additional information regarding the IRS rollover rules is provided with your payment application.

Capital Gains & Ten-Year Averaging

The ten-year averaging method and the capital gains provisions for lump sum payments has been repealed. However, a transition rule applies to you, your spouse, trust, or estate if you were age 50 before January 1, 1986. This rule allows ten-year averaging at 1986 tax rates, and capital gains treatment at a 20% tax rate. The averaging method may not be chosen unless you participated in JRS/GARS for at least five years. The five-year participation rule does not apply to death benefit distributions. If you were not age 50 before January 1, 1986, the capital gains treatment may not be used.

10% Excise Tax on Distributions Before Age 55

A refund of contributions after termination of employment before age 55, is subject to a 10% excise tax. This tax does not apply to a refund of contributions following termination of employment after age 55, or to death or disability. The portion of the refund of contributions subject to the 10% excise tax is the refund paid in excess of the employee's contributions that are not rolled-over (see the Rollovers section).

FEDERAL & ILLINOIS ESTATE TAX

Estate Tax

JRS/GARS death benefits may be subject to federal and Illinois estate tax. Refer to IRS Form 706 for further instructions regarding federal estate tax. Refer to Form 700 and the "Estate Tax Instruction Sheet" found at the Illinois Attorney General's website (illinoisattorneygeneral.gov) for further guidance regarding Illinois estate tax.

JRS/GARS Retirement System of Illinois
2101 South Veterans Parkway • P. O. Box 19255
Springfield, IL 62794-9255 217-782-8500
Printed by Authority of the State of Illinois
Printed on Recycled Paper • 100 1/15

SRS *Judges' & General Assembly Retirement System*

TAX *information* 2015

The Judges' & General Assembly Retirement System (JRS/GARS) is a qualified plan under Section 401(a) of the Internal Revenue Code. This brochure presents the possible tax consequences on JRS/GARS benefits. Contact the Internal Revenue Service, or your tax consultant for advice regarding your tax liability and the preparation of tax returns.

In this brochure, for tax purposes, the term "employee contributions" generally refers to:

- *Contributions made to JRS/GARS prior to January 1, 1982. These contributions were made on an after-tax basis.*
- *Contributions and interest paid on an after-tax basis for optional service purchases.*

FEDERAL & STATE INCOME TAX WITHHOLDING

State Income Tax Withholding

All benefits paid by JRS/GARS are exempt from Illinois income tax withholding.

Federal Income Tax Withholding Monthly Payments

Other than monthly occupational disability benefits and occupational death benefits, all monthly payments made by JRS/GARS are subject to federal income tax withholding in accordance with Federal Withholding Tables. When you apply for a benefit, you will be asked to complete a W-4P for income tax withholding.

You may elect not to have withholding taken, or to have withholding taken at any level. If you do not indicate a preference for withholding, federal taxes are withheld at the rate for a married person with three exemptions. You may change your withholding or discontinue withholding at any time.

Lump Sum Payments

All lump sum payments are subject to federal income tax withholding. Withholding may be avoided in certain cases by rolling-over the payment (see the Rollovers section).

If you or your spouse are receiving a payment that is eligible for direct transfer to another qualified employer plan [401(a), 403(b)or 457] or an IRA or Roth IRA (Individual Retirement Account or Annuity), and you do not ask JRS/GARS to do a direct transfer, the lump sum payment is subject to a 20% federal withholding rate. You or your spouse may not rollover the non-taxable portion of the lump sum payment to a 457 plan (Deferred Compensation). You may rollover the non-taxable portion of a lump sum payment to a qualified employer plan or to a 403(b) plan.

Any rollover of the non-taxable portion of a lump sum payment to a qualified plan or 403(b) plan must be a direct transfer, and the plan where the rollover is made must separately account for after-tax contributions.

FEDERAL & STATE INCOME TAXES

Taxation of a Retirement Annuity

Retirement annuities (pensions) paid by JRS/GARS are exempt from Illinois income tax. Pension payments are subject to federal income tax under the Simplified Method. This method states a portion of each benefit payment is taxable, and a portion is non-taxable based on the recovery of employee contributions and the age of the individual. Following the recovery of the employee contributions, the entire benefit payment and any increase to the benefit is taxable.

The amount of the monthly benefit that is non-taxable will be provided when the benefit begins. A Form 1099-R will be issued each January. If you die with no eligible survivor or nominated beneficiary to receive any death benefits that may be payable, any remaining employee contributions may be claimed as a miscellaneous itemized deduction (not subject to the 2% floor) on your final tax return.

Tax Credit for the Elderly

A tax credit based on retirement income is available for eligible state retirees under age 65 who are permanently and totally disabled. The tax credit may be applied to reduce the tax liability, if any, on the retired person. Consult your local IRS office for assistance in computing this credit.

Taxation of Disability Benefits

Disability benefits paid by JRS/GARS are exempt from Illinois income tax. However, these benefits are subject to federal income tax; therefore a 1099-R Form will be issued each January.

Taxation of Survivor's Benefits

Monthly survivor's benefits paid by JRS/GARS are exempt from Illinois income tax, but these benefits are subject to federal income tax. Employee contributions paid by JRS/GARS as a death benefit before retirement are excluded from taxable income.

Contributions made after December 31, 1981 and interest on all contributions are included in taxable income and are eligible for a rollover when paid to a surviving spouse (see Rollovers section). These amounts are also eligible for rollover when paid to a beneficiary other than a spouse. When the benefit begins, JRS/GARS furnishes the beneficiary with the non-taxable amount, if any.

The monthly benefit paid to a survivor is subject to federal income tax under the Simplified Method. This method states a portion of each payment is taxable, and a portion is non-taxable based on the recovery of employee contributions and the annuitant's age.

Following the recovery of the employee contributions, the entire benefit is taxable. Any increase to the benefit is also taxable. Following the death of the survivor, if there is not an eligible nominated beneficiary to receive any death benefits that may be payable, any remaining employee contributions may be used as a deduction on the final tax return of the survivor. The amount of the monthly benefit that is non-taxable will be provided to the survivor when the benefit begins. Form 1099-R will be issued each January.

Taxation of Occupational Death Benefits

Occupational death/survivor benefits are exempt from both federal and Illinois income tax. The refund of employee contributions is subject to federal income tax and is eligible for rollover (see the Rollovers section).

Taxation of Lump Sum Payments

Lump sum payments include:

- Death Benefit - Refund
- Death Benefit After Retirement
- Refund of Survivor's Contribution
- Refund of Contributions After Withdrawal from Service