



# 2018 Income Tax Guide

## For OPERS Benefit Recipients

Ohio Public Employees Retirement System  
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1-800-222-7377 | www.opers.org

This guide has been prepared for you as a benefit recipient of the Ohio Public Employees Retirement System to assist in the preparation of federal and state income tax forms. The guide is not intended as personal tax advice or to replace or substitute for tax advice you receive with respect to your personal situation. This guide contains general information and your specific situation may differ.

Generally, the Ohio Public Employees Retirement System (OPERS) is required by the Internal Revenue Service (IRS) to calculate the taxable amount of your benefit. The taxable amount is reported to the IRS and is used as the basis for the withholding calculations, as we explain in more detail in this guide. We calculated the taxable amount of the benefit for each recipient who supplies us with the requested necessary information.

This material covers recipients receiving a monthly benefit as:

1. age and service retirees and their beneficiaries, money purchase plan recipients or survivor benefit recipients
2. disability benefit recipients

### 1. Age and service retirees and their beneficiaries, money purchase plan recipients or survivor benefit recipients

A retirement allowance being paid to a retiree or the beneficiary of a deceased retiree must be reported on your federal income tax return. If you have received a money purchase benefit, the benefit must be reported on the IRS Form 1040 just as an age and service retirement benefit would be reported. We calculated the taxable amount of your monthly allowance using IRS regulations and this amount will appear in Box 2a on the Form 1099-R.

Please use the IRS Form 1040 instructions below.

#### IRS Form 1040 Instructions for age and service retirees, money purchase plan recipients and beneficiaries of deceased retirees

If we calculated your taxable amount, you should complete the **IRS Form 1040** as follows:

1. Place the reported pension earnings from **Box 1** (Form 1099-R) on **Line 4a** (IRS Form 1040)
2. Place the taxable amount from **Box 2a** (Form 1099-R) on **Line 4b** (IRS Form 1040)

| Form 1040 (2018)   |   | Page <b>2</b>                       |            |
|--|---|-------------------------------------|------------|
|  | <b>1</b> Wages, salaries, tips, etc. Attach Form(s) W-2 . . . . . | <b>1</b>                            |            |
| Attach Form(s) W-2. Also attach Form(s) W-2G and 1099-R if tax was withheld. | <b>2a</b> Tax-exempt interest . . . . .                           | <b>2a</b>                           |            |
|  | <b>3a</b> Qualified dividends . . . . .                           | <b>3a</b>                           |            |
|  | <b>4a</b> IRAs, pensions, and annuities . . . . .                 | <b>4a</b>                           | \$X,XXX.XX |
|  | <b>5a</b> Social security benefits . . . . .                      | <b>5a</b>                           |            |
|  |   | <b>b</b> Taxable interest . . . . . | <b>2b</b>  |
|  | <b>b</b> Ordinary dividends . . . . .                             | <b>3b</b>                           |            |
|  | <b>b</b> Taxable amount . . . . .                                 | <b>4b</b>                           | \$X,XXX.XX |
|  | <b>b</b> Taxable amount . . . . .                                 | <b>5b</b>                           |            |

If your Box 2a (Form 1099-R) is blank and Box 2b (Form 1099-R) is marked "Taxable amount not determined," you need to contact the IRS or a qualified tax consultant for further information concerning the completion of IRS Form 1040. You may also find IRS Publication 575 (Pension and Annuity Income) and IRS Publication 939 (General Rule for Pensions and Annuities) very helpful in completing your IRS Form 1040.

## 2. Disability benefit recipients

If you are a disability benefit recipient, you must report your benefit to the IRS as replacement wages and salary until you reach your minimum retirement age (which we will determine). At your minimum retirement age, your disability benefit will be treated as an age and service retirement benefit.

As a disability benefit recipient, Box 7 on your 1099-R will have a code number "7" or "2" depending on your age. Your tax advisor may indicate that this code should be a "3". A distribution code of "3" indicates a person who is permanently disabled.

OPERS does not use this distribution code because our members are only evaluated for disability from their OPERS-covered position or in some cases, any locally equivalent position, not permanent disability as defined by the IRS.

The IRS defines permanently disabled as being unable to engage in any substantial gainful activity by reason of a medically determined physical or mental impairment which:

1. has lasted or can be expected to last for a continuous period of 12 months or more; or
2. can be expected to result in death.

If you meet this definition, you may be entitled to a credit against your federal income tax if you qualify under IRS rules to file Schedule R (Credit for the Elderly or the Disabled) with your federal income tax return.

The receipt of disability benefits from OPERS (in and of itself) does not prove you automatically qualify for this federal tax credit.

**Refer to IRS Publication 524 (Credit for the Elderly or the Disabled) or contact any IRS office to determine if you qualify.**

Disability benefits paid to law enforcement members for a disabling condition resulting from an on-duty injury or illness are excludable from income at 30 percent of the member's final average salary (under the original disability plan), or at 45 percent (under the revised disability plan).

The non-taxable portion, determined by OPERS, continues as long as you receive this benefit. This exclusion applies only to disability benefit recipients whose disabling condition occurred on or after Dec. 15, 1988.

Please use the IRS Form 1040 instructions below.

### IRS Form 1040 Instructions for disability benefit recipients

1. If we calculated your taxable amount, it will appear in Box 2a of Form 1099-R. If you are under minimum retirement age, or qualify under the definition of a law enforcement member injured in the line of duty as stated above, the amount in **Box 2a** (Form 1099-R) should be entered on **Line 1** of IRS Form 1040.

|                  |  |           |            |               |                            |
|------------------|--|-----------|------------|---------------|----------------------------|
| Form 1040 (2018) |  |           |            | Page <b>2</b> |                            |
| <b>1</b>         | Wages, salaries, tips, etc. Attach Form(s) W-2 . . . . . | <b>1</b>  | \$X,XXX.XX |               |                            |
| <b>2a</b>        | Tax-exempt interest . . . . .                            | <b>2a</b> |            | <b>b</b>      | Taxable interest . . . . . |
|                  |  |           |            | <b>2b</b>     |                            |

2. If you qualify to take the disability tax credit, you should complete Schedule R. Once Schedule R is completed, the amount on **Line 22** of Schedule R should be entered on **Line 54** of Schedule 3. Check **Box C** and enter "**Sch R**" on the line next to that box. Attach Schedule R (Form 1040) to your return.

|  |           |   |           |   |  |
|--|-----------|---|-----------|---|--|
| <b>SCHEDULE 3</b><br>(Form 1040)                       |           | <b>Nonrefundable Credits</b>  |           | OMB No. 1545-0074                                   |  |
| Department of the Treasury<br>Internal Revenue Service |           | ▶ Attach to Form 1040.<br>▶ Go to <a href="http://www.irs.gov/Form1040">www.irs.gov/Form1040</a> for instructions and the latest information.                   |           | <b>2018</b><br>Attachment<br>Sequence No. <b>03</b> |  |
| Name(s) shown on Form 1040                             |           |   |           | Your social security number                         |  |
| <b>Nonrefundable Credits</b>                           | <b>48</b> | Foreign tax credit. Attach Form 1116 if required . . . . .  | <b>48</b> |   |  |
|  | <b>49</b> | Credit for child and dependent care expenses. Attach Form 2441 . . . . .  | <b>49</b> |   |  |
|  | <b>50</b> | Education credits from Form 8863, line 19 . . . . .   | <b>50</b> |   |  |
|  | <b>51</b> | Retirement savings contributions credit. Attach Form 8880 . . . . .   | <b>51</b> |   |  |
|  | <b>52</b> | Reserved . . . . .  | <b>52</b> |   |  |
|  | <b>53</b> | Residential energy credit. Attach Form 5695 . . . . .   | <b>53</b> |   |  |
|  | <b>54</b> | Other credits from Form <b>a</b> <input type="checkbox"/> 3800 <b>b</b> <input type="checkbox"/> 8801 <b>c</b> <input checked="" type="checkbox"/> <u>Sch R</u> | <b>54</b> | \$X,XXX.XX  |  |

If you have attained minimum retirement age, refer to "Tax information for age and service retirees and their beneficiaries" for information concerning completion of IRS Form 1040.

## Federal income tax withholding information and notice of federal withholding options recipients

Federal tax law requires us to withhold federal income tax from monthly benefit payments unless you elect not to have withholding apply. If federal income taxes are presently being withheld from your benefit payment and you no longer wish to have these taxes withheld, or if you previously chose not to have federal income taxes withheld and now wish to revoke that election and begin withholding, you must complete Internal Revenue Service Form W-4P. The W-4P is available at [www.opers.org](http://www.opers.org)

Withholding applies to the portion of your allowance that can be included in taxable income. The calculation of the withholding amount is based on the information supplied to us on Internal Revenue Service Form W-4P. If there is no Form W-4P on file, the withholding amount is calculated as if you were a married individual claiming three withholding allowances.

If you elect not to have withholding apply to your benefit payments, or if there is not enough federal income tax withheld, you may be responsible for estimated tax payments. Generally, you will not have to pay estimated tax if you expect to owe less than \$1,000 in taxes after withholding and credits for the current tax year.

You must pay estimated tax if you will owe at least \$1,000 in taxes (after subtracting your withholding and credits) and you expect your annual withholding and credits to be less than the smaller of 90 percent of the tax liability for the current tax year, or 100 percent of the tax liability for the preceding tax year.

You incur penalties under the estimated tax rule if you are required to make estimated tax payments and fail to do so, or if your withholding amount(s) are too low.

Please refer to IRS Publication 505 (Tax Withholding and Estimated Tax) for additional information.

## Related tax information

### Earned Income Credit and Credit for the Elderly or the Disabled

Certain benefit recipients may be eligible for either the Earned Income Credit or Credit for the Elderly or the Disabled. Further information concerning these credits is available in the instructions for IRS Form 1040 or from any IRS office.

You may also find IRS Publication 596 (Earned Income Credit) and IRS Publication 524 (Credit for the Elderly or the Disabled) helpful in completing your IRS Form 1040.

### Deduction for Unrecovered Retirement Cost upon Death of Retirees or Beneficiary

When a single life retirement or survivor benefit ends because of the death of the retiree or survivor (whichever is applicable), and the retirement cost has not been fully recovered, the balance of the unrecovered retirement cost can be deducted as an itemized deduction on Line 16 of Schedule A. This deduction only applies to benefits with effective dates after July 1, 1986.

### QEBA

For recipients who are adversely affected by IRS 415 limits, some benefits may be paid from OPERS' qualified excess benefit arrangement (QEBA). Benefits paid from the QEBA are subject to federal income tax withholding as wages. You do not have an option of electing out of federal tax withholding on the QEBA benefits.

You must complete a Form W-4 for withholding purposes unless you are otherwise receiving another wage payment from OPERS. The QEBA payments will be reported on a Form W-2, and the income tax withheld is reported on Form 941.

If you are a survivor beneficiary, no federal income tax withholding is applied to QEBA payments. However, QEBA benefits paid to a survivor are reported on a Form 1099-MISC.

## Reporting state of Ohio income tax (Ohio residents only)

The pension income you include in your federal adjusted gross income must also be included in income for Ohio income tax purposes. An Ohio retirement income tax credit is available based on the amount of your taxable pension income. You should refer to the Ohio Income Tax Return (2018 Ohio Schedule of Credits, Nonrefundable Credits, Line 2) and Instructions for the amount of this tax credit. There is also a \$50 tax credit for individuals 65 or older (See Senior Citizen credit on 2018 Ohio Schedule of Credits, Nonrefundable Credits, Line 4).

Recipients of disability or survivor benefits may deduct the taxable benefit from their Ohio income by placing the amount in Box 2a (Form 1099-R) on Schedule A, Line 33 of the Ohio Income Tax Form 2018 Ohio IT 1040. However, this deduction may not be claimed for payments that qualify as retirement benefits.

## State of Ohio income tax withholding information

You may have state of Ohio income tax withheld from your monthly benefit payments on a voluntary basis. Withholding is initiated by requesting a Recipient Withholding Certificate from our office. On the form, you are required to state the amount to be withheld each month from your benefit payment.

You must determine the monthly amount you wish to have withheld from your benefit payment by estimating your tax liability. Remember, retirement credits which may be available for reducing state income tax liability should be taken into account when making any calculations.

## OPERS benefits subject to local school taxes

OPERS benefits are subject to local school district income taxes in Ohio. You are responsible for these taxes if your local school district has an income tax, but we cannot specifically withhold the tax from your benefit.

**For information on forms and filing requirements, you may contact the Ohio Department of Taxation at 1-800-282-1780 or visit [www.tax.ohio.gov](http://www.tax.ohio.gov).**

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## OPERS Board of Trustees

The 11-member OPERS Retirement Board is responsible for the administration and management of OPERS. Seven of the 11 members are elected by the groups that they represent (i.e., college and university non-teaching employees, state, county, municipal, and miscellaneous employees, and retirees); the Director of the Department of Administrative Services for the State of Ohio is a statutory member, and three members are investment experts appointed by the Governor, the Treasurer of State, and jointly by the Speaker of the Ohio House of Representatives and the President of the Ohio Senate.

**For a current listing of OPERS Board members, please visit [www.opers.org](http://www.opers.org)**

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