FAQs – 1099-R Tax Form for 2011

Take a look at some of the most frequently asked questions about the 1099R form to help you understand the information on this important document.

If you need help in changing your withholding from your pension benefits, the ERS can assist you. However, since the ERS does not provide tax "advice", we recommend that you contact your tax consultant or the IRS for specific information on your tax-related needs.

The following are common questions regarding the Form 1099-R issued by the ERS.

For more information on the taxation of pension benefits paid by the ERS, you may refer to Publication 575, "*Pension and Annuity Income*" that is available from the Internal Revenue Service or the IRS website at http://www.irs.gov/.

1) What's a 1099-R form?

The form reports the amount of income you received from the ERS during the tax year, which is information you need to complete your federal and State tax returns. 1099-R forms are mailed by the end of January each year.

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2) What happens if I haven't received my tax form from the ERS?

We mailed your tax form to the address we had on record. If you moved, be sure to contact us with your new address.

Please wait until mid-February to request a duplicate Form 1099-R to allow the Post Office time to deliver your mail. If you haven't received the Form 1099-R by then, please call our office at (808) 586-1735 and we will reprint your Form 1099-R and mail it to your address on file. Allow at least one week for mail delivery.

Note: If there was a change in mailing address during the year, please submit a written statement to update the current mailing address on file. An ERS-211, "Mailing Address Change " form is available in the Publications and Forms section of our website or mailed to you upon request by calling our office. Upon receipt of the written authorization, a reprint of your Form 1099-R will be issued.

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3) Why did I receive more than one copy of Form 1099-R?

You will receive a separate Form 1099-R for (a) the type of payment based on the IRS Distribution Codes in Box 7 of Form 1099-R (see below for an explanation of the Distribution Codes) and (b) each type of benefit payment (such as retiree and beneficiary) subject to income taxes.

a. For Retirees and Continuing Beneficiaries

The Form 1099-R showing Distribution Code 2, 3, 4, or 7, in Box 7 represents your monthly pension benefits paid during the year. If you retired under Option 4 or 5 of the Contributory Plan or Hybrid Plan, the amount not rolled over to another qualified retirement plan may also be included in these totals (such as the nontaxable portion of your Option 4 or 5 refund).

The Form 1099-R, with a Distribution Code G in Box 7, represents amounts that you elected to roll over to another qualified retirement account, such as an Individual Retirement Account (IRA). The ERS transferred these funds directly to the financial institution as directed by you.

If you received a third Form 1099-R with a Distribution Code 1 in Box 7, this includes the portion that represents a premature distribution for members who separated from service before age 55** and received a refund of contributions (usually as part of their Option 4 or 5 payment or for terminated members that withdrew their contributions). This amount reflects the taxable portion of the lump-sum refund payment that was not rolled over directly from the ERS. Amounts reported with a Distribution Code 1 may be subject to a 10% additional tax for early distributions.

> ** Note: The 10% additional tax on early distributions under Internal Revenue Code § 72(t)(1) does not apply to qualified public safety employee who receive the distribution after August 17, 2006 and have separated from service after attainment of age 50 (per the Pension Protection Act of 2006). For purposes of § 72(t)(10), the term "qualified public safety employee" means an employee of a State or of a political subdivision of a State (such as a county or city) whose principal duties include services requiring specialized training in the area of police protection, firefighting services, or emergency medical services.

b. . For Retirees that turn age 59-1/2 during the year.

For example you turn age 59-1/2 on May 1 and receive monthly pension payments,

- Payments from January to April are reported on form with Dist Code 2
- Payments from May to December are reported on form with Dist Code 7

c. For Former Members

The same distribution codes, discussed above for Retirees and Continuing Beneficiaries apply to former members that elected to withdraw their contributions and received a refund from the ERS (see below for an explanation of the Distribution Codes).

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4) The Form 1099-R I received has 4 statements on one sheet of paper. What should I do with them?

Copy B – (bottom right portion) should be detached and submitted with your tax return to the IRS if there is an amount in Box 4 for "income taxes withheld."

Copy C (bottom left – quarter) is to be retained for your records.

Copy 2 (top half – 2 forms) is provided if required for your state and local tax return.
(you may discard if not needed)

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5) So what does the information on the Form 1099-R tell me?

Each box has specific information you will need to complete your tax return. The boxes below are the ones that relate to your benefits from the ERS.

Box 1 This is the total dollar amount of benefits you received before any deductions were taken.

Box 2a This shows the amount of your benefits that are taxable, or what you need to report on ERS income on your tax return.

Box 2b Taxable amount not determined

A "Not Determined" taxability indicator is present if your benefit payment started before July 1, 1986.

If Box 2b is checked Box 2a will contain asterisks ("********")

Total Distribution

An "X" indicates the recipient received the entire amount of the benefit as a lump sum or the final payment for death benefits.

Box 3 This amount represents the portion of a taxable death benefit lump sum distribution or refund that is subject to capital gains treatment.

Box 4 This is the amount of federal income tax withholding that was deducted. Use this amount on your federal income tax return.

Box 5 This is the amount of after-tax contributions that the IRS allows you to receive as tax free for the year.

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5) Explanation of Form 1099-R information continued

Box 7 This code indicates the type of benefit being reported to IRS.

Dist Code	Remarks
1	Early Distribution, no known exception – Distribution subject to IRS 10% early distribution tax (See IRS form 5329 for more information). This code is used for individuals under age 55**. For the ERS, these are the refund option amounts for withdrawals of a member/pensioner who was under age 55** in the year of retirement / termination and the amounts were not rolled over to an Individual Retirement Account or other qualified retirement account. ** Under age 50 for qualified public safety officers (whose principal duties include services requiring specialized training in the area of police protection, firefighting services, or emergency medical services). These amounts may be subject to the 10% additional tax for withdrawals.
2	Early Distribution, exception applies (under age 59-1/2) – Benefits received before age 59 ½ and are exempt from the Early Distribution Tax under IRC section 72(t). For the ERS, these are the refund options for withdrawals of a member/pensioner who was age 55 (age 50 for qualified public safety officers) or older in the year of retirement/termination or for members who received annuity payments for life.
3	Disability – Benefits paid under service-connected or ordinary disability retirements.
4	Death – Death benefit payments to a beneficiary or estate.
7	Normal Distribution – For distributions after age 59-1/2.
A	May be eligible for 10-year tax method. (Only eligible in combination with Distribution Codes 4 and 7.)
G	Direct Rollover – Portion of refund that is transferred by the ERS directly to another qualified retirement account or an IRA. (Only eligible in combination with Distribution Codes 4 and 7.)

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5) Explanation of Form 1099-R information continued

Box 9b This is the total amount of after-tax contributions you made while an active member that you will be able to receive as nontaxable during your retirement.

This amount is only reported in your first year of retirement and is for information only.

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6) Why is there a difference between the gross distribution (Box 1) and the taxable amount (Box 2s) on my tax form?

If Box 1 and Box 2a are different, either:

- There is an amount present in Box 5, which is non-taxable.

or

- The form represents the amount rolled over to a qualified retirement plan, and the IRS Distribution Code in Box 7 is G.

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7) What is the amount in Box 5, "employee contributions / Designated Roth contributions or insurance premiums" for?

Box 5 contains the amount of your pension benefits that you received during the year that are non-taxable. This only applies to Hybrid and Contributory Plan Members.

This amount represents the recovery of your after-tax contributions ("costs") you made to the ERS while you were an employee of the State or county and is calculated according to rules required by the Internal Revenue Code.

Note: The Form 1099-R is used to report income tax information for many types of retirement plans (such as individual retirement accounts; deferred compensation from 457 plans, annuity payments from 403(b) plans and annuity payments). The label for Box 5 is determined by the IRS, and the Box 5 amount as reported by the ERS does not represent any type of premium(s) paid.

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8) My Form 1099-R doesn't show anything in Box 5. What does this mean?

If Box 5 is blank, either:

- The contributions that were deducted during employment were paid before taxes – "pre-tax" contributions. Since no federal taxes were paid on them at that time, your benefit is fully taxable for federal income tax purposes.

or

- You, or the member you are receiving a benefit from, retired under the Noncontributory Plan and did not pay any contributions while working.

or

- You have already used up the total previously taxed contributions in prior tax years. Your retirement benefits are now "fully taxable".

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9) What is the amount in Box 9b?

This amount represents your after-tax contributions (pre-1987 contributions, 1987 contributions, lump sum payments and pre-1999 payroll deduction payments to purchase service credits) you made to the ERS that will be recovered tax-free over the lifetime of the retiree, and beneficiary if a survivor option was selected.

The amount in Box 9b is only reported in the year monthly payments begin and is for IRS information only.

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10) Are my retirement benefits subject to State of Hawaii taxes?

No. For State of Hawaii income tax purposes, retirement benefits from the ERS are not taxable.

However, if you rollover part of your benefits from ERS to another qualified retirement account or retirement plan, the investment earnings on the rollover amount will be subject to State of Hawaii income taxes when the money is withdrawn from the retirement account.

For example, you retired under Option 5 in the Contributory or Hybrid Plan and you rolled over $50,000 of your Option Refund payment to an IRA. Over the years, you earn $10,000 in interest on the rollover amount. You will have to pay state income taxes on the $10,000 when you withdraw money from the IRA.

For more information refer to Tax Information Releases (TIRs) No. 96-5, dated August 14, 1996. (*Taxation of Pensions Under the Hawaii Net Income Tax Law: Deferred Compensation Arrangements; Rollover IRAs; Sub-Accounts of Pension Plans; Social Security and Railroad Retirement Act Benefits; Limitation on Deductions for Contributions to a Nonqualified Plan*). This is available on the State of Hawaii Department of Taxation website or by contacting the Department of Taxation.

In the event that a member or beneficiary moves to a different state, the ERS strongly recommends that the member confer with his or her accountant or tax consultant to determine the state and local tax treatment of any distribution.

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11) I rolled over my distribution. Do I still have to report the amount even though the rollover is not taxable during the current year?

Yes. The Form 1099-R with distribution code G represents the amount of your rollover. The amounts must be reported on your individual income tax return. As your Form 1099-R shows "-$0-" taxable amount, the amount you rolled over will not be subject to taxes until it is disbursed from your IRA or qualified plan.

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12) The rollover amount on the 1099-R is greater than what my records show.

If your pension was finalized during the year, an additional amount may have been rolled over to your IRA account. Please check with your financial institution to confirm the total amount rolled over. If you are certain this is not the case, please notify the ERS to research.

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13) The 1099-R that I received is incorrect. How do I get this corrected?

Please provide your full name, social security number, current address, daytime phone number and the reason you believe there is a discrepancy. If you are a beneficiary, also provide the name and social security of the deceased member that the benefit payments are based on. Forward this information to the ERS. We will research the issue and provide a resolution as soon as possible.

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14) Why was there little or no taxes withheld from my pension for the year?

The amount withheld for federal income taxes from your pension payments is based on your instructions received by the ERS. If you instructed us to use the IRS tax withholding tables to calculate the amount withheld, and your pension benefit is less than the minimum amount required to have taxes withheld per the IRS' Tax Withholding Table, then little or no taxes were withheld during the year.

Note: If you want to change the amount of taxes withheld, please complete Form W-4P, Withholding Certificate for Pension or Annuity Payments. Form W-4P is available under the Publications and Forms section of our website or you may call our office to have the tax withholding form mailed to you. Form W-4P may be obtained from the IRS or downloaded from the IRS website.

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15) The actual pension benefit payments that I received (checks plus direct deposit amounts) from the ERS does not equal the total amount reported on the Form 1099-Rs that I received, even if I subtract the amount of federal income tax withholdings (Box 1 minus Box 4). Why are the amounts different?

The amounts will be different if there were any other deductions from your pension payments during the year. These deductions (such as union deductions, child support payments or federal income tax levies) are not reported on the Form 1099-R.