

RETIREMENT 101: TAXES AND YOUR BENEFIT

As the saying goes, “nothing can be said to be certain, except death and taxes.” Generally, your SBCERA retirement benefit will be considered taxable. However, in some cases, all or a portion of your benefit may be excluded from your gross income for federal and/or state income taxes. Below is a summary of what you may expect, however, we always suggest that our members discuss any tax related questions with a qualified tax advisor.

Your SBCERA benefit will be considered taxable income for both federal and state income tax purposes. You are required to report your SBCERA income for state income taxes in the state where you have your permanent place of residency. Therefore, if you do not live in California permanently, you would not be responsible for California income taxes. Instead, you would be responsible for reporting this income and paying the taxes, if any, for the state in which you live. However, you are required to report your SBCERA income for federal income tax purposes regardless of where you live.

If you have ever made after-tax contributions to SBCERA, such as paying for a service credit purchase with after-tax money, a portion of your benefit may fall under the Safe Harbor laws and would not be considered taxable income; or, if you receive a Service-Connected Disability Retirement, your benefit may be wholly or partially excluded from tax. The non-taxable portion of your benefit will be noted on your monthly direct deposit advice, as well as your Form 1099-R.

At retirement, you will be given the option to elect whether to have federal and/or state taxes (California only) withheld from your SBCERA benefit and at whatever rate you choose. The options include:

1. Choosing not to have a tax withholding deducted from your SBCERA benefit.
2. Requesting a specific dollar amount to be withheld from your SBCERA benefit.
3. Selecting to have an amount determined each year based on the current IRS tax withholding tables.

SBCERA cannot make recommendations regarding your tax withholding elections. As noted, SBCERA can only withhold state income taxes for the State of California. You are responsible for withholding and paying taxes for states other than California.

During retirement, you can revoke or change your tax election at any time. Similar to the W-2 forms you received while working, SBCERA will send you a Form 1099-R each year reporting your SBCERA income for the year. The Form 1099-R reports the total income you received from SBCERA and the amount of federal and/or state taxes withheld, if any.

This article is provided for informational purposes only. If you have questions regarding your tax situation, future tax obligation or wish to seek tax advice, SBCERA encourages you to contact a qualified tax advisor.