

Frequently Asked Questions – Tax Withholding from Monthly Retirement Benefits

Prepared by Retirement Systems Division Staff, March 2023

Purpose and Limitations

During early 2023, the Retirement Systems Division (RSD) has received many questions from members about recent changes to tax withholdings and their elections. This document is intended to address frequently asked questions about these changes to tax withholding processes.

This document is not a comprehensive guide for all issues related to tax withholding. This document also does not address specific situations that benefit recipients may encounter about tax withholding, including (but not limited to) those who receive multiple benefits from the Retirement Systems, new retirees, or those whose benefit amounts are changing for various reasons.

RSD does not provide tax advice. Members with specific questions about their tax situations should consult with a tax professional. In addition, members may be assisted by public information from the Internal Revenue Service (IRS) and the N.C. Department of Revenue (NCDOR), especially IRS Publication 15-T (2023), “Federal Income Tax Withholding Methods.”

Background Information

The IRS recently changed tax withholding forms and requirements for pension recipients. Beginning in 2023, the IRS no longer allows the use of Form W-4 for pension recipients to make withholding elections, but instead requires the new Form W-4P.

Payers of retirement benefits, like RSD, were required to implement these changes by January 1, 2023. The new process has some similarities, but many differences, compared to the process used by RSD before 2023.

Members of the Retirement Systems may make withholding elections by filing RSD’s Form 290 (“Choosing Income Tax Withholding Preferences”) or by making changes through the ORBIT self-service platform. For federal withholding elections made in 2022 and earlier, RSD’s forms and processes mirrored the IRS Form W-4. For elections beginning in 2023, they mirror the new IRS Form W-4P.

Q1. In 2022 or earlier, I was having a minimum amount (specific dollar amount) withheld for taxes. What happened to that withholding?

A1. RSD long offered a “minimum dollar amount” withholding option for benefit recipients, but this option is not compatible with the IRS requirements for 2023 and beyond. If your withholding up to 2022 was based on a minimum dollar amount, it likely decreased in January 2023 so that it no longer recognizes the minimum dollar amount. This change was necessary even if you have not elected any new withholding preferences in 2023.

Although withholding a minimum dollar amount is not compatible with IRS requirements, the new IRS process allows several ways for the benefit recipient to adjust the amount being withheld. These include withholding an additional dollar amount beyond standard IRS calculations (i.e., “additional withholding”) or reporting information about your income from jobs, multiple pensions, or other sources.

Q2. In 2022 or earlier, my withholding was based on a specific number of allowances in addition to the standard calculation for my marital status. What happened to that withholding?

A2. With the changes effective in 2023, pension recipients can no longer indicate a specific number of allowances. Under the IRS directions for calculating withholding in Publication 15-T (2023), allowances elected in 2022 or earlier will continue to be recognized, unless and until you make a change to your preferences in 2023 or later. If you submit Form 290 to RSD or make a change to elections through ORBIT self-service in 2023 or later, your withholding will be calculated under the new IRS structure. This structure does not recognize allowances, but instead reduces your annualized pension benefit by a standard amount based on your marital status. If you file as Married Filing Jointly or as a Qualifying Widow(er), the standard amount as of 2023 is equivalent to the reduction that would have applied for three allowances. If you file as Single, Married Filing Separately, or Head of Household, the standard amount as of 2023 is equivalent to the reduction that would have applied for two allowances.

Q3. What documentation is used to calculate withholding in 2023 if I have submitted a Form 290 or used ORBIT self-service to make a change since January 1, 2023?

A3. In this situation, your withholding will be calculated based your most recent elections. These include your marital status, income from a job or multiple pensions, other income, additional dependent or other credits, deductions, and the additional withholding amount per pay period. As part of this, the calculation will apply the standard reduction to your annualized pension, described in A2 above.

If you change your elections again, the most recent request on file will overwrite your previous elections. For example, if you submitted a request for additional withholding of \$100, and then submit a second request for additional withholding of \$150, your subsequent payments will reflect additional withholding of \$150 (the most recent request), not \$250 (the total of the two).

Q4. What documentation is used to calculate withholding in 2023 if I have not submitted a Form 290 or used ORBIT self-service to make a change since January 1, 2023?

A4. In this situation, your withholding will be calculated based on your most recent elections from 2022 or earlier, except that minimum withholding (specific dollar amount withholding) can no longer be recognized. As part of this, the calculation will not apply the standard reduction to your annualized pension, described in A2 above. Instead, a reduction will apply based on the number of allowances you elected in 2022 or earlier, including zero allowances if that is what you elected. IRS Publication 15-T (2023) includes more information about how withholdings are calculated for pension recipients who have not filed elections under the new IRS structure.

Q5. I used ORBIT self-service to change to my withholding preferences on or around January 25, 2023. It looks like that change was not reflected in my February benefit amount. When will it be effective?

A5. Some members who used ORBIT self-service to change their withholding preferences have reported that the change was effective a month later than they expected. For example, if you submitted a change on or around January 25, 2023, and it was not reflected in your February 2023 payment as you may have expected, it is likely that it will be effective in your March 2023 payment instead. This issue did not affect people making their changes via the paper Form 290.

This reported issue has been corrected prospectively. In the future, for a change to be effective for a payment on or around the 25th of a given month, it will need to be processed prior to the payroll cutoff date, which is typically around the 15th of that month. Once you make a change using ORBIT self-service, a confirmation stating the specific effective payroll date will appear.

Q6. I've heard that the Retirement Systems have been working on updates to the 2023 IRS tax tables. When should I expect to see changes?

A6. RSD has updated its programming to properly reflect the 2023 IRS tax tables. These changes will be effective for the March 2023 monthly payments, to the extent they were not already reflected in January and February 2023. RSD expects that for most benefit recipients, this will have an impact of less than \$50 on the monthly withholding amount if it has any effect at all. As with all items discussed in this document, we encourage you to monitor your withholding amounts and make necessary adjustments.

Q7. Does this same information apply to state income tax withholding?

A7. RSD's Form 290 and its ORBIT self-service equivalent have sections pertaining to state (North Carolina) income tax withholding in addition to federal tax withholding. RSD is not able to withhold state income taxes for states other than North Carolina.

Along with the IRS updating the Form W-4P, NCDOR updated its withholding certificate form for pension recipients to Form NC-4P.

Some of the recent changes to federal withholding also apply to state income tax withholding. For example, "minimum dollar amount withholding" is not permitted, but you can elect "additional withholding."

There are certain differences from the new federal withholding requirements. For example, you may still indicate a specific number of allowances for N.C. state income tax purposes.

The forms and processes implemented in January 2023 incorporate the new NC-4P requirements. If you complete the Form 290 on or after January 1, 2023, or submit changes through ORBIT self-service, your preferences will be recognized according to the new structures of the IRS and NCDOR forms.

Q8. How do the new withholding forms work if I am “Bailey vested”?

A8. NCDOR advises in its instructions to Form NC-4P: “If you are a government retiree whose income is exempt from State income tax as a result of the *Bailey Settlement* or if you are a qualifying retiree of the uniformed services of the United States, you should choose no withholding on [Form NC-4P].”

If you are “Bailey vested” but you still elect that state income tax be withheld, then RSD will withhold state income tax according to your elections. This is the same as RSD’s past practice.

Q9. How can I continue to update my withholding elections?

You may update elections at any time, through ORBIT self-service (<https://orbit.myncretirement.com>) or by completing RSD’s Form 290, “Choosing Income Tax Withholding Preferences.” If using the paper form, please refer to the “Guides” on the last page to assist you.

Conclusion

RSD does not provide tax advice. If you have questions about your individual situation or what elections should be made, you are encouraged to refer to information available from the IRS and NCDOR, and to consult a tax professional.