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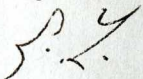
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Edwardsville Bulletin

To the Faculty and Staff of Southern Illinois University at Edwardsville

Vol. 12, No. 42
December 17, 1981

MEMO TO: University Employees
FROM: Earl Lazerson 
SUBJECT: Pick Up of Employee Contribution to the
State Universities Retirement System

We have today received official notification from the State Universities Retirement System (SURS) that the Internal Revenue Service has ruled that federal income tax deductions need not be made on employee contributions to the SURS. This confirms a provision of HB700 enacted by the General Assembly in 1979 allowing for the tax pick up effective January 1, 1981. The IRS ruling is, therefore, retroactive to the latter date.

The effect of the foregoing will be: (1) beginning with salary payments received in calendar year 1982, federal and state income tax withholding will not apply to the 8 per cent of salary contributed by the employee to the SURS; (2) since the ruling is retroactive to January 1, 1981, the W2 forms reporting salary income for 1981, when issued, will be adjusted to reflect the lower taxable wages for that year. Thus, University employees may be entitled to refunds when they file federal and state income tax returns; and (3) federal income taxes on the 8 per cent employee contribution to the SURS will be postponed until the employee retires or withdraws the retirement account upon resignation. Under current Illinois income tax rules, no SURS distributions, including refunds, are subject to Illinois income tax. Hence, one of the major benefits of the employer pick up of the employee contribution is that the contribution will never be subject to Illinois income tax.

The following example illustrates the impact of the tax ruling:

1. Assume that a University employee's salary is \$10,000 for calendar year 1981 and remains constant in subsequent years.
2. The required annual employee contribution to the SURS will be 8 per cent, or \$800.
3. For 1981 and subsequent years, the employee will pay income taxes on \$9,200 rather than \$10,000 and taxes on the difference of \$800 will be postponed until the employee begins to receive retirement or separation payments from the SURS.

(over)

4. Since income taxes were actually withheld in 1981 on the full \$10,000, the W2 forms pertaining to 1981 will show \$9,200 in taxable wages, and the employee, in filing the 1981 income tax report, will be able to take into consideration that tax was withheld on the full \$10,000.
5. In 1982 and subsequent years, assuming the fixed salary of \$10,000, income taxes will be withheld on \$9,200 and the W2 form will show \$9,200 as the taxable salary.

One other matter of information should be noted. In the case of those employees participating in tax sheltered annuities or other tax sheltered plans, the percentage of the contribution to such plans will be computed on the reduced gross taxable salary rather than on the base salary. In the example above, the reduced gross would be \$9,200.

I take this opportunity to express appreciation to Chancellor Shaw and members of his staff for their efforts in behalf of the legislative action in 1979 which now relieves University employees of the payment of income tax on SURS contributions.