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MEMORANDUM

To: Out-of-State Retirees of SCERS
Date: May 19, 2008
Re: Pension Reporting for Out-of-State Retirees, Notices from Franchise Tax Board

Each year the Sacramento County Employees' Retirement System ("SCERS") reports pension payment data for retirees who receive \$10 or more during a calendar year via IRS Form 1099-R. In addition to the hard copy information that gets sent to retirees, the same information must be passed electronically to the Internal Revenue Service and to the California Franchise Tax Board if a retiree lives in or has taxes withheld for the State of California. SCERS contracts with the Sacramento County Department of Finance to make these electronic filings.

During the past few months, staff at SCERS and the Department of Finance have been contacted by several retirees who have lived outside of California for years and have no tax obligation or tax relationship with the State of California. For some reason, however, these individuals received tax inquiries from the California Franchise Tax Board suggesting that taxes were owed to the State of California.

After looking into the matter, SCERS has determined that these letters were sent by the California Franchise Tax Board due to confusion based on the electronic file format submitted to them by the County Department of Finance. Although most of the letters from the Franchise Tax Board have referenced the 2005 calendar year, it is our understanding that the same file format was used by the Department of Finance for the 2004 through 2006 tax years.

In order to rectify this situation, both SCERS and the County Department of Finance have contacted the California Employment Development Department, which serves as an electronic clearinghouse for data required by the Franchise Tax Board. While we believe that the Franchise Tax Board now understands that the affected individuals do not have a California tax obligation, it is possible that additional letters may go out before the correction is fully implemented.

Given that possibility, we are writing to bring this situation to your attention and provide **guidance on what you should do if you receive any inquiries from the Franchise Tax Board regarding pension distributions paid in 2004, 2005 or 2006:**

1. If you receive a notice from the California Franchise Tax Board, call SCERS toll-free (800-336-1711), and ask to speak with a member of the Pension Payroll team. Advise the SCERS staff member that you have received a notice.

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2. SCERS will then provide you with a special contact number for the County Department of Finance. When you speak with the representative at the Department of Finance, request that they relay corrected information to the Franchise Tax Board on your behalf.
3. Retain all correspondence that you receive from the County Department of Finance for your personal tax records.
4. Contact SCERS again if you receive further notices from the Franchise Tax Board while corrections are underway with the County Department of Finance.

In closing, we want to assure you that the Department of Finance has modified their reporting format to avoid similar problems for 2007 and future tax years. In addition, staff from SCERS and the Department of Finance will continue to monitor the situation with the Franchise Tax Board and look for ways to improve the reporting process.

Thank you for your patience and understanding regarding this unexpected matter. If you experience any problems with the process that we have established this situation, please feel free to call our office at 800-336-1711 and ask to speak directly with our Chief Benefits Officer, John Gobel.