



The Pension Boards
United Church of Christ, Inc.

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DATE: January 2018

TO: Beneficiaries of Clergy Who Received Payments
from the Pension Boards During 2017

FROM: The Pension Boards-United Church of Christ
Member Services

RE: Reporting Payments on Your 2017 Tax Return

Grace to you and peace in this New Year.

According to our records, you are the beneficiary of a member of the Annuity Plan for the United Church of Christ who died during 2017. This letter contains information on how the deceased member's distributions are taxed by the federal government. **Form 1099-R**, which reflects annuity income and other distributions, if any, paid by the Pension Boards in 2017, *will be sent directly by our bank, The Northern Trust Company, by January 31, 2018.* For your convenience, a sample copy of **Form 1099-R** is shown below.

<input type="checkbox"/> CORRECTED (if checked)													
PAYER'S name, street address, city or town, state or province, country, and ZIP or foreign postal code The Northern Trust Company 50 South LaSalle St. C5S Chicago, Illinois 60603-1003 As Paying Agent for: B1600 PBUCC B1600 PBUCC MINISTERS					1 Gross distribution \$ _____		OMB No. 1545-0119 2017 Form 1099-R		Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.				
					2a Taxable amount \$ _____								
2b Taxable amount not determined <input checked="" type="checkbox"/>		Total distribution <input type="checkbox"/>		Copy B Report this income on your federal tax return. If this form shows federal income tax withheld in box 4, attach this copy to your return.									
PAYER'S federal identification number 36-3046063		RECIPIENT'S identification number _____							3 Capital gain (included in box 2a) \$ _____		4 Federal income tax withheld \$ _____		
RECIPIENT'S name Street address (including apt. no.) City or town, state or province, country, and ZIP or foreign postal code					5 Employee contributions / Designated Roth contributions or insurance premiums \$ _____		6 Net unrealized appreciation in employer's securities \$ _____		This information is being furnished to the Internal Revenue Service.				
					7 Distribution code(s) _____	IRA/SEP/SIMPLE <input type="checkbox"/>	8 Other \$ _____ %						
9a Your percentage of total distribution % _____		9b Total employee contributions \$ _____		Form 1099-R									
10 Amount allocable to IRR within 5 years \$ _____		11 1st year of desig. Roth contrib. <input type="checkbox"/>	FATCA filing requirement <input type="checkbox"/>						12 State tax withheld \$ _____		13 State/Payer's state no. _____		14 State distribution \$ _____
Account number (see instructions) B1600 7000072					1-312-557-9700		15 Local tax withheld \$ _____		16 Name of locality _____		17 Local distribution \$ _____		

Form **1099-R** www.irs.gov/form1099r Department of the Treasury - Internal Revenue Service

How distributions are taxed

In general, distributions made to a U.S. taxpayer are subject to federal income tax if contributions were not taxed at the time they were made. Thus, an individual generally pays income tax on any part of her or his distribution that is attributable to regular employer dues and contributions, investment earnings and tax-sheltered contributions **on which income taxes have not previously been paid.**

Housing allowance

You may not have to pay tax on that portion of the annuity or other distribution, if any, that may be considered a housing allowance paid to a retired minister. **Under IRS rules, the clergy housing allowance ends at the member's death. IRS rules do not allow beneficiaries to claim it for the period of the year following the member's death.**

If no after-tax contributions were made toward the deceased's annuity

The amount in **Box 5 of Form 1099-R** is recorded as "0" or left blank. If the Pension Boards' records show that the deceased made after-tax contributions to their account, you will receive under separate cover a letter indicating the amount of the after-tax contributions.

Determining allowable housing expenses

If no amount is shown in **Box 5 of Form 1099-R**, you may subtract the allowable housing expenses for the year from the gross distribution found in **Box 1 of Form 1099-R**. (Use the enclosed **Supplementary Sheet #1**). The difference between housing allowance and gross distribution constitutes the taxable portion of the annuity or other distribution, if any, which should be entered on **Line 16b of Form 1040 or Line 12b of Form 1040A, along with the words, "SEE SUPPLEMENTARY SHEET #1."**

If the deceased owned his or her own home, the allowable housing expenses are the **lesser** of:

1. The reasonable value of a year's rent for the home, including furnishings and cost of utilities, *or*
2. What the deceased actually spent for that home in 2017 for the following expense items:
 - *Down payment*
 - *Mortgage payments (principal and interest) on a loan to buy or improve the home*
 - *Real estate taxes*
 - *Property insurance*
 - *Utilities (electricity, gas, water, trash pickup, local telephone charges)*
 - *Furniture and appliances (purchase and repair)*
 - *Structural repairs and remodeling*
 - *Grounds maintenance and improvements*
 - *Maintenance items (household cleaners, light bulbs, pest controls, etc.)*
 - *Homeowners' association dues*

Cautions

If the deceased was renting a house or apartment, the amount of the allowable housing expenses can be up to the year's rental costs, plus the cost of utilities and value of furnishings and any items from the above list that the deceased actually had to pay. If he or she had more than one home, only expenses from the primary residence may be used in computing allowable housing expenses.

If the deceased was receiving a housing allowance from another source, the total of that housing allowance and the portion of his or her Pension Boards annuity designated as housing allowance cannot exceed the lesser of the amounts in (1) and (2) above.

If he or she receive more than one pension or other distribution, if any, housing costs can only reduce taxes on the benefit from the Pension Boards. Please contact the payer of the other pension to determine taxability.

After computing allowable housing expenses

- *Insert the gross amount of the Pension Boards annuity from **Box 1 of Form 1099-R** in **Line 16a of Form 1040** or **Line 12a of Form 1040A**.*
- *Insert the allowable housing expenses in **Line 2 of Supplementary Sheet #1** and complete the remainder of that sheet.*
- *Transfer the amount in **Line 3 of Supplementary Sheet #1** to **Line 16b of Form 1040** or **Line 12b of Form 1040A**, followed by the words, "**SEE SUPPLEMENTARY SHEET #1.**" This is the portion of the annuity or other distribution, if any, that is in excess of the allowable housing expenses and therefore subject to federal income tax.*

If you did not receive information from the Pension Boards reporting the deceased's after-tax contributions (or if you wish to disregard them), and his or her only pension or other distribution was from the Pension Boards, you may use a completed copy of the enclosed **Supplementary Sheet #1** as an attachment to the return. Be sure to retain a copy of the completed **Supplementary Sheet #1** for your records.

Any income tax withheld from the Pension Boards annuity or other distribution, if any, is shown on **Form 1099-R**. Attach **Copy B of Form 1099-R** to the return to show the amount of tax withheld.

If after-tax pension contributions were made

If after-tax pension contributions were made and housing expenses exceed the annuity or other distribution, if any, under law you may be able to lower taxes because the portion of the annuity provided by after-tax pension contributions is not taxed. Please consult a tax advisor familiar with clergy tax rules if this situation applies.

Supplementation and Ministerial Assistance

Supplemental gift checks received from the General Synod Plan of Supplementation of Small Annuities (administered by the Pension Boards) are not taxable. This income is not included in **Form 1099-R** and does not need to be reported.

If the deceased was disabled and under age 55

If the deceased was receiving disability pension benefits and was under age 55 during the entire 2017 year, **Distribution Code 3 appears in Box 7 of Form 1099-R**. These payments should be reported (along with other wages, salaries, tips, etc.) on **Line 7 of Form 1040 or 1040A**. Disability benefits should not be reported as pension or annuities prior to when the deceased reach age 55, the minimum non-disability retirement age for the Annuity Plan for the United Church of Christ.

Disabled ministers also may be eligible for the housing allowance exclusion.

For member whose annuity(ies) commenced in 2017 and who elected a partial withdrawal option at retirement

The amount distributed in 2017 under the Partial Withdrawal Option is considered an eligible rollover. If you chose to have this distribution made as a direct rollover, no income tax was withheld and you will be issued a separate **Form 1099-R** for that distribution with distribution **Code G** appearing in **Box 7 of Form 1099-R**.

Self-employment (Social Security) tax on pension income

Housing allowance provided to retired ministers from a church pension plan is not subject to self-employment (Social Security/SECA) taxes. No self-employment tax is required to be paid on any part of your Pension Boards annuity or other distribution, if any.

Electronic filing

If you choose to file your tax return electronically, please be certain that the program used to prepare your taxes provides a means to add supplementary documentation.

Changes in the tax laws

The Pension Boards does not provide any legal, accounting, or tax advice to its members regarding the taxability of any transactions associated with your retirement funds or preparation of your tax returns. This material is purely for informational purposes and members should consult their legal, accounting, or tax professional prior to making any decisions concerning their retirement decisions that could result in a taxable event or engaging in any transactions concerning their retirement funds, or in the preparation of your tax returns.

Detailed information on income tax issues may be obtained from your tax advisor, accountant or attorney, or from IRS publications and forms, which may be ordered by calling toll-free **1.800.829.3676**, or downloaded online at **www.irs.gov**.