

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.

If no after-tax contributions were made toward your annuity

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

Determining allowable housing expenses

You may subtract your allowable housing expenses for the year from the gross distribution found in **Box 1 of Form 1099-R**. (Use the enclosed **Taxpayer-Prepared Supplementary Sheet #1**). The difference between housing allowance and gross distribution constitutes the taxable portion of your annuity or other distribution, if any, which should be entered on **Line 5b (Pensions and annuities—Taxable amount) of Form 1040 or Form 1040-SR (U.S. Tax Return for Seniors), along with the words, “SEE SUPPLEMENTARY SHEET #1.”**

If you own your own home, your allowable housing expenses are the **lesser** of:

1. the reasonable value of a year’s rent for your home, including furnishings and cost of utilities; or,
2. what you actually spent for that home in 2021 for the following expense items:
 - down payment
 - mortgage payments (principal and interest) on a loan to buy or improve your 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 control, etc.)
 - homeowners’ association dues

Cautions

If you are renting a house or apartment, the amount of your 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 you actually had to pay. If you have more than one home, only expenses from your primary residence may be used in computing allowable housing expenses.

If you are receiving a housing allowance from another source, the total of that housing allowance and the portion of your Pension Boards annuity designated as housing allowance cannot exceed the lesser of the amounts in (1) and (2) above.

If you receive more than one pension or other distribution, if any, your housing costs can only reduce taxes on your 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 your Pension Boards annuity from **Box 1 of Form 1099-R in Line 5a (*Pensions and annuities*) of Form 1040 or Form 1040-SR.**
- Insert your 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 5b (*Pensions and annuities—Taxable amount*) of Form 1040 or Form 1040-SR**, followed by the words, “**SEE SUPPLEMENTARY SHEET #1.**” This is the portion of your 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 after-tax contributions (or if you wish to disregard them), and your only pension or other distribution is from the Pension Boards, you may use a completed copy of the enclosed **Supplementary Sheet #1** as an attachment to your return. Be sure to retain a copy of the completed **Supplementary Sheet #1** for your records.

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

If after-tax pension contributions were made

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

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 you are disabled and under age 55

If you are receiving disability pension benefits and were under age 55 during the entire 2021 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 1 (*Wages, salaries, tips, etc.*) of Form 1040 or 1040-SR**. Disability benefits should not be reported as pension or annuities until you 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

The amount distributed in 2021 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

in 2021 and who elected a partial withdrawal option at retirement

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**.