

FEDERAL INCOME TAX STATUS OF CHURCH PENSION FUND BENEFITS

The General Rule: In accordance with Section 107 of the Internal Revenue Code, the Church Pension Fund has designated the full amount of each pension paid to retired and disabled **clergy** in 2010, including the Extra Christmas Benefit, bridge benefit, and disability enhancement, as a housing allowance. However, the amount of housing allowance that you may exclude from gross income for Federal income tax purposes cannot exceed the lesser of (1) the total amount you actually spent in 2009 for items that directly relate to renting or providing a home, or (2) the fair rental value of your home (including garage and furnishings) plus the cost of the utilities.

For Surviving Spouses and Children: The housing allowance exclusion is applicable to Church Pension Fund benefits paid to the **clergy** who earned them. **Tax law does not allow such an exclusion for surviving spouses or dependents.**

How to Calculate: While further details are available in IRS Publication 517 and the *2010 Tax Guide for Episcopal Ministers*, the following list may assist you in determining the total actual expenses that relate to renting or providing your home:

- Down payment on a home or property
- Mortgage payments, both principal and interest*
- Real estate taxes and special assessments*
- Fees paid for acquiring home titles, mortgages, etc.
- Improvements and repairs
- Moving expenses
- Home furnishings which are primary and essential
- Maintenance and upkeep of property including landscaping
- Utilities – electric, gas, oil, water, basic telephone, trash, cable television base rate (not including premium channels)
- Rent payments for home, garage, storage for household items, furnishings, etc.
- Fire and home liability insurance premiums

Resettlement Benefit May Qualify: The Resettlement Benefit paid by the Church Pension Fund at the time of your retirement has also been designated as housing allowance. It may be excluded from gross income to the extent that it is used in the taxable year in which it is received for the purpose of renting or providing a home, subject to the rules described above.

Importance of Records: We strongly recommend that you keep good records, including all your calculations and expense records related to renting or providing your home. You may need them if tax questions or challenges develop.

How to Report: The amount you decide to exclude from your gross income is not shown on your Federal tax return because it is an “exclusion,” not a “deduction.” The total of all pension benefits received during the year (shown on Box 1 of your Form 1099-R) should be copied to Line 16a of your Federal Form 1040 [Line 12a of Federal 1040A]. The taxable portion of these benefits, determined by subtracting the amount you are excluding for housing purposes from the total, should be shown on Line 16b of your Federal Form 1040 [Line 12b of Federal 1040A]. Line 16b should not be left blank, so if all amounts received are used for housing you should enter a zero (0) on that line. Please note that you will receive the Form 1099-R from Northern Trust as they are the paying agent for the plan.

SECA Tax: Social Security Self-Employment tax (also called SECA tax) is not applicable to any part of the qualified retirement benefits paid by the Church Pension Fund. This interpretation was confirmed by Federal tax legislation in 1996. However, if you have other earnings from self-employment after retirement (from the church or other source), you may be required to pay SECA tax on those earnings and also on the fair rental value of housing provided by a church or other employer.

Further Assistance: We will, of course, assist in answering questions about specific benefits that you receive from the Church Pension Fund; please contact the Pension Services Department at 866-802-6333. However, we cannot advise as to personal tax problems. If legal, accounting or other expert assistance is required in connection with your tax returns, the services of a competent professional should be sought. For general questions concerning clergy taxes, you may call Matt Chew at 877-305-1414 or Bill Geisler at 877-305-1415, toll-free.

* Please note that in addition to being treated as housing expenses for the purpose of calculating the housing allowance exclusion, mortgage loan interest and real estate tax payments are allowable as itemized **deductions** from gross income on Schedule A of Form 1040.

TWO IMPORTANT TAX TIPS:

1. See **CPF Form B** on the reverse side of this sheet

CPF Form B is an important tax form from the Church Pension Fund that designates the full amount of each pension paid to retired and disabled clergy in 2009 as a housing allowance.

2. The **2010 Clergy Tax Guide** (for 2009 Tax Returns) is going green

As part of the Church Pension Group's efforts to be wise stewards of our financial and natural resources, we are providing the *2010 Clergy Tax Guide* primarily as an online resources this year—in a downloadable, searchable PDF format.

Starting mid-January, you can access this document electronically by going to www.cpg.org/taxpubs. Your accountant or tax advisor can access this publication here, too.

We hope you will be able to use the online version; however, a printed *2010 Clergy Tax Guide* will be mailed to you if (and only if) you order one. Go to www.cpg.org/taxpubs. If you do not have internet access, please call (866) 802-6333.