



The Pension Boards
United Church of Christ

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TO: Retired Clergy Employees Receiving Annuity Payments from the Pension Boards

FROM: James T. Herod, Esq.
General Counsel/Corporate Secretary

RE: Reporting Annuity Payments on Your 2009 Tax Return

Grace to you and peace in this New Year.

This letter contains information on how your annuity payments are taxed by the federal government. **Form 1099-R**, which reflects annuity income and other distributions, if any, paid to you by the Pension Boards in 2009, **will be sent to you directly by our bank by January 31, 2010.** For your convenience, a sample copy of **Form 1099-R** is shown below.

PAYER'S name, street address, city, state, and ZIP code		1 Gross distribution	OMB No. 1545-0119		Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.
THE PENSION BOARDS - UNITED CHURCH OF CHRIST, INC. 475 RIVERSIDE DRIVE, ROOM 1020 NEW YORK, NY 10115		\$	2009 Form 1099-R		
PAYER'S federal identification number 20-2205895		2a Taxable amount			Total distribution <input type="checkbox"/>
RECIPIENT'S identification number		\$	3 Capital gain (included in box 2a)		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.
RECIPIENT'S name		4 Federal income tax withheld		This information is being furnished to the Internal Revenue Service.	
Street address (including apt. no.)		5 Employee contributions / Designated Roth contributions or insurance premiums	6 Net unrealized appreciation in employer's securities		
City, state, and ZIP code		7 Distribution code(s)	IRA/SEP/SIMPLE <input type="checkbox"/>	8 Other	12 State distribution
1st year of desig. Roth contrib.		9a Your percentage of total distribution	%	9b Total employee contributions	
Account number (see instructions)		10 State tax withheld	\$	11 State/Payer's state no.	\$
		13 Local tax withheld	\$	14 Name of locality	\$
			\$	15 Local distribution	\$

Form 1099-R

Department of the Treasury - Internal Revenue Service

How annuity payments are taxed

In general, annuity payments 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 annuity 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

If Pension Boards records show that you have not made any after-tax contributions to your account, the amount in **Box 5 of Form 1099-R** is recorded as “0” or left blank.

Determining allowable housing expenses

If no amount is shown in **Box 5 of Form 1099-R**, 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 **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 16b of Form 1040 or Line 12b of Form 1040A, 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 2009 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, lightbulbs, pest controls, 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 16a of Form 1040 or Line 12a of Form 1040A.**
- 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 16b of Form 1040 or Line 12b of Form 1040A**, 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 have no employee contributions in **Box 5 of Form 1099-R** (or if you wish to disregard them) and your only pension or other distribution, if any, 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 gifts checks received from the General Synod Plan of Supplemental 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 2009 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 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 in 2009 and who elected a partial withdrawal option at retirement

The amount distributed in 2009 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

This letter is a general informational statement based on the Pension Boards' understanding of the Internal Revenue Code and Regulations at the time of this writing. While we provide you with information about your annuity and other distribution, if any, the Pension Boards may not provide legal or tax advice to you and you should contact your tax advisor if you have questions on the tax forms, tax law or taxability of other income received.

Detailed information on income tax issues may be obtained from your tax advisor or attorney, or from IRS publications and forms, which may be ordered by calling toll-free **800.829.3676**, or downloaded online at **www.irs.gov**.