

Procedural Aspects of the Exclusion

Most local churches or other employing units of The United Methodist Church do not include the amount of housing allowance (e.g., the fair rental value of a parsonage or a cash payment characterized as a housing allowance in lieu of a parsonage) on informational returns such as *Internal Revenue Service Form W-2s, 1099s*, etc. Therefore, most active clergy never need to show the exclusion of the housing allowance when filing their federal income tax returns.

The retired or disabled clergyperson faces a different situation. Because distributions from pension programs must be reported to the Internal Revenue Service, the General Board reports the full amount distributed to the retired or disabled clergyperson during the year. The clergyperson has the responsibility of actually excluding the housing allowance from his or her reported gross income.

The retired or disabled clergyperson will receive from the General Board an *Internal Revenue Service Form 1099-R*. A copy of the form should be attached to the federal income tax return (and likewise, to any state or local return) filed by the clergyperson. This form reflects the amount of money received from the General Board. When calculating total (gross) income, the clergyperson must report all pension payments on line 16a “Total Pensions and Annuities” (*IRS Form 1040 for 2009*). The retired or disabled clergyperson should then report on line 16b (*IRS Form 1040 for 2009*) the taxable amount of his or her retirement income—i.e., the total amount of the retirement income minus the sum of: 1) the portion of the retirement income attributable to the after-tax contributions (if any), and 2) the portion being excluded in accordance with Code section 107.

The retired or disabled clergyperson who is claiming a housing allowance exclusion should also add an explanatory note. Next to line 16b (*IRS Form 1040 for 2009*), the clergyperson should write “See note,” and, on a separate sheet of paper, should designate a “Note to line 16b.” The note should include language similar to the following: “I received \$xxx from the UMC Benefit Board, Inc., as reported by the attached *1099-R*. I did not include \$yyy of this amount on line 16b because it has been excluded under the provisions of section 107 of the Internal Revenue Code as a housing allowance exclusion. As a retired United Methodist clergyperson, I am entitled to take this housing allowance exclusion.” An explanation of this type should be sufficient in most situations.

Please note that the *IRS Form 1040* is revised annually. Accordingly, the references to specific lines may change from year to year.