

2018 Retired Ministers Tax Advisory

Purpose: This advisory is to assist retired Ministers from the Seventh-day Adventist Church to prepare their tax returns. The Retirement Plan cannot provide tax advice. This advisory in no way takes the place of a qualified tax advisor. It is an effort to help navigate the somewhat perplexing questions in entering information from a Minister's 1099-R provided by the Plan into tax preparation software.

1099 R: The retired minister receives Forms 1099-R from several possible sources, particularly in the first year of retirement.

1. 1099-R from our office,
 - a. Box 1 (Gross distribution) contains the total of the benefit distributed to the pastor during the year, not including those items normally not considered taxable such as Medicare B reimbursement.
 - b. Box 2a (Taxable amount) is blank for retired ministers.
 - c. Box 2b (Taxable amount not determined) has an 'x' in it for ministers.
 - d. Box 7 (Distribution Code) contains '7'.
 - e. This report informs the IRS that there was a distribution from the Plan and that we don't know how much will be considered taxable because we don't know what the Minister is eligible to exclude under Parsonage Allowance Exclusion rules.
2. 1099-R from our office
 - a. Box 1 (Gross distribution) contains the total of a Retirement Allowance which was rolled over into a tax deferred account such as an IRA or a 403(b) account.
 - b. Box 2a (taxable amount) is blank.
 - c. Box 2B (Taxable amount not determined) is not marked.
 - d. Box 7 (Distribution Code) contains a 'G'.
 - e. This report informs the IRS that there was no distribution, but a rollover to another tax-deferred account. This is not taxable until actually withdrawn.
3. 1099-R from Adventist Retirement Plan via Third Party Administrator¹
 - a. Box 1 (Gross distribution) contains the total of the benefit distributed to the pastor during the year from the Adventist Retirement Plan account subject to a withdrawal request.
 - b. Box 2a (Taxable amount) is blank for retired ministers.
 - c. Box 2b (Taxable amount not determined) has an 'x' in it for ministers.
 - d. Box 7 (Distribution Code) contains '7'.
 - e. This report informs the IRS that there was a distribution from the Plan and that we don't know how much will be considered taxable because we don't know what the Minister is eligible to exclude under Parsonage Allowance Exclusion rules.

¹ Empower Retirement is currently the plan Third Party Administrator.

Example

Minister Joseph Bozinski and wife Tina are preparing their returns.² The following information is used in this example.

1. A Form 1099-R is received from Adventist Retirement Plan via Third Party Administrator for structured monthly withdrawals from Joe's Adventist Retirement Plan account amounting to a total of \$9,450. Box 7 shows a '7-Normal Distribution' code. Box 2a is blank. Box 2b 'Taxable amount not determined' is checked.
2. A Form 1099-R is received from Seventh-day Adventist Retirement Plans for pension from the pre-2000 pension plan operated by the church. Gross distribution is \$7,450. Box 7 shows a '7-Normal Distribution' code. Box 2a is blank. Box 2b 'Taxable amount not determined' is checked.
3. A Form 1099-R is received from Seventh-day Adventist Retirement Plans for a lump sum Retirement Allowance, rolled over into an Individual Retirement Account at the request of the retiring minister, amounting to \$22,450. Box 7 shows a 'G-Rollover'.
4. A Form SSA-1099 is received from the Social Security Administration. Joe received \$9,200 and Tina received \$4,550. Both had Medicare Premiums deducted amounting to \$1,258 each.
5. Joe and Tina have determined that during the tax year they spent \$11,950 on qualified housing expenses such as property tax, property insurance, utilities, repairs, rent and other expenses determined to be allocable to providing a home for the minister. They have decided to divide this amount evenly between the two Form 1099-R (Code 7) forms they received in order to properly exclude such expenses from otherwise taxable distributions.
 - a. $\$9,450 \text{ less } 50\% \text{ of } \$11,950 = \$3,475 \text{ taxable amount}$
 - b. $\$7,450 \text{ less } 50\% \text{ of } \$11,950 = \$1,475 \text{ taxable amount}$

Entry

Joe and Tina will need to type in the information for the Forms 1099-R. All information shown on the form must be exactly entered, except:

Box 2a should be the taxable amount as calculated using paragraph 5 above

After entry of each 1099-R, tax software will probably ask a series of questions. Your answers will depend on which of the Form 1099-R you receive, the code 7 or the code G form.

Questions Regarding the 1099-R in some Tax Preparation Software³

For a 'Normal Distribution' (code 7) 1099-R either from the Plan or from Adventist Retirement Plan via Third Party Administrator:

1. On the Form 1099-R, is the IRA/SEP/SIMPLE box between box 7 and box 8 checked?
 - a. No, the box is blank.
2. Was this distribution from a qualified plan?
 - a. From a Qualified Plan, or Yes
3. Did you move this money to another Retirement Account?
 - a. No, I used the money for another purpose.
4. Did you receive payments from this retirement account on a regular basis, such as monthly, quarterly or annually?

² Joseph and Tina Bozinski are figments of our imagination. All information here has been invented for purposes of this example. For simplicity, we have not given examples of investment or other income sources.

³ These questions are drawn from TurboTax's 'Deluxe' version. Your wording may vary somewhat depending on what preparation software you are using.

- a. Yes. (If from the Third Party Administrator, you may have opted for irregular, so this would be No.)
5. Is this year the first year you began getting regular payments from this account?
 - a. Yes or No, depending on your situation.
6. Was the amount shown in box 2a used as the taxable amount?
 - a. Yes.

In TurboTax, the next screen will show a list of the Forms 1099-R which you have entered. Do not be dismayed by seeing the Gross Distribution as opposed to the reduced amount. TurboTax will accurately show this on the Form 1040 in line 12b or 16b. You can see this by clicking on the 'Forms' icon and going to the Form 1040. Box 'a' will show the gross distribution. Box 'b' will show the taxable amount.

Some Ministers will receive more than one Form 1099-R for withdrawals from the Empower account and from the pre-2000 pension. Merely allocate the qualifying expenses between the two forms so that the end result as shown on line 16a and 16b is correct. How you do this is not important, as long as the amount does not create a negative 'Taxable amount' on any forms entered.

Note: Do not attempt to reduce income by expenses that exceed the total income from this Retirement Plan. Your taxable amount on the Form 1040 "Pensions and annuities" line 12b or 16b must not be a negative number. It is the opinion of our legal counsel that you cannot reduce income from investments or Social Security by using excess parsonage allowance.

For a Direct rollover and rollover contribution (code G) 1099-R

1. On the Form 1099-R you received, is the IRS/SEP/SIMPLE box between box 7 and box 8 checked?
 - a. No, the box is blank.
2. If asked to verify the Taxable amount in box 2, do not change what is actually entered.
3. Is this 1099-R reporting a rollover of funds from a 401(k), 403(b), or governmental 457(b) plan to a designated Roth 401(k) or Roth 403(b) plan?
 - a. Usually you would answer "No" if you have rolled these funds into another tax deferred account such as an Individual Retirement Account or into the Empower Retirement 403(b) account.
4. Was this money rolled into a Roth IRA?
 - a. Again, unless you deliberately put this into a Roth account, No.

If you go to the Form 1040, you will see that on the "Pensions and annuities" (line 12 or line 16 depending on whether you use Form 1040a or Form 1040) there will be a number in box 'a' and the word "Rollover" will probably appear as an explanation. The number will be the sum of the various gross distributions of the Forms 1099-R. The Taxable amount in box 'b' will be the amount you've determined to be taxable.