



2011 TAX FILING INSTRUCTIONS

January 2012

Dear Participant:

You will soon receive from the Principal company (our third party business partner) an IRS Form 1099-R that reports the Church of God Retirement Plan payments you received in 2011. For some types of payments issued the taxable portion of the payment(s) is able to be determined. But generally, the taxability has not been determined — the total benefit payments are simply reported on the 1099-R form as “Gross distribution” in box 1 (box 2a, the “Taxable amount”, remains blank) and in box 2b the “Taxable amount not determined” check-box has been marked.

At the onset of retirement, each participant needs to determine their account “tax basis” – that is, the amount of after-tax contributions, if any, that you made to the Plan (that you have not previously withdrawn in the form of a partial lump sum distribution). During your career, if your employer(s) paid all the contributions made to your retirement account then the entire amount of retirement income received by you is taxable — unless you are a minister eligible to exclude the income as a housing allowance (described below). If any contributions remitted for your account were paid on an “after-tax basis” then you may want to request IRS Publication 575 titled “Pension and Annuity Income” for guidance on how to calculate the taxable portion of your retirement income. If you began receiving monthly benefit payments prior to year 2010, it is likely that you have already determined the method applicable for calculating the taxability of your benefit payments.

If you receive more than one Form 1099-R, the sum total of all the forms (box 1) should be reported on line 16a of your Form 1040 Federal Income Tax Return. The appropriately calculated taxable portion, if any, of each form is to be reported on line 16b. Please direct any questions you have to the Board of Pensions at 1-800-844-8983.

Special Provision for Retired Ordained Ministers

Section 107 of the Internal Revenue Code permits a minister of the gospel to exclude from gross income (in computing federal income taxes) a church-designated allowance paid to the minister as part of his or her compensation to the extent that it is used for actual expenses in owning or renting a home. The Clergy Housing Allowance Clarification Act of 2002 amended the Internal Revenue Code to clarify that the housing allowance exclusion is limited to the fair rental value of the property. Also, in 1975 the Internal Revenue Service announced (Rev. Ruling 75-22) that retired clergy are eligible for a housing allowance exclusion if the following conditions are satisfied:

- (1) a portion of a retired minister’s pension income is designated as a housing allowance by the trustees of a denominational pension fund;
- (2) the retired minister “has severed his relationship with the local church and is reliant upon the fund for his pension”;
- (3) the pension paid to retired ministers “compensate them for past services to the local churches of the denomination or to the denomination”.

Based on the above, and other IRS private and published revenue rulings, the total retirement payments made to retired ministers from the Church of God Retirement Plan for the year 2011 (to the extent such payments are attributable to compensation deferred with respect to services which constitute such ministers’ exercise of their respective ministries) has been designated as housing allowance. Of course, the retired minister must be able to substantiate that the amount of retirement income excluded was actually spent out-of-pocket to provide a home and that the excluded amount does not exceed the fair market rental value of the home, furnished, plus the cost of utilities. Qualifying out-of-pocket expenditures on your primary residence would include rent, mortgage payments (principal and interest), insurance, property taxes, utilities, general furnishings, home repairs and maintenance, etc. It is recommended that a minister utilizing the housing allowance provision omit the amount of the exclusion on line 16b (Form 1040). The minister should write “See Note” at line 16b and, on a separate sheet of paper, should designate a “Note to Lines 16a and 16b”. The minister should then write an explanatory note which says, in effect:

- (1) “Yes, I did receive “\$xx.xx” amount of money from the Principal Life Insurance Co. (TPA for Board of Pensions of the Church of God, Inc.) as reported by the attached Form(s) 1099-R and recorded on line 16a”;
- (2) “Yes, I did not include “\$xx.xx” of that money on line 16b. I excluded “\$xx.xx” (if any) as a return of my “investment in contract” (tax-basis) and, in addition, “\$xx.xx” has been excluded under the provisions of Section 107 of the Internal Revenue Code, as a housing allowance exclusion”;
- (3) I am a retired Church of God minister and am qualified to take a housing allowance exclusion.”

Annual Notices to Participants

Federal Regulations

The Federal Government requires us to share the following information with you each year at this time:

If Federal Income Taxes have been withheld from the pension payments you are receiving and if you do not wish to have taxes withheld, you should notify the Board of Pensions. However, if you elect not to have withholding apply to your pension payments, or if you do not have enough Federal Income Tax withheld from your pension payments, you may be responsible for payment of Estimated Tax. You may incur penalties under the Estimated Tax Rules if the Withholding and Estimated Tax Payments are not sufficient. If Federal Income Taxes are not being withheld from your pension payments because you have elected not to have withholding apply and if you wish to revoke that election and have Federal Income Taxes withheld from your pension payments, you should notify the Board of Pensions.

National Securities Markets Improvement Act

The National Securities Markets Improvement Act (the "Act") signed into law on October 11, 1996 exempts church plans from federal and state securities laws, except for anti-fraud provisions. In order to qualify for the exemption, church plans must satisfy eligibility requirements under Code Sec. 414(e) and the assets of church plans must be used exclusively for the benefit of plan participants and beneficiaries. Church plans continue to be subject to the Internal Revenue Code and its regulations regarding eligibility, governance, and operations of such plans. The following notice is provided in accordance with the Act:

The Plan or any company or account maintained to manage or hold assets of the Plan and interests in such Plan, companies, or accounts (including any funds maintained by the Board of Pensions of the Church of God) are not subject to registration, regulation, or reporting under the Investment Company Act of 1940, the Securities Act of 1933, the Securities Exchange Act of 1934, Title 15 of the United States Code, or State securities laws. Therefore, plan participants and beneficiaries will not be afforded the protections of those provisions.