

Evangelical Lutheran Synod

OFFICE OF THE BUSINESS ADMINISTRATOR

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RE: Housing and Household Furnishings Allowance 2011 on Disbursements from the ELS Shepherd Plan

The records of the Evangelical Lutheran Synod ("ELS") indicate that you are a rostered minister of the Gospel who has participated in the ELS Shepherd Plan. The ELS Shepherd Plan (the "Plan") is the denominational 403(b) plan for the ELS. Because you are a rostered minister of the Gospel, distributions you receive from the Plan may be excludable from your gross income for federal income tax purposes as housing allowance pursuant to Internal Revenue Code Section 107.

To qualify for the federal income tax exclusion as housing allowance, a retirement plan distribution must be designated as housing allowance in advance of payment. Assuming a plan distribution has been properly designated as housing allowance in advance, the portion of the distribution that the rostered minister may actually exclude from gross income for federal income tax purposes is limited by Code Section 107.

- A. Housing Allowance Designation. To satisfy the requirement that a Plan distribution be designated as housing allowance in advance, the ELS Board of Trustees passed a resolution designating 100% of the amounts disbursed to retired ministers under the Plan in 2011 and future years as housing allowance. That resolution, adopted by the Board of Trustees at its meeting of May 10, 2011, reads as follows

Under provisions of Section 107 of the Internal Revenue Code, the "Ministers of the Gospel" may have a portion of their compensation designated as a housing allowance. The amounts disbursed from the Plan shall be designated as housing allowance for the year 2011 and all future years unless otherwise provided.

- B. Code Section 107 Limit on Housing Allowance Exclusion. *Even though your Plan distribution has been designated in advance as housing allowance by the ELS, some or all of your Plan distribution may still be subject to federal income tax.* Code Section 107 limits the amount of retirement plan distributions designated as housing allowance that a rostered minister can actually exclude from gross income for a tax year. In applying the limit on the amount that may be excluded as housing allowance.

In general, if a rostered minister of the Gospel receives Plan distributions during the tax year that have been properly designated in advance as housing allowance, he may only exclude those distributions from his gross income for federal income tax purposes to the extent the distributions do not exceed *the lesser of* (i) the documented housing-related expenses (housing, utilities, maintenance, repairs) the retired minister pays during the tax year, or (ii) the fair rental value of the minister's home (furnished, including utilities).

- C. Federal Income Tax Reporting and Withholding. The IRS generally requires that 20% be withheld for federal income taxes from any distribution you take from the Plan. You may receive the amount withheld (or a portion of it) as a tax refund when you file your taxes if you paid more tax than you owed in the year the distribution was received. *As a minister of the Gospel, you can elect to waive federal tax withholding by certifying the distribution will be excluded from gross income and used as housing allowance.* Please contact Hahn Financial Group for additional information regarding these income tax withholding rules, distribution election forms, and withholding forms.

If you roll over your Plan distribution to a plan or an individual retirement account ("IRA") that is not a church plan sponsored by the denomination, your distributions will not be eligible for a housing allowance designation.

Your total distribution from the Plan for the year will be reported in box 1 on your Form 1099-R. In addition, the box labeled "Taxable amount not determined" on the Form 1099-R will be checked because, as noted above, you must determine the actual amount of your distribution that is excluded from gross income as housing allowance for federal income tax purposes.

In summary, it is your responsibility to determine your *excludable* housing allowance for federal income tax purposes for the year and to maintain appropriate records to substantiate that determination. In addition, you are responsible for timely paying any applicable tax due on your Plan.

The tax rules regarding the housing allowance exclusion under Code section 107 can be complex. We have provided some general information. If you have specific questions, however, please contact your personal tax advisor.

Should you have any questions about your housing allowance information or any aspect of this Plan, please feel free to contact the Hahn Financial Group, Inc. at 1-800-516-4246.



Myrna Meunier
Business Administrator

**Please retain this document with your
tax documents.**