



# Wespath

BENEFITS | INVESTMENTS



PARTICIPANTS

## Clergy Moving Expenses Q&A

### CHANGES DUE TO FEDERAL TAX LAW (ENACTED DECEMBER 2017)

This Q&A has been developed to provide general information for clergy who may have questions about the change in federal tax law concerning moving expense payments. Wespath's Legal department has researched these issues from a tax and employee benefit plan perspective. We also have gathered information from annual conferences in order to address issues clergy will be facing.

None of the information in these materials constitutes tax or legal advice, as Wespath cannot provide such advice. Individual circumstances may differ, so you should address your individual questions with your counsel or tax adviser.

**1. Q: Did the tax law signed by President Trump in December 2017 change the way moving expense payments for clergy are treated from a tax perspective?**

**A:** Yes. The law changed the way moving expenses are treated for most employees, including (but not uniquely) clergy.

**2. Q: How were moving expense payments addressed by the tax law before the changes?**

**A:** Before the changes, amounts provided by the annual conference or local church for moving expenses were not subject to income tax or self-employment taxes ("SECA") if certain conditions were satisfied.

The law excluded from an individual's gross income "any amount received (directly or indirectly) by an individual from an employer as payment for (or a reimbursement of) expenses which would be deductible as moving expenses ... if directly paid or incurred by the individual." (An individual was allowed a tax deduction for "moving expenses paid or incurred ... in connection with the commencement of work ... as an employee or as a self-employed individual at a new principal place of work.")

**3. Q: How does the new law change moving expense payments?**

**A:** The moving expense exclusion and the individual deduction were both eliminated for tax years 2018 through 2025. This means that any moving expense payments you receive will be subject to income taxes and SECA.

**4. Q: What if I don't receive a payment directly? Am I taxed if my employer arranges for the move (e.g., by paying the moving company directly on my behalf)?**

**A:** Yes. The tax code defines income as coming from any source and affirmatively defines amounts received for moving expenses as part of gross income, if attributable to employment or self-employment<sup>1</sup>. Regulations clarify that your income is increased in the amount of the value of moving services, even if you do not receive any money yourself, as in the case where your employer arranges the move.

**5. Q: Will moving expense payments be taxable income to me if they are made by the annual conference and not the local church I am serving?**

**A:** Yes. The tax code defines payment for moving expenses as income, so long as the move is attributable to employment or self-employment. Regulations indicate that the payer might be a client, customer or similar person (as well as an employer).

**6. Q: How will the moving expense payments be reported to the IRS?**

**A:** Moving expense payments by a local church will likely be reported in box 1 of your W-2, along with other compensation. (IRS guidance on these changes to the law has not been issued yet, but that is how taxable moving expenses were handled prior to the change.)

Moving expense payments by an annual conference, for a clergyperson who is not considered an employee of the annual conference, will likely be reported on a Form 1099-MISC<sup>2</sup>.

**7. Q: In what tax year will the moving expense payment be taxable to me?**

**A:** It will be taxable in the tax year that you receive the payment. For example, if you receive a moving expense payment on January 5, 2019, it is taxable to you in the year 2019, even if your move occurred in 2018. If the moving expense payment is paid directly to a moving company, the amount will be taxable to you in the year the payment is made to the moving company.

**8. Q: Should I withhold extra from my paychecks to cover the taxes on moving expense payments?**

**A:** You may wish to withhold extra, or make additional quarterly payments, to cover the additional income taxes that will be due on the moving expense payment. If the payment is made to you by your local church, the local church might not withhold anything from the payment to cover income taxes. If the payment is made to you by your annual conference, or is made directly to a moving company, there will not be any withholding. You may wish to withhold extra in order to avoid any under withholding penalties or in order to avoid having to pay a significant amount when filing your taxes. Also, remember that moving expenses are subject to SECA taxes.

**9. Q: What is the tax impact to me if my local church fails to report these payments to my annual conference?**

**A:** Your local church failing to report moving expense payments to the annual conference should not impact your taxes, assuming the local church reports the payments on your W-2 as income. You are required to file accurate tax returns, even if your employer does not provide you with a proper W-2. However, you may receive fewer plan benefits if the local church does not report the payment to your annual conference. See below.

**10. Q: Do moving expense payments impact my benefits under the Wespath-administered plans?**

**A:** It may, depending on the benefit plans in which you participate. Plan benefits are based, in whole or in part, on your compensation. Because the law change makes these amounts taxable, the payments will fall within the definition of "compensation" for CPP, CRSP and RPGA. Therefore, if the payments are reported to Wespath, your plan benefits will increase for tax years 2018 through 2025.

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<sup>1</sup> Internal Revenue Code, Section 82 includes in gross income "any amount received or accrued, directly or indirectly, by an individual as payment for or reimbursement of expenses of moving ... which is attributable to employment or self-employment."

<sup>2</sup> See, e.g. GCFR Guidance, available at [gcfa.org/news/2018/may/03/tax-cuts-and-jobs-act-update-released/](https://www.gcfa.org/news/2018/may/03/tax-cuts-and-jobs-act-update-released/)

**11. Q: Do moving expense payments provided increase the deemed value of my parsonage<sup>3</sup> under our plans' definitions of compensation?**

**A:** Yes. If you are being provided with a parsonage, the 25% of compensation value that the plans attribute to a parsonage includes the moving expense payment. In other words, your compensation, including the moving expense payment, is multiplied by 25% to obtain the deemed value of a parsonage. That amount is then added to the rest of your compensation to determine your total plan compensation for CPP, CRSP and/or RPGA.

**12. Q: Do moving expense payments provided in connection with my retirement fall under the plans' definition of compensation?**

**A:** No.

**13. Q: Which benefit plans are impacted by the law change?**

**A:** The moving expense payments may affect your benefits in CPP, CRSP DB and DC, and RPGA.

**14. Q: How much will this change affect my retirement plan benefits?**

**A:** If you receive a moving expense payment and you participate in a retirement plan that provides plan sponsor contributions, you will receive a larger contribution. The amount of additional retirement plan contributions is equal to the plan sponsor contribution percentage multiplied by the amount of the moving expense payment. For example, if you receive a moving expense payment of \$4,000 and you participate in CRSP DC, you will receive an extra plan sponsor contribution of \$120<sup>6</sup> (\$4,000 times 3%), assuming you are contributing enough to the United Methodist Personal Investment Plan (UMPIP) to receive a full matching contribution.

**15. Q: Is the UMPIP impacted by the law change?**

**A:** UMPIP is being amended retroactive to January 1, 2018, so that moving expense payments will not be considered compensation for benefits determination purposes. As a result, UMPIP will not be impacted by the law change.

However, if you participate in CRSP and receive a moving expense payment, you must elect to contribute more than 1% on the UMPIP *Contribution Election* form to earn the full match in CRSP DC. The additional contributions should equal at least 1% of the amount of the moving expense payment (1.25% if you are provided with a parsonage). See question 17.

**16. Q: Can CPP, CRSP and RPGA also be amended to eliminate moving expense payments from the plans' definitions of compensation?**

**A:** CPP, CRSP and RPGA may be amended only by General Conference. As a result, Wespath is only able to propose a change to the definitions at the next General Conference in 2020. Wespath intends to make such a proposal, which would amend the definitions of compensation as of the beginning of 2020, to bring the definitions into alignment with UMPIP. If this proposal passes, moving expense payments would no longer be taken into account when determining plan benefits as of the beginning of January 2020.

**17. Q: If I am contributing 1% of my compensation to UMPIP, and I receive a moving expense payment, will I receive the full 1% matching contribution in CRSP DC?**

**A:** If you are contributing exactly 1% of your compensation to UMPIP, you will need to increase your contributions slightly to receive the full match in CRSP DC. UMPIP will have a different definition of plan compensation from CRSP until CRSP can be amended at General Conference 2020. Since UMPIP's definition of compensation won't include moving expense payments, and CRSP's will, your compensation will be higher under CRSP than UMPIP. So, 1% of your CRSP DC compensation will be greater than 1% of your compensation in UMPIP.

To maximize your match, contribute an additional amount equal to 1% of the amount of the moving expense payment to UMPIP. For example, if you currently contribute 1% of your plan compensation to UMPIP and you receive a moving expense payment of \$4,000, you'll need to contribute an additional \$40 (\$4,000 x .01) to UMPIP to earn your full match in CRSP, or \$50 (\$4,000 x .0125) if you are provided with a parsonage. Consider increasing your UMPIP contributions to 2% to avoid missing out on matching contributions.

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<sup>3</sup> If you have a parsonage, the additional contribution will equal \$150 (\$5,000 times 3%, as the additional \$4,000 of compensation is multiplied by 125% in order to include the parsonage value on your additional compensation).

**18. Q: Where can I learn more about this?**

**A:** More information will be provided in upcoming *Hark* articles. A video will also be prepared by Wespeth, for annual conferences, local churches and clergy.