

MEMORANDUM

To: Annual Conference Treasurers
Interested Parties

From: GCFA Legal Department

Re: Income Tax Treatment of Moving Expenses for
United Methodist Clergy at The Local Church

Date: September 2001

REQUIRED CONDITIONS FOR EXCLUDING EXPENSES

Local churches, annual conferences and other entities that pay directly or reimburse¹ “qualified” moving expenses to clergy may treat these payments **as exclusions from the income** of the recipient. In these cases only, the payer will **not** be required to report taxable income. In all other cases of payments for or reimbursements of moving expenses, such payments will be considered taxable income under Section 82 of the Internal Revenue Code, which requires that moving expense reimbursements be included in gross income for reporting purposes.

WHAT ITEMS ARE “QUALIFIED”

“Qualified” or deductible moving expenses include only (1) the reasonable expenses of moving household goods and personal effects from a former residence to a new residence, provided that the new place of work is at least 50 miles farther from the former residence than the previous job site, (2) the cost of storage and insurance for household goods and personal effects within any consecutive 30-day period after the day things are moved from the former residence and before delivery to the new residence, and (3) the reasonable expenses of travel (including lodging) from a former residence to a new place of residence. Expenses of only one trip (per person) may be deducted but all members of the household need not travel together. The costs of meals, pre-move house hunting expenses, temporary living expenses, are **never** qualified expenses and as such are considered taxable income if reimbursed.

¹ Reimbursements must be pursuant to an accountable reimbursement policy. To be an accountable policy or plan, expenses allowed must be the type for which deduction is allowed, had the taxpayer paid the expense personally. Such expenses must be documented and accounted for within a reasonable time. Prepayment of excess reimbursement must be returned within 120 days of the date incurred or paid.

SUMMARY OF REQUIREMENTS

In addition to those items stated above, the required conditions for the moving expense adjustment are:

1. The move must be made to a new principal place of work.
2. The new job site must be at least 50 miles farther from the former home than the previous job site.
3. The moving expenses incurred must be within a "reasonable time" of the start of a new job, generally construed to be no more than one year later (but sometimes expandable if circumstances indicate a longer period would be reasonable).
4. The work at the new location must continue for a certain period. The general rule is that the individual must work full time for at least 39 weeks during the first 12 months after the move to the new location.

There may be circumstances under which this time period test is suspended such as death, disability or involuntary transfer from employment at a new location. Additionally, if the individual is married and files a joint return, either spouse may satisfy this time test, but the couple cannot combine their weeks of work.

5. Qualified clergy moving expenses paid **directly** to the moving company by a salary paying unit (or employer), will not be reported. Qualified moving expense reimbursements paid directly to an employee pursuant to an accountable plan are not reported as income, but are reported as an informational item in Box 12 of Form W-2 and are identified under Code "P." Other moving expense payments or reimbursements (non-qualified expenses) are reported as income in Box 1.
6. Assuming the allowable moving expenses are reimbursed by the employer pursuant to an accountable reimbursement arrangement, the employer reimburses **only** those expenses that are qualified and that are properly substantiated.

WHAT IF THE ANNUAL CONFERENCE PAYS EXPENSES FOR CLERGY AT THE LOCAL CHURCH?

Annual conferences vary on how moving expenses for clergy at the local church are handled when clergy change appointments. In some conferences, the new local church pays for

the moving expenses. In others, the conference pays for the moving expenses. While the above IRS rules hold true in either situation, the method of reporting expenses needs to be considered.

IRS staffers have suggested that the proper form to report qualified, non-taxable moving expenses is on the Form W-2, not on a 1099. That suggestion works well when the local church is paying for the moving expenses, since the local church is also issuing the W-2. The IRS' suggestion for using a W-2 is not practical when the annual conference is paying the qualified moving expenses for clergy serving in local churches, since the annual conference is not the salary paying unit and otherwise would not be issuing a W-2 for these individuals. Each annual conference treasurer in this situation will have to make a decision as to one of the following options for reporting qualified moving expenses paid on behalf of clergy serving in local churches: 1) ask the local church to add the expense to the clergy person's W-2; 2) give the local church the moving expense money and ask them to pay for the moving expenses and then add the expense to the W-2; 3) report the expense on a 1099 anyway; or 4) some other creative alternative that is developed in consultation with outside tax counsel.

EXAMPLES OF QUALIFIED AND NOT QUALIFIED MOVING EXPENSES

These examples illustrate the IRS rules:

1. Rev. Winken lived in a parsonage next door to the church and moves 49 miles from his old parsonage home to a new parsonage next door to the new church. Since the move was not 50 miles, expenses incurred do not qualify as moving expenses and any payment or reimbursement is reported as income. **(not qualified)**
2. Rev. Blinken has accepted a job at a new church and plans to move into a new parsonage. Her former parsonage is 4 miles from her former church. Her former parsonage is 51 miles from her new church. The rules are that the taxpayer's new place of work must be at least 50 miles farther from the taxpayer's former residence than the former place of work. Therefore, Rev. Blinken's new church would have to be at least 54 miles farther from the old parsonage in order for the moving expense to be qualified. Rev. Blinken's moving expenses must be reported as income. **(not qualified)**
3. Rev. Nodd moves to a new parsonage that is 285 miles farther than the distance between his old home and his previous job, for the purpose of taking a new appointment. The church pays not only for the costs of the move and travel but also for a pizza party for the volunteer movers and the Nodd family and additional meal expenses for the family during the trip. The reimbursed meal expenses are reported as income. All other travel related moving expenses incurred, however, were reimbursed directly to the moving company (not to the pastor) and are not reported as income. **(qualified, except for meal expenses)**

4. Rev. Won moves 100 miles and the distance qualifies. The new local church pays for Rev. Won's rental of a moving van and gas mileage for driving the van and the two family cars (their mileage expense is \$.14 a mile). Rev. Won and volunteers do the actual move. If Rev. Won submits receipts pursuant to an accountable policy, then the local church only reports the amount paid in Box 12 of his W-2 as a qualified moving expense reimbursement. If Rev. Won fails to submit receipts, however, then the payment is put in Box 1 and is considered a nonqualified moving expense reimbursement subject to income tax (as all "non-taxable" reimbursements must be pursuant on accountable plan with receipts). Note that Rev. Won could file IRS Form 3903 to calculate and deduct qualified expenses reimbursed under a non-accountable policy. **(qualified, if receipts given)**

5. Rev. Knight moves 66 miles farther than the distance between his previous parsonage and his old job, to take a new appointment. Prior to his move he incurs costs for several house hunting trips. The distance qualifies and the moving expenses - except for the house hunting trips - are qualified reimbursable expenses with receipts. If, however, the local church paid for the several house hunting trips, then those expenses would be put on the pastor's W-2 in Box 1 as income. **(qualified, except for house hunting costs)**

6. Rev. Sale has retired from the annual conference and moves from her last appointment to her retirement home 200 miles away. Her moving expenses are paid by the conference but since she is not moving to a new job, all the expenses are reported as income. **(not qualified)**

Please note that these examples apply only to clergy moves. Different rules apply for lay staff moves.

MISCELLANEOUS

- Remember that the Internal Revenue Service requires Form 8822, Change Of Address, to be filed whenever a taxpayer changes address. (This requirement applies to **all** moves.)

- IRS Publication 521 "Moving Expenses" contains valuable additional information on moving issues. Form 8822, Form 3903 and Publication 521 can be obtained by calling 1-800-829-3676 or by logging on at www.irs.gov.

This memorandum explores the income tax aspects of moving expenses. Other aspects of clergy moves are not addressed here. The General Council on Finance and Administration is not engaged in providing legal, tax or accounting advice or services. Please consult a competent local attorney for legal advice or a tax professional for tax advice.