

Housing Allowance Explanation

Under Internal Revenue Service guidelines, the Church of God Benefits Board has designated up to 100 percent of the retired minister's annual distribution as housing allowance. However, the minister is **not automatically** entitled to exclude 100% of the designated housing allowance. To qualify, the minister must actually spend for housing the amount of money that he claims as an exclusion when filing his federal income taxes (Form 1040). The total amount excluded may not exceed the total cost to rent or to provide a retirement home.

Under the Clergy Housing Allowance Clarification Act of 2002 (Public Law 107-181), the amount excludable as housing allowance cannot exceed:

- the fair rental value of the furnished house, plus the cost of utilities,
- the actual expenses of operation of the home, or
- the amount designated by the Benefits Board as a housing allowance;
whichever is less.

Ministers that are retired (or those who are considering retirement) should remember the following facts when looking at the housing allowance:

- A minister can have only one housing allowance. If the minister is receiving a housing allowance from his church, he can not begin pension distributions and claim that as housing allowance as well.
- Distributions must be set up to occur over a period of 10 years or longer for such to qualify as housing allowance.
- In order for you to maximize this special benefit, you must maintain diligent documentation of all housing related cost. *Good record keeping cannot be over emphasized.* The liability for determining the appropriate amount of housing allowance that can be excluded *is the responsibility of the retired minister.*
- If the minister's house is paid for, he can claim utilities, taxes, insurance, maintenance, repair work, etc. He can not claim a "rental amount." Only actual expenditures are claimable.
- The retired minister should report the total amount received from the Benefits Board (assuming that is the only pension he receives) on Line 16A of the IRS Form 1040. The amount reported on Line 16A should correspond with the 1099-R form received from the Board in late January. Qualified housing costs should then be subtracted from the amount on Line 16A with the difference, or taxable amount, reported on Line 16B.
- The minister does not have to provide documentation to the IRS of his housing allowance. However, such documentation should be filed in his personal records with a copy of his tax return.
- A large down payment or doubling up on mortgage payments may not be excludable as housing allowance if such exceeds the fair rental value of the property. For example, assume that a minister pays \$50,000 down and in payments during a year on his house. The fair rental value of the house fully furnished with all utilities paid would be \$24,000 a year and the participant draws \$25,000 a year from his pension plan at the Benefits Board. Using the three prone test stated above, the participant could only exclude \$24,000 from his income for housing allowance (the lesser of the three). The additional \$1,000 would have to be reported on line 16B of the IRS 1040 as taxable income, even though the participant spent much more on his actual housing costs.

- Pension distributions can only be designated as ministerial housing allowance by qualified church pension plans set up under Section 403 (b) (9) of the Internal Revenue Code. The Ministers' Retirement Plan, administered by the Benefits Board, meets that criterion.
- Only credentialed ministers are eligible to claim the ministerial housing allowance.

Without a doubt, the ministerial housing allowance is one of the best benefits available to both active and retired ministers. However, its implementation is often difficult and confusing. Please contact this office for additional assistance and guidance concerning the housing allowance if such is needed.