



## Housing Allowance for Retired Ministers

Under the Internal Revenue Service guidelines, the Church of God Benefits Board has designated up to 100% of the retired minister's annual distributions from the Benefits Board as housing allowance. However, the minister is **not automatically** entitled to exclude 100% of his distributions as 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 on Form 1040. The total amount excluded may not exceed the total cost to rent or to provide a retirement home. It should also be noted that church-related employees do not get to claim the housing allowance provision in retirement – just as they did not get to claim such during their work years for a church organization.

Under the Clergy Housing Allowance Clarification Act of 2002 (Public Law 107-181), the amount excludable by a retired minister 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 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 full housing allowance from his church, he cannot claim pension distributions as housing allowance as well.
- Distributions from the Ministers' Retirement Plan must initially be set up to occur over a period 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 **cannot** claim a "rental amount" if his house is paid for. Only actual expenditures are claimable.
- The retired minister should report the total amount received from the Benefits Board on Line **5A** of the IRS Form 1040. The amount reported on Line **5A** should correspond with the 1099-R form received from the Board. Qualified housing costs should then be subtracted from the amount received from the Benefits Board, with the difference – the taxable amount – reported on Line **5B**.
- The minister does not have to provide documentation to the IRS of his housing allowance when he files his taxes. However, such documentation should be kept in the minister's personal records with a copy of the minister's tax return in case the IRS ever questions his/her housing allowance deductions.
- 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. Further assume that 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-prong test stated above, the participant could only exclude \$24,000 from his income for housing allowance (the least of the three). The additional \$1,000 would have to be reported on line **5B** 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.
- Again, 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 your tax professional for additional assistance and guidance concerning the housing allowance if such is needed.

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