

## ADMINISTRATIVE ALERT

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### THE RETIRED MINISTER'S HOUSING ALLOWANCE: MINISTERS' RETIREMENT PLAN DISTRIBUTIONS

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#### INTRODUCTION

As a retired minister of the Church of God, you are eligible for a substantial tax benefit related to distributions from your Ministers' Retirement Plan based on Section 107 of the Internal Revenue Code (IRC). The following housing allowance resolution has been officially designated by the Benefits Board:

**“Pursuant to Section 107 of the Internal Revenue Code, all benefit payments paid to retired ministers of the gospel from the Church’s retirement benefit plans and programs, including without limitations, the Church of God Ministers’ Retirement Plan and the Church of God Aged Ministers’ Fund, are designated as housing allowance to the extent used by the minister to rent or provide a home.”**

*It is important to note that the designation of pension as housing allowance for retired ministers can only be made by a church plan, as designated by the Internal Revenue Service.*

#### ELIGIBILITY

Retired ministers are eligible for a “housing allowance” exclusion up to 100% of their annual pension distribution. To qualify, the following provisions must be met:

- a) The retired minister must be reliant upon pension funds to pay for, or towards, his housing costs;
- b) The pension fund distribution paid to retired ministers must compensate him for past services to the denomination. (Revenue Ruling 75-22).

#### HOW MUCH HOUSING ALLOWANCE CAN BE EXCLUDED?

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 must not exceed the total cost to rent or to provide a retirement home. The retired minister should consider:

1. The actual expenses of owning and operating a home. Expenses include (but are not limited to):

- mortgage payments
- property taxes
- homeowners insurance
- furniture, appliances, etc.
- decorating/carpet/lamps
- repairs and upkeep
- improvements
- utilities/basic cable TV
- lawn care, snow removal, shrubbery

2. Rental cost, plus cost of utilities. Again, only the amount actually spent on housing can be excluded. If you spend less than 100 percent of your pension distributions, you must report the amount not used for housing as taxable income for federal income tax purposes. IRS Publication 517 provides a definition of how much housing can be excluded.

***Remember, the amount excludable as housing allowance cannot exceed:***

- *The fair rental value of the furnished house plus the cost of utilities, or*
- *The actual expenses of operation of a home, or*
- *The amount designated by the Benefits Board as a house allowance;*

***whichever is less.***

### **HOW WILL PENSION DISTRIBUTIONS BE REPORTED?**

In late January, you will receive IRS Form 1099R from the Benefits Board. The form will indicate the gross distribution from your Ministers' Retirement Plan account for the current taxable year. Because the Benefits Board has designated up to 100% of all retirement pension distributions as "housing allowance," Form 1099R will indicate "Taxable Amount Not Determined."

#### ***KEY POINT***

Remember, retirement benefits received under the Aged Ministers' Fund from Lincoln National Life Insurance have also been designated as housing allowance for **RETIRED** ministers. Therefore, the Lincoln benefit must be added to annual distributions received from the Ministers' Retirement Plan (MRP) for the purpose of calculating the total benefit designated as housing allowance. For example, if a minister receives \$2,400 from Lincoln National and \$5,000 from the MRP in any calendar year, the total benefit designated as housing allowance is \$7,400. If the retired minister's total housing expenses (as per this example) are less than \$7,400, the difference must be reported as excess housing allowance each taxable year on Form 1040.

#### ***KEY POINT***

Any minister who receives a retirement benefit from Lincoln National and is **NOT YET RETIRED** must report the total amount received as excess housing allowance on Form 1040, line 21.

### **GOOD RECORD KEEPING**

**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. Remember, the liability for determining the appropriate amount of housing allowance that can be excluded is the responsibility of the retired minister.**

### **CONCLUSION**

The proper use of "housing designation" can result in significant tax savings for qualifying ministers. Again, the retired minister must maintain accurate records of appropriate expenses throughout the year to justify the housing allowance exclusion.

At the end of each year, determine if 100 percent of the housing allowance has been spent for the appropriate expenses for providing a retirement home. If not, then the difference between the amount designated and the amount actually spent must be reported as additional taxable income when you fill out your federal income tax forms.

The information contained in this series, ADMINISTRATIVE ALERT, is of general nature. It is ***not*** offered as specific legal or tax "advice." Each person should evaluate their own unique situation in consultation with their legal and tax advisors. 1/2002