



INFORMATION FOR RETIRED MINISTERS REGARDING HOUSING ALLOWANCE AND COMPLETING IRS FORM 1040

Purpose

The purpose of this document is to:

- Explain the terms *housing allowance designation* and *housing allowance exclusion* available to ministers; and
- Assist ministers in determining their housing allowance exclusion and the taxable portion of their pension from the Pension Plan and/or Tax-Deferred Retirement Account (TDRA) for income tax reporting purposes.

Background

Section 107 of the Internal Revenue Code allows ministers who perform services in the exercise of ministry to exclude a "housing allowance" from their gross income. The exclusion includes an amount paid to a minister as part of his or her compensation to the extent used to *rent or provide a home* and to the extent such amount does not exceed the *fair rental value of the home, including furnishings and appurtenances such as a garage, plus the cost of utilities*. Code § 107(2); Treas. Reg. § 1.107-1.

The Internal Revenue Service has issued guidance extending the housing allowance exclusion to **retired ministers**. Pursuant to the guidance, amounts paid to a minister *as part of his or her compensation for past services* are excludable under Code Section 107(2), to the extent used for expenses directly related to providing a home. IRS Rev. Rul. 63-156. In other words, a retired minister can designate housing allowance on his or her pension that represents compensation earned for his or her past services that were in the exercise of ministry.

In contrast, Revenue Ruling 72-249 provides that a minister's surviving spouse cannot exclude housing allowance from a surviving spouse pension unless the housing allowance is designated with respect to a pension that represents compensation earned by the surviving spouse for *the spouse's* past services that were in the exercise of ministry. *See also* IRS Publication 517 at www.irs.gov/publications/p517/index.html; IRS PLR 8404101 (1984).

Key Terms

Housing allowance designation— This is the amount designated by the Pension Fund Board as housing allowance. The Pension Fund Board designates 100% of the retired minister's pension as housing allowance each year. The housing allowance designation applies to the following pension benefits, as applicable:

- the retired minister's pension under the Pension Plan, and
- if the retired minister has elected recurring distributions under the TDRA, the recurring distributions under the TDRA.

The minister's housing allowance designation is only an *estimate* of his or her expected housing expenses for the year.

Housing allowance exclusion— This is the amount a retired minister can legally exclude from income taxes and is limited to *the lesser of*—

- (1) the housing allowance designation made by the Pension Fund Board; **or**
- (2) the amount the minister actually spent for owning, operating or renting his or her principal residence; **or**
- (3) the fair rental value of the minister's principal residence furnished, plus utilities.

The housing allowance designated by the Pension Fund Board on behalf of the retired minister is only an estimate, and may exceed the amount that can be excluded as housing allowance. ***In all cases, the retired minister is responsible for maintaining records of housing expenses and for reporting the taxable amount of his or her pension on the Form 1040 Income Tax Return.***

Completing the Form 1040 Income Tax Return

Step 1

The minister must determine the amount actually spent on housing during the calendar year by gathering receipts for housing expenses such as rent or mortgage plus interest, property taxes, insurance (homeowner's or renter's), utilities (gas/oil, electricity, water/sewer/trash, local phone), furnishings, repairs and maintenance. The minister can use Pension Fund's *Worksheet for Calculating Housing Allowance Exclusion for Retired Ministers* as a guide in making this determination.

Step 2

The minister must compare his or her *actual housing expenses* and his or her *home's fair rental value* to the housing allowance designation in effect for the calendar year. **The housing allowance exclusion is the lowest of these amounts.** Generally, if there is no longer a mortgage on the home, the retired minister will be limited to the lower of either the actual expenses or the housing allowance designation.

If the actual housing expenses are lower than the housing allowance designation, the housing allowance exclusion is limited to the amount actually spent. If the actual housing expenses are higher than the housing allowance designation, the housing allowance exclusion cannot be greater than the designated amount.

Here are some examples:

		Minister A	Minister B	Minister C	Minister D
1	Total Pension Amount	\$35,000	\$35,000	\$35,000	\$35,000
2	Housing Allowance Designation	\$35,000	\$35,000	\$35,000	\$35,000

3	Fair Rental Value	\$15,500	\$25,000	\$21,000	\$39,600
4	Actual Expenses	\$16,494	\$21,081	\$23,151	\$38,021
5	Housing Allowance Exclusion (lowest of 2, 3 or 4)	\$15,500	\$21,081	\$21,000	\$35,000
6	Taxable Pension Amount (line 1 minus line 5)	\$19,500	\$13,919	\$14,000	\$0

The 1040 Individual Income Tax Return

Form 1099-R lists the total amount of the pension distribution in Box 1. Since Pension Fund does not know how much of the pension distribution can actually be excluded from taxable income as housing allowance for each retired minister, Box 2b of the Form 1099-R will be checked indicating "Taxable amount not determined."

On the Form 1040, U.S. Individual Income Tax Return, locate line 4.¹

1. On line 4a, record the amount from Box 1 of the Form 1099-R provided by Pension Fund.
2. Subtract the housing allowance exclusion from the amount listed in Box 1 of Form 1099-R. Record the difference on line 4b. This is the taxable amount of the pension. Do not leave line 4b blank.
3. Here is an example of what line 4 might look like:

4a IRAs, pensions, and annuities

4a	35,000	
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b Taxable amount

4b	13,919	
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Important Notes

IRS Forms: Retired ministers often ask what IRS form is needed to report housing allowance. *There is no special form for reporting a minister's housing allowance.* The process described above is similar to that used when completing Schedule A (Form 1040) – Itemized Deductions. For example, an individual may report total charitable contributions on Schedule A. The IRS does not ask for an accounting of all charitable contributions on Schedule A, but rather the individual tax filer records a total in that category, keeping accurate records in the event that the IRS questions the amount claimed. Likewise, retired ministers must keep accurate documentation of housing expenses in the event of an IRS audit.

Turbo Tax: If using TurboTax to complete the 1040, retired ministers may need to contact TurboTax to obtain information on how to accurately complete the tax return. Here is some information you may need when contacting Turbo Tax:

1. The Pension Plan is a defined benefit plan and the TDRA is a defined contribution plan.

¹ The IRS has issued a draft of a revised Form 1040 for 2019. In this draft, instead of lines 4a and 4b, you should complete lines 4c and 4d in the same manner discussed above.

2. The minister satisfies the required minimum distribution (RMD) rules in taking his or her pension under the Pension Plan and/or in electing an annuity form of distribution under the TDRA.
3. TurboTax asks for the amount used to purchase the annuity, which is not applicable to the Pension Plan or the TDRA.

PLEASE NOTE: *The information provided in this document is not intended to provide or be a substitute for specific individualized accounting or tax planning advice.*

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