

Tax Reporting Information for Retired Ministers

Housing Allowance

Purpose

The purpose of this summary is to:

- Explain the meaning of the housing allowance exclusion, and
- Assist ministers in determining the taxable portion of the pension they receive from the Pension Plan for income tax reporting.

Explanation of Housing Allowance Exclusion

Section 107 of the Internal Revenue Code allows ministers who own their own homes, rent a home or apartment, or live in a rent-free church owned parsonage to exclude from their gross income an amount that their employing church designates as housing allowance, so long as compensation for ministerial services and actually used to pay housing expenses.

The IRS has interpreted Code Section 107 to permit retired ministers to exclude from the taxable portion of their pension payments an amount that the denominational pension plan board designates as housing allowance, so long as the pension is compensation for past ministerial services and actually used to pay housing expenses.

Accordingly, retired ministers can exclude an amount for housing allowance from their pension equal to **the lower of:**

1. the housing allowance requested by the retired minister and designated in advance by the Pension Fund Board; **or**
2. actual housing expenses, including a down payment, mortgage payments or rent, utilities, property taxes, insurance, furnishings, appliances, additions, and maintenance; **or**
3. the fair rental value of the home (furnished, including utilities)

IMPORTANT: The housing allowance designated by the Pension Fund Board on behalf of a retired minister may be higher than the amount that the minister is permitted to exclude from gross income as housing allowance. *The retired minister is responsible for maintaining records of actual housing expenses and for reporting the taxable amount of his or her pension on the Form 1040 Income Tax Return.*

Getting Ready to Complete the Form 1040

Step 1

The minister must determine the amount he or she actually spent on housing in the tax year by gathering receipts for housing expenses, such as rent or mortgage plus interest, property taxes, homeowners or renters insurance, utilities (gas/oil, electricity, water/sewer/trash, local phone), furnishings, repairs, and maintenance.

Step 2

The minister must compare the housing allowance *designated by the Pension Fund Board* with his or her *actual housing expenses* and the *fair rental value of the home*. The amount of housing allowance that can be excluded from taxable income is the **lowest** of these amounts. Generally, if there is no longer a mortgage on the home, the minister will be limited to either his or her actual housing expenses or the housing allowance designated by the Pension Fund Board.

If the minister's actual housing expenses are lower than the designated housing allowance, the housing allowance exclusion is limited to the amount actually spent. If the minister's actual housing expenses are greater than the designated housing allowance, the housing allowance exclusion is limited to the designated amount.

Here are some examples:

	Minister A	Minister B	Minister C	Minister D
Total Pension	\$35,000	\$35,000	\$35,000	\$35,000
Housing Allowance Designation	\$21,000	\$21,000	\$17,500	\$17,500
Fair Rental Value	\$24,000	\$15,000	\$17,500	\$17,500
Actual Expenses	\$16,494	\$18,289	\$21,081	\$14,533
Housing Allowance Exclusion	\$16,494	\$15,000	\$17,500	\$14,533
Taxable Amount of Pension	\$18,506	\$20,000	\$17,500	\$20,467

Completing the Form 1040 Individual Income Tax Return

Locate line 16 on the Form 1040 Individual Income Tax Return. This is where the pension for the taxable year, as well as the taxable amount of the pension, is recorded.

- On line 16a, record the amount from Box 1 of the Form 1099-R provided by the Pension Fund.
- Subtract the housing allowance exclusion from the amount listed in Box 1 of the Form 1099-R. Record the difference, the taxable amount of the pension, on line 16b. Do not leave line 16b blank.
- Here is an example of what line 16 might look like:

16a	Pensions and annuities	16a	35,000		b	Taxable amount	. . .	16b	18,506	
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NOTE: Retired ministers often ask what IRS form is needed to report housing allowance. There is no special IRS form for reporting a minister’s housing allowance. The process described above is similar to that used when completing Schedule A – 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. 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.*

IMPORTANT: This is only a brief summary of the rules that apply with respect to the housing allowance exclusion. The information provided in this summary is not intended to provide or be a substitute for specific individualized accounting or tax planning advice.



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