

Clergy Housing Allowance and Federal Income Tax Status of The Church Pension Fund Benefits

In accordance with Section 107 of the Internal Revenue Code, ministers who receive an amount, as part of their salary for their services, that has been officially designated (in advance of payment) as a housing allowance may be able to exclude that amount from their gross income for federal income tax purposes.

Resolution

The Church Pension Fund (CPF) has passed a resolution that all benefits paid from retirement and disability plans sponsored by CPF to retired and disabled clergy have been designated as a housing allowance in 2023. (CPF passed a similar resolution for 2022.)

Exclusion

The amount of housing allowance that you may exclude from gross income for federal income tax purposes cannot exceed the lowest amount of the following:

- actual housing expenses (the total amount you actually spend in a calendar year for items that directly relate to renting or providing for your primary home),
- the fair rental value of your primary home (including furnishings) plus the cost of the utilities,
- your retirement and disability income provided by CPF plus any other compensation earned from an Episcopal employer that has been properly designated as a housing allowance.

For Surviving Spouses and Children

The housing allowance exclusion is applicable to CPF benefits paid to the clergy who earned them. **Tax law does not allow a housing allowance for surviving spouses or dependents.**

How to Calculate

While further details are available in *IRS Publication 517* and the 2023 Clergy Tax Return Preparation Guide, the following list may assist you in determining the total actual expenses that relate to renting or providing your primary home:

- Mortgage payments, both principal and interest*
- Real estate taxes and special assessments*
- Fees paid for acquiring home titles, mortgages, etc.
- Home improvements and repairs
- Cost of moving your home furnishings
- Home furnishings that are primary and essential
- Fire and home liability insurance premiums
- Maintenance and upkeep of property, including landscaping
- Utilities: electric, gas, oil, water, basic telephone, trash, cable television base rate (not including premium channels)
- Rental payments for home, garage, storage for household items, furnishings, etc.

Importance of Records

We strongly recommend that you carefully track your expenses and keep good records, including this form and all of your calculations and documents related to renting or providing your primary home. You may need them if there are questions or challenges to your housing allowance.

How to Report

The amount you decide to exclude from your gross income is not shown on your federal tax return because it is an “exclusion,” not a “deduction.” The total of all pension benefits received during the year (shown on Box 1 of your Form 1099-R) should be copied to Line 5a of your federal Form 1040. The taxable portion of these benefits, determined by subtracting the amount you are excluding for housing purposes from the total, should be shown on Line 5b of your federal Form 1040. Line 5b should not be left blank; if all amounts received are used for housing purposes, you should enter zero (0) on Line 5b.

Please note that you may receive Form 1099-R and/or Form W-2 from Northern Trust and/or Aflac, as they are the paying agents for the retirement benefit and disability plans sponsored by CPF.

If you receive distributions from The Episcopal Church Retirement Savings Plan (RSVP Plan), you may receive Form 1099-R from Fidelity Investments and/or Forrest T. Jones, as they are the paying agents for that plan. For distributions from the RSVP Plan processed by Fidelity Investments, please contact Fidelity to initiate the distribution and notify Fidelity that your distribution is eligible for the housing allowance.

SECA Tax

Self-Employed Contributions Act tax (also called SECA tax) is not applicable to any qualified retirement benefit payments received from plans sponsored by CPF. However, if you have other earnings from self-employment after retirement (from The Episcopal Church or other sources), you may be required to pay SECA tax on those earnings and also on the fair rental value of housing provided by a church or other employer.

Questions?

If you have questions about specific retirement and disability benefits that you receive from plans sponsored by CPF, please contact Client Services at (866) 802-6333, Monday to Friday, 8:30 AM to 8:00 PM ET.

Please note that we cannot advise on personal tax matters. If you require legal, accounting, or other expert assistance in connection with your tax returns, you should seek the services of a professional. For general questions concerning clergy taxes, please call Mary Ann Hanson at (877) 305-1415 or Dolly Rios at (833) 363-5751.

**Please note that in addition to being treated as housing expenses for the purpose of calculating the housing allowance exclusion, mortgage loan interest and real estate tax payments (up to \$10,000) are allowable as itemized deductions from gross income on Schedule A of Form 1040.*