NBUSA
Nazarene Benefits

MEMO #6

Housing Allowance in Retirement

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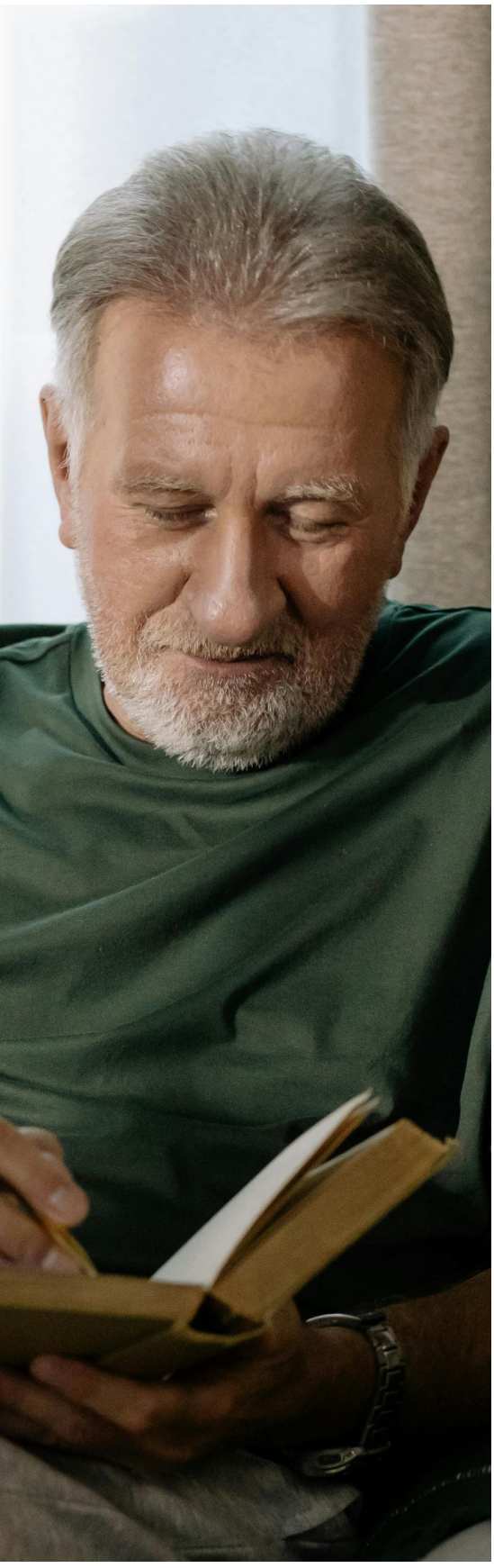
Under current IRS provisions, retired ministers who are ordained or district-licensed in the Church of the Nazarene may receive up to 100% of Nazarene Benefits USA-administered retirement plan payments as housing allowance.



Of course, any tax-free housing allowance—whether received from the Basic Pension or General Church Pension portion of the Nazarene Single Defined Benefit Plan, the World Mission Pension Plan, or the Nazarene 403(b) Retirement Savings Plan—must satisfy tax code limits. Income tax regulations specify that ministers may exclude from taxable income that portion of compensation that is designated as housing allowance "pursuant to official action taken in advance of such payment by the employing church or other qualified organization" [Treas. Reg. 1.107-1(b)]. The 1982 General Board of the Church of the Nazarene voted that 100% of the pension paid to a retired minister be designated as housing allowance to the extent allowed under Section 107 of the Internal Revenue Code. This designation was intended to be permanent and remains in effect. Eligible payments received are reported to the IRS on Form 1099-R as "taxable amount not determined."

Responsibility for determining the appropriate total amount of the excludable housing allowance and substantiating that determination rests with the individual retired minister.

"Minister" Defined for Housing Allowance Purposes

Generally, ministers are individuals who are duly ordained, commissioned, or licensed by a religious body constituting a church or church denomination. They are given the authority to conduct religious worship and perform sacerdotal functions

REMEMBER!

Retired ministers may receive 403(b) payments as housing allowance.

CAUTION

The responsibility for determining and substantiating a housing allowance rests with the individual minister.

such as administering ordinances or sacraments according to the prescribed tenets and practices of that church or denomination. Find more information about who is considered a minister for housing allowance purposes in Memo #12: *Who is a Minister for Tax Purposes?* at **nbusa.org**.

For example, in the Church of the Nazarene, individuals who receive a license from a local Nazarene congregation are not considered to be ministers for tax purposes since the Manual does not permit them to administer the sacraments of baptism, communion, or officiate at marriages (523.7). It also states that "a local minister is a lay member of the Church of the Nazarene" (523).

REMEMBER!

The IRS does not distinguish between employed and retired status for housing allowance purposes.

Determining the Housing Allowance

The IRS does not differentiate between employed status and retired status for housing allowance purposes, so the limits are essentially the same for both. The Internal Revenue Code states: "In the case of a minister of the gospel, gross income does not include **(1)** the rental value of a home, including utilities, furnished to him as part of his compensation; or **(2)** the rental allowance paid to him as a part of his compensation, to the extent such allowance is used by him to rent or otherwise provide a home and to the extent such allowance does not exceed the fair rental value of the home, including furnishings and appurtenances such as a garage, plus the cost of utilities" ***(IRC §107).*** Additionally, a minister can exclude parsonage allowance for only his or her principal place of residence.

The Clergy Housing Allowance Clarification Act of 2002 updated the Tax Code to make sure ministers include a fair rental value of their property in determining how much they can exclude from income tax. However, the IRS remains silent on how a minister may determine this value. According to the late clergy tax specialist Dan Busby, "the fair rental value should be based on comparable rental values of similar residences in the immediate neighborhood or community, comparably furnished. One of the best methods to use in establishing fair rental value of housing is to request a local Realtor to estimate the value in writing. Place the estimate in your tax file and annually adjust the value for inflation and other local real estate valuation factors."

REMEMBER!

A minister's cash housing allowance cannot exceed reasonable compensation.

The Tax Code contains no specific percentage or dollar limitation as to how much may be designated as housing allowance. In the case of active bivocational ministers and supply pastors, a reasonable designation may be up to 100% of their cash compensation; however, it should be noted a minister's cash housing allowance cannot exceed reasonable compensation. This would only apply where a minister was performing very little service for the church and was receiving compensation disproportionate to the amount of service provided.

IRS Publication 517 provides a definition of how much housing allowance can be excluded for ministers:

If you own your home and you receive as part of your salary a housing or rental allowance, you may exclude from gross income the smallest of: (1) The amount actually used to provide a home, **(2)** The amount officially designated as a rental allowance, or **(3)** The fair rental value of the home, including furnishings, utilities, garage, etc. You must include in gross income the amount of any rental allowance that is more than the smallest of your reasonable pay, the fair rental value of the home plus utilities, or the amount actually used to provide a home *(IRS Publication 517)*.

Additional information regarding housing allowance is available in Memo #13: The Minister's Housing Allowance at nbusa.org/memos.

SEE

Memo #13 The Minister's Housing Allowance.

Housing Allowance in Retirement and the Self-Employment Tax

In 1996, Congress passed legislation which clarified that the self- employment tax does not apply to "the rental value of any parsonage or any parsonage allowance *(whether or not excludable under Section 107)* provided after the individual retires, or any other retirement benefit received by such individual from a church plan...after the individual retires" [IRC §1402(a)(8)].

In addition, if a minister is permitted to reside in a parsonage without charge following retirement and is performing no services in exchange for the housing, the fair rental value of that parsonage is not subject to self-employment taxes. If the minister performs services in return for the housing, the fair rental value of the parsonage would be taxable for Social Security purposes.

REMEMBER!

Even if you pay off your mortgage, you still can have a housing allowance.

Planning Your Retirement Housing

Many ministers either live in parsonages throughout their ministry or receive housing allowances from their employers. Retirement ends these benefits from local congregations, so housing arrangements should be planned carefully in light of the amount set aside for this purpose.

If ministers *(whether active or retired)* pay off their mortgages, they can still have a housing allowance, but it cannot exceed the actual cost of maintaining the home *(which includes real estate taxes, home insurance, etc.)*. Some ministers who have paid off their homes erroneously exclude the fair rental value of their homes as housing allowance. This practice is not legal.

In summary, the availability of a housing allowance exclusion for denominationally-sponsored retirement plans has been a very attractive benefit for many retired ministers. In many instances, these men and women have been able to exclude some or all of their retirement income by taking advantage of the denomination's housing allowance designation for retirement funds.

The information contained in this memo series is of a general nature reflecting USA Nazarene Church polity.

It is not offered as specific legal or tax advice. Each person, local church board, and district should evaluate their own unique situation in consultation with their local legal and tax advisors.

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Other NBUSA Memos That May Be Helpful

#1: Housing for Your Pastor: Parsonage or Housing Allowance?

#2: Church Employees or Independent Contractors?

#3: Tax and Reporting Procedures

#4: Strategies for Structuring Ministerial Compensation

#5: Minimizing Income Taxes for Church Employees

#7: Financially Caring for the Minister

#8: The Annual Church Audit

#9: Workers' Compensation Laws and the Local Church

#10: Can Ministers Opt Out of Social Security?

#11: Auto and Other Business Expense Reimbursements

#12: Who Is a Minister for Tax Purposes?

#13: The Minister's Housing Allowance

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