



Ministerial Housing Allowance in Retirement

Clifford & Associates

<http://www.sharetheharvest.com> 1-800-456-1803 contact@sharetheharvest.com

Retired ministers are eligible for a housing allowance exclusion. “If you are a retired minister, you exclude from your gross income the rental value of a home (plus utilities) furnished to you by your church as a part of your pay for past services, or the part of your pension that was designated as a rental [housing] allowance,” subject to the rules set in IRC Section 107 (*IRS Pub. 517*).

Churches and denominational pension plans that have established retirement income accounts (Section 403(b) plans, sometimes called tax-sheltered annuities) for their employees can designate some or all of a retired minister’s account distributions as a housing allowance. Section 403(b) plans are the **only** type of retirement account that allow for this housing allowance designation. The housing allowance designation is lost if a minister rolls the funds from his/her 403(b) plan into another type of retirement account (e.g. IRA, Roth IRA, non-403(b) annuity) because any amount rolled over to an eligible retirement plan from a 403(b) plan, either as a direct rollover or a rollover made within the 60-day period, is treated as a distribution followed by a rollover contribution.

Distributions designated as housing allowance may not be prorated. They may only be used for housing expenses incurred in the same year as the distribution, subject to the requirements of IRC Section 107. Amounts not used for housing expenses in the distribution year are subject to the regular income tax rates.

Examples:

Pastor X retires and decides to take a distribution from his church pension plan and roll the distribution into an IRA. The distribution loses any housing designation, and future distributions from the IRA will be fully taxable.

Pastor Y retires and takes a lump-sum distribution from her denominational pension plan. She invests the funds in CDs. The distribution will be tax-free to the extent of Pastor Y’s qualifying housing expenses in the year of the distribution. The remainder will be subject to income tax. Pastor Y may not use the funds for housing allowance in the future.

Pastor Z retires and rolls his church pension plan into a 403(b) account with another custodian. The housing allowance designation is not lost, and Pastor Z’s future distributions from the account may be used for housing expenses.

Thus, pension funds are designated as housing allowance only in the year that the funds are deemed distributed from the Section 403(b) pension plan. Beyond that point, the funds are no longer housing allowance, regardless of how the funds are used or invested.

A church pension plan cannot designate distributions from the account of a deceased minister as housing allowance for the surviving spouse. A surviving spouse may not claim the deceased spouse’s housing allowance. A surviving spouse may only claim his/her own retirement benefits. (*IRS Rev. Rul. 72-249, IRS Private Letter Ruling 8404101*).

The tax code specifies that Social Security and Medicare taxes (self-employment tax) do NOT apply to “the rental value of any parsonage or any parsonage [housing] allowance 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)*).