Housing Allowance For Retired Ministers

Under certain conditions the Internal Revenue Service (IRS) allows ordained, commissioned, or licensed ministers to exclude specific housing expenses from their gross income for federal income tax purposes. The following information may help you better understand the IRS rules about the clergy housing allowance exclusion. **This material is intended to provide general information. It is not intended as legal or tax advice. Please consult your tax attorney or accountant on specific questions related to your situation.**

What is the housing allowance?
When reporting gross income for federal income tax purposes, ministers can exclude a portion of their income designated by Mennonite Retirement Trust as a "housing allowance" under Section 107 of the Internal Revenue Code (IRC). To be excludible, amounts designated as a housing allowance must be used to provide housing. In addition, there are limits on the amount that can be excluded.

Can retired ministers exclude from gross income for federal income tax purposes the entire cost of owning, renting, and/or furnishing a home?
The amount that can be excluded is the **lesser** of:

(a) the amount designated as the housing allowance,
(b) the amount of actual housing expenses, or
(c) the fair rental value of the property (furnished, plus utilities).

How much does MRT designate as housing allowance?
The MRT Trustees have designated 100 percent of all income distributed to retired ministers as a housing allowance.

Are all dollars in my retirement plan eligible for the housing allowance designation?
Distributions you receive from contributions made to Mennonite Retirement Trust while you were serving as a minister are eligible for the housing allowance exclusion, even if you are no longer a minister. This includes rollovers to MRT from other employer retirement plans (excluding IRAs) that you earned while you were a minister. Distributions rolled over from MRT to other retirement plans are not eligible for the housing allowance exclusion.

What actual housing expenses can be included for housing allowance purposes?
Most reasonable household expenses can be included. For example: a down payment on a home, mortgage payments (including both interest and principal), home equity loan payments (assuming the loan proceeds are used for housing-related expenses), real estate taxes, property insurance, utilities, furnishings and appliances (including repairs), structural repairs, remodeling, yard maintenance and improvements, pest control, snow removal, maintenance items, and trash pickup. Housing-related expenses can only be included in the housing allowance for the year in which they are incurred.

How do I determine the fair rental value of a home?
In general, the fair rental value of the property is a question of facts and circumstances based on the local real estate market. If you rent a home, the amount of the rent could be used as evidence of the fair rental value (assuming the rental agreement was an "arm's-length" transaction). Other methods of determining the fair rental value might include calculations and written documentation drawn from listings with local Realtors of similar properties, verification of rent paid for comparable housing in the neighborhood, or a review of newspaper advertisements for rents of similar housing in the community. Perhaps the best determination would be a letter estimating the fair rental value of the property written by a Realtor who is familiar with your property and other rental property in your community.

What type of housing expense records should I be keeping?
You need to keep careful housing expense records to determine whether any part of the designated housing allowance cannot be excluded. Original receipts, invoices, canceled checks, charge card records, etc. are all essential.

What happens if I can't spend all of the designated housing allowance on housing expenses?
As noted above, the exclusion from gross income cannot exceed the lesser of the designated housing allowance, the actual housing expenses, or the fair rental value of the property. Therefore, any "unused" portion of the designated housing allowance must be included in your gross income.

I want to withdraw funds from MRT to purchase a home. Can I exclude the entire amount as housing allowance?
As noted before, you can only exclude the lesser of the amount designated, your actual housing expenses, or the fair rental value of the home. For example, you are recently retired and want to purchase a home for $200,000. You ask MRT to distribute your entire account balance ($200,000) as a lump sum distribution. The annual fair rental value of your new home is $25,000. Because the annual fair rental value is less than the actual housing expenses and the amount designated, you can only exclude $25,000 as a housing allowance. The remaining $175,000 will be considered taxable income.

Can the spouse or beneficiaries of a deceased minister continue to claim a housing allowance on MRT distributions?
No. The housing allowance exclusion ends at the minister's death, therefore it does not transfer to the surviving spouse or beneficiaries.

Can I claim a housing allowance on distributions from MRT if I am under age 65 and not retired?
There is little guidance from the IRS on this issue. The rulings that have been made are usually in the context of a retired minister. There is also a question as to whether retirement distributions made to a non-retired minister are subject to self-employment (social security) taxes. Section 1402(a)(8) of the Internal Revenue Code specifies that self-employment tax does not apply to "the rental value of any parsonage or any parsonage allowance … provided **after the individual retires**, or any other retirement benefit received by such individual from a church plan … **after the individual retires**." Please consult with your tax professional if you find yourself in this situation.

How do I claim the housing allowance on my tax return?
Each January, MRT will mail Form 1099-R to your address for all distributions you received during the previous calendar year. Your gross distribution will be reported in box 1 on your Form 1099-R. We will not enter a taxable amount in box 2a, and will check the box "Taxable amount not determined" because MRT cannot determine how much of the distribution will be taxable. Only you can determine how much of the distribution is eligible for the housing allowance exclusion. If your eligible housing expenses are less than the gross distribution, report the difference as taxable income on IRS Form1040.

Mennonite Retirement Trust
Administered by Everence

1110 North Main Street
Post Office Box 483
Goshen, IN 46527
www.everence.com

Toll-free: (800) 348-7468
T: (574) 533-9511
F: (574) 537-6636