

LOCAL CHURCH

TREASURER

HANDBOOK

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SECTION 8

RETIRED CLERGY

INFORMATION

Prepared for the
United Methodists of Upper New York
Of the United Methodist Church

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STATEMENT FROM YOUR CONFERENCE COMMITTEE ON FINANCE & ADMINISTRATION (CF&A)

The information provided in this Finance Committee – Section 8 of the Local Church Treasurer Handbook is meant to guide clergy who are retired or are planning to retire.

Many documents within this section of the guide have been utilized from the General Council on Finance and Administration for the United Methodist Church (GCFA) website (www.gcfa.org). Please check that website frequently for the latest information.

If you have any questions about any of the documents or issues discussed within this document, please contact a member of the Upper New York Conference CF&A directly.

The Upper New York Conference is not engaged in providing legal or accounting advice or services. The service of a competent professional should be sought for legal and tax advice.

Thank you.

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Each year at Annual Conference of Upper New York of the United Methodist Church (and other Annual Conferences of the UMC, and other conferences of other denominations) pass resolutions with the title “Resolutions Relating to Rental/Housing Allowances for Retired, Disabled or Former Clergypersons of the Upper New York Annual Conference”.

The “Housing/Rental Allowance Resolution” sub-section states the following:

The Upper New York Conference adopted the Housing/Rental Exclusion Resolution which designates 100% of United Methodist pension, severance or disability income as housing exclusion in accordance with IRS Code section 107 is approved for the year Jan. 1, [YEAR] through Dec. 31 [YEAR] as follows:

Whereas the religious denomination known as the United Methodist Church (THE “Church”), of which this Conference is a part, has in the past functioned and continues to function through Ministers of the Gospel (within the meaning of Internal Revenue Code Section 107) who were or are duly ordained, commissioned or licensed ministers of the Church (“Clergypersons”); and,

Whereas the practice of the Church and of this Conference was and is to provide active Clergypersons with a parsonage or a rental/housing allowance as part of their gross compensation; and,

Whereas pensions or other amounts paid to active, retired, terminated, and disabled Clergypersons are considered to be deferred compensation and are paid to active, retired, terminated, and disabled Clergypersons in consideration of previous active service; and,

Whereas the Internal Revenue Service has recognized that the Conference (or its predecessors) as an appropriate organization to designate a rental/housing allowance for Clergypersons who are or were members of this Conference and are eligible to receive such deferred compensation.

Now Therefore Be It Resolved

1. That an amount equal to 100% of the pension, severance, or disability payments received from plans authorized under *The Book of Discipline of The United Methodist Church* (the “*Discipline*”), which includes all such payments from the General Board of Pension and Health Benefits (“GBOPHB”), during the period January 1, [YEAR] through December 31, [YEAR], by each active, retired, terminated, or disabled Clergypersons who is or was a member of the Conference, or its predecessors, be and is thereby designated as a rental/housing allowance for each such Clergypersons; and
2. That the pension, severance, or disability payments to which this rental/housing allowance designation applies shall be any pension, severance, or disability payment from plans, annuities, or funds authorized under the Discipline, including such payments from the GBOPHB and from a commercial annuity company contracted by the GBOPHB to provide an annuity arising from benefits accrued under a GBOPHB plan, annuity, or fund authorized under the Discipline,

that result from any service a Clergy person rendered to this Conference or that an active, a retired, a terminated, or a disabled Clergy person of this Conference rendered to any local church, annual conference of the Church, general agency of the Church, other institution of the Church, former denomination that is now a part of the Church, or any other employer that employed the Clergy person to perform services related to the ministry of the Church, or its predecessors, and that elected to make contributions to, or accrue a benefit under, such a plan, annuity, or fund for such an active, a retired, a terminated, or a disabled Clergy person's pension, severance, or disability plan benefit as part of his or her gross compensation.

NOTE: the rental/housing allowance that may be excluded from a clergy person's gross income for any year for federal (and, in most cases, state) income tax purposes is limited under Internal Revenue Code section 107(2), and regulations thereunder, to the lesser of: 1) the amount of the rental/housing allowance designated by the Clergy person's employer or other appropriate body of the church (such as this Conference in the foregoing resolutions) for such year; 2) the amount actually expended by the Clergy person to rent or provide a home in such year; or 3) the fair rental value of the home, including furnishings and appurtenances (such as a garage), plus the cost of utilities in such year. Each Clergy person or former Clergy person is urged to consult with his or her own tax advisor to determine what deferred compensation is eligible for be claimed as a housing allowance exclusion.

What this means, essentially, is this resolution needs to be passed annually to allow retire, terminated, disabled clergypersons receiving retirement benefits from a denominational retirement plan to declare a housing allowance on distributions from their 403(b) retirement accounts. That means the portion of your distributions used for housing expenses is excludable from gross income for income tax purposes. This can save you significant money during retirement.

Wondering if you qualify for the retirement allowance? Answer these questions:

- 1) Did/do you hold ministerial credentials, either with the United Methodist Church or another church fellowship/denomination, i.e. ordained, commissioned or ordained.
- 2) Did you receive compensation for ministerial duties?
- 3) Do you have a 403(b) retirement account with Wespath, GBOPHG or another church denomination?
- 4) Have you made contributions out of your ministerial earnings into your 403(b)?
- 5) Are you currently retired, as defined by the IRS?

If you answered “yes” to ALL FIVE questions, you may qualify to receive a retired minister’s housing allowance from the IRS. This benefit becomes available when two conditions are met.

- First, you must be eligible to receive distributions from your 403(b). This usually happens no earlier than age 59½, except under certain conditions specified by the IRS and your plan.
- Second, as noted in question five above, you must be retired.

The 1099R you receive from Wespeth/GBOPHB will have a gross pension distribution in Box 1. However, Box 2 (taxable distribution) will be blank and the box “taxable amount not determined” will be checked. There may be taxes withheld. What this means is that it is then up to the minister to determine and report the actual amount of their housing expenses each year on their Form 1040.

Housing expenses allowed and not allowed:

Just as housing allowance/exclusions are calculated prior to retirement, the following expenses continue to qualify:

- Down payment on a home
- Rent and mortgage payments (principal and interest)
- Real estate taxes
- Property insurance
- Utilities (electricity, gas, water, sewer, trash, local telephone charges, Internet)
- Furnishings and appliance purchases and repairs
- Structural repairs and improvements
- Yard maintenance and improvements
- Home equity loan payments used for housing expenses
- Maintenance items (household cleaners, light bulbs, pest control)
- Home association dues

Expenses that do NOT qualify include the following:

- Cleaning services
- Food
- Domestic help
- A second home, vacation home, business property, or farm
- Home equity loan payments used for anything other than housing expenses

The IRS does place some limits on how much can be designated as clergy housing allowance. For that reason, we recommend you consult your tax professional or financial advisor. They will help you determine exactly what you can report as housing allowance expenses on your Form 1040.

