

Frequent Tax Questions and Answers For Retired Ministers

1. How can I determine the fair market rental value for my home or residence when calculating my housing allowance exclusion as a retired clergy person?

To date, the IRS has not provided specific guidance on how to determine fair market rental value. According to tax expert Richard R. Hammar, co-author of the Board's annual *Tax Guide for Ministers* and *Federal Reporting Requirements for Churches*, one way to get a determination is to consult real estate experts.

For example, ask a local Realtor about obtaining an estimate of the fair market rental value of your home (or manse), furnished, plus any appurtenances — such as a garage — in writing. This can be a drive-by estimate given to you in a signed letter from the Realtor. At a minimum, find and keep comparable rental listings in your neighborhood from the newspaper, Craig's List, or another independent source of reference.

2. Can retired clergy exclude their Retirement Savings Plan distributions as clergy housing allowance? If so, where is the documentation for this? How should this be entered on the tax forms?

The Board designates distributions from our Retirement Savings Plan — as well as retirement pension and disability payments — as 100 percent clergy housing allowance for ministers, to the extent they are used as such. This is documented in a letter from the Board of Pensions published annually in the *Tax Guide for Ministers*. You will find this letter in the front of the guide. We suggest retirees detach this perforated page and keep it with the file copy of their tax return in the event of an audit. Do not mail it with your Form 1040.

Inform Fidelity Investments that you wish your distributions to come to you as housing allowance so Fidelity staff can make the appropriate notations on your records and the forms they submit to the IRS. At the end of the year, Fidelity will report your Retirement Savings Plan distributions to you and the IRS on Form 1099-R, noting that the distribution was housing allowance.

As to reporting the housing allowance exclusion when filing your taxes, Mr. Hammar gives a sample tax return for a minister retiree with the appropriate required documentation in the *Tax Guide for Ministers*, which is published in January by the Board of Pensions and mailed to every minister retiree. (Always consult the latest version of the guide for assistance in reporting your housing allowance when filing your tax return.)

3. Can I use the clergy housing allowance to buy into a retirement community? How can I use it if I'm already living in a retirement community?

You may exclude from your taxable earned income any designated housing allowance you used that year to buy into a retirement community. There is a limit, however, in that you can claim entrance-fee expenses only in the year you moved into the facility. It cannot be pro-rated over a longer period of time.

Further, the total amount you can claim in any given year as housing allowance is limited to *the lesser of*:

- the amount designated in advance by the employer or the Board
- the amount spent to provide the home
- the fair market rental value of your home, furnished, plus the actual cost of utilities

The housing allowance may also be applied to portions of the monthly fees directly related to providing the home. The regulations prohibit housing allowances from being applied to the costs of food and servants, therefore the allowance can't include any portion of the maintenance fee that goes to food, housekeeping expenses, or medical services. Upon request, most retirement facilities can provide you a breakdown of what's covered by the maintenance fee.

4. How can we make a tax-exempt charitable contribution from our retirement savings?

Through December 31, 2011, if a person who is at least 70½ years of age made a charitable contribution from a traditional IRA, no income tax was reported as owed by the donor on the contribution amount, and the donor cannot take a charitable deduction. Such gifts counted toward satisfying the required minimum annual distribution. (Unfortunately, such gifts cannot be made from a 403(b) plan, which is the type of retirement savings plan the Board of Pensions offers.)

This tax deduction expires in 2011 and has not been reauthorized for 2012. It is always possible that it may be reauthorized in the future, so check with your tax adviser if you are interested in making such a gift at some point.

If you are considering making a charitable gift to the Assistance Program of the Board of Pensions, please visit Pensions.org and select "Ways To Give" in our navigation menu.

5. Does the Board offer a list of qualified tax preparers familiar with clergy tax issues?

The Board of Pensions does not maintain any such list because we are not tax advisers, nor are we an accrediting institution for them.

You may obtain copies of the Board's tax-related resources, including the annual guides, at Pensions.org or by calling 800-773-7752 (800-PRESPLAN).

Disclaimer: *The Board of Pensions does not provide individual tax advice to individuals or employers. This preceding information is provided as a part of the Board's education program. For updated forms, guidance, and instructions, individuals and employers should go to the IRS website at www.irs.gov or consult with their individual tax or financial advisers.*