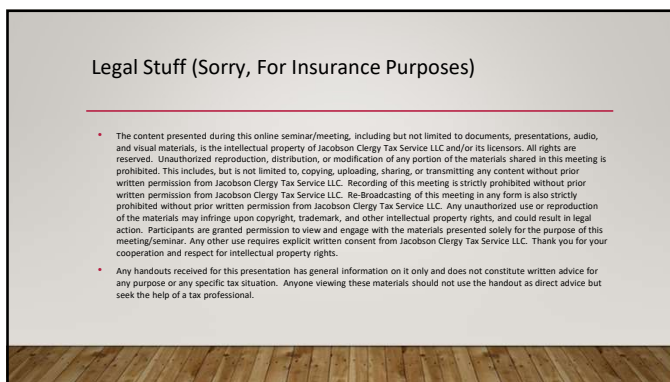
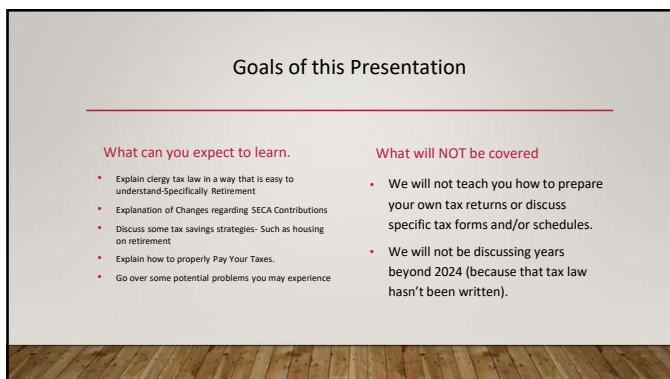




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2



3

What is a retired clergy for tax purposes

- A retired clergy person is someone who is separated from service (not currently working) and has reached the age of retirement (usually 59 and ½)
- A pastor may be retired for polity purposes, but may not exactly be considered retired for tax purposes.
 - Meaning, you can be honorably retired and receive retirement account payments, but may not receive all retirement benefits (specifically retired housing allowance benefits which will be explained later) for tax purposes.

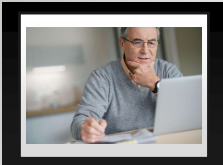


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What Taxes Do Retired Clergy Pay?


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Retirement Income



- Retirement Income is Considered Passive Income
 - Retirement Income is subject to income tax.
- Retirement Income (as long as you have reached retirement age) is never subject to SECA (Social Security and Medicare Taxes).
 - There is some gray area regarding early retirement distributions that can be risky.
 - Meaning you could be (potentially) subject to SECA Taxes if you take an early distribution on your retirement.

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Types Of Clergy Retirement Accounts

Defined Benefit Plan

- Plan funded by dues paid to your denominations pension system (typically through percentage of compensation)
- Distributions are taxable (income tax only)
- Qualifies for housing exclusion.

7

Types Of Clergy Retirement Accounts Continued

Pre-Tax 403(b)

- Contributions are not subject to income tax
- Contributions are not subject to self employment tax (Social Security and Medicare)
- Distributions are subject to income tax
- Retirement Distributions are not subject to self employment tax (Social Security and Medicare)
- Qualifies For Housing Exclusion as long as you haven't mixed with secular funds or rolled over to an IRA (Individual Retirement Account)

ROTH 403(b)

- Contributions are subject to income tax and self employment tax (Social Security and Medicare)
- Distributions are not subject to income tax and self employment tax (Social Security and Medicare)
- Housing Allowance Not Necessary as Distributions are NOT Taxable.

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Non-Clergy Retirement Accounts

IRA (Individual Retirement Accounts)

- These are accounts that you have either contributed on your own or have rolled over funds from other retirement accounts
- Two Types Of Plan: Traditional (Pre-Tax) or ROTH
- These plans do not qualify for clergy housing exclusions because they are not controlled by a church or denomination.
- Subject to income tax unless ROTH.

Other Pensions and Annuities

- Secular 403(b)
- Secular Defined Benefit Plans
- 401(k)
- Other Retirement Plans
- These plans do not qualify for clergy housing exclusions because they are not controlled by a church or denomination.
- Subject to income tax unless ROTH.

9

Polling Question #1

- What state are you in currently?
- Type your answer in the chat box!



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HOUSING ALLOWANCES AND PARSONAGE



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WHAT'S THE DIFFERENCE?

- Housing Allowance-** the denomination or church allows Clergy to allocate a portion of their retirement payments to pay for housing expenses. This is given to them in the form of cash through retirement distributions.
- Parsonage/Manse/Rectory-** When the church provides the housing itself. The church owns the property and allows the clergy person to live there rent-free during retirement.



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HOUSING ALLOWANCE

- Ministers who own or rent their home do not pay federal income taxes on the amount of their clergy retirement that their denomination/church designates in advance as a housing allowance, to the extent that
 - Amount allocated in advance toward housing allowance.
 - It is used to pay qualified housing expenses and
 - It does not exceed the fair rental value of the home (furnished, plus utilities).
- If you are under a denomination's pension, the denomination will set this.
 - Some plans automatically allocate 100% of all distributions, both defined benefit and 403(b) toward housing.
 - Some plans require that you request a set amount to housing in which you fill out a form or write them a letter.
 - You should reach out and ask your denomination if any allocation on your part needs to be done prior to taking distributions.
- If the plan is owned by a local church, your local church will manage this, and you should contact them for allocation.
- Make sure you get it in writing.

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Example Of Denomination 100% Allocation Housing Allowance Letter

January 2014

Dear Minister,

If you are retired or disabled, all or part of the benefits (pension, disability, or retirement savings benefits) that you received in 2013 may be excludable as housing allowance from your gross income for federal income tax purposes, subject to certain provisions established by federal tax laws. (Distributions received and retired by recipients do not qualify for this exclusion; recipients should plan for this contingency.)

If you are eligible for an allocation, as defined above, and you are 2013-2014, the tax laws limit the exclusion to the amount of the amount designated in advance by the Board of Pensions as a housing allowance.

Under your current agreement with you for housing-related expenses (rent, utilities, maintenance, repairs, etc.) of the fair rental value of the home, including furnishings and utilities.

If you are eligible for an exclusion, you must first file a church-issued notice. The IRS limits the exclusion to the amount of such notice.

You should maintain records to substantiate the exclusion you claim.

The IRS requires that the housing allowance exclusion be designated in advance of the tax year for which it applies. In order to meet this requirement, the Executive Committee of the Board of Pensions, acting on advice from the Board of Trustees of the Presbyterian Church U.S.A., at its December 2013 meeting, designated for the calendar year 2013 100% of pension, disability, and retirement savings that of the Presbyterian Church U.S.A. is to be distributed by the Board of Pensions to eligible ministers and nonministerial pastors would constitute a housing allowance, provided that such allowance did not exceed the home fair rental value, including furnishings and appliances, such as a garage, plus the cost of utilities and any other applicable tax law limits.

Refer to this year's "Tax Guide for Ministers," available on benefits.com, with your tax adviser, and in order to this Publication on "Housing Exclusion" and other information for members of the clergy and religious leaders. For further information.

Sincerely,

Michael J. Fisher
Michael J. Fisher
Executive Vice President, Chief Financial Officer of Pensions

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Example Of Denomination 100% Form 1099-R

VOID		CORRECTED		1099-R (2013-2014)	
Your Church Pension 123 Church Street New York, NY 10008 Pension is for:		1 Gross distribution 24 1009-R		Distributions From Pensions, Annuities, Profit-Sharing Plans, IRAs, Insurance Contracts, etc.	
PRECIDENT'S TIN 25-111111111		3 Cost or other basis 0		4 Total distribution 1009.00	
PRECIDENT'S NAME Mr. Jane Doe Street address (including apt. no.)		5 Distribution code 1		6 State distribution 0	
10a Return type 10b Annual payment or other distribution 11 1st year of term 12 2nd year of term 13 3rd year of term 14 4th year of term 15 5th year of term 16 6th year of term 17 7th year of term 18 8th year of term 19 9th year of term 20 10th year of term		7 Distribution code 1		8 State distribution 0	
Form 1099-R www.irs.gov/form1099		9 Distribution code 1		10 State distribution 0	

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SECULAR SPOUSES AND HOUSING ALLOWANCE

Sadly, a Clergy's secular spouse can not take a housing exclusion on a clergy retirement account. This would include Clergy Retirement Death Benefits, and tax-free parsonage/manse benefits.

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EXPENSES TO CONSIDER WHEN CALCULATING HOUSING ALLOWANCE

- Mortgage payments on a loan to purchase or improve your home (includes both interest and principal)
- Rent
- Real Estate Taxes
- Property Insurance (including Renters Insurance)
- Furnishing and Appliances (including repairs)
- Structural Repairs and Remodeling
- Yard Maintenance (Landscaping and Snowplowing)
- Maintenance Items (Pest Control, Security, Etc.)
- Homeowners Association Dues
- Utilities (electricity, gas, water, trash pickup, local telephone charges, etc.)

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Ministerial Retirement Home

- Some ministers move into a retirement home following their retirement from ministry. Two costs are often associated with such living arrangements: (1) a lump-sum entrance fee, and (2) monthly or annual maintenance fees. The IRS has ruled that a lump-sum entrance fee paid by a retired minister to gain admission to a retirement community cannot be prorated over several years and claimed as a housing expense in those years. It can only be treated as a housing expense in the year it is actually paid. IRS Letter Ruling 8348018 (1983); IRS Technical Advice Memorandum 8039007 (1980). Problem... Fair Rental Value Limitations!

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HOW TO CALCULATE FAIR RENTAL VALUE

Renters

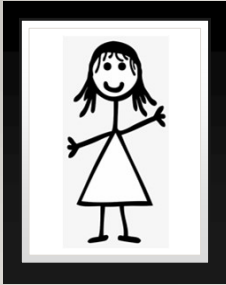
- Usually easier because you are renting (unless you're receiving rent at a discount)

Home Owners

- Compare rentals in your area (bad idea)
- Contact a Real Estate Agent
- Contact A Property Management Company
- Contact an Appraiser (Can Be Costly)
- Do NOT go by Zillow or other real estate websites

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EXAMPLE 1



- Sally gets a retirement distribution of \$10,000
- The denomination allocated 100% toward housing
- She has a Fair Rental Value of \$10,000
- She only has \$8,000 in qualified housing expenses
- Sally will pay income tax on the unused portion of the housing allowance
 - \$2,000

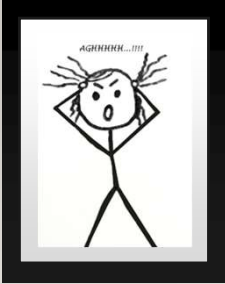
20

EXAMPLE 2



- June gets a retirement distribution of \$10,000
- The denomination allocated 100% toward housing
- June has qualified housing expenses in the amount of \$10,000
- June had her real estate agent friend provide a Fair Rental Value on the home in the amount of \$7,000
- June will pay tax on the difference between Fair Rental Value and the amount designated as her housing allowance.
 - \$3,000

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EXAMPLE 3

- Roberta gets a retirement distribution of \$10,000
- The denomination allocated 100% toward housing
- Roberta has \$11,000 in qualified housing expenses
- Roberta had her house appraised and they determined it's fair rental value was \$12,000
- While Roberta paid zero in taxes on her retirement; Roberta is mad because she missed out on a tax break.
- Roberta could have taken money out of a 403(b) to cover the missed expense and not pay tax on the distribution.

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LIVE IN A PARSONAGE/MANSE/RECTORY?

- The tax code specifies that self-employment tax does not apply to "the rental value of any parsonage provided after the individual retires, IRS Publication 517 similarly provides: "If you are a retired minister, you can 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.
- In short, you pay no income tax or SECA on your church owned parsonage post retirement.

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Polling Question #2

- Are you currently retired or will you be retiring soon?
 - Please type your answer in the chat box.

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OTHER ITEMS AND THEIR TAXATION

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Social Security



- Believe it or not, payments from social security CAN be subject to income tax.
- Social Security Payments is NEVER be subjected to Social Security and Medicare Taxes
- If you opted out of Social Security, you will only get benefits for secular work.

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When Is Social Security Taxable?

- Step 1: Take HALF of your social security benefit
- Step 2: Add your taxable income
- Step 3: Add other non-taxable income such as The taxpayer filed Form 2555, Foreign Earned Income, Form 4563, Exclusion of Income for Bonafide Residents of American Samoa, or Form 8815, Exclusion of Interest From Series EE and U.S. Savings Bonds Issued After 1989, or excluded employer-provided adoption benefits or income from sources within Puerto Rico.
- If it equals or exceeds the thresholds below, your social security starts becoming taxable.
- Income above a taxpayer's base amount will result in an inclusion of up to 50% (85% for higher incomes)
- Your retirement housing benefits do not count against you when calculating this taxability!

Taxable Social Security Benefits Base Amounts	
MFJ	\$32,000
Single, HOH, QSS, MFS (lived apart from spouse all year)	\$25,000
MFS (lived with spouse at any time during the year)	\$0

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Working After Retirement

- Should you wish to continue working after retirement you must take care.
- You could lose your housing benefit on your retirement distributions for that year.
- Easily Approved Post Retirement Work (You Won't Lose Retirement Housing Benefits)
 - Pulpit Supply
 - Weddings
 - Baptisms
 - Funerals
 - Speaking Engagements

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Working After Retirement Continued

- Should you take on a call you must allocate your housing through your employer (church, hospital, etc)
- Interim Positions can cause you to lose retirement housing benefits as well.
- The IRS does not have a set definition on what is allowed on purpose. They want to review the facts and circumstances of each case. In short, you should be very careful to take on any type of clergy position that would have you lose your retirement benefit. However, if you do, it's ok. Just allocate the housing allowance at your call rather than the retirement account.
- Remember, if you work, you will have to pay into income and SECA on Clergy Work.

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UNREIMBURSED CLERGY EXPENSES

- Can not be deducted unless you are working or are expenses specific to pulpit supply, weddings, and funerals (in which you are paid).
- Volunteer work, even if it is work mandated by your denomination, (in which you are unpaid) results in non-deductible expenses.



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Medicare Insurance Premiums May Be INSTANTLY Deductible

- If you are working as a 1099 subcontractor or have unreported clergy income (pulpit supply, weddings, baptisms and funerals), you may be able to deduct your Medicare insurance premiums up to your income from the above.
 - This deduction is for income tax ONLY. NOT SECA.

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HOW DO CLERGY PAY THEIR TAXES TO THE GOVERNMENT?



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WHAT ABOUT INCOME TAX WITHHOLDING?

- Social Security will withhold Federal Income Taxes
 - Fill out Form W-4V
- Most retirement fund administrators will withhold federal and state income tax either by you filling out form W-4P or just tell them a percentage.

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PAY YOUR TAXES THROUGH YOUR TAX RETURN

- Ministers must prepay their income taxes and self-employment taxes (if you are working) using the estimated tax procedure, unless they have entered into a voluntary withholding arrangement with their church and the amount of Federal Income Tax Withholding will cover the entire balance due (if it won't; pay quarterly yourself). You can also withhold with Social Security or your retirement distribution
- You will need to make estimated tax payments for 2024 if you expect to owe at least \$1,000.
- Estimates are paid quarterly
- Use Form 1040-ES to pay your estimates
- Those who do not pay estimated tax payments will be subject to an estimated tax penalty.

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ESTIMATED
TAX DUE
DATES

2024 Estimated Payment Dates for Individuals

Installment	Tax Period Covered	Due Date
First	January 1 to March 31, 2024	April 15, 2024
Second	April 1 to May 31, 2024	June 17, 2024
Third	June 1 to August 31, 2024	September 16, 2024
Fourth	September 1 to December 31, 2024	January 15, 2025*

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FORM 1040-ES

Separate here.

1040-ES Estimated Tax OMB No. 1545-0046	2024 Estimated Tax	Payment Voucher 4 OMB No. 1545-0046
File only if you are making a payment of estimated tax by check or money order. Mail this voucher with your check or money order payable to "United States Treasury." Write your social security number and "2024 Form 1040-ES" on your check or money order. Do not send cash. Enclose, but do not staple or attach, your payment with this voucher.		
Pay online at irs.gov/efile Simple, Fast, Secure.	Print or type	
Your first name and middle initial		Your last name
If joint payment, complete for spouse		Your social security number
Spouse's first name and middle initial		Spouse's last name
Spouse's social security number		
Address (number, street, and apt. no.)		
City, town, or post office. If you have a foreign address, also complete spaces below.		
Foreign country name		State
Foreign postal code		ZIP code
For Disclosures, Privacy Act, and Paperwork Reduction Act Notice, see instructions.		
Form 1040-ES (2024)		

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You Can Also Pay Online

- Pay online at IRS.Gov
 - Pay for free via ACH Bank Debit
 - You can pay by credit card, but that is done through third party services that charge a hefty fee.
- Most states also allow for online payments of Estimated Taxes
 - See your state's website for details

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Polling Question #3

- Do you feel like you have learned something today (so far)
 - Please answer in the chat box.


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ADVICE TO PREVENT ERRORS




Ask Question

Do not just assume your church treasurer has all the answers.



Get Professional Help

You may not even know that a mistake has been made. If the IRS catches it, you could be hit with back taxes, interest, and potentially high penalties.



Clergy Tax Law is Not Black and White

The IRS code is left open ended for a reason, and it's not a good one.

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