

A Supplement to the 2020 Clergy Tax Return Preparation Guide for 2019 Returns

The SECURE (Setting Every Community Up for Retirement Enhancement) Act of 2019 is now law. Most provisions in the law became effective January 1, 2020. Listed below are some of the most important changes that could have a significant impact on you.

- The Required Minimum Distribution (RMD) age has increased from age 70½ to 72. This change applies to anyone who will attain age 70½ on or after January 1, 2020. This means that anyone who attained age 70½ prior to December 31, 2019, will need to continue to take RMDs in 2020.
- Contributions to traditional IRAs after age 70½ are now allowed for anyone who is working and has earned income.
- Withdrawals of up to \$10,000 from Code Section 529 plans (tax-advantaged higher education savings accounts) to repay student loans are now permitted. The SECURE Act makes this change retroactive to distributions made after December 31, 2018.
- New parents, through birth or adoption, are eligible to withdraw \$5,000 penalty-free to offset the cost of qualified delivery or adoption expenses.
- “Stretch” provisions for beneficiaries of IRAs and defined contribution plans (such as the Code Section 403(b) arrangement known as The Episcopal Church Retirement Savings Plan (RSVP)) have been significantly modified. The SECURE Act now requires designated beneficiaries of IRAs and defined contribution plans to withdraw all amounts within 10 years after the account owner’s death. These provisions do not apply to the following “eligible designated beneficiaries”:
 - ~ the surviving spouse of the deceased account owner,
 - ~ a minor child of the deceased account owner (but only until the minor child reaches the age of majority)
 - ~ a beneficiary who is no more than 10 years younger than the deceased account owner, or
 - ~ a disabled or chronically ill beneficiary (as defined by the Internal Revenue Code)

A review of your financial and estate plans and IRA beneficiary elections, as well as a conversation with your financial professional, is strongly recommended.

For the 2019 tax year, the Church Pension Group (CPG) is providing the *2020 Clergy Tax Return Preparation Guide for 2019 Returns* (the Guide) as a reference to help clergy prepare their federal tax returns. The Guide is written by Richard R. Hammar, Senior Editor of *Church Law & Tax Report*, and is available on CPG's website at cpg.org.

A supplement complements the Guide and appears below. The supplement is presented in a question-and-answer format, and highlights key tax issues. It provides further information on the reporting requirements cited in the Guide, and clarifies their specific application to clergy of the Episcopal Church.

Note: If you have questions about clergy federal income taxes that are not covered here, please call CPG's Tax Hotline:

Nancy Fritschner, CPA (877) 305-1414

The Rev. Canon William Geisler, CPA-Retired (877) 305-1415
(Through April 30, 2020)

Mary Ann Hanson, CPA (877) 305-1415
(Beginning May 1, 2020)

Dolly Rios,* CPA (833) 363-5751

*Fluent in English and Spanish

Please note that the service these individuals will provide is of an informational nature. It should not be viewed as tax, legal, financial, or other advice. You must contact your tax advisor for assistance in preparing your tax returns or for other tax advice.

Eligibility



Q1. *For tax purposes, who is considered a minister in the Episcopal Church?*

A1. In the Episcopal Church, only bishops, priests, and deacons (ordained ministers, as opposed to lay ministers) meet the criteria for the IRS designation of “minister.” See page 16 of the Guide for an explanation of the importance of understanding whether you qualify as a minister for tax purposes.

Q2. *What types of organizations qualify as Church organizations?*

A2. Church organizations include Episcopal parishes and missions, dioceses, schools, and institutions associated with the Episcopal Church. The approval of an Extension of Ministry under The Church Pension Fund Clergy Pension Plan does not automatically qualify a cleric for clergy tax treatment. Also, pay received for work performed for organizations not associated with the Church may not qualify as the “exercise of ministry.” Work performed directly for the Church is considered “exercise of ministry,” no matter the nature of the work. Generally, work for non-Church organizations does not qualify for the housing allowance, unless that work is primarily sacerdotal. Compensation paid to a cleric from non-Church organizations is usually subject to income tax and employment (FICA) tax withholding.

Basics of Clergy Taxation



Q3. *What are the key federal tax provisions that apply to clergy compensation?*

A3. The key provisions include the following:

Self-employment tax. Clergy are not eligible to have FICA taxes withheld from their church compensation. In lieu of FICA taxes, clergy pay self-employment tax, also known as Self-Employment Contributions Act tax (SECA). Reimbursements from an employer of SECA are taxable as wages, and are assessable under The Church Pension Fund Clergy Pension Plan. Note, however, that even though clergy pay SECA tax, most ministers are considered employees and should receive a *Federal Form W-2* from their employer.

Estimated taxes. Clergy must pay quarterly estimated taxes, or request that their employer voluntarily withhold income taxes. Clergy can request that an additional amount of income tax be withheld to cover their self-employment tax. The additional amount will be reported as federal income tax.

Housing allowance. A cleric can have a portion of his or her salary declared as a housing allowance, and thereby exempt the eligible amount from federal income tax. Note that under Section 107 of the Internal Revenue Code, clergy pension distributions can also be declared as a housing allowance. (This provision does not apply to the cleric's surviving spouse.) For additional information, please refer to Part 3 of the Guide.

CPF Form B immediately follows this supplement. It explains how The Church Pension Fund (CPF) declares the full amount of all benefits paid from retirement and disability plans sponsored by CPF to retired and disabled clergy as a housing allowance, and how to apply it for tax purposes. We recommend that you place a copy of *CPF Form B* in your current tax file and provide it to your tax preparer.

Q4. *Should I prepare my own taxes?*

A4. No. Clergy tax issues are highly complex and not all tax software is capable of producing accurate results.

How Can I...?



Q5. *How can I find a tax preparer?*

A5. Here are some tips to help you find a competent professional:

- Ask your diocesan finance officer for recommendations.
- Ask your clergy colleagues (not just Episcopal).
- Use a tax preparer who is familiar with the rules that apply to clergy.
- Ask local tax professionals whether they have worked with ministers and, if so, how many.
- Ask local tax professionals a few questions to test their familiarity with ministers' tax issues. For example, ask whether ministers are employees or self-employed for Social Security and Medicare tax purposes. Anyone familiar with ministers' taxes will know that ministers always are self-employed for Social Security and Medicare tax purposes with respect to their ministerial duties. Or, ask a tax professional if a minister's church salary is subject to required income tax withholding.
- Often, tax preparers can readily familiarize themselves with clergy tax treatment by reviewing the Guide, calling CPG's Tax Hotline (see previous page above), and/or referring to Form B.

Q6. *How can I determine my housing allowance under Internal Revenue Code Section 107?*

A6. To establish a Section 107 housing allowance, your vestry or other church governing body must adopt a housing allowance resolution at the end of each calendar year for the following year. A church cannot designate a housing allowance retroactively. Please refer to the *2020 Federal Reporting Requirements for Episcopal Churches, Schools and Institutions* (pages 8–12) for additional information.

A cleric can consult with a realtor to obtain a written appraisal of the fair rental value of his or her furnished home. Adding utility costs to the realtor's appraisal, the cleric can recommend a housing allowance amount to the vestry. The vestry then can vote its approval of that housing allowance designation and document its action in the minutes of the meeting.

Note that only expenses incurred for the minister's primary residence are eligible for the housing allowance exclusion. Please be sure to consult your tax preparer regarding your housing allowance.

Q7. *How can I ensure that my expenses at a long-term care facility are eligible for the housing allowance exclusion?*

A7. If you are considering moving to a long-term care facility, make sure that it will give you a breakdown each year of the portions of your payments that represent the cost of housing, medical expenses, and other items. It is necessary to have such information to take proper advantage of your housing allowance and medical expense deductions on your income tax returns. Note that the IRS has ruled that the lump-sum entrance fee paid by a retired minister to gain admission to a long-term care facility can be treated as a housing expense only in the year it is actually paid and cannot be prorated over several years.

Q8. *How can I set up an accountable expense reimbursement plan?*

A8. The Tax Cuts and Jobs Act eliminated a taxpayer's ability to deduct unreimbursed business expenses. Therefore, clergy should ensure that their employer has established an accountable expense reimbursement plan. See pages 65–66 in the Guide as well as pages 12–13 of the *2020 Federal Reporting Requirements for Episcopal Churches, Schools and Institutions* for more information.

Special Tax-Reporting Issues



Q9. How should I report business expenses and/or declare a housing allowance for interim cures in out-of-town locations?

A9. This situation presents unique issues, especially for retirees who are receiving a pension. The differences in tax treatment depend on the length of the cure, and taxpayers are advised to consider them carefully:

Cures of one year or less. If the interim job is for a set duration of one year or less, the housing at the temporary location is generally treated as a business expense that can be provided by or reimbursed by the employing church tax-free to the cleric. Also, the cleric can continue to apply his or her pension income toward the housing allowance for the permanent residence's expenses. Travel expenses to and from the permanent residence and the interim job location are also treated as business expenses.

Cures of longer than one year (or uncertain period of time).

If the interim job is projected to last for more than a year or its term is uncertain (whether or not it turns out to be for less than a year is irrelevant), the cleric has generally been deemed to have moved the principal residence to the interim location. Therefore, the reimbursement of expenses relating to the temporary housing at the interim location is taxable for SECA/SET purposes and the cleric will not be able to claim a housing allowance as it relates to the housing expenses associated with his or her permanent residence.

Q10. *What should I understand about taxation of moving expenses?*

A10. Moving expenses can no longer be reimbursed tax-free or deducted on personal tax returns. Any payment of moving expenses or reimbursement to the cleric must be treated as taxable compensation and included as salary on *Federal Form W-2*. In addition, these amounts are assessable under The Church Pension Fund Clergy Pension Plan. Moving expenses are still eligible housing expenditures for purposes of the housing allowance.

Q11. *What rules apply to contributions to and withdrawals from The Episcopal Church Retirement Savings Plan (RSVP)?*

A11. The RSVP is a Code Section 403(b) defined contribution plan that may be funded by an individual with earnings received from services provided to the Church and/or employer contributions. Contributions by the cleric can be made only from earnings that are reported as taxable compensation (i.e., earnings that have not been applied toward the housing allowance). See page 38 of the Guide for important limitations on contributions. Before you make any withdrawals (including required minimum distributions) from the RSVP, be sure to contact Fidelity to inform them that you are a member of the clergy and are eligible to take the distribution as a clergy housing allowance. Distributions from the RSVP are eligible to be applied toward your housing allowance, if requested at the time of withdrawal.

Q12. *I will turn 70 this year. What should I know about taking distributions from The Episcopal Church Retirement Savings Plan (RSVP)?*

A12. The SECURE Act has increased the Required Minimum Distribution (RMD) age from age 70½ to 72. This change applies to anyone who will attain age 70½ on or after January 1, 2020. This means that anyone who attained age 70½ prior to December 31, 2019, will need to continue to take RMDs in 2020. In addition, The Church Pension Fund requires that all RSVP participants begin to receive their RMD by April 1 following the year in which the cleric reaches age 72, regardless of whether his or her work status is active or retired. If you are actively employed by an Episcopal employer after age 70½, you are eligible to continue to make pre-tax contributions to the RSVP from current taxable earnings through the duration of your employment.

Q13. *Is the Resettlement Benefit payable to eligible clergy under The Church Pension Fund Clergy Pension Plan taxable?*

A13. If the Resettlement Benefit is distributed to the cleric, it is a taxable benefit. However, it may be eligible for the housing allowance exclusion (see question 3). To delay paying tax on the Resettlement Benefit, you can make a tax-free rollover of the Resettlement Benefit to The Episcopal Church Retirement Savings Plan (RSVP) or another tax-deferred savings vehicle.

Q14. *I received a gift from my parish at retirement. Is it taxable?*

A14. Many clergy receive retirement gifts. The tax treatment generally works as follows:

Gift provided by the employer. The gift is taxable to the cleric and must be reported on *Federal Form W-2* as assessable wages.

Gift funded by individuals directly to the cleric, or collected by the church as non-deductible personal gifts. This type of gift is not taxable to the cleric, is not reported on *Federal Form W-2* as wages, cannot be treated as tax-deductible by the giver, and is not assessable for pension purposes.

Q15. *I am Medicare-eligible, and recently returned to work after retirement. As a result, am I entitled to medical coverage as an active employee?*

A15. When a cleric is Medicare-eligible and working, he or she may legally be required to be on the employer's active health plan. For more information, you may want to contact your diocese or the Medical Trust.

Q16. *Due to my conscientious objection to public insurance programs, I would like to opt out of Social Security. For the self-employment tax, is it permissible for me to take such an exemption?*

A16. Some denominations allow their clergy to opt out of Social Security as a conscientious objection to the receipt of social insurance. The Episcopal Church does not support this option on theological grounds. As a result, some Episcopal ministers have opted out of Social Security without realizing that they do not qualify for the exemption. It should be noted that, when signing *Federal Form 4361*, a minister must attest to its accuracy under penalty of perjury.

A minister's opposition must be to accepting benefits under Social Security (or any other public insurance program). Economic considerations, or any other non-religious considerations, are not a valid basis for the exemption, nor is opposition to paying the self-employment tax.

Note also that a decision to opt out of Social Security is irrevocable. Clergy who opt out of Social Security, especially those who have vested benefits with Social Security from previous employment outside the Church, may be subject to the windfall elimination provision. For more information, refer to *IRS Publication 963*, available at irs.gov.

Q17. *How can I change my withholding amount when receiving my pension benefit in retirement?*

A17. Your monthly earnings statement provided by Northern Trust includes a section where you can enter an adjustment to your federal and state income tax withholding. Simply sign and return it to CPG.

Q18. *How long must I retain my tax return and supporting records?*

A18. You should retain copies of your tax returns for your lifetime. Supporting documents can be destroyed after seven years.