

Federal Income Tax Status of The Church Pension Fund Benefits

The General Rule:

In accordance with Section 107 of the Internal Revenue Code, The Church Pension Fund (CPF) has designated the full amount of each pension benefit to be paid to retired and disabled clergy in 2019 including distributions from The Episcopal Church Retirement Savings Plan, the extra Christmas Benefit, and bridge benefit, as a housing allowance. However, the amount of housing allowance that you may exclude from gross income for federal income tax purposes cannot exceed the lowest amount of (1) actual housing expenses (the total amount you actually spend in a calendar year for items that directly relate to renting or providing a home), (2) the fair rental value of your home (including furnishings) plus the cost of the utilities, or 3) your retirement income provided by The Church Pension Fund plus any other compensation earned from an Episcopal employer which has been properly designated as a housing allowance. CPF has passed a similar resolution for 2018.

For Surviving Spouses and Children:

The housing allowance exclusion is applicable to CPF benefits paid to the clergy who earned them.

Tax law does not allow a housing allowance for surviving spouses or dependents.

How to Calculate:

While further details are available in *IRS Publication 517* and the *2019 Clergy Tax Return Preparation Guide for 2018 Returns*, the following list may assist you in determining the total actual expenses that relate to renting or providing your primary home:

- Mortgage payments, both principal and interest*
- Real estate taxes and special assessments*
- Fees paid for acquiring home titles, mortgages, etc.
- Home improvements and repairs
- Cost of moving your home furnishings
- Home furnishings that are primary and essential
- Fire and home liability insurance premiums
- Maintenance and upkeep of property including landscaping
- Utilities — electric, gas, oil, water, basic telephone, trash, cable television base rate (not including premium channels)
- Rent payments for home, garage, storage for household items, furnishings, etc.

Resettlement Benefit May Qualify:

The Resettlement Benefit paid by CPF at the time of your retirement has also been designated as eligible for the housing allowance. It may be excluded from gross income to the extent that it is used in the taxable year in which it is received for the purpose of renting or providing a primary home, subject to the rules described above.

Importance of Records:

We strongly recommend that you keep good records, including all your calculations and expense records related to renting or providing your primary home. You may need them if tax questions or challenges develop.

How to Report:

The amount you decide to exclude from your gross income is not shown on your federal tax return because it is an “exclusion,” not a “deduction.” The total of all pension benefits received during the year (shown on Box 1 of your Form 1099-R) should be copied to Line 4a of your Federal Form 1040. The taxable portion of these benefits, determined by subtracting the amount you are excluding for housing purposes from the total, should be shown on Line 4b of your Federal Form 1040. Line 4b should not be left blank; if all amounts received are used for housing purposes, you should enter a zero (0) on that line. **Please note that you may receive the Form 1099-R and/or Form W-2 from Northern Trust and/or Liberty Life Assurance Company as they are the paying agents for the defined benefit and disability plans sponsored by CPF. You may also receive a Form 1099-R from Fidelity Investments and/or Church Life Insurance Corporation if you had any distributions from an Episcopal Church Retirement Savings Plan (“RSVP plan”), as they are the paying agents for that plan. In addition, for any distributions from the RSVP processed by Fidelity Investments, please contact Fidelity Investments to notify them that your distribution is eligible for the housing allowance.**

SECA Tax:

Social Security Self-Employment tax (also called SECA tax) is not applicable to any part of the qualified retirement benefits paid by CPF. However, if you have other earnings from self-employment after retirement (from the church or other sources), you may be required to pay SECA tax on those earnings and also on the fair rental value of housing provided by a church or other employer.

Further Assistance:

We will, of course, assist in answering questions about specific benefits that you receive from CPF; please contact the Client Services Department at (866) 802-6333. However, we cannot advise as to personal tax problems. If legal, accounting, or other expert assistance is required in connection with your tax returns, the services of a competent professional should be sought. For general questions concerning clergy taxes, you may call Nancy Fritschner at (877) 305-1414, William Geisler at (877) 305-1415, or Dolly Rios at (833) 363-5751 toll-free.

**Please note that in addition to being treated as housing expenses for the purpose of calculating the housing allowance exclusion, mortgage loan interest and real estate tax payments (up to \$10,000) are allowable as itemized deductions from gross income on Schedule A of Form 1040.*