

Federal Income Tax Status of Retirement and Disability Benefits

The General Rule:

In accordance with Section 107 of the Internal Revenue Code, all benefits paid from retirement and disability plans sponsored by The Church Pension Fund (“CPF”) to retired and disabled clergy have been designated as a housing allowance in 2018. However, the amount of housing allowance that you may exclude from gross income for federal income tax purposes cannot exceed the lesser of (1) the total amount you actually spend in a calendar year for items that directly relate to renting or providing a home, or (2) the fair rental value of your home (including furnishings) plus the cost of the utilities.

For Surviving Spouses and Children:

The housing allowance exclusion is applicable to CPF benefits paid to the clergy who earned them. **The Internal Revenue Code 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 *2018 Tax Guide for Episcopal Ministers*, 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.
- Improvements and repairs
- Cost of moving your home furnishings
- Home furnishings which 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.

Importance of Records:

We strongly recommend that you keep good records, including all of your calculations and expense records related to renting or providing your primary home. You may need them if questions or challenges to your housing allowance 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 16a of your Federal Form 1040 [Line 12a of Federal 1040A]. 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 16b of your Federal Form 1040 [Line 12b of Federal 1040A]. Line 16b 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 a Form 1099-R and/or Form W-2 from Northern Trust as they are the paying agent 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 The 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 benefit plan payments. Please note, 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 N. Fritschner at 877-305-1414 or Bill Geisler at 877-305-1415, 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 are allowable as itemized deductions from gross income on Schedule A of Form 1040.