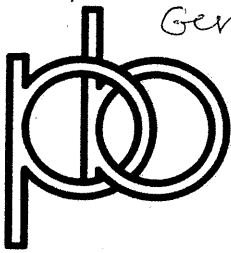


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PB

cc MLT



Minister's Housing Allowance

A. Description of Minister's Housing Allowance

1. Internal Revenue Code § 107 provides that gross income for a minister does not include:
 - (a) The rental value of a home furnished to a minister as part of his or her compensation, or
 - (b) The rental allowance paid to a minister as part of his or her compensation, to the extent used by him or her to rent or provide a home and to the extent such allowance does not exceed the fair rental value of the home, including furnishings and appurtenances such as a garage, plus the cost of utilities.
2. The amount of a minister's housing allowance cannot exceed the least of:
 - (a) The amount actually used to provide a home,
 - (b) The amount officially designated as a housing allowance, or
 - (c) The fair rental value of the home, including furnishings, utilities, garage, etc.

B. Impact on Self-Employment Tax (SECA)

Whether the minister's housing allowance is considered income for self-employment tax purposes depends on whether or not the minister is retired:

1. Ministers who are in active service and not retired – the minister's housing allowance is included in income for self-employment tax purposes
2. Ministers who are retired – the minister's housing allowance is not included in income for self-employment tax purposes

C. Only the Pension Boards' Board of Trustees Can Designate a Housing Allowance for Retirement Benefits

1. Revenue Ruling 75-22 specifically provides that the trustees of a denomination's retirement program (such as the Board of Trustees of the Pension Boards – United Church of Christ) may designate a portion of the pension paid to an individual retired minister of the denomination as a minister's housing allowance.
2. The IRS considers the trustees to be acting on behalf of the local churches in matters affecting the unified pension system in compensating retired clergy for past services.
3. **THIS TAX FREE INCOME IN RETIREMENT IS AVAILABLE ONLY FOR BENEFITS RECEIVED FROM THE PENSION BOARDS – UNITED CHURCH OF CHRIST.** No other retirement plan provider can designate a housing allowance for a retired UCC minister.

Minister's Housing Allowance Continued

D. A Housing Allowance's Effect on 403(b) Plan Contributions

A minister's housing allowance can affect the amount of contributions that a minister or the minister's employer may make to a Code § 403(b) retirement plan (such as the Annuity Fund of the United Church of Christ). Two ways in which contributions to a 403(b) plan may be affected by the minister's housing allowance are:

1. Code § 415(c) limits the annual addition (i.e., contributions from all sources) to a 403(b) plan to the lesser of \$45,000 or 100% of compensation. "Compensation" basically means taxable income and does not include a designated minister's housing allowance. For example, if a minister's income is \$50,000 and the minister has a designated housing allowance of \$20,000, then the maximum amount that may be contributed from all sources to the minister's 403(b) plan is \$30,000 (the minister's taxable income).
2. Code § 402(g)(1) limits elective deferrals to a 403(b) plan for a plan year to \$15,500 with a \$5,000 catch-up for participants who attain age 50 during the plan year. Elective deferrals are reductions in taxable income. For example, if a housing allowance reduces a minister's taxable income to an amount less than the elective deferral limit, the minister's ability to make elective deferrals will be reduced.