

Parsonage in Retirement Top 10 Questions and Answers

Before retirement, every cantor must know how to retain your parsonage allowance in retirement. This document will assist you in gathering that information.

Occasionally retired members of the ACC have questions regarding non-taxable distributions for parsonage from the ACC Pension and Insurance and Supplemental Plans. While we can not address the particulars of any individual's tax situation, this article explains our understanding of the federal tax laws as they relate to housing allowances provided to retired cantors.

This is not intended to be tax advice and you should consult your own legal and tax advisors for information about your particular tax situation.

1. Q. What are the General Parsonage Rules?

- A. Pursuant to Section 107 of the Internal Revenue Code, a "minister of the gospel" (which includes a cantor) may exclude from gross income --
- the rental value of a home furnished to him as part of his compensation; or
 - the rental allowance paid to him as part of his compensation, to the extent used by him to rent of provide a home and to the extent such allowance does not exceed the fair rental value of the home, including furnishings and such appurtenances such as a garage, plus the cost of utilities.

The IRS regulation require that the home or rental allowance be provided as remuneration for services that are ordinarily the duties of a minister of the gospel. The Tax Court has ruled that the parsonage allowance exclusion is limited to the amount used to provide the home, if that amount is lower that the fair rental value of the home. [Warrenv Commissioner, 114 T.C. No 343 (2000), appeal dismissed 302F. 3d 1012 (9th Cir. 2002)]

Although parsonage is not includible in income for federal income tax purposes, it is considered self-employment income for SECA purposes prior to retirement.

2. Q. Are Cantors "Ministers of the Gospel"?

- A. Yes, a cantor is a "minister of the gospel" for purposes of section 107.

3. Q. Are Retired Cantors Eligible?

- A. According to the IRS Revenue Ruling 63-156, the rental value of the home furnished, or the housing allowance paid, to a retired minister as part of his compensation for past services is excludable from income under section 107 of the Internal Revenue Code with proper designation.

4. Q. What is Proper Designation?

A. Proper Designation Required

The parsonage allowance exclusion is allowed only if the allowance is officially designated as a housing allowance before it is paid. The designation must be made by the employing church or other organization. The designation may be evidenced in an employment contract, minutes of the church etc., resolution or other official instrument such as a the employer's budget.

Where a retired cantor's relationship with his former employer is completely severed, the designation of a portion of a clergyman's pension as a rental allowance may be made by duly elected pension trustees. This is why the ACC Retirement Administrator requests parsonage information from each ACC Plan participant who is retired. Prior to the beginning of each taxable year, the ACC Plan Trustees review and officially "designate" the parsonage each retired member has certified as being an excludable parsonage distribution for that upcoming year,. The designation, which is reflected in the minutes of the Trustees' meeting , is intended to satisfy the IRS requirements that the allowance be officially designated. However, each cantor is responsible for determining whether the amount requested does not exceed the lesser of the fair rental value of the home or the actual cost.

5. Q. Is a Retired Cantors' Widow Eligible?

A. No, the exclusion does not apply to a rental allowance paid to a retired minister's widow.

6. Q. Is it possible to take parsonage from more than one source?

A. Yes, as long as the parsonage is officially designated and the total does not exceed the allowance.

7. Q. What is the ACC Plan Procedure for Designating Parsonage?

A. In the fall of each year, the Retirement Administrator sends all known retirees a "Parsonage Transmittal Form" to be completed and returned prior to the annual meeting of the Trustees, which normally takes place at the end of November. At the annual meeting, the Trustees review and officially "designate" the parsonage each retired member has certified as being an excludable parsonage distribution for the upcoming taxable year. This designation, which is reflected in the minutes of the Trustees' meeting, is intended to satisfy the IRS requirements that the allowance be officially designated. However, each cantor is responsible for determining whether the amount requested does not exceed the lesser of the fair rental value of the home or the actual cost.

If you are planning to retire and begin receiving distributions from the Plan, you should contact the Retirement Administrator to obtain a transmittal form to inform the Trustees of the amount of parsonage expenses you expect to incur during the calendar year. Your transmittal form must be returned to the Plan in sufficient time for the Trustees to act before you begin receiving distributions which you would like to have treated as parsonage. Otherwise, any distributions you receive prior to the Trustees designation of your parsonage will be fully taxable to you under Federal income tax rules.

It is important to stress that you cannot exclude from taxation Plan benefits simply because they have been designated as parsonage under the procedures outlined above. The parsonage designation is the first step. After a parsonage designation has been made on your behalf, you can then exclude from taxation only those benefits that have been designated as parsonage to the extent you have actual parsonage expenses, as indicated above. In this regard, it is suggested that you contact your individual tax advisor to determine exactly what you can claim as parsonage expense. If, at the end of the calendar year, you determine that your actual parsonage expenses are less than the amount you estimated on your transmittal form, please inform the Retirement Administrator.

8. Q. [How do I Request a Parsonage Distribution?](#)

A. You must contact Fidelity Investments directly at 1-800-343-0860 to initiate distributions from your account and be sure to inform the representative your distribution will be parsonage. You will need to complete a distribution form and return the form to the Retirement Administrator for plan sponsor approval. The plan sponsor will send the completed signed form to Fidelity for set up.

9. Q. [Can I take a Parsonage Distribution from my Supplemental Plan?](#)

A. No. The ACC Supplemental Plan is a non-qualified plan and parsonage is not allowed from this plan. Parsonage distributions may only come from the ACC Pension Plan.

10. Q. [Must my Minimum Required Distribution \(MRD\) be separate from parsonage distributions?](#)

A. Your MRD and parsonage distribution may be the same. The IRS requires that you take a minimum distribution but does not require that that distribution is taxable.