

Resolution Relating to RENTAL/HOUSING ALLOWANCES FOR RETIRED OR DISABLED CLERGYPERSONS

The Holston Annual Conference (the "Conference") adopts the following resolutions during the 2012 session of Annual Conference taking place June 10-June 13, 2012, relating to rental/housing allowances for active, retired, or disabled clergypersons of the Conference:

WHEREAS, the religious denomination known as The United Methodist Church (the "Church"), of which this Conference is a part, has in the past functioned and continues to function through ministers of the gospel (within the meaning of Internal Revenue Code section 107) who were or are duly ordained, commissioned, or licensed ministers of the Church ("Clergypersons");

WHEREAS, the practice of the Church and of this Conference was and is to provide active Clergypersons with a parsonage or a rental/housing allowance as part of their gross compensation;

WHEREAS, pensions or other amounts paid to active, retired, and disabled Clergypersons are considered to be deferred compensation and are paid to active, retired, and disabled Clergypersons in consideration of previous active service; and

WHEREAS, the Internal Revenue Service has recognized the Conference (or its predecessors) as the appropriate organization to designate a rental/housing allowance for Clergypersons who are or were members of this Conference and are eligible to receive such deferred compensation;

NOW, THEREFORE, BE IT RESOLVED:

THAT an amount equal to 100% of the pension or disability payments received from plans authorized under *The Book of Discipline of The United Methodist Church* (the "*Discipline*"), which includes all such payments from the General Board of Pension and Health Benefits ("GBOPHB"), **during the years 2012 and all subsequent years until it is rescinded** for each active, retired, or disabled Clergyperson who is or was a member of the Conference, or its predecessors, be and hereby is designated as a rental/housing allowance for each such Clergyperson; and

THAT the pension or disability payments to which this rental/housing allowance applies will be any pension or disability payments from plans, annuities, or funds authorized under the *Discipline*, including such payments from the GBOPHB and from a commercial annuity company that provides an annuity arising from benefits accrued under a GBOPHB plan, annuity, or fund authorized under the *Discipline*, that result from any service a Clergyperson rendered to this Conference or that an active, a retired, or a disabled Clergyperson of this Conference rendered to any local church, annual conference of the Church, general agency of the Church, other institution of the Church, former denomination that is now a part of the Church, or any other employer that employed the Clergyperson to perform services related to the ministry of the Church, or its predecessors, and that elected to make contributions to, or accrue a benefit under, such a plan, annuity, or fund for such active, retired, or disabled Clergyperson's pension or disability as part of his or her gross compensation.

NOTE: The rental/housing allowance that may be excluded from a Clergyperson's gross income in any year for federal income tax purposes is limited under Internal Revenue Code section 107(2) and regulations thereunder to the least of: (1) the amount of the rental/housing allowance designated by the Clergyperson's employer or other appropriate body of the Church (such as this Conference in the foregoing resolutions) for such year; (2) the amount actually expended by the Clergyperson to rent or provide a home in such year; or (3) the fair rental value of the home, including furnishings and appurtenances (such as a garage), plus the cost of utilities in such year.

Clearing the Clouds: Clergy Housing Allowance

Wespath Benefits and Investments (Wespath) recognizes the unique and often complex nature of clergy taxes. The following information is designed to help clear some of the gray when thinking about a housing allowance. It pertains to active clergy living in an owned or rented home, active clergy living in a parsonage and retired clergy.

What does the housing allowance permit?

The housing allowance permits duly ordained, commissioned, or licensed clergy in the exercise of their ministry¹ to exclude a portion of their compensation when reporting gross income for federal income tax purposes. The amount excluded must be used to provide housing. Additionally, there are limits on what can be claimed as housing expense. For more details including the current tax law and the Clarification Act of 2002, go to [The Warren Case: Clergy Housing and You](#) on our website.

Is the Housing Allowance a deduction or exclusion?

The housing allowance is an exclusion from income, not a deduction. This means that the amount claimed is never reported to the Internal Revenue Service (IRS) as part of your annual income. A housing allowance can be taken only if the amount to be excluded is officially designated as a housing allowance by your congregation or church organization through a resolution, meeting minutes or a budget before compensation is paid for the tax year to which it applies. If you are a retired clergyperson, your annual conference is the church entity that designates the housing allowance for your pension payments. However, you are not necessarily entitled to exclude from your income the entire amount designated as a housing allowance. You may exclude from your income only the **smallest** of the following amounts:

- the amount designated in advance of your expenditures as your housing allowance for the current tax year;
- the amount spent for your primary residence (mortgage principal and interest, utilities, taxes, insurance, furnishings, maintenance, etc.); or
- the current fair rental value of your home, including furnishings, plus the current year cost of your utilities (no matter whether your home is owned or rented).

If you are a pastor living in a parsonage provided by the church, you may exclude the annual fair rental value of the parsonage from your gross compensation for federal income tax purposes. (In the absence of Internal Revenue Code section 107(1), you would owe income tax on the fair rental value of the parsonage, even though you do not pay rent to live there.) In addition to the free use of the parsonage, your church may grant you a parsonage or housing allowance to pay for things such as furniture or utilities. Make sure you meet with your church prior to the current tax year to designate your parsonage or housing allowance. You may not exclude from income any expenses incurred before the allowance is designated for a given tax year, so get it documented before January 1 each year to maximize your eligible expenses.

*If you are a retired pastor receiving annuity payments (or taking one or more lump sum distributions) from a Wespith retirement program, you may qualify for a clergy housing allowance exclusion. The exclusion applies to distributions of contributions made while you were serving under call, including their accumulated earnings. The same rules for determining the excludable amount for active clergy also apply to you, with one twist. While the local church generally designates a housing allowance for active clergy, your annual conference designates this amount for retirees. You may exclude from taxable income the **smallest** of the following three amounts:*

- the amount designated during the prior tax year by your annual conference as the housing allowance for the current tax year (generally conferences designate up to 100% of your pension payments from Wespith);
- the amount spent for your home (mortgage principal and interest, utilities, taxes, insurance, furnishings, maintenance, etc.); or
- the current fair rental value of your home, including furnishings, plus the cost of utilities (whether you own or rent your home).

Note: Distributions rolled out of a Wespith retirement plan to an Individual Retirement Account or non-church related program may not be eligible for a housing allowance exclusion. If you used your distribution from a Wespith plan to purchase a commercial annuity, however, payments from that annuity generally qualify for a housing allowance exclusion (consult your annual conference's housing allowance designation for retirees). Your clergy housing allowance exclusion ends at your death. IRS rules do not allow your surviving spouse or beneficiaries to claim it.

Navigating through the complexity of clergy taxes and housing allowance rules can indeed feel like you are traveling through a fog with no direction. Certainly there are many other aspects of taxes to consider when determining the housing allowance exclusion such as its impact on housing equity, social security tax and taxes on retirement distributions. To further shine the light on your situation, consult a qualified tax adviser knowledgeable about the unique tax situations for clergy.

¹ A clergyperson must be recognized as a minister of the gospel under Internal Revenue Code section 107, which may exclude certain deacons, especially those in extension ministries.