

PARSONAGE IN RETIREMENT - TOP 10 QUESTIONS AND ANSWERS

Before retirement, every cantor must know how to retain the parsonage allowance in retirement. This document should assist you in gathering that information. Occasionally, retired members of the ACC have questions regarding non-taxable distributions for parsonage from the ACC Retirement Plan. While we cannot 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.

What are the General rules of Parsonage?

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/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 such appurtenances such as a garage, plus the cost of utilities.

The IRS regulation requires 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 than the fair rental value of the home. [Warren v. Commissioner, 114T.C. No 343 (2000), appeal dismissed 302F. 3d 1012 (9th Cir. 2002).] Although parsonage is not able to be included in income for federal income tax purposes, it is considered self-employment income for SECA purposes prior to retirement.

Are Cantors "Ministers of the Gospel"?

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

Are Retired Cantors Eligible for Parsonage?

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.

What is Proper Designation?

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 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 retired ACC Plan participant. Prior to the beginning of each taxable year, the ACC Retirement 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.

Is a Retired Cantors' Widow/er Eligible?

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

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

Yes, as long as the parsonage is officially designated and the total does not exceed the allowance. Only "church plans" can designate parsonage.

What is the ACC Retirement Plan Procedure for Designating Parsonage?

- 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 certified by each retired member 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 Plan benefits from taxable income 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.

How do I Request a Parsonage Distribution?

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 (ACC) approval. The plan sponsor will send the completed signed form to Fidelity for set up.

Can I take a Parsonage Distribution from my Supplemental Plan?

Yes. The ACC Supplemental Plan is a non-qualified plan and parsonage is now allowed from this plan. Parsonage distributions to come from the Supplemental Plan must be declared in time for the annual in person Retirement Board of Trustees meeting, usually held in November.

Must my Minimum Required Distribution (MRD) be separate from parsonage distributions?

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.

1. Parsonage may only be taken from the Retirement Plan, not the Supplemental Plan.
2. The Plan does accept rollovers from non-church plans, though transfers in from 401k or IRA plans are not eligible for parsonage.
3. Transfers from another 403b to the ACC Retirement Plan may qualify for Parsonage if their source is documented as from their congregation.
4. ACC Associate Members and GTM members, though they may participate in the ACC Retirement Plan are not automatically guaranteed parsonage in retirement.
5. GTM members who have received cantorial credentials/orientation from the following seminaries are eligible for parsonage from the ACC Retirement Plan: Abraham Geiger College, Berlin (GC-B), American Conference of Cantors (ACC), Academy for Jewish Religion, Los Angeles, CA (AJR-CA), Academy for Jewish Religion, Riverdale, NY (AJR-NY), Aleph: Alliance for Jewish Renewal, Philadelphia, PA (ALE-PA), Cantors' Assembly (CA) (Members may be listed as "Hazzan"), Debbie Friedman School of Sacred Music (DFSSM), Hebrew College, Boston (HC-B), Jewish Theological Seminary, New York City (JTS-NY), Gratz/Reconstructionist Rabbinic College (GRRC), Leo Baeck, Israel (LB-I), The Seminario Rabínico Latinoamericano, Tel Aviv Cantorial Institute (TACI)