

Housing and Parsonage Allowance for Retired Rabbis

Top 10 Frequently Asked Questions and Answers

Perhaps one of the most important tax benefits available to rabbis, including retired ones, is the housing and parsonage allowance exclusion. The following are frequently asked questions regarding the exclusion and its applicability to retired rabbis. This document does not address the particulars of any individual's tax situation, and it is not intended to be tax or legal advice. States vary in their tax treatment of the housing/parsonage allowance, so you should check your state's tax rule. You should also consult your own legal and tax advisors for information about your particular tax situation. Please consult with your own plan counsel for a legal opinion before acting upon anything contained within.

1. What are the General Rules of the Housing and Parsonage Exclusion?

A "minister of the gospel" may exclude from their gross income:

- the rental value of a home furnished as part of their compensation; or
- the housing allowance paid as part of their compensation, to the extent used 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.

The housing/parsonage allowance exclusion is available only if (i) the recipient is a "minister" for tax purposes; (ii) the allowance is compensation for services performed in the exercise of ministry; and, (iii) the allowance is properly designated by the qualifying organization.

2. Is there a Limit to the Housing and Parsonage Exclusion?

Yes. If you own or rent your home, the amount of the housing allowance excludible from gross income is limited to the LEAST of:

- The amount actually used to provide a home,
- The amount officially designated as a housing allowance, or
- The fair rental value of the home, including furnishings and appurtenances such as a garage plus the cost of utilities.

If parsonage is provided, you can deduct only the fair rental value.

3. Who is a Minister of the Gospel?

To qualify for the housing and parsonage allowance exclusion, you must satisfy each of the following requirements: (i) be a duly ordained, commissioned, or licensed "minister of the gospel;" and (ii) provide ministerial services. Examples of services that are considered ministerial include: the performance of sacerdotal functions; the conduct of religious worship; the administration and maintenance of religious organizations and their integral agencies; and the performance of teaching and administrative duties at theological seminaries.

Rabbis of the Jewish faith are considered ministers who can also qualify for the housing/parsonage allowance exclusion provided all the above conditions are met.

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4. Are Retired Rabbis Eligible for the Housing and Parsonage Exclusion?

Yes, a retired rabbi may qualify based on past services provided all conditions are met. To qualify for the exclusion, (i) a portion of a retired rabbi's pension income must be designated as a housing allowance by the former employer or plan administrator in advance of the distribution, (ii) the pension paid is for past ministerial services, and (iii) the rabbi must have severed the employment relationship with the qualifying organization.

The "least of" rules (See Question No. 2) should be applied to determine the amount excludible from gross income.

If you are a retired rabbi, you may exclude from your net earnings from self-employment the rental value of parsonage or the housing allowance received after retirement. The entire amount of the housing/parsonage allowance received is excludible from net earnings from self-employment, even if a portion of it is not excludible for income tax purposes.

5. Is the Surviving Spouse of a Retired Rabbi Eligible?

No. The exclusion does not apply to a housing allowance paid to a rabbi's surviving spouse unless the designated allowance represents compensation earned by the surviving spouse for past ministerial services.

6. What Housing Expenses are Included When Computing the Exclusion?

Housing expenses to include in computing the housing/parsonage allowance exclusion include: down payment of the home; mortgage payments (both principal and interest); rent; real estate taxes; property insurance; utilities; furnishings and appliances; repairs and maintenance; and homeowner's association dues. Housing expenses can only be included in the allowance exclusion for the year in which they are incurred.

You should keep records of all your housing expense to determine whether expenses are greater or less than the annual designation. Records are also important for estimating a reasonable housing allowance for the next year. The anticipated housing expenses should take into consideration contingencies such as unexpected repairs and costs. Adding this cushion for contingencies allows you to take full advantage of all federal tax savings. However, as discussed in Question No. 9 below, any designated housing allowance not actually used becomes taxable. Therefore, adding an excessive amount for contingencies is not advisable.

7. Can the Expenses of a Second Home be Included in the Housing Allowance Exclusion?

No. The income exclusion for housing allowances is only available with respect to the expenses of a single home.

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8. What is the Process for Designating the Housing and Parsonage Allowance?

The housing and parsonage allowance exclusion applies only if designated prior to the beginning of [each taxable year] or [your retirement]. Make a choice depending upon whether the designation will be made annually, or only upon the retirement.

The designation must be made in advance, in writing and by the employing organization.

ONLY INCLUDE THIS SECTION IF THE DESIGNATION IS MADE ANNUALLY- In the fall of each calendar year, we will send all known retirees a "Housing Allowance Expense Worksheet and Certification" to be completed and returned prior to our annual meeting of [Trustees] which normally takes place in [November/December] of each year. During this meeting, the [Trustees] will review and officially "designate" in the meeting minutes the housing allowance certified by each retired rabbi. We will notify retirees in writing once the designation has been made.

If you are planning to retire in the coming year, you should contact [Title] to receive the Housing Allowance and Exclusion Worksheet and Certification so you can complete and return it before the annual meeting of [Trustees] in [November/December].

9. What happens if a Retired Rabbi Does Not Spend All of the Designated Allowance on Housing Expenses?

As discussed in Question No. 2 above, the exclusion from gross income cannot exceed the lesser of the designated housing allowance, the actual housing expenses, or the fair rental value of the property. In particular, the exclusion from gross income can never exceed the actual housing expenses. Therefore, any "unused" portion of the designated housing allowance must be included in the retired rabbi's gross income when filing your annual tax return. For this reason, overestimating expenses is not advisable.

10. Can the Housing and Parsonage Allowance be Amended Mid-Year?

Yes. The housing and parsonage allowance can be amended at any time. However, it can only be applied prospectively.

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Items needed for a Parsonage Benefit in Retirement:

1. Opinion letter from Plan Counsel stating that organization is allowed to utilize parsonage benefit in retirement
2. Board Resolution
3. Housing Worksheet
4. Recordkeeper Housing Allowance Attestation (Notice to Recordkeeper to distribute benefit as parsonage)
5. School specific parsonage procedure document

THE FOLLOWING SHOULD NOT BE CONSIDERED TAX OR LEGAL ADVICE AND IS FOR INFORMATIONAL PURPOSES ONLY. PLEASE CONSULT WITH YOUR OWN PLAN COUNSEL REGARDING THE INFORMATION CONTAINED HEREIN.

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