Housing Allowance

Are you throwing away free money?

ENVOY FINANCIAL

Service leaders and those who serve them are faced with a unique set of tax and administrative issues when dealing with 403(b) retirement savings plans, or "Future Funded Ministry" plans.

Introduction

The following issues impact all those who are licensed, ordained, or commissioned:

- Housing Allowance prior to retirement
- Impact of Housing Allowance on Retirement Distributions
- Payment of SECA taxes on voluntary contributions
- Roth 403(b) contributions
- Payment of SECA taxes on voluntary Roth 403(b) contributions

Our objective is to detail how these issues can be addressed within the 403(b) Retirement Plan context.

Executive Summary

1. Housing allowance prior to retirement is a positive benefit.
2. Tax on traditional 403(b) distributions is reduced by housing allowance after retirement.
3. Envoy provides full and clear 1099-R reporting for your 403(b) distributions.
4. Roth 403(b) is a positive option for many with ministerial status.

Roth 403(b) contributions made by participant reduce SECA tax, too.

Taxation

- Accumulation during working years, distribution at and during retirement.
- Roth 403(b) a win for many ministry personnel.

Resources: IRS publication: Publication 517, Social Security and other information for the Members of the Clergy and Religious Workers. Section 107 of the Internal Revenue Code

Housing Allowance during active years is a positive benefit for those who are licensed, ordained, or commissioned.

“A housing allowance, sometimes called a rental allowance, is excludable from gross income for income tax purposes, but not for self-employment tax purposes.”

Whether he/she owns or rents a home, it is essential that his or her employing organization designate a housing allowance.

Housing allowances should be:

1 Adopted by the board,

2 Recorded in written form (such as minutes); and

3 Designated in advance of the calendar year.

However, organizations that fail to designate an allowance in advance of a calendar year should do so as soon as possible in the new year. The allowance will operate going forward only.

The housing allowance is an exclusion from income permitted by Section 107 of the Internal Revenue Code. It is not a deduction. In other words, a **housing allowance is money that is not reported as income**.

A housing allowance is never deducted because it is never reported as income in the first place. However, you are required to include any excess housing allowance, beyond the designated amount, as income on your Form 1040.

What is the impact of a housing allowance on 403(b)(9) retirement plan distributions?

Under certain denominational plans and those established specifically to protect the value of the housing allowance, 403(b)(9) retirement plan distributions may be taken as part of the ongoing housing allowance.

This means that the taxable amount of any 403(b)(9) retirement distribution is reduced dollar-for-dollar by the amount of your designated housing allowance.

For example, if the annual distribution is $7,000 and the housing allowance is $3,000, the amount of the taxable income will be $4,000.

Clear 1099-R reporting makes tax reporting easy.

Using the example from page 10, Envoy would report the $4,000 as taxable distribution while $3,000 is allocated from housing allowance on the 1099-R.

The procedure for implementing this process is as follows:

1 Each year during retirement, the retiree provides a copy of the Housing Allowance notification letter from the declaring entity, (a 501(c)(3) Church organization) to Envoy.

2 This document validates the housing allowance.

3 The designated housing allowance amount is then used to calculate the amount of net taxable income.

4 The retiree is responsible for advising Envoy if the total amount of the allowance is not used.

5 The net amount of taxable income is then reported on the 1099-R.

When the proper documentation from the organization board/council is received, Envoy's 1099-R tax reporting will reflect the designated amount. The designated amount will be reflected in Box 2a of the 1099-R.

Protecting the value of the retiree's housing allowance is a top priority for Envoy Financial. Envoy is one of the few organizations that makes this protection a top priority.

Please note that if the account values are transferred to any other type of retirement plan, this tax benefit will be lost.

Many Service Leaders can benefit by choosing a Roth 403(b).

Tax-free growth and tax-free distributions became available in 2006 as part of a new Roth 403(b) option. The retirement plan contributions are made with after-tax dollars.

When you combine a Roth 403(b) pre-tax option with the traditional 403(b) after-tax option, your tax planning choices are enhanced. Further, the use of regular personal tax exemptions with itemized deductions and the housing allowance will result in you paying a minimum amount of tax.

The monies invested in a Roth 403(b) with tax-free earnings and tax pre-distributions is a great benefit. For those with ministerial status, the Roth 403(b) contributions also reduced the SECA tax, of 15.3% savings.

Payment of SECA taxes on Voluntary, Employee 403(b) contributions is reduced.

The SECA tax owed by those with **Voluntary, Employee 403(b) contriubtions** is reduced by the amount contributed to either a traditional or Roth 403(b) account. Again, this is only true for those with ministerial status.

Envoy is committed to protecting and ensuring that your tax and retirement plan benefits are truly there for you during your active service years and beyond.

For more information, visit
www.envoyfinancial.com/housing-allowance-faqs

Envoy specializes in the unique retirement needs of churches, missionaries, and other faith-based organizations.

Individuals, ministries, and entire denominations benefit from our three decades of service. Envoy provides easy, afford-able, and high-impact retirement plans enabling all Christians to put their Future Funded Ministry plan into motion.

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