

**MEMORANDUM**

**TO:** Retired & Disabled PCA Ministers

**FROM:** Edward W. Dunnington, CFP®

**RE:** Income Tax Exclusion of payments from the PCA Retirement Plan & the PCA Long Term Disability Plan

**DATE:** November 2020

The purpose of this memorandum is to explain the housing allowance income tax exclusion that is available to ministers who receive disability or retirement income payments from the above-referenced PCA plans.

Section 107 of the Internal Revenue Code provides an income tax exclusion for payments of compensation that are made to a minister as a rental allowance to the extent that the minister uses the rental allowance to rent or make mortgage payments on a residence, including amounts used to pay for utilities and expenses directly related to providing a home, but not to include expenses for food or domestic help. In order for a payment to qualify for exclusion from income under Code section 107, the payment must be compensation which is designated as a housing allowance in an appropriate resolution of the Church and the payment must actually be used to provide housing.

PCA Retirement & Benefits, Inc. (RBI) received a Private Letter Ruling from the Internal Revenue Service stating that income payments made to a retired or disabled minister from the PCA 403(b)(9) Retirement Plan (known as the PCA Retirement Plan) will qualify for the income tax exclusion under Code section 107 to the extent that the payments are actually used to provide a residence, including utilities, in the calendar year in which they are received. The same provision applies to the PCA Long Term Disability Plan.

Although 100% of the payments a retired or disabled minister receives from the above-referenced PCA Plans are designated by RBI as housing allowance, you should keep in mind that only that portion of the payments used in the calendar year in which received to provide a residence, including utilities, is excludable from your income under Code section 107. In addition, it is the position of the IRS that the amount you can exclude under Code section 107 for any one year cannot exceed the fair rental value of your residence plus utilities. For example, if you made a \$20,000 down payment on a residence in one year but the fair rental value (plus utilities) for your residence was only \$8,000 for the year, it is the position of the IRS that the Code section 107 exclusion only applies to a maximum of \$8,000.

Since the excludable amount of retirement or disability payments you receive from the above-referenced PCA Plans depends upon the amount you actually use to pay housing expenses, the Form 1099R you receive for reporting distributions from the PCA Plans is unchecked in Item 2a (taxable amount of payments), and checked in Item 2b (taxable amount not determined). Depending upon your own individual circumstances, it is possible that the total amount reported in Item 1 "gross distribution" is excludable from your income as a housing allowance.

The Tax Reform Act of 1986 reinstated the deduction of mortgage interest and real estate taxes from a minister's taxable income to the extent such payments are covered by a tax-free housing allowance. These items can be deducted on Form 1040, Schedule A.

Important Comment Concerning Beneficiaries of a Deceased Minister: The income tax exclusion for a housing allowance under Code section 107 does not apply to a beneficiary of a deceased minister.

**See next page for Board Resolution for the 2021 Tax Year (resolved in November 2020)**

**Resolution of the Board of Directors  
PCA Retirement & Benefits, Inc., Presbyterian Church in America  
Designating Retirement and Disability Payments  
Rental/Housing Allowance**

**Whereas**, Internal Revenue Code Section 107, as well as the Associated Regulations and Revenue Rulings, provide that the portion of a retired minister's retirement plan, pension or disability payment designated as a rental/housing allowance by the national governing body of a religious denomination having control over the denomination's retirement and benefit plans is excludable from the retired or disabled minister's gross income under Section 107 of the Code; and

**Whereas**, the Board of Directors of PCA Retirement & Benefits, Inc. is that of the body having control over the retirement and benefit plans of the Presbyterian Church in America,


**Now, Therefore, be it Resolved** that effective January 1, 2021, 100 percent of each retired or disabled minister's retirement plan payment or disability benefit received from the Board of PCA Retirement & Benefits, Inc. of the Presbyterian Church in America, as part of his compensation for past services, is designated as a rental/housing allowance in accordance with the provisions of Section 107 of the Internal Revenue Code.


**Be it Further Resolved** that the amounts so designated as rental/housing allowance are excludable from gross income of the recipient only to the extent that said amounts are used to rent or provide a home. Further, the amount eligible for the Section 107 exclusion in any individual case may not exceed the fair rental value of the retired or disabled minister's home (including furnishings and appurtenances) plus the cost of utilities. To the extent a greater amount is designated as rental/housing allowance, the designation will be ineffectual with respect to such amount.


**Board of Directors' Explanation:** The purpose of this Housing Allowance Designation Resolution is to comply with the provisions of Section 107 of the Internal Revenue Code and Revenue Ruling 75-22. Section 1.107-1(b) of the Income Tax Regulations provides, in part, that the term "rental allowance" means an amount paid to a minister to rent or provide a home if such amount is designated a rental allowance pursuant to official action taken by the employing church or other qualified organization. Revenue Ruling 75-22 recognizes that in the case of a retired minister, where the relationship with the local church or congregation has been severed, the national governing body of a religious denomination having complete control over the retirement plan is the proper organization to make the housing allowance designation. Additionally, the language has been drafted to cover those individuals receiving disability pensions or benefits as compensation for past services to a congregation or denomination. This Resolution is consistent with the Internal Revenue Code, Revenue Rulings 63-156 and 75-22 and procedures set forth in Private Letter Rulings.


**Adopted this 13<sup>th</sup> day of November 2020**


**Board of Directors of PCA Retirement & Benefits, Inc.  
Presbyterian Church in America**

By:   
Theodore J. Dankovich


By:   
Scott P. Magnuson

By:   
S.E. Cody Dick


By:   
Carl A. Margenau

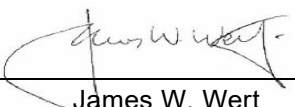
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By:   
Roderick S. Miles


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Andrew Field

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Keith Passwater

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Paul A. Fullerton

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