

Housing Allowances for Surviving Spouses of Deceased Ministers

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Can MBA designate some or all of the retirement income paid to the surviving spouse of a deceased Assemblies of God minister as a nontaxable housing allowance? The answer to this question will depend on the circumstances of each case. This information is being provided to assist MBA participants, and their spouses and tax advisors, in making informed decisions regarding this important question.

General Rules

The IRS ruled in 1972 that church pension boards cannot designate housing allowances for the surviving spouses of deceased ministers. *Rev. Rul. 72-249*. The IRS observed:

Prior to his retirement and death the husband was a minister of the gospel and pastor of a church. Shortly before he retired, in recognition of his years of past service, the church, through official action of its governing body, authorized the payment of a specific amount each month upon retirement, to be paid for so long as he lived with survivor benefits for his wife. The authorization designated a portion of the payment as a rental allowance. The wife was not a minister of the gospel and she did not perform any services for the church. . . . Until his death, and to the extent used to provide a home, the rental allowance paid to the retired minister was excludable from his gross income since it was paid as part of his compensation for past services and it was paid pursuant to official action of his church. However, the rental allowance exclusion does not apply to amounts paid to his widow since it does not represent compensation for services performed by her as a minister of the gospel. Accordingly, in the instant case, it is held that the rental allowance exclusion does not apply to amounts paid by the church to the minister's wife.

This ruling provides definitive guidance. Eligibility for a housing allowance is based on two requirements:

- the recipient is a minister, and
- the allowance represents compensation for services performed by the recipient in the exercise of ministry *after* he or she became a minister

A minister's spouse who is granted ministerial credentials may satisfy the first requirement, but not necessarily the second. The second requirement is satisfied only if the housing allowance represents compensation for services performed in the exercise of ministry *by the spouse after he or she was granted ministerial credentials*.

The term "exercise of ministry" is a technical one that is defined by the tax regulations as "the ministration of sacerdotal functions and the conduct of religious worship." It also includes the management of certain "church-controlled" organizations, such as schools and other ministries, that are "under the authority of a religious body constituting a church or church denomination."

In summary, if a minister's spouse is credentialed, and is being compensated for services performed in the exercise of ministry, then the spouse (1) is currently eligible for a housing allowance; and (2) can contribute toward an MBA retirement account from which a housing allowance can be designated at the time of his or her retirement.

These rules will be illustrated by the following examples.

Example. *John is a 60-year-old ordained minister. For many years his wife, Amy, has assisted him in the ministry, performing such tasks as office work and some occasional counseling. She received no compensation for these duties. Amy receives a specialized license as a minister's spouse so that retirement income paid to her by MBA following the death of her husband can be designated as a housing allowance. Since any distributions paid by MBA to Amy at the death of her husband will be based entirely on his ministerial services, she will not be eligible for a housing allowance.*

Example. *Same facts as the previous example except that for many years the church compensated Amy for her work. She is still not eligible for a housing allowance since her work was not service performed in the exercise of ministry as defined by the tax regulations.*

Example. *Gary is a 30-year-old ordained minister. His wife Emily is a licensed minister, and serves as an associate pastor at the church. Her duties frequently involve preaching and the performance of marriages, communion, and baptisms. The church compensates both Gary and Emily for their services. Gary and Emily both contribute a portion of their salaries to their MBA accounts. At her retirement, Emily can have a portion of her MBA retirement income designated as a housing allowance, since she meets both requirements for eligibility. She is a credentialed minister, and the housing allowance is savings directly tied to compensation paid to her for services she performed in the exercise of ministry after receiving ministerial*

credentials. However, she is not eligible for a housing allowance for any retirement income paid from her deceased husband's MBA account.

Example. *Same facts as the previous example except that Emily did not receive ministerial credentials until she was 70 years old (after she retired from active ministry). She is not eligible for a housing allowance since her MBA retirement income is not derived from compensation for services she performed as a credentialed minister in the exercise of ministry.*

Example. *Bob is an ordained minister. He and his wife Barb were commissioned as missionaries by Assemblies of God World Missions, and have served as missionaries in foreign countries for many years. Each month, AGWM contributed an amount (specified by policy) to Bob's MBA retirement account. Barb never opened her own MBA account, and never received income from AGWM for her services. At Bob's death, Barb cannot have a portion of his MBA retirement distributions designated as a housing allowance. While she may be a "minister" (as a commissioned missionary), any housing allowance paid out of Bob's account would not represent compensation paid to her for services she performed in the exercise of ministry.*

Conclusion

This information is being provided to assist MBA participants, and their spouses and tax advisors, in making an informed decision regarding eligibility for a housing allowance.

Note. *This article was adapted for MBA participants from chapter 3 in Richard Hammar's 2006 Church & Clergy Tax Guide.*