

MEMORANDUM

TO: Retired or Disabled Ministers receiving payments from the PCA Retirement Plan or the PCA Long Term Disability Plan

FROM: Gary D. Campbell, CFA

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

DATE: November 2008

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 for the minister to pay for utilities and expenses directly related to providing a home, but not to include expense 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.

The Presbyterian Church in America 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 (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 in the calendar year in which they are received to provide a residence, including utilities. The same provision applied to the PCA Long Term Disability Plan.

Although 100% of the payments a retired or disabled minister receives from the PCA Plans is designated by the above-referenced Plans as housing allowance, you should keep in mind that only that portion of the payments that is 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 applied to a maximum of \$8,000.

Since the actual amount of retirement or disability payments that you receive from the above-referenced PCA Plans which is excludable from your income under Code section 107 depends upon the amount you actually use to pay housing expenses, the Form 1099R that you received to report distributions from the PCA Plans contains a block in Item 2a regarding the "taxable amount" of payments, and the box in Item 2b for the "taxable amount not determined" is checked. 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 were 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.

Please see next page for Board Resolution for the 2009 Tax Year (resolved in 2008). Please note that the reference to 33-158 should be to 63-156.

**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 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, 2009, 100 percent of each retired or disabled minister's annuity 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 33-158 and 75-22 and procedures set forth in Private Letter Rulings.

Adopted this 7th day of November 2008

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

By: _____
Craig L. Branson

By: Robert T. Clarke, III
Robert T. Clarke, III

By: Edwin C. Eckles, Jr.
Edwin C. Eckles, Jr.

By: Glenn A. Fogle
Glenn A. Fogle

By: Thomas W. Harris, Jr.
Thomas W. Harris, Jr.

By: Mark A. Jaudes
Mark A. Jaudes

By: John M. Mardirosian
John M. Mardirosian

By: Carl A. Margenau
Carl A. Margenau

By: Mark H. Miller
Mark H. Miller

By: C. Frederick Muhl
C. Frederick Muhl

By: J. Scott Schanen
J. Scott Schanen

By: M. Ross Walters
M. Ross Walters