

The Three Biggest Tax savings for Ministers
By
Steve Merriman, E.A
Clergy Advantage®, Inc. Loveland, Colorado
<http://www.clergysupport.com/>

Steve Merriman, has overseen the preparation of more than 60,000 tax returns and has represented at least 700 pastors in IRS audits since 1982. He educates hundreds of pastors and church leaders annually on housing allowance strategies and clergy tax. He and his team of professionals provide, tax services and clergy retirement advice in seminars and free webinars for pastors in all 50 states.

From Steve: As tax season approaches we want to alert you to some, all too common, pitfalls. It grieves us to see the pervasive misconceptions about ministers' tax benefits that cost pastors so dearly year after year. The three "tax biggies" that all ministers need to maximize for the greatest tax savings are:

- Housing Allowance
- Clergy Advantage 403b Retirement Plan or a Denominational 403b
- Accountable Reimbursement Plan

The #1 area of tax neglect or abuse that we routinely see is in the realm of ministers' housing allowance. Thanks to Rick Warren's passion for helping ministers and his efforts, legislation was enacted in 2002 that makes the clergy housing allowance more solid and well defined than ever. Housing allowance is ***the greatest tax benefit to ministers***. Congress intends them to exclude *all expenses* involved in providing and running a home.

However, very few ministers' tax accountants are familiar with all of the strategies necessary to fully utilize this wonderful exclusion. There are at least 25 housing strategies that we employ regularly, ranging in complexity and based on individual circumstance. ***The proper use of housing allowance has huge ramifications for ministers; especially if you consider the amount at stake over the course of a ministry.***

For example, most ministers don't know:

- **How high housing allowance should be set.**
- **What even qualifies for deductions? If you don't know what does qualify, most often, you won't claim it.**
- **That you can retain housing allowance benefits during retirement.**
- **How to use Housing Allowance strategies in a retirement plan for a stream of *tax-free income*.**
- **How to make new home down payments with housing allowance or even home improvements and spread them out over several years to ensure that every penny spent qualifies as deductible housing expense.**

- **How to transfer housing benefits to a surviving spouse.**

We have a saying here, “ If you can’t eat it or wear it, it probably qualifies as a housing deduction.” Who would think that a piano qualifies but a guitar doesn’t, or a desktop computer does but a laptop may not? (Now you’ll know the answer to our million-dollar webinar quiz question). Proper management of the mortgage, including extra principle payments, is also crucial to maxing out clergy housing allowance benefits. And the list goes on...

The 2nd critical area is using the right retirement vehicles in ways that extend housing allowance benefits. This can only be fully accomplished with a Denominational Retirement plan or the Clergy Advantage 403b Plan for ministers. Pastors often miss out with common financial planning techniques, especially for retirement, when so much more is available to them. When properly set up, the Clergy Advantage 403b or a Denominational plan is the only retirement plan to provide ministers:

- **Growth on the principal to stay ahead of inflation with**
- **A stream of tax-free income via the clergy housing allowance and**
- **Contributions that *reduce State, Federal and Social Security tax!* This is the only way to offer tax savings in all three areas NOW and DURING RETIREMENT!**

The 403b results in an immediate tax savings of 35% for most ministers and is one of the few ways to reduce Social Security tax. In the tax world it doesn’t get any better than that!

Caution: A secular 403b set up by a regular financial planner, not experienced with clergy tax issues, will not know how to provide tax free housing allowance exclusion when the money is withdrawn. Secular 403b retirement plans that hospitals and other non-profits use are *completely different* and should NOT be confused with the Clergy 403b.

The 3rd area is the Accountable Reimbursement Plan. The theory with an Accountable plan is to get reimbursed on all ministerial expenses on a tax-free fringe benefit basis. There are six huge advantages to this; perhaps the biggest is that it properly identifies a minister’s expenses as *church business* and NOT personal expenses. The icing on the cake is that, a minister with a properly set up accountable plan, will rarely get audited because expenses are deducted *before* we even file the tax return. An Accountable plan allows ministers to **avoid**:

- **2% Adjusted Gross Income (2% AGI) Loss.**
- **Itemized Deduction Limitation Loss.**
- **50% Business Meals and Entertainment (BME) Loss.**

- **Itemized Deduction Limitation Loss, especially if you rent or live in a parsonage.**
- **Section 265 Proration Loss.** The IRS prohibits the deduction of a portion of a ministers unreimbursed expenses incurred when there is tax free income (i.e., housing allowance).
- **An Accountable Plan Clarifies and “Improves” Compensation**

A properly set up accountable plan for the average ministers' expenses usually results in a *pay raise of between \$ 2000 to \$8000 extra a year*. There are four important but simple elements to a church's Accountable Plan and it doesn't cost the church any more, if set up properly, it's the pastor who pays with out such a plan.

Unfortunately, in my practice, I see about 90% of people getting it all wrong in one or more of these three important areas. That can really make the difference in a pastor's overall financial picture.

We've consulted with thousands over the years and continue to find that most ministers are still not getting accurate information about their tax situations. Consequently, we've developed free webinars and other resources to educate and inform pastors and their churches. Ministers are unique tax creatures, and their tax benefits are truly amazing, if understood and applied properly.

