

## Guide to the Clergy Residence Deduction

A member of the clergy is allowed a deduction on their income tax for the fair rental of their accommodation. While this used to be referred to in Baptist circles as “Housing Allowance”, it is now more appropriately called Clergy Residence Deduction (CRD).

In order to qualify the pastor must meet both a status and a function test:

Status – is a member of the clergy (i.e. has been ordained or is in process, is a commissioned worker, or has been commissioned to a pastoral position by the local congregation)

Function – is in charge of or ministering to a congregation or is engaged in full-time administrative service by appointment of the denomination

### Church provides parsonage

Where the housing (i.e. a parsonage or apartment) is provided by the church to a qualified employee, all amounts that are included in the employee’s income in respect of the housing provided may be deducted by the qualified employee. The church should obtain a “fair rental” appraisal from a qualified realtor every three to five years to ensure that the amount included in income is fair. Utilities (heat, light, water and sewer) should be included in the fair rental value.

### Pastor provides own accommodation

Where housing is not provided, the qualified employee is entitled to claim the fair rental value of the principal residence or accommodation occupied, up to an amount not to exceed the employee’s remuneration for the year from qualifying sources. The claim is not to exceed the greater of \$1,000 multiplied by the number of months (to a maximum of 10) in the year and one-third of the employee’s gross remuneration for the year from qualifying employment (i.e. employment earnings as reported in Box 14 of the T4). Utilities should be included in the fair rental value.

### Employer certification

Effective for 2001 and subsequent years, the employer will be required to certify, on a prescribed form, that the employee meets the “status” and “function” tests in respect of the employed activities to claim the deduction. The form T1223 is available from your local CRA office or by download from the CRA website at <https://www.canada.ca/en/revenue-agency/services/forms-publications/forms/t1223.html>.

### Withholding deductions

In most churches it has been common practice not to withhold income tax on that portion of the salary previously called “housing allowance”. The Income Tax Act in fact indicates that pastors should apply to receive relief from tax deductions at source. However, most CRA offices will accept that tax has not been withheld as long as the employer has received a letter from the employee outlining the amount of Clergy Residence that the pastor intends to claim on their income tax return. This applies of course to situations where the pastor provides their own accommodation. In the case that the church provides accommodation, the church itself will determine the amount of the deduction.

The amount to be claimed as Clergy Residence Deduction is not pensionable for CPP purposes.

## Examples

As with every issue, there are always particular situations which appear to be unique. Following are examples which have been provided by the Canadian Council of Christian Charities (CCCC), which may reflect your situation.

### Situation 1:

There are two individuals in one household and both are certified by their respective employers to claim the deduction for the full year. May the deduction be claimed by both employees?

*Yes, provided that the total deduction claimed does not exceed one-third of the gross income of both individuals, and further provided that the combined claim does not exceed the fair rental value. One of the individuals would first claim the deduction and, if any amount remained, the other individual could claim the rest.*

### Situation 2:

A youth pastor is hired by a church on March 1. The total remuneration paid to the youth pastor for the remainder of the year is \$25,000 and the rent for the residence occupied is \$1,100 per month. How much may the youth pastor deduct from income in respect of the clergy residence?

*The youth pastor would be able to claim \$10,000 because the period of employment in the year was ten months and the rent paid exceeded that amount.*

### Situation 3:

The church appoints a new pastor who takes office in October. The pastor left the previous church in April. The pastor's gross income from the new employer is \$4,000 per month, the same amount as in the former church. During the period between April and October, the pastor worked for three months for a Christian organization that is not (recognized as) a religious order (by CCRA) and earned \$4,000 per month from that employment. The pastor owns the home occupied throughout the year. How much may the pastor claim as clergy residence deduction?

*The total income of the pastor for the year is \$40,000. However, the months of qualifying employment are from January through April and from October through December, a total of seven months. Therefore, the pastor will be able to claim \$9,333.33, one third of the income earned from qualifying employment (the greater of one-third of qualifying income or \$1,000 per month of qualified employment, i.e. \$9,333.33 or \$7,000).*

### Situation 4:

The youth pastor's spouse earns self-employed business income and, as a result of using a portion of the home, claims all expenses in relation to 10% of home occupancy. The home is rented and the rental cost is \$1,000 per month. The youth pastor is employed by the church throughout the year and earns \$25,000 from qualifying employment. How much may the youth pastor deduct from income in respect of the clergy residence?

*One-third of qualified income would be less than the minimum \$10,000. However, since the youth pastor's spouse claimed 10% of home expenses, the youth pastor may only claim the \$10,000 or 90% of fair rental value, whichever is less.*

### Situation 5:

A member of a religious order or a pastor engaged in qualifying employment changes employment to other qualified employment during the year. Must the employee obtain a certificate from both employers to be able to claim the clergy residence deduction for the full year?

*Yes. Each certificate is valid only in respect of the "status" and "function" test for one employer.*

**Situation 6:**

A church in Toronto pays its youth pastor \$30,000. The youth pastor pays rent of \$1,200 per month. Because of the new limitation of the greater of \$10,000 or one-third of gross income, the youth pastor is not able to claim the full \$14,400 rent paid as a deduction. What can be done to make the full rental amount deductible?

*If the church rents the home and provides it to the youth pastor, then the church would pay the youth pastor \$15,600 in cash and add the housing benefit of \$14,400 to the income reported in box 14 of the T4. In this situation, the youth pastor would be able to claim the full \$14,400 as clergy residence deduction. The reason for this more beneficial treatment is because the church is providing the residence to the youth pastor.*

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DISCLAIMER: This guide is provided for information purposes only and is not intended as advice to the local church. Information is current only as of the date that the guide was prepared. Readers are advised to seek professional advice for their particular situation.