

Qualification:

The Income Tax Act (ITA) allows for qualifying persons to claim a clergy residence deduction when filing their annual tax returns.

To qualify a person must meet a two-part test.

The first part is the status test - The person must be a member of the clergy. This means they must have credentials with PAOC.

The second part is the function test - The person must be in charge of and/or ministering to, a diocese, parish, or congregation, or be in a full-time administrative position by appointment of the church denomination.

Payment of Housing Costs

There are two scenarios to consider...

The first case is when the employer provides the housing.

The housing cost is in addition to normal salary payments.

The second case is when the employee owns or rents their housing and pays for it out of their normal salary payments. In this case there is no provision for, or payments, from the employer for housing.

First Case - Housing Provided

- Box 30 on the T4 will be filled in. (This amount is also added to Box 14.)
- The amount in Box 30 must reflect the value of the benefit received for housing only.
- Box 40 on the T4 will be filled in. (This amount is also added to Box 14.)
- The amount in Box 40 may contain more than just the eligible utilities (electricity, heating, water & sewer), claim only the eligible amount for utilities.

Form T1223 - Clergy Residence Deduction

- Part C, sub-part (A) applies: "If you received free accommodation for your residence, the value of which was shown in Box 30 of your T4 slip as a taxable benefit, claim this amount on line 231 of your return."

Form T1213 - Request To Reduce Tax Deductions At Source for Year(s)

- When housing is provided there is no need to file this form to have taxes reduced when pay is processed.

Second Case - Housing Not Provided

In this case any amounts for rent & utilities must be added to salary and therefore paid as normal salary to the employee.

- Box 30 on the T4 is left blank as no taxable benefit is provided because the employee pays for housing out of their normal salary payments.

Form T1223 - Clergy Residence Deduction

- Part C, sub-part (B) applies: This part assumes Box 30 of the T4 is blank, if you owned or rented your residence being claimed you need to determine the amount to claim on line 231 of the tax return. You can use the form or follow the guideline on the next page, Tax Filing B: paragraph.

Form T1213 - Request To Reduce Tax Deductions At Source for Year(s)

- The employee may request Canada Revenue Agency (CRA) to reduce tax deductions when pay is calculated for the amount of the clergy residence deduction to be claimed. A letter of authority from CRA must be given to the employer before tax on pay calculations can be reduced.

- When submitting the T1213, include Form T1223 along with copy of credentials and job description.

Payroll Deductions

All employees are subject to statutory deductions, namely: Tax, Canada Pension Plan, and Employment Insurance.

Tax - Will not be deducted on amounts for the residence of the clergy member where housing is provided by the employer. Where housing is not provided by the employer tax deductions will only be reduced after the letter of authorization is received from CRA.

Canada Pension Plan (CPP) - Will not be deducted on amounts for the residence of a clergy member if the employee receives a tax deduction for the residence.

Employment Insurance (EI) - Will be deducted.

Tax Filing

A: - Box 30, and the eligible part of Box 40, on the T4 requires the following for filing the Tax Return:

Line 101 (Employment Income) - Enter the amount in Box 14 on the T4(s) less the amount in Box 30 and the eligible part of Box 40.

Line 104 (Other Employment Income) - Enter the amount in Box 30 and the eligible part of Box 40 on the T4(s).

Line 231 (Clergy Residence Deduction) - Enter the amount in Box 30 and the eligible part of Box 40 on the T4(s).

B: - If Box 30 is not filled-in on the T4 & you want to claim a Clergy Residence Deduction:

1: Make sure you meet both the Status and Function test to qualify.

2: The amount cannot be more than the lesser of A: or B:

A: The first amount is the greater of:

- \$1,000 times the number of months working, up to a maximum of 10, or \$10,000.

- one-third of remuneration, (Box 14 on the T4 slip).

B: The rent & utilities you paid, or the fair rental value of the residence if owned.

NOTE: Utilities means amounts expended for services of electricity, heating (eg. gas), and water & sewer.

Form T1223 - Clergy Residence Deduction should not be filed with the Tax Return. It must be presented to CRA only if they ask to see it. Section B and the Certification on page two is to be completed by the employer. All other areas are to be completed by the employee. Don't forget to include your job description and copy of credentials from PAOC.

References

- Interpretation Bulletin: IT-141R Clergy Residence Deduction
- Employers' Guide: Payroll Deductions and Remittances - T4001
- Employers' Guide: Taxable Benefits and Allowances - T4130
- General Income Tax and Benefit Guide - 5000-G
- Charities Handbook (Canadian Council of Christian Charities)
- For further information or questions contact your District Office