**Clergy Residence Deduction**

**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 actual rent & utilities cost for housing.

**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.”

**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.

**CANADA REVENUE AGENCY AND PAYROLL**

**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**

1. Box 30 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.

**Line 104** (Other Employment Income) – Enter the amount in Box 30 on the T4(s).

**Line 231** (Clergy Residence Deduction) – Enter the amount in Box 30 on the T4(s).

1. 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:

* $1000 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, (e.g. 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.

**References**

**-** Interpretation Bulletin: IT-141R Clergy Residence Deduction

- Employer’s 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)

**CRA FORM T1223 & JOB DESCRIPTIONS**

**NOTE**: The following information was acquired from the Canadian Council of Christian Charities (CCC).

Please review the following to help format your job description, that is now required by CRA when form T1223 is filed.

The following links explain what CRA means by ministering, congregation, administrative service. These links should be be reviewed to make sure your job description will be adequate.

* “ministering” [**http://www.cra-arc.gc.ca/E/pub/tp/it141r-consolid/it141r-consolid-e.pdf**](http://www.cra-arc.gc.ca/E/pub/tp/it141r-consolid/it141r-consolid-e.pdf)
* “congregation” [**http://www.cra-arc.gc.ca/E/pub/tp/it141r-consolid/it141r-consolid-e.pdf**](http://www.cra-arc.gc.ca/E/pub/tp/it141r-consolid/it141r-consolid-e.pdf)
* “full-time administrative service” [**http://www.cra-arc.gc.ca/E/pub/tp/it141r-consolid/it141r-consolid-e.pdf**](http://www.cra-arc.gc.ca/E/pub/tp/it141r-consolid/it141r-consolid-e.pdf)

The following link refers to the status part of the qualification CRA is requiring. It essentially means you must have credentials with PAOC.

* “by appointment of a religious order or religious denomination” [**http://www.cra-arc.gc.ca/E/pub/tp/it141r-consolid/it141r-consolid-e.pdf**](http://www.cra-arc.gc.ca/E/pub/tp/it141r-consolid/it141r-consolid-e.pdf)

The layout of the job description should set out the job functions that speak to the law’s requirements in a clear fashion and in priority order, with the percentages now required by CRA. Details that are needed for human resources purposed should be added as an appendix to help avoid clutter and potential confusion. A sample follows here:

**Job Title**: Youth Pastor

**Reports to**: The Senior Pastor

**Primary Duty**: To minister to the congregation of \_\_\_\_\_\_\_\_ Church, with emphasis on providing pastoral services to the youth of the church in the Teen Club, the Young Adults church groups, and youth in the surrounding neighbourhood.

**Key Responsibilities**:

* 20% - Lead weekly Teen Club meeting (lead prayer, Bible study, group and individual spiritual counseling; oversee games, sports and other activities).
* 20% - Engage in weekly Young Adults group meeting (prayer, Bible study, group and individual spiritual counseling and participation the group’s leadership).
* 20% - Open time for spiritual outreach to youth in the community (specifics to be assigned by the Senior Pastor).
* 15% - Leading special youth-focused worship services (either as part of Sunday services or special event services).
* 10% - Dedicated time to personal spiritual development (e.g. theology course or other development approved by the Senior Pastor).
* 15% - Administrative duties (e.g. attendance at leadership meetings \_ see attached appendix for details).

CRA has not disclosed the reasons for the percentage requirement. However, it is reasonable to assume they are required to determine if the “function test” elements such as being “engaged exclusively in full-time administrative service” is factually correct of if “ministering” make up the majority of a job’s duties.