

THE CORNERSTONE

Having the right type of retirement strategy is important for anyone for tax purposes, but is especially true for individuals considered ministers of the gospel.

First, an employer-sponsored retirement plan 403(B) is a not-for-profit corporate plan, which includes churches, and can be an excellent way to accumulate retirement savings for employees. The maximum combined contribution from the employer and employee can be as high as \$66,000 in 2023. The employee's contribution can be as high as \$22,500 (\$30,000 if over 50). 403B plans can be set up as traditional, i.e. tax deductible, plans or have Roth election. While Roth election on employee contributions would not be tax-deductible, they grow tax-deferred within the account and funds can be taken out tax-free, certain rules apply. *Note: individuals deemed ministers of the gospel for tax purposes can have a special 403B option, through entities like Guidestone, allowing retired ministers to take a portion of their traditional 403B monies as declared housing allowance. Such an option allows for tax deduction when putting money into the account, growth in the account tax-deferred, and withdrawal of the housing allowance funds completely tax-free. Only ministry sponsored 403 Bs qualify. Monies transferred to a secular 403B, 401(k) or IRA lose the special housing allowance treatment.*

The second, retirement instrument is the Individual Retirement Arrangement/Account or IRA. The traditional form allows pretax contributions with certain parameters. Because these are personal accounts, they have smaller contribution limits. In 2023 they are capped at \$6,500 or (\$7,500 if over 50). IRAs also have a Roth option which allows individuals to put after-tax money into the account, the monies grow tax-deferred and then funds used in retirement are tax-free, income limits may apply. Pretax (traditional) retirement accounts have a Required Minimum Distribution (RMD) which is taxed at the ordinary income rate. The RMD age for many years was 70.5. Passage of the Secure Act and the Secure Act 2.0 have increase the RMD age to 73 years for, individuals born between 1951-59. Funds remaining in a traditional 403B after retirement are also subject to RMD.

A maximum of \$100,000 a year can be withdrawn from traditional IRAs tax-free as a Qualified Charitable Distribution (QCD) individuals must be a minimum of 70.5 years old to qualify. The QCD meets the RMD requirement. Philanthropic individuals can use a traditional IRA, satisfy RMD requirements, and bypass tax inclusion. Currently, the QCD option only works with traditional IRAs. Any traditional 403B monies, would need to be transferred to an IRA to take advantage of this charitable giving option.

This article is for general information purposes, it is not an exhaustive analysis of the issue. The purpose is not meant to communicate any specific investment or tax advice. Please consult appropriate tax and financial professionals for specific situations.

Information Taken from:

<https://www.cbh.com/guide/articles/secure-act-2-0-summary-of-key-tax-provisions/#:~:text=SECURE%202.0%20requires%20that%20catch,contributions%20to%20designated%20Roth%20accounts>.

[https://www.fidelity.com/learning-center/smart-money/403b-contribution-limits#:~:text=The%202023%20403\(b\)%20contribution,employee%20contribution%20limit%20to%20%2430%2C000](https://www.fidelity.com/learning-center/smart-money/403b-contribution-limits#:~:text=The%202023%20403(b)%20contribution,employee%20contribution%20limit%20to%20%2430%2C000).

<https://pastorswallet.com/claiming-a-ministers-housing-allowance-in-retirement/>

[https://www.fidelitycharitable.org/guidance/philanthropy/qualified-charitable-distribution.html#:~:text=A%20qualified%20charitable%20distribution%20\(QCD,taking%20their%20required%20minimum%20distributions](https://www.fidelitycharitable.org/guidance/philanthropy/qualified-charitable-distribution.html#:~:text=A%20qualified%20charitable%20distribution%20(QCD,taking%20their%20required%20minimum%20distributions).

[https://www.irs.gov/retirement-plans/retirement-plans-faqs-regarding-required-minimum-distributions#:~:text=What%20types%20of%20retirement%20plans%20require%20minimum%20distributions%3F,-The%20RMD%20rules&text=profit%2Dsharing%20plans%2C%20401\(k\),Roth%20401\(k\)%20accounts](https://www.irs.gov/retirement-plans/retirement-plans-faqs-regarding-required-minimum-distributions#:~:text=What%20types%20of%20retirement%20plans%20require%20minimum%20distributions%3F,-The%20RMD%20rules&text=profit%2Dsharing%20plans%2C%20401(k),Roth%20401(k)%20accounts).

<https://www.forbes.com/sites/stevevernon/2022/01/24/retirees-beware-of-traps-for-the-unwary-regarding-qualified-charitable-distributions/?sh=6c05f40f1188>

