

Notes and FAQ

If you have questions on the clergy residence deduction, please contact the Individual income tax enquiries area of the CRA at:

1-800-959-8281 (for service in English)

1-800-959-7383 (for service in French)

Q. 8. What is the clergy residence deduction?

A. 8. Under the provisions of paragraph 8(1)© of the *Income Tax Act*, a person who is employed, or has an office, as a member of the clergy or a religious order or as a regular minister of a religious denomination may be entitled to claim a clergy residence deduction for his or her residence, when calculating the income from that employment or office. To qualify for the deduction, the person must satisfy both a status test and a function test.

Q. 9. What is the status test for the clergy residence deduction?

A. 9. To qualify for the clergy residence deduction, the person must be one of the following:

- a member of the clergy;
- a member of a religious order; or
- a regular minister of a religious denomination.

Whether or not a person is a “member of the clergy” or a “regular minister” depends on the structure and practices of the particular church or religious denomination. A member of the clergy is a person set apart from the other members of the church or religious denomination as a spiritual leader. It is not necessary that the process of appointment be referred to as ordination or that the appointment be by someone higher up in the ecclesiastical hierarchy; it may be done by the congregation itself. Priests, pastors, ministers, rabbis, imams, or other persons who have been commended, licensed, commissioned, or otherwise formally or legitimately recognized for religious leadership within their religious organizations can be members of the clergy.

Q. 10. What is the function test for the clergy residence deduction?

A. 10. To qualify for the deduction, a person who has the required status must **also** be employed in a qualifying function. The person’s function must be that he or she is:

- in charge of, or ministering to, a diocese, parish, or congregation; or

- engaged exclusively in full-time administrative service by appointment of a religious order or religious denomination.

Q. 11. Can the word “appointment” in the function test be interpreted to allow a recommendation or commendation of an individual to another organization?

A. 11. No. A recommendation or commendation of a person for administrative responsibilities with another organization does not constitute appointment by the order or denomination that makes the recommendation or commendation. Furthermore, for an appointment, it should either be to a position within the same entity or with an entity that is controlled by and that is an integral part of the religious order or denomination. See paragraph 20 of Interpretation Bulletin IT-141R (Consolidated), *Clergy Residence Deduction*.

Q. 12. Does an employee who is appointed by a religious order or a religious denomination to work as a full-time administrator in a bible college qualify for the clergy residence deduction if he or she has additional teaching duties?

A. 12. Yes. This can be considered full-time administrative service under the function test. Therefore, if the employee meets the status test and his or her full-time qualifying function requires at least 35 hours, the employee would qualify for the clergy residence deduction, even if he or she had additional responsibilities for teaching. A part-time administrator in an otherwise similar position does not qualify. A full-time professor or teacher would likewise not qualify.

Q. 13. Is a person who is not a member of the clergy but works with the youth of our congregation eligible for the deduction?

A. 13. No, if such a person is also not a regular minister of a religious denomination, he or she is not eligible (see paragraph 5 of IT-141R (Consolidated)).

Q. 14. Is a minister who is no longer required to be in full active service entitled to the clergy residence deduction?

A. 14. Yes. Part-time employment qualifies for the clergy residence deduction in this case. The minister would be entitled to the deduction on the employment income that meets the function test. This is in contrast to administrative functions, which must be full-time to qualify.

Q. 15. Can a clergyperson of a foreign church that has no status in Canada within its religious denomination claim the clergy housing deduction?

A. 15. No. To claim the deduction, the clergyperson must have authority and be recognized as a minister under his or her own denomination.

Q. 16. What is Form T1223?

A. 16. Form T1223, *Clergy Residence Deduction*, is the form required to claim the clergy residence deduction. Form T1223 has to be completed by both the individual

claiming the deduction and the employer representative to certify that the status and function tests are met for a particular year.

Q. 17. What is Form T1213?

A. 17. Form T1213, *Request to reduce tax deductions at source*, is the form an individual can use to request that an employer deduct less tax at source.

Q. 18. Are members of the clergy who qualify for the clergy residence deduction and who request a reduction of the income tax deducted at source, required to file a T1213 with the CRA or can this amount simply be reduced by the treasurer?

A. 18. There has been some confusion concerning the filing of a T1213 so we will answer this based on two distinct scenarios. In both scenarios, the employee must inform the employer, in writing, of the employee's intent to claim the clergy residence deduction (this could include Form T1223).

Scenario 1) When the clergy member lives in their own house or rents a property and claims a clergy residence deduction based on the fair market value of the house or the rent paid, respectively, they will need to file a T1213 with the local tax service office. When the T1213 is approved, the employer will reduce the employee's taxable income by the amount of the clergy residence deduction and withhold income tax at source on the difference. See A.19 scenario 1 for CPP information.

Scenario 2) When the clergy member lives in employer provided accommodations and claims the clergy residence deduction, the deduction will generally be offset by the income inclusion relating to the taxable benefit of employer provided accommodations. In this scenario, there is no change in income for withholding tax purposes, and a T1213 is not required to be filed. When determining the amount of income subject to withholding tax, the employer should include the taxable benefit relating to employer provided accommodations in the employee's income. The employee's taxable income should then be reduced by the clergy residence deduction which the employee will be claiming. See A. 19 scenario 2 for CPP information.

Q. 19. How does this affect Canada Pension Plan (CPP) amounts?

A. 19. Scenarios 1) and 2) from A.18 will be discussed separately.

Scenario 1) When calculating pensionable earnings and the amount of CPP to withhold, the employer should reduce the employee's earnings by the amount of the clergy residence deduction and withhold CPP contributions on the net amount. In this situation, the amount of pensionable earnings to be reported in box 26 (pensionable earnings) of the employee's T4 slip is the result when the earnings in Box 14 are reduced by the clergy residence deduction. Such employees must inform their employer, in writing, of their intent to claim the clergy residence deduction (this could include Form T1223). If the employee also wants a reduction of income

tax at source, as noted above, they must request a waiver by completing and filing Form T1213 with the local tax service office.

Scenario 2) When calculating pensionable earnings, the clergy residence deduction will generally be offset by the income inclusion relating to the taxable benefit of employer provided accommodations. As the deduction and income inclusion generally net out, there are no changes required to the clergy member's income for the purpose of withholding CPP at source. In this situation, although box 14 (employment income) of the employee's T4 slip will include the amount of the housing benefit, due to the offset noted above, the amount of the benefit will not be included in box 26 (pensionable earnings) of the T4 slip. Such employees must inform their employer, in writing, of their intent to claim the clergy residence deduction (this could include Form T1223). However, as noted above, they need not file a T1213.

For more information about eligibility for the clergy residence deduction, please see Interpretation Bulletin IT-141R (Consolidated), Clergy Residence Deduction, available at: www.cra.gc.ca/E/pub/tp/it141r-consolid/it141r-consolid-e.html

To get more information on the Canada Pension Plan, call your nearest tax services office. The telephone numbers and addresses are listed in the government section of your phone book and on the CRA Web site at: www.cra.gc.ca/tso

Q. 20. What is the role of employers in ensuring that the amount deducted for CPP is correct?

A. 20. Employers that are charities have the same responsibility as all employers for ensuring that CPP is correctly deducted. If an employee is seeking a reduction in CPP through Form T1223, the employer is responsible for completing Part B of the form and signing it to make sure the employee has met the required conditions.

For more information about employers' obligations for withholding CPP, please see Chapter 2 of guide T4001, *Employers' Guide Payroll Deductions – Basic Information*, available at: www.cra.gc.ca/E/pub/tg/t4001/

t4001-03-e.html#P400_34608