

HOUSING ALLOWANCE

QUICK FACTS

- **QUALIFICATION:** Housing allowance is available to church staff only if two conditions are met. (1) the recipient is a minister (2) the allowance is provided as compensation for services performed in the exercise of ministry.
- **TAX BENEFIT:** The most important tax benefit available to ministers who own or rent their homes is the housing allowance. Ministers who own or rent their home do not pay federal income taxes on the amount of their compensation that their employing church designates in advance as a housing allowance.
- **APPROVAL PROCESS:** Ministers must have their housing allowance approved by their governing board each year in one of their final meetings of the year. This should be on the Agenda and recorded in the minutes.
- **CHURCH PARSONAGE:** Ministers that live in a church parsonage, and who incur any out-of-pocket expenses in taxes, insurance, furnishings, etc should ask their employing church to designate portion of their annual compensation as a "parsonage allowance".
- **HOUSING ALLOWANCE CATEGORIES:** Mortgage/Rental Payments, Furnishings and Appliances, Utilities, Maintenance, Repairs.
- **SELF EMPLOYMENT TAXES:** A housing allowance may be excluded from income for federal income tax purposes, but not for SECA tax purposes
- **BI-VOCATIONAL:** Churches may designate a housing allowance for bi-vocational ministers who are ministers for tax purposes. A minister's housing allowance can be designated for ministerial income only. Secular employers cannot designate a housing allowance for ministers who are paid for working in non-ministerial jobs
- **MINISTERS THAT OWN A HOME WITH NO MORTGAGE:** Ministers who pay off their mortgages may have a housing allowance for other eligible expenses of maintaining a home such as utilities, taxes and repairs.
- **RENT-FREE PARSONAGE:** Ministers who live rent-free in a church-owned parsonage should not include the fair rental value of the parsonage in income for federal income taxes. But they should include the fair rental value of the parsonage in income for SECA taxes.

- **NOT ELIGIBLE FOR INCOME EXCLUSION:** Cleaning services, food and domestic help are not eligible to be excluded as income as part of a housing allowance
- **AMENDMENT TO HOUSING ALLOWANCE:** The church can amend its housing allowance designation during the course of the year if changed circumstances render the allowance inadequate. Any change would only operate prospectively.
- **FORGOT TO APPROVE HOUSING ALLOWANCE:** A minister cannot exclude income as a housing allowance unless the church designated it before the minister earned income for ministerial services. In other words, it has to be designated in advance (prospectively), not retroactively.
- **HOUSING ALLOWANCE LIMITS:** There is no limit on the amount of a minister's salary that a church can designate as a housing allowance. In appropriate situations, a church could designate 100% of a minister's salary as housing allowance.
- **OVER-PROJECTION OF HOUSING ALLOWANCE:** If the church designates more than the minister can claim as a housing allowance, the minister is responsible for reporting and paying federal income taxes on the correct amount of income.
- **RETIRED MINISTERS:** Revenue Ruling 63-156 allows denominational pension boards to designate a housing allowance for retired minister receiving benefits. Retired ministers may ask to designate up to 100% of their retirement benefits as housing. But retired ministers must continue to follow the housing allowance rules and limits.
- **SURVIVING SPOUSES OF RETIRED MINISTERS:** Ministers are eligible for housing allowance with respect to ministerial services they provide. The Internal Revenue Code does not contemplate that one person can receive housing allowance based upon another person's service. It would appear unlikely that a surviving spouse could receive housing allowance that is attributable to ministerial service of the other person.
- **ADDITIONAL RESOURCES:**

Church Law and Tax, Richard Hammar www.churchlawandtax.com

International Revenue Service, www.irs.gov

Free Church Accounting, www.freechurchaccounting.com

Clergy Financial Resources www.clergytaxnet.com