



HOUSING ALLOWANCE GUIDE





HOUSING ALLOWANCE GUIDE

The following ministers' housing allowance information is for the benefit of Church Benefits Board (CBB) participants and employers. CBB is also proud to partner with the Evangelical Council for Financial Accountability (ECFA) to offer an in-depth tax resource guide, Ministers' Tax & Financial Guide. For additional resources visit churchbenefits.org/resources.

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churchbenefits.org/housingallowance

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Housing Allowance FAQs

Q. What is a Housing Allowance?

A. A housing allowance is a portion of clergy income that may be excluded from income for federal income tax purposes (W-2 “Box 1” wages) under Section 107 of the Internal Revenue Code. To be eligible, the pastor/clergy must be a “minister of the gospel” and be ordained, licensed, or commissioned by a church, convention or association of churches.

Q: What is the advantage of declaring a minister's housing allowance?

A: The main advantage of declaring a housing allowance is that it helps the minister save in paying income tax (see the illustration below). That savings on taxes can be used for multiple purposes, e.g. additional contributions to the minister's retirement plan (which are tax deferred), offset healthcare costs, additional funds to cover living expenses, etc.

Illustration Example:

Assumptions for illustration: Salary of \$50,000, tax rate for 2021 is 12% for Married Filing Jointly, and total housing expenses of \$28,000 (rent/mortgage, insurance, taxes, utilities, furnishings, etc.)

Taxes without housing allowance:

- Salary of \$50,000
- Taxed on \$50,000 * 12% = \$6,000
- Owed income tax of \$6,000

Taxes with housing allowance

- Salary of \$50,000
- Housing Allowance of \$28,000
- Reduction of Taxable Income $\$50,000 - \$28,000 = \$22,000$
- Taxed on $\$22,000 * 12\% = \$2,640$
- Owed income tax of \$2,640

In this illustration there is a \$3,360 tax savings with the Housing Allowance.

Q. Can all church employees have a tax-free housing allowance?

A. No. Section 107 of the Internal Revenue Code allows only a “minister of the gospel” to have a housing allowance. Thus, only taxpayers who are serving as clergy under IRS rules for tax purposes are eligible for a housing allowance. These rules state that the person

Housing Allowance FAQs cont.

must be ordained, commissioned or licensed by the church or denominational authorities and should be performing “ministerial services” such as administering the sacraments, church or denomination, and be considered as a religious leader by the church and/or denomination. Therefore, a church custodian or secretary cannot have a housing allowance. (Lay employees do get the benefit of having the church pay one half their social security/Medicare taxes.)

Q. Can clergy exclude from gross income the ENTIRE cost of owning, renting, and/or furnishing a home?

A. It depends. The amount that can be excluded from federal income tax is the lesser of: (a) the amount designated as the housing allowance (b) the amount of actual housing expenses, or (c) the fair rental value of the property (furnished, plus utilities).

Q. How is the housing allowance set up?

A. A pastor's housing allowance must be established or designated by the church or denominational authority based on the amount the minister provides. The preferred way to do this is for the church council/board to adopt a housing allowance resolution prior to each calendar year (or prior to the arrival of a new pastor) and record the resolution in the minutes of the meeting. In determining the amount of the housing allowance designation, past experience is the best indicator, with an added “cushion” included for unanticipated expenses (i.e. repair/replacement of household appliances, etc.). Adding this cushion allows the pastor to take full advantage of all federal tax savings. (Do keep in mind that designated housing allowance not used for household expenses becomes taxable. So, adding an excessive “cushion” may not be advisable.)

Q. What types of housing related expenses can be included in the housing allowance?

A. While there is no list of allowance expenses provided by the IRS, it is understood that most reasonable household expenses can be included in the housing allowance. Some of these items include: down payment on a home, mortgage payments (including both interest and principal), home equity loan payments (assuming the loan proceeds are used for housing-related expenses), real estate taxes, homeowners' association dues, property insurance, utilities, furnishings and appliances (including repairs), structural repairs, remodeling, yard maintenance and improvements, pest control, snow removal, maintenance items, and trash pickup. Note that the cost of food and/or clothing may not be included in the housing allowance. Also, housing-related expenses can only be included in the housing allowance for the year in which they are incurred.

Housing Allowance FAQs cont.

Q. What type of housing expense records should clergy be keeping?

A. Ideally, clergy should keep careful housing expense records to determine whether expenses are greater or less than the annual designation. Records are also important for estimating a reasonable housing allowance for the next year. Original receipts, invoices, canceled checks, charge card records, etc. are all essential. To simplify record keeping, some pastors find it helpful to have one charge card or bank account dedicated solely to household expenses, while others simply use the “shoe box” method of collecting all applicable receipts in one handy place.

Q. What happens if the pastor doesn't spend all of the designated housing allowance on housing expenses?

A. As noted above, the exclusion from gross income cannot exceed the lesser of the designated housing allowance, the actual housing expenses, or the fair rental value of the property. In particular, the exclusion from gross income can never exceed the actual housing expenses. Therefore, any "unused" portion of the designated housing allowance must be included in the pastor's gross income when filing an annual tax return.

Q. Can the housing allowance resolution be adopted or amended mid-year?

A. Yes. The housing allowance resolution can be adopted or amended at any time. However, it can only be applied prospectively. That is why it is important for the housing allowance resolution to be adopted by the church council or annual charge conference prior to each new calendar year (or prior to the arrival of a new pastor) and for pastors to accurately estimate their housing expenses in advance.

Example: A local church waits until June 30 to establish its calendar year housing allowance of \$10,000. In that case, at most \$5,000 of the \$10,000 housing allowance can be excluded from the pastor's gross income in that calendar year.

Q. Is the housing allowance also excluded from earnings subject to self-employment taxes?

A. No. The housing allowance exclusion only applies for federal income tax purposes. By law, clergy are considered “dual status” employees. This, in essence, means that while pastors receive W-2s from their employers, they are considered self-employed for the purpose of paying self-employment taxes – unless they have opted out using Form 4361. Therefore, housing allowance and/or the fair rental value of a parsonage provided to a

Housing Allowance FAQs cont.

pastor (including the cost of any utilities and furnishings provided) must be included as self-employment earnings subject to the selfemployment tax. (See IRS Publication 517).

Example: A church pays its pastor an annual salary of \$35,000 and provides the use of a church-owned parsonage. The church pays for all expenses of maintaining the home. The fair rental value of the parsonage (furnished, plus utilities) is \$10,000 per year. The pastor's gross income for federal income tax purposes is \$35,000, but for self-employment tax purposes the gross earnings are \$45,000 (\$35,000 salary + \$10,000 fair rental value of the parsonage). Some churches do establish a (taxable) "social security allowance," increasing the cash compensation of the pastor to help defray the extra cost of the self-employment tax.

Q. How is the housing allowance reported for social security purposes?

A. It is reported by the pastor on Schedule SE of Form 1040, line 2, together with salary.

Housing Allowance Resolutions

Parsonage owned by or rented by a church

Whereas, the Internal Revenue Code permits ministers to exclude from gross income "the rental value of a home furnished as part of compensation" or a church-designated allowance paid as a part of compensation to the extent that actual expenses are paid from the allowance to maintain a parsonage owned or rented by the church;

Whereas, the church compensates (insert name) for services in the exercise of ministry; and

Whereas, the church provides (insert name) with rent-free use of a parsonage owned by (rented by) the church as a portion of the compensation for services rendered to the church in the exercise of ministry;

Resolved, That the compensation of (insert name) is \$4,500 per month, of which \$2,000 per month is a designated housing allowance; and

Resolved, That the designation of \$2,000 per month as a housing allowance shall apply until otherwise provided.

Home owned or rented by ministers

Whereas, the Internal Revenue Code permits a minister to exclude from gross income a church designated allowance paid as part of compensation to the extent used for actual expenses in owning or renting a home; and

Whereas, the church compensates (insert name) for services in the exercise of ministry;

Resolved, That the compensation of (insert name) is \$4,500 per month, of which \$2,000 per month is a designated housing allowance; and

Resolved, That the designation of \$2,000 per month as a housing allowance shall apply until otherwise provided.

Special Speaker

Whereas, the Internal Revenue Code permits ministers to exclude from gross income a church designated allowance paid as part of compensation to the extent used in owning or renting a permanent home; and

Whereas, the church compensated (insert name) for services in the exercise of ministry as an evangelist;

Resolved, That the honorarium paid to (insert name) shall be \$1,512, consisting of \$312 for travel expenses (with documentation provided to the church), \$500 for housing allowance, and a \$700 honorarium.

Housing Allowance Worksheet

Minister Living in Housing Owned or Rented by the Church

Name _____

For the period _____

to _____

Date designation approved _____

Allowable Housing Expenses

(Expenses paid by minister from current income)

	Estimated Expenses	Actual
Utilities (water, electricity, gas) and trash collection		
Decoration and redecoration		
Structural maintenance and repair		
Landscaping, gardening, pest control		
Furnishings (purchase, repair, replacement)		
Personal property insurance on minister-owned contents		
Personal property taxes on contents		
Umbrella liability insurance		
Subtotal		
10% allowance for unexpected expenses		
Total		(A)
Properly designated housing allowance		(B)

The amount excludable from income for federal income tax purposes is the lower of A or B
(or reasonable compensation)

Housing Allowance Worksheet

Minister Living in Home Minister Owns or Is Buying

Name _____

For the period _____

to _____

Date designation approved _____

Allowable Housing Expenses

(Expenses paid by minister from current income)

	Estimated Expenses	Actual
Down payment of purchase of housing		
Housing loan principal and interest payments*		
Real estate commission, escrow fees		
Real estate property taxes		
Personal property taxes on contents		
Homeowner's insurance		
Personal property insurance on contents		
Umbrella liability insurance		
Structural maintenance and repair		
Landscaping, gardening, pest control		
Furnishings (purchase, repair, replacement)		
Decoration and redecoration		
Utilities (water, electricity, gas) and trash collection		
Homeowner's association dues/condominium fees		
SUBTOTAL		
10% allowance for unexpected expenses		
TOTAL		(A)
Properly designated housing allowance		(B)
Fair rental value of home, including furnishings, plus utilities		(C)

**The amount excludable from income for federal income tax purposes is the lower of A, B, or C
(or reasonable compensation)**

**Loan payments on home equity loans or second mortgages are includible only to the extent the loan proceeds were used for housing expenses.*

Housing Allowance Worksheet

Minister Living in Home Minister is Renting

Name _____

For the period _____ to _____

Date designation approved _____

Allowable Housing Expenses

(Expenses paid by minister from current income)

	Estimated Expenses	Actual
Housing rental payments	_____	_____
Personal property insurance on minister-owned contents	_____	_____
Personal property taxes on contents	_____	_____
Umbrella liability insurance	_____	_____
Structural maintenance and repair	_____	_____
Landscaping, gardening, pest control	_____	_____
Furnishings (purchase, repair, replacement)	_____	_____
Decoration and redecoration	_____	_____
Utilities (water, electricity, gas) and trash collection	_____	_____
Other rental expenses	_____	_____
Subtotal	_____	_____
10% allowance for unexpected expenses	_____	_____
Total	_____	_____ (A)
Properly designated housing allowance		_____ (B)

The amount excludable from income for federal income tax purposes is the lower of A or B
(or reasonable compensation)

Ready to enroll?

Are you or your church ready to roll your benefits to the Church Benefits Board? Here are the steps to get you and your church or organization enrolled into the Church Benefits Board 403(b)(9) Plan.

1

Complete the Enrollment Interest Form

Visit churchbenefits.org/enroll and complete the Enrollment Interest Form. This will inform our team what type of benefits you need and if your church is already a participating employer.

2

Enroll the Employer

If your church or organization is not a participating employer, this is the initial step. Our team will work with your church and Financial Administrator to enroll into the plan.

3

Create Individual Accounts

Our team will work with your church or organization to create retirement accounts for all interested staff. You'll be notified when this is complete.

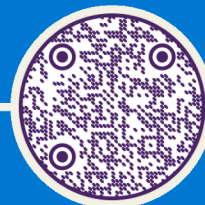
4

Rollover Outside Funds

After your account is created, participants can rollover any outside retirement accounts to their new Church Benefits Board account. Simply complete the Rollover Support Ticket and an Empower representative will contact you to walk you through this process.

Ready to enroll?

churchbenefits.org/enroll



Have questions?

Contact the CBB team at 770.220.1672
or churchbenefits@churchbenefits.org

First Baptist on Fifth, Winston-Salem, NC



CHURCH BENEFITS BOARD

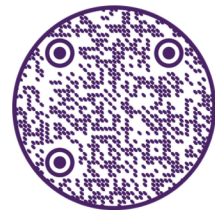
SERVE TODAY. SECURE TOMORROW.

Church Benefits Board's 403(b)(9) retirement plan is designed especially for ministry leaders, helping you secure your financial future while you live into your calling.

Our retirement plan offers tax savings unique to clergy, free financial planning, financial wellness incentives, and personalized support. Pair it with our life insurance for comprehensive protection.

Start your Enrollment Interest Form today!

churchbenefits.org



The Church Benefits Board, Inc., is a ministry of the Cooperative Baptist Fellowship (CBF), created in 1998 by the General Assembly to provide 403(b)(9) retirement benefits for ministers and staff members of churches that are affiliated with CBF, along with CBF personnel in Atlanta and field personnel worldwide.