



Questions About Housing Allowance

How is the housing allowance reported by the church to the minister?

Technically, the housing allowance is not reportable by a church for income tax purposes on any IRS forms. The church can provide the ministers with the housing allowance data in a letter or memo and there is no need for the ministers to attach this statement to your income tax returns.

The standard practice in Pennsylvania is to report the housing allowance on the W-2 form.

Housing allowance is considered taxable income in the state of Pennsylvania, but it is not considered taxable for local wage taxes. This is why it is necessary to report the housing allowance on the W-2.

On the annual W-2 form, you should use Box 14 to report the housing allowance. Make sure to label as "Housing Allowance" in the box. Please refer to the document titled "W-2 Sample for Ordained Staff", also available online.

Does a housing allowance provide any benefit for a minister living in church provided housing or a manse?

Even a minister living in church provided housing should have a portion of salary designated as a housing allowance. In this situation, the allowance may be a modest amount to cover incidental expenses such as maintenance, furnishings and utilities. For the minister without a housing allowance, every dollar of compensation is taxable for federal income tax purposes.

Who is responsible to establish the fair rental value of church provided housing?

The determination of the fair rental value is totally the responsibility of the minister. The church is not responsible to set the value. The fair rental value should be based on comparable rental values of other similar residences in the immediate neighborhood or community.

Must the housing allowance designation be in writing?

The housing allowance should be evidenced in writing. This must be done by a Session resolution (since the Session is responsible for approving the budget) and it must be voted on by the congregation at a called congregational meeting. The dollar amount of the housing allowance should be on a “Pastor's Estimate of Housing Allowance” declaration or form (please see the file “Pastor's Estimate of Housing Allowance” available online).

Further, it is necessary to make sure to have the Terms of Call included in the official minutes of the congregational meeting. If the minister is hired via an employment contract, the housing allowance must be included there. You should also include the “Pastor's Estimate of Housing Allowance” declaration or form in the employment contract

Tax law does not specifically say that an oral designation of the housing allowance is unacceptable. Still, the use of a written designation is preferable and highly recommended. The lack of a written designation significantly weakens the defense for the housing exclusion upon audit.

When must the housing allowance designation be made?

The housing allowance must be officially designated before any payroll or other payments of the housing allowance is made by the church. The allowance may be prospectively amended at any time.

It is improper and ineffective for a church to amend the housing designation mid-year in an attempt to compensate for an allowance that was too low for the first part of the year. We would suggest that you avoid doing so.

May the total of the designated housing allowance be excluded for income tax purposes?

The housing allowance exclusion is limited to the lowest of (1) reasonable compensation, (2) the fair rental value of the home furnished plus utilities, (3) the amount used to provide a home from current ministerial income, or (4) the amount properly designated. When a minister lives in rented housing, there is no need to apply the fair rental value test.

Is there a maximum amount that may be set as the housing allowance?

The IRS does not place a limit on how much of a minister's compensation may be designated as a housing allowance by the employing body. In other words, as much as 100% of the compensation may be designated. But practical and reasonable limits usually apply.

For a minister owned home, the lower of actual expenses or the fair rental value, including utilities, will usually be the limiting factor. For a minister renting a home, the actual expenses will typically be the limit. However, it is usually better to over designate than to under designate. The amounts must be substantiated by the minister.

How many ministers serving one church may receive housing allowances?

There is no limit on how many ministers may receive a housing allowance by one church. If there are multiple pastors on a church staff, the church should designate housing allowances for each of them.

The dollar amount may vary depending on the estimated housing expenses of the respective minister. A lump sum housing allowance covering multiple ministers of one church, without any designation of the amount relating to specific individuals, is not an appropriate designation.

May the housing allowance be established as a percentage of salary?

Some churches set the housing allowance by applying a percentage to the total cash salary. Housing allowance percentages are often in a range of 40% to 60% of the total cash salary. Setting the housing designation based on an estimate of housing expenses for each minister is highly preferable over the percentage method.

May the minister's housing allowance be adopted at the denominational level?

If the local congregation employs and pays the minister, a resolution by the PC(USA) or by the Presbytery does not constitute a housing allowance designation for your church.

The local congregation must officially designate the part of your salary that is a housing allowance and it must include the resolution in the congregational minutes.

Does the minister or the church determine the amount of housing expenses to exclude from income on the minister's return?

The church designates the housing allowance but the responsibility for determining the portion of the housing designation that can be excluded from income rests solely with the minister. Ministers often submit a prospective estimate of housing expenses to help the church establish a proper allowance. But the minister is not required to provide after-the-fact documentation to the church of housing expenses incurred.

There will usually be a difference between the housing allowance and actual housing expenses. There is no requirement for a church to issue a corrected Form W-2 or 1099-Misc. to adjust compensation to agree with actual housing expenses since they are not required to be reported on either document.

What happens when actual housing expenses exceed the fair rental value of the residence?

Actual housing expenses that exceed the fair rental value limitation are not deductible. There are no provisions to carry over "unused" housing expenses.

When housing expenses exceed the fair rental value, spreading some housing costs over two or more years may save some deductions. This approach reduces your taxable income by maximizing your exclusion.

How should the housing allowance paid to the minister?

It is immaterial whether the payment of a properly designated cash housing allowance is a separate payment or is part of a payment that also includes other compensation.

A housing allowance usually is included with the minister's payroll check.

