

Housing Allowance Tax Benefit for Ministers

December 8, 2021
By: Rick Battershell

Which ministers are eligible to receive this benefit?

- Commissioned, licensed, or ordained clergy
- Compensated for services performed in the exercise of ministry
 - Can include performing management functions for a church, a denomination, or an integral agency of the church or denomination
- Can perform substantially all duties of an ordained clergy
 - conducting religious worship
 - administering sacraments
 - performing marriages
- Considered a religious leader by the church
 - And church by-laws or charter allows church to confer ministerial credentials



The housing allowance benefit is available for clergy who:



- are living in a church provided rectory or parsonage
- are renting a home or apartment
- are buying a home

Clergy lives in church owned parsonage/ rectory/ manse

Clergy can exclude from compensation subject to income tax:

1. The fair rental value of the parsonage
2. The portion of their compensation properly designated as "parsonage allowance"
 - to the extent it is used to pay for parsonage related expenses
 - limited to the fair rental value of the home, furnished plus utilities



Clergy lives in a home he/she is buying or rents

Clergy can exclude from compensation subject to income tax:

The portion of their compensation properly designated as "housing allowance"

- to the extent it is used to pay for housing related costs
- limited to the fair rental value of the home, furnished plus utilities

Determining the amount of the allowance

- Recommendation for churches and ministries:
 - Ask the minister to suggest a designation amount
 - Suggest that the minister estimate high (or include a \$5K or \$10K contingency)
 - May want minister to justify designation over 60% of compensation
 - Consider limiting maximum designation to 99% of compensation
 - No IRS requirement for churches to verify housing costs

Designating the housing allowance in advance

- Annual housing or parsonage allowance by employing church/ministry:
 - Document annually in board minutes before the new year
“... resolved, that \$_____ of the compensation paid pastor _____ for calendar year 2022 shall be hereby designated to be a housing allowance.”
 - Include a “safety net” housing allowance designation
“... resolved, that if a housing allowance is not specifically designated for a minister, we hereby designate 60% of his or her compensation as a housing allowance for 2022 and all future years unless otherwise provided”
 - Include a “retirement plan” housing allowance designation
“... resolved, that 100% of all benefits paid from the Church 403(b) retirement plan to ordained, licensed, or commissioned ministers, qualified to receive housing allowance, shall hereby be designated as housing allowance under the provisions of IRC section 107 unless otherwise provided by the church board.”
- Applies prospectively to future compensation paid

Amending a designated housing allowance

- Amended housing allowance:
 - Applies prospectively to future compensation – not retroactively
 - OK to change designated housing allowance mid-year
 - Often needed when housing costs increase, such as with purchase of new home.
 - Include in board minutes of the church

Which housing costs qualify?

- Primary residence home costs
 - Not vacation or second homes
- Typical costs include:
 - Mortgage payments or rent
 - Insurance (home owners or renters insurance)
 - Property taxes
 - Utilities
 - Furnishings and appliances
 - Repairs, yard maintenance, etc.
 - House cleaning services (but not laundry)
 - Remodeling costs



Which housing costs DO NOT qualify?

- Food
- Food preparation services
- Child care
- Cell phone
- Portion of home used for separate business or rental purposes



Taxation of housing allowance



- Subject to self-employment taxes :
 - Full housing allowance
 - Rent free use of a parsonage or rectory
 - Exception: Unless minister received IRS approval for exemption from SE tax - aka "opting out of Social Security"
- Exclude from income tax (lesser of):
 - Housing costs incurred
 - Designated housing allowance
 - Rental value of house (furnished) plus utilities

Sample Computation:

Scenarios	1	2	3
Housing Costs	32,000		
Church Designation	30,000		
Rental Value (furnished with utilities)	31,000		
Amount Excluded from Taxable Income			

Sample Computation:

Scenarios	1	2	3
Housing Costs	32,000		
Church Designation	30,000		
Rental Value (furnished with utilities)	31,000		
Amount Excluded from Taxable Income	30,000		

Sample Computation:

Scenarios	1	2	3
Housing Costs	32,000	32,000	
Church Designation	30,000	35,000	
Rental Value (furnished with utilities)	31,000	31,000	
Amount Excluded from Taxable Income	30,000		

Sample Computation:

Scenarios	1	2	3
Housing Costs	32,000	32,000	
Church Designation	30,000	35,000	
Rental Value (furnished with utilities)	31,000	31,000	
Amount Excluded from Taxable Income	30,000	31,000	
Taxable as "Excess Housing Allowance"	0		

Sample Computation:

Scenarios	1	2	3
Housing Costs	32,000	32,000	
Church Designation	30,000	35,000	
Rental Value (furnished with utilities)	31,000	31,000	
Amount Excluded from Taxable Income	30,000	31,000	
Taxable as "Excess Housing Allowance"	0	4,000	

Sample Computation:

Scenarios	1	2	3
Housing Costs	32,000	32,000	32,000
Church Designation	30,000	35,000	35,000
Rental Value (furnished with utilities)	31,000	31,000	32,500
Amount Excluded from Taxable Income	30,000	31,000	
Taxable as "Excess Housing Allowance"	0	4,000	

Sample Computation:

Scenarios	1	2	3
Housing Costs	32,000	32,000	32,000
Church Designation	30,000	35,000	35,000
Rental Value (furnished with utilities)	31,000	31,000	32,500
Amount Excluded from Taxable Income	30,000	31,000	32,000
Taxable as "Excess Housing Allowance"	0	4,000	

Sample Computation:


Scenarios	1	2	3
Housing Costs	32,000	32,000	32,000
Church Designation	30,000	35,000	35,000
Rental Value (furnished with utilities)	31,000	31,000	32,500
Amount Excluded from Taxable Income	30,000	31,000	32,000
Taxable as "Excess Housing Allowance"	0	4,000	3,000

Tax Planning for Housing Costs

- Finance major additions
 - Housing cost is when loan paid
- Pay off other debt before extra reductions to home mortgage

Reporting housing to IRS

- W-2, box 14
 - **Optional:** Housing and utility allowances
- Form 1040 schedule listing
 - Designated housing allowance
 - Rental value
 - Actual housing costs

a Employee's social security number		Safe, accurate, FAST! Use  Visit the IRS website at www.irs.gov/efile			
b Employer identification number (EIN)		1 Wages, tips, other compensation	2 Federal income tax withheld		
c Employer's name, address, and ZIP code		3 Social security wages	4 Social security tax withheld		
		5 Medicare wages and tips	6 Medicare tax withheld		
		7 Social security tips	8 Allocated tips		
d Control number		9	10 Dependent care benefits		
e Employee's first name and initial Last name Suff.		11 Nonqualified plans			
		12a See instructions for box 12			
		13 <input type="checkbox"/> Statutory employee <input type="checkbox"/> Retirement plan <input type="checkbox"/> Third-party sick pay	12b		
		14 Other	12c		
f Employee's address and ZIP code			12d		
15 State Employer's state ID number	16 State wages, tips, etc.	17 State income tax	18 Local wages, tips, etc.	19 Local income tax	20 Locality name

Form **W-2** Wage and Tax Statement **2021** Department of the Treasury—Internal Revenue Service
 Copy B—To Be Filed With Employee's FEDERAL Tax Return.
 This information is being furnished to the Internal Revenue Service.

CPE needed?

By December 15, 2021 send an email requesting CPE, complete the course evaluation, and provide the list of CPE codes provided during the presentation to:
(Only available for those attending live)

info@battershellnichols.com

All CPE codes are provided in the presentation via polls



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