

Everything You Wanted to Know About Housing Allowance, But Were Afraid to Ask

By Rev. Dr. Hank Roso, Vice President, Evangelical Church Alliance

Well...not everything, but with the recent litigation and subsequent federal involvement, there has been a more than usual amount of confusion regarding minister's housing allowance. Even though we strongly recommend that our members utilize the services of an accountant who specializes in clergy tax preparation/planning, it may be helpful for you to understand some of the basics during this tax season.

The Clergy Housing Allowance Clarification Act, which was signed into law by President George Bush on May 20, 2002 and the Ninth Circuit Court of Appeals dismissal of the motion challenging the constitutionality of the minister's housing allowance on August 26, 2002, have essentially, left your housing allowance as it was before.

According to the Internal Revenue Service publication #1828, Tax Guide for Churches and Religious Organizations, "a minister may exclude a housing allowance from gross income to the extent it is used to pay expenses in providing a home. Generally, those expenses include rent, mortgage payments, utilities, repairs, and other expenses directly relating to providing a home." The question, "Do I qualify for housing allowance?" May be answered by first answering the question, "Does the IRS consider me to be a 'dual-status' minister?" Dual Status means that although you may be an employee of a church or organization, you are self-employed for social security purposes. In order to qualify as dual status, you must be employed by a church or an integral agency of a church, or you must be assigned or appointed by your church or government approved credentialing agency to perform services at an organization that is not a church. Even a chaplain who is employed by a secular organization may qualify for housing allowance.

You must also perform ministerial services at a church or a church affiliated organization. According to Revenue Ruling 57-129, your duties may be that of a supervisory or executive staff nature.

The third requirement of a dual status minister is to be "ordained by a church or an equivalent thereof." An important ruling during March, 1984 determined the meaning of "ordained" to be: "duly ordained, commissioned, or licensed minister of a church."

Having met these requirements, your next step would be to determine the amount of your housing allowance. Some have mistakenly called the ECA requesting that we set this amount. Again, quoting from IRS publication #1828, "If a minister is employed and paid by a local church or qualified organization, the employing organization must make the designation. A designation by a national church agency will not be effective, except for ministers it directly employs. The local congregation must make the designation." This designation means that the employer designates, through official action of the board or congregation, in advance, the amount the minister expects to spend for all the expenses of his home, that the action be recorded in the official minutes of the meeting. Because the minister is the person with the best knowledge of what his housing expenses would be, he would provide that amount to the employer for them to designate. When the minister files his taxes, any amount of housing allowance income which exceeds the actually amount he spent must be listed as additional income. It is important to know that housing allowance income is only exempt from FICA. The minister must still pay Social Security and Medicare taxes on that amount.

It is recommended that each minister consult with *Worth's Income Tax Guide for Ministers* and/or a tax professional for additional information.