

Housing Allowance Information

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The ECA recommends that our members seek the services of an accountant who specializes in clergy tax planning and preparation. As of December 2018, the IRS website states the following;

“Question

I'm a minister and receive a salary plus a housing allowance. Is the housing allowance considered income and where do I report it?

Answer

A minister's housing allowance (sometimes called a parsonage allowance or a rental allowance) is excludable from gross income for income tax purposes but not for self-employment tax purposes. If you receive as part of your salary (for services as a minister) an amount officially designated (in advance of payment) as a housing allowance, and the amount isn't more than reasonable pay for your services, you can exclude from gross income the lesser of the following amounts:

- the amount officially designated (in advance of payment) as a housing allowance;
- the amount actually used to provide or rent a home; or
- the fair market rental value of the home (including furnishings, utilities, garage, etc.).

The payments officially designated as a housing allowance must be used in the year received. Include any amount of the allowance that you can't exclude as wages on line 1 of Form 1040, U.S. Individual Income Tax Return. Enter “Excess allowance” and the amount on the dotted line next to line 1.

If your congregation furnishes housing in kind as pay for your services as a minister instead of a housing allowance, you may exclude the fair market rental value of the housing from income, but you must include the fair market rental value of the housing in net earnings from self-employment for self-employment tax purposes.

For more information on a minister's housing allowance, refer to Publication 517, Social Security and Other Information for Members of the Clergy and Religious Workers.

For information on earnings for clergy and reporting of self-employment tax, refer to Tax Topic 417, Earnings for Clergy.”

All of this information is available to you according to the Internal Revenue Service publication #1828, Tax Guide for Churches and Religious Organizations <https://www.irs.gov/pub/irs-pdf/p1828.pdf>

As well as the IRS publication 517 <https://www.irs.gov/pub/irs-pdf/p517.pdf>

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 <https://www.worthfinancial.com/product/worths-income-tax-guide-for-ministers/> and/or a tax professional for additional information.