

Minister's Housing

1. HOW IT WORKS OVERVIEW:

- a. **With a Church Provided Home (Parsonage):** The church determines total cash compensation to be paid. The minister then estimates any other housing expenses they will incur. Based on that estimate the church designates the amount of Minister's Housing Allowance. The remaining cash compensation is then taxable salary. Only the taxable salary is included in Box 1 of the minister's W-2 form as taxable income for income tax purposes. In calculating Self-Employment Social Security, in addition to the salary, the minister adds the Housing Allowance, the Fair Rental Value of the Parsonage and any amounts the church pays directly for utilities.
- b. **With NO Church Provided Home:** The church determines total cash compensation to be paid. The minister estimates their total housing expenses. Using that estimate, the church designates the amount of Minister's Housing Allowance. The remaining cash compensation is then taxable salary. Only the taxable salary is included in Box 1 of the minister's W-2 form as taxable income for income tax purposes. The minister adds the Housing Allowance to the Salary in calculating their Self-Employment Social Security.

2. Tax rules regarding minister's housing are found in IRS Code Section 107. Housing for other employees is addressed in other IRS Code sections that should not be used for minister's housing.

3. A Minister's tax-free housing is limited to the lowest of:

- a. Amount Designated by the Church
- b. Actual Amount Spent
- c. The Fair Rental Value of the House Furnished plus Utilities

Note: While a high percentage of compensation being designated as housing may sometimes raise questions, there is no percentage of compensation limit imposed by tax laws or regulations.

4. Items generally included in the housing:

- a. Principle and Interest Payments on a Mortgage - OR - Rent
- b. Real Estate Taxes
- c. Repairs, Maintenance and Improvements
- d. Insurance on the home and/or contents
- e. Utilities
- f. Furnishings
- g. Maintenance Items (cleanings supplies, light bulbs, pest control etc.)
- i. Miscellaneous (Homeowners Association Dues, Yard maintenance and Improvements, etc.)

5. If housing allowance is set higher than actual housing expenses, a minister reports the difference as added taxable income. (Added to Line 7 or on the "other income" line of the 1040 form.)

6. Housing designations should be in writing, such as in an itemized budget or minutes of a church business meeting or appropriate committee. The written housing notification form may also be used.

7. When a minister retires, retirement income paid from a minister's denominational retirement plan may be designated as housing subject to the same limits above. (IRS Rev. Ruling 75-22)

8. Mortgage interest and real estate taxes paid by a minister still qualify as itemized deductions on taxes.

9. Housing cannot be designated retroactive and only one house may be used for a minister's housing.

EXAMPLES OF COMPENSATION INCLUDING MINISTER’S HOUSING

Example # 1 - Full Time Pastor Living in a Parsonage

Salem Church will pay a full time pastor \$ 39,000 next year and he will live in a church owned parsonage. The parsonage has a rental value of \$ 700 per month. The church estimates \$ 2,600 will be spent for parsonage utilities. The pastor estimates he will spend \$ 3,500 next year for other housing related expenses.

Salary	35,500
Fair Rental Value of Parsonage	8,400
Utilities Paid Directly by Church	2,600
Housing Allowance	3,500
TOTAL COMPENSATION	50,000

Example # 2 - Full Time Staff Minister No Parsonage is Provided

Calvary Church will pay \$ 48,000 next year to their full time Minister of Education who qualifies under IRS as a minister. The Minister of Education is buying a home and estimates total housing costs of \$ 14,800 next year.

Salary	33,200
Housing Allowance	14,800
TOTAL COMPENSATION	48,000

Example # 3 - Bivocational Pastor No Parsonage is Provided

Chestnut Grove Church will pay their pastor \$ 21,000 next year. His secular job is one with significant income. He is buying a home and estimates total housing costs for next year of \$ 20,400.

Salary	600
Housing Allowance	20,400
TOTAL COMPENSATION	21,000

Links are also available on the website to the following two forms that will be helpful in handling Minister’s Housing:

- “Minister’s Housing Allowance Estimate Form”*
- “Sample Notification of Housing Form”*