# Housing Allowance\*

# SUGGESTED INSERT FOR MINUTES OF VESTRY FOR DESIGNATION OF CLERGY HOUSING ALLOWANCE

The (Vestry/Mission Council) has received a statement from The Rev.

detailing the amounts that they expect to spend in 20 to provide a home for themselves for the full year.

A copy of this statement is attached to this resolution and forms a part of the original minutes of this meeting. After consideration, on motion duly made and seconded, the following resolution was adopted:

**BE IT RESOLVED that** $ of The Rev. ’s compensation is designated as an allowance for the expenses of providing a home, based upon the attached statement of The Rev. ’s estimated housing expenses for the year 20\_\_.

(If the clergy person is provided with the rent-free use of a house, the following should be added.) The Rev. shall also be provided with the rent-free use of the house located at for the year 20 in consideration of their services as of

 Church, , State of \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

(The clergy person should retain a copy of the minutes containing this notice, to be placed with their IRS records.)

\*The tax code requires that a Housing Allowance resolution (Approved Budget clearly indicating the amount for each clergy or the Annual Clergy Letter Agreement is acceptable by the IRS in place of a resolution) is approved before the beginning of the new year or hiring date.

Clergy Housing Allowance Supporting Documentation

TO:

(Name of the Congregation)

(Address of Congrgation City, State)

FROM:

(Clergy Person)

SUBJECT: Housing Allowance for 20

The following amounts are estimates of the costs I expect to pay during 20 to provide a home while employed at (Congrgation Name) \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

**Example 1. If you own a Home**

(1) Mortgage Payments/Interest $ \*SEE BELOW

|  |  |  |
| --- | --- | --- |
| (2) | Utilities  | $  |
| (3) | Property Taxes  | $  |
| (4) | Insurance on the Home | $  |
| (5) | Repairs and Maintenance | $  |
| (6) | Cleaning supplies | $  |
| (7)(8) | Lawn Care, Pest ControlPurchase of Furnishings |  $\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_$\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ |
| (9)**TOTAL** | Other expenses **\*\***  | $ $  |

Clergy Signature: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Date

\*IRS is not consistent in their documents, some documents state Mortgage Payments which would be Principal and Interest others state Mortgage Interest (See your Tax Advisor)

\*\* Homeowners association dues are acceptable. If you are purchasing or refinancing a home there may be additional write offs available if they were approved by the Vestry/Mission Council in the Housing Allowance Resolution prior to the expense and still less than the Fair Rental Value of the owned home such as: Refinancing Costs, Settlement Costs on a purchase and others. Some tax advisors have utilized the down payment on a home, the purchase of artwork and Personal property taxes paid on furnishings purchased. (Check with your Tax Advisor).

**Example 2. Fair Rental Value (FRV) of the Home you Own (Required Since 2002)**

(1) FRV of the home you own $\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ (From Zillow or a Realtor) (2) FRV of Furnishings $\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ (3) Utilities $\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ (4) Cost of Renters Insurance $\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ (5) Cleaning Supplies $\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

 **TOTAL**  $\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Clergy Person's Signature: Date:

**Maximum Housing Allowance if you own your home, is the lower of what was approved as a housing allowance by the Church or Example 1 or 2 per the tax code.** The fair rental value (FRV) of the home must also be considered if you own a home since 2002. You must utilize the lower of the three which would normally be what was approved by the Church or Example 1 for the year. With FRV do not add taxes or repairs that would be paid for by a landlord if you rented your home. See bullet point 3 below.

**Example 3: If You are Renting a Home or Apartment**

(1) Rent $\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ (2) Utilities $\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ (3) Cost of Renters Insurance $\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ (4) Cleaning Supplies $\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ (5) Other Expenses $\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ ( Such as Furnishings etc.)

 **TOTAL**  $\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Clergy Person's Signature: Date:

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 on your federal income tax return.

* the amount officially designated (in advance of payment) as a housing allowance by a church resolution.
* the amount actually utilized to provide for if you owned or rent a home; or
* the fair market rental value of your owned home.
* Housing Allowance will be in Box 14 on your W-2, and you are required to pay social security taxes on the full amount. Some states and Cities also tax the Housing Allowance. We highly recommend utilizing Ministry Works for your payroll service <https://www.ministryworks.com/>

**Clergy Housing Allowance (**[**https://www.irs.gov/taxtopics/tc417**](https://www.irs.gov/taxtopics/tc417)**)**

* A licensed, commissioned, or ordained minister who performs ministerial services as an employee may be able to exclude from gross income the fair rental value of a home provided as part of compensation (a parsonage) or a housing allowance provided as compensation if it is used to rent or otherwise provide a home. A minister who is furnished a parsonage may exclude from gross income the fair rental value of the parsonage, including utilities. However, the amount excluded can't be more than reasonable compensation for the minister's services.
* A minister who receives a housing allowance may exclude the allowance from gross income to the extent it's used to pay expenses in providing a home**. Generally, those expenses include rent, mortgage interest, utilities, and other expenses directly relating to providing a home.** The amount excluded can't be more than reasonable compensation for the minister's services.
* If you own your home, you may still claim deductions for mortgage interest and real property taxes. If your housing allowance exceeds the lesser of your reasonable compensation, the fair rental value of the home, or your actual expenses directly relating to providing the home, you must include the amount of the excess in income.
* In order to be able to exclude the housing allowance from income, the minister's employing organization must officially designate the housing allowance as such before paying it to the minister.
* The fair rental value of a parsonage or the housing allowance is excludable only for income tax purposes. **The minister must include the amount of the fair rental value of a parsonage or the housing allowance for social security coverage purposes.**
* The services you perform in the exercise of your ministry are generally covered by social security and Medicare under the self-employment tax system, regardless of your status under the common law. This means that your salary on [Form W-2, Wage and Tax Statement](https://www.irs.gov/forms-pubs/about-form-w-2), the net profit on Schedule C, and your housing allowance less pertinent deductible expenses are subject to self-employment tax on [Schedule SE (Form 1040), Self-Employment Tax](https://www.irs.gov/forms-pubs/about-schedule-se-form-1040).

# **Fair Rental Value**

# How do you determine the fair rental value of the parsonage or pastor’s home? In general, the fair rental value of the property is a question of facts and circumstances based on the local real estate market.

# If the pastor rents their home, the amount of the rent would be presumptive evidence of the fair rental value (assuming the rental agreement was an "arm’s-length" transaction). Other methods of substantiating the fair rental value might include calculations and written documentation drawn from listings with local realtors of similar properties, verification of rent paid for comparable housing in the neighborhood, or a review of newspaper advertisements for rents of similar housing in the community.

# Perhaps the best substantiation would be a letter estimating the fair rental value of the property written by a realtor who is familiar with your property and other rental property in your community.