



## HOUSING ALLOWANCE

A housing allowance must be designated in advance of payments by the church board as a part of the minister's pay package. A minister can exclude from income tax the smaller of the following:

1. The amount actually spent on qualified housing expenses.
2. The fair rental value of the home, including furnishings and utilities.
3. The amount designated by the church board.
4. The minister's reasonable pay.

If the church owns a parsonage, a minister may still receive a housing allowance, which can be used to cover qualified housing expenses paid by the minister.

Qualified housing expenses include such items as mortgage payments (principal, interest, property taxes, insurance, etc.), down payments, rent, utilities, inside and outside repairs, and maintenance. Qualified housing expenses DO NOT include entertainment, food, personal use items, servants, or payments made on a home equity loan for unrelated home expenditures.

The church should report the housing/parsonage allowance in Box 14 of the Form W-2 (2010).

Self-employment tax—the full amount of the housing/parsonage amount is included in the tax calculation.

### RETIRED MINISTERS

Income tax—retired ministers can exclude from taxable income

1. The part of a pension officially designated as a housing allowance. See limitation in items 1 and 2 above.
2. The value of housing, utilities, etc., provided to the minister.

### Surviving Spouses

A minister's surviving spouse (non-minister) cannot exclude a housing/parsonage allowance from income.

*The following is a suggestion as to the wording of an official designation for a housing allowance. For a church-provided parsonage, the wording could be, "Pastor \_\_\_\_\_ will receive compensation that includes a parsonage provided by the church. To cover expenses related to housing, the church will provide \$ \_\_\_\_\_ per year designated as a housing allowance. This designation shall be effective until modified by the church board." For a pastor owning or renting a house, the wording could be, "Pastor \_\_\_\_\_ will receive compensation of \$ \_\_\_\_\_ per year designated as a housing allowance. This designation shall be effective until modified by the church board."*

This information is of general nature as to tax laws. Consult with tax and/or legal advisers for specifics as to your situation.

