

A MINISTER AND RENTAL OR PARSONAGE ALLOWANCE

WHO IS A MINISTER?

The IRS defines a minister as an individual who is “duly ordained, commissioned, or licensed by a religious body constituting a church or church denomination” and who has “authority to conduct religious worship, perform sacerdotal functions, and administer ordinances or sacraments according to the prescribed tenets and practices of that church or denomination.”[1]

WHAT IS RENTAL OR PARSONAGE ALLOWANCE?

Generally, a minister may exclude from gross income the rental allowance or fair rental value of a parsonage that a church provides. The exclusion applies to federal (and possibly state) income taxation and not to self-employment taxation.[2]

- A minister who is furnished a parsonage may exclude the fair rental value of the parsonage, including utilities.
- A minister who receives a rental allowance may exclude the allowance to the extent it's used to pay expenses in providing a home (generally including rent, mortgage payments, utilities, repairs, furnishings, and other expenses directly related to providing a home) provided that the amount is not greater than the fair rental value of the home plus furnishings and utilities.
- If a minister owns a home, he or she may exclude the lesser of:
 - Amount actually used to provide a home;
 - The amount officially designated as a rental allowance, or
 - The fair rental value of the home plus furnishings, utilities, and garage.[3]

HOW IS MINISTERIAL HOUSING ALLOWANCE DETERMINED?

Under Treasury Regulation § 1.107-1(b), a church or other qualified organization may evidence the allowance "in an employment contract, in minutes of or in a resolution by a church or other qualified organization or in its budget, or in any other appropriate instrument evidencing such official action."

CAN RETIRED MINISTERS QUALIFY FOR MINISTERIAL HOUSING ALLOWANCE?

Retired ministers can exclude from gross income for income tax purposes "the rental value of a home (plus utilities) furnished to you by your church as a part of your pay for past services, or the part of your pension that was designated as a rental allowance." [4]

Notes

[1] IRS Publication 517 (2024), p. 3.

[2] IRS Publication 517 (2024), p. 9. There is one exception: a minister who “opts out” of Social Security and Medicare.

[3] IRS Publication 1828 (2015), p. 22.

[4] IRS Publication 517 (2024), p. 9.



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