

Build your housing allowance knowledge.
We'll hand you the tools.

Did you know?

Many ministers either fail to claim the allowance or simply do not claim enough.

Types of clergy housing allowance

1

Church-provided parsonage

1 Those who live in a church-provided parsonage do not pay federal income taxes on the amount of their compensation that their church designates in advance as a parsonage allowance.

2

Rented house or apartment

2 If the pastor rents a home or apartment, the pastor does not pay federal income taxes on the amount of compensation the church designates in advance as a housing allowance.

3

Home ownership

3 The same applies if a minister owns their home.

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First, how much did your church or employer designate as your housing allowance?

Second, what is the fair rental value of your home furnished, plus utilities? That requires some assessment of how much that home is worth, maybe even an appraisal.

And the third, after totaling up all your expenses for the year, what's that number?

Under the IRS code the limit is the lowest amount of those three that you're eligible to claim.”

Rev. Dr. Perry Hopper
Associate Executive Director

Inclusions

The clergy housing allowance includes housing-related expenses such as:

- Mortgage and rental payments
- Utilities
- Repairs
- Furnishings
- Insurance
- Property taxes
- Additions
- Maintenance

Limits

The IRS says clergy are limited to the lesser of the three:

- What did the church designate?
- What did the pastor actually spend for the year?
- What is the fair market value of the home?

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MMBB recommends structuring compensation so that cash and the Social Security allowance (also known as a Social Security/ Medicare tax offset) are paid directly to the clergy, and the rest is paid on their behalf, so it doesn't become taxable income to the pastor. Ministers should also take note that they must pay Social Security/Medicare taxes on the dollar amount designated as clergy housing allowance.”



The housing allowance is considered compensation for ministerial services, and the church must designate the value of the clergy housing allowance in advance.

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... a minister cannot exclude more than the church designates. Any amount a minister spends on housing that exceeds what the church designates must be reported as taxable income.”



Some parts of compensation should be paid directly to the clergy, but other parts should be paid on their behalf.



Pastors must pay close attention to structuring their compensation package to take advantage of every tax benefit available.

Keep in mind

Insights from
Rev. Dr. Perry Hopper

“

... you estimate to the best of your ability how much of your income will be declared as housing. And so, you set it up in consultation with the church, you declare how much it is, or is going to be, and then you put that on file with the employer or with the church.”



During budget season, churches must consider the clergy housing allowance as part of their spending plan for the year.



Under certain circumstances, pastors can make changes in their housing allowance. This is true even if you move to another church.

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[Housing allowance] ... can be changed for things like a major expense, such as a roof replacement... If you change in the middle of the year, in July, for example, that can only be for expenses going from July forward. You cannot change retroactively. Changes can only be for those expenses that are paid forward... If you move from one ministry to another, or you go to another church during the middle of the year, of course, you are able to change your housing allowance from that point on.”

MMBB

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