**Housing & Parsonage Allowance**

Generally speaking, this tax provision allows a licensed and/or ordained pastor to designate a portion of his salary as housing allowance. This housing allowance is not subject to the same federal and state income taxes to which normal salary is subject (however, it is still subject to Social Security & Medicare taxes/Self-Employment – FICA/SECA). A housing or parsonage allowance is based on the actual housing costs incurred by the pastor, but cannot exceed the annual fair rental value plus utilities of the furnished parsonage/home or the designated housing allowance allowed by the employing church (i.e. whichever is the lesser amount of: 1 - actual housing expenses; 2 – designated housing allowance set by the employing church; or, 3 – fair rental value (plus utilities) of furnished home.) Only ONE primary residence is eligible. ***If the pastor’s actual housing expenses are less than the housing allowance for the tax year, any additional amount will need to be reported as income for tax purposes on the pastor’s personal tax filing.***

For parsonages, a pastor does not include the fair rental value of the parsonage as income in computing his federal income taxes, i.e. the fair rental value is not reported as additional income on his Form 1040. (A non-clergy employee with this benefit would need to report the fair rental value of the parsonage as income on his/her Form 1040).

When a minister owns his home, the amount of his compensation that the church designates in advance as a housing allowance is not subject to federal or state income tax. This housing allowance must be used to pay housing expenses for his primary residence (see attached worksheet) AND is not greater than the fair rental value of the home (furnished, plus utilities). A minister’s rental residence expenses (see attached worksheet) are also not subject to federal and state income taxes if those expenses are designated in advance by his church as a housing allowance.

In order to designate a housing allowance, you MUST:

1) Have the allowance amount adopted by the church board or congregation IN WRITING (see following sample letter or an entry in the board minutes)

2) Base the amount of housing allowance on the actual housing expenses (but cannot exceed the fair market rental value of plus utilities of the parsonage/home)

3) Adopted in advance of the calendar year. Anytime an allowance is adopted it is effective prospectively. No retroactive allowance can be adopted

4) Re-adopt the allowance ANNUALLY in the board minutes. As a precaution, it is best to include when citing the dates the written designation covers, a line similar to: “…and for all future years unless otherwise provided.” This safety-net is not a substitute for annual housing allowance designation but does provide a basis for claiming a housing allowance if a church neglects to designate one

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