



LEADERSHIP.
EXCELLENCE.
AGILITY.
DISCOVERY.

Housing Allowanc e

Housing Allowance



The “Housing Allowance” is in Section 107 of Tax Code

In short, Sec. 107 allows ministers to exclude from their gross income

- A parsonage/housing allowance used to “provide a home”
- The fair rental value of a home provided to them as part of their compensation

It is an exclusion, not a deduction

- Amounts excluded under Sec. 107 are **not** reported anywhere on Form 1040 and **do not** need to be reported on Form W-2

While excluded in calculating taxable income, these amounts are included when determining taxable earnings for social security purposes

Option

\$ In-kind provision of a parsonage

- Fair rental value (furnished, plus utilities) is excluded from the pastor's taxable income

Cash allowance

- Can come in two forms



Parsonage allowance = cash allowance provided to cover legitimate expenses related to living in the parsonage



Housing allowance = cash allowance provided to cover legitimate expenses related to living in the pastor's

- Is excludible from the pastor's taxable income, but the amount is limited and certain requirements must be met

REMEMBER: the above amounts are included when determining social security tax liability

Requirements for Excluding An Allowance

The salary paying unit (ex. local church) must formally designate an amount for the parsonage/housing allowance in advance.



The amount excludible from income is the lesser of three things:

- Amount of the designation
- Amount of “qualified expenses” actually incurred
- Fair rental value of the parsonage/home (furnished, plus utilities)

Qualified Expenses



Qualified expenses are those that relate to “providing a home”

Examples of qualified expenses:



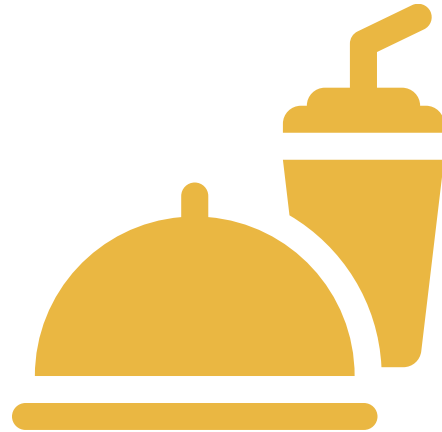
- Rent, mortgage payments, down payments, property taxes
- Insurance for the home
- Improvements and repairs
- Utilities
- Furnishings and appliances
- Household maintenance items
- Yard maintenance

Qualified Expenses



Examples of non-qualified expenses:

- Groceries
- Clothes
- Music
- Toiletries
- Servants



Note:

The test is not whether these expenses are business related or personal. The test is whether they are necessary to “rent or provide a home.” (Local/long distance phone service? Cell phone service? Cable or satellite TV? Internet service? Netflix subscription?)

What If it All Cannot Be Excluded?



What happens, if using the “lesser of” rules discussed above, a minister is unable to exclude the entire amount of a designated housing allowance?

Answer: The excess must be included as income on Form 1040

Moral

Churches and their clergy should work together to estimate an appropriate amount for the designated housing allowance

- Set too low = not maximizing the exclusion
- Set too high = additional income to report

Don't Forget!



Designations must be made in advance

A best practice is for the church to set the housing allowance for the upcoming year before **January 1**

Mid-year designations can happen, but they only apply prospectively

Example: On December 31, the church sets the pastor's annual housing allowance for the upcoming year at \$12,000. Then, on June 30 of that year, the church increases the annual amount to \$24,000. The maximum the pastor can exclude from taxable income is \$18,000 (\$6,000 for the first six months + \$12,000 for the last six months).

Also Don't Forget!



...about the fair rental value limitation

Example: Pastor annually incurs around \$15,000 in qualified expenses associated with owning her home, which is less than its \$17,500 annual fair rental value. For 2022, Pastor's church set her housing allowance at \$15,000, all of which she will be able to exclude from income. Late in 2022, Pastor's adult son, and his spouse and two young children, moves in on what she expects (fears?) will be an indefinite basis. Pastor quickly realizes more space will be needed in order to keep her family from tearing itself apart, so she arranges for an addition to be built. Work will begin in early 2023 and will cost \$30,000. She plans to fully pay for the addition before the year ends, so she asks her church to set her designation to \$45,000 for 2023.

Housing Allowance & Pensions



Contributions

Amounts excluded from income as a housing allowance can impact the maximum amount that can be contributed to clergy pension accounts.

Contact the General Board of Pension and Health Benefits for more details.

Distributions

Pensions payments are also eligible for the housing allowance exclusion.

- The same “least of 3 amounts” rule also applies in this case.



Questions?





Thank You!



Phone: 615-916-2729



Email: Legal@gcfa.org



1908 Grand Ave. Nashville, TN 37212



www.UMCSupport.org



FINANCE & ADMINISTRATION

General Council on Finance and Administration

THE UNITED METHODIST CHURCH

