

FAQ Series: Clergy Housing Allowance
Date: August 2015

Office of Church Staff Finances
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Topic: Clergy Housing Allowance

Question: What is the Clergy Housing Allowance? What are its components, how should it be paid and what are the tax implications?

UUA Office of Church Staff Finances Response:

Ordained ministers in the U.S. and Canada may have excluded from taxable income that portion of salary received in the exercise of their ministry that is used to provide a residence.

The clergy housing allowance exclusion is the most important tax benefit available to ministers and to retired ministers. In the U.S., employed ministers are required to pay the Social Security tax for self-employed persons (SECA) on their housing allowance, or on their parsonage allowance if they live in a church-owned parsonage.

Who is eligible?

The housing allowance exclusion is available only to "ordained, commissioned, or licensed ministers of a church with respect to services performed in the exercise of ministry." "Services performed by a minister in the exercise of his or her ministry include the ministration of sacerdotal functions and the conduct of religious worship, and the control, conduct and maintenance of religious organizations...under the authority of a religious body constituting a church or church denomination." The clergy housing allowance can be claimed for the calendar year in which ordination occurs.

Under the same provisions, retired ministers may also claim a clergy housing allowance exclusion for that portion of income received from a denominationally sponsored qualified retirement plan or from a Rabbi Trust established by a religious organization.

What are the limitations?

The Clergy Housing Allowances is limited to the lesser of:

1. **The amount actually spent to provide a residence.**

- *For ministers who live in a church owned parsonage*, actual expenses include a fair rental value of the parsonage, plus amounts paid for utilities, repairs, maintenance and furnishings. The utilities and other expenses should be listed in the church budget.
- *For ministers who rent a home*, actual expenses would include the rent paid, utilities, and furnishings.
- *For ministers who own their homes*, actual expenses include down payment, mortgage payments, legal fees, property taxes, fire and liability insurance, utilities, repairs and improvements, and furnishings. Like other taxpayers, ministers who own their homes are able to deduct the mortgage interest and tax payments if they itemize their deductions.

2. The "fair market rental value" rule.

The fair market rental value limit, *plus all ancillary expenses described above*, was re-established in a law passed by Congress and signed by the President in May 2002.

The fair market rental value of a residence can often be estimated by a professional real estate agent or broker in the community. Also, review ads in the local newspaper for rental prices of comparable housing units that are fully furnished.

3. The amount designated in advance as housing allowance.

The amount of the clergy housing allowance must be designated by the governing board of the congregation in advance. This is usually referenced in the employment agreement, in the minutes, or in a resolution by a church or other qualified organization or in its budget. Such designation may be adjusted over time as appropriate, but only with regard to subsequent payments.

IRS Publication 517 covers the matter as follows:

If you are a minister who owns your home and you receive as part of your pay as housing or rental allowance, you may exclude from gross income the lowest of the following amounts: (1) the amount actually used to provide a home, (2) the amount officially designated as a rental allowance, or (3) the fair rental value of the home, including furnishings, utilities, garage, etc.

Since the housing allowance may only be designated prospectively, and since it may be difficult to ascertain the actual costs of housing, utilities, etc. in a new living situation, many congregations designate the housing allowance for a period of six months at the beginning of a new settlement. The allowance may be reviewed and modified later when actual expenses may be more fully known.

If an excess housing allowance is paid to a minister, the overage must be reported as additional salary on the minister's W-2 form and is subject to federal and state income tax. An employer-congregation is not financially liable if a minister has inaccurately reported the costs upon which the allowance is based.

Is home ownership an advantage?

There may be significant tax advantages to minister-taxpayers who own their own homes: the reduced amount of taxable income and the ability to treat mortgage interest and real estate taxes as itemized deductions.

Individual ownership has historically proven to be a good way to build home equity and, eventually, to provide a home for retirement. There are risks, of course. Housing prices can go down as well as up. Selling a home may take considerable time.

Occasionally congregations may offer loans to ministers from endowment or other funds for purposes of a down payment. Equity sharing arrangements may also be mutually beneficial. We urge congregations and ministers to explore the matter of home ownership seriously and to work together on this issue.

How should this income be reported?

It is not required that the clergy housing allowance amount be shown on the W-2 form that reports earnings subject to income tax. We recommend that the treasurer indicate the amount of the housing allowance paid in the prior year in a note to the minister.

The clergy housing allowance dollars received must be included by the minister on Form SE for Social Security tax calculation purposes.

How do congregations normally make these payments?

In order to keep a clear paper trail, it may be advisable for the housing allowance to be paid in a separate monthly check. This may make it easier to remember that these dollars should not be confused with cash salary.

Where can I get additional tax guidance?

We urge ministers and congregations to consult with their own accountants. We also recommend the annual Church and Clergy Tax Guide by Richard Hammar, published annually by Church Law and Tax Store, Christianity Today, 465 Gundersen Drive, Carol Stream, IL 60188, 800-222-1840. It is available for \$49.95 + shipping.

For more information contact [ocsf @ uua.org](mailto:ocsf@uua.org).

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Last updated on Tuesday, January 31, 2017.

While we understand the above information to be correct, the staff of the UUA Office of Church Staff Finances are not certified tax professionals, and we encourage congregations to seek the services of their own tax experts in dealing with unusual cases or individual circumstances.