Housing Allowance for Clergy

According to the Internal Revenue Service (IRS) regulations, clergy are permitted to exclude from their taxable income the costs of maintaining a residence. This housing allowance is not included as taxable income on pastors' W-2 forms. There are rules for determining, documenting, and reporting a housing allowance that need to be followed.

Clergy need to determine the cost of maintaining one residence for the upcoming calendar year (or for the remainder of the year if a call commences during a year). The housing allowance amount is the lesser of:

- Amounts actually paid for housing and related expenses.
- The "fair market rental value" of the home.
- The amount actually paid or declared by the congregation as the housing allowance.

The clergy housing allowance amount must be requested in writing and approved by official action by the employer. In a congregation, the housing allowance is generally approved by the congregation council or the finance committee. A record of the action to approve should be in writing.

The housing allowance is not subject to federal income tax, but it is subject to self-employment tax. On the W-2 form, it is typically reported as an information item in Box 14, not in Box 1.

A housing allowance operates prospectively; in other words, it is declared ahead of when the expenditures are made. It can be modified if significant expenses not anticipated earlier are identified, but the allowance must always be changed ahead of the expenditures.

Clergy need to maintain records of their costs, including receipts, in order to document the housing expenses in the event of an IRS audit.

Clergy should consult with an experienced tax preparer as needed to resolve any questions pertaining to their individual housing allowance.

A Sample Housing Resolution, to be adopted by the church council on an annual basis and be recorded in church council minutes, is on the next page.

Yearly Housing Allowance Resolution

WHEREAS The Reverend *Firstname Lastname* is a full-time clergy staff member of *Example Lutheran Church*, *Cityname*, Illinois, of the Central/Southern Illinois Synod of the Evangelical Lutheran Church in America; and

WHEREAS *Firstname Lastname* owns their own home; and

WHEREAS in compliance with Section 107 of the Internal Revenue Service Code (Revised Ruling 71-280), such persons are eligible to have a portion of their compensation designated as rental or housing allowance; now be it

RESOLVED that *Firstname Lastname* shall have a portion of their compensation for the calendar year 20*XX* designated as rental or housing allowance in the amount of $*XX,XXXX*; and be it further

RESOLVED that the Congregation Council of *Example Lutheran Church*, *Cityname*, Illinois, of the Central/Southern Illinois Synod of the Evangelical Lutheran Church in America takes the forgoing action solely to fulfill an IRS requirement and assumes no responsibility for the accuracy of figures submitted by clergy staff members.

Congregational secretary _____ Date _____

Pastor _____ Date _____

SAMPLE