**Understanding Housing Allowance**

Perhaps one of the least understood tax benefits, a housing allowance (also called a parsonage allowance or rental allowance), is defined as a designated portion of a minister’s salary that is used toward expenses incurred in providing housing. This portion of the minister’s salary is excludable from gross income for income tax purposes (but should be included in gross income for self-employment tax purposes). The amount paid to the employee for housing allowance is not included in box 1 of the W-2; it is reported in box 14 of form W-2 with the notation “Housing Allowance.”

All levels of Assemblies of God credential holders—certified, licensed, and ordained—qualify for housing allowance.

A housing allowance may include expenses related to renting, purchasing (which may consist of down payments, closings costs, and mortgage payments), and/or maintaining a clergy member’s current home:

* Mortgage interest – which can also be included on itemized deductions
* Property tax – if it is not already part of the mortgage payment
* Homeowner’s or rental insurance – if homeowner’s is not already part of the mortgage payment
* HOA dues – for the clergy member’s primary residence
* Utilities—including internet access, cable tv, electric, natural gas, water, sewer, trash, basic telephone (landline, not cell phone)—that the pastor pays. If the church pays them as part of the parsonage, then those cannot be claimed as housing allowance for the pastor.
* Repairs and upkeep of the home and its contents
* Improvements/remodeling
* Snow removal and lawn care
* Miscellaneous expenses­ – such as the cost of light bulbs and cleaning supplies
* Purchases for the home – such as furniture, appliances, dishes and cookware, lawnmowers, weed eaters, snow blowers, electronics like TVs, stereos, and desktop computers (laptops generally do not qualify as housing expenses). Also included is decorating items such as rugs, pictures, plants, paint, curtains, lamps, bedspreads, sheets, towels, washclothes, etc.
* “Apurtenances” – such as decks, patios, fences, pools, hot tubs, gazebos.
* Home equity loans – as long as the loan was obtained for housing-related expenses. Expenses related to post-secondary tuition is not eligible as a housing allowance.

***The above only apply to the clergy member’s primary residence***, not commercial properties or vacation homes. Also, the tax code specifically *excludes* items such as paper products, personal toiletry, groceries, maid service, and personal clothing expenses from housing allowance.

Clergy living in parsonages provided by a qualifying religious organization may designate part of their compensation to cover the costs listed above (including those related to the maintenance of the home), provided they are not reimbursed by the organization.

**What Amount Can Be Claimed as Housing Allowance?**

Up to 100% of a minister’s income can be designated as housing allowance. However, you are allowed to claim a housing allowance benefit that is the lowest of these three:

* The amount officially designated (in advance of payment) as a housing allowance.
* The amount actually spent on housing. (All expenses must be documented with receipts. Any unused housing allowance needs to be claimed as income – consult your clergy tax person for how to report unused housing as income.)
* The fair market rental value of the homes (including furnishings, utilities, garage, etc.)

To figure fair market rental value, ClergyAdvantage uses this three-step process which can be found at <https://www.clergysupport.com/tax/calculating-housing-allowance-fair-rental-value/>:

**Step 1.** Determine the fair rental value of the unfurnished home. This is what the home would rent for empty. Let’s assume that your unfurnished home’s fair rental value is $2,500 per month.

**Step 2.** Double the amount you determined in Step 1. This represents the fair rental value of the house with furnishings. In audits, we have gone to furniture rental stores with a list of every furnishing in the minister’s home and asked what it would cost to rent each piece of furniture and each furnishing (including kitchenware, towels, wall hangings, electronics, artwork, appliances, piano, etc.) In every case that we have checked, it costs more to rent the furnishings than to rent the unfurnished home. So, in that sense, we are being conservative if in this example we simply add $2,500 of monthly furnishing rental value to the $2,500 house rental value, to come to a subtotal of $5,000 per month for the home furnished.

**Step 3.** Now add in the cost of utilities, which includes internet access, cable TV, trash, electric, heat, etc. to our subtotal of $5,000. Suppose that is $500 per month for a grand total of $5,500 as the monthly Fair Rental Value ($66,000 per year) in this scenario. What is clear is that the FRV limit is far beyond the $2,500 per month that the unfurnished home would rent for.

**Important Last Thoughts**

Since no one is ever absolutely certain what their housing costs will be for a given year, consider a housing allowance designation that is at least several thousand dollars more than your anticipated housing costs, in order to build in some extra room to cover additional costs that might come along (your HVAC goes out, need a new roof, etc). If you don’t spend it all, simply report the unused housing allowance on your tax return. You can change your housing designation at any time during the year if you need a home repair or have an unexpected purchase or contingency. Be sure to adjust the designation before you spend the money on housing costs.

The housing allowance designation needs to be recognized by a Board Resolution and have written documentation in the board minutes. Your board should designate your housing annually. In case there’s ever an oversight, include this simple sentence in your designating
documents: “This Housing Allowance designation agreement shall remain in effect until amended or rescinded.”

Here is some suggested wording for your board minutes:

*The Board was informed that under the tax law, a minister of the Gospel is not subject to federal income tax on “the housing/parsonage allowance paid to him as part of his compensation package, to the extent used by him to rent or to provide a home.” After considering the estimate of Pastor (insert minister’s first and last name) of his/her home expenses, a motion was made, seconded, and carried to pass the following resolution:*

*Resolved that of the total compensation package for Rev. (insert minister’s first and last name), as Senior Pastor, for the year (insert year), $ (insert total amount of housing allowance for the year) for the year ($ (insert weekly amount) per week) is hereby designated as housing allowance. Resolved that as long as Pastor (insert minister’s first and last name) is pastor of the Church, the above amount of designated housing/parsonage allowance shall apply to all future years until modified. This Housing Allowance designation agreement shall remain in effect until amended or rescinded.*