

## HOUSING ALLOWANCE

Previously, most churches provided housing for their pastor or clergy through a parsonage. In the past 20 years many churches have gotten away from this housing provision because it left the retired minister without any affordable housing. The parsonage belonged to the church. Most churches now provide allowances for the minister to secure their own housing.

The Internal Revenue Service permits the church to allocate a specific amount of money from the minister's salary to the purchase and maintenance of the minister's place of residence. The procedure is important.

It is the responsibility of the minister to determine what his or her expected costs will be for the next calendar year. Currently, there is no limitation as to how much or how little can be allocated to housing allowance. The responsibility for justifying the deduction always falls on the minister when he or she files his or her income tax refund form.

Once the church has the requested amount, the proper group within the church must adopt an official motion allocating the housing allowance. By virtue of the bylaws, a church is either board controlled or congregation controlled. The resolution should include information similar to the one that follows:

### **Sample Housing Allowance Resolution**

#### Housing Allowance Resolution for 1999

The following resolution was duly adopted by the board of directors of First Church at a regularly scheduled meeting held on November 15, 1998, a quorum being present:

“Whereas, section 107 of the Internal Revenue Code permits a minister of the gospel to exclude from gross income (in computing federal income taxes) a church-designated allowance paid to the minister as part of the minister's compensation to the extent used by the minister for actual expenses in owning or renting a home; and

Whereas, Reverend John Smith is compensated by First Church exclusively for services as a minister of the gospel; and

Whereas, First Church does not provide Reverend John Smith with a parsonage; therefore, it is hereby

Resolved, that the total compensation paid to Reverend John Smith for the calendar year 1999 shall be \$60,000, of which \$14,000 is hereby designated to be a housing allowance pursuant to section 107 of the Internal Revenue Code; and it is further

Resolved, that the designation of \$14,000 as a housing allowance shall apply to calendar year 1999 and all future years unless otherwise provided.”

#### AN EXAMPLE

If the minister receives a salary of \$30,000 per year and falls into a tax bracket of 30%, then 30% of his salary will be subject to withholding taxes. This means that 30% of \$30,000 will be given over to the IRS until an income tax form is submitted at the beginning of the next year.

$$30\% \text{ of } \$30,000 = \$9,000$$

If the minister has a legitimate housing allowance of \$10,000 per year, then this amount is not included in the salary that is subject to withholding.

$$\$30,000 - \$10,000 = \$20,000$$

Therefore the withholding for the purposes of income tax is greatly reduced.

$$30\% \text{ of } \$20,000 = \$6,000$$

Do you see the difference? If no housing allowance is specified then the income tax withheld from the minister is \$9,000. If the church properly allocates a housing allowance, then the tax burden is reduced to \$6,000. Thus by using the housing allowance provisions of the tax code the church has managed to give the minister a pay increase of \$3,000 per year.

To be effective, the housing allowance resolution should be approved prior to the beginning of the new year. It can be worded so that it is perpetual and will not have to be ratified each succeeding year, but it is a good idea to look at it annually because the allowance will probably change.

The types of expenses covered by housing allowance are:

1. Rental or purchase
2. Utilities
3. Rental value of furnishings
4. Value of garage
5. Home mortgage interest

6. Property tax
7. Home maintenance

It is important to remember that the allowable deduction for housing allowance is the smaller of:

1. The actual amount spent
2. The amount of the resolution
3. The amount of fair rental value

With this in mind, the church does not want to under approximate the housing expense and thus disallow deductions.