



***Minister's* Housing Allowance**

Q&A for Busy Pastors and Church Boards

with a free Excel worksheet to estimate your annual housing allowance

by *Gene Roncone*



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Q&A for Busy Pastors and Church Boards

By Gene Roncone – Updated February 15, 2024

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The minister's housing allowance is the most important tax benefit available to clergy. It allows ministers to exclude housing expenses from their ministerial income prior to calculating federal and state taxes before and after retirement. Determining an accurate housing allowance may be one of the most critical financial disciplines you maintain. Why is a housing allowance important?

- 1. Biblical stewardship requires it.** The Bible is very clear that we are to be stewards not only of money and resources but also of opportunity (Matthew 25:27). Your ability to steward opportunity will require that your commitment to understanding this allowance be as strong as your enthusiasm to benefit from it.
- 2. It influences how much money you have left after taxes.** If providing for your family; investing; saving money for the future; and retiring with peace, freedom, and dignity are important to you, then so should the accurate determination of your housing allowance.
- 3. What you do not know can hurt you.** The law that provides ministers with a housing allowance is only 81 words long. Although the provision itself is important, it is the pages and pages of documentation and the over 200 IRS regulations, rulings, private letter rulings, and judicial decisions that explain those 81 words that are more relevant to you. Noncompliance, neglect, or violation of tax laws can result in your being audited or paying fees.

To help ministers accurately determine their allowance, I have curated this Q&A document to answer the most common questions concerning the minister's housing allowance. The content has been examined by a review team consisting of **Frank Sommerville** (JD, CPA), a recognized national authority in the laws and regulations concerning the minister's housing allowance; **Richard Varnell** (EA), an enrolled tax agent who specializes in preparing tax returns for ministers; and **George Negrete** (MBA), a veteran administrative pastor gifted in the application of the allowance.¹ In addition, critical content has been supported by authoritative references in footnotes.

I am among you as one who serves (Luke 22:27).

Gene Roncone
Rocky Mountain Ministry Network
District Superintendent/Network Pastor (aka "helper")

Document Navigation Tool

If you are using the PDF version of this resource, utilize the hyperlinks to navigate through the document easily. Click on the questions hyperlinked below to go to their place in the document. To return to the list of questions from anywhere in the document, click the “back to top” hyperlink following each heading.

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1. What is a minister’s housing allowance? ([back to top](#))

A minister’s housing allowance is a tax benefit that allows qualifying ministers to exclude a portion of their income designated for housing costs from their taxable income. Rent, mortgage payments, utilities, and maintenance are examples of qualifying expenses that can be excluded from taxable income. However, it is essential to note that the minister’s housing allowance is deducted from their salary when calculating federal and state income taxes but not Social Security and Medicare taxes.

2. How did the clergy housing allowance originate? ([back to top](#))

The concept of a minister's housing allowance has evolved over time. Author Amy Artiga notes its foundations in biblical history as far back as the book of Genesis.²

*So Joseph established it as a law concerning land in Egypt—still in force today—that a fifth of the produce belongs to Pharaoh. **It was only the land of the priests that did not become Pharaoh's** ([Genesis 47:26](#) NIV Emphasis added).*

In the biblical context, the priest's housing was exempt from Pharaoh's taxes. There are also implications that Israel's Levitical law provided allowances to enable the priests to serve the nation's spiritual needs and retire (Lev. [25:34](#), Num. [8:23-26](#), [35:2-3](#) NIV). These biblical similarities may be meaningful to Christians, but the IRS does not see biblical narratives as an authoritative source for tax laws, regulations, and rulings.

The minister's housing allowance in the United States did not emerge from a scriptural context but began with the Treasury Department's struggle to define the parameters of income for tax purposes. At the time, several secular and religious organizations provided free housing for employees for the employer's convenience. The "convenience-of-the-employer" doctrine stated that housing provided to employees for the convenience of their employer was exempt from taxable income. The law was created to accommodate the needs of sailors living on ships, miners living in camps, and hospital employees who were not taxed on free housing their employers provided because of the nature of their jobs.



Ministers, however, were not included in the early exclusion. When the Treasury Department announced that they would tax clergy on the value of their parsonages, Congress stepped in and passed the Revenue Act of 1921 which granted ministers an income exclusion for their housing allowance. Since then, the parsonage allowance has become a part of American tax law and has been included in the subsequent Revenue Act of 1928, the Revenue Act of 1932, the Internal Revenue Code of 1939, and the Internal Revenue Code of 1954, and the Internal Revenue Code of 1986.³

The majority of the current wording of what we know as IRS Section 107 referring to the minister's housing allowance was first introduced as part of the Internal Revenue Code of 1954. This code section explicitly allowed ministers to exclude from their taxable income the qualifying portion of a housing allowance paid as part of their compensation or from taxable income the rental value of a parsonage provided by a church.

The minister's housing allowance would undergo another change in the Clergy Housing Allowance Clarification Act of 2002 which added the requirement that the allowance "not exceed the fair rental value of the home, including furnishings and appurtenances such as a garage, plus the cost of utilities."⁴

In March 2019, the Seventh Circuit Court of Appeals unanimously affirmed the constitutionality of the housing allowance and that it did not violate the First Amendment's ban on the establishment of religion.⁵ In 2002, the Clergy Housing Allowance Clarification Act revised the statute to specify that the exclusion could not exceed the fair rental value of the minister's home. Since then, there have been discussions, legal challenges, and proposals regarding potential changes to tax laws affecting ministerial housing.⁶ In 2023, the United States Supreme Court overturned a lower court's hostile interpretation of prior rulings that threatened the housing allowance.⁷


Over the years, the minister's housing allowance has been influenced by cultural changes, legal challenges, and a deeper understanding of the challenges clergy faces in maintaining a suitable residence to fulfill their religious duties. However, Section 107 continues to authorize a minister's housing allowance as an exclusion from income.

3. How does a housing allowance affect my taxes? ([back to top](#))

Section 107 of the Internal Revenue Code authorizes ministers to exclude from their taxable income a qualifying portion of their compensation designated as a housing allowance. This accommodation recognizes the housing circumstances of ministers and seeks to provide an exclusion for housing-related compensation.

When determining a minister's taxable income, a minister's salary is reduced by the amount of the housing allowance while calculating federal and state taxes but not Social Security and Medicare taxes. The IRS considers a minister self-employed even though the minister receives a paycheck from the church. The taxes to be paid fall into three general categories:

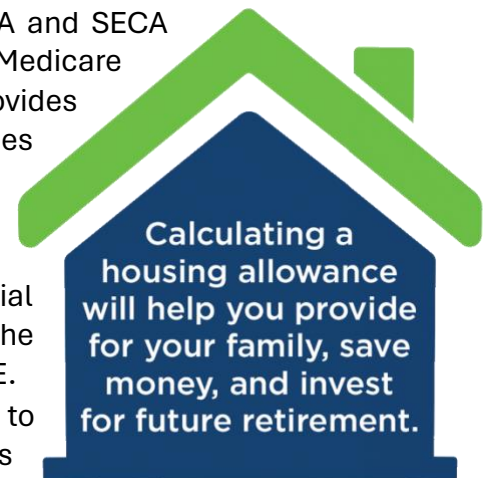
- **Federal Income Tax.** The federal income tax funds various government programs and services at the national level including defense, infrastructure, and social programs as well as financing government operations and public services.
- **Social Security and Medicare Taxes.** Social Security and Medicare taxes are imposed in two separate ways, depending on the status of the worker. FICA stands for the Federal Insurance Contributions Act and consists of Social



Noncompliance,
neglect, or
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Security and Medicare taxes combined. Both FICA and SECA The taxes support the Social Security and Medicare programs in the United States. Social Security provides benefits for retirees and individuals with disabilities while Medicare offers health insurance for eligible individuals, primarily those aged 65 and older. FICA taxes are withheld from most employees' paychecks to contribute to these important social insurance programs. SECA taxes are paid with the worker's federal income tax form using Schedule SE.

- **State Taxes.** State income tax revenue are used to fund various state-level programs and services which can include education, healthcare, public safety, infrastructure, and other initiatives that benefit residents within the state. The specific allocation of funds varies by state and is determined by state budgets and legislative priorities.



A minister's housing allowance, however, is excluded from their salary only when calculating federal income taxes and, in most cases, state taxes but not Social Security and Medicare taxes.

4. Why is declaring a housing allowance important? ([back to top](#))

A minister's housing allowance is essential for clergy members in the United States. It provides tax benefits that recognize the distinct housing needs associated with their vocation. The following factors also contribute to its importance:

- **A housing allowance influences the amount of take-home pay.** Providing for a family, saving money, and investing for future retirement is essential. Calculating a housing allowance will maximize the money available for these priorities.
- **Accurately calculating a housing allowance limits risk.** Noncompliance, neglect, or violating tax laws can result in an audit or payment of fees. Giving attention to a housing allowance annually can help reduce the likelihood of costly errors.
- **Biblical stewardship requires faithfulness in this matter.** Scriptures teaches us to be good stewards of our time, talents, treasures, and opportunities (Matthew 25:27).
- **A housing allowance facilitates ministerial accessibility.** Ministers are often called upon to serve their society's hurting, dying, distressed, and needy. Because they are on call 24/7, they must be close to those to whom they give care and use their home as an office and staging area for various religious activities. A housing allowance helps a minister maintain a residence within the community in which they serve.
- **A housing allowance can compensate for modest salaries.** Ministry roles often come with modest salaries compared to the level of education, training, and availability their

work demands. This benefit helps address the unique challenges clergy members face when they are not compensated at the same income levels as other professions.

- **The housing allowance provides a legal framework.** The housing allowance is well-established in U.S. tax law and offers a legal framework for clergy members to exclude a portion of their income from taxation. This recognition in the tax code ensures clarity and consistency in applying the housing allowance nationwide.

A minister's housing allowance is a crucial component of financial support for clergy members and recognizes their housing needs and valuable contributions to the communities they serve. This tax benefit not only aids in easing financial challenges but also fosters an environment where individuals are encouraged to pursue and sustain a life of religious service.

5. Who is eligible for a ministerial housing allowance? ([back to top](#))

Housing allowances are allowed for a variety of positions including oil rig drillers, military service members, and apartment managers to name just a few. This is the reason it meets the Constitutional requirement not to favor religion by applying it to the ministerial profession.

The Internal Revenue Service recognizes a housing allowance for any minister who owns a home; rents; or lives in a rent-free, church-owned parsonage and performs qualifying ministerial services a majority of their work time.⁸ However, not every church employee engaged in ministry is eligible to take a housing allowance. According to the IRS, ministers claiming a housing allowance must be licensed, ordained, or commissioned by a church or denomination and be involved in active ministry as defined by the Internal Revenue Regulations.⁹ IRS Publication 517 defines a minister as *“individuals who are duly ordained, commissioned, or licensed by a religious body constituting a church or church denomination. They are given the authority to conduct religious worship, perform sacerdotal functions, and administer ordinances or sacraments according to the tenets and practices of that church or denomination. If a church or denomination ordains some ministers and licenses or commissions others, anyone licensed or commissioned must be able to perform substantially all the religious functions of an ordained minister to be treated as a Minister for Tax Purposes.”*¹⁰

Consequently, a person receiving a clergy housing allowance must meet two general qualifications. The recipient must be a licensed, ordained, or commissioned minister of the gospel recognized by a church or denomination; and the benefit made available to the minister is for compensation for performing ministerial duties (as defined by the Internal Revenue Regulations) a majority of their time working as a minister.



Scripture teaches us to be good stewards of our time, talents, treasures, and opportunities (Matthew 25:27).

6. What expenses can be included in a housing allowance? ([back to top](#))

The expenses that can be included in a minister's housing allowance are typically related to the costs of providing and maintaining a home. Eligible expenses include:¹¹

- **Mortgage or rent payments.** The amount spent on housing whether rent for a property or mortgage payments. This would include down payments, loan payments on home equity loans, prepayments, closing costs, and HOA dues.
- **Utilities.** Costs for essential services like electricity, water, gas, cable TV, internet service, trash pickup, telephone, and heating.
- **Property taxes.** If the minister is responsible for paying property taxes on the residence, those can be included.
- **Home repairs and maintenance.** Expenses related to interior and exterior maintenance, structural repairs, and home remodeling. This would also include household cleaning supplies, light bulbs, pest control, vacuum cleaners, etc.
- **Furniture and appliances.** Costs associated with purchasing or repairing furniture and appliances in the home.

It is important to note that personal expenses not directly related to owning, occupying, or maintaining a home—items such as groceries, household assistance, vacation lodging, and personal trips—are generally not considered eligible for inclusion in the housing allowance. In addition, a housing allowance is available for a principal residence only and is not allowed for a second home, vacation home, business property, or farm.

Ministers should keep and maintain records and receipts of these expenses for documentation and tax purposes. A more detailed list of the categories and types of expenses related to a minister's housing allowance is included in the housing allowance Excel worksheet provided by the Rocky Mountain Ministry Network at [this link](#).



7. Can a minister claim a housing allowance for expenses related to a second home? ([back to top](#))

The IRS code refers to a parsonage in the singular, resulting in the courts interpreting the allowance to be applied only to the minister's primary home or dwelling place.¹² However, the minister's primary home can change during the year, such as a move to a different

ministry location. The first house expenses qualify because it was their primary home, and the second house expenses will qualify when it becomes the primary home.

The housing allowance must align with the minister's actual primary home expenses and comply with IRS regulations.

8. How does owning, renting, or living in a church parsonage affect the determination of a housing allowance? ([back to top](#))

The IRS rules for the minister's housing allowance are found in Section 107 of the Internal Revenue Code and related regulations.¹³ This provision allows a qualifying minister to exclude a portion of their housing expenses from taxable income. IRS Code Section 107 provides two separate provisions relating to this exclusion:

- **Section 107(1).** Ministers can exclude from their gross income the rental value of a church-owned home (parsonage) provided as part of their compensation package.
- **Section 107(2).** Ministers can exclude from their gross income the amount designated as a housing allowance which they use to cover housing expenses such as rent, mortgage payments, utilities, and maintenance costs to the extent of fair rental value of the home as furnished plus utilities.



IRS rules for the housing allowance are different for owning, renting, or living in a parsonage.

Following is a brief explanation of how Section 107 is applied to owning, renting, or living in a church-owned parsonage.

Owning a home. The housing allowance's exclusion from income tax is the lesser/lowest of the following:

- The amount officially designated in advance of payment by the church or ministry board and recorded in minutes.
- Actual amounts for qualifying housing expenses to include mortgage payments, utilities, property taxes, insurance, furnishings, repairs, and improvements. Download the Excel worksheet for a more detailed list [here](#).
- The fair market rental value of the home as furnished plus utilities.

Renting a home. The housing allowance is computed from the following:

- The amount officially designated, approved, and recorded in the minutes as the cash housing allowance by the church or ministry's board.
- Actual housing expenses to include rent, renter's insurance, utilities, furnishings, repairs, and improvements.

Parsonage (owned by the church). Ministers living in a rent-free residence provided by the church may also claim a cash housing allowance to cover tenant expenses not paid by the church. Those expenses can include utilities, tenant repairs, furnishings, and other qualifying expenses paid by the minister. However, ministers who live in a church-owned parsonage that is provided rent-free as compensation for ministerial services do not include the annual fair rental value of the parsonage as income in computing their federal income taxes.¹⁴ The fair rental value and cash housing allowance are included in income subject to self-employment taxes.

Tax benefits to ministers owning a home. A minister who owns a home enjoys several tax benefits compared to one who does not. They may exclude mortgage, interest, property tax payments, and other expenses from their federal taxable income if they itemize their deductions. In addition, they can also include the normal costs of owning that home as part of their housing allowance which is not subject to federal income taxes so long as the minister uses it for housing-related expenses. The combination of these two factors makes homeownership better stewardship for a minister.

The following chart comparing how the tax advantages of the housing allowance differ when an identical situation is applied to owning, renting, and living in a church-owned parsonage (paying for utilities) illustrates the undeniable benefits of a minister owning a home.

Situational Comparisons	Owning	Renting	Parsonage
EARNED GROSS INCOME	\$60,000	\$60,000	\$60,000
HOUSING ALLOWANCE (ANNUAL)			
Home Owners Association Dues	\$600	\$0	\$0
Home Owners/Renters Insurance	\$840	\$840	\$840
Mortgage Payment/Rent	\$21,600	\$21,600	\$0
Property Tax	\$1,200	\$0	\$0
Electricity	\$1,248	\$1,248	\$1,248
Gas	\$650	\$650	\$650
Home Security	\$240	\$240	\$240
Satellite TV or Subscriptions	\$720	\$720	\$720
Internet Service	\$540	\$540	\$540
Waste and Trash Disposal	\$300	\$0	\$0
Water	\$552	\$46	\$0
Alarm or Security	\$552	\$552	\$552
Exterior Maintenance & Improvements	\$600	\$0	\$0
Interior Maintenance & Improvements	\$480	\$0	\$0
Total Housing Allowance	\$30,122	\$26,436	\$4,790
INCOME LESS ALLOWANCES	\$29,878	\$33,564	\$55,210

It is important to note that a minister's housing allowance must be designated by the church or ministry board before the expenses occur. A housing allowance for a particular year cannot be lawfully increased to include expenses incurred before the church or ministry board's designation. Consequently, it is better to anticipate potential costs, have receipts to back up those expenses, and be able to corroborate the housing allowance requested and the church designated.

9. How much of a minister's salary can be designated as a housing allowance? ([back to top](#))

According to tax experts, there is no specific limit as to how much a minister and the church can designate for a housing allowance. However, the minister must be able both to qualify and substantiate the declaration. The church should not audit or attempt to verify the estimated expenses provided by the minister. The minister is solely responsible to the IRS for this amount should there be an audit. Should there be an audit, copies of the designation, receipts, fair rental value, and documentation to back up the expenses claimed against the cash housing allowance will be required.¹⁵ Following are a few guidelines and requirements to follow:

- **Reasonableness.** The designated housing allowance must be considered reasonable by the IRS.¹⁶ It should be based on the minister's estimate of the potential housing expenses and the home's fair rental value. A letter from an informed and unrelated realtor is one of several ways one can determine the fair rental value of the home.¹⁷
- **Employer designation.** The employing church or ministry board must officially designate the housing allowance in advance, and this designation should be recorded in official minutes.
- **Actual expenses.** It is essential to keep accurate records of eligible housing-related costs.

While there is no specific percentage limit, ensuring that the housing allowance is justifiable and complies with IRS regulations is crucial. Those with questions should seek advice from a clergy tax specialist to determine an appropriate and reasonable housing allowance based on individual circumstances. The minister should also consider how the housing allowance designation impacts the ability to contribute to a retirement plan. See Question 14 below.



10. Is a housing allowance considered income? ([back to top](#))

A minister's housing allowance is not considered income for income tax purposes, but it is considered as income for the Self-Employed Contributions Act (SECA) to fund Social Security and Medicare.

The housing allowance is not included in the total compensation reported on Form W-2 in Box 1 (Wages, Tips, Other Compensation). If the minister meets all the requirements and retains all the documentation to prove the same, the qualifying portion of the housing allowance is excluded from taxable income (for federal income tax only) under specific conditions outlined in IRS Code Section 107 and regulations.¹⁸

Ministers can exclude the designated housing allowance from their taxable income if it meets the qualifying criteria such as being officially designated by the ministry board, used for eligible housing expenses, is at or below fair rental value, and is considered reasonable.

11. How should a housing allowance be reported on a W-2? ([back to top](#))

When preparing a W-2 for ministers, the boxes used would be total income excluding the housing allowance, federal withholding, state withholding, and a note in Box 14 telling how much the housing allowance was. FICA (Social Security and Medicare tax) would not be listed—a church is NOT allowed to pay FICA on any ministers which results in a “dual” status for ministers (working for a church but being considered self-employed). A minister must pay their own SECA either through excess federal income tax withholding or paying estimated tax unless they have opted out (Form 4361) of paying Social Security taxes. It is not recommended that a minister opt out of Social Security due to issues too complicated to address in this resource. Therefore, a minister's housing allowance should be reported on a W-2 in the following manner:



The church should not audit or attempt to verify the estimated expenses provided by the minister. The minister is solely responsible to the IRS.

- **Box 1 (Wages, Tips, Other Compensation).** Report salary, not including housing allowance. This is the total income for federal income tax purposes.
- **Box 3 (Social Security Wages) and Box 5 (Medicare Wages).** These boxes should always be blank. Ministers are not subject to FICA and employee Medicare taxes; however, they are responsible for SECA (Self-Employed taxes).
- **Box 14 (Other).** The church may use Box 14 to report the designated housing allowance separately. Label it clearly as “Housing Allowance” along with the amount. This helps provide transparency about the excluded portion.

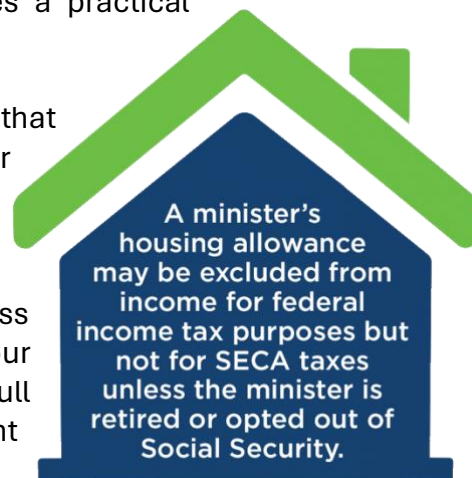
The minister and the employing ministry need to ensure accurate reporting on the W-2 to comply with IRS regulations. This helps the minister properly claim the housing allowance exclusion when filing their income tax return. Consulting with a tax professional or payroll expert can provide additional guidance tailored to the minister's specific situation.

12. Is a housing allowance taxable? ([back to top](#))

A minister's housing allowance may be excluded from income for federal income tax purposes but not for SECA taxes unless the minister is retired or has opted out of Social Security based on a conscientious objection to public insurance.¹⁹ SECA is the Self-Employed Contributions Act that requires taxes to be paid on net earnings for self-employed persons. SECA taxes also fund Social Security and Medicare.

In the United States, most employers pay a portion of the employee's wages into the Social Security and Medicare programs. These contributions are typically split equally between the employer and the employee. Though a minister is an employee of the church for income tax purposes, the IRS considers a minister as self-employed for Social Security purposes so they must pay SECA taxes. Ray Johnson provides a practical illustration.

For example, let's say you make \$50,000 a year. Of that amount, you have designated \$15,000 for your housing allowance (and the church has approved it and has made a written declaration of it). When you fill out your taxes, your federal income (on the first page of your 1040) would show \$35,000 (\$50,000 less the \$15,000 housing allowance). However, on your self-employed tax, your salary would be the full \$50,000. Therefore, you would pay self-employment tax on the full \$50,000.²⁰



The Rocky Mountain Ministry Network believes it is in the church's best interest to compensate for these realities by either reimbursing the pastor for SECA taxes or compensating through additional retirement benefits for the minister. Please note that if the church reimburses all or part of the SECA taxes, the reimbursement is added to the minister's taxable income while a retirement contribution is not taxable. To learn more about how to set up a retirement plan, [click here](#).

13. How should a minister properly document housing allowance expenses? ([back to top](#))

Ministers should keep detailed records and documentation of all expenses related to their housing allowance. The following steps are recommended:

- **Maintain receipts.** Keep receipts for all eligible housing expenses such as rent, mortgage payments, utilities, and maintenance costs. Store them in envelopes corresponding to the month and year in which they occurred. Generally, the IRS audits returns filed within the last three years; however, if they identify a substantial error, they may add additional years but usually cannot go back more than the previous six years.²¹
- **Designate an accurate housing allowance.** The church must clearly designate the amount intended as a housing allowance. This should be done in advance of payment by the employing church or ministry. The Network has provided an Excel template to assist in considering all the qualifying expenses and accurately predicting a reasonable amount. The Excel sheet can be [downloaded here](#).
- **Keep good records.** Maintain a record of all housing-related expenses and the total annual amount designated as a housing allowance. Anyone who is not inclined to do this may want to consider using a separate bank account for housing-related expenses to provide a clear audit trail.
- **Review annually.** Periodically review and update the housing allowance amount to reflect changes in expenses. This is critical for several reasons. Costs associated with things that qualify for a housing allowance which would include homeowners' or renters' insurance, property taxes, utilities, and irregular maintenance costs like painting, a new roof, or an insurance deductible normally increase yearly. An annual review is advantageous in order to take advantage of additional tax write-offs associated with inflation and increased housing expenses and any adjustments that may need to be made in order to comply with any changes in tax regulations. Additionally, lifestyles change yearly and impact a housing allowance. Even if the ministry used a motion that authorized a specific amount "until changed," it is essential that a housing allowance be reevaluated annually.



Ministers should keep detailed records and document all expenses related to their housing allowance.

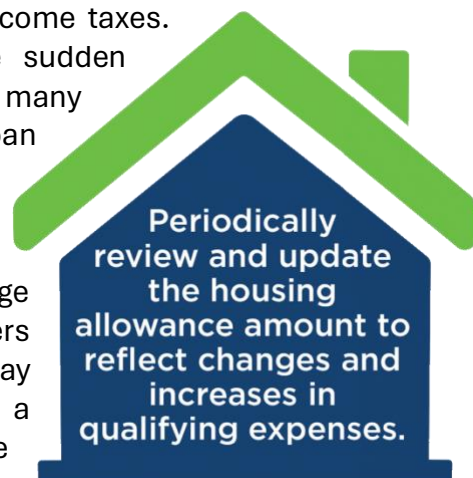
Having organized and detailed records is crucial for compliance with IRS regulations and can be beneficial in case of an audit.

14. How does a housing allowance impact a minister's retirement plan? ([back to top](#))

After retirement, a minister may exclude some or all of their ministerial income but only if a denominational pension board such as CEP or MBA designates it as housing allowance.²² However, this only applies to distributions from ministerial income deferred into a church retirement plan such as a Section 403(b) plan, not IRAs or Roth accounts.²³ Internal Revenue Code 1402(a)(8) specifies that the self-employed tax does not apply to “the rental value of any parsonage or any parsonage allowance provided after a minister retires.”²⁴

It should also be noted that should the courts ever withdraw the clergy housing allowance, ministers will experience an immediate increase in income taxes. Richard Hammar sounded the alarm writing, “The sudden elimination of this tax benefit will immediately thrust many clergy into a dire financial position with a mortgage loan based on a tax benefit that no longer is available.”²⁵

Establishing a Section 403(b) and Roth retirement accounts now is a way to limit tax exposure and hedge against this potential increase in taxable income. Ministers should also note that a large housing allowance may reduce the amount that they may contribute to a retirement plan. The amount contributed (both the minister and the church) may not exceed the amount in Box 1 of Form W-2.



15. What are the most common reasons the IRS may audit a minister concerning their housing allowance? ([back to top](#))

The following areas will face scrutiny in an IRS audit of a minister’s tax return or housing allowance:

- **Designation approval.** The IRS may review whether the housing allowance was appropriately designated and approved in advance by the employing church or ministry.
- **Eligibility of expenses.** Auditors may examine the expenses claimed to ensure they are legitimate housing-related costs, such as rent, mortgage payments, utilities, and maintenance.
- **Reasonableness of amounts.** The IRS may evaluate, test, or challenge whether the designated housing allowance is reasonably based on the minister’s actual housing expenses and local market conditions.
- **Authentic documentation.** Auditors may request documentation including receipts and records of eligible housing expenses.
- **Excessive benefits.** If the minister’s total compensation (including the housing allowance) is deemed excessive, it could result in additional taxes and penalties.
- **Unfamiliarity with house-specific code.** IRS auditors may seek to confirm that your designation is consistent with a specific tax code relating to owning, renting, or living in

a church-owned parsonage before and after retirement. In many cases, violations in this area result from tax advisers being unfamiliar with ministers' tax laws.

Ministers should maintain detailed and accurate records to support their housing allowance claims and be prepared to provide documentation in the event of an audit.

16. What are the most common mistakes when determining a housing allowance? ([back to top](#))

Common mistakes when determining a minister's housing allowance include:

- **Lack of official designation.** Many ministers and church boards fail to officially designate the housing allowance in advance as required by IRS regulations.
- **Inadequate documentation.** Insufficient record-keeping of eligible housing expenses and supporting documentation can make it challenging to verify the legitimacy of the housing allowance should the minister be audited.
- **Lack of intentionality.** Lack of knowledge, communication, and consistency between the minister and ministry board regarding what, when, and how the housing allowance must be approved could result in an audit.
- **Inclusion of personal expenses.** Including personal expenses that are not directly related to providing and maintaining a home could result in being audited and/or fined.
- **Ignoring IRS guidelines.** Failing to stay informed about current IRS guidelines and regulations related to the ministers' housing allowance leads to unintentional noncompliance, violations, or even failure to set the housing allowance high enough. This is often the result of an unfamiliarity with general or specific tax codes relating to owning, renting, or living in a church-owned parsonage before and after retirement.



When in doubt, seek guidance from tax professionals to ensure compliance with IRS rules.

It is crucial for ministers and the employing ministries to be aware of these potential pitfalls and seek guidance from tax professionals to ensure compliance with IRS rules.

17. What steps should be taken to determine a housing allowance? ([back to top](#))

The following steps will assist in determining an accurate housing allowance:

- **Document expenses.** Save all receipts for any expenses that qualify for your housing allowance. Unfortunately, many ministers do not have a system for keeping receipts.

Should they ever be audited by the IRS, they will be expected to provide documentation for the declared housing allowance costs.

- **Review the prior year.** Review expenses and receipts for the preceding year to identify how increased costs, needed home improvements, or lifestyle changes may influence the next year's designation.
- **Estimate future expenses.** Determine if any current expenses are likely to increase and try to predict the costs of insurance, property taxes, needed maintenance, or improvements to the home and include those items in the new housing allowance.
- **Complete draft.** Use the Excel template provided by the Rocky Mountain Ministry Network to calculate annual expenses and provide a complete draft of the housing allowance declaration. Go through each category and input cost estimates for the new year. The Excel worksheet containing a detailed list of the categories and types of expenses related to a minister's housing allowance can be [downloaded here](#).
- **Verify qualifying criteria.** Ensure all the expenses in the Excel sheet meet the requirements listed above for owning, renting, or maintaining a home or living in a church-provided parsonage.
- **Annual designation of the housing allowance.** Print out the Excel sheet and submit it to be designated by the church or ministry board as the housing allowance for the next calendar year. The total amount (not categories) should then be approved by an official vote of the full board and recorded in written meeting minutes.²⁶ A sample board motion is provided below and can be customized for each situation. It is also possible for the board to facilitate an ongoing approval by including a phrase such as, "This decision shall continue to be valid unless otherwise noted, changed, and approved by the board." It is essential to document this decision in the official minutes in the event the pastor is ever audited.
- **Check paystubs.** Paystubs should be checked to be sure the housing allowance is accurately reflected on the paycheck.
- **Review the W-2 statement.** When the W-2 statement is received, confirm that the housing allowance is accurately reflected.



18. Can a housing allowance be adopted and used indefinitely until it is officially changed? ([back to top](#))

Some may question if the housing allowance must be designated yearly or only when it is updated. No IRS authority addresses this issue, and there are no regulations specifying how long a housing allowance designation remains in effect.²⁷ The designation is dependent on the specific wording used in the board motion. For example, a written designation could be created that says the housing allowance is in effect “for the current year and all future years until altered.” This kind of language will provide protection should a specific termination

date be stated and then failed to be updated. Even if the ministry board approves an allowance until changed, it is best to also evaluate and adjust the housing allowance annually if needed.

19. How should a church board approve a housing allowance? ([back to top](#))

The employing church or ministry board must officially designate the housing allowance in advance, and this written designation should be recorded and approved in official minutes. Following is a sample board resolution that can be downloaded as a Word document and customized to declare a housing allowance. [Download it here.](#)

[Name of Church] Board Resolution

The following resolution was duly adopted by the board of directors of [name of church] at a regularly scheduled meeting held on [date], with a quorum being present:

Whereas, Section 107 of the Internal Revenue Code permits a minister of the gospel to exclude from gross income the rental value of a parsonage furnished as part of their compensation package and a church-designated parsonage allowance paid to them as part of their compensation package to the extent the allowance represents compensation for ministerial services; is used to pay parsonage-related expenses such as utilities, repairs, and furnishings; and does not exceed the fair rental value of the parsonage (furnished plus utilities); and

Whereas, Pastor [insert pastor's full name] is compensated by [name of church] exclusively for services as a minister of the gospel; therefore, it is hereby

Resolved, that the annual compensation paid to [insert pastor's full name] shall be \$[insert amount], until changed and of which \$[insert amount] is hereby designated as a parsonage allowance pursuant to Section 107 of the Internal Revenue Code.

These steps can ensure compliance with IRS regulations regarding the minister's housing allowance. However, if your circumstances are unique, it is advisable to consult with a tax professional or clergy tax specialist to ensure compliance with specific tax regulations and receive personalized advice.

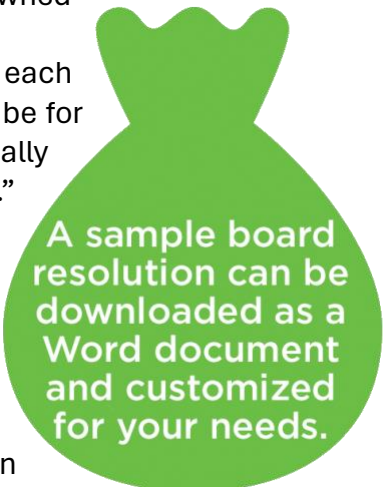
20. Can a church board amend a housing allowance? ([back to top](#))

Churches can amend a housing allowance during the year if the original allowance proves to be too low. However, the amended allowance will only apply to future compensation after the amendment and cannot be retroactive or applied to the past.²⁸

21. Is there a worksheet available to help determine a housing allowance? ([back to top](#))

An Excel worksheet has been created to help with estimating an annual housing allowance. It contains a detailed list of the categories and types of expenses that qualify to be included in a minister's housing allowance. Use the following steps to access this powerful resource:

1. Download the Excel file—[here](#).
2. Locate an Excel document with the file name “housingallowance.xlsx” in the download folder of your computer.
3. In the “Full Name of Minister” line, type in the minister's full name.
4. In the “Church Name and City” line, type in the church name and city.
5. In the “Date Submitted” line, type in the day the document was turned in to the board for approval.
6. In the “Date Approved” line, have the board secretary fill in the date of approval.
7. In the “Board Secretary Initials” line, have the board secretary initial the document as having been approved. The minister may also want to ask for a copy of the page in the minutes that documents the approval of the board.
8. There are three buttons in the upper right-hand corner to show if the housing allowance is for a home the minister owns, rents, or is a church-owned parsonage. Check the correct one.
9. Under the first column labeled, “Monthly,” go through each category and make an estimate of what those expenses will be for each month. Notice that the Excel sheet automatically calculates and populates the third column labeled “Annually.”
10. Next go down the second column labeled “One-time” and estimate the amount of qualifying expenses that may occur only once in the coming year. Examples may be new landscaping, water heater, roof repair/replacement, or exterior painting that will be needed in the coming year but are not annual in nature. Notice that the Excel sheet automatically calculates and populates the third column labeled “Annually.”
11. If an expense is anticipated that is not listed in the worksheet, use the “Other” lines under each category and insert the estimated cost in the right column.
12. Verify the accuracy of the totals and print the worksheet out or save it as a PDF file to be submitted to the board at their next meeting.



A sample board resolution can be downloaded as a Word document and customized for your needs.

22. Where can I get more information not addressed here? ([back to top](#))

If the situation is complex, seek advice from a clergy tax specialist or attorney to determine a housing allowance based on the uniqueness of the individual circumstances. If there are any technical questions concerning subjects not mentioned, the following resources are highly recommended:

Books by Seasoned Experts:

- *Church & Clergy Tax Guide* by Richard Hammar is available as a book and PDF [at this link](#).
- *Church Compensation: From Strategic Plan to Compliance* by Elaine Sommerville is [available at this link](#).

Articles and Guides:

- The Evangelical Council for Accountability publishes a free minister's tax guide in a downloadable format. It can be [accessed at this link](#).

Tax Preparation:

- Richard Varnell (EA) is licensed by the IRS as an enrolled tax agent. He owns Palm Desert Tax and has specialized in ministers' tax issues for nearly forty years. He has helped many pastors better understand how current tax codes relate to ministers. He is also an ordained minister of the Assemblies of God who served as a consultant in curating this resource. If there is a need for an affordable tax specialist who understands ministry and tax laws, contact his team at pdtax@pdtax.com.

**The content in this document does not constitute legal or tax advice and does not necessarily reflect the opinions of the Rocky Mountain Ministry Network or any of its employees. Although the author has made every effort to ensure that the information in this resource was correct at the time of release, the author and the Rocky Mountain Ministry Network do not assume and hereby disclaim any liability to any party for any loss, damage, or disruption caused by errors or omissions, whether such errors or omissions result from negligence, accident, or any other cause. The reader should consult with an attorney, CPA, or other clergy tax professional in matters relating to their situation.*

End Notes

¹The review team for this document consisted of the following individuals:

Frank Sommerville (JD, CPA) is a member of the American Bar Association and frequent lecturer on nonprofit issues at the University of Texas Law School's Annual Nonprofit Organizations Conferences. He has also served as the chair for the State Bar of Texas Governance of Nonprofit Organizations Courses. Frank regularly assists churches in preventing litigation and is one of the nation's premier nonprofit attorneys specializing in ministers' tax codes, housing allowances, and employment laws. Frank's review, insight, and recommendations were a valuable contribution to this project.

Richard Varnell (EA) is licensed by the IRS as an enrolled tax agent. He owns Palm Desert Tax and has specialized in ministers' tax issues for nearly forty years. He has helped me and many other pastors better understand how current tax codes relate to ministers. He is also an ordained minister who served as a consultant in curating this resource. If you are looking for an affordable tax specialist who understands ministry and tax laws, I encourage you to contact his team at pdtax@pdtax.com.

George Negrete (MBA) is a dedicated team player with executive and diverse collaborative skills. He has been a credentialed minister with the Assemblies of God since 1997 with extensive experience in supporting the lead pastor in administration, strategic planning, and implementation and managing finance teams, facilities, information technology, and staff development. George created the housing allowance Excel worksheet associated with this resource to help ministers include qualifying expenses, estimate a housing allowance, and then use a printed version as a formal housing allowance declaration to be approved by the ministry's board.

² Amy Artiga, *The Pastor's Wallet Complete Guide to the Clergy Housing Allowance*, Kindle Edition, Chapter 1, March 2020.

³ Amy Artiga, *The Pastor's Wallet Complete Guide to the Clergy Housing Allowance*, Kindle Edition, Chapter 1, March 2020.

⁴IRS Code Section 107.

⁵Gaylor v. Mnuchin, 919 F.3d 420, 7th Cir., 2019.

⁶Jordan T. Ault or Bruce G. Arnold, March 18, 2019, *Husch Blackwell*, accessed January 25, 2024, <https://www.huschblackwell.com/newsandinsights/seventh-circuit-rules-clergy-housing-allowance-constitutional>.

⁷Richard Hammar, *2024 Church & Clergy Tax Guide*, Church Law & Tax, Christianity Today International, p.199.

⁸Tax Notes, June 25, 1981, *Taxnotes.com*, Accessed January 23, 2024, https://www.taxnotes.com/research/federal/irs-private-rulings/letter-rulings-technical-advice/pensions-paid-to-retired-ministers-for-services-qualify-as-rental/1g77c?highlight=*#.

⁹The phrase "service performed in the exercise of ministry" is defined in Treas. Reg. 1.1402(c)-5.

¹⁰IRS Publication 517, "Social Security and Other Information for Members of the Clergy and Religious Workers," <https://www.irs.gov/pub/irs-pdf/p517.pdf>.

¹¹Richard Hammar, *2024 Church & Clergy Tax Guide*, Church Law & Tax, Christianity Today International, p.210.

¹²Clergy Financial, accessed on February 2, 2024, [https://www.clergyfinancial.com/the-parsonage-allowance/#:~:text=IRC%20%20107\(2\),allowance%20for%20only%20one%20home](https://www.clergyfinancial.com/the-parsonage-allowance/#:~:text=IRC%20%20107(2),allowance%20for%20only%20one%20home) and Driscoll v. Commissioner, 669 F.3d 1309 (11th Cir. 2012), addressed under "Owning two homes" on p.223; Revenue Ruling 72-588.

¹³Internal Revenue Service, Help Section, “Is the housing allowance considered income and where do I report it?” <https://www.irs.gov/faqs/interest-dividends-other-types-of-income/ministers-compensation-housing-allowance/ministers-compensation-housing-allowance>.

¹⁴Richard Hammar, *2024 Church & Clergy Tax Guide*, Church Law & Tax, Christianity Today International, p.198.

¹⁵Ray Johnson, *ChurchStaffing.com*, “Four Important Things to Know about Pastor’s Housing Allowance,” September 16, 2021, accessed January 24, 2024, <https://www.churchstaffing.com/articles-tips/2021/09/16/four-important-things-to-know-about-pastors-housing-allowance/>.

¹⁶Internal Revenue Code 501(c)(3) and Exemption Requirements - 501(c)(3) Organizations.

¹⁷Reasonable can be established by fair rental value of the home, the opinion of an informed realtor, appraisal, or the 1% rule (1% of the homes fair market value) according to Richard Hammar, *2024 Church & Clergy Tax Guide*, Church Law & Tax, Christianity Today International, pp.213-214.

¹⁸Internal Revenue Service, Help Section, “Is the housing allowance considered income and where do I report it?” <https://www.irs.gov/faqs/interest-dividends-other-types-of-income/ministers-compensation-housing-allowance/ministers-compensation-housing-allowance>.

¹⁹Richard Hammar, *2024 Church & Clergy Tax Guide*, Church Law & Tax, Christianity Today International, pp.205/224. Also see Internal Revenue Code 1402(a)(8).

²⁰Ray Johnson, *ChurchStaffing.com*, “Four Important Things to Know about Pastor’s Housing Allowance,” September 16, 2021, accessed January 24, 2024, <https://www.churchstaffing.com/articles-tips/2021/09/16/four-important-things-to-know-about-pastors-housing-allowance/>.

²¹IRS Audits, accessed February 2, 2024, <https://www.irs.gov/businesses/small-businesses-self-employed/irs-audits#:~:text=the%20auditor%27s%20manager.-,How%20far%20back%20can%20the%20IRS%20go%20to%20audit%20my,than%20the%20last%20six%20year%20S.>

²²Revenue Ruling 75-22, 1975-1 C.B. 49, accessed February 2, 2024, <https://www.irs.gov/pub/irs-wd/10-0228.pdf>.

²³Guidestone, July 5, 2023, *Guidestone.com*, accessed January 23, 2024, <https://www.guidestone.org/Resources/Education/Videos/What-is-Ministers-Housing-Allowance>.

²⁴Richard Hammar, *2024 Church & Clergy Tax Guide*, Church Law & Tax, Christianity Today International, p.198.

²⁵Richard Hammar, *2024 Church & Clergy Tax Guide*, Church Law & Tax, Christianity Today International, p.200.

²⁶Richard Hammar, *2024 Church & Clergy Tax Guide*, Church Law & Tax, Christianity Today International, p.198.

²⁷Clergy Financial Resources, accessed February 2, 2024, <https://www.clergyfinancial.com/can-i-designate-a-housing-allowance-for-multiple-years/>.

²⁸Richard Hammar, *2024 Church & Clergy Tax Guide*, Church Law & Tax, Christianity Today International, p.222.