Housing and Parsonage Allowance

It is hard to believe that we 2014 is coming to a close. As we look ahead to 2015, clergy housing allowance should be on many of church agendas. It is important to note that federal tax code regulations require housing and parsonage allowances to be adopted by the church board prior to the next calendar year. Wisconsin weather is unpredictable and can cause many important meetings to be cancelled. As you plan your agenda for November and December, please remember to include approving housing and parsonage allowance for your clergy.

During recent parish reviews, questions surfaced over the parsonage and housing allowance. The parsonage allowance is provided to clergy who live in a church-provided parsonage. They do not pay federal income taxes but pay self-employment taxes on the amount of compensation that the church designates as a parsonage allowance for ministerial services. The allowance is used to pay parsonage-related expenses such as utilities, repairs and furnishings.

The housing allowance is provide to clergy who own their homes. They do not pay federal income taxes in consideration for services but pay self-employment taxes on the housing allowance. This benefit can only be used only for housing expenses. Tax code requires that the allowance not exceed the fair rental value of the home that is furnished plus utilities. Some of these related expenses include insurance, property taxes, utilities, repairs, furnishings, and maintenance. This also applies to clergy renting a home or apartment.

Designating an allowance

The church vestry or board must adopt housing or parsonage allowance for the upcoming year. If a church fails to designate the allowance but does so after the New Year, it is in effect prospectively providing the benefit from the date of designation. Tax codes prohibit a housing allowance from be designated retroactively.

Vestries should also be aware that a nontaxable portion of the housing allowance cannot exceed the fair rental value of the minister's home which includes utilities and furnishings. Boards or vestries should include the following IRS wording in their resolution "the total compensation to be paid to the clergy during 2015 shall be designated as housing allowance, to be excludable from taxable income, within the meaning of Section 107 of the Internal Revenue Code, to the extent that said housing allowance is spent by the clergy for expenses of renting or providing a furnished home for himself and family, including rental or mortgage payments, insurance, utilities, furnishings, maintenance and repairs and other related expenses, up to the fair market rental value of said home, including furnishings and utilities."

Reporting of Housing allowances on W-2's

Housing allowances are not required to be reported on W-2s but are used by many churches to provide information to its clergy. The annual reporting amount is displayed in Box 14 and labeled clearly as Housing or Parsonage Allowance. See **IRS Publication 517** for a filing example that contains housing allowance in box 14.

The information mentioned above provides an overview and highlight of some key questions that surfaced during past parish reviews.   As mentioned above the church vestry and clergy need to have their allowance designated in writing before the beginning of the calendar year.   Tax codes prohibit the housing and parsonage allowance from being designated retroactively.

As questions surface please feel free to contact Marlene in the Diocesan Finance Office.

One confusing tax related question that surfaces for clergy and treasurers is the "dual tax status" clergy have with respect to Social Security purposes relating to the services they perform in exercising their ministry. This means clergy are not subject to FICA tax even though they report their income as an employee on their income taxes. Social Security and Medicare are paid under the self-employment tax.

There are two systems under this tax system. The employer and employee split the 15.3% employee wage. The other self-employed persons pay the self-employment tax of 15.3% of their net self-employment earnings.