

# Clergy Housing Allowance



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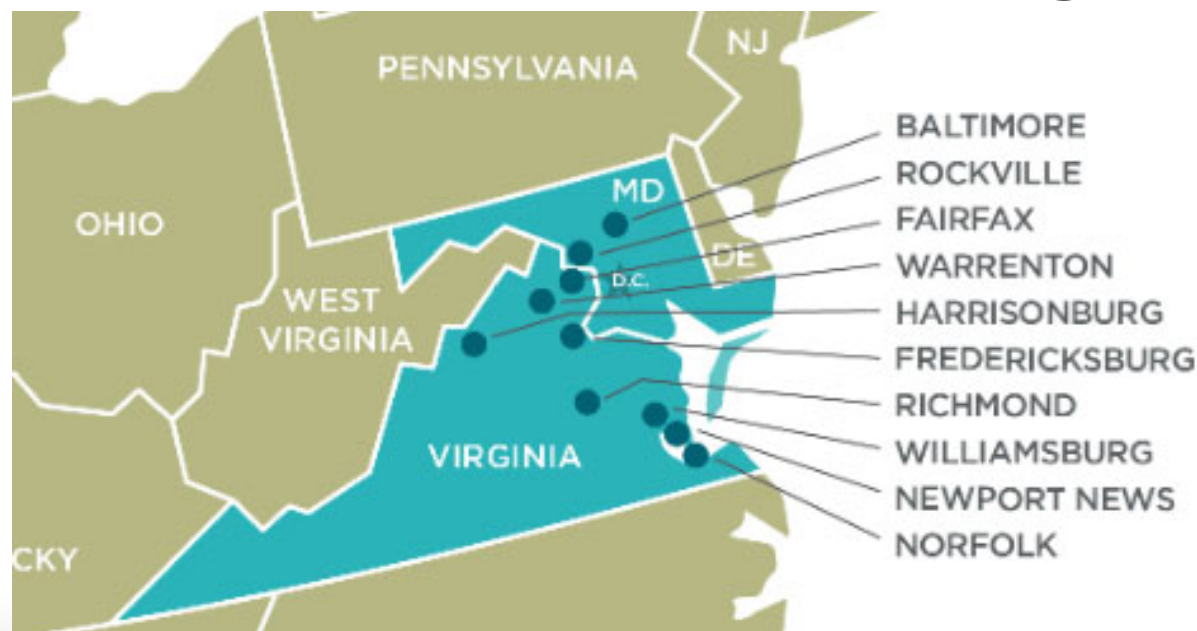


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- PBMares is ranked at 96 of the top 100 Firms
- Ed Yoder is a CPA with 22 years of public accounting experience, based in the Harrisonburg, Virginia



# Disclaimer



This material is intended to provide general information about understanding the federal tax system for ministers. It is not intended as legal or tax advice. Please consult your tax attorney or accountant on specific questions related to your situation, or contact me after this seminar.

# References

- [IRS Publication 517 Information for Clergy](#)
- [IRS Ministers Audit Techniques Guide](#)
- [MRT Housing Allowance for Retired Ministers](#)
- [EFCA Preparing Tax Returns for Clergy](#)
  
- Zondervan Minister's Tax & Financial Guide (ECFA)
- There are several other ministers guides available for free online

# Exclusion of Housing Allowance



- IRC Sec. 107 provides “parsonage allowance”
- Clergy Housing Allowance Clarification Act of 2002 – amended the housing allowance exclusion to limit housing allowance to *fair rental value*
- The smallest of:
  - Actual expenses to provide a home
  - Amount officially designated
  - Fair rental value

# Designation Requirement



- Employer must officially designate the amount of the housing allowance before a payment is made
- Designation can be made
  - in an employment contract,
  - in minutes of the organization,
  - in the budget, or
  - any office action taken in advance of the payment
- Best practice to designate the housing allowance in writing

# Fair Rental Value

- Responsibility of the clergy
- Facts and circumstances based on local market
- Look to what other properties are renting for in your area
- May need to adjust for furnishings and utilities

# What Housing Expenses Can be Deducted?



- Most reasonable household expenses, including:
  - Down payment on home purchase
  - Principal and interest on mortgage
  - Home equity loan payments (assuming for housing)
  - Escrow payments, taxes, insurance
  - Furnishings, appliances, decoration, redecorating
  - Repairs, maintenance, remodeling, improvements
  - Yard maintenance, pest control, snow removal
  - Utilities, cable, trash pickup, local telephone



# Housing Allowance Example



- A minister living in their personally owned home receives compensation of \$50,000 from the congregation. The congregation designates \$20,000 as housing allowance. The fair rental value of the home with furnishings and utilities is estimated to be \$24,000. Actual expenses incurred for the year are \$14,000. The amount that is excludable from income is limited to the actual housing expenses of \$14,000.

# Housing Allowance Example



- The congregation designates \$20,000 as housing allowance. The fair rental value of the home is \$24,000. Actual housing expenses were \$30,000 because the minister renovated their kitchen. The amount excludable from income is the designated housing allowance of \$20,000. There is *no carryover* of the \$10,000 of actual expenses in excess of the designated housing allowance to the next tax year.

# Housing Allowance Example



- The congregation designates \$40,000 as housing allowance. The fair rental value of the home is estimated to be \$24,000. Actual housing expenses were \$30,000 for the year because the minister renovated their kitchen. The amount excludable from income is the fair rental value of \$24,000. There is *no carryover* of the excess of designated housing allowance or the excess of the actual expenses.

# Housing Allowance is subject to Self-Employment Tax



- You must report the total compensation subject to SE Tax on Schedule SE. That would include amounts reported in box 1 of your W2, reported on a 1099, plus any amounts reported on Sch C as other SE Income plus amounts designated as housing allowance. You can however, reduce your SE Income by amounts that were deemed to be non-deductible for income tax purposes because they were related to tax-free income.

# Housing Allowance Example



- Rev uses a parsonage w/ fair rental value of \$24,000. An annual salary of \$50,000, of which \$7,500 is designated for utility costs. Actual utility costs during the year were only \$7,000. Excludes \$31,000 from gross income (\$24,000 fair rental value plus \$7,000 for utilities). Reports \$43,000 (\$42,500 salary plus \$500 of unused utility allowance). For SE tax purposes \$74,000 (\$50,000 salary plus \$24,000 value of parsonage).

# Housing Allowance in Retirement



- Housing Allowance can be claimed in retirement
- Mennonite Retirement Trust or Friends Retirement Plan available through Everence
- Retirement Plan contributions during employment can help to reduce taxable income and are eligible for housing allowance during retirement

# Expenses Allocable to Tax-Free Income



- IRC Sec. 265 requires business expenses to be allocated between taxable and non-taxable
- Affirmed by U.S. Tax Court *Deason v. Commissioner*, 1964
- You cannot deduct the portion of your expenses that you allocate to your tax-free housing allowance
- Referred to as the Deason adjustment

# Deason Adjustment Example



- \$40,000 in earnings for ministerial services
  - \$28,000 W2 ministerial salary
  - \$2,000 honorarium for weddings and speaking
  - \$10,000 tax-free housing allowance
  - \$4,000 unreimbursed expenses (\$3,500 ministry and \$500 weddings and speaking)
  - Nondeductible portion of ministerial salary expenses, expenses are lost, consider *an accountable plan*
  - Nondeductible portion of portion to weddings  
 $(\$10,000 / \$40,000) \times \$500 = \$125$  (Sch C)



# Attach Statement to Your Return



- A list of each item for taxable ministerial income by source (wages, salary, weddings, speaking, etc)
- A list of each item of tax-free ministerial income by source (housing and utility allowance)
- How you figured the nondeductible portion of your otherwise deductible expenses
- A statement that other deductions claimed on the year are not allocable to your tax-free income

# A Challenge to Housing Allowance



- *Freedom from Religion Foundation v. Lew, 2013*
- Unconstitutional benefit in favor of religious groups?
- Nov 2014, U.S. Court of Appeals 7<sup>th</sup> Cir. Reversed
- *Gaylor v. Mnuchin*, April 2016, FFRF refiled their federal lawsuit, and won Oct 2017
- Mar 2019, U.S. Court of Appeals 7<sup>th</sup> Cir. Reversed
- June 2019, FFRF did not appeal to Supreme Court

# Contact



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