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The Concept of the Ministers' Housing Allowance

In understanding the minister's housing allowance, it helps to have some background on the overall concept of clergy individual taxation and how it differs from taxation of non-ordained people. The federal government considers members of the clergy to be "dual-status" ministers. The dual-status is that for income tax purposes they are considered employees but for Social Security and Medicare they are considered self-employed. This differs from the tax treatment of ordinary employees who are not subject to self-employment rules.

Ordained clergy are responsible for payment of the entire amount of Social Security and Medicare on their personal tax returns whereas most employees' Social Security and Medicare is paid through their employer via withholding and the company's contribution.

The other unique concept of ordained clergy taxation is that ministers may claim a housing allowance, some of which may not be considered taxable income for income tax purposes.

The ministers' housing allowance exclusion is limited by three factors. The amount of housing allowance paid to an ordained minister is limited to the lesser of:

1. Amount of housing allowance declared by the church. It cannot be declared retroactively, but rather it must be declared before the amount is paid. Anytime during the calendar year, the monthly amount of housing allowance declared can be changed for that month and subsequent months. You cannot change the designation of any monies already paid.
2. Amount of expenses actually spent on housing by the individual. This includes mortgage expense, real estate taxes, utilities and other similar expenses.
3. Fair rental value of a home, furnishings and utilities in the area in which the minister serves.

As a tax accountant with experience in the area of clergy taxation, I promote the use of this tax benefit for ministers. Everyone must pay their fair share of taxes; however, no one needs to pay more tax than is required.

If the congregation wants to help their ministers, they should be open to declaring the ministers' housing allowance where the greatest tax benefit can be used by their clergy. This is especially true since declaring a higher housing allowance can be just a matter of moving monies from one budget line-item to another. It costs the congregation nothing to move the expenses from salary to housing.

As a side note, the Evangelical Lutheran Church in America as well as several other denominations, declare all pension monies paid to retired ministers as housing allowance. This puts the burden on the minister to calculate what portion truly qualifies as allowance exclusion by keeping records to show the amount of actual expenses.

Back to the situation in the congregation, the leadership should be open to declaring a housing allowance higher than their ministers' expected housing expenses so that the individual minister can save income taxes when they prepare their individual tax return.

The tax savings on the income tax treatment of the housing allowance is offset for ministers in that they must pay self-employment tax on all their salary and housing allowance, as well as any amount contributed by the congregation to help them pay the Social Security and Medicare taxes. This is another difference between clergy taxation and normal employment. Non-ordained employees who pay Social Security and Medicare through withholding do not have to declare their employers' contribution as taxable income, whereas the ordained minister must claim the congregation's contribution as taxable income for income tax and self-employment tax purposes.

I am certain that no one entered ministry in order to serve the church because of the favorable tax treatment of a housing allowance, but I do believe that we, as members of the church, should be willing to support our ministers in a way to ease their tax burden if we have such an opportunity.

Just for clarification, the declaration of the ministers' housing allowance is the responsibility of the congregation (employer) but it is the ministers' individual responsibility as to how much housing allowance exclusion they can claim on their tax return.

In conclusion, I would say that the minister and the congregation leadership should work together to declare their annual housing allowance at a level that helps the minister save taxes and does not cost the church any additional expense.