



TEXAS BAPTISTS®

Minister's Housing Allowance

A Quick Guide & Reference

Dr. Ward Hayes
Treasurer/CFO

Determining Eligibility...



Who can claim the Housing Allowance?

By IRS code: Licensed or ordained* ministers engaged in “services which are ordinarily the duties of a minister.” (*REQUIRED)

What are the “ordinary duties of a minister”?

- Leading in observance of Lord’s Supper and/or baptism
- Considered a spiritual leader by the church
- Leading in worship services
- Leading religious organizations under the authority a church or denomination

(Meeting all four is NOT required by the IRS to be eligible.)

What's the benefit?



What is the benefit to claiming a Housing Allowance?

- A Housing Allowance is not subject to Federal income tax
(...also exempt from most states' income tax, when applicable)
- **HOWEVER...**
A Housing Allowance is still subject to Social Security and Medicare tax

How much can be claimed?



First...the lesser of three determinations:

- Amount approved in advance by the church
(MUST be documented in advance of claiming)
- Actual amount of housing expenses
- Fair rental value of the minister's housing

What expenses qualify?

- | | | |
|-----------------------|---------------------|---------------|
| • Mortgage pymt/rent | * Utilities | * Insurance |
| • Property taxes | * Cleaning supplies | * Landscaping |
| • Repairs/Maintenance | * Furnishings | * Appliances |
| • Security service | * HOA dues | * Decor |

**HOUSING ALLOWANCE COMPUTATION WORKSHEET
ANNUAL AMOUNTS**

EXPENSES

1.	Rent	_____
2.	Principal & interest payments on Mortgage	_____
3.	Improvements	_____
4.	Operating Expenses	
a.	Taxes	_____
b.	Insurance	_____
c.	Repairs/Maintenance	_____
d.	Utilities	
(1)	Electricity	_____
(2)	Gas	_____
(3)	Water	_____
(4)	Telephone (except long distance)	_____
(5)	Other	_____
e.	Other Expenses (trash fee, yard care, etc.) Itemize	
	_____	_____
	_____	_____
5.	Furnishings	_____
	TOTAL	_____



What about a parsonage?



If the minister lives in a parsonage provided by the church:

- The value of the parsonage does not have to be included in the income of the minister...
- BUT, the value does have to be included in SECA wages (and will be subject to Social Security and Medicare taxes)
- The minister could still receive a housing allowance to cover other expenses.

Examples:



Church forgets to approve pastor's housing allowance until June 1st

- Amount approved in advance by the church. Approval cannot be retroactive. Only expenses incurred after June 1st will be eligible. (Get in the habit of approving each December for the next year.)

Church approved \$20,000 allowance but actual expenses are \$15,000

- Qualifying H.A. is limited to \$15k. Remaining \$5K to be claimed as additional income by the pastor on personal tax return. All \$20k subject to SECA tax.

Church approves \$20k, actual expenses are \$22K

- Qualifying H.A. is limited to \$20k. Remaining \$2k are not deductible.

Church approves \$20k, actual expense are \$22k, but fair rental value is \$19k

- Qualifying H.A. is limited to \$19k

Questions:



How does a church approve a minister's housing allowance?

- In a business meeting (of either congregation or elder/leader board), a simple motion establishing the amount for the remainder of the year. A minister initiating this request can do so through the Personnel/Finance Committee or directly to the business meeting, whichever is most appropriate for the church.

What is the next step?

- The church reduces the taxable income of the minister by the appropriate amount, which is added back to the minister's paycheck after tax.

Is a minister eligible for a housing allowance if the church does not pay him?

- In short, no, because the amount of H.A. approved by the church would be zero

Questions:



Should ministers be a W-2 employee or a 1099 contractor?

- By IRS code ministers are considered “statutory employees.” They will receive a W-2, but the church does not withhold, nor pay, Social Security & Medicare taxes on their behalf. The church withhold taxes as instructed by the minister. Thus, the W-2 would report wages subject to Federal income tax and taxes withheld. Box 14 may also report the housing allowance. The church does NOT report SS & MC wages or taxes for ministers.

What are SECA taxes and how does the minister pay them?

- SECA (Self Employment Contribution Act) represent Social Security and Medicare taxes for self-employed individuals. “Statutory employees” are considered self-employed for SECA purposes. So, this gives the minister TWO ways to pay SECA taxes.
 - Through federal income tax withholding of their paycheck, OR
 - Quarterly estimated tax payments....OR BOTH

Does using a housing allowance lower your SS earnings in retirement?

- No, because the H.A. counts as Social Security & Medicare wages.



A quick example...

Minister's salary is \$24,000. Church approves a housing allowance Jan 1st for \$18,000. He asks to w/h \$200/month.

His monthly paycheck would look like this:

\$500 taxable wages ($\$24,000 - \$18,000 = \$6,000$)/12

(\$200) income tax w/h

\$300 net taxable pay

\$1,500 (monthly housing allowance = $\$18,000/12$)

\$1,800 monthly paycheck

On the W-2, the numbers would be:

Taxable wages = \$6,000

W/H = \$2,400

H.A. = \$18,000 (Box 14)

On his tax return, the numbers would be:

Taxable wages = \$6,000

Schedule SE wages = \$24,000 ($\$6,000 + \$18,000$)

Questions?



Contact me at...

ward.hayes@txb.org or 214.828.5310

View video at: https://www.youtube.com/watch?v=Wlni94taB_U