Things to remember about the clergy housing allowance

Concluding the most recent challenge of the clergy housing allowance, the U.S. Court of Appeals, 7th Circuit acted March 15, 2-19, to preserve the housing allowance exclusion for clergy. (For further information regarding the court ruling in favor of the clergy housing allowance, follow this <u>link</u> to a news release from Portico Benefit Services.)

According to the Internal Revenue Service (IRS) regulations, clergy are permitted to exclude from their taxable income the costs of maintaining a residence. This housing allowance is not included as taxable income on pastors' W-2s. There are rules for determining, documenting and reporting a housing allowance that need to be followed.

1. Clergy need to determine the cost of maintaining one residence for the upcoming calendar year or for the remainder of the year if a call commences during a year. The housing allowance amount is the **lesser of:**

- a. Amounts actually paid for housing and related expenses.
- b. The fair rental value of the home.
- c. The amount actually paid or declared by the congregation as the housing allowance.

2. The clergy housing allowance amount must be requested in writing and approved by official action by the employer. In a congregation, the housing allowance is generally approved by the congregation council or the finance committee. A record of the action to approve should be in writing.

3. The housing allowance is not subject to federal income tax, but it is subject to selfemployment tax. On the W-2, it is not reported in Box 1. It is typically reported as an information item in Box 14.

4. A housing allowance operates prospectively; in other words, it is declared ahead of when the expenditures are made. It can be modified if significant expenses not anticipated earlier are identified, but the allowance must always be changed ahead of the expenditures.

5. Clergy need to maintain records of their costs, including receipts, in order to document the housing expenses in the event of an IRS audit.

Clergy should consult with an experienced tax preparer as needed to resolve any questions pertaining to their individual housing allowance.