



MMS Position Paper: Ministerial Housing Allowance

MMS position papers are a compilation of our staff's research, education, training classes and seminars attended, 20 years field experience and interpretation of current laws as we understand them. The information contained in this paper is not legal advice and is intended to be used as general information to help your organization formulate your organization's guidelines. It is understood that your organization is legally responsible for all policies and procedures, and their legal basis.

Application: The IRS has strict guidelines governing the use of housing allowance. To help clarify this tax benefit, we provide the following information:

What is a housing allowance? A housing allowance is an annual amount of compensation that is set aside by the church to cover the cost of housing related expenses. The amount spent on housing reduces a qualifying individual's federal and state income tax burden.

Who Qualifies: To receive the tax benefits of a minister's housing allowance, there is one primary requirement and a set of secondary requirements:

Primary Requirement: a person must be ordained, commissioned or licensed as a minister by a church, body of churches, or a religious order.

Secondary Requirements: an ordained, commissioned, or licensed minister must do or be most of the following –

- administer sacraments (provide communion, water baptism, and/or solemnize marriages)
- conduct religious worship
- has management responsibility in a local church or religious denomination
- is considered a religious leader by his/her church or denomination

It is difficult to have "most" of these fulfilled without including at least three of them. There is some case law that indicates the IRS may allow a minister to have only one or two of these points considered. In other case law, however, facts and circumstances suggest that at least three points

are needed to qualify a person to receive the tax benefits of a housing allowance. Obviously, if a person fulfills all of the above points, he is likely to be fully qualified to receive the tax benefits of a minister's housing allowance.

Based on our interpretation of the law and the attached information, we recommend a minister possess at least three of the secondary requirements noted above in addition to the primary requirement to safely satisfy what appears to be the key requirements of this matter.

How does it work? Each year, the individual clergy sits down and estimates the amount of eligible housing expenses they believe they might incur. The amount is submitted to the church for approval each year. That amount in essence, reduces their taxable salary for federal and state income taxes.

How do we establish the correct amount? We have formulated the attached worksheet that some of your ministerial staff may find enlightening or just simply helpful in the process of "estimating" an appropriate housing allowance for the year. It should be stressed that this form is intended to assist in the estimation process; it is not a guarantee of what taxes will be owed.

*Actual tax liability depends on actual allowable, documented housing expenses during the year, and what other income is factored into the mix, i.e., other outside income or a spouse that generates income. To gain a formal estimate of actual taxes owed, they should consult a knowledgeable tax accountant.

Timing: IRS guidelines stipulate that all housing declarations need to be voted on or approved by an appropriate governing body of the church and written into the minutes no later than December 31, for the upcoming year. Although enforcement may be minimal, we strongly suggest that every effort be made to comply with this mandate.

Form: See below

Annual Ministerial Housing Allowance Worksheet

Church: _____ Pastor's Name: _____ Date: _____

Regular Monthly Expenses:

Monthly house payment
 * principle * interest * pmi * taxes * insurance _____

Monthly electric bill (12 month average) _____

Monthly natural or lp gas bill (12 month average) _____

Monthly water/sewer bill (12 month average) _____

Monthly trash collection/recycling bill _____

Monthly phone bill, (one phone only, **not** including long distance) _____

Sub total of regular monthly expenses _____

Times 12 months x 12

Line 1..... Annual total of Regular Monthly Expenses = _____

Annual Expenses:

General maintenance & upkeep
 * Cleaning supplies related to house maintenance
 * Lawn care, all related expenses, equipment, gas, trim string etc
 * Any plumbing, electrical, roof or general repairs _____

Home additions, remodeling, new fence, new carpet, painting etc _____

New furniture, equipment or appliances _____

Closing costs, down payment, extra equity payment or refinancing costs _____

Line 2:..... Total Annual Expenses: _____

Line 1: Total annual Regular Monthly Expenses _____

Line 2: Total Annual Expenses + _____

*** Grand total of estimated annual housing expense: _____**

* Note: This is an estimated amount meant to assist in calculating your potential taxable income for federal and state income tax only. It is only an estimate. Actual taxes will be calculated on actual income minus actual substantiated, documented, housing allowance deductions. Please consult with a qualified tax accountant for more in-depth understanding of your tax liability.