



ABC's of Church Management Newsletter

MAY 2008

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This newsletter has been developed to provide compliance guidelines for local congregations concerning state and federal regulations. It is shared as a basic reference newsletter with the understanding that the publisher is not giving legal, financial, or other professional service/advice. The publisher acknowledges that the laws and regulations of each state may vary. If professional assistance is required, the services of a competent professional should be secured.

Mid-year Housing Allowance Adjustments

With almost half of the year already gone, it is a good time for pastors to review their housing allowance and make any necessary adjustments. The following will address several commonly asked questions regarding housing allowances.

Who is entitled to a housing allowance?

Ministers, who meet the test of qualifying services, are allowed to set aside a portion of the dollars they earn in ministry service for a housing allowance. IRS Publication 517 – “Social Security and Other Information for Members of the Clergy and Religious Workers” defines the test of qualifying services as:

- Ordained, licensed, or commissioned,
- Considered a spiritual leader,
- Performing sacerdotal functions (communion, baptism, foot-washing, baby dedication, etc.),
- Conducting religious worship, and
- Controlling, conducting, and maintaining religious organizations (including the religious boards, societies, and other integral agencies of such organizations) that are under the authority of a religious body that is a church or denomination. You are considered to control, conduct, and maintain a religious organization if you direct, manage, or promote the organization's activities.

How much of the pastor's salary can be set aside as housing allowance?

The IRS has established the limits of the housing allowance in the Article 4.10 “Interest/Dividends/Other Types of Income: Ministers’ Compensation & Housing Allowance.” The IRS states that:

“the exclusion cannot be more than the smaller of the following:

- The amount actually used to provide a home,
- The amount officially designated (in advance of payment) as a rental or housing allowance,
- The fair market rental value of the home, including furnishings, utilities, garage, etc., or
- An amount which represents reasonable pay for your services as a minister.”

It is recommended that all pastors acquire the fair market rental value of the home completely furnished including utilities. If the pastor sets their

housing allowance under this value, it should pass audit standards okay. The thing to remember is that a housing allowance cannot exceed the amount of ministry dollars earned.

Who sets the housing allowance?

The local congregation must designate (with input from the pastor) the amount of housing allowance in a resolution at a duly called meeting of the church governing board or church business meeting. The housing allowance needs to be set prior to January 1 but can be adjusted during the year in a new resolution at a duly called meeting of the church governing board or church business meeting. It is best to set an open-ended housing allowance so that the amount carries from year-to-year.

It is essential to understand that if a housing allowance is adjusted during the year, the amount is effective from that point forward and cannot be used retroactively. In other words, if the pastor realizes he/she is going to have to replace the air-conditioning system and their current housing allowance will not cover it, they should make the change to their housing allowance prior to the replacement of the air-conditioning system.

Richard R. Hammar's *Church & Clergy Tax Guide 2008*, gives the following example of a housing allowance resolution:

The following resolution was duly adopted by the board of directors of First Church at a regularly scheduled meeting held on December 15, 2007, a quorum being present:

Whereas, ministers who own their home do not pay federal income taxes on the amount of their compensation that their employing church designates in advance as a housing allowance, to the extent that the allowance represents compensation for ministerial services, is used to pay housing expenses, and does not exceed the fair rental value of the home (furnished, plus utilities); and

Whereas, Pastor John Smith is compensated by First Church exclusively for services as a minister of the gospel; and

Whereas, First Church does not provide Pastor John Smith with a parsonage; therefore, it is hereby

Resolved, that the total compensation paid to Pastor John Smith for calendar year 2008 shall be \$50,000, of which \$15,000 is hereby designated to be a housing allowance; and it is further.

Resolved, that the designation of \$15,000 as a housing allowance shall apply to calendar year 2008 and all future years unless otherwise provided.

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Is housing allowance taxable income?

No, a pastor's housing allowance should not be included in Box 1 of the pastor's Form W-2. It can appear in Box 14 of the pastor's Form W-2 but it is optional. Pastors are required to pay SECA tax on the housing allowance.

What items can be included in calculating a housing allowance?

The following items can be included: (*Church & Clergy Tax Guide 2008* – Richard R. Hammar)

- down payment on a home;
- payments (including prepayments) on a mortgage loan to purchase or improve your home (including both interest and principal);
- real estate taxes;
- property insurance;
- utilities (electricity, gas, water, trash pickup, local telephone charges, Internet access fees);
- furnishings and appliances (purchase and repair);
- structural repairs and remodeling;
- yard maintenance and improvements;
- maintenance items (household cleaners, light bulbs, pest control, etc.); and
- homeowners' association dues.

If you need more information about housing allowances see IRS Publication 517; IRS Publication 1828; Richard R. Hammar's *Church & Clergy Tax Guide 2008*; The Board of Pensions of the Church of God's Memo #10; or the Third Edition of the ABC's of Church Management Manual to be released June 20, 2008.

Third Edition of ABC's Manual to be Released

The Third Edition of the ABC's of Church Management Manual will be released in hardcopy and CD on June 20, 2008. This new edition will be covering:

Updated leadership styles; updated governance structures; updated directional statements; incorporation & bylaws; employee manuals; policy & procedure manuals; board or committee member responsibilities; treasurer responsibilities & internal controls; updated church & the law; updated church & the IRS, ministerial transition issues; conditional deeding; updated clergy & the law; updated clergy & the IRS; ethical practices; updated risk management; child protection; copyright laws; violence in the church; resolving church conflict.

Each individual block will also be available for purchase. For pricing or ordering contact Julie Nance at 812-945-3741.