

Housing Allowance Exclusion

The minister's housing allowance is the most important tax benefit available to a PCA minister.

Ordained and licensed PCA Ministers who live in a church owned manse, rent a home, or own a home may be eligible to receive a housing allowance.

With this benefit, a minister can exclude a portion of his income as a housing allowance under Section 104 of the Internal Revenue Code.

Housing Allowance Limitations

The IRS places limitations on the amount that can be designated as housing allowance. It is important for churches and ministers to be aware of these limits and to manage this benefit wisely. Each year a minister's housing allowance should be prospectively designated by his PCA church and noted in the Session minutes (i.e. designated in advance of the coming year, in December or earlier

and it cannot be designated retroactively). The tax code only requires that a church designate the housing allowance exclusion, not determine it, or inquire into its reasonability. Therefore, ministers themselves must calculate their anticipated expenses, and consult with their Session regarding the amount of the designation. Section 104 of the tax code lays out a framework for calculating the maximum amount that can be excluded by law. Sessions should keep this in mind when designating a minister's housing allowance. However, ministers themselves are responsible for keeping records to substantiate their actual housing allowance expenses, calculating the maximum amount of housing allowance they are eligible to exclude from their income, reporting any excess housing allowance as earned income on their personal tax returns, and paying any additional taxes. The tax code specifies that housing allowance is excluded from income only to the extent that it is used for one home, and falls within these guidelines:

- It cannot exceed the amount designated by the church.

- It cannot exceed the amount of actual expenses incurred in owning or renting a home.

- It cannot exceed the fair rental value of a home including furnishings plus utilities.

Designated Housing Allowance

Estimating expenses a full year in advance can be challenging. As previously stated, if actual expenses exceed the amount of housing allowance designated by the church, the minister will be limited to the amount designated by the church. For this reason, ministers should estimate liberally in the calculation of their housing allowances, and Sessions should be generous in their designations. After all, ministers should be allowed to maximize their use of this important benefit.

Actual Expenses

Most PCA ministers have one of three living arrangements. A) They live in a church owned manse; B) they live in a rented home; or C) they own their own home. The greater the personal stake you have in your living arrangement, the greater your housing allowance will be. Ministers living in a manse can exclude the following from their current income: utilities, furnishings, appliances, landscaping, yard maintenance, pest control, personal property insurance, umbrella liability insurance, and personal property taxes on contents. Ministers living in a rental home can count all of the previously mentioned exclusions, and they can also include rental housing payments. Ministers who own their own home can exclude the following for federal income tax purposes: utilities, furnishings, appliances, landscaping, yard maintenance, pest control, umbrella liability insurance, structural repair, down payment on a home, mortgage payments, homeowners insurance, home improvement loans, real estate taxes, real estate escrow and commission, and association dues. It is important that ministers review and compare their actual expenses to their designated expenses before they file their taxes. If the actual expenses are less than their designated expenses, ministers are limited to the amount of their actual expenses. Any excess between the actual expenses and the designated expenses must be declared as additional income and appropriate taxes should be paid.

Fair Rental Value

¹ Value typically places a cap or an upper limit on

how much Housing Allowance you can take. Since there are no authoritative sources that explain exactly how this value is to be calculated, you might consider the following suggestion: consider asking a local realtor or real estate appraiser to provide the church with a written estimate of how much a furnished house similar to the one you own and in your location would rent for on the open market. Some websites may allow you to determine the Fair Rental Value from the convenience of your home. If furnished home data is not available, calling a furniture rental company for assistance with estimating that cost may be helpful. Do not forget to include utility costs based on actual utility expenses. Regardless of your methodology, it is important to perform this step annually, especially in a climate of shifting property values.

