

UNDERSTANDING HOUSING ALLOWANCE

I get a lot of questions about housing allowance and how it works for ministers. Here's some information you may find helpful . . .

What is a Housing Allowance? Housing allowance is a portion of clergy income that may be excluded from income for federal income tax purposes under Section 107 of the Internal Revenue Code. To be eligible, the pastor/clergy must be a "minister of the gospel" and be ordained, licensed, or commissioned by a church, convention or association of churches.

How do I apply for Housing Allowance? As a District Affiliated Pastor you are eligible to receive housing allowance. You can do this by filling out the attached worksheet. Once it's complete mail to DRC, ATTN: Char Blair, 6051 S. Watt Ave., Sacramento, CA 95829 or scan and email to cblair@agncn.org. Your worksheet will be submitted to the Executive Committee for review. It will then be reported to the District Presbytery (the governing board for all District Affiliated Churches). It's imperative that your approved housing allowance be recorded in corporate minutes at the District Office.

How much should I designate as Housing Allowance? In determining the amount of the housing allowance designation, past experience is the best indicator, with an added "cushion" included for unanticipated expenses (i.e. repair or replacement of household appliances, etc.) Adding this cushion allows you to take full advantage of all federal tax savings. (Do keep in mind that designated housing allowance not used for household expenses becomes taxable. So, adding an excessive "cushion" may not be advisable.)

Do I have to submit a new worksheet each year? No, unless your designations change. Once your housing allowance is approved, it's good as long as you are pastoring the church. Your housing allowance can only be applied prospectively (it's not retro-active) that is why it's important to submit any changes in designation at the beginning of the year.

What type of housing expense records should clergy be keeping? Ideally, clergy should keep careful housing expense records to determine whether expenses are greater or less than the annual designation. Records are also important for estimating a reasonable housing allowance for the next year. Original receipts, invoices, canceled checks, charge card records, etc. are all essential. To simplify record keeping, some pastors find it helpful to have one charge card or bank account dedicated solely to household expenses, while others simply use the "shoe box" method of collecting all applicable receipts in one handy place.

What types of housing related expenses can be included in the housing allowance? While there is no list of allowance expenses provided by the IRS, it is understood that most reasonable household expenses can be included in the housing allowance. Some of these items include: down payment on a home, mortgage payments (including both interest and principal), home equity loan payments (assuming the loan proceeds are used for housing-related expenses), real estate taxes, homeowners'

association dues, property insurance, utilities, furnishings and appliances (including repairs), structural repairs, remodeling, yard maintenance and improvements, pest control, snow removal, maintenance items, and trash pickup. Note that the cost of food and/or clothing may not be included in the housing allowance. Also, housing-related expenses can only be included in the housing allowance for the year in which they are incurred.

How is the housing allowance reported for social security purposes? It is reported by the pastor on Schedule SE of Form 1040, line 2, together with salary. The District office will send Chaney & Associates a copy of your housing allowance so they will be aware of how to properly process your payroll (if you are receiving an income from the church).