

Housing for Your Pastor: Parsonage or Housing Allowance?

"Should we continue to provide a parsonage and utilities or should we change to a cash housing allowance and let our pastor buy his own home?"

This difficult question is asked often out of genuine concern for the pastor's dilemma at retirement, when he or she has no savings built up for a retirement home. The question becomes even more difficult to answer with the shift in the nation's economy and in each local economic situation. While there is no absolute, authoritative answer, the following list of advantages and disadvantages, which have become apparent to pastors and churches through actual experience, is offered to stimulate careful thinking and evaluation.

Pro Parsonage and Con Housing Allowance:

1. In some situations, there really is little choice. The parsonage may be connected to or adjoining the church building with no alternative for selling or renting. Unless used for Sunday School rooms, it remains the pastor's home.
2. Churches owning a parsonage may strengthen their ability to attract the pastoral candidate of their choice who may be unable or unwilling to buy a home.
3. In some areas, no property taxes are due on church-owned parsonages, which may mean less expense.
4. The church handles repairs and maintenance on the parsonage, thus freeing the minister from these time-consuming worries and expenses.
5. Often a parsonage is nicer than what a minister could afford to buy in the community.
6. Making a pastoral change is easier when moving from parsonage to parsonage, since securing temporary quarters is unnecessary for house hunting or waiting for occupancy.
7. When the parsonage is sold, the church loses a traditional and meaningful way of showing love and concern for the parsonage family.
8. Many ministers do not have sufficient funds for a down payment on a home.
9. The church that enters the loan business to "give" the pastor the down payment often bears the cost of low interest and little or no payment on the principal. There may be tax implications as well. State nonprofit corporation laws must be followed carefully. Some states may even prohibit such loans.
10. The loan situation is hopefully trouble-free, but awkward situations could develop.
11. Many homes appropriate for ministers' needs are out of their price range.
12. Very often the church cannot afford a housing allowance that fully covers all expenses including real estate taxes, fire and casualty insurance, upkeep, etc. It takes constant review and appropriate board action to keep pace with these inflationary costs.
13. In some locations, real estate can move slowly, if at all. Adequate housing may not be available for purchase when needed. Likewise, a home may not sell when it comes time for a pastoral change.
14. If the minister purchases the parsonage, any difference between purchase price and appraised value may be considered as taxable income.
15. Appreciation of property is assumed, but depreciation can be a reality due to natural and man-made disasters or economic conditions. Homes do not always sell at a profit. This is not a concern for the minister in a parsonage.

Pro Housing Allowance and Con Parsonage:

1. A housing allowance may solve the problem of having to build a new parsonage at today's costs, while at the same time help the pastor plan for retirement.
2. With a housing allowance, compensation planning may be more flexible, easier to compare, and simpler to budget.
3. Home ownership suggests permanency and may encourage longer pastorates.
4. A homeowner pays real estate taxes, thus having more voice in community affairs.
5. A minister buying a home gets to choose the kind, style, and location.
6. The minister's family may decorate as they wish - even remodel - without board action.
7. Home ownership becomes an important investment for the future, assuming each property appreciates in value and appropriate equity is established. This growing "earned equity" is portable as the minister relocates, allowing full proceeds to be taken to a new location.
8. Home-owning ministers get a double tax break. Within certain limits, the housing allowance used to provide and furnish a home is nontaxable income. In addition, mortgage interest and property taxes are deductible as itemized deductions. (See **"Who is a Minister for Tax Purposes?"** in the Servant Solutions' Treasurer's Toolbox to see who qualifies for this double tax break.)
9. A homeowner can sell a principal residence and may not be required to pay any tax on up to \$500,000 of profit. The exclusion can be used as frequently as every two years. To be eligible, the homeowner must have owned and occupied the home as a primary residence for at least two of the five years before the sale. (See [IRS Publication 523](#) for details.)
10. In the event of disability, death, or retirement, home ownership with adequate insurance generally means an immediate move is unnecessary.

Tax Implications

In addition to the above considerations the local church board should insist that tax implications be explored thoroughly before any decision is made. The following examples represent possible concerns:

- a. Extra care should be taken when a parsonage is to be given or sold to a minister at a value below the fair market value. The church may contend this is a "gift" and is not compensation. However, it is likely this would be challenged by the IRS, forcing the minister to pay taxes on the value of the "gift" or take the issue to a tax court.
- b. Where the church does make such a considerable "gift" to their minister without reporting it as compensation, the church may be jeopardizing or calling into question its tax-exempt status. In order to have such status, the assets of the corporation cannot accrue to the personal benefit of an individual other than as reportable compensation. Tax exempt organizations also must be careful that they are not paying "unreasonable" compensation to employees.
- c. Another concern involves the sale or rental of the parsonage. The church can be subject to taxation when it receives "unrelated business income." This possible interpretation of the tax laws should not go unexplored before a final decision is made.

Another Alternative

The above lists are not intended to be exhaustive. Hopefully, they will stimulate thinking in this complex area. Many statements are similar but have opposite impact when phrased from a different perspective.

Churches with strong financial resources may have no difficulty if they decide to sell their parsonage and provide a cash housing allowance. However, such a decision should be preceded by careful evaluation and in consultation with the church board, pastor, and tax advisor.

The church board that does not allow its minister to purchase his/her own home, but does provide an adequate parsonage and an allowance for parsonage furniture, etc., is still without an answer for their concern about the pastor's future retirement need. But, there is another alternative if the original question is rephrased, "How can we provide the pastor with an adequate salary now and an adequate retirement without selling the parsonage?"

This question can be answered much more easily. A local church may provide an equity allowance for their pastor by contributing additional amounts into the Servant Solutions Retirement Plan in the pastor's name.

Equity Allowance

- The church can contribute and tax-shelter this compensation.
- Interest or gain can be realized on contributions without incurring an immediate tax liability. No tax liability is incurred until funds are withdrawn by the participant.
- Withdrawals at retirement often are at a reduced tax rate or as a minister's tax-free "housing allowance."
- Numerous withdrawal options allow for maximum flexibility in retirement planning.

Disclaimer

The information contained in this Toolbox Series is of a general nature. It is not offered as specific legal or tax "advice." Each person and local church board should evaluate their own unique situation in consultation with their local legal and tax advisors.

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