

3 Common Myths of the Housing Allowance

By Raul Rivera

The minister's housing allowance is perhaps the best tax benefit afforded to pastors; however, it is also one of the most misunderstood tax benefits.

The logical approach to helping one better understand the minister's housing allowance is to start by explaining what the housing allowance is. However, with this blog I want to take a different approach.

Instead, to help you better understand what housing allowance is, I want to dispel three common myths of the minister's housing allowance by explaining what it is NOT.

Afterwards, I will provide you with some guidance on how to correctly calculate your housing allowance.

3 things the housing allowance is NOT

1. The minister's housing allowance is NOT additional or separate income to the pastor

The thought amongst many pastors, church administrators, and church boards is that the housing allowance is income in addition to the salary the pastor receives.

As a result, churches will provide the pastor with a separate check for the pastor's housing expenses.

In some instances, a church may pay the pastor's bills directly.

I believe this misunderstanding of the minister's housing allowance largely stems from the word "**ALLOWANCE.**" Because of this, it's easy to see how one may assume that the housing allowance is a separate portion of money given to pastors for their housing needs. Perhaps a better term to describe this benefit is a "**HOUSING EXCLUSION.**" The portion of a minister's salary that is properly designated as a housing allowance may be **excluded** from gross income and considered tax-free income.

2. The minister's housing allowance is NOT retroactive

This can often trip up ministers when they are establishing their housing allowances.

The truth about the minister's housing allowance is that it is NOT retroactive; it is only projective.

So what exactly does this mean?

In short, this means that if you wait until June to establish your housing allowance, you will NOT be able to include your housing-related expenses for the months of January through May as part of your housing allowance for that year.

For this reason it is best practice to have your board of directors approve and establish your housing allowance in December for the following year or as early in January as possible.

3. The minister's housing allowance is NOT exempt from all taxes

The minister's housing allowance is often promoted as tax-free income. And while that is, in essence, true, it is only true to a certain degree.

Let me explain.

The minister's housing allowance is a portion of a minister's income that is exempt from federal income tax.

However, if a minister has not "opted-out" of self-employment taxes, then the entirety of the minister's salary/income, including the portion designated as housing allowance, is subject to self-employment taxes.

How to correctly calculate your housing allowance

An important part of establishing and maximizing your housing allowance is understanding how to correctly calculate it.

The IRS Ministers Audit Technique Guide describes the limits placed on a minister's ability to exclude a housing allowance from gross income.

A minister may exclude no more than the lowest of the following amounts:

1. The amount used to provide a home;
2. The amount designated as a housing allowance; or
3. The fair rental value of the home, including furnishings, appurtenances (i.e. garage), and the cost of utilities.

It is a pastor's responsibility to calculate each of these amounts. (Our [Compensation Suite](#) provides you with a **housing allowance worksheet** to assist you with this process.) The next obvious question is, "What expenses can you include when calculating your housing allowance?"

In essence, your designated housing allowance may include all costs that are directly related to maintaining your home.

Some examples of qualified housing allowance expenses include:

- **Monthly payments:** mortgage and rent payments;
- **Taxes:** real estate taxes, personal property taxes;
- **Insurance:** homeowners, fire, flood, renters;
- **Home improvements:** new roof, home additions (i.e. garage, carport), fencing, landscaping, pool, deck, etc.;
- **Maintenance and repairs:** drapes, curtains, blinds, throw rugs, wallpaper, paint, molding, shelving, artwork, bedspreads, sheets, linens, towels, knick-knacks, etc.;
- **Utilities:** gas, electricity, water and sewer, garbage service, cable/satellite, internet, phone line, home security, etc.; and
- **Miscellaneous:** home cleaning supplies, brooms, mops, vacuums, light bulbs, home supplies, carpet/rug/drapery cleaning, landscaping services, lawn equipment and supplies, garden hoses, garden tools, etc.

Is there a limit to the minister's housing allowance designation?

Before concluding, I want to share a little-known tip regarding the amount of money your church designates as a housing allowance for you.

There is nothing in the tax code, treasury regulations, or other IRS publications that limits the amount that a church can designate as a housing allowance for a minister.

Therefore, the full amount (100%) of your salary from the church can be designated as housing allowance.

When doing this, however, the board of directors should indicate the actual amount of your total salary from the church in the board meeting minutes approving your housing allowance. The end result of designating the housing allowance in this manner is maximization of your housing allowance benefit.

One last thing - it is important to remember that while there is no cap on how much you can designate as housing allowance, what you are actually able to claim as housing allowance is subject to one of the three valuation methods mentioned above.

Do you need help with your housing allowance?

We make every effort to educate pastors and church leaders on the importance of understanding the minister's housing allowance in order to take full advantage of this tax benefit.

However, there is still much misunderstanding among pastors when it comes to this topic. If you want to learn more about how we can help, click below to find out more about our [housing allowance service](#).

If you want to make certain that you are properly setting up, calculating, and reporting your housing allowance, I encourage you to click on the link below or call us today at (855) 336-9830!

One of our knowledgeable team members is waiting to assist you.