

**LOCAL CHURCH**

**TREASURER**

**HANDBOOK**

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**SECTION 7**

**HOUSING ALLOWANCES**

**AND**

**HOUSING EXCLUSIONS**

Prepared for the  
Upper New York Conference  
Of the United Methodist Church

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## STATEMENT FROM YOUR CONFERENCE COMMITTEE ON FINANCE & ADMINISTRATION (CF&A)

The information provided in this Finance Committee – Section 7 of the Local Church Treasurer Handbook is meant to guide treasurers and financial stewards of local churches and clergy with information on setting housing allowances and housing exclusions.

Many documents within this section of the guide have been utilized from the General Council on Finance and Administration for the United Methodist Church (GCFA) website ([www.gcfa.org](http://www.gcfa.org)). Please check that website frequently for the latest information.

If you have any questions about any of the documents or issues discussed within this document, please contact a member of the Upper New York Conference CF&A directly.

The Upper New York Conference is not engaged in providing legal or accounting advice or services. The service of a competent professional should be sought for legal and tax advice.

Thank you.

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## WHAT IS A HOUSING ALLOWANCE/HOUSING EXCLUSION?

A housing allowance is an amount paid by the church in addition to base salary  
A housing exclusion is an election by the clergy to exclude some salary as housing (is not an additional amount paid by the church)

- Both are excludable from gross income for income tax purposes.
- Designed to be a portion of clergy's compensation package designated by their church to provide housing
- Excluded from gross income for federal income tax purposes
- Is an exclusion from income, not a deduction, and still remains subject to social security taxes.
- To be excludible, amount designated by employer must be used to provide housing, including, but not limited to, expenses for rental of a home, mortgage, furnishings, utilities, and even some home repairs.
- It may be possible for clergy to exclude the entire cost of owning, renting and/or furnishing a home from his or her gross income

### IRS LIMITATIONS

#### A. Amount designated as housing allowance by church or salary paying entity

Example: Total salary of \$45,000 - **\$10,000** designated as housing allowance

Pastor owns home and determines fair rental value of home plus utilities is **\$12,000** per year. At end of year, actual housing expenses are **\$12,000**.

The \$10,000 is compared to the \$12,000 and \$12,000. Only \$10,000 can be excluded because it is the lesser of the three

#### B. Amount of actual housing expenses

Example: Total salary of \$45,000 - **\$10,000** designated as housing allowance

Pastor owns home and determine fair rental value plus utilities is **\$10,000**. At end of year, actual housing costs of **\$8,000**.

The \$10,000 is compared with the \$10,000 and the \$8,000. Only \$8,000 can be excluded for federal income tax purposes (the lesser of the three). The "unused" \$2,000 of housing must be included in pastor's gross income.

#### C. Fair Rental Value of property (furnished, plus utilities)

Example: Total salary of \$45,000 - **\$20,000** is designated as housing allowance

Pastor owns home and determines fair rental value is **\$12,000**. At end of year, determines actual housing related expenses are **\$15,000**.

The \$20,000 is compared with the \$12,000 and the \$15,000. Amount that can be excluded from gross income is \$12,000 (the lesser of the three).

## DETERMINING HOUSING ALLOWANCE

Pastor and church should work together to determine a reasonable amount

- The designation must be made before the pastor is paid for the work. As an example, if the pastor starts work July 1<sup>st</sup>, but a housing exclusion for \$6,000 (\$1,000 per month) isn't completed and approved until September 1<sup>st</sup>, only the expenses from September 1<sup>st</sup> – December 31<sup>st</sup> could be counted toward the housing exclusion.
- A Housing Resolution must be adopted. This is done by the church/charge conference adopting a housing allowance resolution prior to each calendar year (or prior to the arrival of the new pastor). It must be recorded in the minutes of the meeting. If there is language in the resolution providing that it will remain in effect for future years unless otherwise modified, it would stay in place until it is changed. It is best not to adopt a specific percentage of compensation as housing, but to estimate anticipated expenses for the coming year and set housing accordingly.
- Pastor completes a form (estimating his or her housing-related expenses for the year.

-- it is always a good idea to designate an amount slightly more than what is computed, as a buffer –

If costs are estimated at \$4,000, then exclude \$5,000. Any "unused" designation would simply become salary as it would have been any way.

## TYPES OF HOUSING-RELATED EXPENSES

Items that can be included such as:

- Down payment on home
- Mortgage
- Interest on mortgage payment
- Home equity loan payments (assuming proceeds are used for housing related expenses)
- Real estate taxes
- Property insurance
- Furnishings

- Appliances (including repairs)
- Structural repairs (such as roof)
- Remodeling
- Yard improvements
- Snow removal
- Maintenance items
- Utilities (which can include internet, garbage collection, cable television and streaming services, pest control and lawn care)

Items that are excluded:

- Cost of food, toiletries, closing and maid service.

#### COMPUTATION OF W-2 SALARY

- Salary of \$50,000
- Housing allowance of \$15,000 (which equals actual housing and fair rental value)
- Total cash paid to clergy \$65,000
  - Box 1 of W-2 (federal wages) is \$50,000
  - Box 14 shows the HOUS of \$15,000
  
- Salary of \$50,000
- Housing allowance of \$15,000
- Clergy elects an additional \$5,000 in housing exclusion
- Total cash paid to clergy remains at \$65,000
- Total housing costs are \$20,000 (\$15,000 plus \$5,000)
  - Box 1 of W-2 (federal wages) is \$45,000
  - Box 14 shows the HOUS of \$20,000

#### TAX CONSEQUENCES

The amount reported in Box 1 of the W-2 is subject to federal and state income taxes plus self-employment taxes (Social Security and Medicare)

The amount reported in Box 14 of the W-2 is subject only to self-employment taxes (Social Security and Medicare)

For additional information and FAQs, please consult the Clergy Housing Allowance Explained on [www.gcfa.org](http://www.gcfa.org) (<https://www.gcfa.org/media/2879/housing-allowance-combined-docs.pdf>)