

Housing Allowances

As defined by the Board of Pensions, a housing allowance is an elective portion of an individual member's compensation package and includes any amount paid as a housing allowance (including utilities and furnishings). For this reason, it is included as part of effective salary. The housing allowance amount is designated annually by the session or employing organization in advance of payment, meaning the allowance must be approved by official channels and once a contract is signed or renewed annually, the housing allowance cannot be changed for that year. The housing allowance also can mean in-kind benefits such as a manse (see below).

Effective salary also includes any amount designated as housing allowance and used to pay rent to the employing organization. Rent reported as housing allowance for the employer-provided housing is the fair market value of the housing as determined annually through appropriate means.

PNCs may use the link below to help them establish housing allowances. The Fair Market Rent (FMR) for a 2-bedroom apartment should be the number used as a guide until the PNC can get the opinion of two local realtors (what our policy requires). This number or 30% of salary, whichever is greater should be used.

<http://www.huduser.org/datasets/fmr.html>

In the search box on the HUD site, type in FMR to find updated information. It looks overwhelming, but scroll down to get actual calculations done for you!

The Parsonage Allowance (taken from the IRS site)

IRC § 107 provides an exclusion from gross income for a "parsonage allowance," housing specifically provided as part of the compensation for the services performed as a minister of the gospel. This includes the rental value of a home furnished to him or her as part of compensation or a housing allowance, to the extent that the payment is used to rent or provide a home and to the extent such allowance does not exceed the fair rental value (FRV) of the home, including furnishings and appurtenances such as a garage and the cost of utilities. IRC § 107(2). The term "parsonage allowance" includes church provided parsonages, rental allowances with which the minister may rent a home and housing allowances with which the minister may purchase a home. A minister can receive a parsonage allowance for only one home.

A housing allowance must be included in the minister's gross income in the taxable year in which it is received to the extent that such allowance is not used by him during the taxable year to rent or otherwise provide a home or exceeds the FRV of the home including furnishings and appurtenances such as a garage and the cost of

utilities. Treas. Reg. § 1.107-1(c) and IRC § 107(2). The value of the “allowed” parsonage allowance is not included in computing the minister's income subject to income tax and should not be included in W-2 wages. However, the parsonage allowance is subject to self-employment tax along with other earnings. IRC § 1402(a)(8). (See special rules for retired ministers below). If a church-owned parsonage is provided to the minister, instead of a housing allowance, the fair rental value of the housing must be determined. Determining the fair rental value is a question of all facts and circumstances based on the local market, but the church and minister have often already agreed on a figure and can provide documentary evidence.

The exclusion under IRC § 107 only applies if the employing church designates the amount of the parsonage allowance in advance of the tax year. The designation may appear in the minister's employment contract, the church minutes, the church budget, or any other document indicating official action. Treas. Reg. § 1.107-1(b).

An additional requirement for purposes of IRC § 107 is that the fair rental value of the parsonage or parsonage allowance is not more than reasonable pay for the ministerial services performed.

The amount of the parsonage allowance excludible from gross income is the LEAST of:

1. The amount actually used to provide a home,
2. The amount officially designated as a housing allowance, or
3. The fair rental value (FRV) of the home, including furnishings and appurtenances such as a garage plus the cost of utilities. IRC § 107(2).

Tax Issues

Once your pension begins, the benefit is taxable under federal and some state tax laws. The Board of Pensions reports your pension benefits to the IRS on Form 1099-R.

When you apply for your pension, you designate your tax withholding rate. To change your rate, complete the Tax Withholding Election form. Allow one to two pay cycles for the change to take effect.

Housing Allowance Exclusion

If you are a teaching elder, you may exclude the portion of your pension used for housing-related expenses. The amount excluded from gross income cannot be more than

- your actual expenses for housing; or

- the fair rental value of your residence.

This housing allowance is described in the Tax Guide for Ministers booklet provided to teaching elders each January. The housing allowance letter included in this booklet designates your entire pension as a housing allowance to the degree allowed by law.

The Board of Pensions [Tax Resource Center](#) offers additional information, including a recording of the most recent tax tips web module.

We encourage you to review IRS Publication 517: Social Security and Other Information for Members of the Clergy and Religious Workers. You can get a copy on the IRS website or by calling the IRS at 800-829-3676.

Resources:

1. *Understanding Effective Salary*, PCUSA Board of Pensions booklet. <https://www.pensions.org/AvailableResources/BookletsandPublications/pin-103.pdf#search=understanding%effective%salary>

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