

Parsonage/Housing Allowance Information

As a minister you have the option to not pay federal income tax on the amount of your compensation that is designated in advance by your church as a "parsonage/housing allowance". This allowance however, is subject to social security and medicare taxes.

Dual-status minister

In order to qualify for a parsonage/housing allowance you must be considered a dual-status minister. Dual-status means that you are an employee for income reporting, fringe benefits, and expense deducting purposes and self-employed for social security purposes.

Are You Entitled to the Parsonage/Housing Allowance Exclusion?

There are three circumstances that need to be true in order for you to be eligible for the parsonage/housing allowance exclusion:

1. Are you employed by a church or an integral agency of a church?
2. Are you performing ministerial services?
3. Are you credentialed by a church or "the equivalent thereof"?

What qualifies as a Parsonage/Housing Allowance Expense?

A parsonage/housing allowance includes anything spent to provide a home for a dual-status minister and his/her family, expenses for the house, its contents, the garage, and the yard.

1. Rent or principal payments, cost of buying a home, and down payments.
2. Real estate taxes and mortgage interest for the home. These expenses are deductible again as itemized deductions.
3. Insurance on the home and/or contents.
4. Improvements, repairs, and upkeep of the home and/or contents. Such as a new roof, room addition, carpet, garage, patio, fence, pool, appliance repair, etc.
5. Furnishings and appliances: dish washer, vacuum sweeper, TV, VCR, DVD, stereo, piano, computer (personal use), washer, dryer, beds, small kitchen appliances, cookware, dishes, sewing machine, garage door opener, lawnmower, hedge trimmer, etc.
6. Decorator items: drapes, throw rugs, pictures, knick knacks, painting, wallpapering, bedspreads, sheets, towels, etc.
7. Utilities - heat, electric, non-business telephone, water, sewer charge, garbage removal, cable TV, non-business internet access, etc. (Show long distance business telephone calls, the business % of cellular phone and internet access usage as a professional expense. Both income tax and self-employment tax will be reduced.)
8. Miscellaneous - any thing that maintains the home and its contents that you have not included in repairs or decorator items: cleaning supplies for the home, brooms, light bulbs, dry cleaning of drapes, shampooing carpet, expense to run lawnmower, tools for landscaping, garden hose to water lawn, etc.

Do Not Include the following: Maid (or any labor hired for maintenance such as lawn care), groceries, personal toiletries such as toothpaste, shampoo, deodorant, laundry and dish soap, paper products, personal clothing, coats, shoes, jewelry, toys, bicycles, hobby items, cassette tapes, CD's, computer games, computer application software, VCR movies, etc. When a cellular phone is used outside of the home, do not use the personal portion as parsonage allowance.

How Much of a Minister's Salary Can Be Designated?

The "top limit" that can be claimed by a minister as parsonage/housing allowance exclusion is based on his/her furnished home's fair rental value plus the cost of utilities.

A rule of thumb is that the fair rental value of a home (without furnishings) amounts to 1% of the appraised fair market value per month. Then you need to add in your rental value of furnishings, utilities payments and miscellaneous items. A worksheet (attached) can be used to figure your allowance.

For a minister who is serving part-time and is not fully supported by the employer, it is possible to designate all or 100% of his/her salary as parsonage/housing allowance.

Ministers who own their own homes will want to designate an amount to cover the total cost of owning, cost of furnishings, cost of decorating, utilities, etc.

Ministers who rent their homes will want to designate an amount to cover the actual rent paid, cost of furnishings, cost of decorating, insurance, utilities and etc

Designating your Parsonage/Housing Allowance

The amount designated as parsonage/housing allowance must be a specific dollar amount or a specific percentage of salary and this designation should be recorded in the minutes of the church board or congregational meeting in advance of the deduction. Because the IRS will accept a perpetually worded designation, it is recommended that you use a perpetual clause as a safety net. See second resolution on the two suggested official designations. However you should plan annually and consider if the amount designated needs to be modified for the coming year.

Suggested Wording of the Official Designation

****When the Church Owns the Parsonage***

The chairman informed the meeting that under the tax law, a minister of the Gospel is not subject to federal income tax on "the parsonage/ housing allowance" paid to him as a part of his/ her compensation to the extent used by him to rent or provide a home.

The parsonage is owned by the church and the actual utility expenses will be paid by the church. After considering the estimate of Rev. _____ of his/ her additional home expenses, a motion was made by _____, seconded by _____ and passed to adopt the following resolution: Resolved that of the total cash salary for the year _____, \$ _____ is hereby designated as parsonage/ housing allowance. Resolved that as long as Rev. _____ is our employee the above amount of designated parsonage/ housing allowance shall apply to all future years until modified.

****When A Minister Owns Or Rents His/Her Own Home***

The chairman informed the meeting that under the tax law, a minister of the Gospel is not subject to federal income tax on "the parsonage/ housing allowance" paid to him as part of his compensation to the extent used by him to rent or provide a home.

After considering the estimate of Rev. _____ of his/ her home expenses, a motion was made by _____ seconded by _____ and passed to adopt the following resolution: Resolved that of the total cash salary for the year _____ \$ _____ is hereby designated as parsonage/ housing allowance. Resolved that as long as Rev. _____ is our employee the above amount of designated parsonage/ housing allowance shall apply to all future years until modified.

**from Worth's Income Tax Guide for Ministers*

www.worthfinancial.com

WORKSHEET TO BE USED WITH FORM 2106

Year _____

Name _____	Social Security Number _____	Filed Form 4361? Yes <input type="checkbox"/> No <input type="checkbox"/>
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Part A - Computation of Business Expenses • Use this section in conjunction with Form 2106 (or 2106-EZ) or to figure your net social security base.

Auto Expense	Vehicle 1	Vehicle 2	Local Travel Expense	Amount	Professional Expense	Amount
1. Total Miles Driven			23. Parking		40. Business-In-Home	
2. Total Business Miles			24. Tolls		41. Education Expense	
3. % of Business Use (Line 1/Line 2)	%	%	25. Fares		42. Equipment Depreciation	
4. Lease Payments			26. Total		43. Office Supplies & Postage	
5. Inclusion Amount			<small>Enter on Form 2106-EZ, Part II, Ln 2 or Form 2106, Part I Ln 2</small>		44. Religious Materials	
6. Subtract Line 5 from Line 4			Overnight Travel Exp.		45. Seminars & Dues	
7. Gas, Oil, Lubrication			Amount		46. Subscriptions & Paperbacks	
8. Repairs			27. Auto Rental, Taxi		47. Business Telephone & Internet Use	
9. Tires & Batteries			28. Fares (air, train, bus)		48. Gifts	
10. Insurance & Auto Club			29. Parking & Tolls		49. Other	
11. Miscellaneous			30. Laundry & Cleaning		50. Total	
12. Washing & Polishing			31. Lodging		<small>Enter on Form 2106-EZ, Part II, Ln 4 or Form 2106, Part I Ln 4</small>	
13. License (Registration Only)			32. Telephone, Postage, Fax, etc.		Unreimbursed Expenses	
14. Add Lines 6 through 13			33. Tips other than meals		Amount	
15. Multiply Line 14 by Line 3			34. Total		51. Auto Expense (Ln 17 or Ln 18)	
16. Depreciation			<small>Enter on Form 2106-EZ, Part II, Ln 3 or Form 2106, Part I Ln 3</small>		52. Local Travel (Ln 26)	
17. Total Actual Exp (Line 15 + 16)			Meals & Entertainment		53. Overnight Travel (Ln 34)	
18. Optional Method (Line 2 x Standard Mileage Rate)			Amount		54. Professional Expense (Ln 50)	
19. Interest			35. Meals Away Overnight		55. Total of Lines 51 through 54	
20. Personal Property Tax			<input type="checkbox"/> Actual <input type="checkbox"/> Per Diem		56. Reimbursement for Auto, Travel, & Prof.	()
21. Line 19 + Line 20			36. Entertainment Meals		57. Unreimbursed Auto Travel & Prof (Ln 55-Ln 56)	
22. Line 21 x Line 3 (To Line 6 of Social Security Base Computation)			37. Entertainment, Other		58. Meals & Entertainment (Ln 39)	
			38. Tips for Meals		59. Reimbursement for M & E	()
			39. Total		60. Unreimbursed M & E (Ln 58 - Ln 59)	
			<small>Enter on Form 2106-EZ, Part II, Ln 5 or Form 2106, Part I Ln 5</small>		61. Deductible M&E (1/2 of Ln 60)	
					62. Total Unreimbursed Exp (Ln 57+Ln 61)	

Part B - Unreimbursed Expense Allocation (Sec. 265)

Use if Filing Form 2106 or Sch. C or C-EZ and claiming expense deductions

	A. Taxable Compensation	B. Total Compensation
1. Wages from W-2		
2. Unused Parsonage Allowance		
3. Parsonage Allowance Designated		
4. FRV of Parsonage Provided		
5. Gross Income / Sch C or C-EZ		
6. Recapture of Auto Depreciation		
7. Total for Columns A & B		
8. Inclusion Percentage (Ln 7 Col. A Divided by Col. B)		%

Employee Business Expenses	Amount
9. Expense from Form 2106-EZ, Ln 6 or Form 2106, Ln 10	
10. Inclusion % from Ln 8	%
11. Deductible Expenses to Sch A, Ln 20 (Ln 9 x Ln 10)	
12. Expenses Disallowed (Ln 9 - Ln 11)	

Sch C or Sch C-EZ	Amount
13. Total Expense from Sch C or C-EZ	
14. Inclusion % from Ln 8	%
15. Deductible Expense (Ln 13 x Ln 14)	
16. Expenses Disallowed (Ln 13 - Ln 15)	

Part C - Computation of Social Security Base

If exempt, omit

	Amount
1. Salary from W-2	
2. Value of Parsonage Provided	
3. Parsonage Allowance (Part D, Ln 16)	
4. Recapture of Auto Depreciation	
5. Less Business Portion of Tax Prep	
6. Less Business % of Auto Int & Tax (Part A, Ln 22)	
7. Less Disallowed Exp on Sch C (Part B, Ln 16)	
8. Less Unreimbursed Bus Exp (Form 2106 or Part A, Ln 62)	
9. Total (Enter on Sch SE)	

Part D - Computation of Parsonage Allowance

If you own your home, use both Columns A & B. Otherwise, use Column B only.

	First Home		Second Home	
Value of Parsonage Provided by Church	\$		\$	
FMV of Home Owned	\$		\$	
	Column A FRV Computation	Column B Expenses Paid by Minister	Column A FRV Computation	Column B Expenses Paid by Minister
1. Fair Rental Value of Home Owned				
2. Fair Rental Value of Furnishings				
3. Rent Paid				
4. Closing Costs / Downpayment				
5. Principal Payments				
6. Real Estate Taxes				
7. Mortgage Interest				
8. Insurance				
9. Repairs & Upkeep				
10. Furniture, Appliances, etc.				
11. Decorator Items				
12. Utilities				
13. Miscellaneous Supplies				
14. Total				
15. Lesser of Line 14, Column A (if applicable) or Column B				
16. Amount Designated Pension <input type="checkbox"/>				Pension <input type="checkbox"/>
<small>(Pension not subject to Self-Employment tax)</small>				
17. If Line 16 is greater than Ln 15, enter the difference here and as income on Form 1040, Line 7; or If amount designated is included in error on W-2, enter the lesser of Line 15 or Line 16 as a deduction on Form 1040, Line 21				

Sample Worksheet

Part D - Computation of Parsonage Allowance

If you own your home, use both Columns A & B. Otherwise, use Column B only.

	First Home		Second Home	
	Column A FRV Computation	Column B Expenses Paid by Minister	Column A FRV Computation	Column B Expenses Paid by Minister
Value of Parsonage Provided by Church	\$ 115,000		\$	
FMV of Home Owned	\$		\$	
1. Fair Rental Value of Home Owned	13,800			
2. Fair Rental Value of Furnishings	4,500			
3. Rent Paid				
4. Closing Costs / Downpayment				
5. Principal Payments		835		
6. Real Estate Taxes		1,182		
7. Mortgage Interest		8,081		
8. Insurance		340		
9. Repairs & Upkeep		793		
10. Furniture, Appliances, etc.		1,409		
11. Decorator Items	463	463		
12. Utilities	2,738	2,738		
13. Miscellaneous Supplies	642	642		
14. Total	22,143	16,483		
15. Lesser of Line 14, Column A (if applicable) or Column B		16,483		
16. Amount Designated				
Pension <input type="checkbox"/>				
(Pension not subject to Self-Employment tax) <input type="checkbox"/>		24,000		
17. If Line 16 is greater than Ln 15, enter the difference here and as income on Form 1040, Line 7; or If amount designated is included in error on W-2, enter the lesser of Line 15 or Line 16 as a deduction on Form 1040, Line 21				
		7,517		

Sample W-2

a Control number	22222	Void <input type="checkbox"/>	For Official Use Only ▶ OMB No. 1545-0008			
b Employer identification number	48-0564355	1 Wages, tips, other compensation		2 Federal income tax withheld		
Employer's name, address, and ZIP code		\$ 10564		\$		
Western District Conference PO Box 306 North Newton, KS 67117		3 Social security wages		4 Social security tax withheld		
		\$		\$		
		5 Medicare wages and tips		6 Medicare tax withheld		
		\$		\$		
		7 Social security tips		8 Allocated tips		
		\$		\$		
d Employee's social security number	584-56-8923	9 Advance EIC payment		10 Dependent care benefits		
		\$		\$		
e Employee's first name and initial	Mary	11 Nonqualified plans		12a See instructions for box 12		
Last name	Schmidt	\$		\$		
3495 Oak Newton, KS		13 Statutory employee <input type="checkbox"/> Retirement plan <input type="checkbox"/> Third-party sick pay <input type="checkbox"/>		12b		
				\$		
		14 Other		12c		
		Housing		\$		
		8,500		12d		
				\$		
f Employee's address and ZIP code						
15 State Employer's state ID number	KS 036480564355F01	16 State wages, tips, etc.	\$	17 State income tax	\$	
			\$	18 Local wages, tips, etc.	\$	
			\$	19 Local income tax	\$	
			\$	20 Locality name		

Form **W-2** Wage and Tax Statement

2003

39-1908647 Department of the Treasury—Internal Revenue Service
For Privacy Act and Paperwork Reduction Act Notice, see separate instructions

Copy A For Social Security Administration—Send this entire page with Form W-3 to the Social Security Administration; photocopies are not acceptable.