

7 Common Housing Allowance Tax Mistakes for Ministers

Written by Keith Hamilton

No one in the entire tax code of the IRS is treated like a minister for tax purposes. Contrary to popular belief, the average minister pays more than his fair of payroll taxes. To help offset the additional payroll taxes the minister incurs, the IRS allows a church to designate part of the minister's salary as a housing allowance. The housing allowance is a unique benefit for the ministers, but several common tax mistakes are made by ministers.



The following checklist contains some of the tax mistakes churches and ministers make concerning a housing allowance.

1. The social security self-employment tax should be paid by the minister on his housing allowance.

The IRS requires the SECA tax to be paid not only on the housing allowance, but if the minister lives in a parsonage, the SECA tax must be paid on the fair rental value of the parsonage.

2. The IRS requires the church to have a legal basis for establishing a minister's housing allowance.

Therefore, the minister should provide annually to the church an estimate of his housing expenses for the coming church year. The annual estimate helps protect the church from any questionable legal opinion in establishing a housing allowance.

3. If the minister is audited by the IRS, the minister, not the church, will have to provide actual receipts to prove he spent his housing allowance on housing expenditures.

The housing allowance receipts should be kept seven years to provide documentation for the IRS.

4. The housing allowance that a minister is allowed to be claim on his income tax return is limited to the lesser of the ...

(1) fair market rental value of the home (including furnishings, utilities, garage, etc.); or
(2) the housing allowance amount officially designated by the church; or
(3) the actual amount of expenses used by the minister to provide a home. The housing allowance will always be the lower of these three items.

5. A housing allowance can be changed by the church or church approved committee anytime during the church year for future housing expenses of a minister.

If the minister needs to increase his housing allowance, then the minister should request the church to increase his housing allowance before additional housing expenses are incurred. The housing allowance cannot be amended at the close of the church year.

6. The housing allowance cannot exceed the reasonable pay for the services of the minister.

The church or church-approved committee can designate up to 100 % of a minister's salary and other taxable income from the church as a housing allowance.

7. The housing allowance can only be claimed on a minister's primary residence, not a second home.

The primary residence is the place where the minister is currently living and spending the majority of nights.

The ministerial housing allowance is a great benefit provided by the church to help reduce the minister's payroll tax liability. If used properly, the minister can benefit greatly and reduce his tax burden.

About Dr. Hamilton

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