

# **The Pastor's House**

## **The Invaluable Housing Allowance**



**Includes Special Section on  
The Pastor's Retirement Housing Allowance**

**1<sup>st</sup> Edition**

Janet V. Kennedy-Jacobs

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### **Includes Special Section on The Pastor's Retirement Housing Allowance**

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All rights reserved. No part of this publication may be reproduced, stored in a retrieval system, or transmitted in any form by any means whether electronic, mechanical, photocopying, scanning, recording or any other method by any other method. This publication is presented in recognition of the need for Pastors and Church Officers to have the correct treatment of the housing allowance for proper tax and financial planning. It is also designed with regulatory compliance not only to protect the Pastor but the Church officers as well. The subject matter presentation in this manual is not intended to be exhaustive in any way, but rather to serve as a quick reference resource for pastoring clergy to maintain their housing allowance. It is not intended to substitute for professional advice. Neither is it intended to substitute for income tax planning or advice. Individual application should be made with the help of a professional in the field of clergy tax and financial planning and knowledgeable of your total picture.

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## **Foreword to Clergy**

This book is written in recognition and importance of your contribution to the Body of Christ. It is designed as a “quick reference” only, to assist busy clergy. As a person that has served clergy and churches over 25 years, I understand many of the nuances and complexities of the tax code that pertain to and affect the lives of clergy and their families.

I was introduced to service of clergy tax and compensation planning in a most unique way. My educational and professional background is an accounting degree, corporate finances, income tax preparation, teaching accounting to adults in evening school; designed and taught a clergy tax course in bible college, but **not** looking for a career in the field. I have prepared church payroll for over 25 years.

I was taught as a child to “reverence” God’s church and pastor’s. I remember living across the street from Mt. Calvary Baptist Church and I wouldn’t even make noise in front of my house. I lived not too far from the Pastor’s house and I wouldn’t talk or laugh loud as I passed by his house.

Perhaps God’s master plan was in place all along as I am passionate about serving clergy. I understand their role in Kingdom building and am privileged to serve them in the capacity of tax preparation and other related financial planning matters. Hence this publication.

I am honored to have served clergy from several different denominations: Baptist, Methodist, PCOC, PAW, CLJCAF, COGOP, etc. I have served at national, state and local levels. During my tenure, I have learned that the IRS considers clergy to be a “class” of the tax paying public. Few denominational considerations are noted at the federal level. My role is to level the plain field so pastor’s will be “safe” in their tax preparation; properly cared for in the church’s financial planning for them; and to give them a sense of direction and peace of mind on these matters. I would consider this publication to be a manifestation of the mission that was assigned to me long before I knew there was a mission. *“Nobody cares how much you know until they know how much you care.”*

Pastoring clergy are in a peculiar position regarding their relationship with the churches they pastor. Whereas pastors realize their position in the church is “spiritual” and they are “hired” or “called” to serve, they are in a precarious position of remaining "spiritual" and still advocate for themselves economically. Pastors are

people too. Pastors have families also. Pastors have financial concerns as well as any other head of household.

So it is a real mentally and emotionally balancing act for pastors to advocate for themselves. This speaks to churches having a pastoral compensation committee to look out for them. This committee can communicate with the Pastor periodically to make sure he/she is comfortable with their compensation package and to make sure there are no major concerns or new issues that need to be addressed. Someone on the committee should be aware of or have the guidance of regulations that pertain to clergy. If not, engage a professional as an advisor.

To complicate matters, clergy have a “dual status” in the federal revenue statutes. They are classified as an employee for federal filings (but not like regular employees); as self-employed for the purpose of social security and Medicare; (but may exempt themselves within an allowable time frame). Pastoring clergy are “subject” to the limited knowledge of the rules and regulations that pertain to them. However, in their defense the rules are complicated and not easy to understand. Still further, it seems few bible colleges and seminaries address these very important issues. Prayerfully, this publication will shed some light and be a blessing.

Even though the housing allowance provision is not denominationally based, it is implemented somewhat differently within denominations. The language of this document lends itself mainly to independent church organizations. Each clergy should check the treatment and application of this great benefit within the provisions and guidelines of its particular denomination.

Finally, this publication is designed as a “quick reference” for the clergy reader. It is not designed as an “all there is to know” on the subject. Be diligent. Know what affects your ministry and livelihood.

Yours in service,  
Janet V. Kennedy-Jacobs  
The Church Business Consultant®

## **Publisher's Note**

The clergy (pastoral) housing allowance is one of the biggest and most important benefits in pastoral compensation planning. Depending on the actual circumstances, the pastoral housing allowance may be the biggest budget item in the preparation of the pastor's pay. This publication is designed as a "quick reference", not an exhaustive study on the subject.

Basic requirements to put a housing allowance in place are as follows:

- The allowance must be in writing
- The allowance must be adopted by the church board and/or congregation
- The allowance must be prepared and designated "in advance" of the calendar year or period in which it becomes effective.

It is important that church officer's do not set a pastoral housing allowance that is unreasonable for the pastor. A suggestion would be for the pastor to submit a budget of their expected expenses as a part of their compensation planning with the church. This way the church does not have to "guess" an appropriate amount. A realistic and relative projection also helps the employing church better allocate the compensation amounts between housing and salary. Once the allocations between housing and salary are set, there is no "retroactive" redistribution for the current year, however, there is always a "proactive" option to change the allocation going forward in the current year, but it is rarely done in practice. **The housing allowance is required to be updated annually.**

There are many situations and scenarios to prepare a housing allowance, but based on my many years of serving clergy, the most common arrangement is the Pastor providing his/her own residence. This presentation does not purport to address all of the considerations in the planning of a pastoral housing allowance. However, it will provide a general reference and encourage further study

This publication will also briefly address the importance of retiring clergy and the benefit of a retirement housing allowance. In reality, there are career pastors still in active service because they cannot "afford" to retire. They were not employed outside of the church; did not invest in a 403(b) and did not exercise the diligence of saving. Even worse, there are clergy that did not file form 1040SE with their annual income tax return which is how their social security account is funded for retirement. Still other clergy permanently "opted out" of social security and Medicare early in their ministry to escape the double impact of the self-employment tax.

A saving grace could be for a church to award a “**retirement housing allowance**’ to a long term pastor needing to retire. Most are aware of the housing allowance exclusion during active service as pastor under IRC§Sec.107, but it is not widely known there is retirement housing allowance available for retirement according to IRS Rev. Rul. 63-156 **IF** the same requirements are met, meaning the amounts are (pre-designated) to the minister as part of his/her compensation AND does not exceed the fair rental value of the home **or** the actual (allowable) expenses incurred or expected to be incurred. ***In other words, a retired minister can designate a retirement housing allowance as a part of his/her retirement compensation that represents compensation for past services.*** A church can include this provision in their bylaws and/or make a special election via a board designation as the situation requires.

***...it is not widely known there is a housing allowance available for retirement as per Rev. Rul. 63-156 IF the same requirements are met...***

**Regulatory considerations:** It is important to note that whereas, the housing allowance is exempt from federal income tax; it is wholly subject to social security and Medicare in the annual reconciliation of the clergy taxpayer’s income tax return on IRS Form 1040SE. This is the form that reports and updates a person’s individual account with the SSA. Regulations require clergy to pay into their social security from their clergy income via IRS Form 1040 SE. So clergy that use commercial tax preparation services should check their annual income tax return to be sure it includes an IRS Form 1040SE. (This, of course, assumes that you did not opt out early in your ministry.)

**Publisher’s Recommendation:** Every clergy should access their account with the Social Security Administration to be sure their account is being recorded and updated annually by the Social Security Administration. While it is true that the SSA is extremely diligent, there are oversights. So I recommend that each clergy be diligent on their own behalf. This is a FREE public service.

**Note:** To create a *my* Social Security account, go to SSA.gov you’ll be asked to:

- 1. Verify your identity by providing personal information about yourself and answering questions that only you are likely to know.**
- 2. Create a username and password you’ll use to access your online account.**
- 3. Confirm your email address or phone number by entering a one-time security code within 10 minutes of receiving it in order to help keep your personal information safe.**

## **How to Set Up Your Personal Account with The Pastor's House™**

**What is A Personal Account?** A personal account with The Pastor's House website allows an individual pastor to manage and update their church compensation (salary and housing) with their church. It puts them in control of their destiny and manages their taxable income. Many times a church will just set a budgeted amount for a pastor without classifying the compensation; thereby defaulting the compensation to taxable income unnecessarily. With the Pastor's House account, the pastor determines the breakdown between housing and salary, which controls how much income is taxable as allowed by law.

*A personal account with The Pastor's House website allows an individual pastor to manage and update their church compensation (salary and housing) with their church.*

### **What Are the Benefits of A Personal Account with The Pastor's House?**

- **calculates** the breakdown between compensation and housing to maximize the tax exempt housing allowance. (This prevents well-meaning and uninformed church officers from subjecting tax exempt income to taxable income.)
- **prepares** the annual housing allowance resolution to present for church signature as required by federal regulation to enjoy this great benefit.
- **enables** a pastor to make interim year updates to their housing allowance as allowed by regulation.
- **allows** a pastor to reconcile his/her housing allowance at the end of the year as required by federal regulation.
- **allows** a pastor to print the annual reconciliation report to present to their tax preparer for annual income tax preparation. (Unused housing becomes taxable income)
- **allows** a pastor to set up a retirement housing allowance to present to their church and their benefits provider to classify retirement income as income tax exempt and SSA exempt (if retired).
- **other Benefits of a Pastor's House Account:**
  - Stay up-to-date with regulations and rates as they change with the IRS
  - Personally manage your ministry taxable income

### **What Is the Service Fee for My Pastor's House Personal Account?**

**To register your personal account with The Pastor's House, visit-**

**The Pastor's House website: [www.thepastorshouse.com](http://www.thepastorshouse.com)**



## **Brief History of the Housing Allowance**

Exemption of church property had its genesis in Roman law wherein exemption of church owned property was granted to all churches. (Genesis 47-26). From the 15<sup>th</sup> to the 19<sup>th</sup> century, most pastor's lived in a church-owned parsonage which was tax exempt. By the early 20<sup>th</sup> century, clergy housing and taxation had changed considerably, **so in 1921, Congress passed the Revenue Act which exempted from the gross income of ministers, the rental value of any "dwelling house and appurtenances thereof provided by a church as part of compensation."**

The main reason an employer (regardless of the industry) provides housing for its employees is for the employers' convenience, not the employee. However, smaller congregations were not able to afford a church, much less a parsonage. So the benefit and exclusion of the parsonage was more broadly applied by the courts to include the **"housing allowance"** wherein pastors that provided their own home (owned or rented) could still benefit from this regulation.

**Publisher comment:** There is so much more to the history of the housing allowance than we could present here, so the foregoing is just to provide "context" for the clergy with a "curious" historical interest regarding this great benefit. If there is more interest in the history of the housing allowance, I would suggest the curious to "Google" the topic. There is a plethora of information available. Today, most churches and pastors are aware of the term "housing allowance" but few know how to administer it to its fullest potential or maximize its tax advantages. The Pastor's House manual and website is designed to do just that.

## **Regulatory Treatment of the Housing Allowance**

Regulations state that the housing allowance is federal income tax exempt, but **wholly subject to SECA (Self Employment Contribution Act)**. Clergy are exempt from FICA (Federal Insurance Contributions Act) like lay employees wherein the employee pays half the social security and Medicare (7.65%) and the employer pays the other half (7.65%) for a total of 15.3%. However, **regulations require clergy employees to pay into social security via the self-employment contributions method (SECA) for a total of 15.3%**. So each clergy taxpayer (that has not opted out of social security) should make sure that their annual income tax return includes an IRS Form 1040SE.

*Regulations state that the housing allowance is federal income tax exempt, but wholly subject to SECA (Self Employment Contribution Act).*

## **Purpose of the Exclusion**

A cleric can exclude the rent-free use of a home or the rental allowance only if he or she is a minister of the gospel. The IRS provided the following definition:

By definition, a "minister" is one who is authorized to administer sacraments, preach, and conduct services of worship. Although a minister, to qualify for the exclusion under section 107 of the Code, must be ordained, commissioned, or licensed, there is no standard in the regulations that the ordination, commissioning, or licensing must come from some higher ecclesiastical authority; nor is there a standard in the regulations that the ordination, commissioning, or licensing bestows the power to perform certain religious functions that could not be performed by another member of the congregation.

When the individual's regular, full-time duties to the congregation are spiritual or religious in nature, such as leading the worship service, those duties are in the exercise of the ministry.

*For purpose of the housing exclusion, Under Sec107 of the IRC , a "minister" is one who is authorized to administer sacraments, preach, and conduct services of worship.*

If a church or church denomination ordains some ministers of the gospel and licenses or commissions others, those licensed or commissioned must be able to perform substantially all the religious functions of an ordained minister of the denomination in order to be treated as a minister for social security purposes.

## **How the Housing Allowance Benefits Clergy**

The Internal Revenue Code provides clergy with an exclusion from gross income commonly known as the "parsonage/housing exclusion". Section 107 of the Internal Revenue Code reads as follows:

In the case of a minister of the gospel, gross income does not include--

- (1) the rental value of a home furnished to him as a part of his compensation;
- or
- (2) the rental allowance paid to him as part of his compensation, to the extent used by him to rent or provide a home.

To qualify for the exclusion, a cleric must satisfy the definition of a "minister of the gospel" and receive the rent-free use of a home or a rental allowance as compensation for performing services which are ordinarily the duties of a minister. As to rental allowances, another requirement are that the employing church must officially designate a rental allowance as such, before it pays the allowance to a cleric.

### **What the Housing Allowance Includes**

It includes anything spent to provide a home for the ordained minister and his/her family. The following list shows typical expenses that are to be considered in computing the amount of parsonage/housing allowance:

- 1. Rent or principal payments, cost of buying a home and down payments.**
- 2. Taxes and interest of home. These expenses are deductible again as an itemized deduction (If you itemize)**
- 3. Insurance on the home.**
- 4. Repairs and upkeep of the home.**
- 5. Furniture, appliances, vacuum sweeper, TV, washer, dryer, beds, etc.**
  - a. Insurance on contents of the home.**
  - b. Repairs of furniture and appliances.**
- 6. Decorator items, curtains, rugs, pictures, etc.**
- 7. Utilities (heat, electric, non-business telephone, water, cable TV, sewer charge, garbage removal, etc. (Show business telephone expense as a professional expense. It will result in less Social Security tax.)**
- 8. Miscellaneous: lawn mowing, cleaning supplies, brooms, light bulbs, cable TV, etc.**

#### **\*\*The housing allowance does not include food or maid\*\***

"Official designation" means that the employing body designates, by official action, **IN ADVANCE**, the amount the religious worker expects to spend for all the expenses of his/her home. This can be done by the official board or the congregation, and recorded in the minutes. An annual contract must be signed, setting forth the amount designated, and the record must be dated in advance.

**Note:** While travelling recently, a pastor asked me if the housing allowance includes a pool. An in ground pool (maybe). Is it worth it? No. I always recommend the "safety zone". You may not win the argument if audited. Check with your financial advisor.

## **Sample Housing Allowance Resolution**

According to the provision of Internal Revenue Code Section 107, an ordained minister of the Gospel is **not** subject to federal income tax on the housing allowance paid to him/her part of their compensation **to the extent** used to rent or provide a residence.

Whereas, the **Rev. Clark**, an ordained minister, serves the **Anytown Baptist Church of Anytown , USA** in the performance of all ministerial duties and functions and in the conduct of religious worship; and; whereas, the **Anytown Baptist Church** does not provide a residence for its appointed minister;

After considering the expenses incurred by **Rev. Clark**, the following resolution was adopted by the **Anytown Baptist Church**,

It is hereby resolved that the total cash value of the compensation package for **Rev. Clark** is set at **\$75,000 of which the housing portion of the compensation package shall be set at \$55,000**. The allowance will be distributed with Rev. Clark's regular pay schedule.

Payments in the year 20\_\_ are effective for the period January 1, through December 31, 20\_\_.

**Authorized Signature(s):**

\_\_\_\_\_  
\_\_\_\_\_

Note: This resolution should be signed by a church officer. A signed copy should remain in the church files and a signed copy given to the Pastor for annual tax preparation.

***NOTE!!! Be it known, that even through the housing allowance is exempt form federal income tax, it is wholly subject to social security via SECA [Self Employment Contributions Act] and some state and local tax jurisdictions. The housing allowance should be reported on the annual individual tax return [Form 1040 Schedule SE].***

## How to Reconcile the Annual Housing Allowance

**Background:** The amount of the predetermined housing allowance is reconciled at the end of the year by totaling the amount of the allowable expenses “actually” incurred in each category. The total amounts should be recorded on a worksheet (by category) and matched against the actual current year allowance. If the actual expenses incurred “exceed” the predetermined allowance, the allowance IS NOT adjusted to include the excess. The predetermined allowance is the maximum that is allowable for that year. **Tax Tip:** *If the excess expenses are expected to reoccur in the upcoming year, then maybe the housing allowance can be increased.*

### Sample Annual Housing Reconciliation:

Expense Category	Budget Amount	Actual Amount	Difference
Rent (Or)			
Mortgage Pmt Int	12,000	13,500	1,500
Real Estate Taxes	8,000	8,325	325
Electric Utility	3,700	3,650	-50
Down Pmt on RE	0	0	0
Water & Sewer	1,100	1,125	25
Repairs & Maint	8,000	3,390	-4,610
Heating	3,000	3,500	500
Insurance	3,900	3,900	0
Cable TV	2,500	2,520	20
Alarm System	1,800	1,800	0
Telephone(Base Charges)	2,000	1,875	-125
Furniture Purchases	4,500	5,200	700
Miscellaneous:			
-Lawn Service	1,250	1,125	0
-Cleaning Service	1,900	1,450	0
<b>Total</b>	<b>55,000</b>	<b>52,685</b>	<b>-2,312</b>

The excess (unused) amount of the housing allowance (\$2,312) will automatically be classified as taxable income. The entire amount of the projected housing is not federal income tax exempt. Only the amount actually absorbed. Further, the entire amount of the housing allowance is subject to SECA (self-employment tax at 15.3% on IRS Schedule 1040 SE

## **Housing Allowance Frequently Asked Questions & Considerations**

### **What Happens If I Don't Use All of My Annual Housing Allowance?**

At the end of the year when you total all of your allowable expenses and the amount actually used is less than the estimated amount, the excess (unused amount becomes taxable income and is reconciled in the preparation of your annual income tax return and is subject to federal income tax and state income tax (if applicable)

### **What Happens If My Actual Expenses Exceed My Annual Housing Allowance?**

The housing allowance is always proactive, never retroactive. There is no provision to retroactively amend the housing allowance. If the additional expense incurred is expected to recur annually, then it is best to increase the allowance for the incoming year. The increase in the allowance is not necessarily an increase in the Pastor's compensation package, but rather a decrease in the compensation designated as salary and an increase in the amount designated as housing. The total amount of the pastor's compensation stays the same.

### **What Happens If My Projected Housing Allowance Changes Mid-Year?**

Life occurrences don't always go according to plan. If an unexpected expense arises within the allowable housing expenses categories that could increase your current year housing allowance, it is OK to "increase" the amounts allocated as housing and "decrease" the amount allocated as salary. Remember, regulations require the designation be "in advance" of the actual distribution. So the key is planning ahead. As soon as you know an allowable housing expenditure is going to be increased, recalculate the distribution between housing and salary and advise the church. The housing allowance is always proactive, never retroactive. This is where The Pastor's House calculation worksheet is helpful. It will allow you to "redistribute" the relationship between salary and housing and update the housing allowance mid-year. These documents can then be presented to the church for signature and to update their payroll records.

## **How to Record the Housing Allowance on the Annual Form W2.**

The pastor's housing allowance should be recorded in Box 14 of the annual W2. This signals both to the clergy taxpayer and the clergy tax preparer that there is a taxable consideration to be made in the annual tax preparation process.

## **Why It's Important to Record the Pastor's Housing Allowance on the Annual W2.**

The only way to update and fund the pastor's account (from pastoral earnings) with the Social Security Administration is via the pastor's annual tax return. (Refer to the paragraph above). As a long term clergy tax return preparer specializing in clergy tax preparation, I am well aware of this importance for retirement and other associated social security benefits that are based on the pastor's compensation presented in Form W2. **Another very important reason to show the housing allowance in Box 14.** If the clergy taxpayer needs to present his/her W2 to the business community for commercial purposes such as an auto, real estate, personal or business loan, it is clear to the business community that the total compensation is a combination of Box 1 and Box 14. This is especially important if the biggest portion of the pastor's pay is housing. This treatment also signals to the business community that the total compensation is not just the recorded salary but a combination of the salary and housing. Otherwise the total compensation picture could be greatly distorted and the pastor denied a possible personal or business opportunity. Again, it is important to clearly show the amount of the housing allowance in Box 14 of the annual W-2.

Therefore it is critically important that the clergy employee's housing allowance is recorded in Box 14 of the Form W-2 so an astute tax preparer be reminded to calculate the self-employment tax in the annual tax return (Form 1040SE). If not, the clergy taxpayer's account with the Social security Administration will be grossly underfunded for retirement. Hence, the repeat recommendation that every clergy access their account with the Social Security Administration to review their history.

***It is critically important that the clergy employee's housing allowance is recorded in Box 14 of the Form W-2.***

# Retirement Housing Allowance

## Background

As per the Internal Revenue Service, IRS Publication 517(Social Security & Other Information for members of the Clergy & Religious Workers), Page 9, Col 3, Retired Ministers, states the following:

*"If you are a retired minister, you may exclude from your gross income the rental value of a home (plus utilities) furnished to you by your church **as part of your pay for past services**, OR the part of your pension that was designated as a rental allowance." (i.e. 403 b, etc.).* The retirement allowance is provided in recognition of past services in the performance of ministerial duties, and may be paid in a lump sum or periodic payments for a specified period of time or as long as the pastor and church determine.

*"If you are a retired minister, you may exclude from your gross income the rental value of a home (plus utilities) furnished to you by your church as part of your pay for past services..."*

How to know if you qualify for a retirement housing allowance. Ask yourself a few basic questions:

1. Do you OR did you hold ministerial credentials with a church fellowship or denomination?
2. Did you receive compensation for your services as a credentialed minister?
3. Do you have a 403(b) retirement account set up during your tenure as a minister?
4. Have you made contributions to your 403(b) account out of your ministerial earnings?
5. Are you currently retired, as defined by the IRS? (i.e. age 59, must be retired and a few more certain conditions.)

These are the basic question that (may) qualify you for a retirement housing allowance. Note: All of the foregoing conditions **do not** have to be present to qualify. For instance, you may qualify with items 1 and 2 alone. You should check with your financial advisor. He/She may or may not be knowledgeable of this benefit. The point of mentioning it here is to inform/advise/remind you that a retirement housing allowance *may* be available to you which could be a tremendous tax savings.

It should be noted that there will be an annual reconciliation of the "actual" and "allowable" housing expenses incurred at the end of the tax year to determine the



portion of the allowance that can actually be classified as housing just like with the regular annual housing allowance.

Therefore, all receipts, cancelled checks, invoices, etc. that confirm the actual expenditure(s) within the allowable categories should be maintained for the annual reconciliation for income tax filings.

### **When Should I Set Up My Retirement Allowance?**

The retirement housing allowance should be set up well in advance of retirement as a part of the church records and your personal records. Think of it like life insurance. Life insurance is a benefit you put in place long **before you need** it so it is there **when you need it**. Same with the retirement housing allowance.

If the pastor has a 403(b) plan, he/she should contact their service provider in advance also. Advance notice and preparation is a firm statutory requirement to enjoy this great benefit. The retirement allowance should be in the form of a written and signed resolution just like the annual housing resolution.

***The retirement housing allowance should be set up well in advance of retirement just like life insurance.***

**Additional considerations:** Make sure the IRS considers you to be retired. I would strongly encourage the minister contemplating retirement to have this conversation with his/her financial advisor. First make sure he/she is familiar with this benefit. There are many facts and circumstances that determine whether or not a minister is officially retired for this purpose. The diligence employed and time spent is well worth the effort in tax savings and grief. So make sure it is handled properly.

Please note that a minister's surviving spouse **is not entitled** to the allowance by virtue of being married to the retired pastor

**Publisher Note:** The foregoing information in this publication is not offered as professional advice. It is offered solely for your consideration and to encourage further research and study. The time spent to confirm what applies to each individual is more than worth it in benefits and grief avoidance. There is ample information on the internet on the subject and many publications available. You are also encouraged to share this document with your retirement benefits advisor and financial planner for specific application in your individual situation.

# Sample

## Retirement Housing Allowance Resolution

According to the provision of Internal Revenue Code §107(2); Treas. Reg. § 1.107-1, the IRS as issued guidance as an extension of Section 107(2) that, amounts paid to a minister as part of his/her compensation for past services are excludable under Rev. Rul. 63-156. IRS guidance states that an ordained minister of the Gospel is not subject to federal income tax on the housing allowance paid to him/her part of their compensation for past services to the extent used to rent or provide a residence.

Be it resolved that **Rev.** \_\_\_\_\_, an ordained minister, has served the \_\_\_\_\_ Church for many years, in the performance of all ministerial duties and functions and in the conduct of religious worship; and, is retiring \_\_\_\_\_ 20\_\_ year, and;

Whereas, the \_\_\_\_\_ Church will not provide a residence for its retired minister; after considering the ongoing housing expenses for Rev. \_\_\_\_\_, the following resolution was adopted by the \_\_\_\_\_ Church;

It is hereby resolved that the amount of \$ \_\_\_\_\_ will be awarded to Rev. \_\_\_\_\_ monthly; OR: a one time lump sum will be presented to Rev. \_\_\_\_\_ in the amount of \$ \_\_\_\_\_.

It is also resolved that as long as Rev. \_\_\_\_\_ is receiving a 403b distribution that 100% of the distributions will be designated as housing allowance for all future years until modified.

**Authorized Signature(s):**

\_\_\_\_\_ Date

\_\_\_\_\_ Date

**Note:** Please be advised that according to Revenue Ruling 72-249, a minister's surviving spouse cannot exclude the housing allowance from a surviving spouse's pension unless the housing allowance represents compensation earned by the surviving spouse for past services that were in the exercise of ministry.

## **How to Record the Pastor's Housing Allowance In the Church Payroll Reports**

**The Pastor's Paycheck** – The housing allowance should be listed as a separate pay category exempt from federal and state income taxes.(Except PA) It should show the current payment as well as the year-to-date payments like the other pay categories.

**The Church 941 Quarterly Reports** - The Pastor's housing allowance should NOT be included in the quarterly 941 total wages subject to social security and Medicare (LN 5) because pastoral income is social security and Medicare exempt. However, the portion of the Pastor's pay that should be included in the quarterly 941 report is the pastor's salary subject to **voluntary federal withholding taxes on line 2.**

**Note to the reader:** Please note that regulations DO NOT require pastoral pay to be included in the Form 941 (Employer's Quarterly Federal Tax Return) however; some church employer's do include the Pastor's salary as a convenience to the Pastor to be sure at least "some" of the Pastor's annual federal tax liability is paid in without the burden of remembering to pay the quarterly estimated tax. It is a form of "tax planning" for the Pastor. In all the foregoing scenarios, check with your church payroll provider; your benefits provider; and your tax preparer for the final application in your particular situation. The foregoing scenarios are provided for general consideration only.

**The Pastor's Annual Form W2** – The housing allowance should be recorded in Box 14 with the notation "Housing Allowance". If the Pastor has a retirement housing allowance, record with the wording "**Taxable Amount Not Determined**". This notation assists and reminds the clergy tax preparer there is an additional consideration in the preparation of the clergy income tax return.

## **(Select) References and Recommended Readings**

**Social Security Administration**, [www.ssa.gov](http://www.ssa.gov): Social security regulations

**Internal Revenue Service**, IRS.Gov; Publication 517 - Social Security & Other Information for Members of the Clergy and Retired Religious Workers

**IRS.gov**: IRC: §107(2)- IRS Regulation for the clergy housing allowance

**The Pastor's Wallet, Amy Artiga** - Historical overview of social security. [www.amyartiga.com](http://www.amyartiga.com) This reference is highly recommended for the clergy taxpayer that desires a more in-depth understanding of the clergy housing allowance from a historical and financial perspective and many of its applications and treatments. Recommended for the clergy library.

**Richard R. Hammer, Church & Clergy Tax Guide**, Recommended for the highest level of professional presentation on this subject and church administration in general. Includes many case studies.

**Website : The Pastors House**: [www.thepastorshouse.com](http://www.thepastorshouse.com) - A housing allowance personal account management system for clergy by Janet V. Kennedy-Jacobs



**Janet V. Kennedy-Jacobs**  
**The Church Business Consultant®**  
**Clergy Tax & Compensation Planning Specialist**  
**Serving Churches & Clergy Over 25 Years**

### **What is a Church Business Consultant?**

**A BUSINESS Professional that understands there is a difference between the spiritual side of church operations and the business or statutory side. The statutory side addresses compliance with federal and state regulations. The Church Business Consultant understands the role of each side; how they differ and how they interact. The mission of J. V. Kennedy –Jacobs is to bring information to churches & clergy so as not to perish due to a lack of knowledge. Hosea 4:6**

**The Church Business Consultant provides services in areas such as church payroll compliance; nonprofit statutory compliance; preparation of 501{c}{3}'s; church financial compliance audits; clergy tax and compensation planning, etc. While it is true, a church legal entity is a nonprofit and tax exempt entity and enjoys many special treatments, benefits and exemptions, it is also true that there are many rules and regulations that do apply as well. Too many clergy believe they are a tax exempt entity like the church and suffer tremendously because of this dangerous lack of knowledge.**

**Take the time to know which regulations pertain to your particular situation. “An ounce of prevention is worth a pound of cure”. Ben Franklin, 1736**



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*Note From Rev. McKinney*

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