

Parsonage Allowance

The parsonage allowance is the most important single tax break available to clergy. To use it properly it must be understood. **MONEY SPENT BY THE CLERIC TO PROVIDE, FURNISH, AND MAINTAIN A PRINCIPAL RESIDENCE IS EXCLUDABLE FROM FEDERAL INCOME TAXATION** (subject to certain limitations detailed shortly). This money is subject to the self-employment tax as is the value of housing provided by the church.

The amount of compensation excluded from Federal Income Taxation is the lowest of the following amounts:

1. Amount specified in the Vestry Minutes in a particular resolution before the money is paid. Should be passed at the November or December Vestry meeting for the next year.
2. Actual cash spent.
3. The fair rental value of the home including furnishings, plus the cost of utilities.

Each cleric should receive a parsonage allowance, even if he/she lives in a rectory. The parsonage allowance will be smaller for those who live in rectories because such clergy do not have all the expenses of those who live in their own houses.

Any ordained person (deacon or priest working in any capacity) is eligible for a housing allowance, which will be assessed 18% for pension purposes, as part of their total compensation.

Housing Allowance Resolution instructions must be followed.

1. Resolution must be adopted by the Vestry or Bishop's Committee with a quorum present
2. Resolution must be in writing and attached to minutes
3. Resolution must be adopted in December in advance of the new year or first payroll cycle of new employee or change in allowance.
4. Resolution must follow specific format as required by Internal Revenue Code Sec. 107.

This resolution is prospective and not retroactive. It must be enacted prior to the first pay period of the new year or prior to first pay period of a change in allowance. It can be amended at any time during the year if necessary.

All clergy should make sure that this procedure is followed. If an IRS audit occurs and the Housing Resolution has not been enacted timely and properly, the amount claimed as housing will be disallowed and additional taxes will be assessed.

See IRS Pub 517 for more information.

Model Resolutions

1. Cleric lives in his own house. Resolution of the vestry, date

WHEREAS the Rev. ----- is employed as a minister of the Gospel by St. Paul's Church, San Rafael, California, which does not provide a residence for him, the vestry resolves that of the total compensation of \$40,000 to be paid to The Rev. ----- during 20XX, that \$18,000 be designated a parsonage allowance within the meaning of that term as used in Section 107 of the IRS Code of 1986.

2. Cleric lives in a rectory provided by the church. Resolution of the vestry, date

WHEREAS the Rev. ----- is employed as a minister of the Gospel by St. Swithin's Church, Greenwood, New York, which although providing a residence for her does not provide full cost of maintaining and furnishing such a residence; the vestry resolves that of the total compensation of \$30,000 to be paid to The Rev. ----- during 20XX, that \$3,000 be designated a parsonage allowance within the meaning of that term as used in section 107 of the IRS Code of 1986.