

Housing Allowance Maximums

Q: My church board has designated 50% of my salary as a housing allowance. Is there a housing allowance maximum that ministers are not permitted to exceed?

A: While the tax code does not limit the amount of a minister's salary that may be designated as the housing allowance, there are three stated maximum limits that govern what may be claimed by the minister as his/her housing allowance.

According to the IRS, the maximum amount that a minister may claim as his/her housing allowance is limited to the lesser of three amounts:

1. The amount of housing expenses that the minister has paid during the calendar year,
2. The amount of the housing allowance adopted or designated by the church board for the minister, or
3. The fair rental value of the minister's home, furnished plus utilities.

Let's look at each of these limits:

#1: Actual housing expenses. This represents actual payments or purchases made by cash, check, credit card or debit card during the calendar year for eligible housing expenses. (Expenses purchased on store credit cards only count as housing expenses in the year the payments are made to pay the balance on the card.)

For a listing of eligible ministerial housing allowance expenses, see exhibit 3 in the pamphlet, ["Frequently Asked Questions – Personnel and Payroll Matters."](#)

#2: Designated housing allowance. The housing allowance adopted or designated by the church board is simply that amount recorded in the board minutes as the approved housing allowance for the minister.

If amendments to the approved housing allowance have been made and approved in the minutes, these are also to be considered.

Note: A minister's designated housing allowance may be changed or altered during the year by action of the church board. This change can only be effective prospectively and cannot change the designation of pay received earlier in the year by the minister.

#3: Fair rental value. The fair rental value of the minister's home is a bit more complicated, but is typically interpreted to mean the rental value of the furnished minister's home plus the cost of utilities.

While the IRS has not provided guidance on the manner in which this amount should be established, there are some measurements that are generally accepted. First, the minister may have a realtor provide an informal opinion of what the house would rent for. Second, the minister may obtain a formal appraisal from a real estate appraiser to establish this amount. Third, some have used what is termed the "one percent rule" that assumes that a house's monthly rental value is approximately equal to one percent of its total value. This third method may or may not provide a realistic rental value, so it should not be used without consulting qualified experts.

Once a rental value for the furnished home is established, a minister should add the costs

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paid during the year for utilities, such as electricity, gas, water, sewer, trash pickup, local telephone charges, internet access fees, and basic cable television charges.

Calculating the Correct Allowance at Yearend:

Of these three amounts, the minister would be entitled to claim the lowest of the three as their minister's housing allowance. If the housing allowance designated by the church board and excluded from taxable wages in box 1 of the minister's W-2 Form was greater than either items 1 or 3, the minister would be required to add back the portion of the designated housing allowance that could not be claimed as income on line 7 of his/her Form 1040.

Additional Resources:

For additional detailed information concerning your housing allowance, you can download Publication 517 from the Internal Revenue Service at www.irs.gov/pub/irs-pdf/p517.pdf.

This Q & A was excerpted from the pamphlet titled "Frequently Asked Questions – Personnel and Payroll Matters", which can be downloaded in English and Spanish at <http://generaltreasurer.ag.org>.