

IRS Housing Allowance Regulation

Congress enacted the Clergy Housing Allowance Clarification Act in 2002. This act amended the Tax Code to limit the nontaxable portion of a church-designated housing allowance for ministers who own or rent their home to the fair market rental value, furnished, plus utilities.

As a result, ministers who own a home do not include the portion of their salary designated in advance by their church as a housing allowance as income in computing their federal income taxes to the extent that the allowance is used to pay for expenses incurred in owning the home (such as mortgage payments, utilities, repairs, property taxes, property insurance, and furnishings) and does not exceed the fair market rental value of the home, furnished, plus utilities.

Note that the housing allowance and fair market rental value of church-provided housing are nontaxable only when computing federal income taxes (and in Arkansas, state income taxes). Ministers must include their housing allowance and fair market rental value of any church-provided housing as taxable earnings when computing their self-employment taxes.

Housing Allowance Resolution for a minister who lives in his/her own home

*The following resolution was duly adopted by the vestry of _____
at a regularly scheduled meeting held on _____, 20 __, a quorum
being present:*

Whereas, the Reverend _____ is compensated by _____
exclusively for services as a minister of the gospel; and

Whereas, _____ does not provide Fr./Mtr. _____ with a
rectory; therefore, it is hereby

Resolved, that the total compensation paid to Fr./Mtr. _____ for calendar year
20__ shall be \$ _____, of which \$ _____ is hereby designated to be a
housing allowance; and it is further

Resolved, that the designation of \$ _____ as a housing allowance shall apply
to calendar year 20__ and all future years unless otherwise provided.

Attest: _____
Clerk of the Vestry

NOTE: The housing allowance resolution must be recorded in the vestry minutes. The church and cleric need to have on file a real estate professional's estimate of the home's Fair Market Rental Value (FRV), furnished, plus utilities. See IRS Housing Allowance Regulation.

Housing Allowance Resolution for a minister who lives in a church-provided home

The following resolution was duly adopted by the vestry of _____ Episcopal Church at a regularly scheduled meeting held on _____, 20____, a quorum being present:

Whereas, Section 107 of the Internal Revenue Code permits a minister of the gospel to exclude from gross income (in computing federal income taxes) the rental value of a rectory furnished to him/her as part of his/her compensation, and a church-designated housing allowance paid to him/her as part of his/her compensation to the extent used for actual expenses incurred in maintaining the rectory, and

Whereas, the total housing allowance, including cash and non-cash, cannot be an amount in excess of the Fair Rental Value of the housing, as though furnished, plus utilities, and

Whereas, the Reverend _____ is compensated by _____ Episcopal Church exclusively for the services as a minister of the gospel; and

Whereas, _____ Episcopal Church provides the Rev. _____ rent-free use of a church-owned rectory as compensation for services that he/she renders to the church in the exercise of his/her ministry, and

Whereas, as additional compensation to the Rev. _____ for services that he/she renders to the church in the exercise of his/her ministry, _____ Episcopal Church also desires to pay the Rev. _____ for expenses that he/she incurs in maintaining the rectory, therefore it is hereby

Resolved, that the annual compensation paid to the Rev. _____ for calendar year 20____ shall be \$ _____, of which \$ _____ is hereby designated to be a **cash** housing allowance pursuant to Section 107 of the Internal Revenue Code, and it is further

Resolved, that the designation of \$ _____ as a housing allowance shall apply to calendar year 20____ and all future years unless otherwise provided by the vestry; and it is further

Resolved, that as additional compensation to the Rev. _____ for calendar year 20____ and for all future years unless otherwise provided for by this vestry, the Rev. _____, shall be permitted to live in the church-owned rectory located at _____ and that no rent or other fee shall be payable by the Rev. _____ for such occupancy and use.

Attest: _____
Clerk of the Vestry

NOTE: The housing allowance resolution must be recorded in the vestry minutes. The church and cleric need to have on file a real estate professional's estimate of the home's Fair Market Rental Value (FRV), furnished, plus utilities. See IRS Housing Allowance Regulation.