

# Questions and Answers

## about the minister's housing allowance

### What is the minister's housing allowance?

The minister's housing allowance is a very important tax benefit available to ministers. Section 107 of the *Internal Revenue Code* allows "ministers of the Gospel" to exclude some or all of their ministerial income designated by their church or church-related employer as a housing allowance from income for federal income tax purposes. Rules and limits are discussed below.

### Who is eligible for the minister's housing allowance?

Only Ministers for Tax Purposes are eligible for a housing allowance on their ministerial earnings. Church custodians, secretaries and ministerial staff who are not Ministers for Tax Purposes are not eligible for a housing allowance.

A church may call someone a minister, but the IRS may not treat that person as a Minister for Tax Purposes — that depends on individual facts and circumstances. The IRS will consider most ordained ministers to be Ministers for Tax Purposes and therefore eligible for a housing allowance on their ministerial income. Licensed and commissioned ministers are less likely to be treated as Ministers for Tax Purposes by the IRS, but it depends on their individual facts and circumstances. For more information about who is a Minister for Tax Purposes, see our annual *Ministers' Tax Guide* or *Ministerial Tax Issues* brochure. They're available on our website at [GuideStone.org/TaxGuide](http://GuideStone.org/TaxGuide) for our members or call 1-888-98-GUIDE (1-888-984-8433) for a copy free to GuideStone members.

### What is the church's responsibility concerning the housing allowance?

Churches should designate a housing allowance in writing before the beginning of a calendar year. Although the IRS has recognized oral designations, they are difficult to prove. The governing board of the church should designate the allowance. In many churches, this is the congregation in a regular or called business meeting. But in some churches, the deacons, a finance committee or trustees may have the authority to make the designation. A line item in a church budget can be used

to designate housing, but a resolution is much better.

### What are ministers' responsibilities concerning the housing allowance?

As taxpayers, ministers must determine if they are eligible for a housing allowance, understand the limits and follow all the rules. They must keep records to substantiate the cost of everything they exclude from income as housing expenses. If a church designates more than a minister can claim as a housing allowance, the minister is responsible for reporting and paying taxes on the correct amount of income. Any excess housing allowance should be reported as income on the minister's tax return. Ministers must also pay self-employment (SECA) taxes on their housing allowance or on the fair rental value of their home if they live in a parsonage.

### What housing expenses are eligible to be excluded from income?

Eligible expenses include mortgage payments (principal and interest); rent payments; real estate taxes; property insurance; utilities (gas, electricity, water, sewer, garbage pickup, local telephone service); appliances and furniture (purchase or rental cost and repairs); remodeling expenses; homeowners' dues; and pest control.

### What housing expenses are not eligible to be excluded from income?

Cleaning services, food and domestic help are not eligible to be excluded as income as part of a housing allowance. A housing allowance is available only for a principal residence, not for a second home, vacation home, business property or a farm. Home equity loan payments can be excluded as part of a housing allowance only if the loan is used to pay for housing expenses such as remodeling. Home equity loan payments used for college tuition or anything other than eligible housing expenses cannot be excluded from income as a housing allowance.

## How much can ministers who own their homes exclude as a housing allowance from income for federal income tax purposes?

Ministers who own their homes can exclude the lowest of the following three amounts from income for federal income tax purposes when their church employer properly designates a housing allowance for them:

- The housing allowance designated by their church; or
- Actual housing expenses (including mortgage payments, utilities, property taxes, insurance, furnishings, repairs and improvements); or
- The fair rental value of the home (furnished, including utilities).

Example: Reverend Smith owns his own home, and his church designated 40% (\$16,000) of his \$40,000 salary as an annual housing allowance in advance. His actual housing expenses for the year were \$15,000. The fair rental value of his home (furnished, including utilities) was \$17,000. Reverend Smith can exclude \$15,000 from income because his actual housing expenses were lower than both the amount designated by the church and the fair rental value of his home.

## How much can ministers who rent their homes exclude from income for federal income tax purposes?

Ministers who rent their homes can exclude the lower of these two amounts:

- The amount designated by their church; or
- Actual housing expenses (including rent, renter's insurance, utilities, furnishings, repairs and improvements).

## Can ministers who live rent-free in a parsonage owned by a church have a housing allowance?

Churches can designate a housing allowance for a minister who lives in a parsonage if the minister pays for utilities, repairs, furnishings or other eligible expenses. Ministers who live rent-free in a church-owned parsonage should not include the fair rental value of the parsonage in income for federal income taxes. But they should include the fair rental value of the parsonage in income for SECA taxes.

Ministers who live rent-free in a church-owned parsonage may exclude the lower of these two amounts:

- The housing allowance designated by their church; or
- Actual housing expenses not paid by the church (including utilities, furnishings, repairs and improvements).

## Is a housing allowance counted as income for SECA taxes?

Yes. A housing allowance may be excluded from income for federal income tax purposes but not for SECA tax purposes.

Example: Reverend Smith's designated housing allowance is 40% (\$16,000) of his \$40,000 salary. Assuming he can exclude the full amount designated by the church, he will not report the \$16,000 as income for federal income tax purposes. But he will have to count the \$16,000 as income for purposes of SECA taxes.

## Are bivocational ministers eligible for a housing allowance?

Churches may designate a housing allowance for bivocational ministers who are Ministers for Tax Purposes. A minister's housing allowance can be designated for ministerial income only. Secular employers cannot designate a housing allowance for ministers who are paid for working in non-ministerial jobs.

## Can ministers deduct mortgage interest and real estate taxes on their homes if they have a housing allowance?

Yes. Ministers who itemize deductions and have a housing allowance may deduct mortgage interest and real estate taxes. Sometimes this is mistakenly called a "double deduction." A housing allowance is an exclusion from income while mortgage interest and real estate taxes are both deductions.

## Are down payments on homes eligible for housing allowance?

A down payment on a home may be excluded from income as a housing allowance, assuming it does not cause the regular limits to be exceeded.

Example: Reverend Black made a \$50,000 down payment on a home. His church designated \$55,000 of his \$60,000 salary as a housing allowance. Reverend Black had other housing expenses of \$10,000, but the fair rental value of the home (furnished, including utilities) was \$25,000. He can only exclude \$25,000 because the fair rental value was less than the church-designated amount or his actual expenses, including the down payment. If he had made a down payment of \$12,000, his total housing expenses would have been \$22,000. He could have excluded \$22,000 because that amount is lower than the church-designated amount and the fair rental value.

## Are ministers who pay off their mortgages eligible for a housing allowance?

Ministers who pay off their mortgages may have a housing allowance for other eligible expenses of maintaining a home, such as utilities, taxes and repairs. With no mortgage payment, their expenses are likely to be much lower. Some ministers mistakenly think that they can exclude the fair rental value of their home if they have paid it off. That is not true. The limits discussed above apply to ministers who own their own homes, even if they have paid off their mortgages.

## When can churches designate a housing allowance?

Churches can designate a housing allowance only prospectively, not retroactively. In other words, the church must designate the housing allowance before the minister earns the income on which the church designates the housing allowance. Churches should ask their ministers for help in estimating how much the minister plans to spend. Remember that the church, not the minister, must designate the allowance.

## What happens if a church forgets to designate a housing allowance?

A minister cannot exclude income as a housing allowance unless the church designated it before the minister earned income for ministerial services. In other words, it has to be designated in advance (prospectively), not retroactively. However, a church may change a housing allowance during the year as long as the change is prospective.

Example: Reverend Smith's church forgot to designate a housing allowance for him in 2024 and didn't discover the problem until 2025. It is too late for the church to designate an allowance for the 2024 tax year, and Reverend Smith cannot exclude any expenses he spent on housing from income on his 2024 tax return.

Example: Reverend Smith's church discovers in October 2024 that it forgot to designate a 2024 housing allowance for him. The church can designate a housing allowance for him for the rest of the year. But the church can't designate more than he'll earn for ministerial services the rest of the year. Designations have to be made before ministers earn compensation (prospectively), not retroactively.

## What can a church do to ensure that a minister always has some amount designated as a housing allowance?

Churches should consider designating a housing allowance "for the current year and for all future years unless otherwise

provided." This "safety net" allows a designation to carry over from year to year, preventing problems if a church forgets to designate an allowance one year. However, safety net allowances should not be viewed as a substitute for designating a housing allowance each year.

## Is there a limit on the amount of a minister's salary that a church can designate as a housing allowance?

There is no limit on the amount of a minister's salary that a church can designate as a housing allowance. In appropriate situations, a church could designate 100% of a minister's salary as housing allowance. But remember that the amount the minister can exclude from income taxes is limited by the rules previously discussed.

## What if the church designates more than the minister can claim as a housing allowance?

If the church designates more than the minister can claim as a housing allowance, the minister is responsible for reporting and paying federal income taxes on the correct amount of income.

## Should a church report a housing allowance on a minister's Form W-2?

The housing allowance does not need to be reported on a Form W-2, although some churches choose to report it. For more information, see our annual *Ministers' Tax Guide* at [GuideStone.org/TaxGuide](http://GuideStone.org/TaxGuide) or call 1-888-98-GUIDE (1-888-984-8433) for a copy free to GuideStone members.

## Can retired ministers receive some or all of their retirement income from GuideStone as a housing allowance?

Yes. Revenue Ruling 75-22 allows denominational pension boards such as GuideStone to designate a housing allowance for retired ministers receiving income. Retired ministers may ask GuideStone to designate up to 100% of their retirement income as housing. But retired ministers must continue to follow the housing allowance rules and limits discussed above.

## How will GuideStone know how much to designate as housing?

Ministers will ask GuideStone to designate an amount on their income applications. They can also ask GuideStone to change that amount prospectively by filling out a form. Ministers are always responsible as taxpayers for following the housing allowance rules and reporting the correct amount of income,

regardless of what they ask GuideStone to designate.

## Do retired ministers have to pay SECA taxes on their retirement income?

Generally, retired ministers do not pay SECA taxes on their retirement income. Eligible distributions before retirement taken as a housing allowance may be subject to SECA taxes. However, retired ministers may not have to pay SECA taxes on their income designated as housing allowance. What constitutes “retirement” for purposes of these rules about SECA taxes and the housing allowance depends on an individual’s particular facts and circumstances. Ministers with questions about whether they are “retired” for this purpose should consult their tax advisors. Ultimately, the minister must make this decision.

Many facts and circumstances may be relevant in determining whether retirement has occurred. For example, if a minister is receiving retirement income from a plan and is making contributions to the same plan, the IRS may not consider that minister retired for purposes of the housing allowance and the favorable SECA tax treatment. Similarly, the IRS may view ministers as not retired if they have not had a meaningful break in service or change in work duties. Ministers and their tax advisors should work together to address the relevant facts and circumstances of each individual case.

## Can surviving spouses of retired ministers receive some or all of their benefits from GuideStone as a housing allowance?

Ministers are eligible for housing allowance with respect to ministerial services they provide. The Internal Revenue Code does not contemplate that one person can receive housing allowance based upon another person’s service. It would appear unlikely that a surviving spouse could receive housing allowance that is attributable to ministerial service of the other person. But a surviving spouse who is a Minister for Tax Purposes may be eligible to receive housing allowance with respect to their own ministerial service. Surviving spouses should seek legal or tax advice before asking GuideStone to designate a housing allowance on their income.

### How is housing allowance reported for a

## minister receiving a retirement income from GuideStone?

For retirement distributions from a 403(b) or 401(k) plan — including the Church Retirement Plan — housing allowance is shown below Copy C of your *Form 1099-R*. (If you are receiving disability protection income, it is reported on a *Form 1099-MISC*. Housing allowance is not shown on the *1099-MISC*; however, a separate letter will include the housing allowance information.) If you are receiving deferred compensation income, it is reported on a *Form W-2*. While the *W-2* does not show housing allowance, it is deducted from the gross income reported.

It is important to note that regardless of what your tax forms indicate, you are responsible for reporting the correct amount of income on your tax return, even if that amount differs from what is shown on the *Form 1099-R*.

For more information on the minister’s housing allowance, visit [GuideStone.org/HousingAllowance](https://www.guidestone.org/HousingAllowance).

**This educational information is not intended as legal or tax advice. Ministers or churches with specific legal or tax questions should consult a legal or tax advisor who understands ministerial tax issues.**



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