A Simple Guide to Housing Allowance

What is a Housing Allowance

A housing allowance is part of a minister's compensation that may be designated to help pay eligible housing expenses. When properly designated and documented, the amount may be excluded from federal income tax, subject to IRS rules.

Important Reminders:

The housing allowance should generally be designated in advance, ministers should keep records and receipts for housing expenses, and any unused or excess allowance may need to be reported as taxable income. A housing allowance also generally does not reduce self-employment tax for ministers.

DESIGNATE → TRACK → COMPARE

DESIGNATE

Determine your housing allowance before the expenses are incurred. Your church or other qualifying organization must officially designate an amount as housing allowance **in advance.**

If you are retired, the funds from your 403(b)(9) or defined benefit plan may qualify. The housing allowance is declared annually by your denomination's governing body and is generally up to 100% of your retirement income.

Remember: A housing allowance generally cannot be designated retroactively.

This information is provided for general educational purposes and is not tax or legal advice. Housing allowance rules can vary based on individual circumstances. Consult a qualified tax professional regarding your specific situation.

TRACK

Keep track of what you actually spend on your home. Eligible expenses may include:

- Rent or mortgage payments
- Property taxes
- Utilities
- Homeowners or renters insurance
- Repairs and maintenance
- Furniture and appliances
- Other qualifying costs of maintaining your home

Tip: Keep receipts, statements, and other records to support your housing expenses.

COMPARE

At the end of the year, compare three amounts. Your federal income tax exclusion is generally limited to the **lowest** of:

1. The housing allowance officially designated for you
2. Your actual eligible housing expenses
3. The fair rental value of your home, including furnishings and utilities

Quick Example

<u>Designated housing</u> allowance: $30,000

<u>Actual eligible expenses:</u> $27,000

<u>Fair rental value:</u> $29,000

<u>Potential federal income tax exclusion</u>: $27,000

Why? **$27,000 is the lowest of the three amounts.**