

Important words about clergy housing!!

Housing is the most complex area of clergy compensation. It cannot be made simple, but it is vital that clergy and lay leaders understand the concepts.

If housing is not provided, there are two figures to work with. They are **not** the same; they are calculated differently and have different purposes.

- 1) the **cash housing allowance** paid by the parish
- 2) the **Section 107 parsonage allowance** that is excludable from Federal and NY income taxes

The congregation pays **cash in lieu of housing** as part of the Total Cash Compensation. A priest's entire cash compensation, including housing allowance and Social Security reimbursement, is subject to self-employment tax.

The **Section 107 parsonage allowance** is the amount a priest may exclude from Federal and NY income taxes. **The parsonage allowance will almost never equal the housing allowance.** The parsonage allowance is determined by getting a licensed real estate agent to make a written estimate of the fair market rental value of the furnished housing occupied by the priest. The priest may exclude this amount, plus the cost of utilities, from income tax *provided* (1) that the Vestry has designated this amount in a particular resolution **before** any of it is paid; *and* (2) that the priest spent at least that amount on housing related expenses.

If housing is provided, there are four figures to work with.

- 1) the fair market rental value of the housing **unfurnished with utilities**
- 2) the fair market rental value of the housing with utilities furnished as the cleric has it **furnished**
- 3) the **Section 107 furnishings allowance**, which cannot exceed the difference of 2) minus 1)
- 4) the amount assumed for housing by the Pension Fund for pension purposes

The congregation needs to get a licensed real estate agent to make a written estimate of

- (1) the fair market rental value of the housing **unfurnished with utilities**; and
- (2) the fair market rental value of the housing **with utilities furnished** as the cleric has it furnished.

The priest must pay self-employment tax on the fair market rental value of the housing unfurnished. This is why it is necessary to obtain the real estate agent's estimate before the priest's compensation can be calculated. The Vestry must include in its calculation of the self-employment tax reimbursement the fair rental value of the house.

By law the Section 107 furnishings allowance that the Vestry designates in its annual resolution cannot exceed the difference between the two figures (i.e., the value furnished less the value unfurnished). In order to exclude that amount from taxes the priest must spend at least that amount on housing-related expenses.

You report the following figures to the Pension Fund: (1) the cash stipend; (2) the Social Security reimbursement; and (3) the actual cost of utilities for the provided housing. The Pension Fund adds 30% of the sum of these three figures as the value of the priest's housing for pension assessment purposes. **This 30% figure is entirely unrelated to the furnishings allowance or the fair market rental value on which the priest must pay self-employment tax.** As a rule, the fair market rental value will be much higher than 30%, while the furnishings allowance that can be excluded from income tax will be much lower than 30%.

Worksheet to Help Estimate Section 107 Housing Expenses

Federal law provides that a cleric can exclude from income tax (not from self-employment tax, that is, Social Security and Medicare taxes) eligible housing expenses, provided:

- 1) That the amount does not exceed the fair market rental value of the housing, furnished including utilities; N.B., in the case of clergy in church-supplied housing, the fair rental value unfurnished with utilities is already automatically excluded from income tax. You can exclude only the difference between the furnished and unfurnished rental value.
- 2) That the amount has been designated by the Vestry or governing board in advance of being earned; and
- 3) That the amount excluded does not exceed the cleric's actual eligible expenses

This worksheet is intended to help you estimate the amount you can ask your Vestry or governing board to designate as Section 107 parsonage allowance.

1) Estimate your Expenses

Mortgage or Rental payment	\$ _____
Property taxes (as applicable)	_____
Homeowner's or renter's Insurance (as applicable)	_____
Furnishings (as applicable)	_____
Maintenance (as applicable)	_____
Utilities (as applicable)	_____
Other (see list below)*	_____
Total	\$ _____

*Other eligible housing-related expenses include such things as the following. This is not an exhaustive list.

Telephone	New light post beside driveway
Cable TV	House sitting during vacation
Garbage collection	Slipcovers for furniture
Gardener	Light bulbs
Plants – inside and outside	Cleaning supplies
Chair	Postage for house-related bill payments
Pictures for the walls	Vacuum cleaner
Cleaning curtains	House cleaning service (not an individual)

2) Compare Estimated Expenses to Fair Rental Value — Now compare your estimated total expenses to the fair rental value of the house furnished with utilities (if you are in your own housing) or to the difference between the furnished and unfurnished fair rental value (if you are in church-supplied housing).

3) Get Allowance Designated — Ask the Vestry or governing board to designate by resolution the smaller of the two numbers. You cannot exclude more than the applicable fair rental value OR more than you actually spend, so if your expenses exceed the rental value, ask that the rental value be designated. If the rental value exceeds your estimated expenses, ask that the estimate of your actual expenses be designated.

4) Attend a Clergy Tax & Financial Planning Workshop — Please attend the Clergy tax workshops offered annually by the Episcopal Diocese of New York until you feel comfortable with these and other complicated areas of the tax laws that affect clergy. They are usually on the Monday before Thanksgiving. Check the diocesan website. See the next page for a fuller explanation of clergy housing matters. Thanks.