

# Clergy Housing Allowance The Ins and Outs



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# ≡ Today's Presenters



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# Clergy Taxes



## Dual tax status

Employees for federal income tax reporting purposes

Self-employed for Social Security and Medicare tax purposes (SECA)

## Receive Form W-2, not Form 1099-MISC

## Exempt from withholding

Make quarterly estimated tax payments for anticipated federal income and SECA taxes for the current tax year

## Can voluntarily have tax withheld

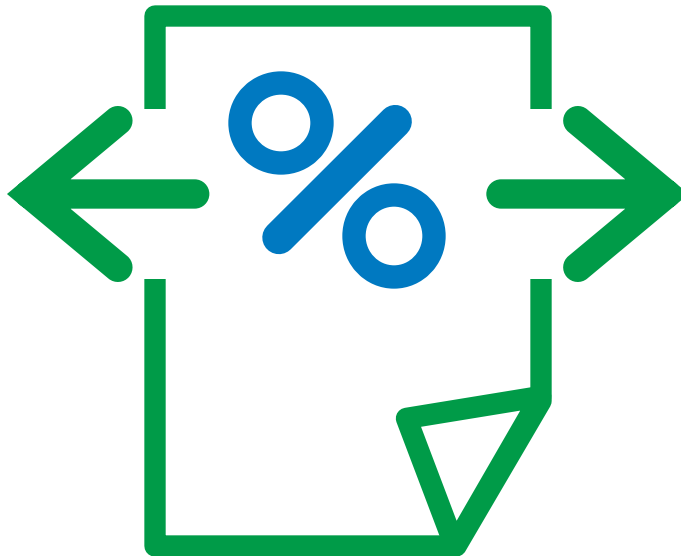
Often used to cover estimated federal and SECA tax liability

# ≡ Clergy Taxes



**Federal  
Income Tax**  
(Tax rate based  
on income level)

- General government services



**Self-Employment  
Contribution Act  
(SECA) Tax**  
(15.3% tax rate)

- Social Security
- Medicare

# Income While Working\*

## Taxed As Employee for Federal

- Cash salary
- Value of Certain Benefits
- Other (self-employment income)
  - Consulting, counseling, or supply service fees

**Bottom line: Consult with a tax preparer who is familiar with clergy taxes**

## Taxed As Self-Employed for SECA

- Federal taxable earned income
- Housing allowance exclusion

The image shows two overlapping U.S. Individual Income Tax Return forms for the year 2020. The top form is Form 1040-SR, and the bottom form is Form 1040. Both forms are from the Department of the Treasury—Internal Revenue Service. The 1040-SR form includes sections for Filing Status (Single, Head of household, Married filing jointly, Married filing separately), Home address (number and street, city, town, or post office, foreign country name), and Standard Deduction. The 1040 form includes sections for Filing Status (Single, Married filing jointly, Married filing separately, Head of household, Qualifying widow(er)), Home address (number and street, city, town, or post office, foreign country name), and Standard Deduction. The forms are partially obscured by a white envelope.

\*There may be other income for each category. Contact your tax professional.



# Housing Allowance Exclusion\*



## For federal taxes\*\*

- Cash housing allowance (home owned or rented by cleric)
  - Lowest amount of:
    - vestry resolution, OR
    - actual cash spent, OR
    - fair market rental value, furnished plus utilities
  - Used to “provide, furnish, and maintain” your primary home
- Church-provided housing
  - Fair market rental value of church-provided housing as furnished, with utilities if paid by the church

\*You may be eligible for other exclusions. Contact your tax professional.

\*\*Some states also recognize the housing allowance exclusion.



# Housing Allowance for Interim Clergy



- Interim position
  - for an indefinite period OR lasts for more than one year (even one day longer) AND
  - results in relocation
- Interim residence considered primary residence for tax purposes from the first day in position



## Housing Allowance for Interim Clergy (cont'd)



- Interim position results in relocation and continues for one year or less
  - Original home continues to be primary residence for housing allowance purposes
  - Housing at interim location can be treated as reimbursable business expense



# Federal Income Tax Exclusions in Retirement

## Housing



Lower of actual cash spent, fair rental value furnished plus utilities, or declared housing allowance (may be applied to retirement benefits, such as pension, including Christmas benefit, and RSVP withdrawal\*)



If church-related income during retirement, obtain a separate housing allowance resolution from employer

\*Caution: Transferring your RSVP account into another retirement plan or IRA may result in the loss of the housing allowance designation.

# Federal Income Tax Exclusions in Retirement

## Putting It All Together: Example



The Rev. John Smith is retired.

Fr. Smith's retirement income from The Church Pension Fund includes the following (100% designated for housing):

CPF pension	\$20,000
RSVP withdrawal	\$5,000

### Housing allowance:

Actual costs: mortgage payments, utilities, home maintenance and new furniture*	\$21,600
Fair rental value of the home, as furnished, plus utilities**	\$21,000
<b>Lower amount (housing allowance):</b>	<b>\$21,000</b>

\*Actual housing costs: Track expenses and keep receipts

\*\*Work with your tax preparer to calculate this amount.

# Federal Income Tax Exclusions in Retirement

## Putting It All Together: Example (cont'd.)



The Rev. John Smith is retired.

Fr. Smith's retirement income from The Church Pension Fund includes the following (100% designated for housing)

CPF pension / RSVP withdrawal	\$25,000
Lower amount (housing allowance)	\$21,000
Housing allowance applied to CPF pension	(\$20,000)
<b>Remaining housing allowance</b>	<b>\$1,000</b>
RSVP withdrawal	\$5,000
Housing allowance applied to RSVP withdrawal	(\$1,000)
<b>Taxable income (federal income tax purposes)</b>	<b>\$4,000</b>

# Home Office Deduction?



- Tax Cuts Job Act
  - No home office deductions for W-2 employees
- Deduction requirements
  - Use space exclusively and regularly
  - No other fixed location to conduct business
- Applicable only to self-employment income

# Take Advantage of Your Resources



**Consult a tax advisor / accountant who understands clergy tax rules**

**Need a recommendation?**

Ask fellow clergy or your  
Diocesan Financial Officer

**Tax resources by Richard R. Hammar, J.D., LL.M., CPA**

## **2024 Church & Clergy Tax Guide**

- Comprehensive, non-denominational guide to U.S. tax law for ministers and churches. May be purchased online at [store.churchlawandtax.com](https://store.churchlawandtax.com)

## **2024 Clergy Tax Return Preparation Guide for 2023 Taxes**

- Available to active and retired clergy free online at [cpg.org/taxpubs](https://cpg.org/taxpubs)

## **2024 Federal Reporting Requirements for Episcopal Institutions**

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## Complimentary Individual Financial Discussions

Committed to helping you retire with more financial security. Our dedicated specialists understand the unique needs of those who serve The Episcopal Church.

**Schedule online:** [cpg.org/letschat](https://cpg.org/letschat)



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## Tax Hotline



**Dolly Rios, CPA**  
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