

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

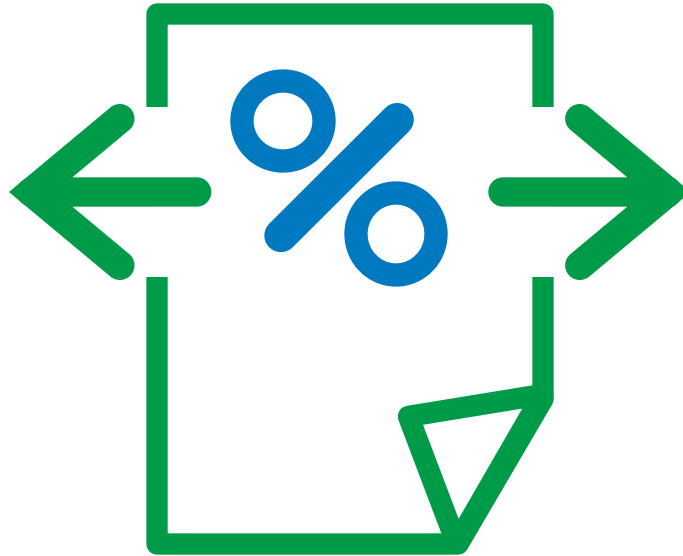
Often used to cover estimated federal and SECA tax liability

≡ 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 filled out with handwritten information.

*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

Putting It All Together: Example



The Rev. John Smith, an ordained minister, is vice president of academic affairs at Episcopal High School of Virginia.

Fr. Smith's compensation package includes:

Annual salary	\$80,000
Designated housing allowance	\$20,000

The amount of housing allowance that may be excluded from gross income for federal income tax purposes cannot exceed the lowest of the following:

Actual costs: mortgage payments, utilities, home maintenance and furniture*	\$21,600
Fair rental value of the home, as furnished, plus utilities**	\$21,000
Designated housing allowance (lowest)	\$20,000

*Actual housing costs: Track expenses and keep receipts

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

Federal Income Tax Exclusions

Putting It All Together: Example (cont'd)



The Rev. John Smith, an ordained minister, is vice president of academic affairs at Episcopal High School of Virginia.

The Rev. John Smith may exclude \$20,000 from gross income for federal tax purposes:

Annual salary	\$80,000
Designated housing allowance	(\$20,000)
Taxable income (federal income tax purposes)	\$60,000

However, the entire \$20,000 will be considered in arriving at net self-employment income and, as such, for SECA tax:

Annual salary	\$80,000
Housing allowance	\$20,000
SECA tax basis	\$100,000

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

2024 Clergy Tax Return Preparation Guide for 2023 Taxes

- Available to active and retired clergy free online at cpg.org/taxpubs

2024 Federal Reporting Requirements for Episcopal Institutions

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