

What Is the Clergy Housing Allowance?

From emails by Smythe Kannapell, CPA; and the Rev. Matthew Kozlowski

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Smythe writes:

Essentially the IRS (Section 107) provides that anyone who “preaches the gospel” may set aside part (or all) of their compensation as a housing allowance. This is not in addition to their compensation but rather a portion of their compensation that the IRS does not tax. The amount is up to the priest to determine and is the sole responsibility of the priest to defend to the IRS in an audit situation. The Vestry simply approves the resolution.

Housing can be deemed anything that is essential to “dwelling” and may include such things as rent, mortgage, utilities, lawn care, furniture etc. So a very basic example I use with the priest is as follows:

If your salary is 100,000 a year and you pay a mortgage and utilities that total \$4,166 a month then you should declare \$50,000 of your salary as a “Housing Allowance”. So each pay period (In the case of All Saints- 24 pay periods) your before tax income is \$4,166. \$2,083 of that would **NOT** be taxed, \$2,083 **WOULD BE** taxed at whatever your withholding rate is. At the end of the year the W-2 would show a taxable income of \$50,000 and “other non-taxable compensation” of \$50,000.

Again, this item is a tax break offered to preachers; and at the end of the day is their burden/responsibility. So in the above example if the priest declared a housing allowance of 70,000 a year but could only show that he had 50,000 in housing expenses the IRS would have an “issue” with him and his allowance. However, it would not be an “issue” with his church or his Vestry. (In other words it is the same as one of you declaring charitable write-offs higher than the receipts that you have to prove the deduction).

Again, the above is very basic and is not meant as actual tax guidance 😊 but just clarifies and illustrates how the housing allowance works.

Matthew writes:

This is the best and most concise explanation of the clergy housing allowance that I have ever seen!

I can add one tidbit, which is to say that in the event of a clergy over-estimating his or her housing allowance, that can be fixed without penalty as long as the clergy person declares it properly in tax preparation. As in the example above, let's say I asked for a \$70,000 housing exemption, but at the end of that year I could only defend \$50,000. I would simply make that clear in my tax preparation, and kindly ask the IRS to charge me tax on the \$20,000 difference.

However, it does not work in the opposite direction. If I only asked for a \$10,000 housing allowance, and then it turned out that I spent \$30,000 on housing, I cannot retroactively request a tax break on the \$20,000.

So it is that clergy are generally counseled to overestimate rather than underestimate the housing allowance. Within reason.