

## PARSONAGE ALLOWANCE PAYMENTS

TO: Pastors, SPRC, & Church Treasurers

Section 107 of the Internal Revenue Code permits clergy to exclude income designated as housing expense from gross income reported for federal tax purposes. If housing costs (including parsonage expenses beyond rental payments or mortgage, tax and insurance payments) estimated by clergy exceed the cash housing paid by the church, the housing allowance approved by the church conference may designate additional housing and parsonage expense paid as part of the salary in addition to the amount paid in cash.

The procedure:

1. Treasurers should reduce the salary paid by the additional allowance voted and issue one or two checks showing reduced salary but increased housing and/or parsonage expense. If this payment is made with one check, the amount of salary and allowance must be clearly noted.

*Example: Pastor's salary is \$28,000 and the church conference has voted a parsonage expense allowance of \$4,000, monthly payments would be noted as "\$2,000 – Salary and \$444 – Parsonage Expense Allowance."*

2. At the end of the year a W-2 form should be issued for the salary payments made to the pastor. The pastor would then list **unused** parsonage allowance funds or amounts in excess of fair market value of the housing as additional income on his or her tax return.

*Example: Pastor receives a W-2 form for \$24,000. Pastor spent only \$150 in receipted parsonage expenses. Pastor must report \$3,850 additional income on the tax return.*

Note: It is the responsibility of the **pastor** to report this additional income to the IRS on the tax form and to retain appropriate receipts for expenses incurred in providing for a parsonage home.

3. On Table II (a statistical report made to the annual conference) the treasurer should report the actual approved total salary offered without regard to the W-2 tax reported amount; this Table II amount should not be lower than the minimum voted by the annual conference. A table of minimums may be found in the journal in the report of the Equitable Compensation Commission.

*Example: According to the number of years of service, pastor's minimum salary could be \$26,600. However, because all \$28,000 is offered as salary (whether it is received as cash salary or as parsonage allowance) the church should report pastor's salary as \$28,000 on Table II. Although \$4,000 has been designated "parsonage expense allowance", this amount is still considered salary by the church even if it has not been expended as a parsonage expense.*

Note: Reports to the IRS (through a W-2 form) and to the church (through Table II) **may differ**.

4. Should a pastor wish to increase a parsonage expense allowance, it may be voted by the Church Council upon request **before** any funds are expended that would be covered under the allowance. Retroactive resolutions will nullify **every** expense allowance resolution made for that year.

*Example: Pastor realizes that several furniture purchases will be made during the year, totaling \$6,000. Before the purchases are made, pastor requests an additional parsonage expense allowance of \$2,000. The Church Council votes this additional parsonage expense allowance, attaches a copy of this resolution to official minutes, and provides a copy of its adopted resolution to the pastor for tax records.*

# Sample Draft

## PARSONAGE EXPENSE ALLOWANCE INSERT FOR MINUTES OF BOARD MEETING

Church Name: \_\_\_\_\_

of \_\_\_\_\_ DISTRICT

A motion was duly made and seconded, that in order to permit \_\_\_\_\_ to benefit from the provisions of Section 107 of the Internal Revenue Code of 1954, the Board specify that the total compensation paid to him/her during 20\_\_\_\_ included a parsonage expense allowance. A discussion followed during which it was explained that Section 107 provides that the gross income of a minister does not include the parsonage allowance paid to him/her as part of her/his compensation to the extent that the allowance is used by him/her to provide a home or its contents.

\_\_\_\_\_ then submitted a statement showing that he/she estimates that he/she will spend \$\_\_\_\_\_ in 20\_\_\_\_ for parsonage expenses. Since such approval by the Board would permit \_\_\_\_\_ to deduct that amount from his/her taxable income and has no further effect upon our organization or budget, it was unanimously

RESOLVED, that the total compensation of \$\_\_\_\_\_ paid to \_\_\_\_\_ to include a housing allowance expense of \$\_\_\_\_\_.

*(Copy to be inserted into minutes of meeting, another copy to be signed and titled by the chairperson and given to the clergy person for his/her records.)*

\_\_\_\_\_  
Signature

\_\_\_\_\_  
Title

\_\_\_\_\_  
Date