



HOUSING ALLOWANCES AND THE ANNUAL EARNINGS TEST

If a minister elects to receive Social Security retirement benefits prior to full retirement age, does the amount of the minister's compensation designated as a housing allowance count toward the earnings test? To illustrate, assume that Pastor J begins drawing Social Security retirement benefits during 2025, when he is 63 years of age, and continues to work for the church. The church pays Pastor J total compensation of \$50,000 for 2025, of which \$15,000 is designated as a housing allowance. If the housing allowance is included in applying the earnings test, then Pastor J has earned \$26,600 over the earnings test exempt amount (\$23,400 for 2025), meaning that his Social Security retirement benefits will be reduced by \$1 for every \$2 of earned income in excess of \$23,400. On the other hand, if the housing allowance is *not* counted in applying the earnings test, then Pastor J's earnings are \$15,000. Since this amount is less than the exempt amount (\$23,400), there will be no reduction in Pastor J's Social Security benefits. Obviously, the answer to this question can have a significant financial impact.

Unfortunately, there is no definitive answer to this question. It is likely, however, that a minister's housing allowance *should* be included in applying the earnings test. This conclusion is based on section 1811 of the current *Social Security Handbook*, which states that "the following types of earnings count for earnings test purposes: (A) All wages for employment covered by Social Security . . . (F) All net earnings from self-employment." Since the duties of ministers in the exercise of ministry are not "employment covered by Social Security" (see "[Exemption of Ministers from Social Security Coverage](#)" on page), a minister's earnings for purposes of the annual earnings test are limited to "net earnings from self-employment." This important term is defined by section 1402 of the code as follows: "[A]n individual who is a duly ordained, commissioned, or licensed minister of a church . . . shall compute his net earnings from self-employment derived from the performance of service [as a minister] without regard to section 107 (relating to rental value of parsonages)."

In summary, the best evidence supports the conclusion that ministers *should* include housing allowances (and the annual rental value of parsonages) in applying the annual earnings test, since such items are *not* excluded from the definition of net earnings from self-employment under section 1402 of the tax code. Neither the IRS, the Social Security Administration, nor any court has ever addressed this issue directly, but the conclusion summarized above seems to be the most likely result.

The elimination of the annual earnings test for persons who are full retirement age and older has diminished the importance of this question, since few ministers who are under their full retirement age have any desire to begin receiving Social Security retirement benefits and continue working at the same time (since their benefits are reduced by \$1 for every \$2 they earn above \$23,400 in 2025).