

# Church Law & Tax

LEAD YOUR MINISTRY WITH CONFIDENCE

## Housing Allowance Checklist for Churches

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### 1 – Get the Board On Board

The church board (or governing body) must formally approve the housing allowance **in advance** of the calendar year (or before the minister begins service).

Record the decision in official meeting minutes or a written resolution.

### 2 – Put it in Writing!

Put the housing allowance amount in writing—typically in a board resolution, employment contract, or policy statement.

Avoid oral-only agreements; IRS requires documented authorization.

### 3 – Do Next Year's Housing Allowance This Year

Housing allowance designations **cannot be applied retroactively**. If missed, pastors lose the tax benefit for that period.

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#### **4 – Capture the Expected Costs**

The allowance should reflect a reasonable estimate of the pastor's housing costs (mortgage/rent, utilities, taxes, furnishings, insurance, etc.).

Encourage pastors to keep annual estimates updated.

#### **5 – Understand IRS Exclusion Limits**

Remind pastors that the IRS only allows exclusion from income up to the **least of**:

- The amount designated by the church,
- Actual housing expenses, or
- The fair rental value of the home (furnished, plus utilities).

#### **6 – Review Housing Allowances Every Year**

The board should review and approve housing allowance designations annually—even if the amount doesn't change.

This keeps records clean and compliant.

#### **7 – Document, Document, Document**

Pastors must keep **detailed receipts and records** of actual housing expenses.

The church does not need to track receipts, but the IRS can audit the minister.

#### **8 – Know the Rules for Multiple Allowances**

If the pastor serves more than one church or organization, each entity may designate a housing allowance.

Total exclusions still cannot exceed the IRS cap.

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## **9 – Is the Housing Allowances for a Retiree?**

Churches can designate part of a retired minister's **pension distributions** as housing allowance, if the pension board or church authorizes it in writing.

## **10 – Communicate, Communicate, Communicate**

Provide the pastor with a copy of the resolution and a reminder of their responsibilities.

Ensure the treasurer/accounting team knows not to include the housing allowance portion in taxable wages on Form W-2 (Box 1), though it must be reported elsewhere for Social Security purposes.