

Church Law & Tax

LEAD YOUR MINISTRY WITH CONFIDENCE

Housing Allowance Checklist for Churches

☐ Get the Board On Board

Ministers can exclude a portion of their income designated as a housing allowance from federal income taxes. The allowance must represent compensation for ministerial services.

The church board (or governing body) needs to determine the [minister's eligibility](#) to receive a housing allowance, then must formally approve it in advance of the calendar year (or before the minister begins service).

If a minister gets hired mid-year, or if the church or minister discovers an allowance wasn't approved before the calendar year started, an allowance still can get adopted. However, it only works prospectively, not retroactively.

☐ Put it in Writing!

Put the housing allowance amount in writing—typically in a [board resolution](#) that gets included in the official meeting minutes detailing the board's approval.

Avoid oral-only agreements; IRS requires documented authorization. **(cont'd)**

☐ **Do Next Year's Housing Allowance This Year**

Housing allowance designations cannot be applied retroactively. If missed, pastors lose the tax benefit for the period between when the last designation ended and the next one gets adopted.

Consider inserting safety net language with a resolution to avoid inadvertent lapses, but safety net language shouldn't be permanently used—the allowance is most effective when adopted annually.

☐ **Capture the Expected Costs**

Pastors must track their housing expenses closely. Encourage them to monitor them to ensure future allowances are properly updated.

☐ **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.

☐ **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.

Also remember that amendments to housing allowances can be made mid-year, if needed.

☐ **Know the Rules for Multiple Allowances**

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

Each entity must make certain a designated allowance falls within the allowable limits set forth for the minister by the IRS. **(cont'd)**

☐ **Don't Forget About Retired Ministers**

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

☐ **Communicate, Communicate, Communicate**

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

Churches are not required to report the housing allowance on a minister's W-2 form. Some include it in box 14 ("other"), but this is optional. Also note that the allowance is excluded from federal income taxes but must be included by ministers when calculating their self-employment taxes.