

## **Presbytery of Baltimore Guidelines for Housing Allowances and Manses**

“The written call shall specify ... the salary and housing costs to be paid as compensation for the minister’s work.” [G-14.506 (b)]

Because housing costs in the Baltimore/Washington area are among the highest in the nation and because there is great value in having the minister living within the same community in which the members of that parish live, Sessions and Session Personnel Committees need to consider carefully what is required for a minister to live in that community.

### **Housing Allowance**

Housing costs may be covered by the provision of a manse or by a housing allowance. The goal is to provide (a) a means for adequate housing for the particular minister/educator and (b) sufficient resources whereby the minister/educator may be able to own a home (not necessarily in this area) after 40 years of service. Such arrangements should be designed for maximum tax advantage available to the minister/educator. Housing and salary are separate aspects of a minister’s call for tax purposes.

If the church provides a manse with paid utilities the church is strongly encouraged to (a) annually place an amount equal to 1/40<sup>th</sup> of the median house cost in the area into a separate fund (deferred equity allowance, 403b, etc.) or (b) pay an additional salary if the minister/educator has a pre-existing long term housing plan. If a church with a manse cannot meet the 1/40<sup>th</sup> of the median house cost recommendation, the session needs to have a conversation with the Committee on Ministry to discuss what the church can afford.

The median house cost is defined to be the latest quarterly reported US median sales price of existing family homes in the applicable area as calculated by the National Association of Realtors or as best defined for your area, if your area is not represented in that report. This can be found at <http://www.realtor.org/Research.nsf/Pages/MetroPrice> and choosing the current report. If this is not adequate for your area, consider consulting the Washington Post web site, <http://www.washingtonpost.com>, choosing Real Estate, then Property Values, or by consulting realtors in your area.

The church and minister may consider housing alternatives such as equity sharing or investments to help the minister to be able to afford to live in the area. The Committee on Ministry must approve any such arrangement related to housing. A sample **Residence Shared Equity Agreement** is available on the Presbytery web site.

### **Selling the Manse**

If a church which owns a manse is considering selling the manse, the church needs to consider how large the housing allowance will need to be for the minister to purchase a house in the community and to consider the source of funds for that housing allowance.

The Presbytery Property and Loan Commission should review procedural details concerning the sale.

If the church is selling the manse to the minister and the congregation is holding the mortgage, the plan of sale should state the rate of interest and arrangements for resolution of any loan/mortgage upon dissolution of the Minister's call. Any such arrangement is considered part of the minister's terms of call and must be approved by the congregation, COM, and the presbytery. Note that if the church's interest rate is below the market range, the difference is imputed income for the minister and must be reported as income to the Internal Revenue Service.

### **Buying or Owning a Manse**

If the church provides a manse, it shall be in good repair and large enough for the minister's family needs. There should be a committee of the Session to work with the minister to see that the manse is well maintained. Given the high cost of housing and, in some cases, the availability of housing, in this presbytery, having a manse can make good sense for both the minister and the church. Care must be taken to avoid situations in which the manse becomes a point of contention between the minister and the congregation. The Presbytery Property and Loan Commission should be consulted if the church is considering the purchase of a manse.

### **IRS and Board of Pension Rules**

Definition: Effective salary includes any compensation received a minister from a church or employing organization, including – but not limited to – any sums paid for housing allowance (including utilities and furnishings), the fair rental value of a manse, deferred compensation (funded or unfunded), bonuses, and lump sum allowances.<sup>1</sup>

Ministers and sessions are reminded that all of these rules are subject to IRS regulations. Although we have made this list as accurate as possible, it is your responsibility for consulting with a tax advisor. The PC (USA) references listed below also have more detail.

**QUICK SUMMARY:** A minister does NOT pay federal income taxes on the designated housing allowance. A minister DOES include the housing allowance when computing the Self Employment Tax (Social Security) and pays the entire Social Security tax.

1. If a manse is provided, the Board of Pensions requires that an amount be added to effective salary for the calculation of dues. This is calculated as at least 30% of the sum of the effective salary. A higher percentage may be indicated in this presbytery.<sup>1</sup>
2. The IRS requires that the taxpayer be able to show that the dollar amount that the church identified as housing was actually spent on allowable housing costs. If not, then the IRS is going to view the overage as salary – that is, taxable for income purposes. It is the minister's responsibility to include any overage as

- gross income in computing tax liability for the year in which it is received.
3. Ministers who own their home do not pay federal income taxes on the amount of compensation that their employing church designates in advance as a housing allowance, to the extent that (a) the allowance represents compensation for ministerial services, (b) it is used to pay housing expenses, and (c) it does not exceed the annual fair rental value of the home (furnished, plus utilities).<sup>2</sup>
  4. Similarly, ministers who rent a home or apartment do not pay federal income tax on the amount of compensation that their employing church designates in advance as a housing allowance, to the extent that (a) the allowance represents compensation for ministerial services and (b) is used to pay rental expenses such as rent, furnishings, utilities, and insurance.<sup>2</sup>
  5. Ministers who live rent-free in a church-owned manse should not include the fair rental value of the manse as income for federal income taxes. They may exclude the lower of these two amounts, providing the exclusion is not greater than reasonable pay for ministerial services:
    - a. The housing allowance designated by their church; or
    - b. Actual housing expenses not paid by the church (including utilities, furnishings, repairs, and improvements).<sup>2</sup>
  6. Prior to the last session meeting of each year, each minister shall complete and submit to her/his Personnel Committee a request for an appropriate housing allowance for the coming year. Based upon this data the Personnel Committee and the Session will approve specific amounts to be designated for housing allowance for the up-coming year for each minister. This action must be recorded in the Session or congregational minutes.
  7. The Internal Revenue Service considers ministers as "self-employed" for Social Security purposes, and therefore the entire Social Security tax is to be paid by the minister. This is referred to as "Self-Employment Tax". The base upon which a pastor pays Self-Employment Tax (Social Security) includes cash salary, housing allowance and utilities, and any other income earned in the course of ministerial duties.<sup>3</sup>

References:

1. PC (USA) Dues Basics (<http://www.pensions.org/position/ct/duesbasics.htm>)
2. Tax Guide for Ministers & Churches  
(<http://www.pensions.org/library/publications/publications/tax-000.pdf>)
3. The National Capital Presbytery – 2008 Compensation And Personnel Policies For Pastors And Certified Christian Educators  
(<http://www.thepresbytery.org/Documents/COMPoliciesProcedures>)

Note that the concept of providing a means for manse-dwellers to build equity is based on The National Capital Presbytery's "2008 Compensation And Personnel Policies For Pastors And Certified Christian Educators".