

Housing Options

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Controller, Ministry Business Services, Inc.

Reprinted from *Leadership Handbooks of Practical Theology*

Several housing alternatives are available to pastors, each with advantages and drawbacks. Both clergy and churches will benefit when they know the options.

Tax Benefits

Clergy have an excellent tax advantage available through their housing arrangements. The IRS excludes from taxable income the portion of a minister's salary allocated by the church as a housing allowance—provided the allowance does not exceed actual housing expenses or the fair rental value of the home (including utilities). This rule applies whether pastors buy or rent their house, or live in a parsonage. Churches who provide a parsonage often forget that they can also allocate a portion of the pastor's salary as a nontaxable "parsonage allowance"—to pay for the out-of-pocket expense of running the home. These allowances are subject to self-employment tax, they are only exempt from income tax.

Private or Parsonage?

Pastors who own their homes have an advantage at retirement unavailable to those who live in parsonages. Pastors in parsonages do not have an opportunity to build up property equity. Pastors who can invest in housing during their earlier working years can build equity and avoid the frustration of searching for affordable housing on retirement income.

Pastors who are provided a parsonage have other kinds of advantages. Some are able to live in homes of much greater value than they could otherwise afford. However, their salaries are often adjusted for the benefit of avoiding maintenance costs on a home and living almost rent free.

Some churches set up an "equity account" for pastors who live in a parsonage to provide parity for the benefit other pastors gain by investing in their own housing. Church leaders calculate the equity the minister would have acquired by owning a home (one simple method relies on real estate appraisals of the parsonage) and funds are then set aside to give to the pastor when he or she retires or moves. Such an equity account should be set up as a qualified retirement plan—above and beyond other retirement plans. It should not be seen as part of the regular salary or housing-allowance package, and it should not be available for current expenses.

Expensive Markets

Providing clergy housing in inflated real estate markets presents unique challenges. Consider the following:

- Have the pastor live in a lower-cost area outside the church community. The downside of this approach is that commuting may become tiresome. Furthermore, living in another community could hinder a pastor's ministry by limiting identity with the members of the congregation.
- Where home values are appreciating, the pastor and church may consider becoming equity partners through a sharing agreement. Both can invest in the purchase of pastor's housing, sharing at levels comfortable for each. (Fifty-fifty is one option example.) Depending on the community, the return on such investments could be much higher than passbook interest rates—good stewardship of the church's resources— which benefits both the church and the pastor.
- Churches may also consider providing the pastor with a home loan, although some states have laws that may prohibit this. Even in states where this is allowed, however, this loan should be an "arm's length" transaction— one at a competitive interest rate and with a recorded trust deed. Such precautions will avoid any appearance of inurement and, at the same time, enable a pastor who would not qualify for a bank loan to buy a home. Monthly payments could be deducted from payroll to lower the risk to the church.

Though housing allowances offer pastors tax advantages, the long-range benefits may be most evident at retirement. Churches and clergy should work together to evaluate their unique options so they can best meet current and future ministerial housing needs.