

## FURNISHINGS ALLOWANCE REPORT

Church: \_\_\_\_\_ Pastor: \_\_\_\_\_  
 District: \_\_\_\_\_ Date: \_\_\_\_\_

**Instructions: Hard copies to be retained by local church and clergy in case of audit. Send electronically to district office.**

Section 107 of the Internal Revenue Service Code provides for an ordained minister to designate a "Furnishings Allowance" which is excluded from taxable income. This Furnishings Allowance is available under IRS regulations for ordained clergy.

This Furnishings Allowance is intended to enable the ordained clergy person to provide for furniture, equipment, etc. where they live. This includes such items as chairs, tables, beds, large and small appliances, lamps, TV's and audio equipment, linens, dishes, etc. – anything which furnishes the clergy home. This allowance does not apply to clothing and similar non-furnishing items.

In order to take advantage of this tax provision, it is necessary for the church to designate a specific dollar amount of the pastor's total salary as "Furnishings Allowance" in advance of such acquisitions. As excludable income, this amount is not considered as income for the pastor for income tax purposes. Thus when the church treasurer makes an annual salary declaration for the pastor, **any amount designated Furnishings Allowance does not appear on the W-2 form** received from the church. Further, while this total Furnishings Allowance amount is paid directly to the pastor, any amount of the total that is not expended for furnishings the pastor has responsibility for declaring on the 1040 tax form as additional income. The total amount of Furnishings Allowance paid to the pastor is reported by the pastor as income for the purposes of Social Security self-employment tax computation.

In order to utilize for taxable purposes a "Furnishings Allowance" there must be an official action taken by a Church Conference. Be certain the action designates a specific dollar amount and is stated as a percentage of salary. Then, the finance chairperson or someone designated should draft a letter to the pastor each year stating what the amount of the agreed Furnishings Allowance is. A suggestion form is listed below.

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SPRC AND PASTOR: Please use this form as a model adapting it for your local church needs. **Fill in the blanks and have a church official sign it following the action of the Church Conference.** The pastor should retain this form in her/his tax files, but it is not necessary to mail this with tax forms. Have it available in the event you are audited and it is requested.

Dear Rev. \_\_\_\_\_:

Of the total salary (not including travel, utilities) of \$\_\_\_\_\_ to be paid to you during the next year by the  
 \_\_\_\_\_ United Methodist Church, we designate \$\_\_\_\_\_ of this total salary as

"Furnishings Allowance" as provided by Section 107 of the Internal Revenue Service Code.

Sincerely,

Date: \_\_\_\_\_

*Signature of SPRC Chair or Ad Council Chair*

Please Note: This action has no effect on the salary amounts or manner in which it is paid by the local church to the pastor. The total salary including Furnishings Allowance is paid to the pastor annually. This affects only the reportable income of the pastor to IRS (W-2) according to the tax code.

**Pastor:** It is your responsibility to keep a file of all receipts, checks paid, etc. for all items included in this Furnishings Allowance you purchase during the taxable year. If the total of these items is equal to or more than the total voted by your church as "Furnishings Allowance," then you have no additional income to report for tax purposes. Your taxable income to IRS will be your total salary less the voted Furnishing Allowance amount designated by your church. However, if your total acquisitions during the tax year are less than the amount voted as Furnishings Allowance, then the difference between what you expended and what was voted as Furnishings Allowance, is taxable/income which you must report on your 1040 tax form. Please see IRS Tax Instructions for the place to report that on your form when you file next year.