IRS HOUSING EXCLUSION REPORT

Church: _____ **Pastor:** _____

District: _____ **Date:** _____

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

Section 107 of the Internal Revenue Service Code provides for "a minister of the gospel" to designate a "Housing Allowance" which is excluded from taxable income. The Michigan Conference has traditionally used the words "Housing Allowance" to mean cash paid for housing. The Michigan Conference is choosing to use the term IRS Housing Exclusion to refer to the excludable income a minister can claim to the IRS, hoping to prevent confusion. This exclusion is available under IRS regulations for ministers.

This IRS Housing Exclusion is intended to enable the minister to provide for housing and housing items such as 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 provides for or furnishes the minister's home. This allowance does not apply to clothing and similar non-housing items. Ministers should reference the IRS website at irs.gov to determine exactly what the IRS Housing Exclusion can be applied towards.

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

In order to utilize for taxable purposes an "IRS Housing Exclusion" there must be an official action taken by a Church/Charge Conference. Be certain the action designates a specific dollar amount. Then, the finance chairperson or someone designated should draft a letter to the minister each year stating what the amount of the agreed IRS Housing Exclusion is. A suggested form is listed below.

SPRC AND MINISTER: 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/Charge Conference.** The minister 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 $_____ (Cash Salary on Compensation Report) to be paid to you during the next year by the _____ United Methodist Church, we designate $_____ (IRS Housing Exclusion on Compensation Report) of this total salary as the "IRS Housing Exclusion" as provided by Section 107 of the Internal Revenue Service Code and this was voted on by the Church/Charge Conference on _____.

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 minister. The total salary including the IRS Housing Exclusion is paid to the minister annually. This affects only the reportable income of the minister to the IRS (W-2) according to the tax code.

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

IRS HOUSING EXCLUSION REPORT

Housing Allowance Worksheet

To provide an estimate of actual costs which should be used to assist the minister and local congregation to determine an appropriate Cash for Housing Allowance when a Parsonage is not provided, if payment of Cash for a Housing Allowance is the arrangement that the Church and the Minister have agreed upon (in consultation with their District Superintendent), one of the following figures should be used:

1. Fair rental value of housing (including major appliances) within the immediate community/school district _____
2. Cost of utilities _____

Total _____

OR

1. Mortgage Payment Which Includes:
    a. Principal _____
    b. Interest _____
    c. Property Taxes _____
    d. Homeowners Insurance _____
2. Routine Maintenance _____
3. Cost of utilities _____

Total _____