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What is the minister's housing allowance?

The minister's housing allowance is the most important tax benefit available to ministers. Section 107 of the Internal Revenue Code allows "ministers of the gospel" to exclude some or all of their ministerial income designated by their church or church-related employer as a housing allowance from income for federal income tax purposes.

Is a housing allowance counted as income for self-employment (SECA) taxes?

Yes. A housing allowance may be excluded from income for federal income tax purposes, **but not for SECA tax** purposes.

Example: Reverend Smith's designated housing allowance is 40% (\$16,000) of his \$40,000 salary. Assuming he can exclude the full amount designated by the church, he will not report the \$16,000 as income for federal income tax purposes. But he will have to count the \$16,000 as income for purposes of SECA taxes. Yes. A housing allowance may be excluded from income for federal income tax purposes, **but not for SECA tax purposes.** (The W-2 will show \$24,000 for salary, noting \$16,000 for parsonage exclusion.)

What housing expenses are eligible to be excluded from income?

Eligible expenses include mortgage payments (principal and interest); rent payments; real estate taxes; property insurance; **utilities** (gas (for your house), electricity, water, sewer, garbage pickup, local telephone service); appliances and furniture (purchase or rental cost and repairs); remodeling expenses; homeowners' dues; and pest control. (*You can fill these amounts in on your worksheet – parsonage exclusion report attachment*)