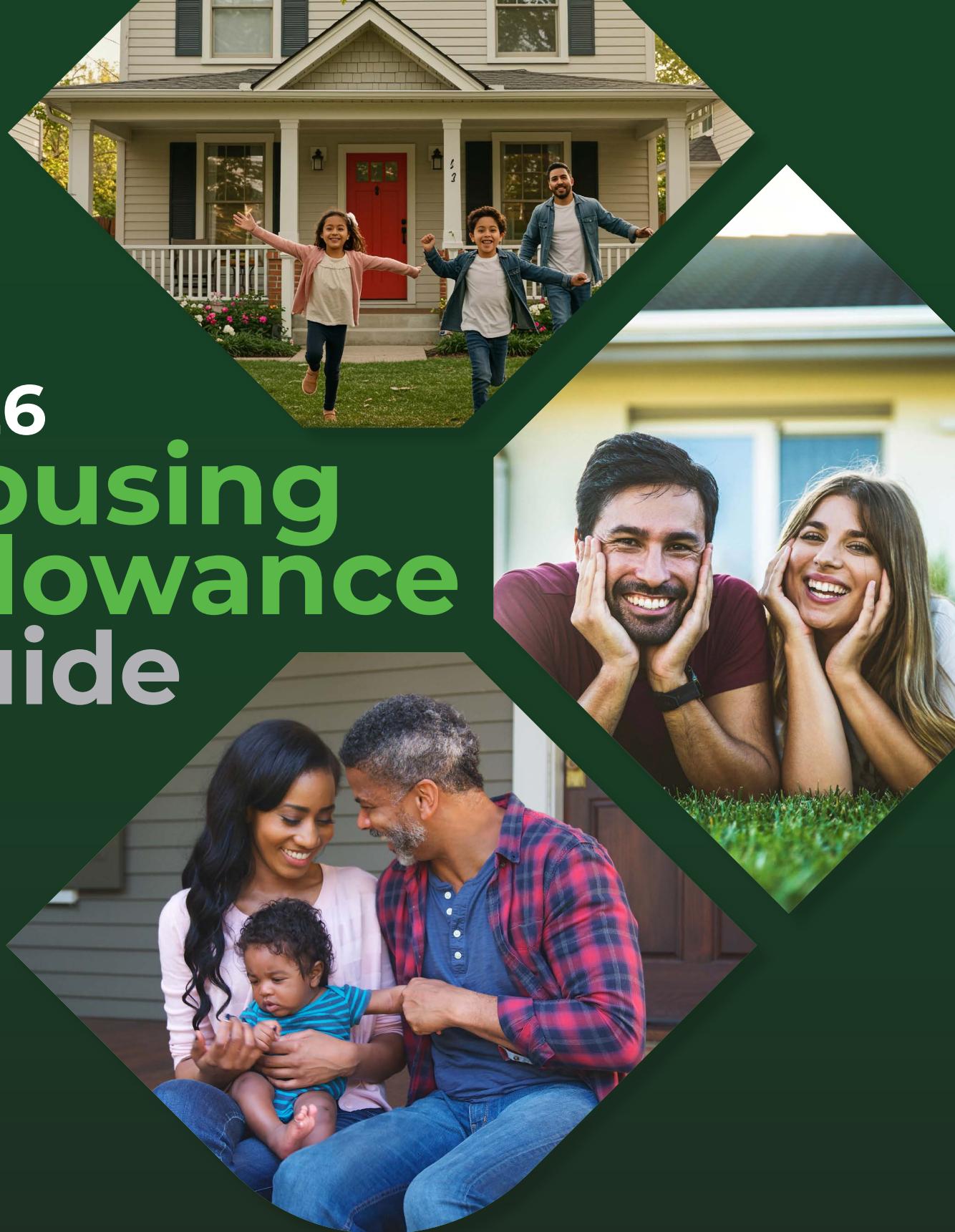


2026 Housing Allowance Guide



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WHAT IS THE “HOUSING ALLOWANCE EXCLUSION”?

Under the US 1040 Tax System, your income tax rate is determined by the total amount of taxable income you receive in a year. The “Housing Allowance Exclusion” allows Clergy to exclude a portion of their income from Federal income tax in order to pay for housing. This results in less taxable income and less income tax. The “Housing Allowance Exclusion” is one of the biggest and best tax benefits currently available to Clergy, but it is also one of the most frequently misapplied.

DIFFERENT TYPES OF ALLOWANCES

The Clergy Housing Allowance can take one of three distinct forms.

The first is the Minister who owns their own home.

- The church allocates a portion of the Minister’s salary to be spent on housing.
- The Minister spends money on housing expenses throughout the year and keeps track of these expenses for their return.
- They can also deduct the cost of their mortgage on Schedule A if they are itemizing.

- **Advantages:**

- More income is excluded from income tax since owning a home is generally more expensive than renting a home.
- Builds equity in real property over time.
- Can deduct mortgage interest and real estate taxes on Schedule A if itemizing.

The second is the Minister who rents their own home.

- Like before, the church allocates a portion of the Minister’s salary towards housing.
- The Minister spends money on housing expenses throughout the year and keeps track of these expenses for their return.

- **Advantages:**

- Still gets to exclude income from income tax.
- Get to choose where you live.
- Easier to end a rental agreement than trying to sell a home if you are required to move.

The third is the Minister who lives in a Church-owned parsonage.

- The Church provides a home for the Minister to live in.
- While the Minister is not taxed on the value of the home, utilities paid, or any furnishings provided, when it comes to income tax, they must be included as income when calculating self-employment taxes.

- **Advantages:**

- Don’t have to pay for Housing.

Important Note: Regardless of whether you rent, own or have a parsonage, you can only claim expenses for your primary residence. This means that if you own or rent two homes simultaneously, you will only be able to claim a Housing Allowance on one of them.

HOUSING ALLOWANCE ELIGIBILITY

Who is actually eligible to take the Clergy Housing Allowance? In order to qualify for a Housing Allowance as a tax benefit, the IRS has to treat you like a Minister for tax purposes.

In order to determine if you are a Minister for tax purposes, IRS looks at five main questions:

1. Are you ordained, licensed or commissioned?
2. Do you administer ordinances (rituals like baptism, communion, etc)?
3. Do you conduct religious worship?
4. Do you have management responsibilities in the church?
5. Are you considered a religious leader by the church?

In most circumstances, a person must be ordained, licensed or commissioned and must answer "yes" to a majority of the other four questions in order to be treated as a Minister for tax purposes.

WHAT EXPENSES QUALIFY

A Minister who takes a Housing Allowance and exclude those funds from income tax is expected to use those funds to pay for qualifying housing expenses.

Here is a short list of some expenses that qualify as housing expenses:

- Appliances
- Cleaning Supplies
- Closing Costs on a Home Purchase
- Down Payment on a Home Purchase
- First-time Homebuyer's Loan Repayment
- Furniture and Accessories
- Home Equity Loan Payments
- House Payments (Including Principal, Interest, Taxes, and Insurance)
- Improvement or Remodeling Costs
- Homeowner's Association Dues
- Home Insurance (Not included in the house payment)
- Renter's Insurance
- Miscellaneous
- Maintenance / Repairs
- Rent paid
- Supplies
- Taxes (if not included in house payment)
- Telephone (land-line only)
- Utilities, including internet, water, electricity, garbage, land-line telephone, and gas
- Yard maintenance or equipment

Important Note: If you claim down-payment on a home as a housing expense, it is very likely that the total amount of your housing allowance will be limited by Internal Revenue Code Section 107. See "Housing Allowance Limitations" later on in this publication for more details.

Important Note: If you take out a home equity loan, the money you receive must be spent on home expenses for your principal residence in order to claim the mortgage payments as a housing allowance expense. For example, you can't mortgage your house, spend that money on a vacation property or college, and then use the mortgage payments as housing allowance expenses.

WHAT EXPENSES DO NOT QUALIFY?

The fair rental value of the home is NOT an actual expense, and does not qualify as a housing expense.

Use of a cell phone does not qualify as a housing expense.

Substantiating expenses

It is very important that you keep a record of all of your Housing Expenses. If IRS ever audits your return, they will request that you support the numbers you claim with documentation. If you are unable to produce receipts, bank statements or cancelled checks proving the expenses, it is possible that IRS will partially or fully disallow your Housing Allowance. This means that a lot more of your income would be subject to income tax, and you would also owe a lot more penalty and interest on top of that!

DESIGNATING A HOUSING ALLOWANCE

The most important act in claiming a Clergy Housing Allowance is the act of designation. If you do not formally designate a Housing Allowance with your church, you will not be able to claim a housing allowance when it comes time to file your 1040 return.

How do I designate part of my salary as a Housing Allowance?

Your church should put the housing or parsonage allowance in writing, in clear dollar amounts or a percentage of your salary. Ideally, the allowance should be recorded in the Church's meeting minutes, in the church budget, and/or in a formal agreement between you and the Church.

Housing and parsonage allowances can only be defined for the future, never retroactively. You must write something like "For the year 20XX, my housing allowance will be blank". You cannot define your housing allowance retroactively or for the previous year. IRS has consistently disallowed allowances that were defined for past periods.

How do I amend my Housing Allowance?

The steps to amending a Housing or Parsonage Allowance are very similar to the steps you would take to elect a new allowance. The amendment or change has to be documented, preferably in writing and in clear amounts. It should ideally be recorded in your Church's meeting minutes, in the Church budget, and/or in a formal agreement between you and the Church.

Are there restrictions on how often or when I can change my Housing Allowance?

IRS does not place any restrictions on the timing of electing a Housing Allowance or amending it. You can elect or amend a Housing or Parsonage Allowance at any time during the year, and you can change it as many times as you need to change it. However, many Churches and Ministries have self-imposed internal procedures or restrictions on when they will allow changes.



HOUSING ALLOWANCE LIMITATIONS

So what is preventing a Minister from designating all of their salary as housing and not paying any income tax at all? IRS anticipated this loophole and installed several limitations on the Housing Allowance to prevent abuse and to make sure that the amounts being excluded from income tax are reasonable.

The Housing Allowance is limited by Internal Revenue Code Section 107. In this section, the IRS states that the Housing Allowance is limited to the lesser of three different categories:

1. The amount designated as a housing allowance
2. The amount actually spent to provide a home
3. The fair rental value of the home, including furniture and utilities

For example, if your housing allowance was \$15,000, you spent \$13,000, and the fair rental value is \$10,000, you could only exclude \$10,000 from income tax calculations since it is the lesser of the three categories.

This means that even if a Minister designates all of their salary as housing, they are still limited by what they actually spend or the fair rental value of the property.

Many Churches or Ministries have self-imposed restrictions on the amount or percentage of salary that a Minister can elect as an allowance, but it is important to note that this restriction does not actually currently exist in IRS rules governing Housing and Parsonage Allowances.

What is the Fair Rental Value of a Property?

The Fair Rental Value of a Property is what a similar property would rent for in that community, along with the value of the furnishings in that home or apartment.

The fair rental value is a “fuzzy” or “grey” number. Unlike the amount designated as a housing allowance or the amount you spent during a year on housing expenses, IRS does not provide details on how to calculate the Fair Rental Value. It is something that the Minister needs to determine based upon comparable properties in the area.

How do I calculate Fair Rental Value of my Home?

There are multiple ways to calculate the Fair Rental Value.

- You could look online at property websites. In many cases they list Fair Rental Value for other similar properties in the area.
- You could look at ads in the local newspaper.
- You could hire a Realtor to do an appraisal.
- You can also use the 15% rule of thumb, which adds 15% to the estimated unfurnished rental value to account for furnishings and utilities.

Regardless of the method you use, you should be able to explain to the Internal Revenue Service how you determined your fair rental value and how it is similar to other properties like yours nearby.



HOUSING / MANSE ALLOWANCE WORKSHEET

Minister's Name _____

This form is for helping ministers determine the appropriate amount to claim as housing allowance. Ordained, licensed, and commissioned ministers are not required to pay federal or state (except in Pennsylvania) income taxes on the amount designated in advance by their church as a housing allowance, to the extent that the allowance 1) represents compensation for ministerial services, 2) is used to pay housing expenses, and 3) does not exceed the fair rental value of the home (furnished, plus utilities). The clergy housing allowance **is** subject to self-employment taxes, and most clergy pay these quarterly using IRS Form 1040 ES.

HOUSING EXPENSE	Total Estimated Expenses
Down payment on home <i>(In year of purchase)</i>	\$
Annual mortgage payments to purchase or improve your home <i>(Include both principal and interest)</i>	\$
Annualized monthly rent	\$
Real estate or property taxes	\$
Homeowner or Renter insurance	\$
Utilities <i>(Electricity, gas, water, trash pickup, local telephone charges, etc.)</i>	\$
Furnishings and appliances <i>(Purchase and repair)</i>	\$
Structural repairs and remodeling	\$
Yard maintenance and improvements	\$
Homeowners Association Dues	\$
Internet	\$
Cable & TV streaming services	\$
Miscellaneous	\$
TOTAL	\$

IMPORTANT REMINDERS

- The Housing Allowance must be formally designated and recorded in advance.
- The Housing Allowance may not be established or changed retroactively.
- A new estimate of housing expenses should be submitted each year and a new designation made.
- The amount of the Housing Allowance is **included in earnings** for self-employment tax purposes.
- Ultimately, the non-taxable amount is the **least** of:
 - a) the amount designated
 - b) actual housing expenses for the year, or
 - c) fair rental value (furnished + utilities)

And designated Housing Allowance that exceeds actual housing expenses or fair rental value becomes taxable income.



SAMPLE MEETING MINUTES

Here is an example of what it would look like to document your Housing Allowance designation in the church's meeting minutes in a parsonage situation. Feel free to use this as a template for your own minutes.

The Chair informed the meeting that under the Internal Revenue Code, an ordained minister (1) is not subject to federal income tax with respect to a housing allowance, paid as part of compensation, to the extent the allowance is used by the minister to rent or provide a home and (2) is not subject to federal income tax on the rental value of a home supplied rent-free by the church.

The Board on the _____ day of _____, after considering the statement Rev. _____, setting for the amount Rev. _____ estimates to be the fair rental value of the minister's home, furnished, plus the cost of utilities, during the year 2026, on motion duly made and seconded, adopted the following resolution:

Resolved that the Board designate a housing allowance of _____ dollars for Rev. _____, to be paid as part of his/her compensation for the year 2026. Rev. _____ shall also have the rent-free use of the home location at _____ for the year 2026.

HOUSING / MANSE FORM

Minister's Name _____

Congregation _____

In compliance with Code and regulations of the Internal Revenue Service, I hereby submit the following estimate of my "costs to provide a home", under IRS Code Section 107, for the calendar year beginning January 1, 2026.

Federal regulations require that ordained, licensed, and commissioned ministers employed during the present calendar year submit this form for the subsequent year.

Select the type of housing below:

Rented Home Owned Home Parsonage

Parsonage Designation _____ (home owned by the church)

List the estimated cost that you will incur related to maintaining and furnishing the parsonage i.e. furnishing, maintenance, repairs, appurtenances, utilities including gas, water, electricity, Internet, telephone, etc.

A minister is allowed to exclude from gross income: the utilities paid by the church and rental value of a parsonage provided to him or her in addition to his or her compensation

Owned / Rented Home Designation _____

List the actual amount that you will incur related to maintaining and furnishing your home i.e. house payment or rent, furnishings, maintenance, repairs, appurtenances, utilities including gas, water, electricity, Internet, telephone, etc. Housing Allowance cannot exceed the IRS guidelines "fair rental value including furnishings and appurtenances, plus the cost of utilities)

A minister is allowed to exclude from gross income: a housing allowance paid to him or her as part of his or her compensation, to the extent used by him or her to rent or provide a home and to the extent such allowance does not exceed the fair rental value of the home, including furnishings and appurtenances such as a garage, plus the cost of utilities.

I request that the amount shown above be designated for housing allowance for the calendar year 2026 and all future years until modified or revoked. I understand that I assume full responsibility for compliance with IRS code 107.

Approved by _____

Date _____

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Since 1980, Clergy Financial Resources has specialized in serving clergy, churches, and religious organizations with comprehensive financial solutions. Today, we proudly support more than 2,500 clients worldwide, ranging from small congregations to large religious institutions. We are the leading provider of tax services designed for clergy, offering expert guidance on complex tax regulations unique to ministry. In addition, our team delivers a full suite of services—including payroll management and HR support, bookkeeping, and CFO-level consulting—designed exclusively for religious organizations. Our mission is to simplify financial administration so you can focus on your ministry.

ABOUT OUR COMPANY

Clergy Financial Resources empowers faith leaders, churches, non-profits, and businesses to achieve financial clarity and confidence through specialized services in tax, payroll, HR, bookkeeping, business tax, and CFO solutions. With specialized knowledge in clergy tax law and financial management, we provide professional guidance rooted in biblical principles, ethical integrity, and a commitment to excellence—empowering you to steward your resources wisely and serve your mission with clarity and purpose.



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