MAKING THE MOST OF YOUR HOUSING ALLOWANCE

Servant Solutions
YOUR RETIREMENT & FINANCIAL PLANNING PARTNER

Questions (and Answers) Submitted during Webinar:

What is the best way to compute rental cost of the home for tax purposes?
Options:

1. Search online sites such as Redfin, Zillow, Realtor.com, etc.
2. Ask a realtor for a written estimate (rental, including furnished) on letterhead; save to file.
3. Consider home's current sales value, multiply by +/- 10% for an unfurnished annual rental value. Then, add in estimates for both furnishings and utilities if not already included in the above calculations.

How will the 2026 tax changes affect housing allowance at tax time?
We are not aware of any coming changes for 2026 that will affect the Minister's Housing Allowance benefit. However, one significant change may be coming, related to ministers: A bipartisan bill called the "Clergy Act" has been introduced in Congress to create a window of opportunity for clergy to re-enter the Social Security system. If passed, those who regret opting out of Social Security would be allowed to "come back in" to the system, pay SECA taxes, and then receive benefits (Social Security income, disability, spousal SS benefits, etc.). This is yet to be determined.

How does receiving Social Security benefits affect housing allowance tax deduction for 2026 (including the extra $6,000 deduction)?
Receiving Social Security benefits is not related to withdrawing retirement savings as non-taxable Housing Allowance. You are making withdrawals from your retirement savings, and the qualified amount you can verify is allowed to be withdrawn as tax-free Minister's Housing Allowance.

Do I need to document the amount of my retirement funds in my Servant Solutions account that I want to use for housing allowance with my church board, or do I work that out directly with Servant Solutions?
No. All the money that you are currently putting into your Servant Solutions account will be eligible to be paid back to you (by default) as Minister's Housing Allowance in retirement, up to IRS-defined limitations, with Servant Solutions acting as the "authorizing agent" in retirement (the same role your church board is acting in currently). By default, these

withdrawals will be paid to you (non-taxed) as Housing Allowance, and you confirm (or adjust) when you file taxes. You can optionally inform Servant Solutions that you want a certain portion reported as taxable if you prefer (when you begin, and/or at the start of a new year).

I work for a Christian non-profit that files a 990. My CFO says my housing allowance must be reported on the 990 even though it is not listed on W-2s. Can you please confirm that?

The non-profit filing of IRS Form 990 is because they are required to report their finances, which includes expenses such as salary and/or housing paid to you. Their obligation is to file a Form 990, but this should not affect in any way your claiming all or part of your compensation as non-taxable Housing Allowance.

Separately, it is advised (we mentioned this and showed an example) that the amount paid to you as Housing Allowance be shown in Box 14 of Form W-2.

If one rents a house/apartment and rents a storage unit, can I claim both as a housing expense? Also, does the 15% furnishings apply only if one owns the house or a parsonage?

1. Only the primary residence and any structure attached to it are able to be claimed as housing allowance expenses. Since the storage unit is a separate, commercial property (and not your primary place of residence), even though it is storing personal property, it cannot be included.
2. Our suggestion of "factor ~15% for furnishings" was simply to get an estimated amount to add to a rental estimate to know what the Fair Rental Value Including Furnishings might be.

How does a housing allowance work while living in the church parsonage?

The Housing Allowance designation works the same whether living in a parsonage, rental, or self-owned home: any allowable expenses incurred out of pocket (referring to our housing allowance worksheet, or IRS list of allowable housing expenses) can be used as designated housing allowance. See servantsolutions.org/ministers-housing-allowance.

To clarify, do we pay 0% tax on our housing allowance, or do we pay 15% self-employment tax?

Ministers' Housing Allowance is not subject to federal income tax, but self-employment tax, or SECA ("Self-Employed Contributions Act"), which is a 15.3% tax, is paid on your total compensation (salary + housing allowance).

If I live in the parsonage, what are my actual housing expenses? Does it include what I would pay in rent if I paid fair market value?
While you do not have mortgage or rental costs living in a parsonage, any allowable housing expenses incurred out of pocket (referring to our housing allowance worksheet, or IRS list of allowable housing expenses) can be claimed as housing allowance expenses.

Many years ago, I was audited concerning my housing allowance and they determined that I could only deduct 40% of my church wages for housing allowance, and I had to pay back taxes. Is that rule still applicable?
We are sorry that you had this experience. We are not aware of any IRS ruling that sets a maximum amount that can be claimed as Housing Allowance (only "the lesser of the three amounts" we discussed in the webinar). The only possible explanation for such a finding as you experienced ("40% of your wages max.") would be that all qualifying expenses happened to be 40% of your total church compensation. In short, we are not aware of any IRS rule that sets a top limit (percent or amount) on how much can be designated.

Am I better off to choose a higher amount to declare as Housing Allowance even if we don't reach it? Or declare a smaller amount that we achieve?
We always recommend setting an amount slightly higher than you might use, as you cannot change your designated amount retroactively. (You can make a change mid-year, with Board approval/documentation, and it is only applicable to wages not yet paid to you—nothing retroactive.) An example of "why" to designate higher: unexpected expense of a water heater, new roof, tree falls in yard, etc. Set a higher amount (10% higher is suggested), then pay tax on "Other Income: Unused Clergy Housing" when you file your taxes.

Does housing allowance have to be a certain percentage of your salary? What if the fair market value or housing expenses are 70% of your salary?
Your actual expenses (or FMRV) can be any percentage of your salary. We know some pastors who are part-time or earning a salary of, say, $20,000, yet still have perhaps $21,000 or more in allowable, qualified expenses. The entire salary can be designated as Housing Allowance in this case.

Would housing allowance also include home insurance memberships (Old Republic, etc.) that cover the contents and repair of appliances?
Yes. Insurance on your home and its contents is an allowable expense.

If I am a renter, do I have to know the fair market value or do I use the actual amount I am paying?
You use the lower amount of: 1) what you actually pay in rent plus all other related/allowable expenses, or 2) the fair market rental value plus all other related/allowable expenses. Put another way, if you are paying more in rent than the fair rental value of the home, you must use the lower amount.

We just bought our first house and spent about $50,000 on renovations. Can this be added to our housing allowance? We originally set our housing allowance as $20,000, which covered our mortgage payment and utilities.
The best way to answer this question is by going back to the test of "using the lesser of" 1) what you actually spent, or 2) the Fair Market Rental Value of the same home—furnished—plus all allowable expenses. You most likely will find that adding the $50,000 in renovations will raise your actual costs above the lower amount (which you must use) of "Fair Market Rental Value." If you can ascertain an FMRV (furnished, plus all other qualified expenses), the easiest method would be to use some of that $50k of receipts + your mortgage + all other allowable expenses up to/equal to that (FMRV) amount.

I just bought a house and have access to housing allowance. How do I begin the process of receiving it?
Inform your church/employer that you want to designate a portion of your salary to be paid to you as Minister's Housing Allowance. You will need to complete a form with your church, have this designated officially by your Board, and have your payroll person/processor input these amounts (salary and non-taxable housing) as separate lines on your pay stub.

How should I manage home improvement costs (like replacing windows, furnace, drilling a well, etc.) if it occurs in a given year and pushes me beyond the fair market rental value for that year?
This is an ongoing challenge for ministers managing housing expenses. In keeping "the lowest of..." in mind, often we must strategize by moving some expenses into the first of the following year to take full advantage of those additional expenses.

How does housing allowance work if your house is already paid for... use the actual costs only?
Yes, you use actual, allowable expenses.

I own my home. Don't I still get to claim the fair market value of my home?
You can claim the lowest of either the Fair Market Rental Value (furnished) or your actual expenses. Put another way, when your home is paid off, you still can deduct all other allowable expenses (taxes, insurance, HOA dues, utilities, repairs, furnishings, etc.), but unfortunately, actual expenses in a home you own are often less than the Fair Market Rental Value. Thus, you would use actual expenses.

I am an ordained minister, I also applied for housing allowance, and I have another self-employment job. How do I calculate and pay my quarterly taxes?
Perhaps the best way to determine your estimated tax amount would be to add your total self-employment income and your church total compensation, calculate your estimated tax liability, and pay quarterlies on that amount. These payments will then be applied toward your SECA tax, which includes your self-employment income and your church salary + housing income. It would be wise to consult with a tax advisor who understands clergy taxes at least once to develop a plan going forward that you can then use each year thereafter.
To pay your quarterly taxes online, you can simply go to directpay.irs.gov.

How frequently should my Servant Solutions disbursements be made: monthly, quarterly, or annually?
There is no "right or wrong" answer for this; however, we can say that most who are making withdrawals from their retirement accounts do so monthly, directly deposited to their designated bank account. There is no guideline, law, or ruling that specifies how frequently you should take disbursements.

I would like to learn more about my church using a SECA allowance.
We suggest you contact our office and talk with Jerry or Nate about helping your church or Board understand how they can offer you this benefit.

I was wondering if there is a comprehensive list somewhere of what all is eligible to be claimed as housing allowance? I just got married in July, and my Housing Allowance is now in effect.
You can find some checklists/worksheets at https://www.servantsolutions.org/ministers-housing-allowance that will assist you in determining those things that can be included.

Our pastor is 73 years old and still pastoring. We are paying him housing allowance... he wants to know when he has to start collecting his pension from the Church of God.
Congratulations to your pastor! At age 73, the IRS requires RMDs (Required Minimum Distributions) from retirement accounts. Thus, right now is the time to begin taking withdrawals, since the IRS will require an RMD this year. The RMD is calculated by multiplying your (previous year-end) account balance by a number representing life expectancy (there is an IRS table for this calculation). However, if you're still working for the employer sponsoring your 403(b), you can delay RMDs from that specific 403(b) until the year in which you retire. As such, your pastor doesn't have to take distributions as RMDs until he retires.
If your pastor has more qualifying housing expenses than the church is paying, he/she can withdraw the difference from their Servant Solutions account also as Housing Allowance. You can contact our office for assistance in this area if needed.

Can I receive my Servant Solutions distribution after age 66 years 10 months—even if I haven't fully retired in the sense that I am still working although at retirement age—without paying taxes, and can I get the full housing allowance?
Yes. You can begin withdrawals from your retirement account at age 59½. If you are still employed by a church and receiving a Housing Allowance from that employment (and your compensation is more than your allowable Housing Allowance), you cannot also receive withdrawals from your retirement account as Housing Allowance. If you have less part-time income than qualified Housing Allowance, then you can take the remaining allowable amount as you withdraw from your retirement account. Put another way, the total housing allowance amount from your part-time employment and your retirement account withdrawals cannot exceed your total allowable expenses.

Is it a good idea to have a mortgage in retirement because you can deduct it?
Having a mortgage in retirement is not "a bad thing" in that yes, you can deduct the actual expenses (providing they are not higher than a comparable Fair Market Rental Value, etc.). Additionally, your mortgage loan rate most likely is/will be lower than what you are earning on your retirement savings investment. Taking a lump sum out (that is/was earning a higher rate of interest) to pay off a mortgage (that is charging a lower rate of interest) and "missing out" on market returns is not always advisable. Please feel free to contact Jerry or Nate in our office if you would like to have a deeper conversation about this issue.