

HOUSING ALLOWANCE CONCEPT

The amount of the pastor's cash salary that is designated for housing allowance is up to the pastor in light of his or her personal situation. However, church board action is required. Keep in mind the following:

1. This amount MUST be designated IN ADVANCE of claiming qualifying expenses as Housing Allowance. Normally, it is best to take care of this prior to the beginning of each calendar year (or upon the arrival of the new pastor if later than the beginning of the calendar year).

This is important because without an official designation, the amounts that would qualify for housing DO NOT qualify simply because the designation was not put into place.

“Officially designated” means that it was a board action (moved and seconded and carried) and that this action is recorded in the official minutes.

2. The amount designated as housing allowance can be changed during the course of the calendar year. However, it cannot be retroactive.

A change in the amount designated as housing allowance does not mean a change in the total amount of the compensation package (that would be a separate decision by the board – and commonly it is changed at the time the board adopts a new budget since that is often a time when the salary package is increased). The housing allowance may be changed during the course of the year in the event that the pastor feels it would be to his advantage to do so. This is really his decision and not the board's (except see no. 3 below).

3. The amount of the housing allowance is not to be greater than the fair rental value of the home in which the pastor lives plus the cost of utilities (phone, cable, gas, electric, water/sewer, sanitation).

A general rule of thumb is that the fair rental value of the home is 1% of the total value of the home – however, actual market conditions vary. It is ultimately the pastor's responsibility legally to be within bounds, but it is good for everyone if the church treasurer and/or Finance Committee of the church board understands the basic concept since the board DOES have a legal obligation to take INFORMED action when approving a housing allowance designation.