

Housing for Your Pastor: Parsonage or Housing Allowance?





“Should we continue to provide a parsonage and utilities, or should we provide a cash housing allowance and let the pastor purchase his or her own home?”

It’s a question we often receive to which there is no definitive answer. There are advantages and disadvantages to each scenario. One pastor may want to receive a housing allowance that will allow the purchase of homes that will grow in equity and provide a measure of security at retirement. Another may not want the burden of buying, maintaining, and selling property. The information in this document is gleaned from the actual experiences of pastors and churches.

Pro Parsonage and Con Housing Allowance

1. In some situations there really is little choice. The parsonage may be connected to or adjoining the church building with no alternative for selling or renting. Unless used for Sunday School rooms, it remains the pastor's home.
2. Churches owning a parsonage may strengthen their ability to attract the pastoral candidate of their choice who may be unable or unwilling to buy a home.
3. In some areas, no property taxes are due on church-owned parsonages.
4. The church handles repairs and maintenance on the parsonage, freeing the minister from such time-consuming worries and expenses.
5. Often a parsonage is a superior accommodation to what a minister could afford to buy in the community.
6. Making a pastoral change is easier when moving from parsonage to parsonage, since securing temporary quarters is unnecessary for house hunting or waiting for occupancy.
7. When the parsonage is sold, the church loses a traditional and meaningful way of showing love and concern for the pastor's family.
8. Many ministers do not have sufficient funds for a down payment.
9. The church that enters the loan business to "give" a pastor a down payment often bears the cost of low interest, and little or no payment on the principal. There may be tax implications as well. State nonprofit corporation laws must be followed carefully. Some states may prohibit such loans. Also, be aware that a loan situation might be trouble-free, but awkward situations could develop.
10. Very often the church cannot afford a housing allowance that fully covers all expenses: real estate taxes, fire and casualty insurance, upkeep, etc. It takes constant review and appropriate board action to keep pace with these inflationary costs.
11. In some locations real estate can move slowly, if at all. Adequate housing may not be available for purchase when needed. Likewise, a home may not sell when it's time for a pastoral change.
12. If the minister purchases the parsonage, any difference between purchase price and appraised value may be considered as taxable income.
13. Appreciation of property is assumed, but depreciation may occur due to natural and man-made disasters or economic conditions. Homes do not always sell at a profit. This is not a concern for the minister in a parsonage.



Remember!

A parsonage may be a nicer home than the pastor could afford to buy.



Remember!

A home may not sell easily during a pastoral change.

Pro Housing Allowance and Con Parsonage

1. A housing allowance may solve the problem of having to build a new parsonage at today's costs, and help the pastor build equity for retirement.
2. With a housing allowance, compensation planning may be more flexible, easier to compare, and simpler to budget.
3. Home ownership suggests permanency and may encourage longer pastorates.
4. A homeowner pays real estate taxes thus permitting him or her more voice in community affairs.
5. A minister gets to choose the type of home and location he or she prefers.
6. The minister's family may decorate—even remodel—as they wish without board action.
7. Home ownership becomes an important investment for the future, assuming each property appreciates in value and appropriate equity is established. This growing “earned equity” is portable as the minister relocates, allowing full proceeds to be taken to a new location.
8. Home-owning ministers get a tax break. Within certain limits, the housing allowance used to provide and furnish a home is non-taxable income. Additionally, mortgage interest (up to \$750,000) may be itemized as a deduction. Also, state and local property taxes (up to \$10,000) may be deductible expenses.
9. A homeowner can sell a principal residence and may not be required to pay any tax on up to \$500,000 of profit. The exclusion can be used as frequently as every two years. (See IRS Publication 523 for details.)
10. In the event of disability, death, or retirement, home ownership with adequate insurance generally means an immediate move is unnecessary.



Remember!

Home-owning ministers may benefit from special tax breaks.

Tax Implications

In addition to the above considerations the local church board should insist that tax implications be explored thoroughly before any decision is made. The following examples represent possible concerns.

1. Extra care should be taken when a parsonage is to be given or sold to a minister at below fair market value. The church may contend this is a gift and is not compensation. However, it is likely this would be challenged by the IRS, forcing the minister to pay taxes on the value of the gift or take the issue to a tax court.
2. If the church does make such a considerable gift to their minister without reporting it as compensation, the church may jeopardize or call into question its tax-exempt status. In order to have such status, the assets of the corporation cannot accrue to the personal benefit of an individual other than as reportable compensation. Tax-exempt organizations also must be careful not to pay unreasonable compensation to employees.
3. Another concern involves the sale or rental of the parsonage. The church can be subject to taxation when it receives “unrelated business income.” Be sure to consult with an attorney or tax law specialist before taking such action.

Churches with strong financial resources may have no difficulty if they decide to sell their parsonage and provide a cash housing allowance. However, such a decision should be preceded by careful evaluation and in consultation with the church board, district board of church properties, district superintendent, pastor, and legal or tax counsel.

An Alternative—A Housing Reserve

The church board that does not allow its minister to purchase his/her own home, but provides an adequate parsonage and an allowance for parsonage furniture, etc., is still without an answer for its concern about the pastor’s future retirement needs. But, there is an alternative. Let’s rephrase the question: “How can we provide our pastor with an adequate salary now and an adequate income at retirement without selling the parsonage?”



Caution!

Carefully explore the impact of selling a parsonage to your pastor before taking any action.



This question can be answered much more easily. A local church may provide a retirement housing reserve by contributing to its pastor's 403(b) plan. The benefits of doing this would include:

- The church can contribute and tax-shelter the compensation.
- Interest or gain can be realized on contributions without incurring an immediate tax liability. No tax liability is incurred until funds are withdrawn by the participant.
- Withdrawals at retirement often are at a reduced tax rate or as a minister's tax-free housing allowance.
- Numerous withdrawal options allow for maximum flexibility in retirement planning.



Remember!

Tax liability is not incurred on 403(b) funds until the money is withdrawn, and Nazarene ministers may receive the funds as a tax-free housing allowance.



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