



Parsonage

12 Questions & Answers

(12/05)

1. What is Parsonage ?

Parsonage is a tax exclusion which clergy are allowed to claim for their residence. This tax exclusion is governed by Section 107 of the Internal Revenue Code. The term parsonage covers two different situations:

- A. an institution provides an actual home to its clergy; or
- B. an institution provides a designated amount of money to its clergy for renting or purchasing a home (called the “rental allowance”). Parsonage is not counted as part of a clergy’s taxable income. There are many misunderstandings about parsonage.

2. To which tax does the exclusion apply?

The exclusion applies *only* to the regular tax on income or what we call federal income tax. It does not apply to the social security tax (FICA). If clergy person is an employee and receives a regular paycheck with taxes withheld, the parsonage allowance is not reported in the section for gross income. However, if a clergy person is self-employed and reports wages on Form 1099, the self-employment tax (meaning the extra FICA) is not eligible for the exclusion. See below for reporting requirements.

3. Who in the Jewish community is qualified to take the deduction?

- A. Ordained Rabbis who lead congregations or work for institutions performing the ordinary duties of a clergy person.
- B. Cantors (Chazans), even if not ordained as rabbis, qualify for the exclusion as long as they are employed on a regular basis.
- C. Assistant and Associate Rabbis as long as their duties are those of a clergy person.
- D. Retired rabbis or cantors as long as they receive a rental allowance or live in a home provided by the institution.
- E. Teachers and professors, if they are ordained and teach at an institution which operates as an integral agency of a religious organization.

4. Who in the Jewish community is not qualified?

- A. Administrators of a private nursing homes or hospitals even if they are affiliated with certain religious groups.

- B. Administrators of religiously-geared charitable organizations which are unaffiliated with a specific religious institution.
- C. Employees of religious institutions who are not qualified to perform all the religious functions of the institution, *e.g.*, a music director or the Sunday school principal (if not ordained).
- D. Rabbinical or Cantorial students, even if paid interns.
- E. Widowed rebbetzins.

5. What duties must the clergy perform to be eligible?

The parsonage must be provided by an institution as remuneration for services that are ordinarily the duties of a clergy person. These duties include performance of sacerdotal functions, conducting religious worship, administration and maintenance of religious agencies as well as teaching and administrative duties.

6. What happens when the institution provides a home and not an allowance?

If a clergy person is given a home by an institution and also pays the rental or mortgage and household expenses such as utilities, insurance, etc., then the parsonage amount to be excluded from income is the fair rental value of the home plus such expenses. No money is given to the clergy person in this situation, rather the *imputed* income of having such expenses paid by the institution is not counted as income to the clergy person. This means that the clergy person does not have to pay tax on the amount expended by the institution. If a clergy person pays for any expenses above those paid by an institution, the procedure for dealing with this excess amount is covered in the paragraph 7 below.

7. What happen when an institution provides a rental allowance?

If an institution does not provide a clergy person with an actual home, but rather with money to rent or purchase a home (the “rental allowance”), then the religious institution must officially designate the payment prior to its being received by the clergy person. This needs to be officially noted as separate from regular salary. This situation also holds where a clergy person pays additional expenses as covered in paragraph 6 above.

8. What is the proper procedure for designating a rental allowance?

Every year institutions should either: write the rental allowance into the clergy person’s employment contract or pass a specific board resolution which creates the allowance or note the allowance separately in the institution’s budget. Once these procedures have been followed, the rental allowance may be included in the clergy person’s paycheck. This is a very important requirement because clergy persons’ claims that certain portions of their regular salary were used to rent or purchase a home and consequently eligible under Section 107 have been rejected because their institution didn’t take the appropriate official action. Furthermore, institutions retroactive claims that part of their clergy person’s salary was really a rental allowance have also been rejected by the IRS. The best time to do this procedure for

clergy, who file with the IRS on a calendar year basis, is at the end of the year for the following calendar year, i.e. do it in December for the calendar year starting in January.

9. What is a reasonable rental allowance?

The amount designated by an institution must be reasonable. If it seems that the proportional rate of rental allowance to salary is skewed, the IRS may investigate.

The rental allowance parsonage is the smallest of the following three amounts:

- A. The fair rental value of the property (determined by size of property and neighborhood rates) plus the cost of utilities; or
- B. The actual expenses of operating the home or apartment, including the costs of utilities (such as oil, gas, electricity, water); insurance; garbage removal; furnishings and other ordinary expenses like upkeep, maintenance and remodeling expenses, but no maid service, clothing or food; or
- C. The amount designated by the institution.

10. What if there is money remaining at the end of the year?

If the money designated as the rental allowance is not totally used for its intended use so that some of the money is left over at the end of the calendar year, that money must be included in the clergy person's gross income and is taxable.

11. What are the Reporting Requirements ?

IRS recommends, but does not require, that institutions provide their clergy persons with parsonage information on their tax forms by:

- A. Showing the amount of parsonage allowance on a separate written statement attached to Form W-2.
- B. Showing the allowance on Form W-2 in any of the empty boxes which are provided for state or local income.
- C. If all of the state and local income and withholding boxes are filled in, donot show the allowance on Copy A of Form W-2, but show the allowance in any empty block, *other than those showing FICA wages and withholdings*, on copies B, C, D.

12. Do you need more information?

As is always the case with the IRS many of these questions are very fact specific and consulting with a tax attorney or accountant is very important. If there are questions on coverage, which is likely in Jewish settings because the law and regulations work better for Christian institutions, you can request a private letter ruling from the IRS. A really great website and source of other very worthwhile information is put out by:

Christian Ministry Resources, Institute for Christian Leadership at:

www.churchlawtoday.com .

PARSONAGE DESIGNATION FORM

To: Board of Director or Trustees
From: Rabbi
Re: Parsonage Allowance for _____(year)

The following amounts are an estimate of the payments I expect to make during the next year to provide a home.

Expense	Amount
1. Fair market rental of my home/mortgage	_____
2. Utilities (gas, electric & water)	_____
3. Insurance	_____
4. Repairs and Maintenance	_____
5. Furnishings	_____
6. Other _____	_____
TOTAL	\$ _____

Date: _____