

Housing Allowance Exclusion Worksheet

This worksheet is designed to help a clergy person determine the amount that he or she may exclude from gross income pursuant to the provisions of Section 107 of the Internal Revenue Code (Code). Those provisions provide that “a minister of the gospel” may exclude a “housing allowance” from his or her gross income. Please note that for purposes of the housing allowance, “retired” is not limited to how that term is defined under the UMC’s Book of Discipline. A clergy person who is considered “terminated” under the Book of Discipline, but is receiving retirement benefits, may be considered “retired” for purposes of the housing allowance depending on all relevant facts and circumstances (including, e.g., whether he or she is engaged in other employment. A clergy person should discuss this issue with his or her tax advisor.) This worksheet assumes that a parsonage is not provided to the clergy person by the salary-paying unit.

The amount that may be excluded by the clergy person is the least of:

- 1) the amount classified as the housing allowance by the salary-paying unit (in most cases for a retired clergy person, the salary-paying unit will be the annual conference from which he or she retires);
- 2) the amount actually expended by the clergy person for housing; or
- 3) the fair rental value of the residential property occupied by the clergy person.

For tax year: _____

1. Indicate the amount classified as the housing allowance by the salary-paying unit.

2. Indicate the amount actually expended by the clergy person on housing:

- a. rent payments or mortgage principal payments made
- b. mortgage interest payments made
- c. real property taxes
- d. maintenance expenses
- e. utilities
- f. furnishings
- g. other applicable expenses related to housing
- h. add lines a, b, c, d, e, f and g and indicate **total** here

3. Indicate the fair rental value of the housing plus the cost of utilities:

- a. fair rental value of the housing (furnished)
- b. fair rental value of appurtenances, such as garage (if not in line a)
- c. cost of utilities
- d. add lines a, b and c, and indicate **total** here

4. Indicate the least of the amounts indicated on lines 1, 2h and 3d

	1
2a	
2b	
2c	
2d	
2e	
2f	
2g	
	2h
3a	
3b	
3c	
	3d
	4

Assuming there is sufficient documentation, the amount indicated on line 4 is the amount that may be excluded from gross income as a housing allowance pursuant to the provisions of Section 107 of the Code.

Procedural Aspects of the Exclusion

Most local churches or other employing units of The United Methodist Church do not include the amount of housing allowance (e.g., the fair rental value of a parsonage or a cash payment characterized as a housing allowance in lieu of a parsonage) on informational returns such as *Internal Revenue Service Form W-2s, 1099s*, etc. Therefore, most active clergy never need to show the exclusion of the housing allowance when filing their federal income tax returns.

The retired or disabled clergyperson faces a different situation. Because distributions from pension programs must be reported to the Internal Revenue Service, Wespath Benefits and Investments (Wespath) reports the full amount distributed to the clergyperson during the year. The clergyperson has the responsibility of actually excluding the housing allowance from his or her reported gross income.

The clergyperson will receive from Wespath an *Internal Revenue Service Form 1099-R*. A copy of the form should be attached to the federal income tax return (and likewise, to any state or local return) filed by the clergyperson. This form reflects the amount of money received from Wespath. When calculating total (gross) income, the clergyperson must report all pension payments on line 5a "Pensions and Annuities" (*IRS Form 1040 for 2021*). The retired or disabled clergyperson should then report on line 5b (*IRS Form 1040 for 2021*) the taxable amount of his or her retirement income—i.e., the total amount of the retirement income minus the sum of: 1) the portion of the retirement income attributable to the after-tax contributions (if any), and 2) the portion being excluded in accordance with Code section 107.

The clergyperson who is claiming a housing allowance exclusion should also add an explanatory note. Next to line 5 (*IRS Form 1040 for 2021*), the clergyperson should write "See note," and, on a separate sheet of paper, should designate a "Note to line 5." The note should include language similar to the following: "I received \$xxx from the UMC Benefit Board, Inc., as reported by the attached *1099-R*. I did not include \$yyy of this amount on line 5b because it has been excluded under the provisions of section 107 of the Internal Revenue Code as a housing allowance exclusion. As a United Methodist clergyperson, I am entitled to take this housing allowance exclusion." An explanation of this type should be sufficient in most situations.

Please note that the *IRS Form 1040* is revised annually. Accordingly, the references to specific lines may change from year to year.

This information is being distributed with the understanding that Wespath is not engaged in rendering legal, accounting or other professional service. If legal advice or other expert assistance is required, the services of a competent professional advisor should be sought.