

The following is from CPG's 2021 Federal Reporting Requirements for Episcopal Churches booklet. The full booklet can be found on their website cpg.org

! **Key Point**

Clergy who live in “rent-free” church-provided housing will **NOT** be allowed to claim a housing allowance for any other real property that they own or rent while living in “rent-free” church-provided housing. This is because “rent-free” church provided housing will be considered their primary residence for tax purposes.

See this page and the next for two sample housing allowance resolutions from the vestry or other church governing body. Notice the use in both examples of so-called “safety-net” language (“and all future years unless otherwise provided”). Such language provides a basis for continuing the housing allowance at its current level but is not a substitute for the annual resolution.

Sample housing allowance resolution for a minister who owns or rents his or her home:

The following resolution was duly adopted by the vestry of Christ Church at a regularly scheduled meeting held on December 18, 2019, a quorum being present:

Whereas, the Reverend Samuel Johnson is compensated by Christ Church exclusively for the services as a minister of the gospel; and

Whereas, Christ Church does not provide Fr. Johnson with a rectory; therefore, it is hereby

Resolved, that the total compensation paid to Fr. Johnson for calendar year 2020 shall be \$50,000, of which \$15,000 is hereby designated to be a housing allowance pursuant to Section 107 of the Internal Revenue Code; and it is further

Resolved, that the designation of \$15,000 as a housing allowance shall apply to calendar year 2020 and all future years unless otherwise provided.

Sample housing allowance resolution for a minister who lives in a church-provided rectory:

The following resolution was duly adopted by the vestry of Grace Church at a regularly scheduled meeting held on December 18, 2019, a quorum being present:

Whereas, the Reverend John Smith is compensated by Grace Church exclusively for services as a minister of the gospel; and

Whereas, Grace Church provides Fr. Smith with rent-free use of a church-provided rectory as compensation for services that he renders to the church in the exercise of his ministry; and

Whereas, Fr. Smith incurs expenses for living in church-provided housing; therefore it is hereby

Resolved, that the annual compensation paid to Fr. Smith for calendar year 2020 shall be \$50,000, of which \$5,000 is hereby designated to be a housing allowance pursuant to Section 107 of the Internal Revenue Code; and it is further

Resolved, that the designation of \$5,000 as a housing allowance shall apply to calendar year 2020 and all future years unless otherwise provided by the vestry; and it is further

Resolved, that as additional compensation to Fr. Smith for calendar year 2020 and for all future years unless otherwise provided for by this vestry, Fr. Smith shall be permitted to live in the church-provided rectory located at 123 Main Street, and that no rent or other fee shall be payable by Fr. Smith for such occupancy and use.

Accountable Business Expense Reimbursement Plan

The best way for employees to handle their church-related business expenses is to have their employing church adopt an “accountable” business expense reimbursement plan. An accountable business expense reimbursement plan is one that meets the following four requirements:

1. Only business expenses are reimbursed.
2. There is no reimbursement without an adequate accounting of expenses within a reasonable period of time (not more than 60 days after an expense is incurred).
3. Any excess reimbursement or allowance must be returned to the employer within a reasonable period of time (not more than 120 days after an excess reimbursement is paid).
4. An employer’s reimbursements must come out of the employer’s funds and not by reducing the employee’s salary.

5. An accountable business expense reimbursement plan should be established by the vestry in an appropriate resolution.

Under an accountable business expense reimbursement plan, reimbursements of business expenses are not reported as taxable compensation on the employee's Form W-2 and Form 1040. The Tax Cuts and Jobs Act of 2017 eliminated the ability for employees to deduct unreimbursed business expenses for federal income tax purposes. Therefore, an accountable business expense reimbursement plan is the best way for a church and an employee to handle reimbursements of business expenses.

Churches occasionally reimburse employees for non-business expenses. Such reimbursements, though they require an accounting, ordinarily must be included in the employee's wages for income tax reporting purposes, and they are not deductible by the employee. Such personal, living, or family expenses are not deductible, and the entire amount of a church's reimbursement must be included on the employee's Form W-2.

The following is a suggestion from the Diocese and not part of the above booklet excerpt.

Supply clergy are also subject to the housing allowance rules, so we suggest that you also designate all supply clergy payments as housing. Sample wording for such action is:

"Moved, seconded and carried that the compensation for all supply clergy during 2022 be designated as cash housing allowance."

If you designate all of the supply clergy compensation, do NOT send the supply clergy a 1099 form, regardless of the amount that you paid them. Instead send them a letter indicating the amount paid to them and that it was designated as housing, because the supply clergy will need to pay SECA on that amount so they need to know how much they received.