Congregation Keneseth Israel
Policies, Practices & Guidelines

Policy, Practice or Guideline: Parsonage/Housing Allowance

Source: Finance Committee

Date Adopted: 6/1972

Dates Revised: 12/2022

I. Introduction:

Overview of IRS Rules - Clergy, who are ordained, commissioned or licensed are entitled to exclude from income the **lowest** of the following three numbers: 1 – the portion of their income designated in advance by their employer as a housing/parsonage allowance; 2 – the amount the clergy in fact used to pay for house related expenses; 3 – the fair rental value of their home (furnished) plus utilities. Thus, particularly in a year when a clergy person buys a house and pays a down payment, all actual housing expenses may not be excludible form income. Legislation passed in May 2002 makes clear that housing allowances are limited to fair market rental value.

For any amounts to be excluded there must be a housing/parsonage allowance adopted (1) by official action and (2) in advance of the time the amounts to be excluded are earned by services. Applicable IRS regulations list the following as examples of official action: employment contract, board minutes, board resolution, and congregational budget.

Some congregations follow the practice of having the clergy person estimate, before the year begins the housing expenses for the coming year and use that estimate as the basis of a board resolution. It is also permissible to set the allowance in the clergy's employment contract since the contract is in writing, approved by the board, and adopted prior to the time when the amounts are earned.

Amounts eligible for exclusion include: down payment, mortgage payments on loan to purchase or improve home (both principal and interest); real estate taxes, property insurance, utilities (electric, gas, water, trash pickup, local telephone charges, furnishing and appliances (purchase and repair); structural repairs and remodeling; yard maintenance and improvements; maintenance items (household cleaners, light bulbs, pest control), subject, however, to the limits describes in #1 above.

The amount of parsonage reduces the amount reported as compensation on the clergy person's W-2 (or Form 1099, in those rare cases where the clergyperson is operating as an independent contractor), so it is important that the amounts be supplied by the clergy to the Temple in time to prepare the required form. It is recommended that the congregation have the clergyperson substantiate the amount claimed as parsonage.

II. Policy Statement: It is the policy of KI to abide by applicable IRS rules relating to parsonage for clergy, including establishing a process to designate an appropriate amount as taxable earnings on W-2 statements (or other applicable tax statements) issued to clergy by the Temple.

III. History:

IV. Definitions:

a. Clergy includes cantors and possibly some cantorial soloists – namely those who are commissioned as a cantor by the congregation and function as a cantor by fulfilling the array of cantorial functions on a fulltime basis.

V. Procedure:

a. On an annual basis, before the beginning of the calendar year, Temple clergy will supply an estimated parsonage amount by completing the upper portion of the Parsonage Designation Form.
b. As soon thereafter as practical, but ideally before the calendar year begins, the form shall be submitted to the Board of Trustees for approval of a maximum amount of parsonage or housing allowance for the upcoming calendar year, which approval shall be indicated in the appropriate place on the form and recorded in the minutes of the Board meeting.
c. At the close of the calendar year, Temple clergy will complete the bottom portion of the form, either indicating that the estimated amount is correct, or indicating an adjustment, which may not exceed the maximum amount approved by the Board of Trustees for the year. This should be done before issuance of W-2 (or other appropriate) tax documents by the Temple.

VI. Reference:

a. "An Overview of Federal Tax Issues for Synagogues" (Originally prepared for the UAHC Pacific Southwest Regional Biennial, February 21, 1999); updated January 5, 2006 by Ellen P. April, Associate Dean and John E. Anderson, Professor of Tax Law, Loyola Law School. Copyright 2006 and used with permission.