Caring for Clergy Through Housing
Second Edition

FOREWORD

The issue of housing for clergy is an increasingly important consideration in the transitions/deployment process. The ways and means of providing adequate housing for clergy and their families affects priests, parishes and dioceses and often is a deciding factor in the calling process.

There are many factors to be considered. The Church Deployment Board, in conjunction with other Church agencies, is aware of the wide and varying ramifications inherent in the matter of housing allowances, supplied housing and other practices. A study was undertaken in 1985-86 to examine the practices and policies of dioceses throughout the United States but there have been no further studies since then. This booklet is intended to illustrate and summarize advantages, problems and concerns in a changing socioeconomic climate.

It is not our intent to advocate a particular position as the issues are complex and varied due to economic, geographic and other considerations. We offer this resource in hopes that it will enable persons involved in all aspects of transitions to be aware of pertinent information in order to make appropriate decisions. *Caring for Clergy through Housing* is intended to provide a useful and insightful look at the complex and important issue of adequate clergy housing.

Other Church Deployment Board publications which might prove to be of value are:

- *"Caring for Clergy in the Calling Process"*
- *"Interviewing in the Calling Process"*
- *"The Clergy Side of Interviewing in the Calling Process"*
- *"Caring for Clergy Through Compensation"*
- *"Prayer in the Calling Process"*
- *"Interim Ministries", Book I and Book II*

Church Deployment Board

Caring for Clergy Through Housing

“Home, home sweet home ... one's palace ... where the heart lies ...” has long been a favorite sentimental theme of poetry and song.

Housing, however, is not an abstract sentimental notion, but a basic human need – a need which has been historically and almost universally a standard provision of clergy compensation packages.

Traditionally, the housing provided has been in the form of a church-owned building occupied cost-free by the cleric and family. Often this property is located close by the church building – sometimes even of similar architecture and construction materials.

During the past 30 years or so, a variety of factors have led many individuals or vestries to choose the option of cash housing allowances rather than church-owned housing. Some reasons cited are the perceived investment benefits of real estate ownership, greater mobility and shorter tenures of clergy, longer years of retirement, and expansion of the Church into new geographical areas and therefore new building construction.

Now we seem to be witnessing a slower rate in this trend. Many parishes that were able to sell rectories and provide allowances for housing have already made the change. Fluctuating or high real estate prices in some areas have made it impossible for clergy to afford local housing in spite of the parish’s best efforts to provide adequate allowances. Also, as parishes attempt to anticipate clergy retirement needs by including some type of personally-owned escrow/equity contributions in the compensation package, some priests prefer the advantages of church-owned housing during their active ministry.

All these factors and more have raised important questions to be considered in deciding between church-owned rectories or providing a housing allowance to be used as the cleric chooses. *The purpose of this booklet is not to endorse one practice or the other, but to identify some pros and cons of each system and to provide data to aid parishes and clergy in determining their own housing policies in equitable and efficient ways, consistent with good stewardship and pastoral care.*

Studies have shown that 63 dioceses and over half of presently active clergy participated in the study questionnaire, so we believe it is a fairly representative view of the Church at that time.

A few general findings from the above-mentioned research project may be helpful in setting the context for the discussion which follows:

- In 2008, Dr. Matthew Price, Director of Analytic Research at CPG, reported that close to 75% of clergy (2/3 of whom are rectors) own their own homes. It is perhaps to be expected that the variation from one part of the country to another is unequal, however. In the older more established East, the traditional "campus style" church/parish hall/rectory arrangement is far more common than in those parts of the country where church buildings themselves are newer and the option for home ownership by clergy more feasible. In fact, it may be interesting to know that the very basis of tax exemption on rectory housing stems in part from the tradition that clerics did not have the freedom to choose their own housing, but rather were required to occupy church-owned housing as a major part of their compensation. In 2002, Congress reinforced this exemption by adding the fair-market rental value limit to the law, but it is very important to check current laws and consider potential long-term tax consequences to both parish and priest whenever contemplating changes in housing provisions.

- There is no significant evidence that home ownership impedes clergy mobility, although logistical problems may occur at the time of a move. Likewise, fluctuating real estate values have in some cases caused unfortunate financial pressures for some clergy and congregations. Significant equity in real estate does not accrue to the owner during the first few years of a mortgage. Thus when a new call requires a move, the risk of a slow or reduced house sale may be financially disadvantageous to the owner.

- A number of dioceses or parishes have established some kind of loan arrangements to assist clergy or parishes in effecting personal home ownership. Few dioceses, however, have explicit written guidelines and recommendations covering the whole area of clergy housing. We recommend diocesan standards and encourage vestries to consult their own diocesan officials for specific information and compatibility with state laws.

- Parish vestries should be aware that canons, state law, tradition, and the personnel/compensation policies of most dioceses are quite specific about the purchase, maintenance, and sale of church-owned property including those used for staff housing. It is important to be aware of your own diocese's requirements.

- It would appear that the frequently expressed fear of younger clergy that housing would be unaffordable at the time of their retirement has not, in fact, been the actual experience of many now-retired clergy. Some hardship cases do exist, however, and we encourage responsible compensation and foresight by parishes and prudent financial management by the individual. Local and national church financial planning resources are available and a variety of diocesan-sponsored retirement housing plans may be of assistance. While this information in no way absolves parishes or dioceses of today and tomorrow in establishing responsible long-term equity plans for eventual clergy retirement, we hope it does provide some reassurance to clergy.

- Although there are always exceptions to the rule, a majority of clergy residing in rectories or vicarages expressed a fairly high degree of satisfaction with the type of housing provided. Some even indicated that the house supplied was probably of higher quality than they would otherwise be able to afford. In almost all cases, "housing provided" includes insurance on the building, most household utility expenses and frequently appliances, and in some cases lawn care, snow removal, etc.

> Where tensions do exist, they almost always are caused by confusion or neglect regarding ongoing maintenance, decorations, and general upkeep.

It is hoped that parishes and dioceses are taking seriously pleas by clergy for careful examination and flexibility in housing arrangements. Even so, the number and variety of problems cited does indicate the need for continual review and clear and responsible statements of expectations by all parties involved.

Some General Comments to Vestries

Several things seem clear and important for vestries to consider regardless of whether their practice is to provide a house or housing allowance:

- Changes in parish policies from rectory housing to housing allowance (or vice versa) may cause short term or long term financial costs to the parish. It is extremely important for parishes to analyze carefully all contingencies at the time of a change in rectors/vicars. Resentments may arise from impulsive decisions made during the search and call process.

- Unwise or unclear housing arrangements can be a major cause of unhappiness or breakdown in the clergy/parish relationship.

- More significant than the method of housing supplied is the clarity and comprehensiveness of a written housing arrangement agreed upon at the time the call is issued and signed by priest and parish officials.

- Housing policies should include specific guidelines for both the beginning and termination of the clergy/congregation relationship, as well as for maintenance, repair and responsibility for upkeep during the tenure of residency.

- The effect of housing arrangements on tax and pension considerations for both priest and parish should be carefully considered and reviewed frequently for changes in federal and local tax liabilities. Assistance from knowledgeable church-related tax specialists and the Church Pension Fund is available.

PRO'S AND CON'S

The great debate, of course, centers around the "housing provided" vs. "housing allowance" issues, and we shall address some of both:

Church Owned Rectory Housing

In most cases, the convenience and comparability of the rectory to the church and neighborhood of parishioners is great. It is a visible part of the congregation's identity. On the other hand, proximity can breed pressures on clergy families and may inhibit privacy. Clergy mobility and protection against financial loss at the time of a move is enhanced, although no benefits accrue to clergy when real estate increases in value.

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When "rectory provided" includes cost of insurance, maintenance and repair, **as it should**, clergy can be freed from personal responsibility in these areas. An important caveat here is the history of some parishes to unwisely defer or improperly effect repairs. This is frustrating to the residents and very poor stewardship of property. There should be a written policy which includes financial and timely provisions for quality short and long-term repair and maintenance.

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In most cases the cost to the parish is less because equity in the rectory has built over the years, and at least some portion of rectory housing is exempt from local property taxes in most states.

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Cash Housing Allowances

Allows clergy family to select the housing appropriate to their own space and aesthetic needs. Rental may be an option. May engender a greater sense of personal and financial responsibility on the part of the clergy. Allows greater identification with other home owner-taxpayers of the community. This is perceived as both a psychological and civic advantage by some.

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May enable clergy to build equity toward eventual home ownership at retirement, although availability and volatile real estate markets may have the opposite effect. As with any investment vehicle, there are risks involved.

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As might be expected, one of the complaints about housing allowances from the clergy point of view is that they are not adequate to cover all household expenses. On the other hand, parishes frequently find that offering allowances adequate to provide housing comparable to a rectory/utilities package is more costly to the parish. The majority of clergy believe that housing allowance should fully cover rent or mortgage, utilities, taxes and maintenance and this may create significant hardship on a parish budget.

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Frees the vestry from responsibility for actual repairs and maintenance, although provision for upkeep and insurance should be considered in setting the amount of housing allowance.

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Permits income tax advantages to clergy. Under current federal tax regulations, a housing allowance is tax exempt to the extent it is used to provide housing; interest and property tax expenses are deductible but social security is paid on the whole amount. Because this is so complex, and state and local laws may vary, we earnestly encourage clergy and parishes to check with their diocesan "tax specialist" or knowledgeable tax advisors. In order for the exemptions to be in effect, the portion of compensation assigned as "housing" must be documented in writing and appear in vestry records.

QUESTIONS TO CONSIDER

CHURCH PENSION FUND

The CPG percentage for computing housing in the compensation figure when a rector is provided is: <u>30% of stipend plus utilities</u>. This has reduced the inequity engendered by the fact that many actual housing allowances are greater than the 30% figure.

Your parish might consider ways to compensate for this variation. Some parishes and/or dioceses establish a policy of including an equity and furnishings component as part of the overall benefits package. (See Appendix B—"Church Pension Fund Policy")

COST

What is the gross cost to parish . . . with both options? .
Carefully research both long and short-term costs. What equity is being built in parish property ... what expenses and vestry tasks are being avoided by non-ownership? How might you manage the money if the rectory is sold?

EMERGENCIES

What considerations for spouse/partner and family have been made in the event of tragic contingencies such as death or disability of the priest, or clergy divorce?
How can parish and priest pastorally and financially take into account these possibilities? If adequate life insurance is not a part of total compensation, mortgage insurance or low cost term insurance designated for housing for the survivor is one way of insuring some protection when emergency situations arise. You might want to explore disability insurance for long-term, but non-tenure-breaking illness.

EQUITY ACCOUNTS FOR CLERGY

If rectory housing is provided, does the parish budget include a responsible provision for the priest to be building some kind of personally owned escrow/equity account for long-term retirement needs? More and more parishes and dioceses are facing this concern by providing a separate compensation item, paid into a deferred tax account such as a 403(b) account designed to belong to the cleric and be available for housing needs at retirement. This can be accomplished through various church, bank or financial company vehicles.

HOME BUYING/MOBILITY

What considerations have been given to availability of down-payment loans from the parish or diocese – and have interest rates and terms been clearly specified? What happens when the home-owning rector accepts a new call? Have any provisions been made for a "forced-sale" occurrence... or large emergency repairs? Some states/dioceses permit multi-ownership or shared equity arrangements.

STEWARDSHIP/MAINTENANCE OF RECTORIES

Is your housing provision going to include the rectory building itself, plus maintenance, redecoration, appliances? Who is responsible for major repairs? Who makes decorating decisions? What resources and mechanisms are in place for such upkeep? Suggestions from others' experience include a regular line item in the budget and annual "inspection" of the rectory property to prevent costly deferred maintenance. Where does accountability lie? We recommend written guidelines and procedures for responsible care by those who live in the rectory as well as proper maintenance and timely repair by the parish-owners.

RETIREMENT

How might your housing decision affect the rector's choice of location for a retirement home? What responsible provisions are being taken for his/her retirement housing?

IN CONCLUSION

We believe that most parishes and dioceses have the ability and responsibility to answer these questions in ways that are equitable and appropriate for the communities in which they exist. In addition, you may want to refer to the bibliography for other resources. Furthermore, we are convinced both by practical experience and research findings that, because of the great variety of lifestyles, community patterns, and personal preference among our congregations and clergy of the Church, the most important suggestion we can make to any vestry and/or priest considering a new call is to repeat the principle with which this booklet began:

> **The most significant and critical aspect of any clergy housing provision is that a clear and comprehensive statement be specified at the time of the beginning of the parish/priest relationship; that provisions for maintenance throughout the tenure be specified; and that procedures at the time of termination be clearly understood.**

This is just a primer in clergy housing practices. Detailed statistics and analyses are available. We also realize that the size and location of a congregation dramatically affects needs and practices in this as in all forms of compensation. Clearly there are benefits and disadvantages in either system of housing. We encourage you, therefore, to consult your own diocesan officials for guidance, and hope we have provided a general framework for your deliberations and raised pertinent questions so that you can be responsibly **"caring for your clergy through housing."**

Appendix A

CLERGY HOUSING

The Rev. Canon William F. Geisler, CPA
August 2007

This publication presents various options for clergy housing to be used by clergy and according to the needs of different congregations. An understanding of tax law and Church Pension Fund rules should precede a discussion of clergy housing.

FEDERAL INCOME TAX LAW

Section 107 of the Federal Income Tax (FIT) code is the basis of the tax treatment of housing provided to clergy by churches. Section 107 housing is tax-free for FIT purposes whether the parish provides a house or gives the cleric a housing allowance. This tax-free treatment is not absolute. Since January 1, 2002 three tests are imposed by the IRS upon the housing allowance paid to the cleric in cash:

- **Test 1**: A resolution must be passed by the vestry before the housing allowance is earned, setting a dollar value upon the housing allowance. This resolution can be changed at any time prospectively (never retroactively).

- **Test 2**: The amount excluded for housing on the cleric's tax return can never exceed the Fair Rental Value (FRV) of the housing—furnished plus utilities. Since this limitation is an absolute maximum amount, common sense suggests that the requested housing resolution is for the "Fair Rental Value: furnished plus utilities."

  Practical suggestion: obtain an estimate of the FRV provided by a realtor or other professional and request that this amount (plus an estimate of the cost of utilities) be the designated housing allowance. A higher amount cannot be used and a lower amount may result in the cleric's not maximizing the benefit. Note that the amount of the designation has no financial impact on the parish.

- **Test 3**: The cleric should keep track of expenditures on housing (with receipts) and be sure to exclude the amount spent up to the maximum of **Test 1** or **Test 2**, whichever is lower. **Test 1** and **Test 2** should be the same amount in most cases for full-time clergy. Expenditures may be higher than allowed under **Test 1** and **Test 2** in years when a cleric makes a down payment or spends money on major repairs.

Housing provided by the church in lieu of a housing allowance is common in certain areas of the country. Such housing is free from Federal Income tax.

These tax-free housing provisions apply only to clergy. Some churches wish to provide housing for lay employees. Unless the housing is on the premises of the church and for the convenience of the employer, the housing is probably taxable income to the lay employee. Some possible exceptions might be housing provided to a watchman or to a sexton who must be on the premises 24 hours a day to do his/her job.

NOTE: The cleric must pay the Federal Self-Employment Tax on:

a. the cash housing allowance or
b. the fair rental value of provided housing

In the case of provided housing, the Church Pension Fund calculation of 30% of cash stipend is not the Self-Employment Tax basis. Thus it is possible that a cleric could be hired at a modest cash stipend, and be provided a splendid and expensive rectory with a resulting Self-Employment tax of $15,000 (as of this writing). Be very careful about this issue when considering a rectory.

PENSION FUND RULES

The Church Pension Fund formula for active clergy providing their own housing is an assessment of 18% of: the cash stipend (salary) plus Section 107 parsonage allowance plus 403(b) tax-deferred annuity contributions plus self-employment tax allowances.

The formula is different when the parish provides the housing. In such cases the housing is valued for Church Pension Fund purposes at 30% of the cash stipend. It is very important to realize that the Church Pension Fund valuation has nothing to do with the tax valuation. *If one is making $50,000 cash stipend and being provided housing, that housing is valued at $15,000 for Pension purposes whether it is a dilapidated cottage or a San Francisco area mansion.* The IRS, however, will expect payment of self-employment taxes not on the $15,000 but on the basis of the real fair value of the house. Be aware of this difference when negotiating contracts.

Temporary jobs away from home and out-of-town will generally require temporary housing. If the job is for no more than one year and cannot be renewed, the IRS appears to treat reimbursement of housing costs or the provision of housing as a non-taxable reimbursed business expense. From a tax point of view, this result is good.

EXAMPLES OF EMPLOYMENT SCENARIOS

The examples contain opinions and trends and are not to be regarded as definitive. Always consult your own financial and tax advisors.

Called as Rector. No housing provided.

Such a call ordinarily assumes a tenure of some duration. One might want to buy a house. If one is reasonably sure that the job will last 5 years or more, then consider the purchase of a house. However, if the market or neighborhood is bad, renting may make more sense. Buying a house should be a good economic and personal decision. Sometimes the parish expects the rector to live near the church. If the community is very expensive, the cost of housing may be too much for the clergy family. In such a case, asking the church to provide housing, even if the house is rented, takes the load off the clergy family. In such circumstances, I often recommend investment in the Church Pension Fund RSVP plan to build resources for an eventual purchase.

Called as Rector. Housing provided.

Make sure you can afford the self-employment tax on the rental value of the house. You might need to ask for financial help from the parish. Don't be shy. Many dioceses require or at least strongly suggest that you receive an equity allowance because you live in church-provided housing. Good. I generally suggest that the money be invested in an RSVP plan.

Called as an Assistant.

Whether housing is provided or not, buying a house is usually a risky strategy. Living somewhere for only a few years means that if the market goes down while you are there, the time for price recovery is too short and selling at a loss is a common story. Rent if housing is not provided by the church and save on taxes by putting money into an RSVP.

Called as an Interim

The same answer as #3 for the same reason.

Called after retirement

As of 2007, the Church Pension Fund permits you to earn a little over $30,000/year plus receiving church-provided housing and while still collecting your pension benefit. You will probably find it to your advantage to request that the church furnish the housing even if it must rent on your behalf. If you get a housing allowance instead, it will be deducted from your stipend. Big difference. Remember that the IRS doesn't care if you are retired. Your earned income, including housing is still subject to the self-employment tax. Also, you can continue to fund your 403(b) fund from salary.

BASIC PRINCIPLE

NEVER make decisions based on taxes. Make the best financial and personal decisions for you and your family, and THEN structure your finances for the best tax benefits.

RESOURCES

Tax Guide for Episcopal Ministers and Churches **(**published by Church Pension Fund) is available online at www.cpg.org and is sent to all clergy, seminarians and parish administrators in January each year.

Church and Clergy Tax Guide by Richard R. Hammar (published by Christianity Today) available at: www.ChurchLawTodaystore.com The Church Pension Fund also publishes an abbreviated Episcopal version and sends to all clergy, seminarians and parish administrators annually.

For further assistance contact Church Pension Fund tax consultants: the Rev. Canon William F. Geisler, CPA at (877) 305-1415 and Mr. Matt Chew, CPA at (877) 305-1414.

Appendix B

CHURCH PENSION FUND POLICY

What Compensation is Assessed for Pension Purposes?

For pension purposes, compensation generally consists of: cash salary, Social Security tax reimbursements, utilities, and housing. Compensation may also include other items that are taxable under the Internal Revenue Code, as determined by the Plan Administrator.

- **Cash salary** is the stipend paid, including bonuses, fees, one-time cash payments, tuition paid for dependents, severance and any salary reduction arrangements used to fund an annuity or other tax-favored account, such as a TSA, RSVP or other 403(b) account.

- **Social Security tax reimbursement** is compensation the employer provides to offset self-employment (SECA) taxes.

- **Utilities** are allowances received to cover the cost of utility bills, such as fuel, gas, and electricity, or the amount the employer pays for utilities on the cleric's behalf.

- **Housing** is the allowance received for this purpose. As CPF calculates the total compensation on which the assessment is based, it is important for CPF to know whether or not housing is provided and if so, how it is provided.

  If housing is provided rent-free, the housing allowance is calculated at 30% of the sum of the cash stipend, Social Security (SECA) reimbursements, and utilities.

  If both housing and meals are provided free of charge, the housing allowance is calculated at 40% of the sum of the cash stipend, Social Security (SECA) reimbursements, and utilities.

  If the cleric receives a cash housing allowance or a housing equity allowance, the housing allowance is the actual dollar amount the cleric receives.

  If housing is provided rent-free and the cleric receives an additional cash housing allowance or housing equity allowance, for pension purposes the value of the provided housing is calculated at 30% of the sum of cash stipend, Social Security reimbursement, and utilities. Total compensation is then equal to the calculated value of the housing plus the actual cash housing allowance or housing equity allowance received.

If the cleric receives compensation from more than one church employer, but only one provides housing, compensation from all of the qualified employers is assessed for a proportionate share of housing.

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CDO: Office for Transition Ministry
of the Episcopal Church

815 Second Ave. 6th Fl. New York, NY 10017-4594

(212) 922-5250

(800) 334-7626, Extension 5250

Email: cdo@episcopalchurch.org

Web: www.episcopalchurch.org/cdo

and

The Members of the Board for Church Deployment

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