

MISSIONARY SERVICE AGENCY

P.O. Box B ■ Marietta, GA 30061 ■ Phone & Fax (770) 424-1545 ■ www.WorldOutreach.org

Housing Allowance Guidelines

Dear WOM Missionary,

This memo will provide the following: 1) Helpful information about Housing Allowances, 2) Steps for application for your Housing Allowance, and 3) A Worksheet to guide you.

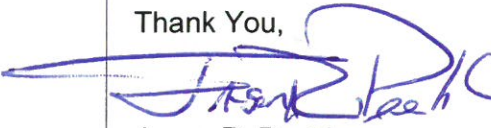
Steps / Items We Need:

1. Read through the helpful information attached.
2. Use the WOM Worksheet to help guide you.
3. If you ever need to update the amounts, it is your responsibility to submit a new Worksheet for review and approval – each time.
4. Our process requires you to submit the following items:
 - 1) **Your completed Worksheet.**
 - 2) **Copy of Ordination, License or Commission Letter.** If you do not have an ordination certificate or license, then a “Letter of Commission” (on their letterhead) from the ministry or church that you are working with will suffice. *“Missionary John Smith has been commissioned by our organization to serve in missions . . .”*

One caution regarding the housing allowance: According to the IRS, the tax liability and reporting requirements belongs to the minister (the taxpayer) and not to the church or ministry. Accordingly, if you are ever audited and it is determined that you misreported your housing allowance, the IRS can collect taxes on the overstated amount plus add penalties and interest for the years in question. Here are several critical items regarding the housing allowance and filing your tax return:

- 1) You will not receive separate “housing deposits.” Your WOM deposits will continue as normal. However, when we prepare your 1099, it will reflect your total **minus** the approved housing allowance amount. There will be a separate cover letter with your 1099 that shows your approved housing allowance total.
- 2) When you file, if your actual housing expenses were less than the approved amount on your Worksheet, the IRS requires you to report the difference as income on the Schedule C of your tax return.
- 3) The housing allowance is generally income tax free. However, it is still subject to Social Security tax and should be reported on the Schedule SE when you file.
- 4) Additionally, use the Schedule C to deduct applicable ministry expenses.

Thank You,


Jason R. Peebles
President WOM

“Going Into All The World!”

■
“Going Into
All the
World!”

■
Global
Impact:

Evangelism

Discipleship

Church Planting

Bible Schools

Leadership Training

Life Skills Training

Trafficking Rescue

Translation Work

Medical, Dental

Aviation

Agriculture

Water Systems

Drama Teams

Feeding Centers

Orphanages

Helps Ministry

Helpful Summary Information

First, determine if a Housing Allowance is right for you. In some cases, a housing allowance may not benefit you. Everyone's case is different. Mission workers often qualify for two large tax breaks: the housing allowance and the foreign income exclusion (which is now up to \$104,000) – but every case is different. For example: 1) If you are a resident missionary (foreign missionary) without children, then you may qualify for the “foreign income exclusion” deduction, and the housing allowance may not benefit your case. 2) For mission workers with children, the foreign exclusion may not be the best option, since you are not allowed to take child tax credits if you take the exclusion. With the housing allowance exclusion, you can still claim your child tax credits. 3) Additionally, many do not qualify for the foreign income exclusion due to residency requirements – and in those cases, a housing allowance would definitely be a big advantage. Here is another example: If you are based here in the USA (home missions – and your ministry focuses on campus outreach, jail ministry, or you conduct short-term mission trips, etc.) -- then a housing allowance would most likely be a big benefit to you. There can be many determining factors as to what is best for you.

Therefore, it is important for you to consult with a qualified tax preparer who specifically understands mission work (not all accountants do). Please do not call us for tax advice, as we are not trained tax preparers. If you need a qualified tax preparer (who specializes in mission worker's taxes) then please contact the accounting firm that we recommend in our **Resource Library** www.WorldOutreach.org/resources and **scroll to Section 14.** Their expertise will more than pay for their fee by helping you maximize deductions that the IRS allows for mission workers.

Housing Allowance History: A substantial tax benefit is provided to qualifying ministry workers based on Section 107 of the Internal Revenue Code (IRC). It consists of only one sentence which currently states that: “In the case of a minister of the gospel, gross income does not include —(1) the rental value of a home furnished to him as part of his compensation; or (2) the rental allowance paid to him as a part of his compensation, to the extent used by him to rent or provide a home and to the extent such allowance does not exceed the fair rental value of the home, including furnishings and appurtenances such as a garage, plus the cost of utilities.” The basis of this exclusion from taxable income is deeply rooted in our nation's tax history. In 1954, the provision was expanded to include the “cash” rental allowance paid in lieu of a provided dwelling. As recently as the Clergy Housing Allowance Clarification Act of 2002, Congress reinforced and clarified the provisions by adding language to the code about the fair rental value.

Eligibility: Tax regulations limit the housing allowance exclusion to the amounts paid for the home provided, “as remuneration for services which are ordinarily the duties of a minister of the gospel.” Bi-vocational ministers can have a housing allowance, but only from their ministerial income. Generally, secular employers cannot give an employee a tax-free housing allowance, even though the employee is a minister. Retired ministers can have a housing allowance too.

Advance Designation: Such an amount must be *designated in advance* as discussed below. Tax regulations specify that for the housing allowance to be excluded from federal income taxes it must be *designated in advance of payment* by official action of the church or ministry. The designation must be in writing and should be noted in the minutes of the ministry Board or finance committee, if appropriate. The designation does not need to be attached to the tax return or reported to the IRS except upon specific inquiry. It is recommended that the wording of the resolution be "open ended" so that the designation would be effective from that point forward until it is revised by the Board. Suggested script for a Mission Worker: "Compensation for Rev. _____, as a Mission Worker, will include \$_____ designated as housing allowance."

How Much Housing Allowance Can Be Excluded? Up to 100 percent of compensation can be designated as housing allowance, but this does not necessarily mean that this is the amount which can be excluded from income taxes. IRS Publication 517 provides a definition of how much parsonage allowance can be excluded for ministers: "If you own your home and you receive as part of your pay a housing or rental allowance, you may exclude from gross income the smallest of the following: • The amount actually used to provide a home, • The amount officially designated as a rental allowance, or • The fair rental value of the home, including furnishings, utilities, garage, etc. You must include in gross income the amount of any rental allowance that is more than the smallest of your reasonable pay, the fair rental value of the home plus utilities, or the amount actually used to provide a home." Thus, it can be seen that the ministry employer cannot allow the mission worker to exclude "too much" by over-designating the amount of housing allowance – but, on the other hand, can cause the minister to pay substantially more taxes than required by under-designating. **The liability for determining the appropriate amount of housing allowance that can be excluded is the ministers.** The church or ministry has no responsibility beyond determining that the compensation is reasonable for the services performed. The minister is responsible to determine any excess designated housing allowance and to report that amount as taxable income on the annual tax return. When ministers (whether active or retired) pay off their mortgages, they can still have a housing allowance. However, it cannot exceed the *actual cost* of maintaining the home (this includes real estate taxes, home insurance, etc.).

What Expenses Can Be Used to Justify the Housing Allowance Exclusion?

Generally, any expense to provide or maintain the home can be used to justify the housing exclusion. Regulations do specifically state that expenses for groceries, paper products, personal toiletries, personal clothing, and maid service cannot be used. You may legitimately include the following: (1) rent, principal payments, or down payments plus the cost of buying the home; (2) taxes and mortgage interest (even if these are includable as itemized deductions); (3) utilities (heat, electric, telephone, water, etc.); (4) the purchase of furniture, appliances, dishes and cookware, and decorating items including rugs, pictures, curtains, bedspreads, sheets, towels, etc.; (5) insurance on the home and contents; and (6) miscellaneous expenses including improvements, repairs and upkeep of the home and its contents, snow removal, lawn mowing, light bulbs, cleaning supplies, etc.

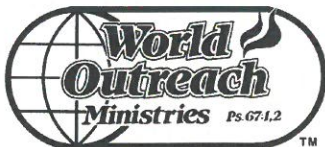
When we send your 1099 Tax Form, it will reflect your total WOM income minus the approved housing allowance amount you calculated. **There will be a separate cover letter with your 1099 that shows the Housing Allowance total – and it is important that you keep this cover letter with your Form 1099. You will need both.**

Scroll to next page for the
“”WOM Housing Allowance Worksheet”

If you determine that applying for a Housing Allowance is right for you, then submit your documents (Worksheet plus your Ordination, License or Commission letter) to:

Joanna@WorldOutreach.org and put

“HOUSING” in the subject line.



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Housing Allowance Worksheet

Mission Worker's Name: _____ WOM Fund Code: _____

Ministry Focus: (country & activity) _____

1. Submit your Worksheet plus – your ordination, license or commission letter (see cover letter).
2. The approved Worksheet will remain in our files and stay in force unless revised or canceled.
3. You will receive a copy of the approved Worksheet for your files.
4. Housing allowances cannot be retroactive – we must calculate from the approval date only.
5. Your housing allowance total will be acknowledged in a cover letter with your 1099.

Note: Calculate monthly amounts. Not all categories may apply:

- | | |
|--|-----------------|
| 1. House Payment or Rent | \$ _____ |
| 2. Loan, refinance, purchase costs msl | \$ _____ |
| 3. Community HOA fees | \$ _____ |
| 4. Utilities (electric, gas, water, sewage, trash) | \$ _____ |
| 5. Cable & Internet | \$ _____ |
| 6. Real Estate Taxes – not included in payments | \$ _____ |
| 7. Home Insurance (home & contents) | \$ _____ |
| 8. Additional insurance – FEMA flood, etc | \$ _____ |
| 9. Household furnishings | \$ _____ |
| 10. Decorator items (drapes, pictures, towels) | \$ _____ |
| 11. Repairs & maintenance for home & appliances | \$ _____ |
| 12. Appliances purchased (TV, DVD, stereo, dishwasher) | \$ _____ |
| 13. Additional home improvements | \$ _____ |
| 14. Lawn, landscape, pest control | \$ _____ |
| 15. Cleaning services & supplies | \$ _____ |
| 16. Miscellaneous (dishes, piano, rugs, cookware) | \$ _____ |
| 17. House Telephone | \$ _____ |
| 18. YOUR MONTHLY TOTAL | \$ _____ |

Your Signature: _____ Date: _____

For Office Use Only:

THIS YEAR'S TOTAL – if your housing is being approved after January, we will calculate your total from the approval date. Housing allowances cannot be retroactive. \$ _____

12-MONTH TOTAL – for years to follow unless revised or canceled. \$ _____