Minister Housing Allowance Planner 2026-2027

How much of the housing allowance is tax-free, what is taxable, how much SE tax to plan for, and what to designate for 2027.

1
Year-end check
Type 3 numbers in the Allowance Check tab.

2
SE tax
Type your salary in the SE Tax tab.

3
Plan 2027
Budget, designate before January 1.

What is inside

Part	What it does
Excel workbook (9 tabs)	Allowance Check, SE Tax, 2027 Planner, Expense Log, Scenarios, Resolution Sample, Year-End Checklist, 2026 Figures
This PDF guide	The rule, worked examples, edge cases, deadlines, mistakes to avoid

Who this is for

- Pastors and ministers who receive a housing allowance from a church
- Church treasurers and finance teams who set the allowance and prepare Form W-2
- Ministers who live in a church parsonage and receive a utilities allowance

> **Important.** This kit is for education only. It is not tax, legal or financial advice, and results are estimates. Federal rules only; state rules vary. Confirm your situation with a qualified tax professional. Never type SSNs, bank account numbers or passwords into the workbook.

How the workbook is colored

Yellow = you type	**Green** = your answer	**White** = automatic	**Grey** = optional

Numbers already in yellow boxes are examples. Open the step-by-step math with the + button at the left edge of each calculator tab.

Built by a US tax and bookkeeping practice with 20+ years of bookkeeping experience. Personal-use license: one church or household.

1. The rule: the smallest of three amounts

A minister can exclude a housing allowance from income tax if the church **designates it in advance** of payment and total pay is **reasonable** for the work. The tax-free part is the **smallest** of:

A
Amount officially designated in advance

+

B
Amount actually used to provide or rent a home

+

C
Fair rental value of the home, furnished, plus utilities

→

Smallest
= tax-free for income tax

Anything paid above that smallest amount is **taxable wages**. On Form 1040 it goes on **line 1h** with the words "Excess allowance".

Worked example A: homeowner example values

Line	Amount
A. Designated and paid for 2026	$30,000
B. Actual housing costs (mortgage, utilities, insurance, tax, repairs, furniture)	$27,400
C. Fair rental value, furnished + utilities	$28,800
Tax-free housing allowance = smallest	**$27,400**
Excess added to wages (line 1h) = $30,000 − $27,400	**$2,600**

Type it yourself in any spreadsheet

Cell	Formula
Tax-free part	`=MAX(0, MIN(Designated, Paid, Actual, FRV))`
Excess (taxable)	`=MAX(0, Paid − TaxFree)`
Costs above the limit	`=MAX(0, Actual − TaxFree)`

The allowance must be used in the year it is received. Costs above the limit are not deductible as housing, but mortgage interest and real estate taxes may still be itemized; ask your tax professional.

2. What counts as a housing cost

Usually counts	Usually does not count
Rent; mortgage payments (principal + interest)	Food, groceries, cleaning service
Utilities: electric, gas, water, trash, internet	Costs the church already paid directly
Home insurance; property tax; HOA dues	A second home or rental property
Repairs and upkeep; furniture and appliances	Loans used for things other than the home

Log each payment in the **Expense Log** tab with a date, category and amount. Keep the statement or receipt.

How to estimate fair rental value

1. Find 2 or 3 similar homes for rent nearby (size, area, condition).
2. Use the monthly rent for a **furnished** home, or add a fair amount for furniture.
3. Add average monthly utilities. Multiply by 12.
4. Save the listings or notes with your records.

Worked example B: renter example values

Line	Amount
Designated and paid	$24,000
Actual: rent $2,000 × 12 + utilities $1,200	$25,200
Fair rental value	$26,000
Tax-free part (designation was the smallest)	**$24,000**
Costs above the limit (not tax-free)	$1,200

Lesson: the designation was too low. Use the **2027 Planner** to budget next year, with a cushion.

3. Self-employment (SE) tax

The housing allowance is tax-free for **income tax** but **not** for self-employment tax. Ministers pay Social Security and Medicare on ministry earnings through SE tax, and churches do not withhold it.

Step (2026)	Example A
Church salary (W-2 box 1)	$48,000.00
+ Housing allowance paid	$30,000.00
= Ministry earnings	$78,000.00
× 92.35% = net SE earnings	$72,033.00
Social Security 12.4% (up to $184,500)	$8,932.09
Medicare 2.9%	$2,088.96
Estimated SE tax	**$11,021.05**

Spreadsheet: `=ROUND(MIN(Net,184500)*12.4%,2)+ROUND(Net*2.9%,2)`, and 0 if net is under $400.

Worked example C: parsonage example values

The church provides a home (rental value $21,600) and designates a $4,800 utilities allowance; utilities cost $3,900. The home's rental value is tax-free for income tax; $3,900 of the allowance is tax-free; **$900** is excess. For SE tax, all three count: $52,000 + $4,800 + $21,600 = $78,400 → net $72,402.40 → SE tax **$11,077.57**.

> **Paying it:** use quarterly Form 1040-ES payments (4th quarter 2026 due January 15, 2027) or ask the church to withhold extra federal income tax from each paycheck to cover it.

Form 4361 (exemption from SE tax) has strict conditions and deadlines and is not covered here. If you have an approved 4361, choose "Yes" in the SE Tax tab.

What the minister's Form W-2 usually shows

Box	Minister (not exempt)
Box 1 wages	Salary only, without the designated housing allowance
Box 2	Only voluntary income tax withholding, if requested
Boxes 3-6	Blank: no Social Security or Medicare wages or tax
Box 14	Optional note: "Housing allowance $____" (or a separate letter)

4. Designating the 2027 allowance

Nov–early Dec	December	Before 1/1/2027	During 2027
Minister estimates 2027 costs (2027 Planner)	Board adopts the amount in minutes	Designation in place before first 2027 pay	Log costs; change only for future pay

- Designate by **official action** of the church (minutes or a written resolution), **before** the payments it covers.
- It cannot reach back to pay already made. A later change applies only to future pay.
- Many churches say the designation continues each year "until changed", so a missed year is still covered.
- The **Resolution Sample** tab has wording to adapt with your church leadership.

Edge cases

Situation	What to watch
Hired mid-year	Designate before the first paycheck; pay before that is fully taxable.
Moved or bought a home mid-year	Add both homes' costs; update the designation for future pay if costs change.
Allowance paid is less than designated	Only what was paid can be tax-free (Allowance Check line 4).
Two ministers married to each other	Each needs their own designation; one home's FRV limits both together. Ask a professional.
Earnings above $184,500	Social Security part stops at the wage base; Medicare continues (0.9% extra Medicare not computed).
Retired ministers, church plans	Special rules; not covered by this kit.

Tip: designate a little above your budget (the 2027 Planner adds a 10% cushion) but not far above fair rental value. Any amount over the limits is simply taxable, so a modest cushion costs nothing.

5. Year-end checklist, deadlines and mistakes

Due	Task
12/31/2026	Total 2026 housing costs; get rent quotes; run the Allowance Check
Before 1/1/2027	Board adopts the 2027 designation; give the minister a copy
1/15/2027	4th-quarter 2026 estimated tax (Form 1040-ES)
2/1/2027	Church gives Form W-2: allowance not in box 1; no Social Security/Medicare wages; allowance shown in box 14 or a letter
4/15/2027	Form 1040: report any excess on line 1h; SE tax on Schedule SE

Common mistakes

1. No designation, or a designation made after payment.
2. Designating far above fair rental value: the extra is taxable anyway.
3. Forgetting the housing allowance in SE tax.
4. Putting the allowance in W-2 box 1, or withholding Social Security/Medicare for the minister.
5. No records: keep statements, receipts, rent quotes and minutes for at least 3 years.

Records to keep

- Board minutes or resolution with the designation and its date
- Pay stubs showing the allowance paid
- Mortgage or lease statements, utility bills, insurance and tax bills, repair and furniture receipts
- 2 or 3 rental listings used for fair rental value

> Education only; not tax, legal or financial advice. Figures are 2026 federal figures; check IRS.gov each year.

Official sources: IRS FAQ "Ministers' compensation & housing allowance" (irs.gov/faqs) · IRS Publication 517 (2025) · IRS Publication 15 (2026) · IRS Schedule SE instructions · IRS Form 1040-ES.