

PARSONAGE ALLOWANCE EXCLUSION RULES

What does the *Parsonage Exclusion Allowance* include?

It includes anything spent to provide a home for the dual-status minister and his family. Regulations for **Sec 107** state that the parsonage allowance **does not** include food or a maid. Parsonage allowance is the tax-free treatment of a minister's *personal* home expenses on a **cash basis**. Do not use business capital asset rules. Do not depreciate home capital expenses. Parsonage allowance expenses include those for the **house**, its **contents**, the **garage**, and the **yard**. The following list shows typical expenses that are to be considered in computing the amount of parsonage allowance:

- 1) Rent or principal payments, cost of buying a home, and down payments.
- 2) Real Estate taxes and mortgage interest for the home. These expenses are deductible again as itemized deductions. A **DOUBLE DEDUCTION**, but allowable by the IRS!!! (Sec 265(a) (6) An amazing "**tax shelter**"!.
- 3) Insurance on the home and/or contents.
- 4) Improvements, repairs, and upkeep of the home and/or contents. Such as a new roof, room addition, carpet, garage, patio, fence, pool, appliance repair etc.
- 5) **Furnishings and appliances**: dishwasher, vacuum sweeper, TV, VCR, DVD, stereo, piano, computer (personal use), washer, dryer, beds, small kitchen appliances, cookware, dishes, sewing machine, garage door opener, lawnmower, hedge trimmer, etc.
- 6) **Decorator items**: drapes, throw rugs, pictures, knick knacks, painting, wallpapering, bedspreads, sheets, towels, etc.
- 7) **Utilities**: heat, electric, non-business telephone, water, sewer charge, garbage removal, cable TV, non-business internet access, etc. (show long distance business telephone calls, the business percent of cellular phone and internet access usage as a professional expense. Both income tax and self-employment tax will be reduced).

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- 8) **Miscellaneous**- anything that maintains the home and its contents that you have not included in repairs or decorator items: cleaning supplies for the home, brooms, light bulbs, dry cleaning of drapes, shampooing carpet, expense to run lawnmower, tools for landscaping, garden hose to water lawn, etc.

The expenses in item No.8 are often purchased at the grocery or variety store. It is a good practice to buy a supply of household cleaning supplies separately and save the receipt. An easy way to keep record of them is to use the "Housing Expense" section of our "Professional Tax Record Book."

Do Not Include the following: Maid (or any labor hired for maintenance such as lawn care), groceries, personal toiletries such as toothpaste, shampoo, deodorant, laundry and dish soap, paper products; personal clothing, coats, shoes, jewelry; toys, bicycles, hobby items, cassette tapes, CD's, computer games, computer application software, VCR movies, etc. When a cellular phone is used outside of the home, do not use the personal portion as parsonage allowance.

Parsonage allowance is free from income tax, but subject to social security and Medicare tax. Parsonage expense details, receipts, and records **are not** to be submitted to the employer.

***** DO NOT LIST ITEMS THAT YOU DO NOT HAVE RECEIPTS TO SUPPORT AS DOCUMENTATION... IF YOU ARE AUDITED BY THE IRS AND ARE UNABLE TO FURNISH RECEIPTS YOU MAY BE SEVERLY PENALIZED*****