

APU GUIDELINES FOR MINISTERIAL HOUSING ALLOWANCE

Ministerial Housing allowance is a unique tax benefit provided to those with ministerial credentials who qualify by meeting all key tests established by the Internal Revenue Service. This tax benefit is not automatically renewed each year. To receive the Housing Allowance benefit the APU employee is required to demonstrate in writing that they meet prospectively the appropriate tests required by the Internal Revenue Service.

The following Guidelines include the APU Policy and Procedure for employees wanting to substantiate ministerial status when filing their income tax with the Internal Revenue Service and is a prerequisite to withholding allowances based on Ministerial Housing Allowance deduction from the employee's taxable income.

APU POLICY FOR MINISTERIAL HOUSING ALLOWANCE

Minister employees may only exclude a "housing allowance" from their taxable income if:

- (1) they are bona fide ministers of the gospel;
- (2) they receive the housing allowance as compensation for qualifying ministry services; and
- (3) the housing allowance is designated by APU according to certain procedural requirements.

Ministerial Status Test

To qualify for a housing allowance, an employee must first meet the definition of a minister as outlined in Federal tax rules. Ministerial status may be demonstrated through ordination, commissioning, or licensing by a religious body constituting a church or church denomination.

Qualifying Ministry Services or Task Test

Qualifying ministry services include typical ministerial services such as the conduct of religious worship and the administration of sacraments. This definition might include conducting Bible studies, spiritual and pastoral counseling, conducting crusades, producing religious television, internet and radio broadcast, and publishing religious literature.

The Church Assignment Test

Other teaching or administrative/executive services performed for religious organizations may only qualify for the housing allowance if performed pursuant to an assignment from the minister's ordaining church body. An assignment is only valid if it is bona fide and not merely a perfunctory acknowledgement of a minister's current employment position.

An "assignment" will probably not be deemed sufficient if it merely approves continuing employment or if it was obtained after the employment commenced. Further, an assignment may be challenged if the assigning church evidences minimal control over or involvement in the activities of the minister employee.

The key elements of an assignment include:

- (1) The assigning church or denomination shares certain religious purposes or tenets, as well as a common mission, with APU.
- (2) The specific activities which the employee is assigned to perform further the common religious purposes and mission of the assigning church and APU.
- (3) The person being assigned has a bona fide claim to the status of minister (either ordained, licensed, or commissioned).
- (4) The church intends to monitor the activities and/or performance of the assigned minister and has some means for doing so.
- (5) The church has some control over the assignment such that it could be revoked if the purposes and mission of the church were no longer being furthered.

Misclassification: APU auditors, Capin and Crouse, conclude, "If the Internal Revenue Service audits the employee or the organization and disallows a housing allowance on the premise that it was not paid as compensation to a minister for services performed in the exercise of their ministry, then none of the other minister tax attributes apply, either."

For the employee, the potential risks of misclassification include:

1. The employee would be required to file amended tax returns to show both the housing allowance and any other wages received as gross wages.
2. Employee would owe the federal and state income tax on unreported wages.
3. He would owe no self-employment tax and would likely receive a credit for any self-employment tax paid previously. Of course, a minister who had exempted out of SECA and had not been paying it would not get a refund.

4. There would be penalties and interest for late payment, often for the past three years.

Procedural Requirements

With respect to the housing allowance described in section 107 of the Internal Revenue Code and the services to be provided to Azusa Pacific University; in order to qualify for a MHA, an employee must meet **all** of the following requirements:

- A. Provide APU with a copy of his/her current ordination, commissioning or licensing certificate from his/her denominational headquarters to demonstrate their ministerial status.
- B. Either perform typical ministerial services for APU as a significant part of the employee's job responsibilities, such as presiding at worship services, administering sacraments, providing spiritual discipleship, OR be assigned to perform duties at APU by the **ordaining church body or denomination** to fulfill the common religious purposes and mission of the assigning church or denomination and APU, and have the church monitor the performance of those duties. Such assignment must contain all of the elements set forth above under "Qualifying Ministry Services." (*APU requests an annual assignment letter to demonstrate continuing relationship with church and ministry*)
- C. Submit a completed Ministry Housing Allowance Declaration and Designation Request form, including a good faith estimate of his/her housing costs, *Ministerial Housing allowance Worksheet*. The Ministerial housing Allowance Worksheet will be used for tax withholding purposes as designated by the Internal Revenue Service.

In accordance with IRS guidelines, the employee must file the appropriate documentation prior to the provision of services for which the allowance serves as compensation. For faculty members, this means that the designation must occur prior to the commencement of the applicable contract year. The actual amount of the *Ministerial Housing Allowance* is the lesser of the following, according to IRS guidelines:

- The amount actually spent to provide a home.
- The amount officially designated as housing allowance or
- The fair rental value of the home, furnished, plus utilities.

APU does not offer any tax advice to employees interested in applying for Ministerial Housing Allowance. Employees are encouraged to log on to the following IRS link to review publication 517 **and** contact their tax advisor to answer any tax questions or determine any taxable benefits.

http://www.irs.gov/publications/p517/ar02.html#en_US_2014_publink100033572