

Employer-Provided Lodging for Non-ministers

Q: Our church provides an apartment for our secretary and a house for our campground caretaker. Neither employee is a minister. Is this taxable income for both employees?

A: Paying rent or providing a stipend for housing expenses are ways that some churches provide additional compensation for their non-ministerial employees. In most cases, these payments will result in taxable income for the non-ministerial employee, although a few exceptions exist.

Consider the following examples:

- A church wants to help pay the rent for the church secretary. Each month they send a check to the landlord to cover the rent payment.
- A church has a campground and hires a caretaker to manage the facilities. The church requires the caretaker to live on the campground premises, but does not charge rent.

In most cases, the IRS has stated that employer-provided lodging does result in taxable income for the non-ministerial employee.

However, the IRS does have a few exceptions but requires three conditions to exist in order to exclude employer-provided lodging from an employee's wages.

According to IRS Publication 15-B, *Employer's Tax Guide to Fringe Benefits*, in the section titled "Lodging on Your Business Premises":

You can exclude the value of lodging you furnish to an employee from the employee's wages if it meets the following tests.

- It is furnished on your business premises.
- It is furnished for your convenience.
- The employee must accept it as a condition of employment.

The exclusion does not apply if you allow your employee to choose to receive additional pay instead of lodging.

The publication provides further clarification of the three tests:

On your business premises. For this exclusion, your business premises is generally your employee's place of work.

For your convenience. Whether or not you furnish lodging for your convenience as an employer depends on all the facts and circumstances. You furnish the lodging to your employee for your convenience if you do this for a substantial business reason other than to provide the employee with additional pay. This is true even if a law or an employment contract provides that the lodging is furnished as pay. However, a written statement that the lodging is furnished for your convenience is not sufficient.

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Condition of employment. Lodging meets this test if you require your employees to accept the lodging because they need to live on your business premises to be able to properly perform their duties. Examples include employees who must be available at all times and employees who could not perform their required duties without being furnished the lodging.

Finally, the IRS provides the following example:

A hospital gives Joan, an employee of the hospital, the choice of living at the hospital free of charge or living elsewhere and receiving a cash allowance in addition to her regular salary. If Joan chooses to live at the hospital, the hospital cannot exclude the value of the lodging from her wages because she is not required to live at the hospital to properly perform the duties of her employment.

Analysis

Based on the IRS guidance, the rent payment for the secretary in the example above will result in taxable income for the secretary. The employer-provided lodging for the secretary does not appear to meet the IRS's three criteria.

However, the employer-provided lodging for the campground caretaker will not result in taxable income, because it appears to meet the IRS's three criteria: the lodging is on the campground premises, the lodging is for the employer's convenience to make sure the campground is monitored and managed at all times, and the lodging is required as part of employee's duties (not just available to the employee).

To help support the employer's position, these requirements should be documented in the employee's job description or in the employment contract.

Ministers

This analysis does not cover licensed ministers. Because of the parsonage exclusion, ministers can exclude the value of employer-provided lodging for federal income tax purposes. But because ministers are self-employed with respect to Social Security, they must include the value of employer-provided lodging when computing net earnings for Social Security purposes. For more information on this topic, see IRS Publication 517, *Social Security and Other Information for Members of the Clergy and Religious Workers*.

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