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**The Roman Catholic Church of the Diocese of Phoenix**  
**Human Resources Policies and Procedures**

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Policy 2-7.1.16.2 Compensation – Deacon Housing Allowance

Permanent Deacons employed full or part time in a ministerial or administrative position in the Diocese of Phoenix may elect to receive a housing allowance that is exempt from Federal and State income taxes. Deacons' designating a part of their salary as the housing allowance in accordance with Internal Revenue Service (IRS) guidelines accomplishes this. This election makes Deacons self-employed for Social Security tax purposes. Deacons are treated as employees for all other purposes. Diocese of Phoenix employers will reimburse Deacons for 8.285% of the Social Security Self-employment tax (SSST) on their gross salary up to the maximum earnings amount on which Social Security tax is paid.

It is the responsibility of the Deacons to consult with their personal tax advisors regarding both the tax implications and the calculation of the housing allowance.

Procedures:

Deacon Responsibilities:

Each calendar year, Deacons are responsible for providing their employers with a written request to receive a housing allowance indicating the amount that they are designating. Their pastors or supervisors must approve the Deacons' requests.

Under IRS guidelines, the housing allowance is limited to the **lowest** of 1) the amount designated in advance by the employer, 2) the fair rental value of the residence or 3) the actual expenses incurred in providing for the residence.

Once the written request is submitted and approved, the amount approved becomes "the amount designated by the employer" (ADE). Therefore, the ADE becomes the maximum amount that Deacons can claim as the housing allowance. In the event Deacons do not spend the ADE, they would pay tax on the excess. If the ADE is less than the fair rental value, or actual costs, Deacons will lose part of the tax exclusion.

In order to have enough tax withheld to cover the 15.3% SSST, Deacons must increase their withholding on the taxable portion of their salaries or make quarterly estimated tax payments. Deacons will file Schedule SE to report Social Security earnings.

Deacons who have opted out of Social Security are exceptions to the withholding requirements. However, opting out is not recommended since Medicare would not be available to the Deacons at their retirement.

To assist Deacons, a publication "Tax Manual for Deacons" by Wayne Martin Lenell, "CPA, PhD. is available from the Diaconate Office. Deacons should also consult the pertinent IRS guidelines and their personal tax advisors.

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Employer Responsibilities:

Deacons who request housing allowances and provide the required written documentation will be considered as self-employed for SSST purposes and as employees for all other purposes. The approved request must be retained in the employers' Human Resources files.

Deacons who have not opted out of Social Security are reimbursed for 8.285% of the SSST by adding this amount into their paychecks throughout the year. The 8.285% reimbursement is calculated on all gross earnings subject to SSST. The reimbursement is taxable income to the Deacons. No reimbursement is paid to Deacons who have opted out.

Deacons' pay stubs and W-2 forms should not reflect any Social Security or Medicare wages because of their self-employed status. These items will reflect the Social Security reimbursement as additional ordinary income.

Revised 02/2004

See Form: [Housing Allowance Request Form Permanent Deacon](#)

Approved by Bishop Thomas J. Olmsted on October 27, 2006