

The Ins & Outs of Minister Tax Issues

Presented By: Sandra K. Fowler, CPA CPP

Sommerville & Associates, P.C.

Classifying Ministers for Payroll Purposes

For Federal Tax Purposes A Minister Must:

- Be commissioned, licensed or ordained by a church

AND

- Be performing ministerial duties*:
 - Performance of sacerdotal functions
 - Conduct religious worship services
 - Control, conduct or maintenance of religious organizations or
 - Teaching at theological seminaries
 - On assignment by a church

*If not working for a church, the list of duties is more restricted.



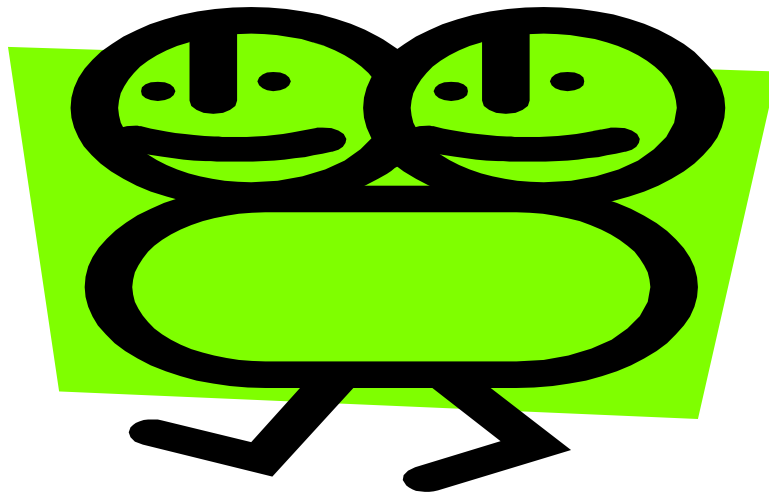
**Employees who meet
the above two steps
must be treated as
ministers! This isn't
optional!**

Poll Question # 1

What are the requirements for an employee to be treated as a minister for tax purposes?

- A. Be commissioned, licensed, or ordained by a church
- B. Be performing ministerial duties
- C. Neither
- D. Both

DUAL TAX STATUS



TWO PEOPLE IN ONE

So I am a Minister -
What Now?

There are two main
questions:

- How is a minister classified for federal income tax purposes?
- How is a minister classified for social security tax purposes?

How Am I Classified for Federal Income Tax?

- Income earned outside the church
 - Most Instances – Self Employed Report on Schedule C
- Employed by the Church
 - Most Instances – Common Law Employee
 - This determines:
 - Participation in Benefit Plans
 - The taxability of health insurance premiums
 - The correct reporting on Form W-2
 - Income tax withholding optional

How Am I Classified for Paying into Social Security?

- There are two ways to pay into the system
 - Self Employed Contributions Act (SECA)
 - Federal Insurance Contributions Act (FICA)
- The law says ministers must pay in through the self employment tax system. Not an option to pay in through FICA.
- Therefore, **for social security only**, ministers are self employed and required to file Schedule SE unless they have obtained an exemption.

Isn't Self Employment Tax Optional?

- Ministers may opt out based on their theological beliefs against socialized insurance
- Form 4361
 - Due by the due date of the Form 1040 for the 2nd year in which the minister had self employment income of \$400 or more of which any portion is attributable to ministry work
 - Not effective until it is approved by the IRS!
 - DON'T LOSE THE APPROVED FORM!
- This exemption DOES NOT change the minister's paycheck or tax withholdings.

Minister's W-2

Taxable wages paid

FIT Withheld
(Optional)

a Employee's social security number		OMB No. 1545-0029		Safe, accurate, FAST! Use 		Visit the IRS website at www.irs.gov/efile .	
b Employer identification number (EIN)				1 Wages, tips, other compensation		2 Federal income tax withheld	
c Employer's name, address, and ZIP code				3 Social security wages		4 Social security tax withheld	
These boxes are always empty!!!				5 Medicare wages and tips		6 Medicare tax withheld	
				7 Social security tips		8 Allocated tips	
				9		10 Dependent care benefits	
d Control number				11 Nonqualified plans		12a See instructions for box 12	
e Employee's first name and initial Last name Suffix				13 Statutory employee Retirement plan Third-party sick pay		12b	
				☐ ☐ ☐		☐ ☐ ☐	
				14 Other		12c	
				<u>Housing Allow</u> <u>Auto Value</u>		12d	
f Employee's address and ZIP code				15 State Employer's state ID number		16 State wages, tips, etc.	
				17 State income tax		18 Local wages, tips, etc.	
						19 Local income tax	
						20 Locality name	

Form **W-2** Wage and Tax Statement

2025

Department of the Treasury—Internal Revenue Service

Copy B—To Be Filed With Employee's FEDERAL Tax Return.
This information is being furnished to the Internal Revenue Service.

Poll Question # 2

For a minister employees' Form W-2, which boxes are correctly described below?

- A. Box 2 Federal Withholding – Should always contain a value
- B. Box 3, 4, 5, and 6 Social Security and Medicare wages and taxes –
Should always be blank
- C. Box 14 Other – Housing allowance is required to be disclosed here.
- D. None of the above.

What is Considered as Income?



Salary



Housing Allowance



Auto Allowance



Love Gifts



Retirement Plan
Contributions



Health and Other
Benefit Plans



***The above are
examples of both
taxable and nontaxable
forms of income ***

Love Gifts

- Taxable from the church
 - Goes in Box 1 on Form W-2
- Nontaxable if from a relative
- Church cannot be conduit for members
- Church must control amount
- Can be cash or noncash gifts
- Key for non-taxation: detached and disinterested generosity





What Is A Housing Allowance?

- A housing allowance is a portion of your compensation that is not taxable to the extent it does not to exceed certain limits.
- It may apply where the minister owns/rents his/her home or where the minister lives in a parsonage and has out of pocket expenses.

Housing Allowance Organizational Issues

- Must be designated by the employer/payer, i.e., the church **and**
- Must be designated in advance of being paid **and**
- Must be designated in writing

What Are Valid Housing Expenses?

- Mortgage payments
- Utilities
- Base rate of phone – not your cell phone
- Furniture & decorating items
- Cleaning supplies and help
- Repairs & maintenance
- Payments on home equity loans where proceeds use on valid housing expenses that you have not already claimed as housing expenses
- Insurance
- Taxes

Is the Housing Allowance Taxable?

- Federal Income Tax – The amount that can be excluded is not taxable. Any excess housing is claimed as additional income and included on Form 1040. (Limitations discussed on next slide.)
- Self Employment Tax – The full amount of housing allowance is taxable on Schedule SE.



Taxable Housing Calculation

Housing Allowance Designated	\$25,000
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Housing Expenses	\$30,000
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Fair Rental Value of the Home	\$20,000
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The lowest value, \$20,000, is excluded from federal taxable income leaving an excess of \$5,000 to be included in included in federal taxable income.

The \$25,000 paid is included in self-employment income.

Tax Return Disclosure

- Some tax software includes the calculation of the taxable portion of the housing allowance.
- If no calculation is included, the following statement may be included:

The taxpayer receives a housing allowance pursuant to IRC Section 107. To the extent allowed by law, the allowance is excluded from taxable income. Any excess housing allowance has been included in taxable income. The full amount of the housing allowance is included in self-employment income on Schedule SE.

Parsonage

- The provision of a house owned by the church or ministry to a minister as a part of his compensation.
- Determining Compensation: Fair Market Value of parsonage provided
- For federal tax purposes, the value of the parsonage is considered tax free.
- For self employment tax purposes, the value of the parsonage is taxable.

Poll Question # 3

Which of the following list does not includes all valid housing expenses that can be used to offset ministerial housing allowance?

- A. Mortgage payment, utilities, and cleaning supplies
- B. Utilities, property tax, cell phone expense, and furniture
- C. Property Tax, cleaning supplies, and landscaping
- D. Mortgage payment, repairs and maintenance, and furniture

Tax Free Fringe Benefits – What's Left

- Qualified retirement plans such as 403(b)
- Autos utilized for business or mileage reimbursements
- Life insurance not to exceed \$50,000 of coverage under a group plan
- Qualified tuition assistance plans
- Qualified dependent care plans
- Qualified tuition reduction plans
- Group Medical insurance & nondiscriminatory health benefits including health reimbursement accounts & health savings accounts

My Business Expenses?

- The following may be reimbursable business expenses:
 - Books & magazines for study
 - Mileage to & from hospitals, member calls, meetings, etc.
 - Office supplies
 - Conference fees
 - Some educational expenses
 - Travel
 - Cell phones with caution

Accountable Expense Reimbursement Plans The Best Option Left

- Accountable Reimbursement Plans*
 - Expenses documented as to the exempt purposes
 - Date of expense
 - Purpose of expense
 - Within a reasonable time frame; i.e.; 60 days of the expense
 - Cash advances are fully documented with excess cash returned.
 - Receipts required for:
 - All lodging
 - Meals of \$75 or more
 - Any other expense

Non-accountable Expense Reimbursement Plans The Worst Option



- Any sort of plan that does not require an accounting
- A plan that is deemed to not be “timely” carried out
- A netting arrangement
- Example
 - Pastor Bob receives \$100 each week for expenses but the church does not require documentation.
 - How much is taxable to Pastor Bob?
 - Answer: All \$100

Warning: All nonaccountable expense reimbursements are added into Box 1, Form W-2 & no deductions are allowed on personal tax return

**Will My
Out of
Pocket
Business
Expenses
Be Fully
Deductible?**



For SE Tax = Yes



For Federal
Income Tax =
No!

Calculation of Self Employment Tax (*If a minister has an approved Form 4361- Place -0- on Line G*)

Total Compensation:

Form W-2 Box 1 _____

Housing Allowance _____

A. \$ _____

Anticipated Deductible Business Expenses

B. (\$ _____)

Total Self-Employment Income

C. \$ _____

Multiply Line (C.) by .9235

D. \$ _____

Multiply (D.) by 15.3%

(If more than \$176,100**, enter \$26,943.30)

E. \$ _____

If Line (D.) is more than \$176,100, multiply the excess amount by 2.9%

F. \$ _____

Total Self-Employment Tax (Line (E.) + (F.))

G. \$ _____

**Social Security Wage Base for 2025

Calculation of Estimate of Federal Income Tax

Taxable Compensation (do not include housing allowance) H. \$ _____

Less ½ of Line (G.) I. (\$ _____)

Less standard tax deduction J. (\$ _____)

Taxable Income K. \$ _____

Calculate Tax According to the Appropriate
Tax Table L. \$ _____

Total Tax Estimate for the Year* - (G.) plus (L.) M. \$ _____

Line M should be divided over the calendar year's pay periods and deducted as federal income tax withholding or paid as quarterly estimated tax payments using Forms 1040ES.



Sandra K. Fowler, CPA
Sommerville & Associates, P.C.
2726 Matlock Road
Arlington, TX 76015
sandra@nonprofit-tax.com
817-461-9164

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