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**Basic Business Practices
 in the Church**

Session #8 – Ministerial Tax Return

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 Finance

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Ministerial Tax Return

Helpful Websites:
www.irs.gov
 IRS Publications 15, 15-A,15-B
 IRS Publication 1828 – Tax Guide
 for Churches
 IRS Publication 517 – Social
 Security and Other Information
 for Members of the Clergy and
 Religious Workers
www.tax.hawaii.gov
www.ecfa.org
www.churchlawandtax.com
www.guidestone.com

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Ministerial Tax Return

Good resources from ECFA and Church Law and Tax

The image displays three book covers related to ministerial taxes. The first is '2020 Church & Clergy TAX GUIDE' by Church Law & Tax, covering 2019 and 2020. The second is 'Minister's Tax & Financial Guide' for 2020, featuring 'Money-Saving Strategies', 'Easy-to-Understand Latest Tax Law Changes', and 'Latest Information on Health Care Issues'. The third is 'MINISTERS' TAXES MADE EASY' by Dan Eddy & Michael Morris, described as 'Federal income tax filing made easy'.

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Ministerial Tax Return

Good resources from Guidestone

The image is a screenshot of the Guidestone website. It features a search bar at the top with the text 'Enter a key word or topic...'. Below the search bar, there are several navigation links: 'HOUSING ALLOWANCE FOR MINISTERS', 'TAX ANSWERS FOR MINISTERS', 'SOCIAL SECURITY FOR MINISTERS', 'EMPLOYER VS. SELF-EMPLOYED', and 'TAX FORMS'.

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Ministerial Tax Return

Good resources from IRS

The image shows two IRS tax guides. The first is 'Publication 15 (Circular E), Employer's Tax Guide' for 2020. The second is 'Publication 15-B, Employer's Tax Guide to Fringe Benefits' for 2020. Both guides include a table of contents and a 'What's New' section.

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What is a Minister?

If a minister meets these two key questions, they are considered to be a **“minister for tax purposes”**

Most ministers who receive compensation are treated as **dual-status** taxpayers—

Employees for income tax purposes
and
Self-employed for only for Social Security and Medicare tax.

Ministers are one of the only classifications that are considered to be **“dual-status”** and a **“minister for tax purposes”**

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Special Tax Provisions for a Minister

1. For **income tax purposes**, exclusion of the housing allowance and the fair rental value of a church-owned parsonage provided rent-free to ministers.
2. For **social security tax purposes**, treatment of ministers as self-employed as it relates to income from ministerial services.
3. Exemption of ministers from **self-employment social security tax** under very limited circumstances (opting out of social security system by filing IRS form 4361).

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Special Tax Provisions for a Minister

4. Exemption of ministers' compensation from **mandatory income tax withholding**.
5. Eligibility for a **voluntary income tax withholding** arrangement between the minister and the church.
6. Potential **“double deduction”** of **mortgage interest and real estate taxes** as itemized deductions and as excludable housing expenses for housing allowance purposes for ministers living in minister-provided housing.

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Ministerial Income

What is Ministerial income?

Ministerial income include items associated as an employee of a church.

Total ministerial income includes:

1. Church wages or salary
2. Gross self-employment income from ministerial service (i.e.-housing allowance or parsonage allowance)
3. Fringe Benefits (may be taxable or non taxable)
4. Tax-exempt allowances (i.e.-housing allowance).

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Ministerial Income

Let's take an example here:

Pacific Church hires Pastor Keoni Silva as their senior pastor. He is given salary package that includes the following:

Church salary: \$80,000
 Fringe Benefits:
 Health Insurance paid
 SECA Offset – 12,000
 Annuity – 2,000

Before the year begins, he requests and gets approved a housing allowance of \$37,000.

He has voluntary employee contributions of a 403(b) of 1,000 during the year.

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Ministerial Income

Let's take an example here:

Pacific Church hires Pastor Keoni Silva as their senior pastor. He is given salary package that includes the following:

In addition, he fills out a W-4 and has 18,000 federal income taxes taken out and 4,500 in state taxes

How do you make sure he receives the right W-2 information based upon what you have paid him for the year?

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Ministerial Income

Since the minister is an employee of the church, he will receive Form W-2 from the church as an employer (not as an independent contractor)

The minister's taxable wage income is reported in box 1, Form W-2.

- Social Security and Medicare taxes (FICA) are not withheld. The wages will be included in the minister's self-employment tax computation. They may receive a SECA offset which is taxable income to the minister.

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Ministerial Income

Social Security and Medicare taxes (FICA) are NOT withheld.

Boxes 3,4,5, and 6 of the W-2 must be blank.

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Ministerial Income

IRS Publication 15-A (page 11), states:

Form W-2. If your minister is an employee, report all taxable compensation as wages in box 1 on Form W-2. Include in this amount expense allowances or reimbursements paid under a nonaccountable plan, discussed in section 5 of Pub. 15.

Don't include a parsonage allowance (excludable housing allowance) in this amount. You may report a designated parsonage or rental allowance (housing allowance) and a utilities allowance, or the rental value of housing provided in a separate statement or in box 14 on Form W-2.

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Ministerial Income

IRS Publication 15-A (page 11), states:

Don't show on Form W-2, Form 941, or Form 944 any amount as social security or Medicare wages, or any withholding for social security or Medicare taxes.

If you withheld federal income tax from the minister under a voluntary agreement, this amount should be shown in box 2 on Form W-2 as federal income tax with-held.

For more information on ministers, see Pub. 517.

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Ministerial Income

The wages will be included in the minister's self-employment tax computation.

They may receive a SECA offset which is taxable income to the minister.

Ministers are not subject to federal income tax withholding. A minister and employer may agree to voluntary withholding.

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Ministerial Income

What is Housing and Parsonage Allowance?

There is a difference between housing allowance and a parsonage allowance.

Housing allowance is designation as part of the paycheck while parsonage allowance is a non-cash benefit of church-owned housing that the minister is allowed to live in.

Both housing allowance and parsonage allowances are subject to self-employment (SE) tax.

Parsonage or housing allowances are reported in box 14, Form W-2.

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Break Time
for 10 min

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Ministerial income

- Self-employment income and expenses. Amounts received by a minister for performing marriages, baptisms, funerals, etc., are generally self-employment income, even if no Form 1099-MISC is received by the minister.
- Self-employment income is reported on Schedule C, Profit or Loss from Business, Form 1040.
- Self-employment expenses are deductible on Schedule C, prorated to the extent the minister has tax-exempt income from a parsonage allowance. **This is known as the Deason Rule.**

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Illustrated Example

Income, Benefits, and Reimbursements

Income, Benefits, and Reimbursements:			
Church salary	\$	80,000	
Christmas and other special gifts paid by church based on designate member-gifts to the church		2,000	
Honoraria for performing weddings, funerals, and baptisms		750	
Honorarium for speaking as an evangelist at another church		2,000	
Reimbursement of self-employment tax (SECA offset)		12,000	
			\$
			596
			325
			700

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Explanation of Deason Rule

Illustrated Example

Schedule C Deduction Computation	
Gross Receipts	
Honoraria	\$ 750
Honorarium	2,000
Total Gross Receipts	\$ 2,750
Schedule C deductions	
Parking	\$ 75
Meals (\$220x50% deductible portion)	110
Other	320
Mileage (1016 miles x 57.5 cents per mile)	584
Unadjusted Schedule C expenses	\$ 1,089
Minus:	
Nondeductible part of Schedule C expenses * (37.6% x 1,089)	(409)
Total Schedule C deductions	\$ 680
Net Income	\$ 2,070
* To calculate the nondeductible part (take percentage of tax free income and multiply by total allowable expenses).	
Note d: Net earning from self-employment (attachment to Schedule SE, Form 1040)	
Church wages	\$ 56,000
Housing allowances	37,000
Net profit from Schedule C	2,070
Schedule SE line 2	95,070
Minus:	
Schedule C expenses allocable to tax free income * (37.6% x 1,089)	(409)
Schedule SE, Part I, line 2	\$ 94,661

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