



DEMYSTIFYING CLERGY TAXES

THE REV. DEB OSKIN, ENROLLED AGENT
ANNUAL CONFERENCE INSIGHT SESSION
SPONSORED BY THE OFFICE OF MINISTRY

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JULY 1
2021

OUTLINE

- Clergy Status + Clergy Services = Clergy Taxes
- Clergy Income / Clergy Taxes / Paying Your Taxes
- Reducing Federal Income Tax: Housing Exclusion
- Reducing Federal Income & Self Employment Tax: Business Expenses
- Reducing Federal Income & Self Employment Tax: Health Insurance
- Publications

BUT FIRST, ABOUT ME

- 1989: Adventures with Clergy taxes begin! (husband was ordained; I was ordained in 2004)
- 2000-2011: H&R Block Master Tax Advisor & Certified Advanced Instructor at a Premium Office; On my own since 2011: 75% Clergy Clients
- 2004: Started Teaching Clergy Taxes!
- 2007: Earned Enrolled Agent License from Department of Treasury; 2011: NTPI Fellow: 3-year course in Advanced Audit Representation

WAYS TO CONTACT ME

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CONSULTATIONS
are free!

(1) CLERGY STATUS +
(2) CLERGY SERVICES
= (3) CLERGY TAXES

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= CLERGY TAXES

IF: You Are a Minister

**AND: You Provide
Ministry Services**

**THEN: Special Tax
Rules Apply To You!**

(yes, prayer is appropriate.)



CLERGY INCOME

"HYBRID" EMPLOYEES

- Pastors are Common-Law Employees of the Congregation:
 - for Federal Income Tax & Benefit Plans
 - but not for FICA or Unemployment Taxes
 - but who must pay Self-Employment Taxes on their total ministerial income
- So: Pastors are employees of the Congregation who are exempt from FICA but subject to SECA (but who are NOT independent contractors).

CLERGY INCOME

- There are actually 3 types of Ministry income:
 - Salary . . .
reported on the W-2 in Box 1
 - Housing . . .
Designated Housing Exclusion
Parsonage Fair Rental Value (FRV)
Parsonage Adjustment (in lieu of Parsonage)
reported on the W-2 in Box 14
 - Self-Employment or Honoraria . . .
reported on Schedule C

GIFTS VS. SALARY

- Gifts vs. Salary:
 - While the Pastor continues to serve, Courts have ruled that most "gifts" or special offerings are compensation for services.
 - Retirement gifts to departing Pastors are usually gifts (per the Courts), as there's no expectation of services in the future.
 - Gifts from individual members of the congregation to the Pastor are unlikely to be gifts; however, each situation could be different.

NON-SALARY INCOME

- Congregational "Free Minister" with no compensation from the congregation:
 - If not reimbursed under an Accountable Plan, the Minister's expenses are cash charitable contributions (regular Schedule A rules apply)
- Congregational "Free Minister" with no compensation from the congregation, but living in the Parsonage:
 - FRV of Parsonage = Minister's compensation, entered in W-2 Box 14 (W-2 Box 1 = \$0)

CLERGY TAXES

CLERGY TAX RULES

- All Ministry income is subject to self-employment tax.
- All Ministry income is subject to federal income tax, unless properly excluded by a designated housing exclusion.
- Congregations are prohibited by law from withholding & paying FICA taxes for their Pastor.
- Congregations must issue a W-2 to their Pastor. A 1099-NEC can only be issued to non-employee Clergy (e.g., Supply Preachers).

CLERGY W-2

Employee's social security number		OMB No. 1545-0046		e-file		Visit the IRS website at www.irs.gov/efile	
Employer identification number (EIN)		1 Wages, tips, other compensation \$ 13,800.00		2 Federal income tax withheld \$ 4,039.31			
Employer's name, address, and ZIP code		3 Social security wages		4 Social security tax withheld			
		5 Medicare wages and tips		6 Medicare tax withheld			
		7 Social security tips		8 Allocated tips			
Control number		9		10 Dependent care benefits			
Employer's first name and initial		Last name		11 Nonqualified plans		12a See instructions for box 12	
				13a Health insurance		13b Life insurance	
				14 Other HOUSING \$ 15,000.00		15 See instructions for box 12	
Employer's address and ZIP code		16 State wages, tips, etc. \$ 13,800.00		17 State income tax \$ 15,000.00		18 Local income tax	
19 State		20 Locality name		21		22	
OH		CITY					

Form **W-2** Wage and Tax Statement **2021** Department of the Treasury - Internal Revenue Service

Copy B - To be Filed With Employer's FEDERAL Tax Return. This information is being furnished to the Internal Revenue Service.

1099-NEC

PAYER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone no.		CORRECTED (if checked)		OMB No. 1545-0116		2021		Nonemployee Compensation	
PAYER'S TIN		RECIPIENT'S TIN		1 Nonemployee compensation \$		2 Payer made direct sales totaling \$5,000 or more of consumer products to recipient for resale		3	
RECIPIENT'S name		Street address (including apt. no.)		4 Federal income tax withheld \$		5 State tax withheld		6 State-Payer's state no.	
City or town, state or province, country, and ZIP or foreign postal code		Account number (see instructions)		7 State income		8		9	

Form **1099-NEC** (keep for your records) www.irs.gov/Form1099NEC Department of the Treasury - Internal Revenue Service

Tax Table: Active Clergy

> Taxes >	Subject to Income Tax?	Subject to Self-Employment Tax?	Subject to FICA Taxes?
Self-Employment Income (Honoraria)	Yes	Yes	No
Employee Salary	Yes	Yes	No
Housing Exclusion	Maybe	Yes	No
FRV of Parsonage	No		

PAYING YOUR TAXES

EMPLOYER WITHHOLDING

- The easiest way for Pastors to pay their taxes is by having the congregation withhold taxes from the Pastor's paycheck.
- Congregations are required to withhold income taxes (as well as FICA taxes) from their non-Pastor employees.
- However, Pastors, as you know, are a class unto themselves! Congregations are not required to withhold income taxes from their Pastors, although they may do so if requested.

EMPLOYER WITHHOLDING

- If the congregation has other employees, then they are already involved in withholding procedures, & should be willing to withhold for their Pastor as well.
- The Pastor needs to submit Form W-4 to the Treasurer to give them the information they need to withhold income taxes properly.
- Of course, Pastors fill out Form W-4 differently than everyone else!

FORM W-4

Form W-4 **Employee's Withholding Certificate** OMB No. 1545-0074

Department of the Treasury
Internal Revenue Service

2021

Step 1: Enter Personal Information

(a) First name and middle initial Last name

(b) Social security number

Address

City or town, state, and ZIP code

(c) ☒ Single or ☐ Married filing jointly or ☐ Qualifying widow(er)

☐ Head of household (Check only if you're unmarried and pay more than half the costs of keeping up a home for yourself and a qualifying individual.)

Complete Steps 2-4 ONLY if they apply to you; otherwise, skip to Step 5. See page 2 for more information on each step, who can claim exemption from withholding, when to use the estimator at www.irs.gov/W4App, and privacy.

Step 2: Multiple Jobs or Spouse Works

Complete this step if you (1) hold more than one job at a time, or (2) are married filing jointly and your spouse also works. The correct amount of withholding depends on income earned from all of these jobs.

Do only one of the following:

(a) Use the estimator at www.irs.gov/W4App for most accurate withholding for this step (and Steps 3-4); or

(b) Use the Multiple Jobs Worksheet on page 3 and enter the result in Step 4(c) below for roughly accurate withholding; or

(c) If there are only two jobs total, you may check this box. Do the same on Form W-4 for the other job. This option is accurate for jobs with similar pay; otherwise, more tax than necessary may be withheld ☐

TIP: To be accurate, submit a 2021 Form W-4 for all other jobs. If you (or your spouse) have self-employment income, including as an independent contractor, use the estimator.

Complete Steps 3-4(b) on Form W-4 for only ONE of these jobs. Leave those steps blank for the other jobs. (Your withholding will be most accurate if you complete Steps 3-4(b) on the Form W-4 for the highest paying job.)

FORM W-4

Step 3: Claim Dependents

If your total income will be \$200,000 or less (\$400,000 or less if married filing jointly):

Multiply the number of qualifying children under age 17 by \$2,000 ▶ \$ 0

Multiply the number of other dependents by \$500 ▶ \$ 0

Add the amounts above and enter the total here 3 \$ 0

Step 4 (optional): Other Adjustments

(a) **Other income** (not from jobs). If you want tax withheld for other income you expect this year that won't have withholding, enter the amount of other income here. This may include interest, dividends, and retirement income 4(a) \$ 0

(b) **Deductions.** If you expect to claim deductions other than the standard deduction and want to reduce your withholding, use the Deductions Worksheet on page 3 and enter the result here 4(b) \$ 0

(c) **Extra withholding.** Enter any additional tax you want withheld each pay period 4(c) \$

Step 5: Sign Here

Under penalties of perjury, I declare that this certificate, to the best of my knowledge and belief, is true, correct, and complete.

Employee's signature (This form is not valid unless you sign it.) Date

Employers Only

Employer's name and address First date of employment Employer identification number (EIN)

For Privacy Act and Paperwork Reduction Act Notice, see page 3. Cat. No. 1022092 Form W-4 (2021)

FORM W-4

- Step 4 (optional): Other Adjustments
 - (c) Extra Withholding
 - This is the most critical entry on this form! This entry allows Pastors to withhold enough federal income tax to cover their expected self-employment tax bill.
 - The first step is to calculate total self-employment tax for the year.

FORM W-4

- Step 1: Calculate total Ministry compensation by adding salary, housing, parsonage FRV, & any honoraria expected.
- Step 2: Multiply total Ministry compensation by 0.9235;
- Step 3: Multiply the result of Step 2 by 0.153: This amount is the total self-employment tax due for the year on total Ministry compensation.

FORM W-4

- Step 4: Add the number of remaining paychecks you will receive for the year.
 - Pastors who are paid every other week receive a total of 26 paychecks in a year
 - Pastors who are paid twice a month will receive a total of 24 paychecks in a year

FORM W-4

- Pastors who are paid once a month will receive a total of 12 paychecks in a year (etc.)
- Step 5: Divide the result of Step 3 by the result of Step 4, and enter the result on Line 4(c).
- Having this additional amount withheld helps ensure that enough withholding occurs to cover the Pastor's self-employment tax.

FORM W-4

- Note: This amount is a goal, so that the Pastor has enough withheld to pay their self-employment tax.
- Pastors should consider their personal budgets and cash flow to make sure they can afford to have this amount of money withheld from every paycheck.

ESTIMATED TAX PAYMENTS

- If the congregation isn't willing or able to withhold income and additional taxes, the Pastor must make estimated tax payments.
- Commonly called "quarterly taxes," the due dates for estimated taxes are NOT quarterly! They are due as follows:
 - Voucher 1: April 15 (or the filing date)
 - Voucher 2: June 15
 - Voucher 3: September 15
 - Voucher 4: January 15

ESTIMATED TAX PAYMENTS

- How much should be paid?
 - Start by calculating the total self-employment tax due for the year.
 - Next, check the prior year tax return to add any amount owed that year.
 - Pastors can also use the estimated tax worksheets, but should use "0" for all allowance amounts in the worksheets.
 - Add these amounts together and divide by 4.

FORM 1040-ES

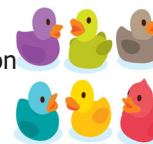
1040-ES		2021 Estimated Tax		Payment Voucher 3	
<small>Form 1040-ES Department of the Treasury Internal Revenue Service</small>		<small>File only if you are making a payment of estimated tax by check or money order. Mail this voucher with your check or money order payable to "United States Treasury." Write your social security number and "2021 Form 1040-ES" on your check or money order. Do not send cash. Enclose, but do not staple or attach, your payment with this voucher.</small>		<small>OMB No. 1545-0074</small>	
Your first name and middle initial		Your last name		Your social security number	
If joint payment, complete for spouse		Spouse's first name and middle initial		Spouse's last name	
Address (number, street, and apt. no.)		City, town, or post office. If you have a foreign address, also complete spaces below.		State	
Foreign country name		Foreign province/county		ZIP code	
Foreign postal code		Foreign province/county		Foreign postal code	

For Privacy Act and Paperwork Reduction Act Notice, see instructions.

REDUCING FEDERAL INCOME TAX: HOUSING EXCLUSION

HOUSING EXCLUSION

- The Pastor's housing exclusion is called by many names, yet they all represent the same thing: the mechanism by which Pastors are permitted to exclude some of their income from being subject to federal income tax.
 - Housing allowance or exclusion
 - Parsonage allowance or exclusion
 - Rental allowance or exclusion
 - Utilities allowance or exclusion



HOUSING EXCLUSION

- Ordained, commissioned, or licensed Ministers performing ministerial services should designate all or part of their total compensation from their congregation as housing exclusion.
- This allows the amount so designated to be excluded from their income for federal income tax purposes (subject to certain rules).

HOUSING EXCLUSION

- However, remember that all ministry income is subject to self-employment tax, including both the designated housing exclusion &/or the Fair Rental Value (FRV) of a provided Parsonage & the cost of all Utilities paid by the congregation.



TYPICAL HOUSING EXPENSES

HOUSING EXPENSES:

rent/mortgage payments (in full)
real estate taxes (in full)
renter's/homeowner's insurance
homeowner's assn./condo fees
repairs & maintenance
furnishings & decorations
lawn care & snow removal
cleaning services
(26 CFR §1.107-1(c)(3))
(etc.)

UTILITIES:

electricity
heating oil
natural gas
pest control
water/sewer/trash
security systems
internet/cable/tv
land-line phone OR
personal use cell phone
(etc.)

HOUSING EXPENSES

- 26 CFR § 1.107-1 Rental value of parsonages
- (c) . . . "Circumstances under which a rental allowance will be deemed to have been used to rent or provide a home will include cases in which the allowance is expended (1) for rent of a home, (2) for purchase of a home, and (3) for expenses directly related to providing a home. **Expenses for food and servants are not considered for this purpose to be directly related to providing a home."**

PARSONAGES

- Rules for Clergy Living in Parsonages:
 - The Fair Rental Value (FRV) of a Parsonage (including utilities) is automatically excluded from income before federal income tax is calculated.
 - The FRV of a Parsonage (including utilities) is automatically included in income before self-employment tax is calculated.

PARSONAGES

- Rules for Clergy Living in Parsonages:
 - The FRV must be reasonable for its location, but it benefits the Pastor's tax bill if it is on the low end of the range of rentals in the area.
 - *Ask a realtor for up-to-date FRV comps.*
 - Pastors should always designate an additional housing exclusion to cover the cost of the **stuff** that goes inside the parsonage.

HOUSING EXCLUSION RULES

- The amount officially designated as Housing Exclusion must be specified in writing, in an official document of the congregation, before any Housing Exclusion payment is made.
 - *It can be a dollar amount or a percentage.*
 - *It can be time limited ("for calendar year 2021") or in perpetuity ("until further notice").*

HOUSING EXCLUSION RULES

- The amount must be used to provide or rent the home (IRC: "provide a dwelling for the minister").
- The amount cannot be more than reasonable pay for Clergy services.
 - *It can be 100% of the Pastor's compensation.* In this case, no W-2 is issued. A letter on congregational letterhead details the date the officially designated housing exclusion was approved & total payments to the Pastor.

CALCULATING THE EXCLUSION

- The amount that can be excluded from income before federal income tax is calculated is the smallest of the following 3 amounts:
 - The amount officially designated in writing as the Housing Exclusion (always start here)
 - The amount actually spent to provide a home
 - The Fair Rental Value (FRV) of the home, including utilities, furnishings, etc. (basically, everything in the home except food & clothing!)

FAIR RENTAL VALUES

- For purposes of calculating the excludable housing amount, calculating the FRV of the home you rent or own is very different than calculating the FRV of the Parsonage.
- The FRV of a Parsonage is calculated based on an empty building, yard, garage, & any utilities paid by the congregation on the Pastor's behalf.
- A realtor can give a good range of rental values for the location & condition of the parsonage.

FAIR RENTAL VALUES

- The FRV of the home you own or rent is calculated based on the home, yard, garage, & utilities – but with everything still in it (except food & clothing)!
- Look around your house & really see all the **stuff** inside. What would it cost to rent it all? There is no accepted way to calculate this FRV amount.
- Since underestimating the FRV of your home can cost you significant tax savings, here's my rule:

Never allow the FRV of your home to be the smallest of those 3 amounts!

CALCULATING THE EXCLUSION

- If the amount that was officially designated in writing as the housing exclusion is the smallest of these 3 amounts:
 - Amount officially designated
 - Amount actually spent
 - FRV of the home (never the smallest number!)
- Then that amount can be excluded from income before federal income tax can be calculated.

CALCULATING THE EXCLUSION

- If the amount that was officially designated in writing as the housing exclusion is not the smallest of these 3 amounts,
- Then:
 - the excess of the designated housing exclusion
 - over the smallest of these 3 amounts (it better not be the FRV of the home!)
 - must be added back into wages before federal income tax is calculated.

CALCULATING THE EXCLUSION

- Ideally, the officially designated housing exclusion should always be higher than the Pastor's actual expenses.
- This way the Pastor can take advantage of any unexpected expenses (e.g., repairs, furniture, disasters) to further reduce their income before federal income tax is calculated.
- If designated correctly, the Pastor will have a small amount of "excess housing" added back into wages each year.

CALCULATING THE EXCLUSION

- Example:
 - \$25,000 Designated housing exclusion
 - \$24,700 Amount actually spent on housing
 - \$30,000 FRV of the home, including furnishings & utilities

CALCULATING THE EXCLUSION

- Example:
 - \$25,000 Designated housing exclusion
 - \$24,700 Amount actually spent on housing
 - \$30,000 FRV of the home
- The smallest amount is not the designated housing exclusion, so the difference (\$300) between the housing exclusion (\$25,000) & the smallest amount, the amount actually spent (\$24,700) is added back into wages & labeled "excess housing".

SUPPLY PREACHERS

- Rules for Clergy Serving as Supply Preachers:
 - The official designation of a housing exclusion amount can be made by the congregation who holds the Minister's membership & to whom they are accountable.
 - This is also true for the Minister's pension payments from a qualified 403(b)(9) retirement plan, if not already designated by the plan.

SUPPLY PREACHERS

- Rules for Clergy Serving as Supply Preachers:
 - Language used by the congregation can include something similar to:
"100% of all income received from Clergy services is designated as housing exclusion, until further notice."
 - If this designation has been made, no IRS reporting is required. A copy of this statement should be given to the Supply Preacher on official letterhead to keep in their files.

OFFICE IN HOME

- Rules for Claiming an Office in Home Deduction:
 - Area must be used exclusively & regularly for business.
 - Only available for Schedule C filers.

OFFICE IN HOME

- When all housing expenses have been excluded from income by the use of a housing exclusion:
 - No office in home deduction is permitted.
 - Even if it's required by the Minister's employer.
 - Even if it's for a different non-Ministry business.
 - Even if it's for the Minister's spouse's business.
 - Really!

OFFICE IN HOME

- When all housing expenses have not been excluded by the use of a housing exclusion:
 - Unused housing exclusion expenses can be used on Schedule C (Form 8829) for honoraria.
 - Keep very thorough records showing which expenses were used for which purpose!
 - Reduce Mortgage Interest & Real Estate Taxes taken on Schedule A by the amounts permitted on Form 8829.

REDUCING FEDERAL INCOME & SELF-EMPLOYMENT TAX: BUSINESS EXPENSES

CLERGY BUSINESS EXPENSES

- **Business Mileage**
- **Books !** & Subscriptions
- Computer & Internet
- Religious Material; Anointing Oil
- Education (Seminars & Conferences)
- Robes, Vestments, Collars, etc. (& dry cleaning)
- Office Supplies
- **Portion of Cell Phone Bill Used for Ministry**

BUSINESS EXPENSES

- In IRS Publication 463, "Travel, Entertainment, Gift, and Car Expenses" (p. 2), IRS defines business expenses as "ordinary & necessary business-related expenses."
- An ordinary expense is one that is common & accepted in the trade or business.
- A necessary expense is one that is helpful & appropriate for the business. An expense doesn't have to be required to be considered necessary.



CLERGY BUSINESS EXPENSES

- Expenses are attributed to 1 of the 3 types of Ministry income (& reported on the tax return on the following forms):
 - Salary-related expenses . . .
Clergy Worksheet 3, Line 6
 - Housing-related expenses . . .
Clergy Worksheet 1; & Schedule A
 - Self-Employment-related expenses . . .
Schedule C

CLERGY BUSINESS EXPENSES

- How Clergy expenses are deducted from income:
 - For Self-Employment Tax: Because all Ministry income is subject to self-employment tax, deduct all expenses.
 - For Federal Income Tax: Because not all Ministry income is subject to federal income tax, deduct only the portion of expenses that are allocable to taxable income (per Deason Rule).

CLERGY BUSINESS EXPENSES

- The "Tax Cuts & Jobs Act" eliminated deductions for unreimbursed employee business expenses from federal income for all employees.
- However, Pastors can deduct their unreimbursed employee business expenses against their Federal Self-Employment Income, using the Clergy Worksheets at the end of IRS Publication 517: Worksheet 3, Line 6, "Total business expenses not deducted above."

CLERGY BUSINESS EXPENSES

- Reduce all expenses by the proportion (percent) of non-taxable housing exclusion to total Ministry income, as follows:

$$\frac{\text{Non-Taxable Housing exclusion}}{\text{Total Ministry Income}}$$

Use the Clergy Worksheets
at the end of IRS Publication 517
to calculate these amounts!
(attached)

IRS CLERGY WORKSHEETS

- Worksheet 1. Figuring the Percentage of Tax-Free Income
- Worksheet 2. Figuring the Allowable Deduction for Schedule C or C-EZ Expenses
- Worksheet 3. Figuring Net Self-Employment Income for Schedule SE (Form 1040)

REDUCING FEDERAL INCOME & SELF-EMPLOYMENT TAX: HEALTH INSURANCE

affordable care act

- Before the ACA, "Applicable Small Employers" (fewer than 50 FTE [Full Time Equivalent] employees) used medical insurance premium reimbursements to help their employees afford medical insurance.
- However, the 2010 Affordable Care Act changed that practice. Many congregations could no longer provide a pre-tax health insurance reimbursement to their Pastors.

aca exceptions

- There are two exceptions to the prohibition against Medical Insurance Premium Reimbursement under the ACA (after June 30, 2015, & without the excise tax penalty of \$100 per day per employee):
 - If the congregation has only one employee ("fewer than two employees") in the plan.
 - If the congregation has only retirees in the plan.

aca exceptions / sec. 105

- These "One-Employee Plans" are now called "Section 105 Plans" & can be implemented with or without plan administration documents.
 - If the congregation has only one employee who works more than 25 hours per week, on average;
 - Then the congregation can reimburse that employee's health insurance under a medical reimbursement plan, pre-tax.

aca exceptions / sec. 105

- Retirees-Only Plans
 - The congregation can reimburse their retired employees' health insurance under a medical reimbursement plan, pre-tax.
 - There can be any number of retirees in the plan.
 - However: Assume that having a One-Employee Plan means the congregation cannot also have a Retirees-Only Plan, & vice versa.

QSEHRA

- If congregations are unable to take advantage of a Section 105 Plan, there is another option.
- In December 2016, The 21st Century Cures Act created the QSEHRA (Qualified Small Employer Health Reimbursement Arrangement).
- A QSEHRA allows certain small employers to give their employees pre-tax dollars to pay for premiums & other medical expenses, so long as the QSEHRA meets certain standards.

QSEHRA

- Small employers can offer HRAs on a stand-alone basis to employees, & employees may use funds in qualifying HRAs to buy individual health insurance.
- Maximum annual employer contribution for 2021 (must be prorated per month of coverage):
 - \$5,300 per year for an HRA covering only the employee
 - \$10,700 for an HRA covering the employee & their family

QSEHRA

- Employees cannot contribute to the HRA.
- Employer must provide payment or reimbursement for medical expenses, which can include copays & premiums for individual health insurance, Medicare Supplemental insurance, & Medicare Parts A, B, C, & D.
- Employees must provide documentation in the form of receipts for medical expenses or health insurance premiums paid.

QSEHRA

- 2021 pre-tax reimbursements from a QSEHRA cannot exceed \$5,300 per year for single coverage, or \$10,700 a year for family coverage.
- Amounts above this limit become taxable income to the employee.
- Setting up a QSEHRA requires specific plan documents addressing particular requirements of the law. A professional benefits advisor should be consulted when setting up a QSEHRA.

ICHRA

- Beginning in January 2020, the Individual Coverage HRA became available to employers.
- Employers who do not offer a health insurance plan to their employees can contribute pre-tax dollars to an ICHRA to cover health insurance premiums & qualified medical expenses for their employees.
- Larger amounts are available for older employees & employees with larger families; cannot exceed 3 times the amount available for other employees.

PUBLICATIONS

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PUBLICATIONS

- ChurchLawAndTax.com Advantage Subscription. Full access to website; free copy of Hammar's Church & Clergy Tax Guide.
- Hammar, Richard R. (updated yearly). Church & Clergy Tax Guide. Carol Stream IL: Christianity Today. www.ChurchLawAndTaxStore.com
- Worth, B.J. (updated yearly). Worth's Income Tax Guide for Ministers. Winona Lake IN: Worth Financial Service. www.WorthFinancial.com

PUBLICATIONS

- Pub 517, Social Security & Other Information For Members Of The Clergy & Religious Workers
- Pub 15-A, Employer's Supplemental Tax Guide, Ch. 4, "Religious Exemptions & Special Rules For Ministers"
- Pub 1828, Tax Guide For Churches & Religious Organizations

All pubs & forms can be found at www.irs.gov

PUBLICATIONS

- Pub 15 (Circular E), Employer's Tax Guide
- Pub 463, Travel, Entertainment, Gift, & Car Expenses
- Pub 526, Charitable Contributions
- Pub 535, Business Expenses
- Pub 15-B, Employer's Tax Guide To Fringe Benefits

All pubs & forms can be found at www.irs.gov

QUESTIONS?

WAYS TO CONTACT ME

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Clergy Housing Allowance Exclusion Items

- ◆ Home:
 - ◆ mortgage or rent payments in full (including principal, interest, escrow, & fees)
 - ◆ home equity loans or lines of credit (to the extent used for housing)
 - ◆ appraisals, closing costs, title insurance, points paid on mortgage or refinance
 - ◆ homeowners or renters insurance, personal umbrella insurance
 - ◆ real estate or property taxes related to housing
 - ◆ homeowners or condo association fees
 - ◆ home assessments or fees
- ◆ Maintenance:
 - ◆ brooms, mops, vacuum cleaners, swiffers, steam cleaners, spot cleaners, etc.
 - ◆ cleaning supplies, floor cleaners, surface cleaners, window cleaners, etc.
 - ◆ professional cleaning service — 26 CFR §1.107-1(c)(3) prohibits “expenses for food & servants”
 - ◆ dish & dishwasher detergent, sponges, scrubbers, etc.
 - ◆ paper towels, paper plates, paper napkins, plastic silverware, etc.
 - ◆ laundry supplies, hampers, baskets, detergent, dryer sheets, etc.
 - ◆ plants, seeds, gardening tools, etc.
 - ◆ professional lawn care, landscaping, gutter cleaning, winter snow removal, etc.
- ◆ Repairs:
 - ◆ tools, miscellaneous hardware, etc.
 - ◆ batteries, light bulbs, etc.
 - ◆ interior & exterior painting, painting supplies, etc.
 - ◆ replacing flooring, drywall, windows & screens, siding, roof, etc.
- ◆ Furnishings & Appliances:
 - ◆ furniture & artwork; appraisal fees
 - ◆ carpets & rugs; appraisal fees
 - ◆ decorative wall & shelf items
 - ◆ electronics (tv, entertainment media & players, computer, printer, supplies, etc.)
 - ◆ appliances, supplies, warranties, repairs (refrigerator, stove, microwave, slow cooker, dishwasher, washer/dryer, portable a/c, portable heaters, etc.)
 - ◆ kitchenware, pots & pans, baking sheets, cooking implements, etc.
 - ◆ dishes, glassware, table settings, silverware, etc.
 - ◆ curtains, window coverings, wall coverings, etc.
 - ◆ linens: for dining room (tablecloths, table runners, place mats, etc.); bathroom (towels, hand towels, washcloths, etc.); bedroom (sheets, blankets, comforters, quilts, etc.)
 - ◆ infant, toddler, children's furniture; appliances; kitchenware; dishware (bottles, sanitizing equipment, nursing equipment); linens (not clothing); toys; etc.
- ◆ Utilities:
 - ◆ electric, natural gas, heating oil, propane, kerosene, water, sewer, trash, pest control, firewood (including cost of delivery or hauling), etc.
 - ◆ cable or satellite tv, streaming services, internet, etc.
 - ◆ land-line phone bill, cost of purchasing or leasing land-line telephone equipment . . .
 - ◆ . . . OR personal-use percent of total cost of cell phone bill & equipment—
but only if there is NO land-line (calculation instructions follow)

- ◆ How to calculate the personal-use amount of your cell phone bill:
 - ◆ If you do not share your plan with anyone else:
 - (1) add up your voice minutes used for personal calls
 - (2) divide into the total minutes used
 - (3) multiply that percentage by the total bill
 - (4) this is the dollar value for your personal use of the cell phone & can be used as a housing allowance exclusion item.
 - ◆ If you share your plan with others:
 - (1) divide the "shared" portion of the plan that is in addition to each individual's usage by the number of people sharing the plan
 - (2) add that dollar amount to the cost attributed to your usage alone
 - (3) then add up your voice minutes used for personal calls
 - (4) divide by the total minutes you used
 - (5) multiply that percentage to the cost attributed to your usage alone PLUS your portion of the shared cost
 - (6) this is the dollar value for your personal use of the cell phone & can be used as a housing allowance exclusion item
 - (7) repeat individually for each person on your plan who resides in your household; be aware that other adults in the household may have business- or work-related calls that do not qualify as personal-use for the purposes of the housing allowance exclusion.
 - ◆ Note: the remaining amount of your cell phone bill that does not relate to personal use might be deductible as business use of your cell phone.

Calculating the Housing Exclusion

The amount of income that can be excluded from federal income before federal income tax is calculated (but not from federal self-employment income) is the smallest of the following three amounts:

- (1) the amount properly designated in writing as the housing exclusion before payments to clergy begin;
- (2) the amount actually spent to provide the home during the calendar year (see list above); &
- (3) the Fair Rental Value of the home during the calendar year:

- ◆ Fair Rental Value of the Home means something different if it's a Parsonage or owned Home:
 - ◆ If you live in a congregation-owned Parsonage:
 - ◆ The Fair Rental Value of a congregation-owned Parsonage (plus any Congregation-paid Utilities) is/are added to your income for the purposes of Self-Employment Tax, so the lower, the better.
 - ◆ It should be accurate for its location & condition.
 - ◆ A realtor can give an accurate value for the building.
 - ◆ If you live in a home that is not owned by the congregation:
 - ◆ The Fair Rental Value of your own home is the amount it would cost someone else to rent the home you live in, fully furnished, if you walked out the door & left almost everything behind (except food, clothes, toiletries).
 - ◆ This value includes the FRV of the building itself (a realtor can give an accurate number for this), plus the cost of all utilities, & THE FRV OF EACH INDIVIDUAL ITEM INSIDE!
 - ◆ Because the total FRV of your home is impossible to calculate accurately, it should not be the smallest of the three amounts that determine the amount of income that can be excluded from federal income before federal income tax is calculated.

Worksheets

These worksheets are provided to help you figure your taxable ministerial income, your allowable deductions, and your net self-employment income.

Worksheet 1. Figuring the Percentage of Tax-Free Income

Note. For each line, enter the appropriate amount in **all** boxes that aren't shaded.

	Source of Income		(a) Taxable	(b) Tax-free	(c) Total
1	W-2 salary as a minister (from box 1 of Form W-2)	1			
2	Gross income from weddings, baptisms, writing, lecturing, etc. (from line 1 of Schedule C)	2			
Note. Complete either lines 3a through 3e or lines 4a through 4i. • If your church provides you with a parsonage, complete lines 3a through 3e. • If, instead of providing a parsonage, your church provides you with a rental or parsonage allowance, complete lines 4a through 4i.					
3a	FRV* of parsonage provided by church	3a			
b	Utility allowance, if any	3b			
c	Actual expenses for utilities	3c			
d	Enter the smaller of line 3b or 3c	3d			
e	Excess utility allowance (subtract line 3d from line 3b)	3e			
4a	Parsonage or rental allowance	4a			
b	Utility allowance, if separate	4b			
c	Total allowance (add lines 4a and 4b)	4c			
d	Actual expenses for parsonage	4d			
e	Actual expenses for utilities	4e			
f	Total actual expenses for parsonage and utilities (add lines 4d and 4e)	4f			
g	FRV* of home, plus the cost of utilities	4g			
h	Enter the smaller of line 4c, 4f, or 4g	4h			
i	Excess allowance (subtract line 4h from line 4c)	4i			
5	Ministerial income (for columns (a), (b), and (c), add lines 1 through 4i)	5			
6	Percentage of tax-free income: $\frac{\text{Total tax-free income (line 5(b)) \$}}{\text{Total income (line 5(c)) \$}}$			=	%**
* FRV (Fair Rental Value): As determined objectively and between unrelated parties, what it would cost to rent a comparable home (including furnishings) in a similar location. ** This percentage of your ministerial expenses won't be deductible. Use Worksheets 2 and 3 to figure your allowable deductions.					

Worksheet 2. Figuring the Allowable Deduction for Schedule C Expenses

1	Percentage of expenses that are nondeductible (from Worksheet 1, line 6): _____ %			
2	Business use of car for entire year: _____ miles x 57.5 cents (\$0.575)	2		
3	Meals: \$ _____ x 50% (0.50)	3		
4	Other expenses (list item and amount)			
a		4a		
b		4b		
c		4c		
d		4d		
e		4e		
f	Total other expenses (add lines 4a through 4e)	4f		
5	Total Schedule C expenses (add lines 2, 3, and 4f)	5		
6	Nondeductible part of Schedule C expenses (multiply line 5 by the percent in line 1)	6		
7	Deduction allowed. * Subtract line 6 from line 5. Enter the result here and on Schedule C, line 27a.	7		
* None of the other deductions claimed in this return are allocable to tax-free income.				

Worksheet 3. Figuring Net Self-Employment Income for Schedule SE (Form 1040)

1	W-2 salary as a minister (from box 1 of Form W-2)	1		
2	Net profit from Schedule C, line 31	2		
3a	Parsonage or rental allowance (from Worksheet 1, line 3a or 4a)	3a		
b	Utility allowance (from Worksheet 1, line 3b or 4b)	3b		
c	Total allowance (add lines 3a and 3b)	3c		
4	Add lines 1, 2, and 3c	4		
5	Schedule C expenses allocable to tax-free income (from Worksheet 2, line 6)	5		
6	Total unreimbursed employee business expenses	6		
7	Total business expenses not deducted in lines 1 and 2 above (add lines 5 and 6)	7		
8	Net self-employment income. Subtract line 7 from line 4. Enter here and on Schedule SE (Form 1040), line 2.	8		