

"Annual Clergy Tax Seminar"
Saturday, January 29, 2022

**Bethany Theological Seminary &
Brethren Academy for Ministerial Leadership**

OSKIN
Tax Services
WHERE PEOPLE COME FIRST

ANNUAL CLERGY Tax seminar

THE REV. DEB OSKIN, ENROLLED AGENT
BRETHREN ACADEMY FOR MINISTERIAL LEADERSHIP
BETHANY THEOLOGICAL SEMINARY WEBINAR

SATURDAY
JANUARY 29
2022

OUTLINE

- Coronavirus 2021: IRS Letters 6475 & 6419
- Clergy Status + Clergy Services = Clergy Taxes
- Calculating & Paying Your Taxes
- Reducing Total Tax: 1. Opt Out
- Reducing Total Tax: 2. Housing Exclusion
- Retired Clergy
- Reducing Total Tax: 3. Business Expenses
- Reducing Total Tax: 4. Health Insurance

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: 86% Clergy Clients
- 2004: Started Teaching & Presenting on 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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APPOINTMENTS
are free!

CORONAVIRUS 2021:
IRS LETTERS 6475 & 6419

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IRS LETTERS 6475 & 6419

- Letter 6475: Specifies the amount of the 3rd Economic Impact Payment (\$1,400 per adult + \$1,400 per child) received in spring 2021. Must be reported on your 2021 tax returns.
- Letter 6419: Specifies the amount of Advanced Child Tax Credit Payments issued beginning July 2021 to households with children under age 17.

$$\begin{array}{r} (1) \text{ CLERGY STATUS} + \\ (2) \text{ CLERGY SERVICES} \\ \hline = (3) \text{ CLERGY TAXES} \end{array}$$

WHO IS a MINISTER?

- According to Congress (& IRS), a "Minister" is someone who:
 - Is duly ordained, commissioned, or licensed by a religious body constituting a church or church denomination (not in reference to any particular religion).
 - This includes Ministers, Rabbis, Cantors, Imams, & Christian Science Practitioners.

WHO IS a MINISTER?

- The "Minister" is authorized to:
 - Conduct religious worship
 - Perform sacerdotal ("priestly") functions
 - Administer ordinances or sacraments

WHAT DOES THE MINISTER DO?

- Ministry Services:
 - Performing sacerdotal ("priestly") functions
 - Conducting religious worship
 - Performing services for nonreligious organizations when assigned or designated by the Minister's church or faith community
 - If not assigned by the church, if they involve sacerdotal functions or conducting religious worship

WHAT DOES THE MINISTER DO?

- Writing religious books or articles
- Controlling, conducting, & maintaining religious organizations, boards, societies, & other integral agencies under the authority of a religious body
- Directing, managing, or promoting the organization's activities

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WHAT DOES THE MINISTER DO?

- Services performed at a church-related hospital or health & welfare institution
- Services performed at a private nonprofit hospital
- But *not* services performed at a government hospital or other government entity

BOTTOM LINE

IF: You Are a Minister

**AND: You Provide
Ministry Services**

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

(yes, prayer is appropriate.)



CLERGY INCOME

CLERGY INCOME

- There are actually 3 types of Ministry income:
 - Salary . . .
reported on the W-2 in Box 1
 - Housing Exclusion . . .
reported on the W-2 in Box 14
 - Self-Employment or Honoraria . . .
reported on Schedule C

CLERGY INCOME

- The following income is subject to Clergy Tax Rules:
 - Salaries & fees for Ministry services
 - Offerings received for marriages, baptisms, funerals, masses, etc.
 - Any amount an employer pays their Minister employee toward his/her federal income tax or self-employment tax (not including amounts withheld)

GROSS-UP

- Gross-Up
 - Employers of non-Minister employees are required to pay half of the FICA taxes due for those employees.
 - Sometimes these employers want to do the same for their Minister employees; however, it is against the law for employers to withhold & pay FICA taxes for Minister employees.

GROSS-UP

- By giving the Minister employee the half of FICA that the employer would pay if the employee were not a Minister, the employer is essentially giving the Minister employee half of the self-employment tax the Minister employee must pay on his/her own tax return.
- (Never turn down extra cash!)
- However, after income taxes are paid on that extra amount, the employee is left with less than the employer intended.

GROSS-UP

- IRS gives a formula for "grossing-up" these payments to employees, so that when income taxes are taken on the increased amount, the employee still receives the amount the employer intended.
- The total extra amount is included in the Minister's wages in Box 1, and is subject to both federal income tax & self-employment tax.

GROSS-UP

- To calculate tax gross-up, follow these 4 steps:
 - Add up all federal, state, & local tax rates.
 - Subtract the total tax rates from the number 1: $1.00 - \text{tax} = \text{net percent}$
 - Divide the net payment by the net percent: $\text{net payment} / \text{net percent} = \text{gross payment}$
 - Check your answer by calculating gross payment to net payment.

GIFTS VS. SALARY

- Gifts vs. Salary:
 - While the Minister employee continues to serve, Courts have ruled that most "gifts" or special offerings are compensation for services.
 - Retirement gifts to departing Ministers 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 Minister are unlikely to be gifts; however, each situation could be different.

NON-SALARY INCOME

- The following income is subject to Clergy Tax Rules:
 - Fair Rental Value (FRV) of a Parsonage (including utilities paid by the congregation) provided to the Minister employee
 - Housing exclusion paid to the Minister employee
 - Value of meals & lodging provided for the Minister & his/her family for the employer's convenience

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)

NOT SUBJECT TO CLERGY TAX

- The following income is not subject to Clergy Tax Rules:
 - Offerings made to the congregation by others.
 - Contributions by the congregation to a qualified 403(b) retirement plan set up for the Minister employee.
 - Pre-tax salary reduction contributions by the Minister employee to a qualified 403(b) retirement plan.

NOT SUBJECT TO CLERGY TAX

- The following income is not subject to Clergy Tax Rules:
 - Income from services performed as a duly ordained, commissioned, or licensed Minister of the church . . .

As an employee of the United States, the District of Columbia, a foreign government, or any of their political subdivisions – even if performing sacerdotal functions or conducting religious worship

NOT SUBJECT TO CLERGY TAX

- The following income is not subject to Clergy Tax Rules:
 - Income from services performed in a government owned-&-operated hospital (e.g., chaplains at a VA hospital or a state-controlled University hospital)
 - Income from other services performed for non-religious organizations (not listed earlier)

CLERGY TAXES

CLERGY TAXES

- Ministers are not subject to some taxes that most employees are subject to:
 - FICA: Social Security & Medicare Taxes
 - Payroll Taxes: Unemployment
- Ministers are subject to 2 taxes concurrently:
 - Federal Income Tax
 - Self-Employment Tax (usually the largest tax balance due affecting Ministers)

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.
- Employers are prohibited by law from withholding & paying FICA taxes for their Minister employee.
- Employers must issue a W-2 to their Minister employee. A 1099-NEC can only be issued to non-employee Clergy (e.g., Supply Preachers).

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CLERGY W-2

Employee's social security number 000-00-0000		OMB No. 1545-0008		Safe, accurate, FAST! Use efile Visit the IRS website at www.irs.gov/efile	
1 Employee identification number (EIN) 00-0000000		2 Wages, tips, other compensation \$13,800.00		3 Federal income tax withheld \$4,069.31	
4 Employer's name, address, and ZIP code Happy Valley Congregation 1 Happy Drive Happy Valley, OH 43235		5 Social security wages		6 Social security tax withheld	
4 Control number		7 Medicare wages and tips		8 Medicare tax withheld	
5 Employee's first name and initial Last name Happy Valley Minister 50 Valley Avenue Happy Valley, OH 43235		9 Social security tips		10 Allocated tips	
11 Nonqualified plans		12a See instructions for box 12 E \$1,200.00		12b	
13a Indemnification payment (see instructions)		13b		13c	
14 Other		14a		14b	
15 Employee's address and ZIP code OH		16 State wages, tips, etc. \$13,800.00		17 State income tax \$13,800.00	
18 Local wages, tips, etc. \$13,800.00		19 Local income tax HAPVAL		20 Locality name	

Form W-2 Wage and Tax Statement 2022 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.

1099-NEC

☐ CORRECTED (if checked)

PAYER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone no.		OMB No. 1545-0116 Form 1099-NEC (Rev. January 2022) For calendar year 20		Nonemployee Compensation	
PAYER'S TIN		RECIPIENT'S TIN		1 Nonemployee compensation \$	
RECIPIENT'S name		2 Payer made direct sales totaling \$5,000 or more of consumer products to recipient for resale <input type="checkbox"/>		Copy B For Recipient <small>This is important tax information and is being furnished to the IRS. If you are required to file a return, a negligence penalty or other sanction may be imposed on you if this income is taxable and the IRS determines that it has not been reported.</small>	
Street address (including apt. no.)		3			
City or town, state or province, country, and ZIP or foreign postal code		4 Federal income tax withheld \$			
Account number (see instructions)		5 State tax withheld \$		6 State/Payer's state no.	
		7 State income			

Form **1099-NEC** (Rev. 1-2022) (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 FRV of Parsonage	Maybe No	Yes	No

Calculating & Paying Your Taxes

EMPLOYER WITHHOLDING

- The easiest way for employees to pay their taxes is by having the employer withhold taxes from the employee's paycheck before s/he receives it.
- Employers are required to withhold income taxes (as well as FICA taxes) from their employees.
- However, Ministers, as you know, are a class unto themselves! Employers are not required to withhold income taxes from their Minister employees, although they may do so if requested.

EMPLOYER WITHHOLDING

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

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FORM W-4

- Form W-4 has been expanded to a full page, but there are few entries actually required.
- Line-by-line instructions for Form W-4:
 - Step 1: Personal Information
 - (a) Name & Address
 - (b) Social Security Number

FORM W-4

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

Department of the Treasury Internal Revenue Service

Complete Form W-4 so that your employer can withhold the correct federal income tax from your pay.
 Give Form W-4 to your employer.
 Your withholding is subject to review by the IRS.

2022

Step 1: Enter Personal Information

(a) First name and middle initial Last name
 Address
 City or town, state, and ZIP code

(b) Social security number

(c) ☒ Single or Married filing separately
☐ 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.)

Does your name match the name on your social security card? If no, to ensure you get credit for your earnings, contact SSA at 800-772-1213 or go to www.ssa.gov.

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 2022 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. Cit. No. 1022002 Form W-4 (2022)

FORM W-4

- Line-by-line instructions for Form W-4 (continued):
 - Step 1: Personal Information
 - (c) Filing Status. I recommend that married Ministers check the 1st box, "Single or Married Filing Separately." This allows the employer to maximize the income tax withheld.

FORM W-4

- Step 2: Multiple Jobs or Spouse Works
 - Skip this section
- Step 3: Claim Dependents
 - Enter "0" (Zero) on the far right column. Remember, the idea is to maximize the income taxes withheld from the paycheck, so Ministers don't face a balance due at the end of the year.

FORM W-4

- Step 4 (optional): Other Adjustments
 - (a) Other income (not from jobs)
 - Skip this section
 - (b) Deductions
 - Skip this section

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FORM W-4

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

FORM W-4

- Step 1: Calculate your 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 the employee will receive for the year.
 - Employees who are paid every other week receive a total of 26 paychecks in a year
 - Employees who are paid twice a month will receive a total of 24 paychecks in a year

FORM W-4

- Employees 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 Minister employee's self-employment tax.

FORM W-4

- Note: This amount is a goal, so that the Minister employee has enough withheld to pay his/her self-employment tax.
- Minister employees 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 Minister's employer isn't willing or able to withhold income and additional taxes for him/her, s/he 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

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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.
 - Ministers 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

Form 1040-ES Department of the Treasury Internal Revenue Service		2022 Estimated Tax		Payment Voucher 1 OMB No. 1545-0074	
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 "2022 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.				Calendar year—Due April 18, 2022 Amount of estimated tax you are paying by check or money order.	
		Dollars		Cents	
Print or type Simple, Fast, Secure.	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		Spouse's social security number
	Address (number, street, and apt. no.)				
	City, town, or post office. If you have a foreign address, also complete spaces below.		State		ZIP code
Foreign country name		Foreign province/county		Foreign postal code	
For Privacy Act and Paperwork Reduction Act Notice, see instructions.					
Form 1040-ES (2022)					

REDUCING TOTAL TAX: 1. OPT-OUT

OPT-OUT

- Ministers who have taken a vow of poverty or whose earnings are sent directly to their order are automatically exempt from self-employment tax.
- Other Ministers can opt-out of the Social Security & Medicare system for moral or religious reasons – but they must be morally opposed to any form of public old-age or medical insurance.
- This election is irrevocable. (BUT: if initially elected for economic reasons, IRS & Tax Court have held that the election was never valid. File Form 2031, pay 3 years of SE Tax, and you are back in.)

OPT-OUT

Form 4361 (Rev. January 2011) Department of the Treasury Internal Revenue Service	Application for Exemption From Self-Employment Tax for Use by Ministers, Members of Religious Orders and Christian Science Practitioners	OMB No. 1545-0074 File Original and Two Copies
File original and two copies and attach supporting documents. This exemption is granted only if the IRS returns a copy to you marked "approved."		

- Form 4361 must be filed by the due date of the 2nd tax return showing any Ministry income (years do not need to be consecutive).
- It is not in effect until approved by the IRS.
- Ministers will not accumulate any quarters for eligibility in Social Security & Medicare from Ministry income (40 quarters required).

OPT-OUT

Form 4361 (Rev. January 2011) Department of the Treasury Internal Revenue Service	Application for Exemption From Self-Employment Tax for Use by Ministers, Members of Religious Orders and Christian Science Practitioners	OMB No. 1545-0074 File Original and Two Copies
File original and two copies and attach supporting documents. This exemption is granted only if the IRS returns a copy to you marked "approved."		

- Ministers are still entitled to Social Security & Medicare benefits received due to secular work &/or due to spouse's secular work.
- Can pay the full Medicare premium for benefits.
- But be careful: There's a narrow window of 3 months before & 3 months after month of 65th birthday (7 months total) to sign up for Medicare – or pay increased premiums for years to come.

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Break

REDUCING TOTAL TAX: 2. DESIGNATED HOUSING EXCLUSION

HOUSING EXCLUSION

- The Minister's housing exclusion is called by many names, yet they all represent the same thing: the mechanism by which Ministers 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 Ministry services should* designate all or part of their total compensation from their employer as housing exclusion.
- The amount designated as housing exclusion can then be excluded from income for federal income tax purposes (subject to certain rules).

HOUSING EXCLUSION

- However, all Ministry income is subject to self-employment tax, including both the officially designated housing exclusion &/or the Fair Rental Value (FRV) of a provided Parsonage.



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 Minister'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.*
 - Ministers 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 the Housing Exclusion payment is made.
 - *It can be a dollar amount or a percentage.*
 - *It can be time limited ("for calendar year 2022") or in perpetuity ("until further notice").*
 - *It can be changed at any time with approval by the church board. All changes are prospective, not retroactive.*

HOUSING EXCLUSION RULES

- The amount must be used to rent, purchase, or provide the home (Internal Revenue Code: "provide a dwelling for the minister").
- The amount cannot be more than reasonable pay for Clergy services.
 - *It can be 100% of the Minister'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 Minister.

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 Minister'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 Minister's actual expenses.
- This way the Minister 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 Minister 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.

retired clergy

retired clergy: NO TAX?!

- Retired Ministers do not pay self-employment tax on pension payments or retirement allowances received for past Ministry services.
- Retired Ministers do not pay federal income tax on the FRV of a provided Parsonage.
- Retired Ministers do not pay federal income tax on pension payments which have been officially designated as housing exclusion, provided they are properly excluded from income.



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retired clergy

- Use of a housing exclusion can potentially reduce the income taxes owed by retired Ministers on pension payments to ZERO.
 - If a housing exclusion has not already been designated by a qualified 403(b) retirement plan,
 - Retired Ministers can ask the congregation which holds their membership & to whom they are accountable to designate a housing exclusion amount in writing.

retired clergy

- Retired Ministers who have owned their homes for a long time may have paid off their mortgage (one of the largest housing expenses), leaving them with fewer expenses to claim.
- Housing exclusions are limited by the smallest of the (1) amount officially designated; (2) amount actually spent; or (3) FRV of home.
- Designate wisely! Designate a little more than expected expenses to allow for the unforeseen.

Tax Table: retired clergy

> Taxes >	Subject to Income Tax?	Subject to Self-Employ- ment Tax?	Subject to FICA Taxes?
∨ Income ∨			
<i>Self-Employment Income (Honoraria)</i>	Yes	Yes	No
<i>Employee Salary</i>	N/A	N/A	N/A
<i>Housing Exclusion FRV of Parsonage</i>	Maybe No	No	No

REDUCING TOTAL TAX: 3. BUSINESS EXPENSES

CLERGY BUSINESS EXPENSES

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

BUSINESS EXPENSES

- In IRS Publication 463, "Travel, Entertainment, Gift, and Car Expenses", IRS defines business expenses as "ordinary & necessary business-related expenses."
- An ordinary expense is one that is common & accepted in your trade or business.
- A necessary expense is one that is helpful & appropriate for your 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

- Shared expenses are expenses that are associated with more than one type of Ministry income (e.g., library, robes & vestments, etc.)
- Shared expenses are prorated according to the proportion of total Ministry income represented by the W-2 & Schedule C, respectively:

$$\frac{\text{Income Subject To Income Tax}}{\text{Total Ministry Income}}$$

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 attributable to taxable income (per Deason Rule).

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!

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)

(see handout pp. 28-29)

CLERGY DEDUCTION

- The "Tax Cuts & Jobs Act" of 2017 (effective in 2018) eliminated deductions for unreimbursed employee business expenses from federal income for all employees.
- However, Ministers 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."

REIMBURSEMENT PLANS

- Due to the changes to unreimbursed employee business expenses, employers should immediately set up a method by which "ordinary & necessary" expenses incurred by employees for the benefit of the employer are reimbursed to the employee.
- It's not an enormous amount to the employer, but it's certainly helpful to the employee!

REIMBURSEMENT PLANS

- There are many ways employers can reimburse employees for these expenses. They tend to end up in two categories with vastly different tax consequences for the Employees:
 - Non-Accountable (**bad**) Reimbursement Plans
 - Accountable (**good**) Reimbursement Plans

NON-ACCOUNTABLE PLANS

- Employers prepare budgets which often include their employees' anticipated expenses. Budgets are an essential financial management tool.
- "Allowances" (e.g., car allowance, education allowance, travel allowance, etc.) are based on the employer's budget for these expenses. (This is why it's now a housing exclusion & not allowance.)
- Once the expenses are budgeted for, it seems simple enough just to pay it to the employee as part of their regular paycheck.

NON-ACCOUNTABLE PLANS

- Allowances are "Non-Accountable Plans." Here are some of their characteristics:
 - Employee is not required to give the employer receipts or other documentation
 - Employee is not required to return any amount of an advance not used for business expenses
 - Employer pays the employee regardless of whether the employer reasonably expects the employee to have business expenses.

NON-ACCOUNTABLE PLANS

- Payments from an Non-Accountable Plan are income to the employee.
- These payments are wages & are subject to withholding & payment of Income, Social Security, Medicare, & Unemployment Taxes.
- Non-Accountable Plans hit Ministers especially hard!
- When Allowances show up on the Minister's W-2 in Box 1 as salary, that income becomes subject to both federal income tax & self-employment tax.

ACCOUNTABLE PLANS

- "Accountable Plans" are easy to set up. Here are the requirements:
 - Employee must have paid or incurred deductible expenses while performing services as an employee. The reimbursement or advance must be paid for that expense.
 - Employee must substantiate the expense (provide a receipt) to the employer within a reasonable period of time.

ACCOUNTABLE PLANS

- Employee must return any amounts in excess of substantiated expenses within a reasonable period of time.
- Payments from an Accountable Plan are not income to the employee.
- Which means these payments are not wages & are not subject to withholding & payment of income, social security, medicare, & unemployment taxes.
- And they are not taxable income to Ministers!

ACCOUNTABLE PLANS

- However, be careful:
 - If, at the end of the year, there is still money left in the budget in any of these expense categories, & the employer decides to give the balance to the employee without documented expenses . . .

The IRS could disqualify the Accountable Plan, meaning all Accountable Plan reimbursements for every year would become taxable wages for every employee, plus amendments, taxes, & penalties.

REDUCING TOTAL TAX: 4. 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 employees.

affordable care act

- Small employers & congregations can, however, continue to give financial support for medical insurance premium costs.
- There are rules:
 - Employer cannot specify the purpose for this increase in pay – not in congregational minutes or as a budget line item.
 - This financial support becomes compensation (wages) to the employee.

affordable care act

- Tax effects for Minister employees if added to salary (W-2 Box 1):
 - Increases income & self-employment taxes.
 - Employees can try to deduct the amount paid for health insurance premiums on Schedule A as a medical deduction, but this deduction is subject to a 7.5% of AGI (adjusted gross income) threshold. This high threshold makes it unlikely to actually reduce federal income tax liability.

affordable care act

- Tax effects for Ministers if added to housing exclusion (W-2 Box 14):
 - Increases self-employment taxes.
 - However, housing expenses have the potential to reduce or completely remove the additional income from federal income tax.

affordable care act

- Regardless of how the additional income is reported, small employers & congregations will see an increase in the amounts they pay for the Minister's pension contributions & non-Ministers employee payroll taxes.

aca exceptions

- In December 2016, the 21st Century Cures Act became law, and created 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, or
 - if the congregation has only retirees in the plan.

aca exceptions

- One-Employee Plans:
 - The IRS has not specified whether the congregation can have more than one employee working more than 25 hours per week & yet allow only one employee to be in the congregation's medical reimbursement plan.
 - Safest way forward: Assume that having more than one employee working more than 25 hours per week means that the congregation is not permitted to use a medical reimbursement plan.

aca exceptions

- One-Employee Plans (continued):
 - Do not attempt to get around this limitation by reclassifying employees (who receive W-2s) as independent contractors (who receive 1099s)!
 - The IRS has a 20-factor test that focuses on financial control, behavioral control, & the relationship between the employer & the worker to determine proper classification.

aca exceptions

- Retirees-Only Plans:
 - The IRS has not specified whether the congregation can meet both the one-employee & the retirees-only exceptions at the same time.
 - Safest way forward: Assume that having a one-employee plan means the congregation cannot also have a retirees-only plan, & vice versa.

QSEHRA

- The 21st Century Cures Act also 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 (must be prorated per month of coverage):
 - \$5,450 per year (in 2022) for an HRA covering only the employee
 - \$11,050 per year (in 2022) for an HRA covering the employee & his/her 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

- Pre-tax reimbursements from a QSEHRA cannot exceed \$5,450 per year (in 2022) for single coverage or \$11,050 per year (in 2022) 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 plan. A professional benefits advisor should be consulted when setting up a QSEHRA.

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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.

EBHRA

- Beginning in January 2020, the Excepted Benefit HRA became available to employers.
- Employers must provide health insurance to employees; however, employees are not required to use their employer-provided insurance to use the EBHRA.
- The EBHRA covers all medical, dental, or vision costs up to \$1,800 (in 2022) annually per employee.

SECTION 105 PLANS

- These plans require plan documents & administration.
- Two companies well-known for working with small businesses & congregations are:
 - TASC - Total Administrative Services Corporation (www.tasconline.com)
 - Zane Benefits (www.zane.peoplekeep.com)

INDIVIDUAL RESPONSIBILITY PENALTY

- The Tax Cuts & Jobs Act, signed into law December 2017, removed the ACA's Individual Responsibility Penalty as of January 1, 2019.
- That's the extra amount taxpayers without qualifying health insurance pay on their tax return at the end of the year.
- Beginning in 2019, taxpayers are no longer required to have any health insurance coverage, & no penalty will be assessed on their tax return.

PUBLICATIONS

PUBLICATIONS

- Hammar, Richard R. (updated yearly). Church & Clergy Tax Guide. Carol Stream IL: Christianity Today. www.ChurchLawAndTaxStore.com
- Vargo, Richard J., & Vonna Laue. 2009. Essential Guide to Church Finances. Carol Stream IL: Christianity Today International. www.YourChurchResources.com
- Worth, B.J. (updated yearly). Worth's Income Tax Guide for Ministers. Winona Lake IN: Worth Financial Service. www.WorthFinancial.com

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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?

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Break

Pastoral Compensation and Benefits Advisory Committee

Presents

Major Changes Coming to Annual Conference 2022!

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Integrated Annual Ministry Agreement

Introduction

Annual Compensation Agreement

Annual Compensation Table

Annual Shared Ministry Priorities Agreement
For Treasurers and Church Leaders

Minimum Cash Salary Table

Cost of Living Adjustment

The Pastoral Compensation and Benefits Advisory Committee is a Committee of the Annual Conference of the Church of the Brethren, and is tasked to perform a 5-year review of our compensation and benefits practices.

We came to this review knowing that 77% of our pastors are serving in less than full time or less than fully compensated roles; that our churches are growing smaller, not larger; and that our overall membership is shrinking, not growing. Other considerations included the frustrations we have heard from pastors and congregations alike about trying to meet the dollar amounts in the Minimum Cash Salary Table published by our Committee every year; the pressure to perform full-time ministry on part-time pay; and the lack of a framework that would assist our congregations to participate in ministry with our pastors.

Knowing all this, the Committee decided to re-imagine the compensation and working relationships between pastors and congregations.

PASTORAL HOUSING

The congregation is expected to provide a home for the pastor and his/her family.

This happens in two ways:

INSIDE: Helping the pastor provide the "stuff" that goes inside to make the building livable: furniture, appliances, decorations, bedding, etc.

OUTSIDE: Helping the pastor provide for the building itself that shelters and provides a dwelling for the pastor and her/his family.

PASTORAL HOUSING: INSIDE

The congregation is expected to provide a home for the pastor and his/her family.

The **Designated Housing Exclusion** (also known as the *Housing Allowance*) is the amount the pastor sets aside from her/his own Minimum Cash Salary Table or Calculator amount to provide the "stuff" that goes into the building to make it a home.

Every pastor, whether living in a parsonage or in their own home, should designate a Housing Exclusion. This amount can be up to 100% of the pastor's own cash salary after the pastor's pension contributions are removed. There is no liability to the congregation for the pastor to do so.

PASTORAL HOUSING: OUTSIDE

The congregation is expected to provide a home for the pastor and his/her family.

When the congregation does NOT provide a parsonage for the pastor and her/his family, the **Parsonage Adjustment Amount** is the cash amount added to the Minimum Cash Salary Table to provide for that housing. The amount added is equal to the average annual cost of renting a 3-bedroom home in the congregation's zip code, and helps balance out the differences in cost of living around the country. This amount comes from Federal HUD values, which are updated yearly and are programmed into the Calculator.

PASTORAL HOUSING: OUTSIDE

The congregation is expected to provide a home for the pastor and his/her family.

When the congregation provides a parsonage for the pastor and her/his family, the **Fair Rental Value of the Parsonage** is the amount of money the congregation could reasonably expect to receive annually if it used the parsonage as a rental home on the open market.

We strongly recommend consulting with a realtor for this value on a regular basis, as this amount is added to the pastor's taxable income.

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PASTORAL HOUSING: OUTSIDE

*The congregation is expected to provide a home
for the pastor and his/her family.*

In addition, 1% of the Fair Market/Sale Value of the Parsonage shall be invested in the pastor's **Housing Equity Fund**, so that when the time comes that the pastor leaves the parsonage, the congregation will have assisted the pastor in creating equity for purchasing a home.

We strongly recommend consulting with a realtor annually for the market/sale value of the parsonage.

*We believe that every pastor should be
compensated fairly for their time.*

We developed a Calculator, hosted by BBT, that starts with what the congregation can afford to pay, includes the costs of housing, pension, and other benefits, and calculates how many hours (based on the Minimum Cash Salary Table) of average weekly pastoral time the congregation should expect for their money.

~ Calculator Demonstration ~

CURRENT RENEWAL AGREEMENT:

A. COMPENSATION

1. Cash Salary:

- The amount from the Minimum Cash Salary Table at ____ years of experience: \$ ____
- If part-time, the prorated amount at ____-time ministry: \$ ____
- Amount above and beyond the Minimum Cash Salary Table: \$ ____
- Supplemental Income: \$ ____
- Beginning ____ (date), the congregation shall pay the pastor a salary of: \$ ____
- (Amount of cash salary designated for housing, utilities and furnishings: \$ ____)

**CURRENT RENEWAL AGREEMENT
(continued):**

A. COMPENSATION

2. Housing:

- a. The congregation will provide a housing allowance of: \$ ____
- b. In lieu of a housing allowance:
 - the congregation will provide the use of a parsonage with a Fair Rental Value of: \$ ____
 - the Housing Fund contribution (see *Guidelines*) by the congregation will be: \$ ____

ANNUAL COMPENSATION TABLE

ITEM	CONGREGATION	PASTOR
SALARY		
1 Negotiated Cash Salary (either from the Minimum Cash Salary Table or Calculator)		
HOUSING (complete EITHER 2 OR 3 IN FULL)		
2 PARSONAGE PROVIDED		
2a Fair Rental Value (FRV) of Parsonage		
2b Housing Equity Fund Contribution (1% Parsonage Fair Market/Sale Value)	of	
2c Pastor's Housing Exclusion (from 1 above)		
3 PARSONAGE NOT PROVIDED		
3a Parsonage Adjustment (from Calculator)		
3b Pastor's Housing Exclusion (from 1 above)		
TOTAL SALARY AND HOUSING:		

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ITEM	CONGREGATION	PASTOR
BENEFITS		
4 PENSION CONTRIBUTIONS		
4a Pastor's Contribution (at least 4%)		
4b Congregation's Contribution (11%)		
4c Church Worker's Assistance Plan (1%)		
5 MEDICAL INSURANCE		
5a Medical Insurance (Congregation pays 2/3)		
6 DISABILITY INSURANCE		
6a Short Term Disability		
6b Long Term Disability		
7 ELECTIVE INSURANCE		
7a Dental Insurance		
7b Vision Insurance		
7c Accident Insurance		
7d Basic Life Insurance		
8 WORKER'S COMPENSATION		
9 MOVING EXPENSES		
The congregation will pay the pastor's mutually negotiated moving expenses.		

ITEM	CONGREGATION	PASTOR
ACCOUNTABLE REIMBURSEMENT PLAN FOR PASTOR'S EXPENSES		
Travel & Mileage		
Annual & District Conferences		
Continuing Education Expenses		
Sabbath Rest		
Professional Expenses		
TOTAL ACCOUNTABLE REIMBURSEMENT:		

PASTOR'S TIME OFF Enter the number of hours from the Pastoral Compensation Calculator: (Note: 44 weekly ministry hours is considered full-time.)	
Weekly Time Off: Full-Time Pastor shall have at least one and one-half (1½) regular days free of congregational responsibilities (barring crisis needs).	Days Off:
Part-Time Pastor shall have a specific number of hours free of congregational responsibilities.	Time Free:
Vacation Work Weeks Off: Pastor's Years of service have earned Pastor a specified number of work weeks of vacation annually. (3 weeks annually for years of service 0-3; 4 weeks annually for years 4-20; 5 weeks annually for years beyond 20.)	Vacation Weeks:
Holidays Off: Ten (10) holidays can be used as additional paid days off, subject to the Pastor's discretion.	

PASTOR'S TIME OFF (continued)	
Continuing Education Days Off: Annual Conference Guidelines for Continuing Education recommend at least seven (7) days per calendar year, including not more than one Sunday.	
Special Circumstances Days Off: Pastor has accumulated a specified number of paid days for Special Circumstances from prior service. (A detailed explanation of Special Circumstances Days is found in the Appendix of the "Guidelines for Pastors' Salaries and Benefits" document.) Pastor begins each year with no less than thirty-two (32) SCD. Ten (10) SCD are added for each succeeding year, up to ninety (90) SCD total. Congregation is not required to pay any accrued SCD after the Pastor's service is terminated.	SCD Accrued as of January 1:

*We believe in the
priesthood of all believers.*

In at least 77% of our congregations, average weekly pastoral time won't equal the full time standard of 44 hours per week. A critical new section of this document is the "Annual Shared Ministry Priorities Agreement" that helps the congregation and the pastor figure out how and where the pastor is going to spend their time, and who (what committees or persons) and how the congregation will be responsible for the other ministry needs of the church.

*We believe in the
priesthood of all believers.
(continued)*

We even provide a list of common ministry needs to help congregational leaders think about all the various ministries that happen in the church. Specific tasks are then assigned for each responsibility.

Shared Ministry Priorities may include:

Crisis Pastoral Care; Denominational Work; Discipleship; District Work; Ecumenical Activities; Evangelism; Leadership Development; Ministry in Community; Music Ministry; Organizational Leadership / Administration; Pastoral Care; Preaching; Relating to Various Age Groups within the Church; Teaching; Visitation; Working with Groups; Worship Leadership; Other (specify)

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*We believe in the
priesthood of all believers.
(continued)*

We recommend that this document be reviewed annually.

Our hope is that this review will be used to assess what did and didn't work, where ministry needs have changed, and where new opportunities have emerged.

We see this as a tool for shared ministry and openness to the needs of the Spirit.

**Bethany Theological Seminary &
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INSTRUCTIONS:

1. Identify Pastoral Priorities and rank them.
 - If less than 40% time, choose up to 3 Pastoral Priorities
 - If 40-70% time, choose 4-5 Pastoral Priorities
 - If more than 70% time, choose 6-7 Pastoral Priorities
2. Identify Congregational Priorities and rank them.

PASTOR			CONGREGATION	
Priorities	Rank	% of Time	Priorities	Rank

ANNUAL AGREEMENT OF SHARED MINISTRY PRIORITIES

Pastoral Priorities

INSTRUCTIONS:

Describe Pastoral Priorities in rank order.

- Enter the percentage of average weekly time expected to be spent on each Priority.
- List at least three specific tasks to be completed for each Priority.

FIRST PASTORAL PRIORITY

DESCRIPTION:

PERCENT OF AVERAGE WEEKLY TIME:

SPECIFIC TASKS:

-
-
-

ANNUAL AGREEMENT OF SHARED MINISTRY PRIORITIES

Congregational Priorities

INSTRUCTIONS:

Describe Congregational Priorities in rank order.

- Enter the group within the Congregation responsible for each Priority.
- List at least three specific tasks to be completed for each Priority.

FIRST CONGREGATIONAL PRIORITY

DESCRIPTION:

RESPONSIBLE PARTY:

SPECIFIC TASKS:

-
-
-

*We believe that ministry is enhanced
when congregations and pastors effectively
navigate budget and salary conversations in ways
that are
life-giving and affirming for both
the congregation and pastor.*

We have sought to help Treasurers (and other Church Leaders) understand pastoral compensation and taxation, and the effects of compensation decisions on pastor's taxes.

To that end, we have redesigned the Annual Compensation Agreement to be easier to navigate. In addition, experience has shown us that Treasurers appreciate assistance in preparing pastors' W-2s, so we have added a section with "line-by-line" and "box-by-box" instructions for filling out the W-2. We believe it will be a helpful guide.

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Safe, accurate, FAST! Use **e-file** Visit the IRS website at www.irs.gov/efile

OMB No. 1545-0008

Form W-2 Wage and Tax Statement 2021

Department of the Treasury—Internal Revenue Service

1 Employee's social security number

2 Employer identification number (EIN)

3 Employee's name, address, and ZIP code

4 Control number

5 Employee's first name and initial Last name

6 Employee's address and ZIP code

7 State wages, tips, etc.

8 State income tax

9 Local wages, tips, etc.

10 Local income tax

11 Social security wages

12 Social security tax withheld

13 Medicare wages and tips

14 Medicare tax withheld

15 Social security tips

16 Allocated tips

17 Nonqualified plans

18 See instructions for box 12

19 Statutory employee Retirement Third-party sick pay

20 Other

21 State

22 State ID number

23 State wages, tips, etc.

24 State income tax

25 Local wages, tips, etc.

26 Local income tax

27 Locality name

FILLING OUT THE PASTOR'S W-2	
IRS FORM W-2 BOX NUMBERS	COLUMNS: CONGREGATION ^c PASTOR ^p
Box 1: Wages, tips, other compensation	(1 ^c + 9 ^c) MINUS (2 ^c + 3 ^a + 3 ^b + 4 ^a + 5 ^a + 6 ^a + 6 ^b + 7 ^a + 7 ^b + 7 ^c + 7 ^d)
Box 2: Federal income tax withheld	*see note below
Box 3: Social security wages	Leave blank
Box 4: Social security tax withheld	Leave blank; *see note below
Box 5: Medicare wages and tips	Leave blank
Box 6: Medicare tax withheld	Leave blank; *see note below

ANNUAL COMPENSATION TABLE

ITEM CONGREGATION PASTOR

SALARY

1 Negotiated Cash Salary (either from the Minimum Cash Salary Table or Calculator)

HOUSING (complete EITHER 2 OR 3 IN FULL)

2 PARSONAGE PROVIDED

2a Fair Rental Value (FRV) of Parsonage

2b Housing Equity Fund Contribution (1% of Parsonage Fair Market/Sale Value)

2c Pastor's Housing Exclusion (from 1)

3 NO PARSONAGE PROVIDED

3a Add Parsonage Adjustment (from Calculator)

3b Pastor's Housing Exclusion (from 1)

TOTAL SALARY AND HOUSING

FILLING OUT THE PASTOR'S W-2 (continued)	
IRS FORM W-2 BOX NUMBERS	COLUMNS: CONGREGATION ^c PASTOR ^p
** BOX 2 NOTE: <ul style="list-style-type: none"> • Congregations are not required to withhold federal income taxes for their pastors. However, they may do so if requested by their pastor. • Using Form W-4, the pastor can request that the congregation withholds enough federal income tax to effectively pay the pastor's entire Self-Employment Tax. This would allow the pastor to avoid paying estimated taxes throughout the year. • We strongly recommend that congregations and pastors contact a tax professional to help calculate the total withholding amount that would meet this goal. 	
** BOXES 4 & 6 NOTE: <ul style="list-style-type: none"> • Congregations are prohibited by law from withholding Social Security and Medicare (FICA) taxes from their pastor's income. These boxes must be empty. 	

Congregations are not required to withhold federal income taxes for clergy (Box 2), but may do so if requested.

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OMB No. 1545-0008

Form W-2 Wage and Tax Statement 2021

Department of the Treasury—Internal Revenue Service

1 Employee's social security number

2 Employer identification number (EIN)

3 Employee's name, address, and ZIP code

4 Control number

5 Employee's first name and initial Last name

6 Employee's address and ZIP code

7 State wages, tips, etc.

8 State income tax

9 Local wages, tips, etc.

10 Local income tax

11 Social security wages

12 Social security tax withheld

13 Medicare wages and tips

14 Medicare tax withheld

15 Social security tips

16 Allocated tips

17 Nonqualified plans

18 See instructions for box 12

19 Statutory employee Retirement Third-party sick pay

20 Other

21 State

22 State ID number

23 State wages, tips, etc.

24 State income tax

25 Local wages, tips, etc.

26 Local income tax

27 Locality name

Coming to Annual Conference 2022:

There will be 3 items of New Business:

1. Approval of the "Integrated Annual Ministry Agreement," with the "Guidelines for Pastors' Salary and Benefits" as an Appendix
2. Approval of the new "Minimum Cash Salary Scale"
3. Approval of the COLA Recommendation (calculated in June)

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"Annual Clergy Tax Seminar"
Saturday, January 29, 2022

**Bethany Theological Seminary &
Brethren Academy for Ministerial Leadership**

Coming to Annual Conference 2022:

Approval of the new
"Minimum Cash Salary Scale":

There have been no changes to the essential structure of the Minimum Cash Salary Scale since it was first introduced in 1960. As we reviewed all the documents being used for pastoral compensation decisions, we decided that we disagreed with the thinking behind the value of years of experience and the value of initial education level over time.

Coming to Annual Conference 2022:

Approval of the new
"Minimum Cash Salary Scale":

We believe that the value of years of experience in ministry is front-loaded, that is, the first 5 years are the most formational, followed by the next 5 years, up to the first 15 years.

Coming to Annual Conference 2022:

Approval of the new
"Minimum Cash Salary Scale":

Likewise, we believe that the value of experience narrows the difference between educational levels over time. While pastors with an M.Div. start out with a significant advantage over pastors with a Bachelors degree or with only approved ministry training, we believe that by the time these pastors have been in ministry for 10 years, experience has made up most of the differences in their education. The new scale increases the earnings of non-M.Div. pastors significantly after year 10.

PROPOSED CHANGES TO MINIMUM CASH SALARY TABLE

Year	Experience	M.Div.	B.A.	No B.A.
1	3.0%	100%	86%	75%
2	3.0%	100%	87%	78%
3	3.0%	100%	88%	78%
4	3.0%	100%	89%	81%
5	3.0%	100%	90%	81%
6	2.5%	100%	91%	84%
7	2.5%	100%	92%	84%
8	2.5%	100%	93%	87%
9	2.5%	100%	94%	87%
10	2.5%	100%	95%	90%
11	2.0%	100%	95%	90%
12	2.0%	100%	95%	90%
13	2.0%	100%	95%	90%
14	2.0%	100%	95%	90%
15	2.0%	100%	95%	90%

Break

Zeke's completed tax return can be found on my website:

<https://www.oskintax.com/presentations>

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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 56 cents (\$0.56)	2		
3	Meals: \$ _____	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		

Zeke's Story for 2021:

Zeke started at Litlold COB on January 1 of 2020.

In addition to this W-2 from the Church, Zeke also received \$500 in honoraria for weddings and funerals. (Because this total is under \$600, "Marryin' Buryin' Inc." was not required to issue a 1099-NEC.)

Using Form 1040ES, Zeke made 4 payments of \$1,950 each to the IRS on each estimated tax due date (04/15, 06/15, 09/15, 01/15). He did not make any payments to OH or to Happy Valley City.

Zeke took an online course on multimedia presentations to help him with his virtual worship formats while COVID had him doing worship via zoom, facebook livestreaming, and posting recordings to the church's website. The course cost him \$997. He also spent \$1,599 on quality audio video equipment. Neither the course nor the equipment were reimbursed by the church (because Zeke didn't ask for reimbursement).

Due to COVID, Zeke didn't visit parishioners in person very often.

- he drove a total of 1,332 miles for all purposes last year
- he drove 203 miles to visit parishioners in the hospital or in hospice
- he drove 132 miles to perform weddings and funerals

Annual Conference was held virtually, and the church paid for his registration, so there were no expenses there.

He occasionally met with the local ministers' association for a meal at a local restaurant to discuss how they were each holding up and what was happening in their congregations. These meals totaled \$207.52, including tips.

Zeke gave \$3,000 to the church as charitable contributions and paid \$2,283 into his pension. The congregation reimbursed his health insurance premiums pre-tax under the ACA exception for one-employee plans.

Zeke already owned his home in Happy Valley before becoming Litlold COB's pastor. Here are his housing expenses:

- \$6,319 in principal payments on his mortgage
- \$2,682 in mortgage interest, which was reported on Form 1098
- \$1,000 for homeowners' insurance
- \$4,500 in real estate taxes
- \$5,680 in utilities (gas, electric, water/sewer/trash, cable/internet/streaming, personal-use cell phone)
- \$236 lawn care supplies
- \$356 cleaning supplies

a Employee's social security number 123-45-6789		Safe, accurate, FAST! Use		Visit the IRS website at www.irs.gov/efile	
b Employer identification number (EIN) 12-3456789		1 Wages, tips, other compensation \$34,785		2 Federal income tax withheld	
c Employer's name, address, and ZIP code Litlold Church of the Brethren 1 Happy Drive Happy Valley, OH 43235		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	
d Control number		9		10 Dependent care benefits	
e Employee's first name and initial Last name Suff. Zeke Zacharias 50 Valley Avenue Happy Valley, OH 43235		11 Nonqualified plans		12a See instructions for box 12 E \$2,283	
		13 Statutory employee Retirement plan Third-party sick pay <input type="checkbox"/> <input checked="" type="checkbox"/> <input type="checkbox"/>		12b	
		14 Other Housing Exclusion \$20,000		12c	
				12d	
f Employee's address and ZIP code					
15 State Employer's state ID number OH	16 State wages, tips, etc. \$34,785	17 State income tax	18 Local wages, tips, etc. \$37,068	19 Local income tax	20 Locality name HAPVAL

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

2021

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.

☐ CORRECTED (if checked)

RECIPIENT'S/LENDER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone no. Happy Valley Mortgage Company 99 Main Street Happy Valley, OH 43235		*Caution: The amount shown may not be fully deductible by you. Limits based on the loan amount and the cost and value of the secured property may apply. Also, you may only deduct interest to the extent it was incurred by you, actually paid by you, and not reimbursed by another person.		OMB No. 1545-1380 Form 1098 (Rev. January 2022) For calendar year 20		Mortgage Interest Statement Copy B For Payer/Borrower The information in boxes 1 through 9 and 11 is important tax information and is being furnished to the IRS. If you are required to file a return, a negligence penalty or other sanction may be imposed on you if the IRS determines that an underpayment of tax results because you overstated a deduction for this mortgage interest or for these points, reported in boxes 1 and 6; or because you didn't report the refund of interest (box 4); or because you claimed a nondeductible item.
RECIPIENT'S/LENDER'S TIN 123-45-6789		PAYER'S/BORROWER'S TIN 98-7654321		1 Mortgage interest received from payer(s)/borrower(s) \$ 2,682		
PAYER'S/BORROWER'S name Zeke Zacharias		2 Outstanding mortgage principal \$ 215,023		3 Mortgage origination date 04/15/2014		
Street address (including apt. no.) 50 Valley Avenue		4 Refund of overpaid interest \$		5 Mortgage insurance premiums \$		
City or town, state or province, country, and ZIP or foreign postal code Happy Valley, OH 43235		6 Points paid on purchase of principal residence \$		7 <input checked="" type="checkbox"/> If address of property securing mortgage is the same as PAYER'S/BORROWER'S address, the box is checked, or the address or description is entered in box 8.		
9 Number of properties securing the mortgage 1		10 Other Real Estate Taxes Paid \$4,500		8 Address or description of property securing mortgage		
Account number (see instructions)				11 Mortgage acquisition date		