

The Rev. Deb Oskin, EA, FNTPI  
"Annual Clergy Tax Seminar"  
Saturday, January 27, 2024

Brethren Academy for Ministerial Leadership  
Church of the Brethren Office of Ministry  
Bethany Theological Seminary

rev. deb  
OSKIN, e.a.

OSKINTAX.COM/  
PRESENTATIONS

## ANNUAL CLERGY Tax seminar

BRETHREN ACADEMY FOR MINISTERIAL LEADERSHIP  
CHURCH OF THE BRETHREN OFFICE OF MINISTRY  
BETHANY THEOLOGICAL SEMINARY

SATURDAY  
JANUARY 27  
2024

### OUTLINE

- Clergy Status + Clergy Services = Clergy Taxes
- Calculating & Paying Your Taxes
- Reducing Total Tax: 1. Opt Out
- Reducing Total Tax: 2. Housing Exclusion
- Reducing Total Tax: 3. Pension Contributions
- Retired Clergy: Pension Distributions
- Reducing Total Tax: 4. Business Expenses
- Reducing Total Tax: 5. 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: [www.OskinTax.com](http://www.OskinTax.com)
- Cell Phone: 614.329.2966
- Secure Fax: 888.977.1311
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(1) CLERGY STATUS +  
(2) CLERGY SERVICES  
= (3) CLERGY TAXES

### 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.

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## 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

## 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-Related Income . . .  
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 their 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:
  - 1. Add up all federal, state, & local tax rates.
  - 2. Subtract the total tax rates from the number 1.00 (one):  $1.00 - \text{tax} = \text{net percent}$
  - 3. Divide the net payment by the net percent:  
 $\text{net payment} / \text{net percent} = \text{gross payment}$
  - 4. 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.
  - 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
  - Parsonage Adjustment amount paid in lieu of parsonage paid to the Minister employee
  - Housing exclusion paid to the Minister employee
  - Value of meals & lodging provided 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)

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## 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 (this is how Ministers pay into Social Security & Medicare)

## 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).

## CLERGY W-2

a Employee's social security number 00-000000		b Employer identification number (EIN) 00-000000	
c Employee's name, address, and ZIP code Happy Valley Congregation 1 Happy Drive Happy Valley, Ohio 43235		d Control number	
e Employee's first name and initial Happy Valley Minister 50 Valley Avenue Happy Valley, Ohio 43235		f Last name Suff.	
1 Wages, tips, other compensation \$18,000.00		2 Federal income tax withheld \$5,782.18	
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	
9		10 Dependent care benefits	
11 Nonqualified plans		12a See instructions for box 12	
13 Statutory employee <input checked="" type="checkbox"/> Retirement <input type="checkbox"/> Third-party sick pay <input type="checkbox"/>		12b \$2,000.00	
14 Other HOUS EXC \$13,692 PARS ADJ \$16,308 TOTAL HOUS \$30,000		12c	
15 State - Employer's state ID number OH 00-0000 PA 000000000000000000		16 State wages, tips, etc. \$18,000.00 \$18,000.00	
17 State income tax \$20,000.00		18 Local wages, tips, etc. \$500.00	
19 Local income tax		20 Locality name HAPVAL EIT	

Form **W-2** Wage and Tax Statement **2023** 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

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 <b>1099-NEC</b> (Rev. January 2022) For calendar year 20__	
PAYER'S TIN	RECIPIENT'S TIN	Nonemployee Compensation	
1 Nonemployee compensation \$		Copy B For Recipient 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.	
2 Payer made direct sales totaling \$5,000 or more of consumer products to recipient for resale <input type="checkbox"/>		3	
4 Federal income tax withheld \$		5 State tax withheld	
6 State/Payer's state no.		7 State income	
8		9	

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

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## 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 they receive 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!

## FORM W-4

- Form W-4 looks scary, but there are very 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**  
 Department of the Treasury  
 Internal Revenue Service

**Employee's Withholding Certificate**  
 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.

OMB No. 1545-0047  
**2024**

**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 \_\_\_\_\_

Does your name match the name on your social security card? If not, to ensure you get credit for your earnings, contact SSA at 800-772-1213 or go to www.ssa.gov.

(c) ☒ **Single or Married filing separately**  
☐ Married filing jointly or Qualifying surviving spouse  
☐ 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, and when to use the estimator at [www.irs.gov/W4app](http://www.irs.gov/W4app).

**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](http://www.irs.gov/W4app) for most accurate withholding for this step (and Steps 3-4). If you or your spouse have self-employment income, use this option; or  
 (b) Use the Multiple Jobs Worksheet on page 3 and enter the result in Step 4(c) below; 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 generally more accurate than (b) if pay at the lower paying job is more than half of the pay at the higher paying job. Otherwise, (b) is more accurate ☐

**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 Dependent and Other Credits**  
 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 \$ \_\_\_\_\_  
 Multiply the number of other dependents by \$500 \$ \_\_\_\_\_  
 Add the amounts above for qualifying children and other dependents. You may add to this the amount of any other credits. 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) \$ \_\_\_\_\_ 0

**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. 102200 Form W-4 (2024)

## 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 1<sup>st</sup> 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 or enter "0" (Zero)
  - (b) Deductions
    - Skip this section or enter "0" (Zero)

## 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: CALCULATE SE TAX

- Step 1: Calculate your total Ministry compensation by adding salary, housing &/or 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 (SE) tax due for the year on total Ministry compensation.

## FORM W-4: # OF PAYCHECKS

- 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 receive a total of 24 paychecks in a year



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## FORM W-4: extra WITHHOLDING

- Employees who are paid once a month receive a total of 12 paychecks in a year (etc.)
- Step 5: Determine how many paychecks are remaining in the calendar year. How many have already been received? Give payroll time to process this change (subtract one paycheck from the remaining number of paychecks).

## FORM W-4: extra WITHHOLDING

- Step 6: Divide the result of Step 3 (SE tax) by the result of Step 5 (paychecks remaining in the calendar year), 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: extra WITHHOLDING

- 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 them, Ministers must make estimated tax payments.
- Commonly called "quarterly taxes," the due dates for estimated taxes are NOT quarterly! They are due on the 15<sup>th</sup> (or the following Monday):  
 Voucher 1: April 15<sup>th</sup>  
 Voucher 2: June 15<sup>th</sup>  
 Voucher 3: September 15<sup>th</sup>  
 Voucher 4: January 15<sup>th</sup>

## estimated TAX PAYMENTS

- How much should be paid?
  - Start by calculating the total self-employment tax due for the year (see earlier slide).
  - Next, check the prior year tax return to add any federal income tax 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

I strongly recommend using Direct Pay on the IRS website: [www.irs.gov](http://www.irs.gov) select: "Make a Payment" Free when using ACH; charges with credit card.

Form 1040-ES Department of the Treasury Internal Revenue Service		<b>2024 Estimated Tax</b>		Payment Voucher <b>1</b> 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 "2024 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 15, 2024		Amount of estimated tax you are paying by check or money order.	
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 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 Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see instructions.					
Form 1040-ES (2024)					



## 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

<b>4361</b> Form (Rev. January 2011) Department of the Treasury Internal Revenue Service	<b>Application for Exemption From Self-Employment Tax for Use by Ministers, Members of Religious Orders and Christian Science Practitioners</b>	OMB No. 1545-0074 File Original and Two Copies
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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

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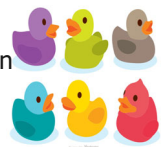
File original and two copies and attach supporting documents. This exemption is granted only if the IRS returns a copy to you marked "approved."

- 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 65<sup>th</sup> birthday (7 months total) to sign up for Medicare – or pay increased premiums for years to come.

## REDUCING TOTAL TAX: 2. DESIGNATED HOUSING EXCLUSION

### HOUSING EXCLUSION

- The Minister's designated housing exclusion is called by many names, yet each represents the same thing: the mechanism by which Ministers are permitted to exclude some of their income from being subject to (or taxed by) federal income tax.
  - Housing allowance or exclusion
  - Parsonage allowance or exclusion
  - Rental allowance or exclusion
  - Utilities allowance or exclusion

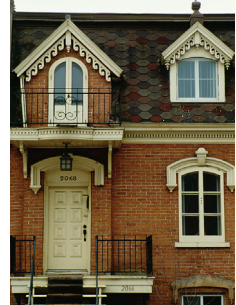


## HOUSING EXCLUSION

- Ordained, commissioned, or licensed Ministers performing Ministry services **should**\* designate **all or part** of their total compensation from their employer as designated 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 officially designated housing exclusion, the parsonage adjustment amount, &/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 Designated Housing Exclusion payment is made.
  - *It can be a dollar amount or a percentage.*
  - *It can be time limited ("for calendar year 2024") or in perpetuity ("until further notice").*
  - *It can be changed at any time with approval by the church board/leadership team.*
  - *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.*

## HOUSING EXCLUSION RULES

- If the designated housing exclusion is 100% of the Minister's "unspent" compensation, a few other items must be taken out first:
  - Any tax withholding to Federal, state, or local
  - Minister's pension contributions\*
  - Minister's payments for Eder Insurances
  - Minister's payments for non-Eder Insurances
- The remaining cash salary amount can then be designated as the housing exclusion amount.

## HOUSING EXCLUSION RULES

- IF there was no:
  - tax withholding to IRS, state, or local; or
  - Minister's pension contributions;THEN no W-2 is issued.
- A letter on congregational letterhead details the date the officially designated housing exclusion was approved & total housing exclusion 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 each item? 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".

## GOVERNMENT EMPLOYEES

- Rules for Clergy Working for Government Entities:
  - Although not subject to clergy tax rules, as explained earlier, Ministers working as employees of the United States, the District of Columbia, a foreign government, or any of their political subdivisions, & Ministers working as employees of a government owned-&-operated hospital (e.g., chaplains at a VA hospital or a state-controlled University hospital), are still eligible for housing allowances for their clergy work.

## 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 Ministers Serving as Supply Preachers:
  - Language used by the congregation can include something similar to:  
"100% of all income received from Ministry 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 Minister 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 Business filers.

## OFFICE IN HOME

- When all housing expenses have been excluded from income by the use of a designated 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 designated housing exclusion:
  - Unused designated housing exclusion expenses can be used on Schedule C (Form 8829) for honoraria.
  - Reduce Mortgage Interest & Real Estate Taxes taken on Schedule A by the amounts permitted on Form 8829.
  - Keep detailed records of expenses used!

## REDUCING TOTAL TAX: 3. PENSION CONTRIBUTIONS

### PENSION CONTRIBUTIONS

- Pension contributions made by the minister reduce the minister's taxable income.
- These contributions are NOT taxable to *federal income* OR *self-employment taxes*. (State & local authorities vary on how they tax deferred compensation.)
- It's exactly like paying yourself!
- And when ministers contribute to a 403(b)(9) church plan, there are other benefits later.

### PENSION CONTRIBUTIONS

- There is a pension contribution issue that can occur when ministers designate most of their cash salary as housing exclusion.
- If the amount the congregation is contributing to the minister's pension, added to the amount the minister is contributing, totals more than the W-2 Box 1 cash salary amount, contact Jeremiah Thompson (847.622.3368) at Eder Financial for assistance.

## RETIRED CLERGY

### PENSION DISTRIBUTIONS

- 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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### PENSION DISTRIBUTIONS

- 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.



## PENSION DISTRIBUTIONS

- 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.
- Designated housing exclusions in retirement are still limited by the smallest of the:
  - (1) amount officially designated;
  - (2) amount actually spent; or
  - (3) FRV of home.

## Tax Table: RETIRED CLERGY

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

## REDUCING TOTAL TAX: 4. BUSINESS EXPENSES

## BUSINESS EXPENSES

- In IRS Publication 463, "Travel, 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

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

## 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 (if there is a housing exclusion) 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 Expenses
- Worksheet 3. Figuring Net Self-Employment Income for Schedule SE (Form 1040)

*(see worksheets at end of handout)*

## 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 unreimbursed employee business expenses."

## 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 (BAB) 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, travel allowance, etc.) are based on the employer's budget for these expenses.
- Once the expenses are budgeted for, it seems simple enough just to pay it to the employee as part of their regular paycheck. (This is why the COB changed our terminology from "housing allowance" to "designated housing exclusion".)

## 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:
  - Expenses must be business-related.
  - 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 (within 120 days).

## ACCOUNTABLE PLANS

- Employee must return any amounts in excess of substantiated expenses within a reasonable period of time (within 120 days).
- 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: 5. HEALTH INSURANCE

## AFFORDABLE CARE ACT

- Before the Affordable Care Act (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-Minister employees payroll taxes, because of this additional income.

## 21<sup>ST</sup> CENTURY CURES ACT: EPP

- In December 2016, the 21<sup>st</sup> 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.

## 21<sup>ST</sup> CENTURY CURES ACT: EPP

- One-Employee Employer Payment Plans (EPPs):
  - 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.

## 21<sup>ST</sup> CENTURY CURES ACT: EPP

- One-Employee Employer Payment Plans (EPPs):
  - 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.

## 21<sup>ST</sup> CENTURY CURES ACT: EPP

- One-Employee Employer Payment Plans (EPPs) (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.

## 21<sup>ST</sup> CENTURY CURES ACT: EPP

- Retirees-Only Employer Payment Plans (EPPs):
  - 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.

## 21<sup>ST</sup> CENTURY CURES ACT: QSEHRA

- The 21<sup>st</sup> 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.

## 21<sup>ST</sup> CENTURY CURES ACT: 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):
  - \$6,150 per year (in 2024) for an HRA covering only the employee
  - \$12,450 per year (in 2024) for an HRA covering the employee & their family

## 21<sup>ST</sup> CENTURY CURES ACT: 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.

## 21<sup>ST</sup> CENTURY CURES ACT: QSEHRA

- Pre-tax reimbursements from a QSEHRA cannot exceed \$6,150 per year (in 2024) for single coverage or \$12,450 per year (in 2024) 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.

## 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 \$2,100 (in 2024) annually per employee.

**The Rev. Deb Oskin, EA, FNTPI**  
**"Annual Clergy Tax Seminar"**  
**Saturday, January 27, 2024**

**Brethren Academy for Ministerial Leadership**  
**Church of the Brethren Office of Ministry**  
**Bethany Theological Seminary**

## 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](http://www.tasconline.com))
  - Zane Benefits ([www.zane.peoplekeep.com](http://www.zane.peoplekeep.com))

## PUBLICATIONS

## PUBLICATIONS

- Hammar, Richard R. (updated yearly). Church & Clergy Tax Guide. Carol Stream IL: Christianity Today. [www.ChurchLawAndTaxStore.com](http://www.ChurchLawAndTaxStore.com)
- Vargo, Richard J., & Vonna Laue. 2009. Essential Guide to Church Finances. Carol Stream IL: Christianity Today International. [www.YourChurchResources.com](http://www.YourChurchResources.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](http://www.irs.gov)

## PUBLICATIONS

- Pub 15 (Circular E), Employer's Tax Guide
- Pub 463, Travel, 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](http://www.irs.gov)

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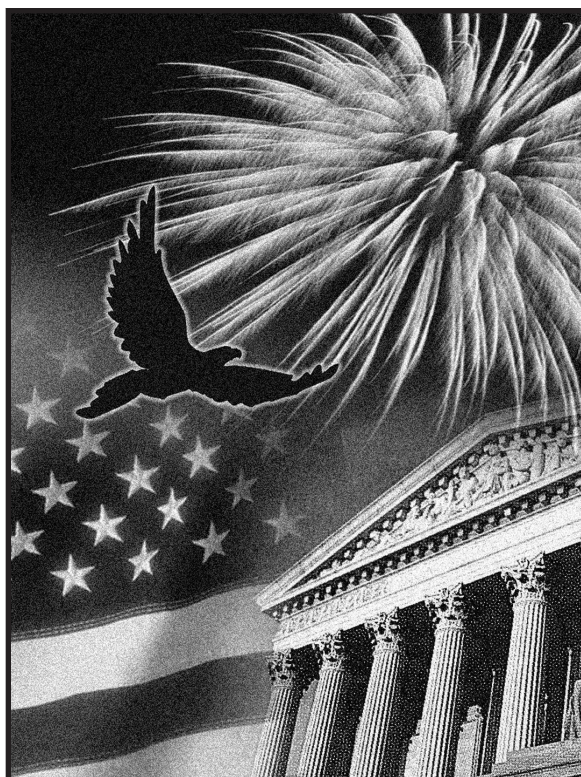
## Publication 517

Cat. No. 15021X

# Social Security and Other Information for Members of the Clergy and Religious Workers

For use in preparing

## 2023 Returns



Get forms and other information faster and easier at:

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## Future Developments

For the latest information about developments related to Pub. 517, such as legislation enacted after this publication was published, go to [IRS.gov/Pub517](https://www.irs.gov/pub517).

## What's New

**Temporary 100% deduction of the full meal portion of a per diem rate or allowance.** The 100% deduction allowed for certain business meals paid or incurred after 2020 and before 2023 has expired. See Pub. 463 for more details.

**Standard mileage rate.** The business standard mileage rate for 2023 is 65.5 cents per mile.

**Earnings subject to social security tax.** For 2023, the maximum wages and self-employment income subject to social security tax has increased to \$160,200.

**Modified adjusted gross income (AGI) limit for traditional IRA contributions.** For 2023, you may be able to take an IRA deduction for your contributions if you were covered by a retirement plan at work and your modified AGI is:

- Less than \$136,000 if married filing jointly or qualifying surviving spouse;
- Less than \$83,000 if single or head of household; or
- Less than \$10,000 if married filing separately.



# 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			
<b>Note.</b> Complete <b>either</b> 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	<b>Ministerial income</b> (for columns (a), (b), and (c), add lines 1 through 4i)	5			
6	<b>Percentage of tax-free income:</b> $\frac{\text{Total tax-free income (line 5(b)) \$}}{\text{Total income (line 5(c)) \$}}$			=	%**
* 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	<b>Percentage of expenses that are nondeductible</b> (from Worksheet 1, line 6): _____ %				
2	Business use of car for entire year: _____ miles × 65.5 cents (\$0.655)	2			
3	Meals: \$ _____ × 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	<b>Deduction allowed.*</b> 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)**

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