

Church Windows does not provide tax, legal or accounting advice. This document has been prepared for informational purposes only, and is not intended to provide, and should not be relied on for, tax, legal or accounting advice. You may want to consult a professional for your own specific set of circumstances.

This document contains information from *Publication 517 – Social Security and Other Information for Members of the Clergy and Religious Workers* from irs.gov, with Church Windows Explanations. *Publication 517* appears in *Italics*. Church Windows explanations are not in *Italics*.

Ministers defined - *Ministers are individuals who are duly ordained, commissioned, or licensed by a religious body constituting a church or church denomination. Ministers have the authority to conduct religious worship, perform sacerdotal functions, and administer ordinances or sacraments according to the prescribed tenets and practices of that church or denomination.*

A minister is an ordained member of the clergy of a religious group, most often referred to in Protestant churches. Non-Protestant churches may have other tax recognized conditions to qualify as a minister.

Social Security Coverage

- **SECA** = Self Employment Contributions Act (SE tax—computed and paid on income tax return). Typically applies to Ministers.
- **FICA** = Federal Insurance Contributions Act (SS/Medicare withheld from wages). Typically applies to lay persons.

Are Ministerial Earnings Covered Under FICA or SECA?

Class	Covered under FICA?	Covered under SECA?
<i>Minister</i>	<i>No, your ministerial earnings are exempt.</i>	<i>YES, if you don't have an approved exemption from the IRS. NO, if you have an approved exemption.</i>
<i>Religious worker (church employee)</i>	<i>YES, if your employer didn't elect to exclude you. NO, if your employer elected to exclude you.</i>	<i>YES, if your employer elected to exclude you from FICA. NO, if you are covered under FICA.</i>

Ministers

If you are a minister of a church, your earnings for the services you perform in your capacity as a minister are subject to SE tax, even if you perform these services as an employee of that church.

The church administrative body decides if their ministers fit the definition of an employee or an independent contractor. The vast majority of ministers are properly classified as employees and thereby eligible for employee benefits.

Employee or Independent Contractor

The determination of whether to treat an individual (both ministers and others) as employees or contractors is determined by two major factors; control and relationship.

Some examples of control is to look to whether the church or the individual determines:

- When and where to do the work
- What equipment to use
- Who hires and determines who will help with the work
- Does the worker serve multiple churches

Some examples of relationship include:

- What is the permanency of the relationship – is it for a specific project or ongoing
- The extent to which the services provided are a key aspect of the church's activity
- Does the individual receive employee type benefits

There can be significant penalties for misclassifying an individual as an independent contractor when they should be classified as an employee. IRS will help employers determine the status of a worker if the church completes and submits Form SS-8, Determination of Worker Status for Purposes of Federal Employment Taxes and Income Tax.

Election by Church to Exclude Its Employees from FICA Coverage.

Churches and qualified church-controlled organizations (church organizations) that are opposed for religious reasons to payment of social security and Medicare taxes may elect to exclude their employees from FICA coverage. If your employer makes this election, it doesn't pay the employer's portion of the FICA taxes or withhold from your pay your portion of the FICA taxes. Instead, your wages are subject to SECA and you must pay SE tax on your wages if they exceed \$108.28 during the tax year.

Churches and church organizations make this election by filing two copies of Form 8274.

Exemption from Self-Employment (SE) Tax. *You can request an exemption from SE tax if you are a member of the clergy (minister, member of a religious order, or Christian Science practitioner or reader) or a member of a recognized religious sect. Use IRS form 4361 to request this exemption.*

Some religions and individuals have philosophical objections to Social Security. See the instructions for IRS Forms 8274 and 4361 if this applies to you or your church.

Housing

Exclusion of Rental Allowance and Fair Rental Value of a Parsonage. *Ordained, commissioned or licensed ministers of the gospel may be able to exclude from income tax the rental allowance or fair rental value of a parsonage that is provided to them as pay for their services.*

This exclusion applies only for income tax purposes. It doesn't apply for SE tax purposes.

The church or organization that employs you must officially designate the payment as a housing allowance before it makes the payment. It must designate a definite amount. It can't determine the amount of the housing allowance at a later date.

If you are employed and paid by a local congregation, a resolution by a nation church agency of your denomination doesn't effectively designate a housing allowance for you. The local congregation must officially designate the part of your salary that is a housing allowance.

An official designation of an amount as a housing or rental allowance may be shown in an employment contract, in the minutes of a church or qualified organization, in budget, or any official action taken in advance of payment of the allowance. A designation is sufficient if it permits a payment to be identified as a payment of a rental or housing allowance as distinguished from salary or other remuneration.

With our customers, the term housing exclusion is used in different ways. Ultimately, it is an amount which is not taxable for federal or state (except Pennsylvania) income tax. If the area has a local tax, check with those local tax officials to determine whether the amount is taxable or exempt.

Housing may be an allowance paid to the minister to rent or purchase a home; or the church may provide the use of a parsonage and provide all the upkeep to the parsonage. In the case of allowance payments, ministers are required to maintain receipts that provides an accounting of personal payments equal to or in excess of the cash housing payment. If the cash housing payment is more than the expenses the minister is required to report that excess amount as taxable income.

Expense reimbursements

Accountable plans. *To be an accountable plan, your employer's reimbursement arrangement must include all three of the following rules.*

- *Your expenses must have a business connection – that is, you must have paid for incurred deductible expenses while performing services as an employee of your employer.*
- *You must adequately account to your employer for these expenses within a reasonable period of time.*
- *You must return any excess reimbursement or allowance within a reasonable period of time.*

There are two different IRS methods of determining a reasonable time but, the easiest practice to administer is to have employees turn in those mileage logs and receipts monthly and then reimburse those expenses. The standard business mileage rate for 2019 is 58 cents per mile. Amounts paid under accountable plans are not income to the employee and are not shown on Form W-2.

Any reimbursement for expenses not meeting the requirements specified above is defined as a non-accountable plan. Those payments to employees must be included in their W-2 wages.

Income Tax: Income and Expenses

Offerings and Fees. *If you are a member of the clergy, you must include your income offerings and fees you receive for marriages, baptisms, funerals, masses, etc., in addition to your salary. If the offering is made to the religious institution, it isn't taxable to you.*

If a church collects money for a gift or love offering to give a minister, those amounts are not deductible by the giver as a charitable contribution and are not taxable to the minister. Any collection that is recorded as a contribution by the giver and then passed on to the minister should be included in the W-2.

Self-Employment Tax: Figuring Net Earnings

Amounts included in gross income. *Net earnings from self-employment (on Schedule SE (Form 1040), include in gross income.*

1. *Salaries and fees for your ministerial services (generally W-2 wages).*
2. *Offerings you receive for marriages, baptisms, funerals, masses, etc.*

3. *The value of meals and lodging provided to you, your spouse, and your dependents for your employer's convenience.*
4. *The fair rental value of a parsonage provided to you (including the cost of utilities that are furnished) and the rental allowance (including an amount for payment of utilities) paid to you; and*
5. *Any amount a church pays toward your income tax or SE tax, other than withholding the amount from your salary. This amount also is subject to income tax.*

Allowances and Deductions

Using IRS guidelines, in Church Windows Allowance and Deduction file setup, you can determine where or if an item will be included in the W-2 and whether or not it will be detailed on the W-2.

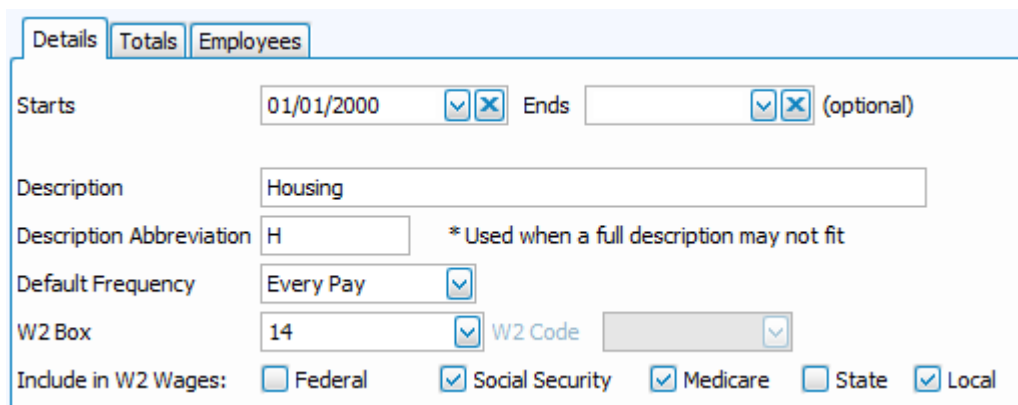
By checking *Show Separately on W2* and indicating the W2 Box (and Code), the Deduction or Allowance will appear in the designated boxes on the W2.

Include in W-2 Wages check boxes, determine whether or not the Allowance or Deduction is taxable for Federal, Social Security, Medicare, State or Local.

- If Federal box is checked, the amount of the Allowance or Deduction will appear in Box 1 the Gross Taxable Wages and any related withholding in Box 2.
- If Social Security box is checked, the amount of the Allowance or Deduction will appear in Box 3 Gross Taxable Wages and any related withholding in Box 4.
- If Medicare box is checked, the amount of the Allowance or Deduction will appear in Box 5 Gross Taxable Wages and any related withholding in Box 6.
- If State box is checked, the amount of the Allowance or Deduction will appear in Box 16 Gross Taxable Wages and any related withholding in Box 17.
- If Local box is checked, the amount of the Allowance or Deduction will appear in Box 18 Gross Taxable Wages and any related withholding in Box 19.

If none of the boxes are checked, then the Allowance or Deduction is not considered a taxable item.

For example, Housing paid each pay typically is setup as shown. Pennsylvania, currently, is the only state to include housing in income tax calculations. Many jurisdictions do not have local taxes. However, if your area does, it is prudent to check with your local tax agency for any deduction or allowance to determine the taxability.



Details | Totals | Employees

Starts: 01/01/2000 [v] [x] Ends: [] [v] [x] (optional)

Description: Housing

Description Abbreviation: H * Used when a full description may not fit

Default Frequency: Every Pay [v]

W2 Box: 14 [v] W2 Code: [] [v]

Include in W2 Wages: Federal Social Security Medicare State Local

If Pennsylvania, check the State box. Check with your local tax agency.

Below is a chart of common Allowances and Deductions and how we typically see these setups.

ALLOWANCES

Description	Show Separately on W2		Include in W2 Wages				
	W2 Box	W2 Code	Federal	Soc Sec	Medicare	State	Local
SECA ¹			<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Reimbursable Plan ²	12	L					
Housing	14		See Housing Example				

DEDUCTIONS

Description	Show Separately on W2		Include in W2 Wages				
	W2 Box	W2 Code	Federal	Soc Sec	Medicare	State	Local
Life Insurance			<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Group Term Life ³	12	C	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
403(b) Pension	12	E		<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>		?
Health Savings Account ⁴	12	W					
FSA Medical							
FSA Daycare	10						
Group Health ⁵	12	DD					

Pastor Roth IRA W2 Box 12 BB Fully taxable

¹ SECA may also be referred to as Social Security Allowance.

² This is an expense reimbursement under an accountable plan referred to earlier in the document.

³ Recommend using the Group Term Life function in payroll.

⁴ If the church also contributes to the employees' health savings account, please call our office for setup instructions.

⁵ Use the Group Health Insurance function in payroll.