



Training Series

Clergy Taxation

The guidance contained in this presentation is general in nature and should not be relied upon without consulting a professional tax advisor.

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Presentation available for download at UMFF.org under "How We Serve" , "Resources"

Employment Status



Ordained, commissioned, or licensed ministers have dual tax status:

- Clergy are “employees” for tax reporting purposes (MUST BE ISSUED A W-2, NOT A 1099)
- Clergy are “self-employed“ for tax remittance purposes
- IRS defines “**ordained minister**” as person recognized & authorized by religious organization to perform religious duties, such as marriages, baptisms, funerals, etc. Specific criteria varies, but generally, the following are considered:
 1. Ordination: Individual must have gone through formal ordination process conducted by religious organization which must have authority to ordain.
 2. Authorization: Organization must grant minister authority to perform religious duties, including marriages and other ceremonies.
 3. Function: Individual must actively perform religious duties as part of regular responsibilities (e.g. conducting religious worship services, administering sacraments, providing spiritual guidance, and officiating at religious ceremonies).

Employment Taxes

- **No mandatory income tax withholding for clergy (may be done voluntarily)**
- **Social Security taxes are never to be withheld for clergy. This is because clergy make Social Security & Medicare contributions via the Self-employment Contributions Act (“SECA”).**
- **Clergy should be making quarterly estimated payments of Federal, State, Local and self-employment taxes. Self-employment taxes include value of a Housing Allowance or parsonage.**
 - The self-employment tax rate is 15.3%. The rate consists of two parts: 12.4% for social security (old-age, survivors, and disability insurance) and 2.9% for Medicare (hospital insurance).
- **Clergy who elect to have income taxes withheld may have additional Federal taxes withheld to prepay their estimated self-employment tax liability.**
- **Move Costs:**
 - The Tax Cut and Jobs Act of 2017 suspended both the tax exclusion and the deduction related to moving expenses for taxable years 2018 until 2025.
 - Reimbursement (or direct payment) of move costs now taxable to the recipient.
 - Must be reported on W-2

Housing Allowance / Housing Exclusion



- UMC churches are required to provide housing to clergy either in the form of a parsonage or a *Housing Allowance*.
- Per IRS rules, clergy are not taxed on housing including the value of parsonages, housing allowances and / or housing expenses.
- A ***Housing Allowance*** is cash that is paid to the pastor, in addition to salary. It is usually paid when no parsonage can be provided.
- A ***Housing Exclusion*** is an amount of salary that the pastor designates to treat as non-taxable because it relates to housing. It is not paid to the pastor but instead deducted from income for W-2 purposes.

Housing Allowance / Housing Exclusion Examples

	Pastor A	Pastor B
Salary (a)	\$40,000	\$40,000
Parsonage (b)	Yes	No
Housing Allowance (c)	None	\$10,000
Housing Exclusion* (d)	\$2,000	\$5,000
Total Payments (a+c)	\$40,000	\$50,000
Taxable W-2 Income (a-d)	\$38,000	\$35,000
Taxable Self-employment income	\$40,000 + rental value of parsonage	\$50,000 (a+c)

The following resources are available at: <https://www.wespath.org/retirement-investments/clergy-taxes-housing-allowance>

- Housing Exclusion Q&A's
- Housing Exclusion Worksheet
- Housing Exclusion Resolution

* Represents housing costs paid by the pastor personally such as furniture

Housing Exclusions

- If pastor lives in parsonage, with church paying all expenses, would be unusual for pastor to have a large Housing Exclusion.
- Housing Exclusion can be signed at any time, but only income earned after signing can be used to reduce taxable income.
- Pastor and church should sign Housing Exclusion prior to January 1st (or July 1st if being reappointed).
- Housing Exclusions & Housing Allowances (or the fair rental value of a church-provided parsonage), must be included in income when calculating self-employment taxes.
- If Housing Exclusion exceeds actual housing expenses – must be reported by clergy as other income on Form 1040.
- Pension payments for retired clergy are designated annually as eligible for Housing Exclusion (cannot be claimed by surviving spouses).



Housing Exclusions

A Housing Exclusion taken on a clergy person's tax return cannot exceed:

1. The value they designated on the Housing Exclusion form
2. The fair market rental value of the residence
3. The actual costs incurred for housing during the year

Professional Expenses

- Professional expenses paid to clergy under an accountable reimbursement plan are not taxable and are not reported on W-2.
- Professional expenses paid to clergy under allowance method are taxable and must be reported as wages on W-2.
- Churches should not pay unused reimbursement amounts at the end of the year to avoid the reimbursement being treated as taxable income.

Example 1: Church reimburses pastor for amounts spent on church-related activities in accordance with Professional Fees budget of \$6,400 per year. Reimbursements are only made upon submission by pastor of written request with supporting receipts. Payment is not taxable to clergy.

Example 2: Church pays pastor an allowance of \$533 per month for amounts spent on church-related activities in accordance with Professional Fees budget of \$6,400 per year. Church does not require supporting documentation for amounts spent. Payment is taxable to clergy.



Other Income

- Pastors receive other church-related income in addition to regular compensation. Examples include honorariums (e.g., weddings), love offerings, and other gifts of cash (e.g., at Christmas).
- Honorariums are always taxable.
- Love offerings and other gifts are taxable to pastor when paid by church and should be included on the donor's annual giving statement and reported on Form W-2.
- Love offerings and other gifts received directly from individuals are not taxable to pastor as long as amounts are not included on donor's annual giving statement.



Other Tax Considerations

United Methodist Personal Investment Plan (UMPIP) Contributions:

- Salary reduction contributions to 403(b) church plans, such as UMPIP, are not subject to self-employment tax.

Salary Reduction in Lieu of Tithing:

- Pastors should not reduce salary to tithe or make other gifts to church to because:
 - Underreports church budget / church expenses
 - Reduction of pension benefits
 - Lost discretion in case financial position changes

Spousal Travel Expenses:

- In most instances, clergy spousal travel expenses are not considered deductible business expenses. Reimbursement of such expenses is generally considered compensation and therefore taxable to the pastor.



Opting Out of Social Security

- Clergy pay SECA taxes on their ministerial income, unless they meet IRS guidelines to opt out of Social Security.
- To opt out clergy must have a sincere religious objection to accepting public insurance benefits, including Social Security and Medicare. UMC beliefs tend not to support a conscientious objection.
- Opting out of Social Security can mean losing potential benefits such as disability benefits, survivor benefits and Medicare coverage. Opting out can also eliminate spousal benefits
- Learn more about the costs related to opting out at:
<https://www.wespath.org/retirement-investments/clergy-taxes-housing-allowance/Opting-Out-of-Social-Security-Can-Be-Costly>



Example of Form W-2 for Clergy

Pastor lived in a parsonage provided by church and:

- (1) received cash salary of \$40,000;
- (2) church properly designated \$5,000 of \$40,000 cash salary as a housing exclusion;
- (3) made a voluntary, pre-tax contribution of \$900 to the United Methodist Personal Investment Plan (UMPIP);
- (4) made salary reduction contribution of \$3,500 through cafeteria plan for medical insurance premiums and Flexible Spending Account (FSA);
- (5) received a non-accountable travel allowance of \$3,000;
- (6) church paid \$18,000 on her behalf for medical insurance premiums;
- (7) received reimbursements from her church of \$2,500 for travel expenses after submitting receipts;
- (8) church made \$5,000 contribution to the Clergy Retirement Security Program (CRSP) on her behalf.
- (9) made salary reduction contributions of \$1,200 for Dependent Care
- (10) moved and new church paid \$5,000 directly to the moving company

Example of Form W-2 for Clergy

Box 1: $(1) - (2) - (3) - (4) + (5) + (10) = \$40,000 - \$5,000 - \$900 - \$3,500 + \$3,000 + \$5,000 = \$38,600$. *Note: Items (6) (7) & (8) are not included in Box 1.*

Box 2: Leave blank. (assuming the pastor did not request voluntary federal income tax withholding by the church.)

Boxes 3 – 8: Leave blank.

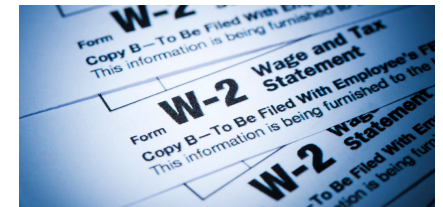
Box 10: Enter the \$1,200 for the Dependent Care FSA

Box 12: Enter E for the Code and \$900 for the UMPIP contribution

Box 13: Check the Box labeled “Retirement plan” for the UMPIP contribution

Box 14: Enter “Housing Exclusion \$5,000.”

Boxes 15-20: Complete according to your own state’s requirements.



- Note: The \$3,500 FSA contribution is not required to be reported on a W-2
- Note: Both employee and employer contributions to an “HSA” (must be enrolled in a High Deductible Health Plan) are reportable in Box 12.

Example of Form W-2 for Clergy

22222		VOID <input type="checkbox"/>	a Employee's social security number 111-22-1111		For Official Use Only ▶ OMB No. 1545-0008	
b Employer identification number (EIN) 12-3456789			1 Wages, tips, other compensation \$38,600		2 Federal income tax withheld	
c Employer's name, address, and ZIP code St. Paul's UMC 123 Main St. White Plains, NY 10606			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 \$1,200	
e Employee's first name and initial Thomas		Last name Watson		Suff.	11 Nonqualified plans	
45 Millbank Rd White Plains, NY 10606			13 Statutory employee <input type="checkbox"/>		12a See instructions for box 12 E \$900	
			Retirement plan <input checked="" type="checkbox"/>		12b	
			Third-party sick pay <input type="checkbox"/>		12c	
			14 Other Housing Exclusion \$5,000		12d	
f Employee's address and ZIP code						
15 State NY	Employer's state ID number 12-3456789		16 State wages, tips, etc. \$38,600	17 State income tax	18 Local wages, tips, etc.	19 Local income tax
					20 Locality name	

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

2022

Department of the Treasury—Internal Revenue Service
For Privacy Act and Paperwork Reduction
Act Notice, see the separate instructions.

Copy A—For Social Security Administration. Send this entire page with
Form W-3 to the Social Security Administration; photocopies are not acceptable.

Cat. No. 10134D

Do Not Cut, Fold, or Staple Forms on This Page

Resources

- NYAC (nyac.com and then click on “Resources” in upper right)
 - Church Tax Reporting Requirements
 - Clergy Reimbursement Policy & Worksheet
 - W-2 for Clergy Example
 - Housing Allowance Resolution
 - Move cost policy



- Wespath (Google “Wespath Tax” and then click on “Tax Information / Wespath Benefits & Investments”)
 - Housing Allowance / Exclusion
 - Housing Exclusion Q&A
 - Housing Exclusion Sample Resolution
 - Housing Exclusion Estimate Worksheet
 - Self Employment Tax
 - Opting out of Social Security
 - Moving Expenses
 - Tax Forms



Questions?