



Training Series

Clergy Taxation

Agenda

- Employment Status
- Employment Taxes
- Housing Allowances / Housing Exclusions
- Professional Expenses
- Other Income
- Other Tax Considerations
- Opting Out of Social Security
- Example of W-2
- Resources
- Questions



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 Social Security tax purposes
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- The Internal Revenue Service (IRS) recognizes an **ordained minister** as someone who has been formally recognized and authorized by a religious organization to perform religious duties and ceremonies, such as *marriages, baptisms, or other religious rites*. The specific criteria for being considered an ordained minister by the IRS can vary, but generally, the following factors are considered:
 1. Ordination: The individual must have gone through a formal ordination process conducted by a recognized religious organization. The organization must have the authority to ordain ministers within its own structure.
 2. Authorization: The religious organization must grant the minister the authority to perform religious duties, including the solemnization of marriages and other ceremonies.
 3. Function: The individual must actively engage in performing religious duties as part of their regular responsibilities. This typically involves conducting religious worship services, administering sacraments, providing spiritual guidance, and officiating at religious ceremonies.



Employment Taxes

- There is 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 must 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 Exemption* (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 Allowance Q&A's
- Housing Allowance Exclusion Worksheet
- Housing Allowance Resolution

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

Housing Exclusions

- If a pastor is provided a parsonage with the church paying all associated expenses, it would be unusual for the pastor to have a large Housing Exclusion.
- A Housing Exclusion must be signed by the pastor and the church prior to the income being earned that is being excluded.
- Generally speaking, a pastor and church should sign the Housing Exclusion prior to January 1st of each year (or July 1st if being reappointed).
- Clergy Housing Exclusions and Housing Allowances or the fair rental value of a church-provided parsonage, must be included in income when calculating self-employment taxes.
- Housing Exclusions received by clergy in excess of actual qualified housing expenses incurred should be reported by clergy as other income on Line 21 of Form 1040.
- Pension payments paid by Wespath to retired clergy are designated annually as eligible for a Housing Exclusion (cannot be claimed by surviving spouses).



Professional Expenses

- Professional expenses paid to clergy under the accountable reimbursement plan are not taxable and should not be reported on Form W-2.
- Professional expenses paid to clergy under the allowance method are taxable and must be reported as wages in Box 1 of Form 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 \$6,000 per year. Reimbursements are only made upon submission by pastor of a written request with supporting receipts. Payment is not taxable to clergy.

Example 2: Church pays pastor an allowance of \$500 per month for amounts spent on church-related activities in accordance with Professional Fees budget of \$6,000 per year. Church does not require supporting documentation for amounts spent. Payment is taxable to clergy.



Other Income

Other Church-related Income:

- Many pastors receive other church-related income in addition to their regular compensation paid by the church. 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 of cash are taxable to the pastor when paid by the church and should be included on the donor's annual giving statement prepared by the local church and reported on Form W-2. Love offerings and other gifts of cash received directly from individuals are not taxable to the pastor provided these amounts are not included on the 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 their salary to tithe or make other gifts to the church to obtain tax advantages because of: eligibility of itemized deductions for charitable contributions, the reduction of pension benefits and giving up 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 income 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.
- 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

A pastor lived in a parsonage furnished by her church and:

- (1) she received a cash salary of \$40,000;
- (2) her church properly designated \$5,000 of her \$40,000 cash salary as a housing (or parsonage furnishing and utilities) exclusion;
- (3) she made a voluntary, pre-tax, salary reduction contribution of \$900 to the United Methodist Personal Investment Plan (UMPIP);
- (4) she made salary reduction contributions of \$3,500 through a cafeteria plan for her share of her medical insurance premiums and for a Flexible Spending Account (FSA);
- (5) she received a non-accountable travel allowance of \$3,000;
- (6) her church paid \$14,000 on her behalf for medical insurance premiums;
- (7) she received reimbursements from her church of \$2,500 for travel expenses pursuant to an accountable plan;
- (8) her church made a \$5,000 contribution to the Clergy Retirement Security Program (CRSP) on her behalf.
- (9) She made salary reduction contributions of \$1,200 for Dependent Care
- (10) She moved and her 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.

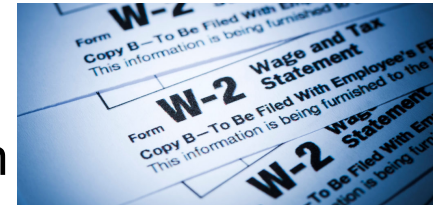
Box 10: Enter the \$1,200 for the Dependent Care FSA

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				12a See instructions for box 12 E \$900		12b	
				13 Statutory employee <input type="checkbox"/> Retirement plan <input checked="" type="checkbox"/> 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 Allowance Q&A
 - Housing Allowance Sample Resolution
 - Housing Allowance Estimate Worksheet
 - Self Employment Tax
 - Opting out of Social Security
 - Moving Expenses
 - Tax Forms



Questions?