

TAX SEMINAR

Note: FICA Federal Income Compensation Act

Employer matches 7.65% of income (Social Security)

Employee pays 7.65% of income (Social Security)

Note: SECA Self Employment Compensation Act

Employee pays full 15.3% (Social Security)

SUBJECTS:

Straight Salary Package (Pastor uses as he sees fit)

Salary plus IRS Approved Benefit Package for Ministers

Accounts Reimbursable

Direct Payments [not taxable or even reported]

Housing Allowance [“Fair Mkt. Rental Value” + out of pocket expenses]

1. Who is a Minister for Tax purposes ?

Note: Must answer “yes” to #a. and to 3 of the other 4 criteria

- a. Is the person ordained, licensed or commissioned ?
- b. Does the person administer ordinances (i.e. baptism and Lord’s Supper) ?
- c. Does the person conduct religious worship ?
- d. Does the person have management responsibilities in the church ?
- e. Is the person considered to be a religious leader by the church ?

Note: It’s important to determine the status of ministers because special tax rules apply to ministers, but, they don’t apply to everyone who has “minister” in their title.

Ministers for tax purposes are:

Eligible for a housing allowance

Always self-employed for purposes of Social Security taxes (SECA)

Exempt from income tax withholding,

although they and their church can always agree on voluntary withholding.

2. Is a minister employed or self-employed ?

- a. Both . . .
- b. Employed for Income Tax purposes
 1. Should receive a W-2 form
 1. A form 1099 is for “Contract Labor Only”
 - a. If the labor is done only for the church, it is not contract labor. Contract labor is one that does this service for others
- c. Self-Employed for Social Security tax purposes
 1. Pays SECA 15.3%

3. What is an IRS form 1040 es ?

- a. Use this form if church does not send in withholding taxes
- b. Must be sent in on a quarterly basis

4. Parsonage Disadvantages

- a. Build no equity for the minister
- b. Minister pays 15.3% (SECA) on “Fair Market Rental Value” of Parsonage

	Salary No Benefits	Salary + Benefits + Acct. Reimbursable	Salary + Acct. Reimbursable + Housing Allowance
Salary	\$30,000.00	\$15,270.00	\$ 5,270.00
Housing			\$10,000.00
Acct. Reimbursable:			
Auto Expense Based on 58.5 cents	\$ 5,850.00	\$ 5,850.00	\$ 5,850.00
Convention Expense	\$	\$	\$
Books (continued education)	\$	\$	\$
Meals (Ministry related)	\$	\$	\$
Cell Phone	\$	\$	\$
Benefits:			
Health Insurance	\$ 7,200.00	\$ 7,200.00	\$ 7,200.00
Life Insurance	\$ 1,380.00	\$ 1,380.00	\$ 1,380.00
Disability Insurance	\$ 300.00	\$ 300.00	\$ 300.00
Tithe	\$ 3,000.00	\$ 1,527.00	\$ 527.00
SECA taxes 15.3%	\$ 4,590.00	\$ 2,336.31	\$ 2,336.31
Federal Income tax	\$ 6,000.00	\$ 1,527.00	\$ 527.00
State Income tax	\$ 600.00	\$ 305.40	\$ 105.40
Living Expense	\$ 1,080.00	\$ 9,574.29	\$11,774.29

1. How to set-up

a. Church must adopt a procedure

- i. Who will use this benefit pkg.** **example: Pastor Name**
- ii. When will it be paid** **example: when Pastor submits**
 - 1. Pastor must submit within 60 days of expense**
- iii. What will it be used for** **example: Car Allowance**
- iv. How will it be paid** **example: current IRS rate**

b. Church must adopt a separate procedure for item

- i. Insurance**
- ii. Cell Phone**
- iii. Meals**
- iv. Books**
- v. Convention Exp.**
- vi. and etc.**

2. How to set-up Housing Allowance Benefit pkg.

- a. Housing Allowance is part of Salary; but it is not taxable income**
- b. Pastor must pay SECA 15.3% of Housing Allowance**
- c. Church must approve allowance of Pastor to claim Housing Allowance**
 - i. This a “one time” approval**
 - ii. Should give Treasurer permission to respond to Pastor’s annual request for estimated housing allowance**
- d. Pastor must issue written request to the church for housing allowance prior to January 1, stating the estimated amount of salary to be claimed as housing allowance. [Housing Allowance can not exceed Salary]**

- e. Church must respond to pastor's request, in writing, of approval each year
Treasurer can handle this response if given permission in the "One Time"
approval by the Church [i.e. number "c" above.
 - f. What are considered legal Housing Allowance items
 - i. **Down Payment on home**
 - ii. "Fair Market Rental Value" of the House it-self
 - 1. Must get a written EVALUATION from professional in the housing rental business (i.e. Banker, Realtor, and etc.) which would include the furnishings.
Note: they will probably tell you they can't give a value, but tell them they can give a "Fair Mkt. Rental EVALUATION. Ask that they put the evaluation on their letterhead and sign it. Should cost about \$35
 - g. Real estate taxes
 - h. **Property Insurance**
 - i. **Utilities**
 - i. **Telephone**
 - ii. **Cable**
 - iii. **Sewage**
 - iv. **Water**
 - v. **Gas**
 - vi. **Electricity**
 - vii. **Garbage Pickup**
 - viii. **and etc**
 - j. **Household appliance or furniture (purchase or repair)**
 - k. **Structural repairs and remodeling**
 - i. [additions should be reviewed in **New** Fair Mkt. Rental Evaluation]
 - l. **Yard Maintenance and improvements**
 - i. **new lawn mower, fence, and etc.**
 - m. **Maintenance items (i.e. pest control)**
 - n. **Miscellaneous**
- 3. If audited, auditor will ask for 3 things and approve the lowest of these:**
- a. **Fair Market Rental Value (Furnished as is)**
 - b. **Approved amount of housing allowance**
 - c. **Amount actually spent of housing allowance**