


Ministers' Tax Guide for 2019 Returns



2020

TAX RETURN PREPARATION GUIDE

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ACKNOWLEDGEMENTS

Both the author and Christianity Today's Church Law & Tax Team would like to thank CPA Elaine Sommerville for her assistance with reviewing the material in the Guide.

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This publication is intended to provide a timely, accurate, and authoritative discussion of tax reporting compliance and the impact of recent changes in the tax laws. It is not intended as a substitute for legal, accounting, or other professional advice. If legal, tax, or other expert assistance is required, the services of a competent professional should be sought. Although we believe this book provides accurate information, there may be changes resulting from IRS or judicial interpretations of the tax code, new tax regulations, or technical corrections that occurred after the printing of this edition that are not reflected in the text.



Welcome to the 2020 Tax Return Preparation Guide (Ministers' Tax Guide for 2019 Returns), written exclusively for pastors and other ministers by noted CPA and attorney Richard Hammar.

The tax guide is made available as a free benefit to those we serve.

Once again, a team of GuideStone® experts has reviewed this document to ensure it meets the needs of the pastors and other church staff we are privileged to serve.

We know that ministerial tax preparation can be complicated. While this book addresses the most commonly asked questions and most commonly used forms, you can find more extensive information on the IRS website, *IRS.gov*. For specific tax advice, you'll want to consult a tax professional who is familiar with the intricacies of ministerial taxes.

This tax guide serves as a tangible reminder of our vision to honor the Lord by being a lifelong partner with our participants in enhancing their financial security. You can refer your colleagues to *GuideStone.org/TaxGuide* for copies of this booklet, in whole or in part, along with other helpful resources.

May the Lord richly bless you in the ministry you have received from Him!

Sincerely,

A handwritten signature in black ink, appearing to read "O.S. Hawkins". The signature is stylized with a large, looped initial "O" and a long horizontal stroke extending to the right.

O.S. Hawkins
President
GuideStone

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Special Supplement

CURRENT STATUS OF THE PARSONAGE AND HOUSING ALLOWANCE EXCLUSIONS

On November 22, 2013, U.S. District Court Judge Barbara Crabb of the District Court for the Western District of Wisconsin struck down the ministerial housing allowance as an unconstitutional preference for religion (*Freedom From Religion Foundation, Inc., v. Lew*, 983 F. Supp. 2d 1051 (W.D. Wis. 2013)). The ruling was in response to a lawsuit brought by the Freedom From Religion Foundation (FFRF) and two of its officers challenging the constitutionality of the housing allowance and the parsonage exclusion. The federal government, which defended the housing allowance since it is a federal statute, asked the court to dismiss the lawsuit on the ground that the plaintiffs lacked standing to pursue their claim in federal court.

Standing is a constitutional requirement of any plaintiff in a federal case and generally means that a plaintiff must have suffered some direct injury as a result of a challenged law. The Wisconsin court concluded that the plaintiffs had standing on the ground that they would have been denied a housing allowance exclusion had they claimed one on their tax return. The government appealed this ruling to a federal appeals court — the United States Court of Appeals for the Seventh Circuit in Chicago.

On November 13, 2014, the appeals court issued its ruling reversing the Wisconsin court's decision (*Freedom From Religion Foundation, Inc., v. Lew*, 773 F.3d 815 (7th Cir. 2014)). It concluded that the plaintiffs lacked standing to pursue their challenge to the housing allowance. The plaintiffs had asserted that they had standing due to their "injury" of being denied a tax-free housing allowance should they claim one on their tax returns. But the appeals court refused to base standing on theoretical injury. It concluded: "Only a person that has been denied such a benefit can be deemed to have suffered cognizable injury. The plaintiffs here have never been denied the parsonage exemption because they have never requested it; therefore, they have suffered no injury."

The court suggested that this deficiency could be overcome if the FFRF's officers filed tax returns claiming a housing allowance that were later rejected by the IRS in an audit: "The plaintiffs could have sought the exemption by excluding their housing allowances from their reported income on their tax returns and then petitioning the Tax Court if the IRS were to disallow the exclusion. Alternatively, they could have . . . paid income tax on their housing allowance, claimed refunds from the IRS, and then sued if the IRS rejected or failed to act upon their claims."

The FFRF responded to the appeals court's ruling by designating a housing allowance for two of its officers. The officers reported their allowances as taxable income on their tax returns and thereafter filed amended tax returns seeking a refund of the income taxes paid on the amounts of their designated housing allowances. FFRF claims that in 2015 the IRS denied the refunds sought by its officers (one of whom had died and was represented by her executor).

Having endeavored to correct the standing problem, the FFRF renewed its legal challenge to the housing allowance in the federal district court in Wisconsin, where the litigation began.

On October 6, 2017, Judge Crabb again ruled that the ministerial housing allowance is an unconstitutional preference for religion (*Gaylor v. Mnuchin*, (W.D. Wis. 2017)). Judge Crabb observed:

[The housing allowance] violates the Establishment Clause because it does not have a secular purpose or effect and because a reasonable observer would view the statute as an endorsement of religion.

The government promptly appealed this ruling back to the Seventh Circuit Court of Appeals in Chicago, and in March 2019, a three-judge panel unanimously reversed Judge Crabb's decision and affirmed the constitutionality of the housing allowance. It based its ruling on two grounds:

1. The Lemon Test

First, it applied the so-called Lemon test, which dates back to a 1971 Supreme Court ruling in *Lemon v. Kurtzman*, 403 U.S. 602 (1971), in which the Court announced a three-part test for evaluating claims that a state or federal law, such as the housing allowance, constitutes an impermissible establishment of religion under the First Amendment's Establishment Clause. Under the Lemon test, a law challenged on Establishment Clause grounds is valid if it meets three conditions: First, a clearly secular purpose; second, a primary effect that neither advances nor inhibits religion; and third, the law does not foster an excessive entanglement between church and state. The court concluded that all three elements were met, and so the housing allowance did not violate the First Amendment's ban on an establishment of religion.

The court concluded that there was not one, but three, legitimate secular purposes underlying the housing allowance: First, the elimination of discrimination against ministers in the tax code in several provisions granting housing benefits to secular workers. The housing allowance simply treats ministers like secular workers. Second, the elimination of discrimination

between ministers. The point here is that for many years the only tax benefit for ministerial housing was the exclusion of the fair rental value of a church-provided parsonage from taxation. Ministers who did not live in a parsonage, but instead owned or rented a home, received no tax benefit. The housing allowance was enacted by Congress in 1954 to address this discrepancy and provide parity between ministers who lived in parsonages and those who did not. A third secular purpose was the avoidance of excessive entanglement between church and state.

2. Historical Significance

The court based its decision on a second ground that it called the “historical significance test”. According to several rulings by the United States Supreme Court, the First Amendment’s Establishment Clause must be interpreted with reference to historical practices. In other words, the longer a practice has gone unchallenged, the more likely it will survive a challenge under the Establishment Clause. A perfect example of this is a 1983 Supreme Court decision upholding the constitutionality of legislative chaplains. The Court pointed out that the very first session of Congress, in which the First Amendment’s Establishment Clause was drafted, also provided funds for congressional chaplains. That’s pretty strong evidence that congressional chaplains do not constitute an unconstitutional establishment of religion. The appeals court noted that there are more than 2,500 state and federal laws providing tax exemptions of various sorts to religion, and this practice, dating back to the founding of the nation, reinforced the constitutionality of the housing allowance.

The FFRF chose not to appeal the decision by the Seventh Circuit Court of Appeals. It is possible that it, or another hostile organization, will sue in another court. Predicting the future status of a tax benefit such as the housing allowance is a difficult task, but I believe a solid case can be made for the continuation of this benefit for years to come, based on the compelling logic of the appeals court’s decision (which was based squarely on rulings by the United States Supreme Court). Any developments will be addressed in future editions of this tax guide.

How should churches and pastors respond to this ruling? Consider the following:

- Continue designating housing allowances for ministers. The housing allowance remains valid and active for all churches and qualifying clergy across the country.
- Continue to monitor developments.
- In the event that another court invalidates the housing allowance in a final decision, note the following:

- ✓ Many ministers will experience an immediate increase in income taxes. As a result, they should be prepared to increase their quarterly estimated tax payments to reflect the increase in income taxes in order to avoid an underpayment penalty. Note that there will be no effect on self-employment taxes (SECA), for which the housing allowance is not tax-exempt.
- ✓ Ministers who are considering the purchase of a new home should not base the amount and affordability of a home mortgage loan on the availability of a housing allowance exclusion unless and until the courts conclusively uphold the constitutionality of the allowance.
- ✓ Many churches will want to increase ministers’ compensation to offset the adverse financial impact. Thousands of ministers have purchased a home and obtained a mortgage loan on the assumption that the housing allowance would continue to be available as it has for more than a half century. The sudden elimination of this tax benefit will immediately thrust many clergy into a dire financial position with a mortgage loan based on a tax benefit that no longer is available. Many church leaders will want to reduce the impact of such a predicament by increasing compensation. Such an increase could be phased out over a period of years to minimize the impact on the church.
- The fair rental value of church-provided parsonages remains a federal non-taxable benefit.

All references in this publication to line numbers on IRS forms are for the draft versions of the 2019 forms since the final forms had not been released by the IRS as of the date of this publication.

HOW TO USE THIS GUIDE

This book contains the basic information you need to complete your 2019 federal income tax return. It gives special attention to several forms and schedules and the sections of each form most relevant to ministers. The companion resource — *Federal Reporting Requirements for Churches* — helps churches comply with their federal tax reporting requirements.

This guide is divided into the following sections:

- **Part 1: Introduction** — This section reviews tax highlights for 2019 and presents several preliminary questions you should consider before preparing your tax return.
- **Part 2: Special Rules for Ministers** — In this section, you learn whether or not you are a Minister for Tax Purposes, whether you are an employee or self-employed for both income tax and Social Security purposes, and how you pay your taxes.
- **Part 3: Step-by-Step Tax Return Preparation** — This section explains how to complete the most common tax forms and schedules for ministers.
- **Part 4: Comprehensive Examples and Sample Forms** — This section shows a sample tax return prepared for an active minister and spouse and for a retired minister and spouse.
- **Federal Reporting Requirements for Churches** — This resource provides assistance to churches (especially treasurers and bookkeepers) in filing federal tax forms.

TAX HIGHLIGHTS FOR 2019

1. The Tax Cuts and Jobs Act of 2017 (TCJA)

On December 22, 2017, President Donald Trump signed into law the \$1.5 trillion Tax Cuts and Jobs Act of 2017 (TCJA). In brief, the Act amends the *Internal Revenue Code* to reduce tax rates and modify credits and deductions for individuals and businesses.

With respect to individuals, the Act does the following:

- Replaces the seven existing tax brackets (10, 15, 25, 28, 33, 35, and 39.6 percent) with seven new and lower brackets (10, 12, 22, 24, 32, 35, and 37 percent)
- Substantially increases the standard deduction, thereby significantly reducing the number of taxpayers who will itemize deductions

- Repeals the deduction for personal exemptions
- Eliminates the deduction for moving expenses as well as the employer tax-free reimbursement
- Allows taxpayers to deduct an amount for charitable cash contributions up to 60 percent of adjusted gross income (AGI)
- Doubles the child tax credit and establishes a new family tax credit
- Repeals most miscellaneous itemized deductions
- Limits the mortgage interest deduction for debt incurred after November 2, 2017, to mortgages of up to \$750,000 (previously \$1 million)
- Caps the deduction for state and local income or sales taxes not paid or accrued in a trade or business at \$10,000
- Consolidates and repeals several education-related deductions and credits
- Broadened the use of section 529 plans for expenses below the college level of education
- Modifies the alternative minimum tax (AMT) to make it apply to fewer taxpayers
- Modifies the estate and generation-skipping transfer taxes to exempt most taxpayers

2. Other Tax Changes of Interest to Churches and Church Staff

There were several tax developments in prior years that affect tax reporting by both ministers and churches for 2019 and future years. Here is a rundown of some of the key provisions:

- You may be able to claim the earned income credit (EIC) for 2019 if you have investment income of \$3,600 or less AND (1) you do not have a qualifying child, you're at least age 25, and you earned less than \$15,570 (\$21,370 if married filing jointly); (2) a qualifying child lived with you and you earned less than \$41,094 (\$46,884 if married filing jointly); (3) two qualifying children lived with you and you earned less than \$46,703 (\$52,493 if married filing jointly); or (4) three or more qualifying children lived with you and you earned less than \$50,162 (\$55,952 if married filing jointly). The maximum EIC for 2019 is (1) \$529 with no qualifying child; (2) \$3,526 with one qualifying child; (3) \$5,828 with two qualifying children; and (4) \$6,557 with three or more qualifying children.
- For contributions in 2019 to a Traditional Individual Retirement Account (IRA), the deduction phaseout range for an

individual covered by a retirement plan at work begins at income of \$103,000 for joint filers and \$64,000 for a single person or head of household. These are 2019 amounts that increase to \$104,000 for joint filers and \$65,000 for a single person or head of household for 2020.

- The dollar limit on annual elective deferrals an individual may make to a 403(b) retirement plan was \$19,000 for 2019. It increases to \$19,500 for 2020.
- The catch-up contribution limit on elective deferrals to a 403(b) retirement plan for individuals who had attained age 50 by the end of the year was \$6,000 for 2019. For 2020, the limit is \$6,500.
- The IRS has announced that it will not issue private letter rulings addressing the question of “whether an individual is a minister of the gospel for federal tax purposes.” This means taxpayers will not be able to obtain clarification from the IRS in a letter ruling on their status as a minister for any one or more of the following matters: (1) eligibility for a parsonage exclusion or housing allowance; (2) eligibility for exemption from SECA; (3) self-employed status for Social Security; or (4) exemption of wages from income tax withholding. The IRS also has announced that it will not address “whether amounts distributed to a retired minister from a pension or annuity plan should be excludible from the minister’s gross income as a parsonage allowance.”
- The standard business mileage rate was 58 cents per mile for business miles driven during 2019. The standard business mileage rate for 2020 is 57.5 cents per mile.
- Recent tax law changes may result in lower taxes, resulting in lower estimated tax payments, for many taxpayers. Be sure your estimated tax calculations or withholdings take into account the most recent tax law changes.
- Many churches employ retired persons who are receiving Social Security benefits. Persons younger than full retirement age may have their Social Security retirement benefits cut if they earn more than a specified amount. Full retirement age (the age at which you are entitled to full retirement benefits) for persons born in 1943–1954 is 66 years. If you are under full retirement age for the entire year, \$1 is deducted from your benefit payments for every \$2 you earn above the annual limit. For 2020 that limit is \$18,240. In the year you reach full retirement age, your monthly benefit payments are reduced by \$1 for every \$3 you earn above a different limit. For 2020 that limit is \$48,600 (\$4,050 per month), but only earnings before the month you reach full retirement age are counted.
- Will Congress give ministers another opportunity to revoke an exemption from Social Security? It does not look likely, at

least for now. No legislation is pending that would provide ministers with this option.

- A federal appeals court rejected a constitutional challenge to the minister’s housing allowance. This development is addressed at the beginning of this publication.
- A provision in the comprehensive tax reform legislation enacted by Congress in 2017 (the TCJA) imposed a tax (the unrelated business income tax) of 21 percent on expenses associated with benefits provided to employees through a qualified transportation fringe benefit program as defined by IRC section 132(f). These benefits included employer-provided parking, mass transit passes and commuter vans. Churches providing these benefits were required to file *Form 990-T* to report the costs and the related tax. There was protest from nonprofit organizations, including churches, during 2019 with petitions submitted to Congress requesting repeal of the provision and several bills introduced to repeal the provision. Subsequently, on December 20, 2019, the president signed the Further Consolidated Appropriations Act, 2020, which repeals the requirement to file *Form 990-T* and the unrelated business income tax for qualified transportation fringe benefits.
- The IRS has announced that the following tax forms are obsolete and will no longer be used in 2019 and future years:
 - *Schedule 4* (merged with *Schedule 2*)
 - *Schedule 5* (merged with *Schedule 3*)
 - *Schedule 6* (merged with *Forms 1040* and *1040-SR*)
 - *Schedule C-EZ* (*Schedule C* will be used)
 - *Form 2555-EZ* (*Form 2555* will be used)
 - *Form 8965* (Health coverage exemption reporting is no longer applicable to tax years after 2018.)

Form 1040-SR U.S. Tax Return for Seniors has been introduced for 2019. You can use this form if you were born before January 2, 1955. The form generally mirrors *Form 1040* and is designed to make tax preparation and filing simpler for older taxpayers. It is only available to persons who claim the standard deduction. The form uses larger and more readable type and contains conspicuous instructions on calculating the standard deduction amount.

PRELIMINARY QUESTIONS

Below are several questions you should consider before preparing your 2019 federal tax return.

Q. Must ministers pay federal income taxes?

- A. Yes. Ministers are not exempt from paying federal income taxes.

Q. How much income must I earn to be required to file a tax return?

- A. Generally, ministers are required to file a federal income tax return if they have earnings of \$400 or more to report their SECA. Different rules apply to ministers who are exempt from SECA.

Q. What records should I keep?

- A. You should keep all receipts, canceled checks, and other evidence to prove amounts you claim as deductions, exclusions, or credits. Documentation should be maintained for six years from the time you file your tax return.

Q. What is the deadline for filing my federal income tax return?

- A. The instructions to *Form 1040* state that the deadline for filing *Form 1040* for the 2019 tax year is April 15, 2020.

Q. What if I am unable to file my tax return by the deadline?

- A. You can obtain an automatic six-month extension (from April 15 to October 15, 2020) to file your 2019 *Form 1040* if you file *Form 4868* by April 15, 2020, with the IRS service center for your area. Your *Form 1040* can be filed at any time during the six-month extension period. **An extension only relieves you from the obligation to file your return; it is not an extension of the obligation to pay your taxes.** You must make an estimate of your tax for 2019 and pay the estimated tax with your *Form 4868*.

Q. Should I prepare my own tax return?

- A. The answer depends on your ability and experience in working with financial information and in preparing tax returns. Keep in mind: Ministers' taxes present a number of unique rules, but these rules are not complex. Many ministers will be able to prepare their own tax returns if they understand the unique rules that apply. These rules are summarized in this document. Easily accessible tax software will also accommodate the unique rules applicable to ministers, but it does not relieve a minister from understanding the rules in order to accurately utilize the software. On the other hand, if you experienced unusual events in 2019, such as the sale or purchase of a home or the sale of other capital assets, it may be prudent to obtain professional tax assistance. The IRS provides a service called Taxpayer Assistance, but it is not liable in any way if its agents provide you with incorrect answers to your questions. Free taxpayer publications are available from the IRS, and many of these are helpful to ministers.

► **Recommendation:** If you need professional assistance,

here are some tips that may help you find a competent tax professional:

- Ask other ministers in your community for their recommendations.
- If possible, use tax professionals such as a CPA or an enrolled agent (EA) who specializes in tax law and who is familiar with the rules that apply to ministers. A CPA has completed a rigorous educational program, and both CPAs and EAs have passed exams. Both must keep up continuing education and are subject to strict ethical requirements. However, the tax law is broad and complicated, so it should not be assumed that all CPAs or EAs are familiar with the unique rules applicable to ministers.
- Ask local tax professionals if they work with ministers and, if so, with how many.
- Ask local tax professionals a few questions to test their familiarity with ministers' tax issues. For example, ask whether ministers are employees or self-employed for Social Security. Anyone familiar with ministers' taxes will know that ministers are self-employed for Social Security with respect to their ministerial duties. Or, ask a tax professional if a minister's church salary is subject to income tax withholding. The answer is no, and anyone familiar with ministers' taxes should be able to answer this question.

WHO IS A MINISTER FOR FEDERAL TAX PURPOSES?

Key Point: The IRS has its own criteria for determining who is a Minister for Tax Purposes. The criteria the IRS uses to determine who is a minister are not necessarily the same as those used by churches and denominations. Whether or not one qualifies as a Minister for Tax Purposes is a very important question, since special tax and reporting rules apply to ministers under federal tax law. These rules include:

- Eligibility for housing allowance
- Self-employed status for Social Security
- Exemption of wages from income tax withholding (ministers use the quarterly estimated tax procedure to prepay their taxes, unless they elect voluntary withholding)
- Eligibility, under very limited circumstances, to exempt themselves from SECA

These special rules apply only to persons qualifying as a minister and with respect to compensation received in the exercise of ministerial services.

Example: Pastor J is an ordained minister employed by a church. In addition, he works a second job for a secular employer. Assume that Pastor J qualifies as a minister for federal tax purposes. Since his church duties constitute services performed in the exercise of his ministry, the church can designate a portion of his compensation as a housing allowance. However, the secular employer cannot designate any portion of Pastor J's compensation as a housing allowance, since this work would not be in the exercise of ministry.

According to the IRS, ministers are individuals who are duly ordained, commissioned, or licensed by a religious body constituting a church or church denomination. They are given the authority to conduct religious worship, perform sacerdotal functions, and administer ordinances or sacraments according to the tenets and practices of that church or denomination. If a church or denomination ordains some ministers and licenses or commissions others, anyone licensed or commissioned must be able to perform substantially all the religious functions of an ordained minister to be treated as a Minister for Tax Purposes. See IRS *Publication 517*.

ARE MINISTERS EMPLOYEES OR SELF-EMPLOYED FOR FEDERAL TAX PURPOSES?

Key Point: Most ministers are employees for federal income tax purposes under the tests currently used by the IRS and the courts and should receive a *Form W-2 Wage and Tax Statement* from their church reporting their taxable income. However, ministers are self-employed for Social Security (with respect to services they perform in the exercise of their ministry).

Ministers have a **dual** tax status. For federal income taxes they ordinarily are employees, but for Social Security they are self-employed with regard to services performed in the exercise of their ministry. These two rules are summarized below:

1. Income taxes. For federal income tax reporting, most ministers are employees under the tests currently used by the IRS. This means that they should receive a *Form W-2* from their church at the end of each year (rather than a *Form 1099*). Formerly, it meant that they reported their employee business expenses on *Schedule A* rather than on *Schedule C*. (The deduction for employee business expenses as Miscellaneous Itemized Deductions on *Schedule A* is suspended through 2025, so employee business expenses are not deductible at this time.) A few ministers are self-employed, such as some traveling evangelists and some interim pastors. Also, many ministers who are employees of a local church are self-employed for other purposes. For example, the minister of a local church almost always will be an employee but will be self-employed with regard to guest speaking appearances in other churches and services performed directly for individual members (such as weddings and funerals).

Example: Pastor B is a minister at First Baptist Church. He is an employee for federal income tax reporting purposes with respect to his church salary. However, he is self-employed with respect to honoraria he receives for speaking in other churches and for compensation church members give him for performing personal services such as weddings and funerals. The church issues Pastor B a *Form W-2* reporting his church salary. Pastor B reports this amount as wages on line 1 of *Form 1040*. He reports his compensation and expenses from the outside self-employment activities on *Schedule C*.

Key Point: Most ministers will be better off financially being treated as employees, since the value of various

fringe benefits will be tax-free, the risk of an IRS audit is substantially lower, and reporting as an employee avoids the additional taxes and penalties that often apply to self-employed ministers who are audited by the IRS and reclassified as employees.

🔑 **Key Point:** Ministers and other church staff members should carefully review their *Form W-2* to be sure it does not report more income than was actually received or fail to report taxable benefits provided by the church. If an error was made, the church should issue a corrected tax form (*Form W-2c*).

The Tax Court test. The United States Tax Court has created a seven-factor test for determining whether a minister is an employee or self-employed for federal income tax reporting purposes. The test requires consideration of the following seven factors: (1) the degree of control exercised by the employer over the details of the work; (2) which party invests in the facilities used in the work; (3) the opportunity of the individual for profit or loss; (4) whether or not the employer has the right to discharge the individual; (5) whether the work is part of the employer's regular business; (6) the permanency of the relationship; and (7) the relationship the parties believe they are creating. Most ministers will be employees under this test.

2. Social Security. The tax code treats ministers as self-employed for Social Security with respect to services performed in the exercise of their ministry — even if they report their income taxes as an employee. This means that ministers must pay SECA unless they have filed a timely exemption application (*Form 4361*) that has been approved by the IRS. As noted below, few ministers qualify for this exemption.

🔑 **Key Point:** While most ministers are employees for federal income tax reporting purposes, they are self-employed for Social Security with respect to services they perform in the exercise of their ministry. This means that ministers are not subject to the employee's share of Social Security and Medicare taxes (FICA), even though they report their income taxes as employees and receive a *Form W-2* from their church. A minister's *Form W-2* should not report any amounts in Boxes 3, 4, 5, and 6. Rather, they pay SECA by completing *Schedule SE* with their *Form 1040*.

EXEMPTION FROM SECA

If ministers meet several requirements, they may exempt themselves from SECA with respect to their ministerial earnings. Among other things, the exemption application (*Form 4361*) must be submitted to the IRS within a limited time period.

The deadline is the due date of the federal tax return for the second year in which a minister has net earnings from self-employment of \$400 or more, any part of which comes from ministerial services. Further, the exemption is available only to ministers who are opposed on the basis of religious considerations to the acceptance of benefits under the Social Security program (or any other public insurance system that provides retirement or medical benefits). A minister who files the exemption application may still purchase life insurance or participate in retirement programs administered by non-governmental institutions (such as a life insurance company). Additionally, the exemption does not require a minister to revoke all rights to Social Security benefits earned through their participation in the system through secular employment.

A minister's opposition must be to accepting benefits under Social Security (or any other public insurance program) that are related to services performed as a minister. Economic or any other non-religious considerations are not a valid basis for the exemption; neither is opposition to paying SECA.

The exemption is effective only when it is approved by the IRS. Few ministers qualify for the exemption. Many younger ministers opt out of SECA without realizing that they do not qualify for the exemption. A decision to opt out of SECA is irrevocable. But section 4.19.6.5.11.3 (02-15-2019) of the IRS *Internal Revenue Manual* explicitly recognizes that under some conditions ministers who have exempted themselves from SECA solely for economic reasons can revoke their exemption. Check with a tax attorney or CPA for additional information.

An exemption from SECA applies only to compensation for ministerial services. Ministers who have exempted themselves from SECA must pay Social Security taxes on any non-ministerial compensation they receive. And, they remain eligible for Social Security benefits based on their non-ministerial employment, assuming that they have worked enough quarters. Generally, 40 quarters are required. Also, the Social Security Administration (SSA) has informed the author of this text that ministers who exempt themselves from SECA may qualify for Social Security benefits (including retirement and Medicare) on the basis of their spouse's coverage, if the spouse had enough credits. However, the amount of these benefits will be reduced by the so-called windfall elimination provision. Contact an SSA office for details.

🔑 **Key Point:** The amount of earnings required for a quarter of coverage in 2020 is \$1,410. A quarter of coverage is the basic unit for determining whether a worker is insured under the Social Security program.

🔑 **Key Point:** Ministers who work after they retire must continue to pay SECA on their ministerial income and

wages (unless they exempted themselves from SECA as a minister and they are employed in a ministerial capacity). However, amounts received from retirement plans related to ministerial services are not subject to SECA.

HOW DO MINISTERS PAY THEIR TAXES?

Key Point: Ministers must prepay their income taxes and SECA using the estimated tax procedure, unless they have entered into a voluntary withholding arrangement with their church with respect to federal income tax only.

As noted above, ministers' wages are exempt from federal income tax withholding. This means that a church may not withhold income taxes from a minister's paycheck without specific written permission. And, since ministers are self-employed for Social Security with respect to their ministerial services, a church does not withhold the employee's share of FICA from a minister's wages. Ministers must prepay their income taxes and SECA using the estimated tax procedure, unless they enter into a voluntary withholding arrangement with their church. Estimated taxes must be paid in quarterly installments. If your estimated tax paid for the current year is less than your actual taxes, you may have to pay an underpayment penalty. You can amend your estimated tax payments during the year if your circumstances change. For example, if your income or deductions increase unexpectedly, you should refigure your estimated tax liability for the year and amend your remaining quarterly payments accordingly or submit additional payments.

You will need to make estimated tax payments for 2020 if you expect to owe at least \$1,000 in tax for 2020 after subtracting your withholding and credits and if you expect your withholding and credits to be less than the smaller of (1) 90 percent of the tax to be shown on your 2020 tax return or (2) 100 percent of the tax shown on your 2019 tax return (110 percent if AGI exceeds \$150,000 or, if married filing separately, more than \$75,000). Your 2019 tax return must cover all 12 months.

The four-step procedure for reporting and prepaying estimated taxes for 2020 is summarized below.

Step 1. Estimated tax payments may be paid using either of the following methods:

- Obtain a copy of IRS *Form 1040-ES* for 2020 before April 15, 2020. You can obtain forms by calling the IRS toll-free forms hotline at **1-800-TAX-FORM** (1-800-829-3676) or downloading them from the IRS website (*IRS.gov*). If you paid estimated taxes last year, you should receive a copy of your 2020 *Form 1040-ES* in the mail with payment vouchers preprinted with your name, address, and Social Security number (SSN).

- Enroll in the Electronic Federal Tax Payment System® (EFTPS) at *EFTPS.gov* and establish an online account to be used to submit payments.

Step 2. Compute your estimated tax for 2020 using the *Form 1040-ES* worksheet. Ministers' quarterly estimated tax payments should take into account both income taxes and SECA.

Step 3. Pay one-fourth of your total estimated taxes for 2020 in each of four quarterly installments as follows:

| For the Period | Due Date |
|-------------------------|--------------------|
| January 1–March 31 | April 15, 2020 |
| April 1–May 31 | June 15, 2020 |
| June 1–August 31 | September 15, 2020 |
| September 1–December 31 | January 15, 2021 |

You must send each payment to the IRS accompanied by one of the four payment vouchers contained in *Form 1040-ES*. If enrolled in the EFTPS system, all four payments may be prescheduled for automatic payment at the scheduled dates. A refund associated with an overpayment of your taxes for 2019 may be applied to your estimated tax payments due for 2020.

Step 4. After the close of 2020, compute your actual tax liability on *Form 1040*. Only then will you know your actual income, deductions, exclusions, and credits. If you overpaid your estimated taxes (that is, actual taxes computed on *Form 1040* are less than all of your estimated tax payments plus any withholding), you can elect to have the overpayment credited against your first 2021 quarterly estimated tax payment, or you can spread it out in any way you choose among any or all of your next four quarterly installments. Alternatively, you can request a refund of the overpayment. If you underpaid your estimated taxes (that is, your actual tax liability exceeds the total of your estimated tax payments plus any withholding), you may have to pay a penalty.

Key Point: Ministers who report their income taxes as employees can request that their employing church **voluntarily** withhold income taxes from their wages. Simply furnish the church with a completed *Form W-4 Employee's Withholding Certificate* or other written authorization. Since ministers are not employees for Social Security with respect to ministerial compensation, the church does not withhold the employee's share of FICA. However, ministers can request on *Form W-4* (line 4c) that an additional amount of income tax be withheld to cover their estimated SECA liability for the year. The excess income tax withheld is a credit that is applied

against the minister's SECA liability. Many churches understandably withhold FICA in addition to income taxes for a minister who requests voluntary withholding. Such withholding must be reported as income tax withheld (Box 2 of *Form W-2*).

TAX FORMS AND SCHEDULES

This step-by-step analysis covers these forms and schedules:

Form 1040 is the basic document you will use. It summarizes all of your tax information. Details are reported on supplementary schedules and forms.

The 2019 *Form W-2* and *Form W-3* are identical to the 2018 forms. However, note the following:

- The Affordable Care Act (ACA) requires employers to report the cost of employer-sponsored health coverage in Box 12 using code DD. However, transitional relief applies to certain employers and certain types of plans. This relief applies until the IRS publishes additional guidance. Any guidance that expands the reporting requirements will apply only to calendar years that start at least six months after the guidance is issued. The transitional relief applies to employers filing fewer than 250 *Forms W-2* for the previous calendar year.
- Penalties for failure to file and failure to furnish, intentional disregard of filing and intentional disregard for payee statement requirements have increased due to adjustments for inflation. The higher penalty amounts apply to returns required to be filed after December 31, 2019. See the instructions to *Form W-2* for more information.
- Information about any future developments affecting *Forms W-2* and *W-3* and their instructions (such as legislation enacted after they are released) will be posted at [IRS.gov/FormW2](https://www.irs.gov/FormW2).
- The due date for filing *Copy A* of 2019 *Form W-2* and the *W-3* transmittal form with the SSA is January 31, 2020, whether you file using paper forms or electronically.
- Extensions of time to file *Form W-2* with the SSA are no longer automatic. You may request one 30-day extension to file *Form W-2* by submitting a complete application on *Form 8809 Application for Extension of Time to File Information Returns*, including a detailed explanation of why you need additional time and signed under penalties of perjury. The IRS will grant the extension only in extraordinary or catastrophic circumstances. This does not affect extensions of time to furnish *Forms W-2* to employees.
- To aid employers' efforts to protect employees from identity theft, the IRS has issued regulations permitting employers to voluntarily truncate employees' SSNs on copies of *Forms W-2* that are furnished to employees so that the truncated SSNs appear as IRS

truncated Taxpayer Identification Numbers (TTINs). The new regulation will apply to returns, statements, and other documents required to be filed or furnished after December 31, 2020, except for *Forms W-3* and SSA copies of *Forms W-2*, which will apply beginning on July 3, 2019. See the instructions to *Form W-2* for details.

- All personal exemptions were repealed after 2017, and so there is no way to claim them on the 2019 *Form 1040*.

Schedule A is for reporting itemized deductions for medical and dental expenses, taxes, interest, certain disaster-related casualty losses and charitable contributions.

- ✎ **Key Point:** Beginning with tax year 2018, no miscellaneous itemized deductions that formerly were subject to a 2 percent of AGI limitation are allowed. This and other changes to *Schedule A* are addressed later in this guide.

Schedule B is for reporting dividend and interest income.

Schedule C is for reporting your income and expenses from business activities you conduct other than in your capacity as an employee. Examples would be fees received for guest speaking appearances in other churches or fees received directly from members for performing personal services, such as weddings and funerals.

Schedule SE is for reporting Social Security taxes due on your self-employment income. Ministers use this schedule since they are deemed self-employed for Social Security with respect to ministerial services (unless they have obtained an approved *Form 4361* from the IRS).

These forms and schedules, along with others, are included in the illustrated example in Part 4 of this guide. These forms and schedules are the ones most commonly used by ministers. These forms may be obtained at certain local post offices or IRS offices. Or you can obtain them by calling the **IRS toll-free forms hotline at 1-800-TAX-FORM (1-800-829-3676)**. They also are available on the IRS website ([IRS.gov](https://www.irs.gov)).

Form 1040

Step 1: Filing Status

Select the appropriate filing status from the five options listed in this section of *Form 1040*.

In 2015, the United States Supreme Court ruled that the right of same-sex couples to marry is part of the Fourteenth

Amendment's guarantees of due process and equal protection of the laws, and therefore any state law that in any way limits this right is unconstitutional and void (*Obergefell v. Hodges*, 135 S. Ct. 2584 (2015)). The effect of the Court's decision was to invalidate laws and constitutional provisions in several states defining marriage solely as a union between one man and one woman and to treat same-sex marriages the same as opposite-sex marriages for purposes of federal tax law.

Step 2: Name and Address

Print or type the information in the spaces provided. If you are married filing a separate return, enter your spouse's name in the space provided in the "Filing Status" section at the top of *Form 1040*. If you filed a joint return for 2018 and you are filing a joint return for 2019 with the same spouse, be sure to enter your names and SSNs in the same order as on your 2018 return.

If you plan to move after filing your return, use *Form 8822* to notify the IRS of your new address.

If you (or your spouse) changed your name because of marriage, divorce, etc., be sure to report the change to the SSA before filing your return. This prevents delays in processing your return and issuing refunds. It also safeguards your future Social Security benefits. If a name change with the SSA has not been completed, the name on file with the SSA must be used in filing your tax return.

Enter your P.O. Box number only if your Post Office™ does not deliver mail to your home.

For taxpayers with foreign mailing addresses, spaces have been added to include the name of the foreign country/province/state and a foreign postal code.

If you want \$3 to go to the presidential election campaign fund, check the box labeled "you". If you are filing a joint return, your spouse can also have \$3 go to the fund (check "spouse"). If you check a box, your tax or refund will not change.


Step 3: Dependents

In the past, taxpayers were allowed a personal exemption for themselves and certain dependents. All personal exemptions were repealed after 2017, and so they cannot be claimed on the 2019 *Form 1040*. However, it is still necessary to determine who qualifies as dependents and include them on the return. Dependents determine various credits, such as the child tax credit, as well as other tax-related items, such as educational credits, medical expenses, child care credit, and EIC, just to name a few.

Step 4: Income

Several items of income are reported on lines 1–7 (including

amounts carried over from *Schedule 1* lines 1–9). The most important of these (for ministers) are discussed below.


 **Key Point:** Some items, such as the housing allowance, are not reported as income. They are called exclusions and are explained below.

Line 1. Wages, salaries, tips, etc.

As an employee, you should receive a *Form W-2* from your church reporting your wages at the end of each year. Report this amount on line 1.

Determining church wages or salary. Besides a salary, ministers' wages reported on *Form W-2* may include several other items, including the following:

- Bonuses
- The cost of sending a minister to the Holy Land (if paid by a church)
- Most Christmas and special occasion offerings
- Retirement gifts paid by a church
- The portion of a minister's SECA paid by a church
- Personal use of a church-owned vehicle
- Purchases of church property for less than fair market value
- Business expense reimbursements under a non-accountable plan
- Imputed cost of group term life insurance coverage exceeding \$50,000
- Church reimbursements of a spouse's travel expenses incurred while accompanying a minister on a business trip (unless the spouse's presence serves a legitimate business purpose and the spouse's expenses are reimbursed under an accountable arrangement)
- Discretionary funds established by a church for a minister to spend on current needs — if the minister is allowed to distribute funds for his personal benefit or does not have to account for the funds in an arrangement similar to an accountable expense reimbursement plan
- Imputed interest from below-market-interest loans of at least \$10,000 made by a church to a minister (some exceptions apply)
- Cancellation of a minister's debt to a church
- Severance pay
- Payment of a minister's personal expenses by the church
- Love gifts

 **Key Point:** The IRS can assess intermediate sanctions in the form of substantial excise taxes against ministers who benefit from an excess benefit transaction. Sanctions apply only to a minister who is a "disqualified person" (meaning an officer, director, or other control party, as well as relatives of such persons). In some cases the

IRS can assess additional penalties against members of a church board that approved an excess benefit transaction. Excess benefit transactions may occur if a church pays a minister an excessive salary, makes a large retirement or other special occasion gift to a minister, gives church property (such as a parsonage) to the minister, or sells church property to the minister at an unreasonably low price. A rebuttable presumption arises that compensation is reasonable if it is approved by an independent board on the basis of outside comparable data such as independent compensation surveys and the basis for the board's decision is documented.

Key Point: The IRS has ruled that disqualified persons receive automatic excess benefits resulting in intermediate sanctions, regardless of amount, if they use church assets (vehicles, homes, credit cards, computers, etc.) for personal purposes or receive non-accountable expense reimbursements (not supported by adequate documentation of business purpose), unless such benefits are reported as taxable income by the church on the disqualified person's *Form W-2* or by the disqualified person on his or her *Form 1040* for the year in which the benefits are provided. The concept of automatic excess benefits directly affects the compensation practices of most churches and exposes some ministers and church board members to intermediate sanctions.

If some of these items were not reported on your *Form W-2*, they still must be reported as income. Your church should issue a corrected *Form W-2* (*Form W-2c*) for the year in which one or more items of taxable income were not reported on your *Form W-2*. If you receive a *Form W-2c* and have filed an income tax return for the year shown, you may have to file an amended return. Compare amounts on *Form W-2c* with those reported on your income tax return. If the corrected amounts change your U.S. income tax, file *Form 1040X Amended U.S. Individual Income Tax Return* with Copy B of *Form W-2c* to amend the return you previously filed. You, the taxpayer, have the ultimate responsibility to report all taxable income even if your church does not properly report the income.

In addition to what is reported on *Form W-2* (or *Form W-2c*), line 1 will also report the amount of excess housing allowance calculated (the amount by which the housing allowance exceeds the lesser of the minister's housing expenses or the fair rental value of the minister's home, furnished, plus utilities). IRS *Publication 517* states: "Include this amount in the total on *Form 1040*, line 1. On the dotted line next to line 1, enter 'Excess allowance' and the amount."

Items not reported on line 1. Some kinds of income are not taxable. These items are called **exclusions**. Most exclusions apply in computing both income taxes and SECA. The housing

allowance is an example of an exclusion that applies only to income taxes and not to SECA. Some of the more common exclusions for ministers include:

Gifts. Gifts, as defined by the *Internal Revenue Code* and the courts, are excludible from taxable income so long as they are not compensation for services. However, employers are not permitted to give tax-free gifts to employees. Likewise, the IRS and the courts have ruled that gifts ministers receive directly from members of their congregations may not always be excluded as gifts from taxable income. Before excluding gifts from taxable income, the minister should consult with a CPA or a tax attorney.

Life insurance and inheritances. Life insurance proceeds and inheritances are excludible from taxable income. Income earned before distributions of proceeds is generally taxable as income.

Employer-paid group life insurance. Employees may exclude the cost of employer-provided group term life insurance so long as the amount of coverage does not exceed \$50,000.

Tuition reductions. School employees may exclude from their taxable income a qualified tuition reduction provided by their employer. A qualified tuition reduction is a reduction in tuition charged to employees or their spouses or dependent children by an employer that is an educational institution.

Lodging. The value of lodging furnished to a minister, i.e., a parsonage, is excluded from income. This exclusion is not available in the computation of SECA. The value of lodging furnished to a non-minister employee on an employer's premises and for the employer's convenience may be excludible from taxable income if the employee is required to accept the lodging as a condition of employment.

Educational assistance. Amounts paid by an employer for an employee's tuition, fees, and books may be excludible from the employee's taxable income if the church has adopted a written educational assistance plan. The exclusion may not exceed \$5,250 per year.

Employer-provided childcare. The value of free childcare services provided by a church to its employees is excluded from employees' income so long as the benefit is based on a written plan that does not discriminate in favor of highly compensated employees. Other conditions apply.

Nondiscrimination rules. Many of the exclusions are not available to employees who are either highly compensated employees or key employees if the same benefit is not available on a nondiscriminatory basis to lower-paid employees. For 2019, a highly compensated employee is an employee

whose compensation for the previous year was in excess of \$125,000; for plan years beginning in 2020, the compensation amount rises to \$130,000.

☞ **Key Point:** Some exclusions are available only to taxpayers who report their income taxes as employees and not as self-employed persons. Many, however, apply to both employees and self-employed persons.

There are four other exclusions that are explained below — the housing allowance, tax-sheltered annuities, qualified scholarships, and sale of a home.

Housing Allowance

☞ **Key Point:** The housing allowance was challenged in federal court as an unconstitutional preference for religion. In 2019, a federal appeals court rejected the challenge and affirmed the constitutionality of the housing allowance.

The most important tax benefit available to ministers who own or rent their homes is the housing allowance exclusion. Ministers who own or rent their homes do not pay federal income taxes on the amount of their compensation that their employing church designates in advance as a housing allowance, to the extent that (1) the allowance represents compensation for ministerial services; (2) it is used to pay housing expenses; and (3) it does not exceed the fair rental value of the home (furnished, plus utilities). Housing-related expenses include mortgage payments, rent, utilities, repairs, furnishings, insurance, property taxes, additions, and maintenance.

A church cannot designate a housing allowance retroactively.

Some churches fail to designate housing allowances prospectively and thereby deprive ministers of an important tax benefit.

Ministers who live in a church-owned parsonage do not pay federal income taxes on the fair rental value of the parsonage.

§ **Tax Tip:** Ministers who live in a church parsonage and incur any out-of-pocket expenses in maintaining the parsonage (such as utilities, property taxes, insurance, furnishings, or lawn care) should be sure that their employing church designates in advance a portion of their annual compensation as a parsonage allowance. The amount so designated is not reported as wages on the minister's *Form W-2* at the end of the year (if the allowance exceeds the actual expenses, the difference must be reported as income by the minister). This is an important tax benefit for ministers living in a church-provided parsonage. Unfortunately, many of these

ministers are not aware of this benefit or are not taking advantage of it.

§ **Tax Tip:** Ministers who own their homes lose the largest component of their housing allowance exclusion when they pay off their home mortgage loan. Many ministers in this position have obtained home equity loans or a conventional loan secured by a mortgage on their otherwise debt-free home and have claimed their payments under these kinds of loans as a housing expense in computing their housing allowance exclusion. The Tax Court has ruled that this is permissible only if the loan proceeds were spent on housing-related expenses.

§ **Tax Tip:** Ministers should be sure that the designation of a housing or parsonage allowance for the next year is on the agenda of the church (or church board) for one of its final meetings during the current year. The designation should be an official action, and it should be duly recorded in the minutes of the meeting. The IRS also recognizes designations included in employment contracts and budget line items — assuming in each case that the designation was appropriately adopted in advance by the church and supported by underlying documentation as to each minister's anticipated housing expenses.

The fair rental value of a parsonage and a housing allowance are exclusions only for federal income tax reporting purposes. Ministers cannot exclude a housing allowance or the fair rental value of a parsonage when computing SECA **unless they are retired**. The tax code specifies that SECA does not apply to “the rental value of any parsonage or any parsonage allowance provided after the [minister] retires.”

States vary in the tax treatment of the housing allowance, so ministers should check their state income tax rules to determine the housing allowance rules for state income taxes.

The housing allowance is available to ministers whether they report their income taxes as employees or as self-employed (whether the church issues them a *Form W-2* or a *Form 1099*).

Housing Expenses to Include in Computing Your Housing Allowance Exclusion

Ministers who own or rent their homes should take the following expenses into account in computing their housing allowance exclusion:

- Down payment on a home (but note that a housing allowance is non-taxable only to the extent that it does not exceed the lesser of the amount designated by their church, the actual housing expenses, or the fair rental value of a minister's home, furnished, plus utilities)

- Mortgage payments on a loan to purchase or improve your home (include both interest and principal)
- Rent
- Real estate taxes
- Property insurance
- Utilities (electricity, gas, water, trash pickup, landline telephone charges, etc.)
- Furnishings and appliances (purchase and repair)
- Structural repairs and remodeling
- Yard maintenance and improvements
- Maintenance items (pest control, etc.)
- Homeowners association dues

Key Point: In 2007, the Tax Court characterized internet expenses as utility expenses. This suggests that a housing allowance may be used to pay for internet expenses (e.g., internet access, cable television). Neither the IRS nor the Tax Court has addressed this issue directly, so be sure to check with a tax professional about the application of a housing allowance to these expenses.

Please note the following:

- A housing allowance must be designated in advance. Retroactive designations of housing allowances are not effective.
- The housing allowance designated by the church is not necessarily non-taxable. It is non-taxable (for income taxes) only to the extent that it is used to pay for housing expenses and, for ministers who own or rent their homes, does not exceed the fair rental value of their homes (furnished, plus utilities).
- A housing allowance can be amended during the year if a minister's housing expenses are more than expected. However, an amendment is effective only prospectively. Ministers should notify their church if their actual housing expenses are significantly more than the housing allowance designated by their church. But note that it serves no purpose to designate a housing allowance greater than the fair rental value of a minister's home (furnished, plus utilities).
- If the housing allowance designated by the church exceeds housing expenses or the fair rental value of a minister's home (furnished, plus utilities), the excess housing allowance should be reported on line 1 of *Form 1040*. IRS *Publication 517* states: "Include this amount in the total on *Form 1040*, line 1. On the dotted line next to line 1, enter 'Excess allowance' and the amount."
- The housing allowance exclusion is an exclusion for federal income taxes only. Ministers must add the housing allowance as income in reporting SECA on *Schedule SE* (unless they are exempt from SECA).
- The fair rental value of a church-owned home provided to a minister as compensation for ministerial services is not subject to federal income tax.

Example: A church designated \$25,000 of Pastor D's 2019 compensation as a housing allowance. Pastor D's housing expenses for 2019 were utilities of \$4,000, mortgage payments of \$18,000, property taxes of \$4,000, insurance payments of \$1,000, repairs of \$1,000, and furnishings of \$1,000. The fair rental value of the home furnished is \$19,000. Pastor D's housing allowance is non-taxable in computing income taxes only to the extent that it is used to pay housing expenses and does not exceed the fair rental value of his home (furnished, plus utilities). Stated differently, the non-taxable portion of a housing allowance is the least of the following three amounts: (1) the housing allowance designated by the church; (2) actual housing expenses; or (3) the fair rental value of the home (furnished, plus utilities). In this case, the lowest of these three amounts is the fair rental value of the home (furnished, plus utilities) (\$23,000), and so this represents the non-taxable portion of Pastor D's housing allowance. Pastor D must report the difference between this amount and the housing allowance designated by his church (\$2,000) as additional income on line 1 of *Form 1040*.

Example: Same facts as the previous example, except the church designated \$12,000 of Pastor D's salary as a housing allowance. The lowest of the three amounts in this case would be \$12,000 (the church-designated housing allowance), and so this represents the non-taxable amount. Note that Pastor D's actual housing expenses were more than the allowance, and so he was penalized because of the low allowance designated by his church.

Example: Pastor Y owns a home and incurred housing expenses of \$12,000 in 2019. These expenses include mortgage principal and interest, property taxes, utilities, insurance, and repairs. The church designated (in advance) \$12,000 of Pastor Y's 2019 compensation as a housing allowance. Pastor Y is able to itemize expenses on *Schedule A*. He is able to claim itemized deductions on *Schedule A* for both his mortgage interest and his property taxes (up to \$10,000), even though his taxable income was already reduced by these items because of their inclusion in the housing allowance. This is often referred to as the double deduction. In fact, it represents an exclusion and a deduction.

Example: In preparing his income tax return for 2019, Pastor H discovers that his church failed to designate a housing allowance for him for 2019. He asks his church to pass a resolution retroactively granting the allowance for

2019. Such a resolution is ineffective, and Pastor H will not be eligible for any housing allowance exclusion in 2019.

☞ **Key Point:** The Sarbanes-Oxley Act makes it a crime to knowingly falsify any document with the intent to influence “the investigation or proper administration of any matter within the jurisdiction of any department or agency of the United States . . . or in relation to or contemplation of any such matter or case,” and this provision contains no exemption for churches or pastors. It is possible that a pastor’s backdating of a board resolution to qualify for a housing allowance for the entire year is fraud and violates this provision in the Sarbanes-Oxley Act, exposing the pastor to a fine or imprisonment. Even if the pastor’s action does not violate the Act, it may result in civil or criminal penalties for tax fraud under the tax code.

§ **Tax Tip:** Ministers should be sure that the designation of a housing or parsonage allowance for the next year is on the agenda of the church board for one of its final meetings during the current year. The designation should be an official action, and it should be duly recorded in the minutes of the meeting. The IRS also recognizes designations included in employment contracts and budget line items — assuming in each case that the designation was duly adopted in advance by the church.

How much should a church designate as a housing allowance?

The IRS has stated that there are no limitations on how much of a minister’s compensation can be designated by his employing church as a housing allowance. However, as noted above, this means little, since the non-taxable portion of a church-designated housing allowance for ministers who own or rent their homes cannot exceed the lesser of (1) actual housing expenses or (2) the fair rental value of the home (furnished, plus utilities).

Many churches base the housing allowance on their minister’s estimate of actual housing expenses for the new year. The church provides the minister with a form on which anticipated housing expenses for the new year are reported. For ministers who own their homes, the form asks for projected expenses in the following categories: down payment, mortgage payments, property taxes, property insurance, utilities, furnishings and appliances, repairs and improvements, maintenance, and miscellaneous. Many churches designate an allowance in excess of the anticipated expenses itemized by the minister. Basing the allowance solely on a minister’s anticipated expenses penalizes the minister if actual housing expenses turn out to be higher than expected. In other words, the allowance should take into account unexpected housing costs or inaccurate projections of expenses.

☞ **Key Point:** The housing allowance is available only if three conditions are met: (1) The recipient is a Minister for Tax Purposes (as defined above); (2) the allowance is compensation for services performed in the exercise of ministry; and (3) the allowance is properly designated by the church.

Churches sometimes neglect to designate a housing allowance in advance of a new calendar year. For example, a church board may discover in March 2020 that it failed to designate a housing allowance for its pastor for 2020. It is not too late to act. The church should immediately designate a portion of its minister’s remaining compensation for 2020 as a housing allowance. This problem can be avoided by stipulating in each annual housing allowance designation that the allowance is for the current year and **all future years unless otherwise provided**. If such a resolution had been adopted in the December 2018 board meeting (i.e., “for 2019 and future years”), it would not matter that the church neglected to designate a minister’s 2020 allowance until March 2020, since the previous designation would have carried over. Such safety net designations are not a substitute for annual housing allowances (they have never been addressed or endorsed by the IRS or Tax Court). Rather, they provide a basis for claiming a housing allowance if a church neglects to designate one.

☞ **Key Point:** Churches cannot designate a housing allowance retroactively.

☞ **Key Point:** The IRS has ruled that a **retired minister** is eligible for a housing allowance exclusion if the following conditions are satisfied: (1) A portion of the retired minister’s pension income is designated as a housing allowance by his church or the church pension board of a denominational pension fund; (2) the retired minister has severed his relationship with the local church and relies on the fund for a pension; and (3) the pensions paid to retired ministers “compensate them for past services to the local churches of the denomination or to the denomination.” Retired ministers who receive benefits from a denominational pension fund such as GuideStone will be eligible in most cases to have some or all of their benefits designated in advance as a housing allowance. This is an attractive benefit for retired ministers that is not available with some other kinds of retirement plans. Retired ministers also can exclude from their gross income the fair rental value of a home (furnished, plus utilities) provided to them by their church as a part of their pay for past services. A minister’s surviving spouse cannot exclude a housing allowance or fair rental value of a parsonage unless the allowance or parsonage is for ministerial services performed.

SECA does not apply to the fair rental value of a parsonage or a housing allowance provided after a minister retires.

☞ **Key Point:** Ministers who own their homes lose the largest component of their housing allowance exclusion when they pay off their home mortgage loan. Many ministers in this position have obtained home equity loans — or a conventional loan secured by a mortgage on their otherwise debt-free home — and have claimed their payments under these kinds of loans as a housing expense in computing their housing allowance exclusion. The Tax Court has ruled that this is permissible only if the loan proceeds were spent on housing-related expenses.

Section 403(b) Plans

Payments made by your church and your salary reduction contributions to a 403(b) plan are not reportable income for income tax or SECA purposes as long as the total amount credited to your retirement account does not exceed contribution limits under sections 415(c) and 402(g) of the tax code.

Contribution Limits

For 2019, total annual additions (employer, salary reduction, and tax-paid contributions) could not exceed the lesser of 100 percent of your compensation (excluding a minister's housing allowance) or \$56,000. This rule is known as the section 415(c) limit. Excess contributions can result in income tax, additional taxes, and penalties. The effect of excess contributions depends on the type of excess contribution. The distributed excess amount may not be rolled over to another 403(b) plan or to an IRA.

✓ **New in 2020:** The limit on annual additions is \$57,000 for 2020.

Minister's Housing Allowance and Contribution Limits

For 2019, the section 415(c) limit restricted 403(b) contributions to the lesser of 100 percent of compensation or \$56,000. For 2020, this amount is \$57,000. Does the term “compensation” include a minister's housing allowance? This is an important question for ministers, since the answer will determine how much can be contributed to a 403(b) plan. If the housing allowance is treated as compensation, then ministers will be able to contribute larger amounts. The tax code specifies that the term “compensation”, for purposes of applying the section 415(c) limit to a 403(b)(3) plan, “means the participant's includible compensation determined under Section 403(b)(3).” Section

403(b)(3) defines “compensation” to include “the amount of compensation which is received from the employer . . . and which is includible in gross income.” Section 107 of the tax code specifies that a minister's housing allowance (or the annual fair rental value of a parsonage) is **not** included in the minister's gross income for income tax reporting purposes. Therefore, it would appear that the definition of “compensation”, for purposes of computing the section 415(c) limit, would not include either the portion of a minister's housing allowance that is excludible from gross income or the annual fair rental value of a parsonage. For many years the IRS website included the following question and answer addressing this issue:

Q. I am an employee minister in a local church. Each year, my church permits \$25,000 as a yearly tax-free housing allowance. I would like to use my yearly housing allowance as compensation to determine my annual contribution limits (to a TSA) under section 415(c) of the *Internal Revenue Code*. May I do so?

A. No. For purposes of determining the limits on contributions under section 415(c) of the *Internal Revenue Code*, amounts paid to an employee minister, as a tax-free housing allowance, may not be treated as compensation pursuant to the definitions of compensation under section 1.415-2(d) of the income tax regulations.

☞ **Key Point:** Churches that include the housing allowance as compensation when calculating the amount of the church's contribution to 403(b) plans must perform an additional calculation to ensure the total contributions to the plan do not exceed the maximum contribution allowed under section 415(c).

Taxation of Distributions from a 403(b) Plan

Amounts you contribute through employer discretionary contributions and employee salary reduction contributions — and the earnings attributable to these contributions — generally cannot be withdrawn before you reach age 59½, separate from service, die, or become disabled. In some cases of financial hardship, you may withdraw your own salary reduction contributions (but not the earnings on them) prior to the occurrence of any of the above events. A 403(b) plan may make hardship distributions only if permitted by the plan.

☞ **Key Point:** As this publication was going to print, the IRS issued final regulations addressing early distributions from a 403(b) plan based on hardship. In general, the regulations make it easier to qualify for hardship distributions. Consult with a tax professional for additional information.

Once amounts are distributed, they are generally taxable as

ordinary income unless designated in advance as a minister's housing allowance. In addition, if amounts are distributed prior to your reaching age 59½, you will be assessed an additional tax of 10 percent of the amount that is includible in income, unless one of the following exceptions applies:

- The distributions are part of a series of substantially equal periodic payments made over your life or the lives of your beneficiaries and after you separate from service.
- The distributions are made after you separate from service in or after the year in which you reach age 55.
- The distributions do not exceed the amount of unreimbursed medical expenses that you could deduct for the current year.
- The distributions are made after your death or after you become disabled.
- The distributions are made to an alternate payee pursuant to a qualified domestic relations order.

The additional tax is computed on *Form 5329*.

Key Point: You must receive all, or at least a certain minimum, of your interest accruing after 1986 in a 403(b) plan by April 1 of the calendar year following the later of the calendar year in which you become age 70½ or the calendar year in which you retire. This required minimum is called your required minimum distribution (RMD).

Salary Reduction Contributions (Section 402(g))

In addition to the section 415(c) limit, there is an annual limit on elective deferral contributions. The limit applies to the total of all elective deferrals contributed (even if contributed through different employers) for the year on your behalf to a variety of retirement plans, including 403(b) plans. Generally, you cannot defer more than an allowable amount each year for all plans covering you. For 2019, the allowable limit was \$19,000. If you defer more than the allowable amount for a tax year, you must include the excess in your taxable income for that year.

✓ **New in 2020:** The dollar limit on annual elective deferrals increases to \$19,500.

Key Point: Church employees can make a special election that allows their employer to contribute up to \$10,000 for the year, even if this is more than 100 percent of your compensation. The total contributions over your lifetime under this election cannot be more than \$40,000.

The limit on elective deferrals increases for individuals who have attained age 50 by the end of the year. The additional amount

that may be made is the lesser of (1) the applicable dollar amount or (2) the participant's compensation for the year reduced by any other elective deferrals of the participant for the year. The applicable dollar amount was \$6,000 for 2019 and is \$6,500 for 2020. Catch-up contributions are not subject to any other contribution limits and are not taken into account in applying other contribution limits.

Qualified Scholarships

Key Point: Qualified scholarships are excludible from taxable income.

Amounts received as a qualified scholarship by a candidate for a degree may be excluded from gross income. A qualified scholarship is any grant amount that, in accordance with the conditions of the grant, is used for tuition and course-related expenses. Qualified tuition and related expenses are those used for (1) tuition and fees required for the enrollment or attendance at an educational institution or (2) fees, books, supplies, and equipment required for courses of instruction at the educational institution. The scholarship need not specify that it is to be used only for qualified tuition and related expenses. All that is required is that the recipient uses the scholarship for such expenses and that the scholarship does not specify that it is to be used for non-qualified expenses (such as room and board). In addition to these requirements, the scholarship must meet the additional requirements if the recipient is an employee or a family member of an employee. Generally, the scholarship must be non-compensatory in nature and selected using non-employment-related criteria. In addition, an independent committee must make the selection of the recipient. Additional requirements may also apply. The church should seek the advice of a CPA, EA, or tax attorney to determine the proper treatment of scholarships to employees and their children.

Key Point: Amounts paid by a church for the education of a pastor or other church employee cannot be treated as a non-taxable scholarship if paid as compensation for services.

Any amount received in excess of the qualified tuition and related expenses, such as amounts received for room and board, is not eligible for this exclusion.

Any amount received that represents payment for teaching, research, or other services required as a condition for receiving a qualified scholarship cannot be excluded from gross income. In addition, amounts paid by a church for the education of a pastor or other church employee cannot be treated as a non-taxable scholarship if paid as compensation for services.

Example: First Baptist Church establishes a scholarship fund for seminary students. Robert is a church member

who is pursuing a master's degree at a seminary. The church votes to award him a scholarship of \$2,500 for 2020. So long as Robert uses the scholarship award for tuition or other course-related expenses, he need not report it as income on his federal tax return. The better practice would be for the church to stipulate that the scholarship is to be used for tuition or other course-related expenses (for example, fees, books, or supplies) or for the church to pay the expenses directly to the educational institution. This will ensure that the scholarship does not inadvertently become taxable income because its specific use was not designated and the recipient used it for non-qualified expenses. As long as amounts are paid through a qualified scholarship plan, the church is not required to report the scholarship on *Form 1099-MISC* to the recipient.

Sale or Exchange of Your Principal Residence

A taxpayer who is an individual may exclude up to \$250,000 (\$500,000 if married filing a joint return) of gain realized on the sale or exchange of a principal residence. To be eligible for the exclusion, the taxpayer must have owned and used the residence as a principal residence for at least two of the five years ending on the date of the sale or exchange. A taxpayer who fails to meet these requirements by reason of a change of place of employment, health, or (to the extent provided under regulations) unforeseen circumstances is able to exclude an amount equal to the fraction of the \$250,000 (\$500,000 if married filing a joint return) that is equal to the fraction of the two years that the ownership and use requirements are met. The exclusion under this provision may not be claimed for more than one sale or exchange during any two-year period unless the special provisions for unforeseen circumstances apply.

Line 2. Interest income: attach Schedule B if more than \$1,500

Complete this line only if you had interest income. Tax-exempt interest income is reported on line 2a with taxable interest income reported on line 2b. If you had taxable interest income of more than \$1,500, complete *Schedule B*.

Line 3. Dividend income: attach Schedule B if more than \$1,500

Complete this line only if you had dividend income. Qualified dividend income is reported on line 3a with all dividend income reported on line 3b. If you had dividend income of more than \$1,500, complete *Schedule B*.

Lines 4a and 4c. IRA, pension, and annuity income

You should receive a *Form 1099-R* showing the total amount

of your pension and annuity payments before income tax or other deductions were withheld. This amount should be shown in Box 1 of *Form 1099-R*. Pension and annuity payments include distributions from 401(k) and 403(b) plans. Do not include the following payments; instead report them on line 1:

- Disability pensions received before you reach the minimum retirement age set by your employer.
- Corrective distributions (including any earnings) of excess salary deferrals or excess contributions to retirement plans. The plan must advise you of the year(s) the distributions are includible in income.

Many denominational pension funds annually designate 100 percent of pension and disability benefits paid to retired ministers as a housing allowance. In such cases *Form 1099-R* may show that the taxable amount of the pension income is "not determined" by checking the box on line 2b. If you are a retired or disabled minister, you may exclude all or a portion of your pension or disability income from your gross income reported on line 4 of *Form 1040* if (1) you can document that the monies were actually spent on housing-related expenses during the tax year; (2) the amount excluded does not exceed the fair rental value of the home (furnished, plus utilities); and (3) GuideStone designated the retirement payments as housing allowance. Report the gross amount(s) on lines 4a and/or 4c and the taxable amount(s) on lines 4b and/or 4d.

IRS Publication 517 states: "If you are a retired minister, you can exclude from your gross income the rental value of a home (plus utilities) furnished to you by your church as a part of your pay for past services, or the part of your pension that was designated as a rental allowance. However, a minister's surviving spouse cannot exclude the rental value unless the rental value is for ministerial services he or she performs or performed."

- ☞ **Key Point:** Surviving spouses of deceased ministers cannot exclude any portion of the benefits received from their deceased spouse's 403(b) account as a housing allowance.

Line 5. Social Security benefits

- ☞ **Key Point:** Individuals who receive Social Security retirement, disability, or survivor benefits may have to pay taxes on a portion of their benefits.

If you received Social Security benefits in 2019, you need to know whether or not these benefits are taxable. Here are several rules the IRS has formulated to assist Social Security beneficiaries in knowing if their benefits are taxable:

1. You should receive a *Form SSA-1099* showing in Box 3 the total Social Security benefits paid to you. Box 4 will show the

amount of any benefits you repaid in 2019. Use the *Social Security Benefits Worksheet* in IRS *Publication 915* to see if any of your benefits are taxable.

2. How much, if any, of your Social Security benefits are taxable depends on your total income and marital status.

3. Generally, if Social Security benefits were your only income for 2019, your benefits are not taxable, and you probably do not need to file a federal income tax return.

4. If you received income from other sources, your benefits will not be taxed unless your modified AGI is more than the base amount for your filing status.

5. Your taxable benefits and modified AGI are computed on a worksheet in the instructions to *Form 1040*.

6. You can do the following quick computation to determine whether some of your benefits may be taxable:

First, add one-half of the total Social Security benefits you received to all your other income, including any tax-exempt interest and other exclusions from income.

Then, compare this total to the base amount for your filing status. If the total is more than your base amount, some of your benefits may be taxable.

The 2019 base amounts are:


- \$32,000 for married couples filing jointly
- \$25,000 for single, head of household, qualifying widow/widower with a dependent child, or married individuals filing separately who did not live with their spouses at any time during the year
- \$0 for married persons filing separately who lived together during the year

Lastly, report the calculated taxable amount on line 5b.

For additional information on the taxability of Social Security benefits, see IRS *Publication 915 Social Security and Equivalent Railroad Retirement Benefits*. *Publication 915* is available at [IRS.gov](https://www.irs.gov).

Line 6. Capital gain (or loss)

Report on line 6 capital gains or losses (attach *Schedule D*) from the sale of capital assets. These include stocks, bonds, and property. Gain or loss is reported on *Schedule D*. You also may have to file *Form 8949* (see the instructions to both forms for details).

 **Key Point:** *Schedule D* is for reporting capital gains and losses from investments. *Schedule 1* line 3 (“other gains or losses”) is for reporting sales of capital assets, such as equipment that is used in a business.

Line 7a. Other income

Income not reported on lines 1 through 6 on *Form 1040* is reported on *Schedule 1*, with the total reported on *Form 1040* line 7a. The most important of these for ministers includes the following:

1. Line 3 (*Schedule 1*). Business income

Report self-employment earnings (from *Schedule C*). Self-employment earnings include:

- Compensation reported to you on a *Form 1099-MISC*
- Fees received directly from church members for performing personal services (such as weddings and funerals)
- Honoraria you received for guest speaking appearances in other churches

If you received income from any of these kinds of activities, compute your net earnings on *Schedule C* and transfer this amount to line 3 of *Schedule 1* and then carry the amount over to line 7a (*Form 1040*).

2. Line 8 (*Schedule 1*). “Other income”

“Other income” is reported on line 8 of *Schedule 1* and carried over to line 7a (*Form 1040*). Other income includes the following items:

- A canceled debt or a debt paid for you by another person (unless the person who canceled or paid your debt intended it to be a gift)
- The fair market value of a free tour you receive from a travel agency for organizing a group of tourists (in some cases this may be reported on *Schedule C*)
- Most prizes and awards
- Some taxable distributions from a Health Savings Account (HSA) or Archer MSA (see IRS *Publication 969*)
- Jury duty pay
- Recapture of a charitable contribution deduction if the charitable organization disposes of the donated property within three years of the contribution
- Taxable benefits provided by the church but not included on *Form W-2* or *Form W-2c*. (Also remember to include these benefits on *Schedule SE* for the calculation of SECA.)

Line 7b. Total income

Report total income on this line. This is the sum of the amounts reported on lines 1–7a of *Form 1040*, plus the additional categories of income reported on lines 1–9 of *Schedule 1*.


Step 5: Adjustments to Income

Lines 8a and 8b. Adjusted gross income

You may deduct certain adjustments from total income (line 7b) to compute your AGI. Report the adjustments on lines 10–22 of *Schedule 1*. The adjustment amount from line 22 of *Schedule 1* is reported on line 8a of *Form 1040*; it is then subtracted from line 7b to compute AGI that is reported on line 8b.

The two most relevant adjustments for ministers are the deduction for one-half of SECA and the payments to an IRA. Both are summarized below.

Line 14 (Schedule 1). One-half of self-employment tax

 **Key Point:** Every minister who pays SECA on ministerial income qualifies for this deduction. Some are not claiming it.

All ministers are self-employed for Social Security with respect to their ministerial income. They can deduct half of their actual SECA as an adjustment on line 14 (*Schedule 1*), whether or not they are able to itemize deductions on *Schedule A*.

Line 19 (Schedule 1). Payments to an Individual Retirement Account (IRA)

An Individual Retirement Account, or IRA, is a personal savings plan which allows you to set aside money for retirement, while offering you tax advantages. You can set up different kinds of IRAs with a variety of organizations, such as a bank or other financial institution, a mutual fund, or a life insurance company.


The original IRA is referred to as a **Traditional IRA**. A Traditional IRA is any IRA that is not a Roth IRA or a SIMPLE IRA. You may be able to deduct some or all of your contributions to a Traditional IRA. You may also be eligible for a tax credit equal to a percentage of your contribution. Amounts in your Traditional IRA, including earnings, generally are not taxed until distributed to you. IRAs cannot be owned jointly. However, any amounts remaining in your IRA upon your death can be paid to your beneficiary or beneficiaries.

To contribute to a Traditional IRA, you must be under age 70½ at the end of the tax year. You, or your spouse if you file a joint return, must have taxable compensation, such as wages, salaries, commissions, tips, bonuses, or net income from self-employment. Compensation does not include earnings and profits from property, such as rental income, interest and dividend income, or any amount received as pension or annuity income or as deferred compensation.

For 2019, if you file a joint return and your taxable

compensation is less than that of your spouse, the most that can be contributed for the year to your IRA is the smaller of the following two amounts: (1) \$6,000 (\$7,000 if you are age 50 or older) or (2) the total compensation includible in the gross income of both you and your spouse for the year, reduced by your spouse's IRA contribution for the year to a Traditional IRA and any contributions for the year to a Roth IRA on behalf of your spouse. (The contribution limits remain unchanged for 2020.)

All IRA contributions must be made by the due date of your tax return, not including extensions. This means that your 2019 IRA contribution must be made by April 15, 2020, even if you obtain an extension for filing this return.

 **Example:** A church has a senior pastor who is 52 years old and a youth pastor who is 30 years old. The church does not participate in a retirement program for its staff. In 2020, the senior pastor can contribute \$7,000 to an IRA (maximum annual contribution of \$6,000 plus a catch-up contribution of \$1,000), and the youth pastor can contribute \$6,000.

Your allowable deduction may be reduced or eliminated, depending on your filing status, the amount of your income, and if you or your spouse are covered by an employer-provided retirement plan. The deduction begins to decrease (phase out) when your income rises above a certain amount and is eliminated altogether when it reaches a higher amount. The amounts vary depending on your filing status. If you were covered by an employer-provided retirement plan, then the deduction for contributions to your IRA are completely phased out when AGI reaches \$123,000 (married filing jointly) or \$74,000 (single). (For 2020, the limits are \$124,000 (married filing jointly) and \$75,000 (single).)

If your spouse was covered by an employer-provided retirement plan at any time during 2019 and you made contributions to your IRA, your allowable IRA deduction is completely phased out when AGI reaches \$203,000 (married filing jointly). (For 2020, the limit is \$206,000 (married filing jointly).) (See IRS *Publication 590-A*.) The *Form W-2* you receive from your church or other employer has a box used to show whether you were covered by a retirement plan during the year. The "Retirement Plan" box should have a mark in it if you were covered. Employer retirement plans include 403(b) tax-sheltered annuities.

Figure your deduction using the worksheets in the instructions to *Form 1040* or in *Publication 590-A*.

Individuals who cannot claim a deduction for an IRA contribution still can make non-deductible IRA contributions, subject to the lesser of \$6,000 (for 2019 and 2020) or earned income limits. Earnings on these amounts continue to accumulate on a

tax-deferred basis. When distributions are made from the IRA, special rules apply in figuring the tax on the distributions when both deductible and non-deductible contributions were made to the IRA. *Form 8606* is used to designate a contribution as non-deductible and must be filed or the full amount of future withdrawals may be taxed. Withdrawals before age 59½ are subject to a 10 percent penalty tax that also applies to deductible IRA contributions.

Distributions from a Traditional IRA are fully or partially taxable in the year of distribution. Use *Form 8606* to figure the taxable portion of withdrawals. If you made only deductible contributions, distributions are fully taxable.

Distributions made prior to age 59½ may be subject to a 10 percent additional tax. You also may owe an excise tax if you do not begin to withdraw minimum distributions by April 1 of the year after you reach age 70½.

A **Roth IRA** differs from a Traditional IRA in several respects. A Roth IRA does not permit a deduction at the time of contribution. Regardless of your age, you may be able to establish and make non-deductible contributions to a Roth IRA. However, you may be limited in the amount of non-deductible contributions you may make to your Roth IRA due to your AGI. For those filing as married filing jointly, no contribution may be made to a Roth IRA in 2019 if your AGI, as modified, is \$203,000 or above. For those filing as single, no contribution may be made to a Roth IRA if your AGI, as modified, is \$137,000 or above. (For 2020, the Roth IRA contribution is phased out totally when AGI is \$206,000 for taxpayers married filing jointly and \$139,000 for singles and head of household filers.)

You do not report Roth contributions on your tax return. To be a Roth IRA, the account or annuity must be designated as a Roth IRA when it is set up. Like a Traditional IRA, a Roth IRA can be set up, but there are limitations on the amount that can be contributed and the time of year that contributions can be made. You do not include in your gross income qualified distributions or distributions that are a return of your regular contributions from your Roth IRA. Refer to *Publication 590-A* for additional information on Roth IRAs.

For information on conversions from a Traditional IRA to a Roth IRA, refer to *Publication 590-A*. No further contributions to a Traditional IRA are permissible in the year you reach age 70½ or for any later year, and distributions from a Traditional IRA must generally begin by April 1 of the year following the year in which you reach age 70½. However, you must receive at least a minimum amount for each year starting with the year you reach age 70½ (your “70½ year”). If you do not (or did not) receive that minimum amount in your 70½ year, then you must receive distributions for your 70½ year by April 1 of the next year. This means that you will have two required distributions in that year.


Even if you receive a distribution from your IRA before age 59½, you may not have to pay the 10 percent penalty if the distributions are not more than your qualified education expenses or you use the distributions to buy, build, or rebuild a first home. See IRS *Publication 590-B* for an explanation of exceptions to the age 59½ rule.

Charitable contributions. An IRA owner, age 70½ or over, can directly transfer, tax-free, up to \$100,000 per year to an eligible charity. Distributions from employer-sponsored retirement plans, including SIMPLE IRA plans and simplified employee pension (SEP) plans, are not eligible. To qualify, the funds must be transferred directly by the IRA custodian to the eligible charity. Distributed amounts may be excluded from the IRA owner’s income, resulting in lower taxable income for the IRA owner. However, if the IRA owner excludes the distribution from income, no deduction, such as a charitable contribution deduction on *Schedule A*, may be taken for the distributed amount.

To report a qualified charitable distribution (QCD) on your *Form 1040* tax return, you generally report the full amount of the charitable distribution on the line for IRA distributions (line 4a, *Form 1040*). On the line for the taxable amount, enter zero if the full amount was a QCD. Enter “QCD” next to this line. See the *Form 1040* instructions for additional information.


Not all charities are eligible. For example, donor-advised funds and supporting organizations are not eligible recipients.

Amounts transferred to a charity from an IRA are counted in determining whether the owner has met the IRA’s RMD.

 **Key Point:** The QCD does need a qualifying receipt from the recipient charity with the mandated “no goods or services statement”. However, a church may include the gift on the IRA owner’s regular giving statement in an attempt to fulfill this requirement. Care should be taken not to take a deduction for the QCD if it is included on the regular giving statement. Best practice is for the recipient charity or church to issue a separate statement for the gift.

Step 6: Tax Computation

Line 9. Itemized deduction or standard deduction

 **Key Point:** Itemize your deductions on *Schedule A* only if they exceed the standard deduction for your filing status.

On line 9, you enter either your itemized deductions from *Schedule A* or a standard deduction amount. Itemized deductions are discussed under *Schedule A* in this guide. For 2019, the standard deduction amounts are as follows:

| Filing Status | Standard Deduction Amount |
|--|---------------------------|
| Single | \$12,200 |
| Married filing jointly or qualifying widow(er) | \$24,400 |
| Married filing separately | \$12,200 |
| Head of household | \$18,350 |

Line 10. Qualified business income deduction

Ministers who have income from business activities (conducted other than in their capacity as an employee of the church) and report their income on *Schedule C* may be entitled to a federal tax deduction of up to 20 percent of their qualified business income (QBI). This deduction is also referred to as the IRC section 199A deduction. Section 199A limits the deduction to the lesser of:

- 20 percent of the QBI less one-half of SECA directly related to the QBI, the self-employed health insurance deduction, and the self-employed qualified plan contribution deduction related to the qualified business or
- 20 percent of taxable income before the QBI deduction less net capital gains.

Upon publication of this guide, it has been interpreted that the qualified trade or business activities of a self-employed minister may be considered a “specified service trade or business”. Thus, there may be an exception to the deductibility of the QBI deduction. If a minister’s AGI (reported on line 8b of *Form 1040*) exceeds \$160,700 (\$321,400 if married filing jointly) for 2019, then the deduction may be limited; if AGI exceeds \$210,700 (\$421,400 if married filing jointly) for 2019, then the deduction is unavailable. Attach either *Form 8995* or *8995-A* and possibly *Schedules A, B* and/or *C (Form 8995-A)*, as needed.

See *Publication 535* for additional information.

Line 12a. Compute tax

Most ministers can use the tax tables to determine their income taxes. Some higher-income ministers must use the tax rate schedules (a spouse’s income is considered in deciding whether or not to use the tax rate schedules).

Step 7: Credits

A credit is a direct dollar-for-dollar reduction in your tax liability. It is much more valuable than deductions and exclusions, which merely reduce taxable income. On your 2019 *Form 1040*, the child tax credit and the credit for other dependents (family tax credit) are reported on line 13a. The non-refundable

credits (i.e., credits that do not generate a tax refund if the credit amount exceeds taxable income) are reported on lines 1–7 of *Schedule 3*, and the total amount for all credits is carried over to line 13b of *Form 1040*.

The more common and important credits for ministers are the child tax credit, the family tax credit, the credit for child and dependent care expenses, and the retirement savings credit. Each of these is addressed below.

Line 13a. Child tax credit

The TCJA temporarily increases the child tax credit to \$2,000 per qualifying child. The credit is further modified to temporarily provide for a \$500 non-refundable credit for qualifying dependents other than qualifying children (such as aging parents), also known as the family tax credit. The provision generally retains the present-law definition of “dependent”.

However, the maximum amount refundable may not exceed \$1,400 per qualifying child. Additionally, in order to receive the child tax credit (i.e., both the refundable and non-refundable portion), a taxpayer must include an SSN for each qualifying child for whom the credit is claimed on the tax return. For these purposes, an SSN must be issued before the due date for the filing of the return for the taxable year. This requirement does not apply to a non-child dependent for whom the \$500 non-refundable credit is claimed.

Further, the TCJA retains the present-law age limit for a qualifying child. As a result, a qualifying child is an individual who has not attained age 17 during the taxable year. The law also modifies the AGI phaseout thresholds. The credit begins to phase out for taxpayers with AGI in excess of \$400,000 (in the case of married taxpayers filing a joint return) and \$200,000 (for all other taxpayers). These phaseout thresholds are not indexed for inflation.

These new provisions are effective for taxable years beginning after December 31, 2017, and expire for taxable years beginning after December 31, 2025, unless extended by Congress.

Line 13b (Form 1040) Schedule 3 line 2. Credit for child and dependent care expenses: attach Form 2441

Complete this line if you are eligible for a credit for child or dependent care expenses. See the instructions to *Form 1040* line 13b for details and conditions.

See IRS *Publication 972* for additional information.

Line 13b (Form 1040) Schedule 3 line 4. Retirement Savings Contributions Credit (Saver’s Credit)

If you make eligible contributions to certain eligible

retirement plans or to an IRA, you may be able to take a tax credit. The amount of the Saver's Credit you can get is generally based on the contributions you make and your credit rate. Refer to *Publication 590-A* or the instructions for *Form 8880* for more information. If you are eligible for the credit, your credit rate can be as low as 10 percent or as high as 50 percent, depending on your AGI. The lower your income, the higher the credit rate; your credit rate also depends on your filing status. These two factors will determine the maximum credit you may be allowed to take. You are not eligible for the credit if your AGI exceeds a certain amount.

The credit is available with respect to elective deferrals to a 401(k) plan, a 403(b) annuity, a SIMPLE IRA, or a SEP plan; contributions to a Traditional or Roth IRA; and voluntary after-tax employee contributions to a 403(b) annuity or qualified retirement plan. The amount of the credit for 2019 is described in the following table:

| <i>Adjusted Gross Income</i> | | | |
|------------------------------|--------------------|--------------------|---|
| Joint Returns | Heads of Household | Single Filers | Amount of Credit |
| \$1–\$38,500 | \$1–\$28,875 | \$1–\$19,250 | 50% of eligible contributions up to \$2,000 (\$1,000 maximum credit) |
| \$38,501–\$41,500 | \$28,876–\$31,125 | \$19,251–\$20,750 | 20% of eligible contributions up to \$2,000 (\$400 maximum credit) |
| \$41,501–\$64,000 | \$31,126–\$48,000 | \$20,751–\$32,000 | 10% of eligible contributions up to \$2,000 (\$200 maximum credit) |
| more than \$64,000 | more than \$48,000 | more than \$32,000 | 0% |

For married couples filing jointly, each spouse is eligible for the credit.

For more information about this credit, see IRS *Form 8880* and *Publication 590-A*.

Step 8: Other Taxes

Line 15 (Form 1040) Schedule 2 line 10. Other taxes

On *Form 1040* for 2019, “other taxes” are derived from line 10 of *Schedule 2*, and the total of all taxes is carried over to line 15 of *Form 1040*. These include SECA, which ministers must pay on ministerial income (unless exempt).

Step 9: Payments

On the 2019 *Form 1040*, amounts representing federal income tax withholding are reported on line 17. Other tax payments are reported on *Schedule 3* and reported on line 18d of *Form 1040*. The two most important categories of tax payments

are withheld taxes and estimated tax payments, as noted below.

Line 17. Federal income tax withheld

Ministers' wages based on the performance of ministerial services are exempt from federal income tax withholding. As a result, only those ministers who have entered into a voluntary withholding arrangement with their church will have income taxes withheld. The church should report the amount of voluntarily withheld taxes on the minister's *Form W-2*.

Key Point: Ministers who enter into voluntary withholding arrangements will have federal (and state, if applicable) income taxes withheld from their wages. However, a church does not withhold the employee's share of FICA, since ministers are self-employed for Social Security with respect to ministerial compensation. Ministers can request (on *Form W-4* or through other written instructions) that their church withhold an additional amount of income taxes to cover their expected SECA liability. These additional withholdings must be treated as income taxes withheld (on *Forms W-2* and *941*) rather than the employee's share of FICA. They constitute a credit that can be applied to both income taxes and SECA. Ministers still must complete *Schedule SE* to report their SECA liability.

Line 18 (Form 1040 line 18d) Schedule 3 line 8. Estimated tax payments

Compensation paid to ministers for ministerial duties is not subject to mandatory tax withholding. As a result, ministers must prepay their income tax and SECA by using the quarterly estimated tax procedure, unless they have entered into a voluntary withholding agreement with their employing church. The estimated tax procedure is summarized in Part 2 of this guide in the section “How do ministers pay their taxes?”

The total amount of estimated tax payments made to the IRS is reported as a payment of taxes on line 8 of *Schedule 3* and carried over with the other kinds of payments listed on *Schedule 3* to line 18d of *Form 1040*.

Line 18a. Earned income credit (EIC)

The EIC reduces tax you owe and may give you a refund even if you do not owe any tax. A number of technical requirements must be met in order to qualify for this credit. Unfortunately, many taxpayers who qualify for the EIC do not claim it because it is so difficult to compute. In most cases, the amount of your EIC depends on (1) whether you have no qualifying child and are at least age 25, one qualifying child, two qualifying children, or three or more qualifying children and (2) the amount of your earned income, investment income, and modified AGI.

You may be able to claim the EIC for 2019 if you have investment income of \$3,600 or less **AND** (1) you do not have a qualifying child, you're at least age 25, and you earned less than \$15,570 (\$21,370 if married filing jointly); (2) a qualifying child lived with you and you earned less than \$41,094 (\$46,884 if married filing jointly); (3) two qualifying children lived with you and you earned less than \$46,703 (\$52,493 if married filing jointly); or (4) three or more qualifying children lived with you and you earned less than \$50,162 (\$55,952 if married filing jointly). The maximum EIC for 2019 is (1) \$529 with no qualifying child; (2) \$3,526 with one qualifying child; (3) \$5,828 with two qualifying children; and (4) \$6,557 with three or more qualifying children.

You can compute the credit yourself or the IRS will compute it for you. To figure the amount of your EIC, you must use the EIC Worksheet and EIC Table in the instructions for *Form 1040* line 18a. Ministers may want to consider having the IRS compute the credit for them, especially due to confusion about how the housing allowance affects the credit.

The credit is reported on line 18a of *Form 1040*.

IRS *Publication 596* is a 40-page publication that explains the EIC. The 2018 edition (the most recent available at the time of publication of this text) states, in general: "The rental value of a home or a housing allowance provided to a minister as part of the minister's pay generally isn't subject to income tax but is included in net earnings from self-employment. For that reason, it is included in earned income for the EIC" except for ministers who have opted out of SECA by filing a timely *Form 4361* exemption application with the IRS.

Excerpts from *Publication 596* confirm that ministers who are employees for income tax reporting purposes and who have **not** exempted themselves from SECA by filing a timely *Form 4361* with the IRS **include** their housing allowance or the fair rental value of a parsonage in computing earned income for purposes of the EIC.

But what about ministers who have exempted themselves from SECA by filing a timely *Form 4361* with the IRS? Do they include a housing allowance or the fair rental value of a parsonage in computing their earned income for purposes of the EIC? As noted above, *Publication 596* explicitly states, with regard to ministers who have filed a timely *Form 4361*, that "a non-taxable housing allowance or the non-taxable rental value of a home is not earned income."

With respect to ministers who have filed a timely *Form 4361*, *Publication 596* states:

Whether or not you have an approved *Form 4361*, amounts you received for performing ministerial duties as an employee count as earned income. This includes wages, salaries, tips, and other taxable employee compensation. [But]

if you have an approved *Form 4361*, a non-taxable housing allowance or the non-taxable rental value of a home isn't earned income. Also, amounts you received for performing ministerial duties, but not as an employee, don't count as earned income. Examples include fees for performing weddings and honoraria for delivering speeches.

Ministers who are affected by this issue should consult their own tax advisor for help.

Step 10: Refund or Amount You Owe

After totaling your payments, you can calculate whether you owe the government (line 23) or a refund is due you (line 20). If you owe a tax, be certain to enclose with your return a check in the amount you owe, payable to the United States Treasury, or make the payment through your EFTPS account. Do not attach the check to your return, but include it with a *Form 1040-V*. If you file your return electronically, the payment may be sent in separately using *Form 1040-V*. Include your daytime phone number and your SSN and write "*Form 1040* for 2019" on the memo line of the check. If you owe taxes, you also may have to pay an underpayment penalty (refer to line 24 of *Form 1040*).

If you have overpaid your taxes, you have two options: (1) request a full refund or (2) apply the overpayment to your 2020 estimated tax.


Step 11: Sign Here

You must sign and date the return at the bottom of page 2. If you are filing a joint return, your spouse must also sign the return. In the "your occupation" space, enter your occupation — **minister**.

If you or your spouse has been the victim of identity theft, the IRS will issue you an Identity Protection PIN that must also be entered in this section of the return.

OTHER FORMS AND SCHEDULES

Schedule A

 **Key Point:** If your itemized deductions exceed your standard deduction, you should report your itemized deductions on *Schedule A*. This section will summarize the itemized deductions.

Step 1: Medical and Dental Expenses (lines 1–4)

You may deduct certain medical and dental expenses (for yourself, your spouse, and your dependents) if you itemize your deductions on *Schedule A*, but only to the extent that your expenses exceed 10 percent of your AGI. You must reduce your medical expenses by the amounts of any reimbursements you

receive for those expenses before applying the 10 percent test. Reimbursements include amounts you receive from insurance or other sources for your medical expenses (including Medicare). It does not matter if the reimbursement is paid to the patient, the doctor, or the hospital.

The following items ARE deductible as medical expenses:

- Fees for medical services
- Fees for hospital services
- Lodging at a hospital during medical treatment (subject to some limits)
- Medical and hospital insurance premiums that you pay (do not include amounts paid to health sharing arrangements)
- Special equipment
- Medicare Part A premiums you pay if you are exempt from Social Security and voluntarily elect to pay Medicare Part A premiums
- Medicare Part B premiums you pay
- Medicare Part D premiums you pay
- Medicare Supplement Insurance premiums you pay (or that are deducted from your pension)
- Long-term care insurance premiums, subject to certain limitations on the amount that may be deducted
- Special items (false teeth, artificial limbs, eyeglasses, hearing aids, crutches, etc.)
- Transportation for necessary medical care. For 2019, the standard mileage rate for medical travel was 20 cents per mile (it has decreased to 17 cents for 2020)
- Medicines and drugs requiring a prescription and insulin
- The portion of a life-care fee or founder's fee paid either monthly or in a lump sum under an agreement with a retirement home that is allocable to medical care
- Wages of an attendant who provides medical care
- The cost of home improvements if the main reason is for medical care
- Program to stop smoking
- Exercise expenses (including the cost of equipment to use in the home) if required to treat an illness (including obesity) diagnosed by a physician, the purpose of the expense is to treat a disease rather than to promote general health, and the taxpayer would not have paid the expense but for this purpose

The following items are NOT deductible as medical expenses:

- The cost of diet food
- Funeral services
- Health club dues (except as noted above)
- Household help
- Life insurance
- Maternity clothes

- Non-prescription medicines and drugs
- Nursing care for a healthy baby
- Toothpaste, cosmetics, toiletries
- Trip for general improvement of health
- Most cosmetic surgery

Step 2: Taxes You Paid (lines 5–7)

In the past, individuals were permitted a deduction for certain taxes paid or accrued, whether or not incurred in a taxpayer's trade or business. These taxes were:

- State and local real property taxes
- State and local personal property taxes
- State and local income taxes

At the election of the taxpayer, an itemized deduction may be taken for state and local general sales taxes in lieu of the itemized deduction for state and local income taxes. This provision was added to address the unequal treatment of taxpayers in the seven states that do not have an income tax. Taxpayers in these states cannot take advantage of the itemized deduction for state income taxes. Allowing them to deduct sales taxes helps offset this disadvantage.

The TCJA allows taxpayers to claim an itemized deduction of up to \$10,000 (\$5,000 for married taxpayers filing a separate return) for the aggregate of:

- State and local property taxes
- State and local income taxes (or sales taxes in lieu of income taxes) paid or accrued in the taxable year

The new rules apply to taxable years 2019 through 2025.

Some states attempted to assist taxpayers in avoiding the above limitations by creating state-run charities that would grant tax credits in exchange for charitable contributions that would qualify for a tax deduction. The IRS issued regulations stating that to the extent a tax credit was granted, the charitable contribution would not be deductible.

Step 3: Interest You Paid (lines 8–10)

As a general matter, personal interest is not deductible. Qualified residence interest is not treated as personal interest and is allowed as an itemized deduction, subject to limitations. Qualified residence interest means interest paid or accrued during the taxable year on either acquisition indebtedness or home equity indebtedness. A qualified residence means the taxpayer's principal residence and one other residence of the taxpayer selected to be a qualified residence. A qualified residence can be a house, condominium, cooperative, mobile home, house trailer, or boat.

Acquisition indebtedness is indebtedness that is incurred in acquiring, constructing, or substantially improving a qualified

residence of the taxpayer and that secures the residence. Note the following two rules:

1. Limit on Loans Taken out on or Before December 15, 2017

For qualifying debt taken out on or before December 15, 2017, you can deduct only home mortgage interest up to \$1 million (\$500,000 if you are married filing separately) of that debt. The only exception is for loans taken out on or before October 13, 1987 (see IRS *Publication 936* for more information about loans taken out on or before October 13, 1987).

See *Publication 936* to figure your deduction if you have loans taken out on or before December 15, 2017, that exceed \$1 million (\$500,000 if you are married filing separately).

2. Limit on Loans Taken out After December 15, 2017

For qualifying debt taken out after December 15, 2017, you can deduct only home mortgage interest up to \$750,000 (\$375,000 if you are married filing separately) of that debt. If you also have qualifying debt subject to the \$1 million limitation discussed above, the \$750,000 limit for debt taken out after December 15, 2017, is reduced by the amount of your qualifying debt subject to the \$1 million limit. An exception exists for certain loans taken out after December 15, 2017, but before April 1, 2018. If the exception applies, your loan may be treated in the same manner as a loan taken out on or before December 15, 2017. See IRS *Publication 936* for more information about this exception. See *Publication 936* to figure your deduction if you have loans taken out after October 13, 1987, that exceed \$750,000 (\$375,000 if you are married filing separately).

The term “points” is sometimes used to describe certain charges paid by a borrower. They are also called loan origination fees, maximum loan charges, or premium charges. If the payment of any of these charges is **only** for the use of money, it ordinarily is interest paid in advance and must be deducted in installments over the life of the mortgage (not deducted in full in the year of payment). However, points are deductible in the year paid if the following requirements are satisfied:

1. Your loan is secured by your main home. (Your main home is the one you ordinarily live in most of the time.)
2. Paying points is an established business practice in the area where the loan was made.
3. The points paid were not more than the points generally charged in that area.
4. You use the cash method of accounting. This means you report income in the year you receive it and deduct expenses in the year you pay them. Most individuals use this method.
5. The points were not paid in place of amounts that ordinarily are stated separately on the settlement statement, such


as appraisal fees, inspection fees, title fees, attorney fees, and property taxes.

6. The funds you provided at or before closing, plus any points the seller paid, were at least as much as the points charged. The funds you provided are not required to have been applied to the points. They can include a down payment, an escrow deposit, earnest money, and other funds you paid at or before closing for any purpose. You cannot have borrowed these funds from your lender or mortgage broker.

7. You use your loan to buy or build your main home.

8. The points were computed as a percentage of the principal amount of the mortgage.

9. The amount is clearly shown on the settlement statement (such as the Settlement Statement, *Form HUD-1*) as points charged for the mortgage. The points may be shown as paid from either your funds or the seller's.

 **Key Point:** Points are not currently deductible when paid in association with the refinancing of the home. These points must be amortized over the life of the new mortgage.

Step 4: Gifts to Charity (lines 11–14)


Cash contributions to churches, schools, and most other public charities that are U.S. organizations are deductible up to 60 percent of AGI. Contributions of property are subject to different limitations. See IRS *Publication 526*. Contributions of cash or checks are reported on line 11, while contributions of non-cash property are reported on line 12. If you do not itemize deductions, you cannot deduct any of your charitable contributions.

The value of personal services is never deductible as a charitable contribution, but unreimbursed expenses incurred in performing services on behalf of a church or other charity may be. For example, if you drive to and from volunteer work on behalf of a charity, you may deduct the actual cost of gas and oil or you may claim the standard charitable mileage rate of 14 cents for each substantiated mile (for 2019 and 2020). Unreimbursed travel expenses incurred while away from home (whether within the United States or abroad) in the course of donated services to a tax-exempt religious or charitable organization are deductible as a charitable contribution. There are two ways to do this.

Individuals performing the charitable travel can keep track of their own travel expenses and then claim a charitable contribution for the total on *Schedule A*. (A letter acknowledging the individual's service should be obtained from the charity.) Or, these individuals could provide their church or charity with a travel report substantiating all travel expenses. In such a case, the church or charity could issue the individual a charitable

contribution receipt for the total amount of the substantiated travel expenses. Travel expenses that can be receipted include airfare, lodging, meals, and incidental expenses.

No charitable deduction is allowed for travel expenses incurred while away from home in performing services for a religious or charitable organization unless there is no significant element of personal pleasure, recreation, or vacation involved in the travel.

 **Example:** Pastor J goes on a trip to Europe. He is in Europe for 10 days and conducts one-hour worship services on two of those days. Pastor J will not be able to claim a charitable contribution deduction for the travel expenses that he incurs in making this trip. The same rule would apply if Pastor J's spouse or children go along on the trip.

Charitable contributions must be claimed in the year they are delivered. One exception is a check that is mailed to a charity — it is deductible in the year the check is mailed (and postmarked), even if it is received early in the next year.

Charitable contributions generally are deductible only to the extent they exceed the value of any premium or benefit received by the donor in return for the contribution.


There are limits on the amount of a contribution that can be deducted. Generally, cash contributions to churches, schools, and other public charities are deductible up to a maximum of 60 percent of AGI. In some cases, contributions that exceed these limits can be carried over and claimed in future years. Some charitable contributions are limited to 20 percent or 30 percent of AGI, depending on the recipient and the form of the contribution.

Restricted contributions are those that are made to a church with the stipulation that they be used for a specified purpose. If the purpose is an approved project or program of the church, the designation will not affect the deductibility of the contribution. An example is a contribution to a church building fund. However, if a donor stipulates that a contribution be spent on a designated individual, no deduction is allowed unless the church exercises full administrative control over the donated funds to ensure that they are being spent in furtherance of the church's exempt purposes. Restricted contributions that ordinarily are not deductible include contributions to church benevolence or scholarship funds that designate a specific recipient. Contributions to benevolence or scholarship funds ordinarily are deductible if the donor does not earmark a specific recipient.

Contributions to a church or missions board that specify a particular missionary may be tax-deductible if the church or missions board exercises full administrative and accounting control over the contributions and ensures that they are spent


in furtherance of the church's mission. Direct contributions to missionaries, or any other individual, are not tax-deductible, even if they are used for religious or charitable purposes.

Charitable contributions must be properly substantiated. Individual cash contributions of less than \$250 may be substantiated by a canceled check or a receipt from the charity. Special rules govern the substantiation of individual contributions of cash or property of \$250 or more. The donor must substantiate these contributions with a qualifying receipt from the charity including a listing of the contributions and a statement that there were no goods or services provided in exchange for the contributions. These rules are further explained in the supplement to this guide entitled *Federal Reporting Requirements for Churches*.

 **Key Point:** It is the responsibility of the donor to confirm that all donations claimed are supported by qualifying receipts. The consequence of failure is a loss of any contribution not supported by a qualifying receipt. This error cannot be corrected if discovered after the tax return is filed. Some churches and charities fail to issue qualifying receipts, so donors must be vigilant in meeting this requirement.

If you contribute property that you value at \$500 or more, you must include a completed *Form 8283* with your *Form 1040*. Complete only Section A if the value claimed is \$500 or more but less than \$5,000. If you claim a deduction of more than \$5,000 for a contribution of non-cash property (other than publicly traded securities), then you must obtain a qualified appraisal of the property and include a qualified appraisal summary (Section B of *Form 8283*) with your *Form 1040*.

Special rules apply to donations of cars, boats, and planes. See the instructions to IRS *Form 1098-C* for details.

 **Key Point:** The Tax Court ruled that a donor who contributed property worth more than \$10,000 to a church was not eligible for a charitable contribution deduction, even though there was no dispute as to the value of the property, because he failed to attach a qualified appraisal summary (*Form 8283*) to the tax return on which the contribution was claimed.

Step 5: Casualty and Theft Losses (line 15)

Under prior law, a taxpayer could claim an itemized deduction for any loss sustained during the taxable year not compensated by insurance or otherwise. For individual taxpayers, deductible losses had to be incurred in a trade or business or other profit-seeking activity or consist of property losses arising from fire, storm, shipwreck, or other casualty or from theft. Personal casualty or theft losses were deductible only if they exceeded \$100 per casualty or theft. In addition, aggregate net

casualty and theft losses were deductible only to the extent they exceeded 10 percent of an individual taxpayer's AGI.

The TCJA temporarily modifies the deduction for personal casualty and theft losses. Taxpayers may claim a personal casualty loss (subject to the limitations described above) only if the loss was attributable to a disaster declared by the president under the Disaster Relief and Emergency Assistance Act. This limitation is effective for losses incurred in taxable years 2018 through 2025.

NOTE: Job Expenses and Most Other Miscellaneous Deductions

Employee business expenses that are either unreimbursed or reimbursed by an employer under a non-accountable arrangement are no longer deductible by an employee. This provision of the TCJA is effective for taxable years 2018 through 2025 unless extended by Congress.

The elimination of an itemized deduction for unreimbursed employee business expenses will hit some clergy hard. Some have suggested that this impact can be minimized if a church reimburses employees' business expenses under an accountable expense reimbursement arrangement. To be accountable, a church's reimbursement arrangement must comply with all four of the following rules:

1. Expenses must have a business connection — that is, the reimbursed expenses must represent expenses incurred by an employee while performing services for the employer.
2. Employees are reimbursed only for expenses for which they provide an adequate accounting within a reasonable period of time (not more than 60 days after an expense is incurred).
3. Employees must return any excess reimbursement or allowance within a reasonable period of time (not more than 120 days after an excess reimbursement is paid).
4. The income tax regulations caution that in order for an employer's reimbursement arrangement to be accountable, it must meet a reimbursement requirement in addition to the three requirements summarized above. The reimbursement requirement means that an employer's reimbursements of an employee's business expenses come out of the employer's funds and not by reducing the employee's salary.

The basis for this workaround is the fact that while the TCJA eliminated "all miscellaneous itemized deductions that are subject to the 2 percent floor under present law" (including unreimbursed employee business expenses and employee expenses reimbursed under a non-accountable plan), it did not modify or repeal section 62(a)(2)(A) of the tax code, which excludes from tax employer reimbursements of employee business expenses under an accountable plan (defined above).

Schedule B

Schedule B is used to report taxable interest income and dividend income of more than \$1,500.

Step 1: Interest Income (lines 1–4)

List (on line 1) the name of each institution or individual that paid you taxable interest if you received more than \$1,500 of taxable interest in 2019. Be sure the interest you report on line 1 corresponds to any *Forms 1099-INT* you received from such institutions or individuals. Do not include tax-exempt interest. Taxable interest income is carried over to line 2b of *Form 1040*.


Step 2: Dividend Income (lines 5–6)


List (on line 5) the name of each institution that paid you dividends if you received more than \$1,500 in dividends in 2019. Be sure the dividends you report on line 5 correspond to any *Forms 1099-DIV* you received from such institutions. Ordinary dividend income is carried over to line 3b of *Form 1040*.


Step 3: Foreign Accounts and Foreign Trusts (lines 7–8)

Be sure to complete this part of the schedule if you had more than \$1,500 of either taxable interest or dividends.

Schedule C

 **Key Point:** Most ministers who serve local churches or church agencies are employees for federal income tax purposes with respect to their church salary. They report their church salary on line 1 of *Form 1040* and receive a *Form W-2* from the church. They do not report their salary as self-employment earnings on *Schedule C*.

 **Key Point:** Use *Schedule C* to report income and expenses from ministerial activities you conduct other than in your capacity as a church employee. Examples would be fees for guest speaking in other churches and fees received directly from church members for performing personal services, such as weddings and funerals.

 **Key Point:** The IRS has discontinued the simplified *Schedule C-EZ* for 2019 and future years. Persons who used *Schedule C-EZ* in the past will now use *Schedule C*.

Step 1: Introduction

Complete the first several questions on *Schedule C*. Ministers should list code 541990 on line B, since this is the code the IRS

uses in a clergy tax illustration in *Publication 517*. Some ministers who report their church compensation as self-employed point to this code as proof that ministers serving local churches can report as self-employed. This is not so. This code applies to the incidental self-employment activities of ministers who report their church salaries as employees. It also applies to those few ministers who are self-employed, such as traveling evangelists.

Step 2: Income (lines 1–7)

Report on line 1 your gross income from your self-employment activity.

Step 3: Expenses (lines 8–27)

▲ **Caution:** Many ministers continue to report their income taxes as self-employed. One perceived advantage of doing so is the ability to deduct business expenses on *Schedule C* (and avoid the non-deductibility of unreimbursed and non-accountable reimbursed employee business expenses as itemized deductions on *Schedule A*). This advantage is often illusory. Most “self-employed” ministers, if audited by the IRS, would be reclassified as employees and their *Schedule C* deductions disallowed. This could result in substantial additional taxes, penalties, and interest. The best way for ministers to handle their business expenses is through an accountable expense reimbursement arrangement.

Report any business expenses associated with your self-employment earnings on lines 8–27. For example, if you incur transportation, travel, or other expenses in the course of performing self-employment activities, you deduct these expenses on lines 8–27 of *Schedule C*. Self-employed persons can deduct only 50 percent of business meals and meals associated with entertainment.

🔍 **Key Point:** The TCJA provides that no deduction is allowed with respect to (1) an activity generally considered to be entertainment, amusement, or recreation; (2) membership dues with respect to any club organized for business, pleasure, recreation, or other social purposes; or (3) a facility or portion thereof used in connection with any of the above items. Thus, the provision repeals the present-law exception to the deduction disallowance for entertainment, amusement, or recreation that is directly related to (or, in certain cases, associated with) the active conduct of the taxpayer’s trade or business (and the related rule applying a 50 percent limit to such deductions). Taxpayers may still generally deduct 50 percent of the food and beverage expenses associated with operating their trade or business (e.g., meals consumed by employees on work travel). For

amounts incurred and paid after December 31, 2017, and through December 31, 2025, the TCJA expands this 50 percent limitation to expenses of the employer associated with providing food and beverages to employees through an eating facility that meets requirements for de minimis fringes and for the convenience of the employer. This new law does not affect the taxation of reimbursement of entertainment expenses. As long as the church has adopted and followed an accountable expense reimbursement plan, the minister does not include reimbursement of entertainment expenses in his taxable income. Since self-employed ministers list only their net self-employment earnings (that is, after deducting all business and professional expenses) as a component of gross income on *Form 1040*, they in effect are able to deduct 100 percent of their business and professional expenses even though they cannot deduct business expenses as an itemized deduction on *Schedule A*.

Report self-employment income from *Schedule C* to *Schedule 1* line 3 and carry over this and other items of additional income reported on *Schedule 1* to line 7a of *Form 1040*.

Schedule SE

🔍 **Key Point:** Use *Schedule SE* to report Social Security taxes on any income you earned as a minister if you have not applied for and received IRS approval of an exemption application (*Form 4361*). Remember, ministers (except for some chaplains) are self-employed for Social Security with respect to their ministerial services. They pay SECA and not FICA with respect to compensation from such services.

🔍 **Key Point:** Ministers who have received IRS approval of an application for exemption from SECA (*Form 4361*) do not pay SECA on compensation received for their ministerial services.

Step 1: Section A (line 2)

Most ministers use the short *Schedule SE* rather than the long *Schedule SE*. This means that they complete Section A on page 1 of the schedule rather than Section B on page 2.

Ministers report their net self-employment earnings on line 2 of Section A. This amount is computed as follows:

Add the following to your church salary:

- Other items of church income (including taxable fringe benefits)
- Fees you receive for weddings, baptisms, funerals, etc.
- Self-employment earnings from outside businesses

- Annual fair rental value of a parsonage, including utilities paid by the church (unless you are retired)
- A housing allowance (unless you are retired)
- Business expense reimbursements (under a non-accountable plan)
- The value of meals served on the church's premises for the convenience of the employer
- Any amount a church pays toward your income tax or SECA

And then deduct the following:

- Most income tax exclusions (other than meals or lodging furnished for the employer's convenience) and the foreign earned income exclusion
- Annual fair rental value of a parsonage provided to you after you have retired
- Housing allowance provided to you after you have retired
- Contributions by your church to a tax-sheltered annuity plan set up for you, including any salary reduction contributions (elective deferrals) that are not included in your gross income
- Pension payments or retirement allowances you receive for your past ministerial services

Unreimbursed and non-accountable reimbursed expenses. The clear implication of the tax code and IRS Revenue Ruling 80-110 is that unreimbursed business expenses and reimbursed business expenses under a non-accountable plan are deductible by pastors in computing their SECA liability even if they are not able to deduct these expenses in computing their income tax liability. This understanding is clearly reflected in IRS *Publication 517*. This position is also reflected in the following statement in the instructions to *Schedule SE*:

If you were a duly ordained minister who was an employee of a church and you must pay SE tax [SECA], the unreimbursed business expenses that you incurred as a church employee are not deductible as an itemized deduction for income tax purposes. However, when figuring SE tax, subtract on line 2 the allowable expenses from your self-employment earnings and attach an explanation.

Due to the confusion surrounding this issue, ministers are encouraged to consult with a tax professional for guidance.

Step 2: Section A (line 4)

Ministers (and other taxpayers who are self-employed for Social Security) can reduce their taxable earnings by 7.65 percent, which is half the FICA paid by employers and employees. To do this, multiply net earnings from self-employment by 0.9235 on line 4. SECA is paid on the reduced amount.

Step 3: Section A (line 5)

SECA for 2019 is computed on this line. The SECA rate for 2019 is 15.3 percent, which consists of the following two components:

1. A Medicare hospital insurance (HI) tax of 2.9 percent
2. An old-age, survivor, and disability (Social Security) tax of 12.4 percent

For 2019, the 2.9 percent Medicare HI tax applied to all net earnings from self-employment regardless of amount. For 2019, the 12.4 percent Social Security tax applied to only the first \$132,900 of net self-employment earnings. (For 2020, the maximum earnings subject to Social Security tax are \$137,700.)

Form 8959 Additional Medicare Tax

Beginning in 2013, the ACA increased the employee portion of the Medicare HI tax by an additional tax of 0.9 percent on wages received in excess of certain amounts. This additional tax applies to ministers subject to SECA. Unlike FICA taxes, this additional tax is on the combined wages of a taxpayer and the taxpayer's spouse, in the case of a joint return. The threshold amount is \$250,000 in the case of a joint return or surviving spouse and \$200,000 for single persons. The \$250,000 and \$200,000 amounts are not adjusted for inflation and remain the same for 2020.

Ministers who are part of a two-earner family may be subject to this additional tax and should plan accordingly. Each working spouse may have wages and self-employment income of less than \$250,000, but when added together, if the total exceeds the threshold, they may be subject to the tax. This additional tax should be considered in preparing estimated tax payments or withholding instructions.

Form 2106

- ☞ **Key Point:** In the past, *Form 2106* was used by employees to compute employee business expenses claimed on *Schedule A*. For most taxpayers this form is now obsolete because of the suspension of an itemized deduction for employee business expenses on *Schedule A*. *Form 2106* is now used only by Armed Forces reservists, qualified performing artists, fee-basis state or local government officials, and employees with impairment-related work expenses.

Example One: Active Minister

Note: This example is based on an illustrated example contained at the end of IRS *Publication 517*.

Rev. John Michaels is the minister of the First Baptist Church. He is married and has one child. The child is considered a qualifying child for the child tax credit. Mrs. Michaels is not employed outside the home. Rev. Michaels is a common-law employee of the church, and he has not applied for an exemption from SECA. The church paid Rev. Michaels a salary of \$45,000. In addition, as a self-employed person, he earned \$4,000 during the year for weddings, baptisms, and honoraria. He made estimated tax payments during the year totaling \$12,000. He taught a course at the local community college, for which he was paid \$3,400. Rev. Michaels owns a home next to the church. He makes a \$1,125 per month mortgage payment of principal and interest only. His utility bills and other housing-related expenses for the year totaled \$1,450, and the real estate taxes on his home amounted to \$1,750 for the year. The church paid him \$1,400 per month as his housing allowance. The home's fair rental value is \$1,380 per month (furnished, plus utilities).

The parts of Rev. and Mrs. Michaels' income tax return are explained in the order they are completed. They are illustrated in the order that Rev. Michaels will assemble the return to send it to the IRS.

Form W-2 from Church

The church completed *Form W-2* for Rev. Michaels as follows:

Box 1. The church entered Rev. Michaels' \$45,000 salary.

Box 2. The church left this box blank because Rev. Michaels did not request federal income tax withholding.

Boxes 3–6. Rev. Michaels is considered a self-employed person for purposes of FICA withholding, so the church left these boxes blank.

Box 14. The church entered Rev. Michaels' total housing allowance for the year and identified it.

TurboTax® Tip: Listed below are tips for ministers who use TurboTax to complete their returns. We have listed our recommended responses to some of the questions asked by the software when entering your *Form W-2* from your church. These tips should not be construed as an endorsement or recommendation of the TurboTax software.

1. "Do any of these apply to this *Form W-2*?"

Be sure to check the box that says, "**Religious employment** — This income was for religious employment (clergy, nonclergy, religious sect)."

2. "About your religious employment."

Please note that ministers fall under the category of clergy employment.

3. "Tell us about your clergy housing." TurboTax then asks for the parsonage or housing allowance, as well as the amount of qualifying expenses.

The amount you should enter for qualifying expenses is the lesser of your actual housing expenses, the annual fair rental value of your home (furnished, plus utilities), or the amount of your pay that was designated as ministerial housing allowance by your church.

4. "How would you like us to calculate clergy self-employment tax?"

Please note that SECA should be paid on wages and housing allowance. See *Schedule SE* TurboTax Tip for additional information.

Form W-2 from College

The community college gave Rev. Michaels a *Form W-2* that showed the following:

Box 1. The college entered Rev. Michaels' \$3,400 salary.

Box 2. The college withheld \$272 in federal income tax on Rev. Michaels' behalf.

Boxes 3 and 5. As an employee of the college, Rev. Michaels is subject to FICA withholding on his full salary from the college.

Box 4. The college withheld \$210.80 in Social Security taxes.

Box 6. The college withheld \$49.30 in Medicare taxes.

Schedule C

Note, for 2019, the IRS announced that it will not be issuing the *Schedule C-EZ*. Therefore, *Schedule C* will be used.

Some of Rev. Michaels' entries on *Schedule C* are explained here.

Line 1. Rev. Michaels reports the \$4,000 from weddings, baptisms, and honoraria.

Lines 2–7. Rev. Michaels fills out these lines to report his gross

income reported on line 7. Rev. Michaels did not have any returns or allowances, cost of goods sold, or other income for the year. Therefore, the amount reported on line 7 is \$4,000.

Lines 8–27a. Rev. Michaels reports his expenses related to the line 1 amount. The total consisted of \$87 for marriage and family booklets and \$251 for 433 miles of business use of his car, mainly in connection with honoraria. Rev. Michaels used the standard mileage rate to figure his car expense. He multiplied the standard mileage rate of 58 cents by 433 miles for a total of \$251. These expenses total \$338 (\$251 + \$87).

Line 9. Rev. Michaels reports his car expenses on this line. However, he cannot deduct the part of his expenses allocable to his tax-free housing allowance. He attaches the required statement, *Attachment 1* (shown later), to his return showing that 25 percent (or \$63) of his business expenses are not deductible because they are allocable to that tax-free allowance. He subtracts the \$63 from the \$251 and enters the \$188 difference on line 9. Rev. Michaels also reports information regarding his vehicle in Part IV.

Line 27a. Rev. Michaels reports \$87 for marriage and family booklets. However, he cannot deduct the part of his expenses allocable to his tax-free housing allowance. He attaches the required statement, *Attachment 1* (shown later), to his return showing that 25 percent (or \$22) of his expenses are not deductible because they are allocable to that tax-free allowance. He subtracts the \$22 from the \$87 and enters the \$65 difference on line 27a. He also reports a description of the expenses in Part V.

Line 28. Rev. Michaels enters his total expenses, less the 25 percent allocable to his tax-free housing allowance, (\$188 + \$65) on line 28.

Lines 29–31. He enters his tentative profit of \$3,747 reported on line 29, less any expenses for business use of his home, on line 31. Rev. Michaels did not have any expenses for business use of his home; therefore his net income is \$3,747. Net income on *Schedule C* is also reported on *Schedule 1* line 3.

Lines 43–47b. Rev. Michaels fills out these lines to report information about his car.

Line 48. Rev. Michaels reports the total other expenses included on line 27a.

TurboTax Tip: TurboTax does not appear to calculate the non-deductible portion of the expenses that should be allocated to the tax-free portion of the housing allowance. The taxpayer will need to adjust the expenses (as shown in *Attachment 1*) and input the reduced figure into the software.

Schedule SE

After Rev. Michaels prepares *Schedule C*, he fills out

Schedule SE. He reads the chart on page 1 of the schedule, which tells him he can use Section A—Short Schedule SE to figure his SECA. Rev. Michaels is a minister, so his salary from the church is not considered church employee income. Thus, he does not have to use Section B—Long Schedule SE. He fills out the following lines in Section A:

Line 2. Rev. Michaels attaches a statement (see *Attachment 2*, shown later) that explains how he figures the amount (\$63,826) he enters here. The calculation in *Attachment 2* includes unreimbursed business expenses from his work for the church. Although unreimbursed business expenses are clearly no longer deductible on *Schedule A* as itemized deductions for federal income tax purposes, there is still some ambiguity as of the date of this writing as to whether these expenses remain deductible for SECA purposes. The author has prepared this example assuming these expenses are deductible against self-employment earnings. Ministers should consult with their personal tax advisors regarding the deductibility of these expenses for purposes of SECA on their 2019 *Form 1040* in light of the developing nature of guidance in this area as of the date of this writing. Rev. Michaels' records show that he drove 2,443 miles. He multiplies miles driven by the mileage rate of 58 cents. The combined result is \$1,417. Additionally, Rev. Michaels paid \$219 for professional publications and booklets in connection with his work for the church. The total unreimbursed business expenses were \$1,636. After including the \$85 of *Schedule C* expenses allocable to tax-free income, the total deductions against self-employment income are \$1,721.

Line 4. He multiplies \$63,826 by 0.9235 to get his net earnings from self-employment (\$58,943).

Line 5. The amount on line 4 is less than \$132,900, so Rev. Michaels multiplies the amount on line 4 (\$58,943) by 0.153 to get his SECA of \$9,018. He enters that amount here and on *Schedule 2* lines 4 and 10.

Line 6. Rev. Michaels multiplies the amount on line 5 by 0.50 to get his deduction for the employer-equivalent portion of SECA of \$4,509. He enters that amount here and on *Schedule 1* line 14.

TurboTax Tip: The software asks about SECA on clergy wages. The taxpayer should check the box to pay SECA on wages and housing allowance (assuming, as shown in this example, that the minister has not applied for exemption from SECA). Please note that the software does not appear to automatically reduce self-employment wages by the business expenses allocated to tax-free income. The taxpayer will need to adjust net self-employment income (as shown in *Attachment 2*) and input the reduced figure into the software. This can be done by going into the “Business Taxes” section and selecting “Self-Employment Tax”. Choose “Make Adjustments”, and enter in the “Ministerial

Business Expenses” item the additional expenses that were not deducted elsewhere on the return (\$1,721 in this example — see *Attachment 2*).

QBI Deduction (*Form 8995*)

Ministers who have net profit reported on *Schedule C* for ministerial services and who have 2019 taxable income of less than \$160,700 (\$321,400 if married filing jointly) before the application of a QBI deduction may be eligible for the QBI deduction.

After Rev. Michaels prepares *Schedule SE*, he fills out *Form 8995*.

Line 1i, column (c). Rev. Michaels reports the net profit or loss from *Schedule C* line 31 (\$3,747) less the portion of the deduction for SECA allocable to this net profit ($\$3,747 \times 0.9235 \times 0.153 \times 0.5 = \265), which results in \$3,482 on line 1i, column (c). Since there are no other amounts listed on lines 1ii through line 1v, he also reports the amount on line 2.

Line 4. Rev. Michaels adds the total QBI or loss reported on line 2 (\$3,482) to any qualified business net losses carried forward from the prior year. Since there are no qualified business net losses carried forward from the prior year, he enters the amount on line 4.

Line 5. Rev. Michaels multiplies line 4 by 20 percent and enters the resulting amount (\$696) on line 5. Since there are no other amounts reported on lines 6–9, he also reports the amount on line 10.

Line 11. Rev. Michaels adds the total taxable income before the QBI deduction (\$23,478) on line 11. This amount is equal to the total wages, salaries, and *Schedule C* income less the deductible amount of SECA and standard deduction ($\$48,640 + \$3,747 - \$4,509 - \$24,400$, the standard deduction from line 9 of *Form 1040*). Since there is no other amount reported on line 12, he also reports the amount on line 13.

Line 15. Rev. Michaels multiplies line 13 by 20 percent (\$4,696), which he reports on line 14. He then reports the lesser of line 10 or line 14 on line 15 (\$696). Rev. Michaels also enters this amount on *Form 1040* line 10.

Form 1040, Schedule 1, Schedule 2, and Schedule 3

After Rev. Michaels prepares the above schedules, he fills out *Form 1040*, along with *Schedules 1–3* to the extent required. He files a joint return with his wife. First he fills out *Form 1040*, page 1 and completes the appropriate lines for his filing status and exemptions. Then, he fills out the rest of the forms as follows:

***Form 1040* line 1.** Rev. Michaels reports \$48,640. This amount

is the total of his \$45,000 church salary, \$3,400 college salary, and \$240, the excess of the amount designated and paid to him as a housing allowance over the lesser of his actual expenses and the fair rental value of his home (furnished, plus utilities). The two salaries were reported to him in Box 1 of the *Forms W-2* he received.

***Schedule 1* line 3.** He reports his net profit of \$3,747 from *Schedule C* line 31. Since no other amounts are reported on *Schedule 1* lines 1–8, he also reports this amount on line 9 and carries the figure to *Form 1040* line 7a.

***Form 1040* line 7b.** Rev. Michaels adds *Form 1040* line 1 and the amount reported on *Form 1040* line 7a and enters the total (\$52,387) on line 7b.

***Form 1040* lines 8a and 8b.** Because Rev. Michaels has reported deductible SECA on *Schedule 1* line 14, Rev. Michaels goes to *Schedule 1* and completes Part II of the form. Since there are no other amounts listed on lines 10–21, Rev. Michaels reports \$4,509 on line 22 and enters this amount on *Form 1040* line 8a. Line 8a is subtracted from line 7b, and the result (\$47,878) is entered on *Form 1040* line 8b. This is his AGI.

***Form 1040* line 9.** He enters the standard deduction for married couples filing jointly (\$24,400) on line 9.

***Form 1040* line 10.** Rev. Michaels adds the QBI deduction on *Form 8995* line 15 and enters the total (\$696) on line 10.

***Form 1040* line 11a.** Rev. Michaels adds the amounts on *Form 1040* line 9 and line 10 and enters the total (\$25,096) on line 11a.

***Form 1040* line 11b.** Rev. Michaels subtracts line 11a from line 8b. This is his taxable income.

***Form 1040*, page 2, line 12a.** Rev. Michaels uses the tax tables in the 2019 *Form 1040* instructions to determine his applicable tax and enters the amount (\$2,345) in the space provided on lines 12a and 12b.

***Form 1040*, page 2, line 13a.** The Michaels can take the child tax credit for their daughter, Jennifer. Rev. Michaels figures the credit by completing the *Child Tax Credit and Credit for Other Dependents Worksheet* (not shown) contained in the *Form 1040* general instructions. He enters the \$2,000 credit. Since there is no amount listed for *Schedule 3* line 7, Rev. Michaels enters \$2,000 on line 13a. (Note: The Michaels are not required to attach *Schedule 8812* to claim the child tax credit since they are not eligible for the additional child tax credit and their daughter does not have an individual Taxpayer Identification Number (ITIN). The IRS issues ITINs to foreign nationals and others who have federal tax reporting or filing requirements and do not qualify for SSNs. Since Jennifer has an SSN, she is not required to obtain an ITIN and therefore *Schedule 8812* is not applicable.)


***Form 1040*, page 2, line 15 and *Schedule 2*.** Rev. Michaels

completes *Schedule 2*. Since the only amount reported on *Schedule 2* is his SECA from *Schedule SE*, he reports the amount (\$9,018) on *Schedule 2* line 10 and on *Form 1040*, page 2, line 15.

***Form 1040*, page 2, line 17.** He enters the federal income tax shown in Box 2 of his *Form W-2* from the college.

***Form 1040*, page 2, line 18d and *Schedule 3*.** Rev. Michaels

enters the \$12,000 estimated tax payments he made for the year on *Schedule 3* line 8. Since there are no other amounts reported on *Schedule 3*, he reports the amount on *Schedule 3* line 14 and also enters the amount on line 18d and on line 18e of *Form 1040*.


| | | | | | | | | | |
|---|----------------------------|----------------------------|---------------------|---|---------------------|---|--|---|--|
| a Employee's social security number 011-00-1111 | | OMB No. 1545-0008 | | Safe, accurate, FAST! Use | |  | | Visit the IRS website at www.irs.gov/efile | |
| b Employer identification number (EIN) 00-0246810 | | | | 1 Wages, tips, other compensation 45000.00 | | 2 Federal income tax withheld | | | |
| c Employer's name, address, and ZIP code First Baptist Church 1042 Main Street Hometown, Texas 77099 | | | | 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 | | | |
| e Employee's first name and initial John E. Michaels | | Last name Michaels | | Suff. | | 11 Nonqualified plans | | 12a See instructions for box 12 | |
| 1040 Main Street Hometown, Texas 77099 | | | | 13 Statutory employee <input type="checkbox"/> Retirement plan <input type="checkbox"/> Third-party sick pay <input type="checkbox"/> | | 12b | | | |
| | | | | 14 Other Housing Allowance 16800.00 | | 12c | | | |
| | | | | | | 12d | | | |
| f Employee's address and ZIP code | | | | | | | | | |
| 15 State | Employer's state ID number | 16 State wages, tips, etc. | 17 State income tax | 18 Local wages, tips, etc. | 19 Local income tax | 20 Locality name | | | |
| | | | | | | | | | |

Form **W-2** Wage and Tax Statement **2019**

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.

Sample: from church

| | | | | | | | | | | |
|--|--|-----------------------------------|--|---|--|---|--|---|--|-------------------------|
| a Employee's social security number 011-00-1111 | | OMB No. 1545-0008 | | Safe, accurate, FAST! Use | |  | | Visit the IRS website at www.irs.gov/efile | | |
| b Employer identification number (EIN) 00-1357913 | | | | 1 Wages, tips, other compensation 3400.00 | | 2 Federal income tax withheld 272.00 | | | | |
| c Employer's name, address, and ZIP code Hometown College Honor Road Hometown, Texas 77099 | | | | 3 Social security wages 3400.00 | | 4 Social security tax withheld 210.80 | | | | |
| | | | | 5 Medicare wages and tips 3400.00 | | 6 Medicare tax withheld 49.30 | | | | |
| | | | | 7 Social security tips | | 8 Allocated tips | | | | |
| d Control number | | | | 9 | | 10 Dependent care benefits | | | | |
| e Employee's first name and initial John E. Michaels | | Last name 1040 Main Street | | Suff. Hometown, Texas 77099 | | 11 Nonqualified plans | | 12a See instructions for box 12 | | |
| f Employee's address and ZIP code | | | | | | 13 Statutory employee Retirement plan Third-party sick pay <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> | | 12b | | |
| | | | | | | 14 Other | | 12c | | |
| | | | | | | | | 12d | | |
| 15 State Employer's state ID number | | 16 State wages, tips, etc. | | 17 State income tax | | 18 Local wages, tips, etc. | | 19 Local income tax | | 20 Locality name |
| | | | | | | | | | | |

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

2019

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.

Sample: from college

Filing Status Single Married filing jointly Married filing separately (MFS) Head of household (HOH) Qualifying widow(er) (QW)
 Check only one box. If you checked the MFS box, enter the name of spouse. If you checked the HOH or QW box, enter the child's name if the qualifying person is a child but not your dependent. ▶

| | | |
|---|-------------------------------|---|
| Your first name and middle initial John E. | Last name Michaels | Your social security number 0 1 1 0 0 1 1 1 1 |
| If joint return, spouse's first name and middle initial Susan R. | Last name Michaels | Spouse's social security number 0 1 1 0 0 2 2 2 2 |
| Home address (number and street). If you have a P.O. box, see instructions. 1040 Main Street | | Apt. no. |
| City, town or post office, state, and ZIP code. If you have a foreign address, also complete spaces below (see instructions). Hometown, Texas 77099 | | Presidential Election Campaign Check here if you, or your spouse if filing jointly, want \$3 to go to this fund. Checking a box below will not change your tax or refund. <input type="checkbox"/> You <input type="checkbox"/> Spouse |
| Foreign country name | Foreign province/state/county | Foreign postal code |
| If more than four dependents, see instructions and <input checked="" type="checkbox"/> here ▶ <input type="checkbox"/> | | |

Standard Deduction **Someone can claim:** You as a dependent Your spouse as a dependent
 Spouse itemizes on a separate return or you were a dual-status alien

Age/Blindness **You:** Were born before January 2, 1955 Are blind **Spouse:** Was born before January 2, 1955 Is blind

| Dependents (see instructions): | | (2) Social security number | (3) Relationship to you | (4) <input checked="" type="checkbox"/> if qualifies for (see instructions): | |
|---------------------------------------|-----------------|----------------------------|-------------------------|--|-----------------------------|
| (1) First name | Last name | | | Child tax credit | Credit for other dependents |
| Jennifer | Michaels | 0 1 1 0 0 3 3 3 3 | Daughter | <input checked="" type="checkbox"/> | <input type="checkbox"/> |
| | | | | <input type="checkbox"/> | <input type="checkbox"/> |
| | | | | <input type="checkbox"/> | <input type="checkbox"/> |

| | | | | | |
|------------|--|-----------|--------------------------|------------|---------------|
| 1 | Wages, salaries, tips, etc. Attach Form(s) W-2 | | Excess allowance \$240 | 1 | 48,640 |
| 2a | Tax-exempt interest | 2a | | 2b | |
| 3a | Qualified dividends | 3a | | 3b | |
| 4a | IRA distributions | 4a | | 4b | |
| c | Pensions and annuities | 4c | | 4d | |
| 5a | Social security benefits | 5a | | 5b | |
| 6 | Capital gain or (loss). Attach Schedule D if required. If not required, check here | | <input type="checkbox"/> | 6 | |
| 7a | Other income from Schedule 1, line 9 | | | 7a | 3,747 |
| b | Add lines 1, 2b, 3b, 4b, 4d, 5b, 6, and 7a. This is your total income | | | 7b | 52,387 |
| 8a | Adjustments to income from Schedule 1, line 22 | | | 8a | 4,509 |
| b | Subtract line 8a from line 7b. This is your adjusted gross income | | | 8b | 47,878 |
| 9 | Standard deduction or itemized deductions (from Schedule A) | 9 | 24,400 | | |
| 10 | Qualified business income deduction. Attach Form 8995 or Form 8995-A | 10 | 696 | | |
| 11a | Add lines 9 and 10 | | | 11a | 25,096 |
| b | Taxable income. Subtract line 11a from line 8b. If zero or less, enter -0- | | | 11b | 22,782 |

Standard Deduction for—
 • Single or Married filing separately, \$12,200
 • Married filing jointly or Qualifying widow(er), \$24,400
 • Head of household, \$18,350
 • If you checked any box under **Standard Deduction**, see instructions.

| | | | |
|------------|---|--------------|--------------------------|
| 12a | Tax (see inst.) Check if any from Form(s): 1 <input type="checkbox"/> 8814 2 <input type="checkbox"/> 4972 3 <input type="checkbox"/> 12a | 2,345 | |
| b | Add Schedule 2, line 3, and line 12a and enter the total | | 12b 2,345 |
| 13a | Child tax credit or credit for other dependents | 13a | 2,000 |
| b | Add Schedule 3, line 7, and line 13a and enter the total | | 13b 2,000 |
| 14 | Subtract line 13b from line 12b. If zero or less, enter -0- | | 14 345 |
| 15 | Other taxes, including self-employment tax, from Schedule 2, line 10 | | 15 9,018 |
| 16 | Add lines 14 and 15. This is your total tax | | 16 9,363 |
| 17 | Federal income tax withheld from Forms W-2 and 1099 | | 17 272 |
| 18 | Other payments and refundable credits: | | |
| a | Earned income credit (EIC) | 18a | |
| b | Additional child tax credit. Attach Schedule 8812 | 18b | |
| c | American opportunity credit from Form 8863, line 8 | 18c | |
| d | Schedule 3, line 14 | 18d | 12,000 |
| e | Add lines 18a through 18d. These are your total other payments and refundable credits | | 18e 12,000 |
| 19 | Add lines 17 and 18e. These are your total payments | | 19 12,272 |

• If you have a qualifying child, attach Sch. EIC.
 • If you have nontaxable combat pay, see instructions.

Refund

Direct deposit? See instructions.

| | | | |
|------------|---|---|--------------|
| 20 | If line 19 is more than line 16, subtract line 16 from line 19. This is the amount you overpaid | 20 | 2,909 |
| 21a | Amount of line 20 you want refunded to you . If Form 8888 is attached, check here <input type="checkbox"/> | 21a | |
| b | Routing number | c Type: <input type="checkbox"/> Checking <input type="checkbox"/> Savings | |
| d | Account number | | |
| 22 | Amount of line 20 you want applied to your 2020 estimated tax | 22 | 2,909 |

Amount You Owe

| | | | |
|-----------|---|-----------|--|
| 23 | Amount you owe. Subtract line 19 from line 16. For details on how to pay, see instructions | 23 | |
| 24 | Estimated tax penalty (see instructions) | 24 | |

Third Party Designee

(Other than paid preparer)

Do you want to allow another person (other than your paid preparer) to discuss this return with the IRS? See instructions. **Yes.** Complete below. **No**

Designee's name Phone no. Personal identification number (PIN)

Sign Here

Joint return? See instructions. Keep a copy for your records.

Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.

| | | | |
|--|-----------------|---|--|
| Your signature <i>John Michaels</i> | Date 3/15/20 | Your occupation Minister | If the IRS sent you an Identity Protection PIN, enter it here (see inst.) <input type="text"/> |
| Spouse's signature. If a joint return, both must sign. <i>Susan Michaels</i> | Date 3/15/20 | Spouse's occupation Homemaker | If the IRS sent your spouse an Identity Protection PIN, enter it here (see inst.) <input type="text"/> |
| Phone no. | Email address | | |

Paid Preparer Use Only

| | | | | |
|-----------------|----------------------|------|------|--|
| Preparer's name | Preparer's signature | Date | PTIN | Check if: <input type="checkbox"/> 3rd Party Designee <input type="checkbox"/> Self-employed |
| Firm's name | Phone no. | | | |
| Firm's address | Firm's EIN | | | |



SCHEDULE 1
(Form 1040 or 1040-SR)

Department of the Treasury
Internal Revenue Service

Additional Income and Adjustments to Income

▶ **Attach to Form 1040 or 1040-SR.**

▶ **Go to www.irs.gov/Form1040 for instructions and the latest information.**

OMB No. 1545-0074

2019
Attachment
Sequence No. **01**

Name(s) shown on Form 1040 or 1040-SR

John E. Michaels

Your social security number

011-00-1111

At any time during 2019, did you receive, sell, send, exchange, or otherwise acquire any financial interest in any virtual currency? Yes No

Part I Additional Income

| | | | |
|-----------|---|-----------|--------------|
| 1 | Taxable refunds, credits, or offsets of state and local income taxes | 1 | |
| 2a | Alimony received | 2a | |
| b | Date of original divorce or separation agreement (see instructions) ▶ | | |
| 3 | Business income or (loss). Attach Schedule C | 3 | 3,747 |
| 4 | Other gains or (losses). Attach Form 4797 | 4 | |
| 5 | Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E | 5 | |
| 6 | Farm income or (loss). Attach Schedule F | 6 | |
| 7 | Unemployment compensation | 7 | |
| 8 | Other income. List type and amount ▶ | 8 | |
| 9 | Combine lines 1 through 8. Enter here and on Form 1040 or 1040-SR, line 7a | 9 | 3,747 |

Part II Adjustments to Income

| | | | |
|------------|--|------------|--------------|
| 10 | Educator expenses | 10 | |
| 11 | Certain business expenses of reservists, performing artists, and fee-basis government officials. Attach Form 2106 | 11 | |
| 12 | Health savings account deduction. Attach Form 8889 | 12 | |
| 13 | Moving expenses for members of the Armed Forces. Attach Form 3903 | 13 | |
| 14 | Deductible part of self-employment tax. Attach Schedule SE | 14 | 4,509 |
| 15 | Self-employed SEP, SIMPLE, and qualified plans | 15 | |
| 16 | Self-employed health insurance deduction | 16 | |
| 17 | Penalty on early withdrawal of savings | 17 | |
| 18a | Alimony paid | 18a | |
| b | Recipient's SSN ▶ | | |
| c | Date of original divorce or separation agreement (see instructions) ▶ | | |
| 19 | IRA deduction | 19 | |
| 20 | Student loan interest deduction | 20 | |
| 21 | Reserved for future use | 21 | |
| 22 | Add lines 10 through 21. These are your adjustments to income . Enter here and on Form 1040 or 1040-SR, line 8a | 22 | 4,509 |

For Paperwork Reduction Act Notice, see your tax return instructions.

Cat. No. 71479F

Schedule 1 (Form 1040 or 1040-SR) 2019

SCHEDULE 2
(Form 1040 or 1040-SR)

Department of the Treasury
Internal Revenue Service

Additional Taxes

▶ **Attach to Form 1040 or 1040-SR.**

▶ **Go to www.irs.gov/Form1040 for instructions and the latest information.**

OMB No. 1545-0074

2019
Attachment
Sequence No. **02**

Name(s) shown on Form 1040 or 1040-SR

Your social security number

John E. Michaels

011-00-1111

Part I Tax

| | | | |
|----------|---|----------|--|
| 1 | Alternative minimum tax. Attach Form 6251 | 1 | |
| 2 | Excess advance premium tax credit repayment. Attach Form 8962 | 2 | |
| 3 | Add lines 1 and 2. Enter here and include on Form 1040 or 1040-SR, line 12b | 3 | |

Part II Other Taxes

| | | | |
|-----------|--|-----------|--------------|
| 4 | Self-employment tax. Attach Schedule SE | 4 | 9,018 |
| 5 | Unreported social security and Medicare tax from Form: a <input type="checkbox"/> 4137 b <input type="checkbox"/> 8919 | 5 | |
| 6 | Additional tax on IRAs, other qualified retirement plans, and other tax-favored accounts. Attach Form 5329 if required | 6 | |
| 7a | Household employment taxes. Attach Schedule H | 7a | |
| b | Repayment of first-time homebuyer credit from Form 5405. Attach Form 5405 if required | 7b | |
| 8 | Taxes from: a <input type="checkbox"/> Form 8959 b <input type="checkbox"/> Form 8960 c <input type="checkbox"/> Instructions; enter code(s) | 8 | |
| 9 | Section 965 net tax liability installment from Form 965-A | 9 | |
| 10 | Add lines 4 through 8. These are your total other taxes . Enter here and on Form 1040 or 1040-SR, line 15 | 10 | 9,018 |

For Paperwork Reduction Act Notice, see your tax return instructions.

Cat. No. 71478U

Schedule 2 (Form 1040 or 1040-SR) 2019

DO NOT FILE

SAMPLE

Additional Credits and Payments

Department of the Treasury
Internal Revenue Service

☑ Attach to Form 1040 or 1040-SR.

☑ Go to www.irs.gov/Form1040 for instructions and the latest information.

2019

Attachment
Sequence No. **03**

Name(s) shown on Form 1040 or 1040-SR

Your social security number

John E. Michaels

011-00-1111

Part I **Nonrefundable Credits**

| | | | |
|---|--|---|--|
| 1 | Foreign tax credit. Attach Form 1116 if required | 1 | |
| 2 | Credit for child and dependent care expenses. Attach Form 2441 | 2 | |
| 3 | Education credits from Form 8863, line 19 | 3 | |
| 4 | Retirement savings contributions credit. Attach Form 8880 | 4 | |
| 5 | Residential energy credit. Attach Form 5695 | 5 | |
| 6 | Other credits from Form: a <input type="checkbox"/> 3800 b <input type="checkbox"/> 8801 c <input type="checkbox"/> _____ | 6 | |
| 7 | Add lines 1 through 6. Enter here and include on Form 1040 or 1040-SR, line 13b | 7 | |

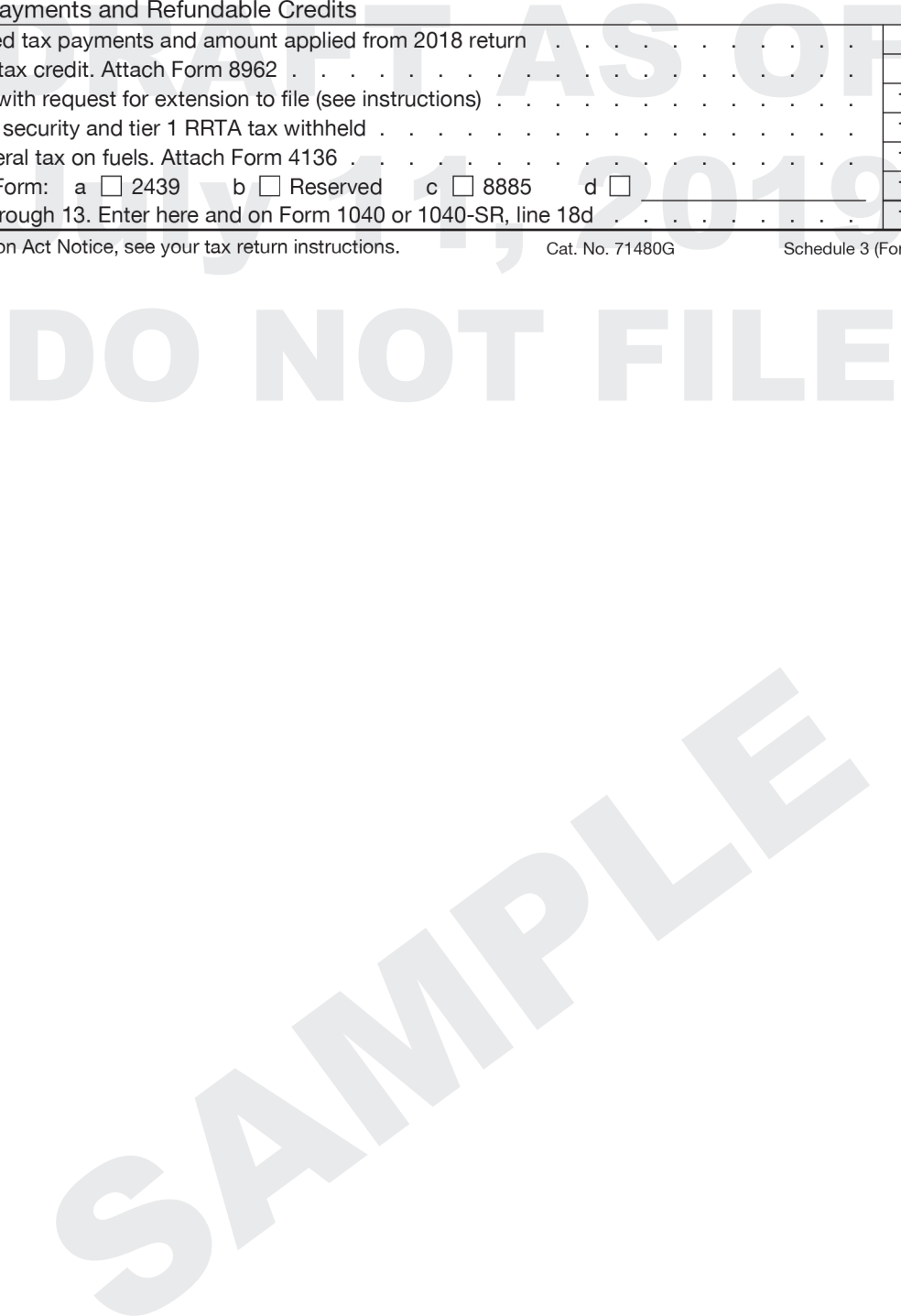
Part II **Other Payments and Refundable Credits**

| | | | |
|----|---|----|---------------|
| 8 | 2019 estimated tax payments and amount applied from 2018 return | 8 | 12,000 |
| 9 | Net premium tax credit. Attach Form 8962 | 9 | |
| 10 | Amount paid with request for extension to file (see instructions) | 10 | |
| 11 | Excess social security and tier 1 RRTA tax withheld | 11 | |
| 12 | Credit for federal tax on fuels. Attach Form 4136 | 12 | |
| 13 | Credits from Form: a <input type="checkbox"/> 2439 b <input type="checkbox"/> Reserved c <input type="checkbox"/> 8885 d <input type="checkbox"/> _____ | 13 | |
| 14 | Add lines 8 through 13. Enter here and on Form 1040 or 1040-SR, line 18d | 14 | 12,000 |

For Paperwork Reduction Act Notice, see your tax return instructions.

Cat. No. 71480G

Schedule 3 (Form 1040 or 1040-SR) 2019



SCHEDULE C
(Form 1040 or 1040-SR)

Profit or Loss From Business
(Sole Proprietorship)

OMB No. 1545-0074

2019
Attachment
Sequence No. **09**

Department of the Treasury
Internal Revenue Service (99)

▶ Go to www.irs.gov/ScheduleC for instructions and the latest information.

▶ Attach to Form 1040, 1040-SR, 1040-NR, or 1041; partnerships generally must file Form 1065.

| | | |
|--|---|---|
| Name of proprietor John E. Michaels | | Social security number (SSN) 011-00-1111 |
| A Principal business or profession, including product or service (see instructions) Minister | B Enter code from instructions ▶ 5 4 1 9 9 0 | |
| C Business name. If no separate business name, leave blank. | D Employer ID number (EIN) (see instr.) | |
| E Business address (including suite or room no.) ▶ 1042 Main Street City, town or post office, state, and ZIP code Hometown, Texas 77099 | | |
| F Accounting method: (1) <input checked="" type="checkbox"/> Cash (2) <input type="checkbox"/> Accrual (3) <input type="checkbox"/> Other (specify) ▶ | | |
| G Did you "materially participate" in the operation of this business during 2019? If "No," see instructions for limit on losses | | <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No |
| H If you started or acquired this business during 2019, check here | | <input type="checkbox"/> |
| I Did you make any payments in 2019 that would require you to file Form(s) 1099? (see instructions) | | <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No |
| J If "Yes," did you or will you file required Forms 1099? | | <input type="checkbox"/> Yes <input type="checkbox"/> No |

Part I Income

| | | | |
|----------|--|----------|--------------|
| 1 | Gross receipts or sales. See instructions for line 1 and check the box if this income was reported to you on Form W-2 and the "Statutory employee" box on that form was checked ▶ <input type="checkbox"/> | 1 | 4,000 |
| 2 | Returns and allowances | 2 | |
| 3 | Subtract line 2 from line 1 | 3 | 4,000 |
| 4 | Cost of goods sold (from line 42) | 4 | |
| 5 | Gross profit. Subtract line 4 from line 3 | 5 | 4,000 |
| 6 | Other income, including federal and state gasoline or fuel tax credit or refund (see instructions) | 6 | |
| 7 | Gross income. Add lines 5 and 6 ▶ | 7 | 4,000 |

Part II Expenses. Enter expenses for business use of your home **only** on line 30.

| | | | | | | | |
|-----------|--|------------|------------|------------|---|------------|-------------|
| 8 | Advertising | 8 | | 18 | Office expense (see instructions) | 18 | |
| 9 | Car and truck expenses (see instructions) | 9 | 188 | 19 | Pension and profit-sharing plans | 19 | |
| 10 | Commissions and fees | 10 | | 20 | Rent or lease (see instructions): | | |
| 11 | Contract labor (see instructions) | 11 | | a | Vehicles, machinery, and equipment | 20a | |
| 12 | Depletion | 12 | | b | Other business property | 20b | |
| 13 | Depreciation and section 179 expense deduction (not included in Part III) (see instructions) | 13 | | 21 | Repairs and maintenance | 21 | |
| 14 | Employee benefit programs (other than on line 19) | 14 | | 22 | Supplies (not included in Part III) | 22 | |
| 15 | Insurance (other than health) | 15 | | 23 | Taxes and licenses | 23 | |
| 16 | Interest (see instructions): | | | 24 | Travel and meals: | | |
| a | Mortgage (paid to banks, etc.) | 16a | | a | Travel | 24a | |
| b | Other | 16b | | b | Deductible meals (see instructions) | 24b | |
| 17 | Legal and professional services | 17 | | 25 | Utilities | 25 | |
| | | | | 26 | Wages (less employment credits) | 26 | |
| | | | | 27a | Other expenses (from line 48) | 27a | 65 * |
| | | | | b | Reserved for future use | 27b | |

| | | | |
|-----------|--|------------|--|
| 28 | Total expenses before expenses for business use of home. Add lines 8 through 27a ▶ | 28 | 253 |
| 29 | Tentative profit or (loss). Subtract line 28 from line 7 | 29 | 3,747 |
| 30 | Expenses for business use of your home. Do not report these expenses elsewhere. Attach Form 8829 unless using the simplified method (see instructions). Simplified method filers only: enter the total square footage of: (a) your home: _____ and (b) the part of your home used for business: _____. Use the Simplified Method Worksheet in the instructions to figure the amount to enter on line 30 | 30 | 0 |
| 31 | Net profit or (loss). Subtract line 30 from line 29. • If a profit, enter on both Schedule 1 (Form 1040 or 1040-SR), line 3 (or Form 1040-NR, line 13) and on Schedule SE, line 2 . (If you checked the box on line 1, see instructions). Estates and trusts, enter on Form 1041, line 3 . • If a loss, you must go to line 32. | 31 | 3,747 |
| 32 | If you have a loss, check the box that describes your investment in this activity (see instructions). • If you checked 32a, enter the loss on both Schedule 1 (Form 1040 or 1040-SR), line 3 (or Form 1040-NR, line 13) and on Schedule SE, line 2 . (If you checked the box on line 1, see the line 31 instructions). Estates and trusts, enter on Form 1041, line 3 . • If you checked 32b, you must attach Form 6198 . Your loss may be limited. | 32a | <input type="checkbox"/> All investment is at risk. |
| | | 32b | <input type="checkbox"/> Some investment is not at risk. |

For Paperwork Reduction Act Notice, see the separate instructions.

Cat. No. 11334P

Schedule C (Form 1040 or 1040-SR) 2019

* See statement attached.

Part III Cost of Goods Sold (see instructions)

33 Method(s) used to value closing inventory: **a** Cost **b** Lower of cost or market **c** Other (attach explanation)

34 Was there any change in determining quantities, costs, or valuations between opening and closing inventory?
If "Yes," attach explanation **Yes** **No**

| | | |
|---|-----------|--|
| 35 Inventory at beginning of year. If different from last year's closing inventory, attach explanation . . . | 35 | |
| 36 Purchases less cost of items withdrawn for personal use | 36 | |
| 37 Cost of labor. Do not include any amounts paid to yourself | 37 | |
| 38 Materials and supplies | 38 | |
| 39 Other costs | 39 | |
| 40 Add lines 35 through 39 | 40 | |
| 41 Inventory at end of year | 41 | |
| 42 Cost of goods sold. Subtract line 41 from line 40. Enter the result here and on line 4 | 42 | |

Part IV Information on Your Vehicle. Complete this part **only** if you are claiming car or truck expenses on line 9 and are not required to file Form 4562 for this business. See the instructions for line 13 to find out if you must file Form 4562.

43 When did you place your vehicle in service for business purposes? (month, day, year) ▶ 7 / 15 / 12

44 Of the total number of miles you drove your vehicle during 2019, enter the number of miles you used your vehicle for:

| | | |
|------------------------------|--|-----------------------------|
| a Business <u>433</u> | b Commuting (see instructions) <u>0</u> | c Other <u>7,478</u> |
|------------------------------|--|-----------------------------|

45 Was your vehicle available for personal use during off-duty hours? **Yes** **No**

46 Do you (or your spouse) have another vehicle available for personal use?. **Yes** **No**

47a Do you have evidence to support your deduction? **Yes** **No**

b If "Yes," is the evidence written? **Yes** **No**

Part V Other Expenses. List below business expenses not included on lines 8–26 or line 30.

| | | |
|--|-----------|----|
| Marriage and family booklets | | 65 |
| | | |
| | | |
| | | |
| | | |
| | | |
| | | |
| | | |
| | | |
| | | |
| | | |
| 48 Total other expenses. Enter here and on line 27a | 48 | 65 |

SCHEDULE SE
(Form 1040 or 1040-SR)

Self-Employment Tax

OMB No. 1545-0074

2019

Attachment
Sequence No. **17**

Department of the Treasury
Internal Revenue Service (99)

► Go to www.irs.gov/ScheduleSE for instructions and the latest information.
► Attach to Form 1040, 1040-SR, or 1040-NR.

Name of person with self-employment income (as shown on Form 1040, 1040-SR, or 1040-NR)

Social security number of person
with self-employment income ►

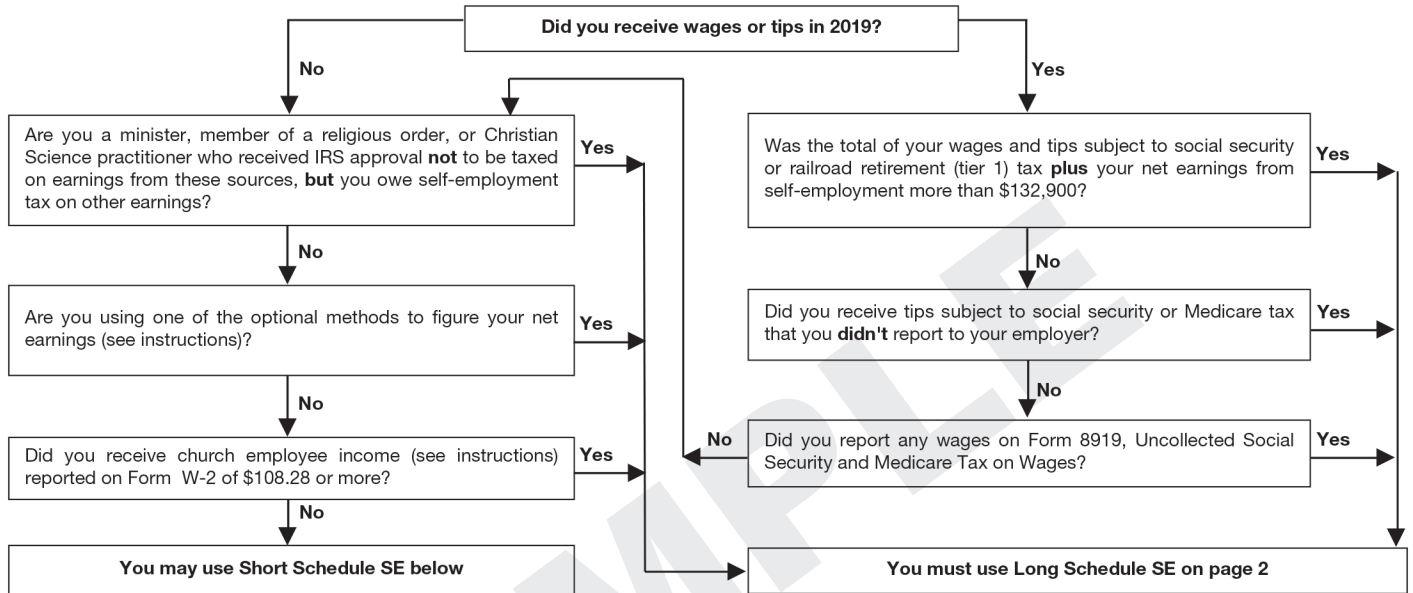
John E. Michaels

011-00-1111

Before you begin: To determine if you must file Schedule SE, see the instructions.

May I Use Short Schedule SE or Must I Use Long Schedule SE?

Note: Use this flowchart **only** if you must file Schedule SE. If unsure, see *Who Must File Schedule SE* in the instructions.



Section A—Short Schedule SE. Caution: Read above to see if you can use Short Schedule SE.

| | | | |
|-----------|--|-----------|----------|
| 1a | Net farm profit or (loss) from Schedule F, line 34, and farm partnerships, Schedule K-1 (Form 1065), box 14, code A | 1a | |
| b | If you received social security retirement or disability benefits, enter the amount of Conservation Reserve Program payments included on Schedule F, line 4b, or listed on Schedule K-1 (Form 1065), box 20, code AH | 1b | () |
| 2 | Net profit or (loss) from Schedule C, line 31; and Schedule K-1 (Form 1065), box 14, code A (other than farming). Ministers and members of religious orders, see instructions for types of income to report on this line. See instructions for other income to report | 2 | 63,826 * |
| 3 | Combine lines 1a, 1b, and 2 | 3 | 63,826 |
| 4 | Multiply line 3 by 92.35% (0.9235). If less than \$400, you don't owe self-employment tax; don't file this schedule unless you have an amount on line 1b ► | 4 | 58,943 |
| 5 | Self-employment tax. If the amount on line 4 is: • \$132,900 or less, multiply line 4 by 15.3% (0.153). Enter the result here and on Schedule 2 (Form 1040 or 1040-SR), line 4, or Form 1040-NR, line 55. • More than \$132,900, multiply line 4 by 2.9% (0.029). Then, add \$16,479.60 to the result. Enter the total here and on Schedule 2 (Form 1040 or 1040-SR), line 4, or Form 1040-NR, line 55 . | 5 | 9,018 |
| 6 | Deduction for one-half of self-employment tax. Multiply line 5 by 50% (0.50). Enter the result here and on Schedule 1 (Form 1040 or 1040-SR), line 14, or Form 1040-NR, line 27 | 6 | 4,509 |

For Paperwork Reduction Act Notice, see your tax return instructions.

Cat. No. 11358Z

Schedule SE (Form 1040 or 1040-SR) 2019

* See statement attached.

Name of person with self-employment income (as shown on Form 1040, 1040-SR, or 1040-NR)
John E. Michaels

Social security number of person with self-employment income ▶

011-00-1111

Section B—Long Schedule SE

Part I Self-Employment Tax

Note: If your only income subject to self-employment tax is **church employee income**, see instructions. Also see instructions for the definition of church employee income.

| | | |
|-----------|--|------------------|
| A | If you are a minister, member of a religious order, or Christian Science practitioner and you filed Form 4361, but you had \$400 or more of other net earnings from self-employment, check here and continue with Part I ▶ <input type="checkbox"/> | |
| 1a | Net farm profit or (loss) from Schedule F, line 34, and farm partnerships, Schedule K-1 (Form 1065), box 14, code A. Note: Skip lines 1a and 1b if you use the farm optional method (see instructions) | 1a |
| b | If you received social security retirement or disability benefits, enter the amount of Conservation Reserve Program payments included on Schedule F, line 4b, or listed on Schedule K-1 (Form 1065), box 20, code AH | 1b () |
| 2 | Net profit or (loss) from Schedule C, line 31; and Schedule K-1 (Form 1065), box 14, code A (other than farming). Ministers and members of religious orders, see instructions for types of income to report on this line. See instructions for other income to report. Note: Skip this line if you use the nonfarm optional method (see instructions) | 2 |
| 3 | Combine lines 1a, 1b, and 2 | 3 |
| 4a | If line 3 is more than zero, multiply line 3 by 92.35% (0.9235). Otherwise, enter amount from line 3 Note: If line 4a is less than \$400 due to Conservation Reserve Program payments on line 1b, see instructions. | 4a |
| b | If you elect one or both of the optional methods, enter the total of lines 15 and 17 here | 4b |
| c | Combine lines 4a and 4b. If less than \$400, stop ; you don't owe self-employment tax. Exception: If less than \$400 and you had church employee income , enter -0- and continue ▶ | 4c |
| 5a | Enter your church employee income from Form W-2. See instructions for definition of church employee income | 5a |
| b | Multiply line 5a by 92.35% (0.9235). If less than \$100, enter -0- | 5b |
| 6 | Add lines 4c and 5b | 6 |
| 7 | Maximum amount of combined wages and self-employment earnings subject to social security tax or the 6.2% portion of the 7.65% railroad retirement (tier 1) tax for 2019 | 7 132,900 |
| 8a | Total social security wages and tips (total of boxes 3 and 7 on Form(s) W-2) and railroad retirement (tier 1) compensation. If \$132,900 or more, skip lines 8b through 10, and go to line 11 | 8a |
| b | Unreported tips subject to social security tax (from Form 4137, line 10) | 8b |
| c | Wages subject to social security tax (from Form 8919, line 10) | 8c |
| d | Add lines 8a, 8b, and 8c | 8d |
| 9 | Subtract line 8d from line 7. If zero or less, enter -0- here and on line 10 and go to line 11 ▶ | 9 |
| 10 | Multiply the smaller of line 6 or line 9 by 12.4% (0.124) | 10 |
| 11 | Multiply line 6 by 2.9% (0.029) | 11 |
| 12 | Self-employment tax. Add lines 10 and 11. Enter here and on Schedule 2 (Form 1040 or 1040-SR), line 4, or Form 1040-NR, line 55 | 12 |
| 13 | Deduction for one-half of self-employment tax. Multiply line 12 by 50% (0.50). Enter the result here and on Schedule 1 (Form 1040 or 1040-SR), line 14, or Form 1040-NR, line 27 | 13 |

Part II Optional Methods To Figure Net Earnings (see instructions)

| | | |
|---|--|-----------------|
| Farm Optional Method. You may use this method only if (a) your gross farm income ¹ wasn't more than \$8,160, or (b) your net farm profits ² were less than \$5,891. | | |
| 14 | Maximum income for optional methods | 14 5,440 |
| 15 | Enter the smaller of: two-thirds (2/3) of gross farm income ¹ (not less than zero) or \$5,440. Also include this amount on line 4b above | 15 |
| Nonfarm Optional Method. You may use this method only if (a) your net nonfarm profits ³ were less than \$5,891 and also less than 72.189% of your gross nonfarm income, ⁴ and (b) you had net earnings from self-employment of at least \$400 in 2 of the prior 3 years. Caution: You may use this method no more than five times. | | |
| 16 | Subtract line 15 from line 14 | 16 |
| 17 | Enter the smaller of: two-thirds (2/3) of gross nonfarm income ⁴ (not less than zero) or the amount on line 16. Also include this amount on line 4b above | 17 |

¹ From Sch. F, line 9, and Sch. K-1 (Form 1065), box 14, code B.

² From Sch. F, line 34, and Sch. K-1 (Form 1065), box 14, code A—minus the amount you would have entered on line 1b had you not used the optional method.

³ From Sch. C, line 31; and Sch. K-1 (Form 1065), box 14, code A.

⁴ From Sch. C, line 7; and Sch. K-1 (Form 1065), box 14, code C.

Qualified Business Income Deduction Simplified Computation

2019

Attachment
Sequence No. **55**

Department of the Treasury
Internal Revenue Service

▶ **Attach to your tax return.**
▶ **Go to www.irs.gov/Form8995 for instructions and the latest information.**

| | |
|--|---|
| Name(s) shown on return John E. Michaels | Your taxpayer identification number 011-00-1111 |
|--|---|

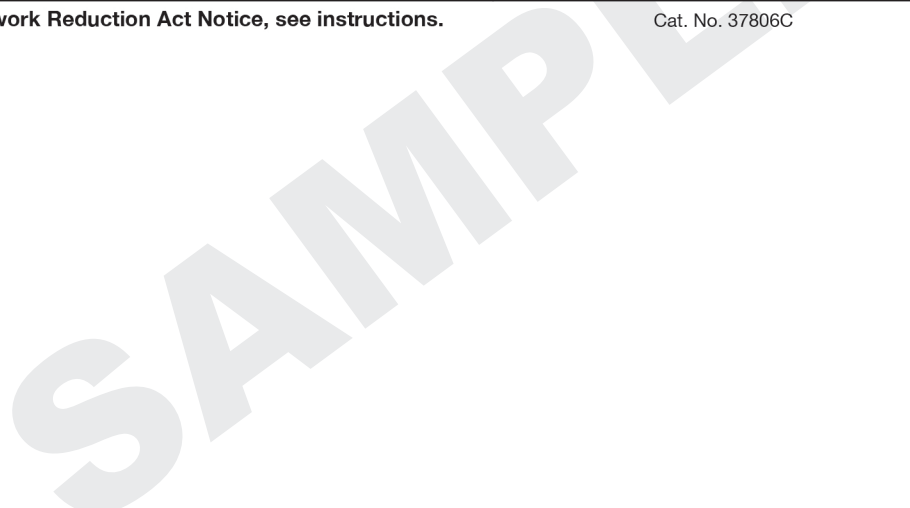
| 1 | (a) Trade, business, or aggregation name | (b) Taxpayer identification number | (c) Qualified business income or (loss) |
|-----|--|------------------------------------|---|
| i | Minister | 011-00-1111 | 3,482 |
| ii | | | |
| iii | | | |
| iv | | | |
| v | | | |

| | | | | | |
|----|---|-----------|---------------|-----------|--------------|
| 2 | Total qualified business income or (loss). Combine lines 1i through 1v, column (c) | 2 | 3,482 | | |
| 3 | Qualified business net (loss) carryforward from the prior year | 3 | (0) | | |
| 4 | Total qualified business income. Combine lines 2 and 3. If zero or less, enter -0- | 4 | 3,482 | | |
| 5 | Qualified business income component. Multiply line 4 by 20% (0.20) | | | 5 | 696 |
| 6 | Qualified REIT dividends and publicly traded partnership (PTP) income or (loss) (see instructions) | 6 | | | |
| 7 | Qualified REIT dividends and qualified PTP (loss) carryforward from the prior year | 7 | () | | |
| 8 | Total qualified REIT dividends and PTP income. Combine lines 6 and 7. If zero or less, enter -0- | 8 | | | |
| 9 | REIT and PTP component. Multiply line 8 by 20% (0.20) | | | 9 | 0 |
| 10 | Qualified business income deduction before the income limitation. Add lines 5 and 9 | | | 10 | 696 |
| 11 | Taxable income before qualified business income deduction | 11 | 23,478 | | |
| 12 | Net capital gain (see instructions) | 12 | 0 | | |
| 13 | Subtract line 12 from line 11. If zero or less, enter -0- | 13 | 23,478 | | |
| 14 | Income limitation. Multiply line 13 by 20% (0.20) | | | 14 | 4,696 |
| 15 | Qualified business income deduction. Enter the lesser of line 10 or line 14. Also enter this amount on the applicable line of your return ▶ | | | 15 | 696 |
| 16 | Total qualified business (loss) carryforward. Combine lines 2 and 3. If greater than zero, enter -0- | 16 | (0) | | |
| 17 | Total qualified REIT dividends and PTP (loss) carryforward. Combine lines 6 and 7. If greater than zero, enter -0- | 17 | (0) | | |

For Privacy Act and Paperwork Reduction Act Notice, see instructions.

Cat. No. 37806C

Form **8995** (2019)



Attachment 1. Computation of expenses, allocable to tax-free ministerial income, that are non-deductible.

| | | Taxable | Tax-Free | Total |
|---|---------------|------------------|------------------|------------------|
| Salary as a minister | | \$ 45,000 | | \$ 45,000 |
| Parsonage allowance: | | | | |
| Amount designated and paid by church (\$1,400 x 12) | \$ 16,800 | | | |
| Actual expenses | | | | |
| (Mortgage \$1,125 x 12, Utilities/other \$1,450, Real estate taxes \$1,750) | 16,700 | | | |
| Fair rental value of home (furnished, plus utilities) (\$1,380 x 12) | 16,560 | | | |
| Taxable portion of allowance | | | | |
| (excess of amount designated & paid over lesser of actual expenses or fair rental value) | <u>\$ 240</u> | 240 | | 240 |
| Tax-free portion of allowance (lesser of amount designated, actual expenses or fair rental value) | | | 16,560 | 16,560 |
| Gross income from weddings, baptisms, and honoraria | | <u>4,000</u> | | <u>4,000</u> |
| Ministerial Income | | <u>\$ 49,240</u> | <u>\$ 16,560</u> | <u>\$ 65,800</u> |
| % of non-deductible expenses: \$16,560/\$65,800 = 25% | | | | |

| Schedule C Deduction Computation | | |
|---|--|----------------|
| Marriage and family booklets | | \$ 87 |
| Minus: Non-deductible part of marriage and family booklets (25% x \$87) | | <u>\$ (22)</u> |
| Total marriage and family booklets (Line 27a) | | <u>\$ 65</u> |
| Business use of car: | | |
| 433 miles x 58¢ | | \$ 251 |
| Minus: Non-deductible part of business use of car (25% x \$251) | | <u>\$ (63)</u> |
| Total business use of car (Line 9) | | <u>\$ 188</u> |
| Schedule C deductions (line 28) | | <u>\$ 253</u> |

Attachment 2. Attachment to Schedule SE

| | | |
|---|-------|------------------|
| Church wages | | \$ 45,000 |
| Parsonage allowance | | 16,800 |
| Net profit from Schedule C | | <u>3,747</u> |
| | | 65,547 |
| Less: | | |
| Schedule C expenses allocable to tax-free income | \$ 85 | |
| Ministerial employee unreimbursed business expenses | | |
| Car expenses for church business: | | |
| 2,443 miles x 58¢ | | 1,417 |
| Publications and booklets | | <u>219</u> |
| Net self-employment income | | <u>(1,721)</u> |
| Schedule SE, Section A, line 2 | | <u>\$ 63,826</u> |

Example Two: Retired Minister

Rev. William K. Green is a retired minister. He is 69 years old. He is married to Sarah J. Green. She is 65 years old and is also retired. For 2019, Rev. Green received \$15,000 in annuity income, all of which was designated in advance by GuideStone as a housing allowance. Rev. Green had housing expenses of \$13,000. The home's fair rental value is \$1,200 per month (furnished, plus utilities). Housing allowances for retired ministers are not taxable in computing federal income tax to the extent that they do not exceed the lesser of actual housing expenses or the annual fair rental value of the home (furnished, plus utilities). Retirement benefits, whether or not designated in advance as a housing allowance, are not subject to SECA.

Rev. Green received \$12,000 in Social Security benefits in 2019, and his wife received \$6,000. None of this income is taxable, however, because the Greens' income is not enough to expose their Social Security benefits to tax.

In 2019, Rev. Green received \$2,000 from occasional guest preaching engagements. He incurred \$586 in expenses as a result of these activities (\$436 of travel expenses and \$150 of meal expenses). Note that Rev. Green will pay SECA on this income (see *Schedule SE*), since it represents compensation from active ministry.

The parts of Rev. and Mrs. Green's income tax return are explained in the order they are completed. They are illustrated in the order that Rev. Green will assemble the return to send it to the IRS.

Form 1099-R from GuideStone

GuideStone completed *Form 1099-R* for Rev. Green as follows:

Box 1. The \$15,000 pension income Rev. Green receives from GuideStone.

Box 2a. Taxable amount not determined. GuideStone designated in advance 100 percent of pension income as a housing allowance. It is not taxable to the extent that it does not exceed the lesser of actual housing expenses or the annual fair rental value of the home (furnished, plus utilities).

Box 7. Rev. Green's pension income is a normal distribution.

Schedule C

Note, for 2019, the IRS announced that it will not be issuing the *Schedule C-EZ*. Therefore, *Schedule C* will be used.

Some of Rev. Green's entries on *Schedule C* are explained here.

Line 1. Rev. Green reports the \$2,000 from occasional guest preaching engagements.

Lines 2–7. Rev. Green fills out these lines to report his gross income reported on line 7. Rev. Green did not have any returns or allowances, cost of goods sold, or other income for the year. Therefore, the amount reported on line 7 is \$2,000.

Line 9. Rev. Green reports his car expenses on this line. Rev. Green incurred 752 miles of business use of his car, in connection with guest preaching. Rev. Green used the standard mileage rate to figure his car expense. He multiplied the standard mileage rate of 58 cents by 752 miles for a total of \$436. However, he cannot deduct the part of his expenses allocable to his tax-free housing allowance. He attaches the required statement, *Attachment 1* (shown later), to his return showing that 76 percent (or \$331) of his expenses are not deductible because they are allocable to that tax-free allowance. He subtracts the \$331 from the \$436 and enters the \$105 difference on line 9.

Line 24b. Rev. Green also incurred \$75 (\$150 x 50 percent non-deductible) in business meal expenses (i.e., non-entertainment-related) in connection with guest preaching engagements. However, he cannot deduct the part of his expenses allocable to his tax-free housing allowance. He attaches the required statement, *Attachment 1* (shown later), to his return showing that 76 percent (or \$57) of his business meal expenses are not deductible because they are allocable to that tax-free allowance. He subtracts the \$57 from the \$75 and enters the \$18 difference on line 24b.

Line 28. Rev. Green enters his total expenses, less the 76 percent allocable to his tax-free housing allowance, (\$105 + \$18) on line 28.

Lines 29–31. He enters his tentative profit of \$1,877 on lines 29 and 31 (since Rev. Green did not have any expenses for the business use of his home). The net income from *Schedule C* is also reported on *Schedule 1* line 3.

Lines 43–47b. Rev. Green fills out these lines to report information about his car.

TurboTax® Tip: Listed below are tips for ministers who use TurboTax to complete their returns. These tips should not be construed as an endorsement or recommendation of the TurboTax software.

TurboTax does not appear to calculate the non-deductible portion of the expenses that should be allocated to the tax-free portion of the housing allowance. The taxpayer will need to adjust the expenses (as shown in *Attachment 1*) and input the reduced figure into the software.

Schedule SE

After Rev. Green prepares *Schedule C*, he fills out *Schedule SE*. He reads the chart on page 1 of the schedule, which tells him he can use Section A—Short Schedule SE to figure his SECA. Ministers are not church employees under this definition. He fills out the following lines in Section A:

Line 2. Rev. Green attaches a statement (see *Attachment 2*, shown later) that calculates his net profit of \$1,489, and he enters that amount here.

Line 4. He multiplies the \$1,489 by 0.9235 to get his net earnings from self-employment (\$1,375).

Line 5. The amount on line 4 is less than \$132,900, so Rev. Green multiplies the amount on line 4 (\$1,375) by 0.153 to get his SECA of \$210. He enters that amount here and on *Schedule 2* lines 4 and 10.

Line 6. Rev. Green multiplies the amount on line 5 by 0.50 to get his deduction for the employer-equivalent portion of SECA of \$105. He enters that amount here and on *Schedule 1* lines 14 and 22.

TurboTax Tip: The software does not appear to reduce self-employment wages by the business expenses allocated to tax-free income. The taxpayer will need to adjust net self-employment income (as shown in *Attachment 2*) and input the reduced figure into the software.

QBI Deduction (Form 8995)

Ministers who have net profit reported on *Schedule C* for ministerial services and who have 2019 taxable income less than \$160,700 (\$321,400 if married filing jointly) before the application of a QBI deduction may be eligible for such a deduction. However, since the Greens' taxable income before the application of a QBI deduction is \$0 (see completion of *Form 1040* section below), the Greens are not eligible for such a deduction in 2019.

Form 1040, Schedule 1, and Schedule 2

After Rev. Green prepares *Schedule C* and *Schedule SE*, he fills out *Form 1040* along with *Schedules 1* and *2* to the extent required. Rev. Green files a joint return with his wife. First he fills out *Form 1040*, page 1 and completes the appropriate lines for his filing status, including checking the appropriate boxes indicating that he and his wife were born before January 2, 1955. Then, he fills out the rest of the form as follows:

Form 1040 line 4c. Rev. Green reports his total annuity income of \$15,000 on line 4c. He reports the taxable amount

(\$2,000) as computed on *Attachment 1* (shown later) on line 4d.

Form 1040 lines 5a and 5b. Since none of Rev. Green's Social Security benefits are taxable, he does not report any amounts on line 5a or 5b.

Schedule 1 line 9. He reports his net profit of \$1,877 from *Schedule C* line 31 on *Schedule 1* line 3. Since no other amounts are reported on *Schedule 1* lines 1–8, he also reports this amount on line 9 and carries the figure to the blank space on *Form 1040* line 7a.

Form 1040 line 7b. Rev. Green adds *Form 1040* line 4d and the amount reported on *Form 1040* line 7a and enters the total (\$3,877) on line 7b.

Form 1040 line 8a. Because Rev. Green has reported deductible SECA of \$105 on *Schedule 1* line 14, Rev. Green goes to *Schedule 1* and completes the bottom section of the form. Since there are no other amounts listed on lines 10–21, Rev. Green reports \$105 on line 22 and carries this amount to line 8a of *Form 1040*. Line 8a is subtracted from line 7b. The result (\$3,772) is entered on *Form 1040* line 8b. This is his AGI.

Form 1040 line 11a. Rev. Green enters his standard deduction of \$27,000 (which takes into consideration the fact that he and his wife were born before January 2, 1955) on line 9. Since there is no amount listed for a QBI deduction on line 10, Rev. Green reports \$27,000 on line 11a.

Form 1040 line 11b. Rev. Green has no taxable income.

Form 1040, page 2, line 15 and Schedule 2. Rev. Green completes *Schedule 2*. Since the only amount reported on *Schedule 2* is his SECA from *Schedule SE*, he reports the amount (\$210) on *Schedule 2* line 10 and on *Form 1040* line 15.

Form 1040 line 17. Rev. Green did not have any income tax withheld from his pension.

Form 1040 line 23. Amount Rev. Green owes to the IRS.

CORRECTED (if checked)

| | | | | | |
|--|--|--|---|---|------------------------------------|
| PAYER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and phone no. GuideStone Financial Resources 5005 LBJ Freeway Ste 2200 Dallas, Texas 75244-6152 888-984-8433 | | 1 Gross distribution \$ 15000.00 | OMB No. 1545-0119 2019 Form 1099-R | Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc. | |
| PAYER'S TIN 23-1352040 | | 2a Taxable amount \$ 0.00 | 2b Taxable amount not determined <input checked="" type="checkbox"/> Total distribution <input type="checkbox"/> | | |
| RECIPIENT'S TIN 202-20-2002 | | 3 Capital gain (included in box 2a) \$ | 4 Federal income tax withheld \$ | Copy B Report this income on your federal tax return. If this form shows federal income tax withheld in box 4, attach this copy to your return. This information is being furnished to the IRS. | |
| RECIPIENT'S name William K. Green | | 5 Employee contributions/ Designated Roth contributions or insurance premiums \$ | 6 Net unrealized appreciation in employer's securities \$ | | |
| Street address (including apt. no.) 787 Adams Street | | 7 Distribution code(s) 7 | 8 Other \$ % | | |
| City or town, state or province, country, and ZIP or foreign postal code Anytown, NY 10002 | | 9a Your percentage of total distribution % | 9b Total employee contributions \$ | | |
| 10 Amount allocable to IRR within 5 years \$ | 11 1st year of desig. Roth contrib. | FATCA filing requirement <input type="checkbox"/> | 12 State tax withheld \$ | 13 State/Payer's state no. | 14 State distribution \$ |
| Account number (see instructions) | | Date of payment | 15 Local tax withheld \$ | 16 Name of locality | 17 Local distribution \$ |

Form **1099-R**

www.irs.gov/Form1099R

Department of the Treasury - Internal Revenue Service

Sample: from GuideStone

Filing Status Single Married filing jointly Married filing separately (MFS) Head of household (HOH) Qualifying widow(er) (QW)
 Check only one box. If you checked the MFS box, enter the name of spouse. If you checked the HOH or QW box, enter the child's name if the qualifying person is a child but not your dependent. ▶

| | | |
|---|-------------------------------|---|
| Your first name and middle initial William K. | Last name Green | Your social security number 2 0 2 2 0 2 0 0 2 |
| If joint return, spouse's first name and middle initial Sarah J. | Last name Green | Spouse's social security number 3 0 3 3 0 3 0 0 3 |
| Home address (number and street). If you have a P.O. box, see instructions. 787 Adams Street | | Apt. no. |
| City, town or post office, state, and ZIP code. If you have a foreign address, also complete spaces below (see instructions). Anytown, New York 10002 | | Presidential Election Campaign Check here if you, or your spouse if filing jointly, want \$3 to go to this fund. Checking a box below will not change your tax or refund. <input type="checkbox"/> You <input type="checkbox"/> Spouse |
| Foreign country name | Foreign province/state/county | Foreign postal code |
| | | If more than four dependents, see instructions and ✓ here ▶ <input type="checkbox"/> |

Standard Deduction **Someone can claim:** You as a dependent Your spouse as a dependent Spouse itemizes on a separate return or you were a dual-status alien

Age/Blindness **You:** Were born before January 2, 1955 Are blind **Spouse:** Was born before January 2, 1955 Is blind

| Dependents (see instructions): | | (2) Social security number | (3) Relationship to you | (4) ✓ if qualifies for (see instructions): | |
|---------------------------------------|-----------|----------------------------|-------------------------|--|-----------------------------|
| (1) First name | Last name | | | Child tax credit | Credit for other dependents |
| | | | | <input type="checkbox"/> | <input type="checkbox"/> |
| | | | | <input type="checkbox"/> | <input type="checkbox"/> |
| | | | | <input type="checkbox"/> | <input type="checkbox"/> |
| | | | | <input type="checkbox"/> | <input type="checkbox"/> |

| | | |
|---|------------|--------------------------|
| 1 Wages, salaries, tips, etc. Attach Form(s) W-2 | 1 | |
| 2a Tax-exempt interest | 2a | |
| 3a Qualified dividends | 3a | |
| 4a IRA distributions | 4a | |
| c Pensions and annuities | 4c | 15,000 |
| 5a Social security benefits | 5a | |
| 6 Capital gain or (loss). Attach Schedule D if required. If not required, check here | 6 | <input type="checkbox"/> |
| 7a Other income from Schedule 1, line 9 | 7a | 1,877 |
| b Add lines 1, 2b, 3b, 4b, 4d, 5b, 6, and 7a. This is your total income | 7b | 3,877 |
| 8a Adjustments to income from Schedule 1, line 22 | 8a | 105 |
| b Subtract line 8a from line 7b. This is your adjusted gross income | 8b | 3,772 |
| 9 Standard deduction or itemized deductions (from Schedule A) | 9 | 27,000 |
| 10 Qualified business income deduction. Attach Form 8995 or Form 8995-A | 10 | 0 |
| 11a Add lines 9 and 10 | 11a | 27,000 |
| b Taxable income. Subtract line 11a from line 8b. If zero or less, enter -0- | 11b | 0 |

Standard Deduction for—
 • Single or Married filing separately, \$12,200
 • Married filing jointly or Qualifying widow(er), \$24,400
 • Head of household, \$18,350
 • If you checked any box under **Standard Deduction**, see instructions.

| | | | |
|------------|--|------------|------------|
| 12a | Tax (see inst.) Check if any from Form(s): 1 <input type="checkbox"/> 8814 2 <input type="checkbox"/> 4972 3 <input type="checkbox"/> _____ | 12a | |
| b | Add Schedule 2, line 3, and line 12a and enter the total | 12b | |
| 13a | Child tax credit or credit for other dependents | 13a | |
| b | Add Schedule 3, line 7, and line 13a and enter the total | 13b | |
| 14 | Subtract line 13b from line 12b. If zero or less, enter -0- | 14 | |
| 15 | Other taxes, including self-employment tax, from Schedule 2, line 10 | 15 | 210 |
| 16 | Add lines 14 and 15. This is your total tax | 16 | |
| 17 | Federal income tax withheld from Forms W-2 and 1099 | 17 | |
| 18 | Other payments and refundable credits: | | |
| a | Earned income credit (EIC) | 18a | |
| b | Additional child tax credit. Attach Schedule 8812 | 18b | |
| c | American opportunity credit from Form 8863, line 8 | 18c | |
| d | Schedule 3, line 14 | 18d | |
| e | Add lines 18a through 18d. These are your total other payments and refundable credits | 18e | |
| 19 | Add lines 17 and 18e. These are your total payments | 19 | |

• If you have a qualifying child, attach Sch. EIC.
• If you have nontaxable combat pay, see instructions.

Refund

Direct deposit?
See instructions.

| | | | |
|--|---|------------|--|
| 20 | If line 19 is more than line 16, subtract line 16 from line 19. This is the amount you overpaid | 20 | |
| 21a | Amount of line 20 you want refunded to you . If Form 8888 is attached, check here <input type="checkbox"/> | 21a | |
| <input checked="" type="checkbox"/> b | Routing number _____ c Type: <input type="checkbox"/> Checking <input type="checkbox"/> Savings | | |
| <input checked="" type="checkbox"/> d | Account number _____ | | |
| 22 | Amount of line 20 you want applied to your 2020 estimated tax | 22 | |

Amount You Owe

| | | | |
|-----------|---|-----------|------------|
| 23 | Amount you owe. Subtract line 19 from line 16. For details on how to pay, see instructions | 23 | 210 |
| 24 | Estimated tax penalty (see instructions) | 24 | |

Third Party Designee

(Other than paid preparer)

Do you want to allow another person (other than your paid preparer) to discuss this return with the IRS? See instructions. **Yes.** Complete below. **No**

| | | | |
|-------------------|-------------|--|-------|
| Designee's name ▶ | Phone no. ▶ | Personal identification number (PIN) ▶ | _____ |
|-------------------|-------------|--|-------|

Sign Here

Joint return?
See instructions. Keep a copy for your records.

Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.

| | | | |
|---|-----------------|--|--|
| Your signature William Green | Date 3/15/20 | Your occupation Retired Minister | If the IRS sent you an Identity Protection PIN, enter it here (see inst.) _____ |
| Spouse's signature. If a joint return, both must sign. Sarah Green | Date 3/15/20 | Spouse's occupation Retired | If the IRS sent your spouse an Identity Protection PIN, enter it here (see inst.) _____ |
| Phone no. | Email address | | |

Paid Preparer Use Only

| | | | | |
|------------------|----------------------|------|--------------|--|
| Preparer's name | Preparer's signature | Date | PTIN | Check if: <input type="checkbox"/> 3rd Party Designee <input type="checkbox"/> Self-employed |
| Firm's name ▶ | Phone no. | | Firm's EIN ▶ | |
| Firm's address ▶ | | | | |



SCHEDULE 1
(Form 1040 or 1040-SR)

Department of the Treasury
Internal Revenue Service

Additional Income and Adjustments to Income

▶ **Attach to Form 1040 or 1040-SR.**
▶ **Go to www.irs.gov/Form1040 for instructions and the latest information.**

OMB No. 1545-0074

2019
Attachment
Sequence No. **01**

Name(s) shown on Form 1040 or 1040-SR

William K. Green

Your social security number

202-20-2002

At any time during 2019, did you receive, sell, send, exchange, or otherwise acquire any financial interest in any virtual currency? Yes No

Part I Additional Income

| | | | |
|-----------|---|-----------|--------------|
| 1 | Taxable refunds, credits, or offsets of state and local income taxes | 1 | |
| 2a | Alimony received | 2a | |
| b | Date of original divorce or separation agreement (see instructions) ▶ | | |
| 3 | Business income or (loss). Attach Schedule C | 3 | 1,877 |
| 4 | Other gains or (losses). Attach Form 4797 | 4 | |
| 5 | Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E | 5 | |
| 6 | Farm income or (loss). Attach Schedule F | 6 | |
| 7 | Unemployment compensation | 7 | |
| 8 | Other income. List type and amount ▶ | 8 | |
| 9 | Combine lines 1 through 8. Enter here and on Form 1040 or 1040-SR, line 7a | 9 | 1,877 |

Part II Adjustments to Income

| | | | |
|------------|--|------------|------------|
| 10 | Educator expenses | 10 | |
| 11 | Certain business expenses of reservists, performing artists, and fee-basis government officials. Attach Form 2106 | 11 | |
| 12 | Health savings account deduction. Attach Form 8889 | 12 | |
| 13 | Moving expenses for members of the Armed Forces. Attach Form 3903 | 13 | |
| 14 | Deductible part of self-employment tax. Attach Schedule SE | 14 | 105 |
| 15 | Self-employed SEP, SIMPLE, and qualified plans | 15 | |
| 16 | Self-employed health insurance deduction | 16 | |
| 17 | Penalty on early withdrawal of savings | 17 | |
| 18a | Alimony paid | 18a | |
| b | Recipient's SSN | | |
| c | Date of original divorce or separation agreement (see instructions) ▶ | | |
| 19 | IRA deduction | 19 | |
| 20 | Student loan interest deduction | 20 | |
| 21 | Reserved for future use | 21 | |
| 22 | Add lines 10 through 21. These are your adjustments to income . Enter here and on Form 1040 or 1040-SR, line 8a | 22 | 105 |

For Paperwork Reduction Act Notice, see your tax return instructions.

Cat. No. 71479F

Schedule 1 (Form 1040 or 1040-SR) 2019

SCHEDULE 2
(Form 1040 or 1040-SR)

Department of the Treasury
Internal Revenue Service

Additional Taxes

▶ **Attach to Form 1040 or 1040-SR.**

▶ **Go to www.irs.gov/Form1040 for instructions and the latest information.**

OMB No. 1545-0074

2019
Attachment
Sequence No. **02**

Name(s) shown on Form 1040 or 1040-SR

William K. Green

Your social security number

202-20-2002

Part I Tax

| | | | |
|----------|---|----------|--|
| 1 | Alternative minimum tax. Attach Form 6251 | 1 | |
| 2 | Excess advance premium tax credit repayment. Attach Form 8962 | 2 | |
| 3 | Add lines 1 and 2. Enter here and include on Form 1040 or 1040-SR, line 12b | 3 | |

Part II Other Taxes

| | | | |
|-----------|--|-----------|-----|
| 4 | Self-employment tax. Attach Schedule SE | 4 | 210 |
| 5 | Unreported social security and Medicare tax from Form: a <input type="checkbox"/> 4137 b <input type="checkbox"/> 8919 | 5 | |
| 6 | Additional tax on IRAs, other qualified retirement plans, and other tax-favored accounts. Attach Form 5329 if required | 6 | |
| 7a | Household employment taxes. Attach Schedule H | 7a | |
| b | Repayment of first-time homebuyer credit from Form 5405. Attach Form 5405 if required | 7b | |
| 8 | Taxes from: a <input type="checkbox"/> Form 8959 b <input type="checkbox"/> Form 8960 c <input type="checkbox"/> Instructions; enter code(s) | 8 | |
| 9 | Section 965 net tax liability installment from Form 965-A | 9 | |
| 10 | Add lines 4 through 8. These are your total other taxes . Enter here and on Form 1040 or 1040-SR, line 15 | 10 | 210 |

For Paperwork Reduction Act Notice, see your tax return instructions.

Cat. No. 71478U

Schedule 2 (Form 1040 or 1040-SR) 2019

DO NOT FILE

SAMPLE

SCHEDULE C
(Form 1040 or 1040-SR)

Profit or Loss From Business
(Sole Proprietorship)

OMB No. 1545-0074

2019
Attachment
Sequence No. **09**

Department of the Treasury
Internal Revenue Service (99)

▶ Go to www.irs.gov/ScheduleC for instructions and the latest information.

▶ Attach to Form 1040, 1040-SR, 1040-NR, or 1041; partnerships generally must file Form 1065.

| | | |
|--|---|---|
| Name of proprietor William K. Green | | Social security number (SSN) 202-20-2002 |
| A Principal business or profession, including product or service (see instructions) Minister | B Enter code from instructions ▶ 5 4 1 9 9 0 | |
| C Business name. If no separate business name, leave blank. | D Employer ID number (EIN) (see instr.) | |
| E Business address (including suite or room no.) ▶ 787 Adams Street City, town or post office, state, and ZIP code Anytown, New York 10002 | | |
| F Accounting method: (1) <input checked="" type="checkbox"/> Cash (2) <input type="checkbox"/> Accrual (3) <input type="checkbox"/> Other (specify) ▶ | | |
| G Did you "materially participate" in the operation of this business during 2019? If "No," see instructions for limit on losses | | <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No |
| H If you started or acquired this business during 2019, check here | | <input type="checkbox"/> |
| I Did you make any payments in 2019 that would require you to file Form(s) 1099? (see instructions) | | <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No |
| J If "Yes," did you or will you file required Forms 1099? | | <input type="checkbox"/> Yes <input type="checkbox"/> No |

Part I Income

| | | | | |
|----------|---|--------------------------|----------|--------------|
| 1 | Gross receipts or sales. See instructions for line 1 and check the box if this income was reported to you on Form W-2 and the "Statutory employee" box on that form was checked | <input type="checkbox"/> | 1 | 2,000 |
| 2 | Returns and allowances | | 2 | |
| 3 | Subtract line 2 from line 1 | | 3 | 2,000 |
| 4 | Cost of goods sold (from line 42) | | 4 | |
| 5 | Gross profit. Subtract line 4 from line 3 | | 5 | 2,000 |
| 6 | Other income, including federal and state gasoline or fuel tax credit or refund (see instructions) | | 6 | |
| 7 | Gross income. Add lines 5 and 6 | | 7 | 2,000 |

Part II Expenses. Enter expenses for business use of your home **only** on line 30.

| | | | | | | | |
|-----------|--|------------|------------|------------|--|------------|--------------|
| 8 | Advertising | 8 | | 18 | Office expense (see instructions) | 18 | |
| 9 | Car and truck expenses (see instructions). | 9 | 105 | 19 | Pension and profit-sharing plans | 19 | |
| 10 | Commissions and fees | 10 | | 20 | Rent or lease (see instructions): | | |
| 11 | Contract labor (see instructions) | 11 | | a | Vehicles, machinery, and equipment | 20a | |
| 12 | Depletion | 12 | | b | Other business property | 20b | |
| 13 | Depreciation and section 179 expense deduction (not included in Part III) (see instructions). | 13 | | 21 | Repairs and maintenance | 21 | |
| 14 | Employee benefit programs (other than on line 19) | 14 | | 22 | Supplies (not included in Part III) | 22 | |
| 15 | Insurance (other than health) | 15 | | 23 | Taxes and licenses | 23 | |
| 16 | Interest (see instructions): | | | 24 | Travel and meals: | | |
| a | Mortgage (paid to banks, etc.) | 16a | | a | Travel | 24a | |
| b | Other | 16b | | b | Deductible meals (see instructions) | 24b | 18 * |
| 17 | Legal and professional services | 17 | | 25 | Utilities | 25 | |
| 18 | Total expenses before expenses for business use of home. Add lines 8 through 27a | 18 | | 26 | Wages (less employment credits) | 26 | |
| 19 | Tentative profit or (loss). Subtract line 28 from line 7 | 19 | | 27a | Other expenses (from line 48) | 27a | |
| 20 | Expenses for business use of your home. Do not report these expenses elsewhere. Attach Form 8829 unless using the simplified method (see instructions). Simplified method filers only: enter the total square footage of: (a) your home: _____ and (b) the part of your home used for business: _____. Use the Simplified Method Worksheet in the instructions to figure the amount to enter on line 30 | 20 | | 27b | Reserved for future use | 27b | |
| 21 | Net profit or (loss). Subtract line 30 from line 29. | 21 | | 28 | Total expenses before expenses for business use of home. Add lines 8 through 27a | 28 | 123 |
| 22 | If you have a profit, enter on both Schedule 1 (Form 1040 or 1040-SR), line 3 (or Form 1040-NR, line 13) and on Schedule SE, line 2 . (If you checked the box on line 1, see instructions). Estates and trusts, enter on Form 1041, line 3 . | 22 | | 29 | Tentative profit or (loss). Subtract line 28 from line 7 | 29 | 1,877 |
| 23 | If a loss, you must go to line 32. | 23 | | 30 | Expenses for business use of your home. Do not report these expenses elsewhere. Attach Form 8829 unless using the simplified method (see instructions). Simplified method filers only: enter the total square footage of: (a) your home: _____ and (b) the part of your home used for business: _____. Use the Simplified Method Worksheet in the instructions to figure the amount to enter on line 30 | 30 | |
| 24 | If you have a loss, check the box that describes your investment in this activity (see instructions). | 24 | | 31 | Net profit or (loss). Subtract line 30 from line 29. | 31 | 1,877 |
| 25 | If you checked 32a, enter the loss on both Schedule 1 (Form 1040 or 1040-SR), line 3 (or Form 1040-NR, line 13) and on Schedule SE, line 2 . (If you checked the box on line 1, see the line 31 instructions). Estates and trusts, enter on Form 1041, line 3 . | 25 | | 32a | <input type="checkbox"/> All investment is at risk. | | |
| 26 | If you checked 32b, you must attach Form 6198 . Your loss may be limited. | 26 | | 32b | <input type="checkbox"/> Some investment is not at risk. | | |

* See statement attached.

Part III Cost of Goods Sold (see instructions)

- 33 Method(s) used to value closing inventory: **a** Cost **b** Lower of cost or market **c** Other (attach explanation)
 - 34 Was there any change in determining quantities, costs, or valuations between opening and closing inventory? If "Yes," attach explanation **Yes** **No**
- | | | |
|--|----|--|
| 35 Inventory at beginning of year. If different from last year's closing inventory, attach explanation | 35 | |
| 36 Purchases less cost of items withdrawn for personal use | 36 | |
| 37 Cost of labor. Do not include any amounts paid to yourself | 37 | |
| 38 Materials and supplies | 38 | |
| 39 Other costs | 39 | |
| 40 Add lines 35 through 39 | 40 | |
| 41 Inventory at end of year | 41 | |
| 42 Cost of goods sold. Subtract line 41 from line 40. Enter the result here and on line 4 | 42 | |

Part IV Information on Your Vehicle. Complete this part **only** if you are claiming car or truck expenses on line 9 and are not required to file Form 4562 for this business. See the instructions for line 13 to find out if you must file Form 4562.

- 43 When did you place your vehicle in service for business purposes? (month, day, year) ▶ 07 / 15 / 2012
- 44 Of the total number of miles you drove your vehicle during 2019, enter the number of miles you used your vehicle for:
 - a** Business 752 **b** Commuting (see instructions) 0 **c** Other 12,682
- 45 Was your vehicle available for personal use during off-duty hours? **Yes** **No**
- 46 Do you (or your spouse) have another vehicle available for personal use?. **Yes** **No**
- 47a Do you have evidence to support your deduction? **Yes** **No**
- b** If "Yes," is the evidence written? **Yes** **No**

Part V Other Expenses. List below business expenses not included on lines 8–26 or line 30.

| | | |
|--|----|--|
| _____ _____ _____ _____ _____ _____ _____ _____ _____ _____ | | |
| 48 Total other expenses. Enter here and on line 27a | 48 | |

SCHEDULE SE
(Form 1040 or 1040-SR)

Self-Employment Tax

OMB No. 1545-0074

2019

Attachment
Sequence No. **17**

Department of the Treasury
Internal Revenue Service (99)

► Go to www.irs.gov/ScheduleSE for instructions and the latest information.
► Attach to Form 1040, 1040-SR, or 1040-NR.

Name of person with self-employment income (as shown on Form 1040, 1040-SR, or 1040-NR)

Social security number of person
with self-employment income ►

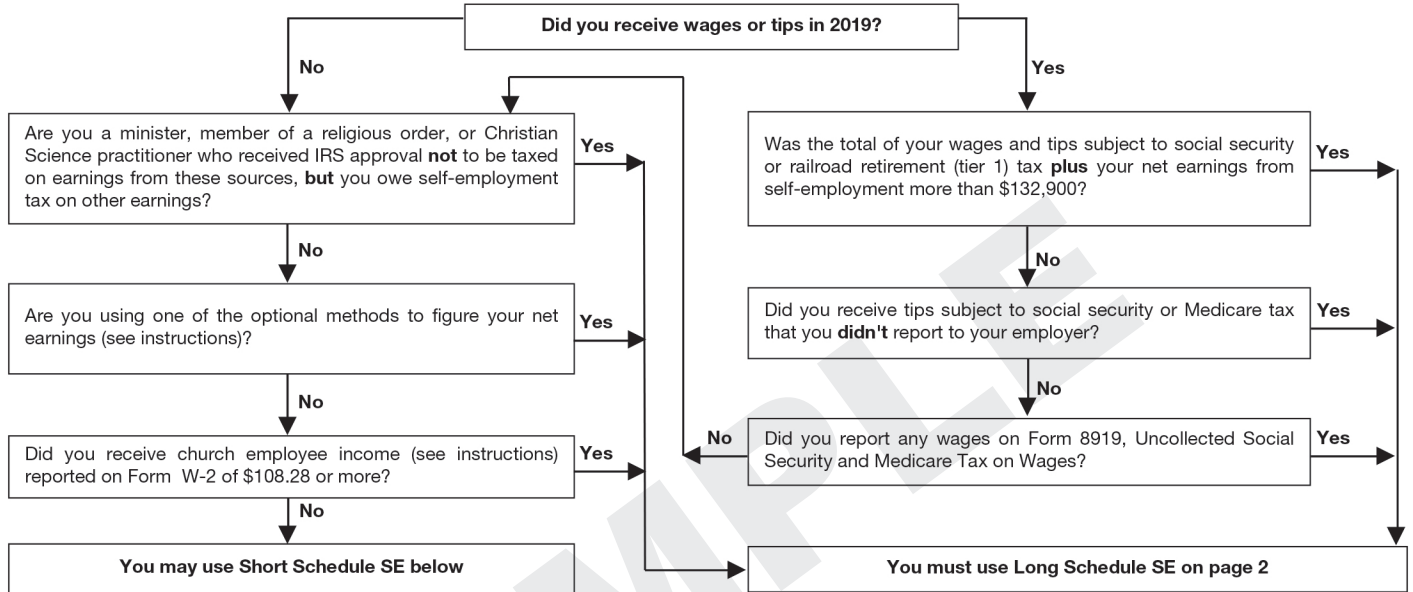
William K. Green

202-20-2002

Before you begin: To determine if you must file Schedule SE, see the instructions.

May I Use Short Schedule SE or Must I Use Long Schedule SE?

Note: Use this flowchart **only** if you must file Schedule SE. If unsure, see *Who Must File Schedule SE* in the instructions.



Section A—Short Schedule SE. Caution: Read above to see if you can use Short Schedule SE.

| | | | |
|-----------|--|-----------|---------|
| 1a | Net farm profit or (loss) from Schedule F, line 34, and farm partnerships, Schedule K-1 (Form 1065), box 14, code A | 1a | |
| b | If you received social security retirement or disability benefits, enter the amount of Conservation Reserve Program payments included on Schedule F, line 4b, or listed on Schedule K-1 (Form 1065), box 20, code AH | 1b | () |
| 2 | Net profit or (loss) from Schedule C, line 31; and Schedule K-1 (Form 1065), box 14, code A (other than farming). Ministers and members of religious orders, see instructions for types of income to report on this line. See instructions for other income to report | 2 | 1,489 * |
| 3 | Combine lines 1a, 1b, and 2 | 3 | 1,489 |
| 4 | Multiply line 3 by 92.35% (0.9235). If less than \$400, you don't owe self-employment tax; don't file this schedule unless you have an amount on line 1b ► | 4 | 1,375 |
| 5 | Self-employment tax. If the amount on line 4 is: • \$132,900 or less, multiply line 4 by 15.3% (0.153). Enter the result here and on Schedule 2 (Form 1040 or 1040-SR), line 4, or Form 1040-NR, line 55. • More than \$132,900, multiply line 4 by 2.9% (0.029). Then, add \$16,479.60 to the result. Enter the total here and on Schedule 2 (Form 1040 or 1040-SR), line 4, or Form 1040-NR, line 55 . | 5 | 210 |
| 6 | Deduction for one-half of self-employment tax. Multiply line 5 by 50% (0.50). Enter the result here and on Schedule 1 (Form 1040 or 1040-SR), line 14, or Form 1040-NR, line 27 | 6 | 105 |

For Paperwork Reduction Act Notice, see your tax return instructions.

Cat. No. 11358Z

Schedule SE (Form 1040 or 1040-SR) 2019

* See statement attached.

Name of person with self-employment income (as shown on Form 1040, 1040-SR, or 1040-NR)

Social security number of person with self-employment income

202-20-2002

William K. Green

Section B—Long Schedule SE

Part I Self-Employment Tax

Note: If your only income subject to self-employment tax is church employee income, see instructions. Also see instructions for the definition of church employee income.

A If you are a minister, member of a religious order, or Christian Science practitioner and you filed Form 4361, but you had \$400 or more of other net earnings from self-employment, check here and continue with Part I

1a Net farm profit or (loss) from Schedule F, line 34, and farm partnerships, Schedule K-1 (Form 1065), box 14, code A. Note: Skip lines 1a and 1b if you use the farm optional method (see instructions)

b If you received social security retirement or disability benefits, enter the amount of Conservation Reserve Program payments included on Schedule F, line 4b, or listed on Schedule K-1 (Form 1065), box 20, code AH

2 Net profit or (loss) from Schedule C, line 31; and Schedule K-1 (Form 1065), box 14, code A (other than farming). Ministers and members of religious orders, see instructions for types of income to report on this line. See instructions for other income to report. Note: Skip this line if you use the nonfarm optional method (see instructions)

3 Combine lines 1a, 1b, and 2

4a If line 3 is more than zero, multiply line 3 by 92.35% (0.9235). Otherwise, enter amount from line 3. Note: If line 4a is less than \$400 due to Conservation Reserve Program payments on line 1b, see instructions.

b If you elect one or both of the optional methods, enter the total of lines 15 and 17 here

c Combine lines 4a and 4b. If less than \$400, stop; you don't owe self-employment tax. Exception: If less than \$400 and you had church employee income, enter -0- and continue

5a Enter your church employee income from Form W-2. See instructions for definition of church employee income

b Multiply line 5a by 92.35% (0.9235). If less than \$100, enter -0-

6 Add lines 4c and 5b

7 Maximum amount of combined wages and self-employment earnings subject to social security tax or the 6.2% portion of the 7.65% railroad retirement (tier 1) tax for 2019

8a Total social security wages and tips (total of boxes 3 and 7 on Form(s) W-2) and railroad retirement (tier 1) compensation. If \$132,900 or more, skip lines 8b through 10, and go to line 11

b Unreported tips subject to social security tax (from Form 4137, line 10)

c Wages subject to social security tax (from Form 8919, line 10)

d Add lines 8a, 8b, and 8c

9 Subtract line 8d from line 7. If zero or less, enter -0- here and on line 10 and go to line 11

10 Multiply the smaller of line 6 or line 9 by 12.4% (0.124)

11 Multiply line 6 by 2.9% (0.029)

12 Self-employment tax. Add lines 10 and 11. Enter here and on Schedule 2 (Form 1040 or 1040-SR), line 4, or Form 1040-NR, line 55

13 Deduction for one-half of self-employment tax. Multiply line 12 by 50% (0.50). Enter the result here and on Schedule 1 (Form 1040 or 1040-SR), line 14, or Form 1040-NR, line 27

Table with 2 columns: Line number and Amount. Line 7: 132,900. Line 14: 5,440.

Part II Optional Methods To Figure Net Earnings (see instructions)

Farm Optional Method. You may use this method only if (a) your gross farm income1 wasn't more than \$8,160, or (b) your net farm profits2 were less than \$5,891.

14 Maximum income for optional methods

15 Enter the smaller of: two-thirds (2/3) of gross farm income1 (not less than zero) or \$5,440. Also include this amount on line 4b above

Nonfarm Optional Method. You may use this method only if (a) your net nonfarm profits3 were less than \$5,891 and also less than 72.189% of your gross nonfarm income,4 and (b) you had net earnings from self-employment of at least \$400 in 2 of the prior 3 years. Caution: You may use this method no more than five times.

16 Subtract line 15 from line 14

17 Enter the smaller of: two-thirds (2/3) of gross nonfarm income4 (not less than zero) or the amount on line 16. Also include this amount on line 4b above

Table with 2 columns: Line number and Amount. Line 14: 5,440.

1 From Sch. F, line 9, and Sch. K-1 (Form 1065), box 14, code B.

2 From Sch. F, line 34, and Sch. K-1 (Form 1065), box 14, code A—minus the amount you would have entered on line 1b had you not used the optional method.

3 From Sch. C, line 31; and Sch. K-1 (Form 1065), box 14, code A.

4 From Sch. C, line 7; and Sch. K-1 (Form 1065), box 14, code C.

Attachment 1. Computation of expenses, allocable to tax-free ministerial income, that are non-deductible.

| <u>% of Non-deductible Expenses</u> | | | | |
|--|-----------------|-----------------|------------------|------------------|
| | | <u>Taxable</u> | <u>Tax-Free</u> | <u>Total</u> |
| Parsonage allowance: | | | | |
| Ministerial retirement benefits designated as housing allowance | \$ 15,000 | | | |
| Actual expenses | \$ 13,000 | | | |
| Fair rental value of home (furnished, plus utilities) (\$1,200 x 12) | \$ 14,400 | | | |
| Taxable portion of allowance (excess of amount designated & paid over lesser of actual expenses or fair rental value) | <u>\$ 2,000</u> | \$ 2,000 | | \$ 2,000 |
| Tax-free portion of allowance (lesser of amount designated, actual expenses or fair rental value) | | | 13,000 | 13,000 |
| Gross income from occasional guest preaching engagements | | 2,000 | | 2,000 |
| Ministerial Income | | <u>\$ 4,000</u> | <u>\$ 13,000</u> | <u>\$ 17,000</u> |
| % of non-deductible expenses: \$13,000/\$17,000 = 76% | | | | |

| <u>Schedule C Deduction Computation</u> | |
|--|-------------------|
| Business use of car: | |
| 752 miles x 58¢ | \$ 436 |
| Minus: Non-deductible part of business use of car (76% x \$436) | \$ (331) |
| Total business use of car (Line) | <u>\$ 105</u> |
| Meal expenses (\$150 less 50% reduction) | \$ 75 |
| Minus: Non-deductible part of meals & entertainment (76% x \$75) | \$ (57) |
| Total meal expenses (Line) | <u>\$ 18</u> |
| <i>Schedule C</i> deductions, line 28 | <u>\$ 123</u> |
| None of the other deductions claimed in the return are allocable to tax-free income. | |

Attachment 2. Computation of net earnings from self-employment

| <u>Computation for Schedule SE</u> | | |
|---|-------------|-----------------|
| Gross income from <i>Schedule C</i> | | \$ 2,000 |
| Less: | | |
| Unadjusted <i>Schedule C</i> business use of car expenses | (436) | |
| Unadjusted <i>Schedule C</i> meal expenses | <u>(75)</u> | <u>(511)</u> |
| Net self-employment income | | |
| <i>Schedule SE</i> , Section A, line 2 | | <u>\$ 1,489</u> |



2020

FEDERAL REPORTING **REQUIREMENTS** *for Churches*

Richard R. Hammar, J.D., LL.M., CPA
Senior Editor, *Church Law & Tax*



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This publication is intended to provide a timely, accurate, and authoritative discussion of tax reporting compliance and the impact of recent changes in the tax laws. It is not intended as a substitute for legal, accounting, or other professional advice. If legal, tax, or other expert assistance is required, the services of a competent professional should be sought. Although we believe this book provides accurate information, there may be changes resulting from IRS or judicial interpretations of the tax code, new tax regulations, or technical corrections that occurred after the printing of this edition that are not reflected in the text.

INTRODUCTION

The most important federal reporting obligation for most churches is the withholding and reporting of employee income taxes and Social Security taxes. These payroll reporting requirements apply, in whole or in part, to almost every church. Yet many churches do not fully comply with them for various reasons, including the following:

- The church treasurer is elected by the congregation and does not remain in office long enough to understand the application of the payroll tax reporting rules to churches.
- Church leaders assume that churches are exempt from the payroll tax reporting requirements. This is a false assumption. The courts have rejected the argument that the application of the payroll tax reporting rules to churches violates the constitutional guaranty of religious freedom.
- There are a number of special payroll tax reporting rules that apply to churches, and these often are not clearly understood by church staff members. These special rules include the following:
 - While most ministers are employees for federal income tax reporting, they are self-employed for Social Security with respect to compensation they receive for ministerial services. This means that they pay the self-employment tax (SECA) rather than the employee's share of Social Security and Medicare taxes (FICA) — even if they report their federal income taxes as a church employee. It is a common mistake for churches to treat ministers as employees for Social Security and to withhold the employee's share of FICA from their wages.
 - Wages paid to a minister as compensation for ministerial services are exempt from mandatory income tax withholding whether the minister reports income taxes as an employee or as self-employed. Ministers use the estimated tax procedure to pay their federal taxes, unless they have entered into a voluntary withholding agreement with their employing church (explained below).
 - Some churches are exempt from the employer's share of FICA because they filed a timely exemption application. For most churches, this exemption had to be filed before October 31, 1984. The exemption does not excuse the church from income tax withholding, filing *Form 941*, or issuing *Forms W-2* to church employees. The non-minister employees of a church that filed this exemption application are treated as self-employed for Social Security and must pay SECA if they are paid \$108.28 or more during the year.

▲ **Warning:** Federal law specifies that any corporate officer, director, or employee who is responsible for withholding taxes and paying them over to the government may be

liable for a penalty in the amount of 100 percent of such taxes if they are either not withheld or not paid over to the government. This penalty is of special relevance to church leaders, given the high rate of non-compliance by churches with the payroll reporting procedures.

MAXIMIZING TAX BENEFITS FOR YOUR MINISTER

Housing Allowance (and Parsonage Allowance)

- 🗨️ **Key Point:** The housing allowance was challenged in federal court as an unconstitutional preference for religion. In 2019, a federal appeals court rejected this argument and affirmed the constitutionality of the allowance.

The most important tax benefit available to ministers who own or rent their homes is the housing allowance exclusion. Unfortunately, many churches fail to designate a portion of their minister's compensation as a housing allowance and thereby deprive the minister of an important tax benefit.

A housing allowance is simply a portion of a minister's compensation that is so designated in advance by the minister's employing church. For example, in December 2019 a church agrees to pay its pastor total compensation of \$45,000 for 2020 and designates \$15,000 of this amount as a housing allowance (the remaining \$30,000 is salary). This costs the church nothing. It is simply a matter of designating part of a minister's salary as a housing allowance.

The tax code specifies that the housing allowance of a minister who owns or rents a home is non-taxable in computing federal income taxes to the extent that it is (1) declared in advance; (2) used for housing expenses; and (3) does not exceed the fair rental value of the minister's home (furnished, plus utilities).

- 🗨️ **Key Point:** Under no circumstances can a church designate a housing allowance retroactively.
- 🗨️ **Key Point:** Although repayments of principal and interest on a home mortgage loan qualify as a housing expense to which a housing allowance can be applied, costs associated with refinancing a principal residence or a home equity loan qualify only if the proceeds are used for housing expenses.

Ministers who live in a church-owned parsonage that is provided rent-free as compensation for ministerial services do not include the annual fair rental value of the parsonage as income in computing their federal income taxes. The annual fair rental value is not deducted from the minister's income. Rather, it is

not reported as additional income on *Form 1040* (as it generally would be by non-clergy workers). Ministers who live in a church-provided parsonage do not pay federal income taxes on the amount of their compensation that their employing church designates in advance as a parsonage allowance, to the extent that the allowance represents compensation for ministerial services and is used to pay parsonage-related expenses such as utilities, repairs, and furnishings.

Note that the housing allowance and fair rental value of a parsonage are non-taxable only when computing federal income taxes. Ministers must include their housing allowance and fair rental value of a parsonage as taxable income when computing their SECA (except for retired ministers). In addition, any housing provided to a minister that is excludible from taxable income pursuant to IRC §119 (relating to housing provided on an employer's premises "for the convenience of the employer") also must be included in a minister's taxable income when computing self-employment income.

📌 **Key Point:** Be sure that the designation of a housing allowance for the following year is on the agenda of the church or church board for its last meeting of the current year. The designation should be an official action, and it should be duly recorded in the minutes of the meeting. The IRS also recognizes designations in employment contracts and budget line items — assuming that the church duly adopted the designation and it is reflected in a written document.

Accountable Reimbursements

The elimination of an itemized deduction for most expenses, including unreimbursed employee business expenses, will hit some clergy hard. Many tax professionals are encouraging the use of accountable reimbursement plans as a means of easing the negative tax impact. The basis for this idea is the fact that while the Tax Cuts and Jobs Act of 2017 eliminated "all miscellaneous itemized deductions that are subject to the 2 percent floor under present law" (including unreimbursed employee business expenses and non-accountable reimbursed expenses), it did not modify or repeal section 62(a)(2)(A) of the tax code, which excludes from tax employer reimbursements of employee business expenses under an accountable plan.

To be accountable, a church's reimbursement arrangement must comply with all four of the following rules:

1. Expenses must have a business connection — that is, the reimbursed expenses must represent expenses incurred by an employee while performing services for the employer.
2. Employees are reimbursed only for expenses for which they provide an adequate accounting within a reasonable period of time (not more than 60 days after an expense is incurred).

3. Employees must return any excess reimbursement or allowance within a reasonable period of time (not more than 120 days after an excess reimbursement is paid).
4. The income tax regulations caution that in order for an employer's reimbursement arrangement to be accountable, it must meet a reimbursement requirement in addition to the three requirements summarized above. The reimbursement requirement means that an employer's reimbursements of an employee's business expenses come out of the employer's funds and not by reducing the employee's salary.

📌 **Key Point:** Reimbursements of business expenses under an accountable arrangement are not reported as taxable income on an employee's *Form W-2* or *Form 1040*, and there are no deductions to claim. In effect, the employee is reporting to the church rather than to the IRS. This often translates into significant tax savings for the employee.

An accountable reimbursement arrangement should be established by the church board or congregation in an appropriate resolution. In adopting a resolution, pay special attention to the following rules:

- Condition the reimbursement of any expense on adequate substantiation. This will include written evidence for all expenses and receipts for expenses of \$75 or more. For most expenses, the evidence must substantiate the amount, date, place, and business nature of each expense. The key point is this: A church must require the same degree of substantiation as would be required for a deduction on the minister's income tax return.
- Expenses must be substantiated, and excess reimbursements returned to the church, within a reasonable time. Expenses will be deemed substantiated within a reasonable time if they are substantiated within 60 days. Excess reimbursements will be deemed to be returned to the employer within a reasonable time if they are returned within 120 days.

Churches occasionally reimburse ministers for **non-business** expenses. Such reimbursements, though they require an accounting, ordinarily must be included in the minister's wages for income tax reporting purposes, and they are not deductible by the minister. Instead, the entire amount of these reimbursements must be reported as taxable income on the minister's *Form W-2* and *Form 1040*. For example, reimbursing the travel costs associated with the minister's spouse to travel with the minister is a non-business expense, even if the church requires the spouse to accompany the minister for accountability purposes. The reimbursement of the travel expenses would be taxable to the minister.

Flexible Spending Accounts

A health Flexible Spending Account (FSA) allows employees to be reimbursed for medical expenses. FSAs are usually funded through voluntary salary reduction agreements with one's employer. No payroll taxes are deducted from employee contributions. The employer also may contribute.

FSAs have several benefits, including the following: (1) Employer contributions can be non-taxable; (2) no payroll taxes are deducted from employee contributions; (3) withdrawals may be tax-free if used to pay qualified medical expenses; and (4) employees can withdraw funds from an FSA to pay qualified medical expenses even if they have not placed the funds in the account.

Generally, distributions from a health FSA must be paid to reimburse the employee for qualified medical expenses. Qualified medical expenses are those incurred by an employee or the employee's spouse and certain dependents (including a child under age 27 at the end of the year).

Employees must be able to receive the total amount they have elected to contribute for the year at any time during the year, regardless of the amount they have actually contributed.

FSAs are "use-it-or-lose-it" plans. This means that amounts in the account at the end of the plan year cannot be carried over to the next year. However, the plan can provide for a grace period of up to 2½ months after the end of the plan year. If there is a grace period, any qualified medical expenses incurred in that period can be paid from any amounts left in the account at the end of the previous year. An employer is not permitted to refund any part of the balance to the employee.

Key Point: An employer, at its option, may amend its cafeteria plan document to provide for the carryover to the immediately following plan year of up to \$500 of any amount remaining unused as of the end of the plan year in a health FSA. The carryover of up to \$500 may be used to pay or reimburse medical expenses under the health FSA incurred during the entire plan year to which it is carried over. For this purpose, the amount remaining unused as of the end of the plan year is the amount unused after medical expenses have been reimbursed at the end of the plan's run-out period for the plan year. In addition to the unused amounts of up to \$500 that a plan may permit an individual to carry over to the next year, the plan may permit the individual to also elect up to the maximum allowed salary reduction amount (\$2,700 for 2019 and \$2,750 for 2020). Thus, the carryover of up to \$500 does not count against or otherwise affect the \$2,700 salary reduction limit applicable to each plan year. Although the maximum unused amount allowed to be carried over in any plan year is \$500, the plan may specify a lower amount as

the permissible maximum (and the plan sponsor has the option of not permitting any carryover at all).

The maximum amount available for reimbursement of incurred medical expenses of an employee and the employee's dependents under a health FSA cannot exceed \$2,700 for 2019 or \$2,750 for 2020.

Note that the Affordable Care Act (ACA) prohibits employers from using an FSA to pay for or reimburse the cost of individually owned health insurance policies with pretax dollars.

Key Point: Non-prescription medicines (other than insulin) do not qualify as an expense for FSA purposes.

Section 403(b) Retirement Plans

A 403(b) plan, also known as a tax-sheltered annuity or retirement income account, is a retirement plan for certain employees of churches and other tax-exempt organizations. These plans have the following tax benefits: (1) Employees do not pay income tax on allowable tax-deferred contributions until they begin making withdrawals from the plan, usually after they retire. Note, however, that lay employees must pay FICA on their contributions to a 403(b) plan, including those made under a salary reduction agreement. (2) Earnings and gains on amounts in an employee's 403(b) account are not taxed until they are withdrawn. (3) Employees may be eligible to claim the retirement savings contributions credit (Saver's Credit) for elective deferrals contributed to a 403(b) account.

There are limits on the amount of contributions that can be made to a 403(b) account each year. If contributions made to a 403(b) account are more than these contribution limits, penalties may apply. Generally, annual contributions to a 403(b) plan cannot exceed either the limit on annual additions or the limit on elective deferrals. See IRS *Publication 571* for details.

COMPLYING WITH FEDERAL PAYROLL TAX REPORTING OBLIGATIONS

Step 1. Obtain an Employer Identification Number (EIN) from the federal government if this has not been done.

This number must be recorded on some of the forms listed below and is used to reconcile a church's deposits of withheld taxes with the *Forms W-2* it issues to employees. The EIN is a nine-digit number that looks like this: 00-0246810. If your church does not have an EIN, you may apply for one online. Go to the IRS website at *IRS.gov* for information. You may also apply for an EIN by calling 1-800-829-4933, or you can fax or mail *Form SS-4* to the IRS. You should have only one EIN.

☞ **Key Point:** An EIN is not a tax exemption number and has no relation to your nonprofit corporation status. It merely identifies you as an employer subject to tax withholding and reporting and ensures that your church receives proper credit for payments of withheld taxes. You can obtain an EIN by submitting a *Form SS-4* to the IRS.

Step 2. Determine whether each church worker is an employee or self-employed.

In some cases, it is difficult to determine whether a particular worker is an employee or is self-employed. If in doubt, churches should treat a worker as an employee, since substantial penalties can be assessed against a church for treating a worker as self-employed whom the IRS later reclassifies as an employee. In general, a self-employed worker is one who is not subject to the control of an employer with respect to how a job is to be done. Further, a self-employed person typically is engaged in a specific trade or business and offers his or her services to the general public.

The IRS and the courts have applied various tests to assist in classifying a worker as an employee or self-employed. Factors that tend to indicate employee status include the following:

- The worker is required to follow an employer's instructions regarding when, where, and how to work.
- The worker receives on-the-job training from an experienced employee.
- The worker is expected to perform the services personally and not use a substitute.
- The employer rather than the worker hires and pays any assistants.
- The worker has a continuing working relationship with the employer.
- The employer establishes set hours of work.
- The worker is guaranteed a regular wage amount for an hourly, weekly, or other period of time.
- The worker is expected to work full time.
- The work is done on the employer's premises.
- The worker must submit regular oral or written reports to the employer.
- The worker's business expenses are reimbursed by the employer.
- The employer furnishes the worker's tools, supplies, and equipment.
- The worker does not work for other employers.
- The worker does not advertise his or her services to the general public.

Not all of these factors must be present for a worker to be an employee. But if most of them apply, the worker is an employee. Once again: If in doubt, treat the worker as an employee.

☞ **Key Point:** Some fringe benefits are non-taxable only when received by employees.

Step 3. Obtain the Social Security number for each worker.

After determining whether a worker is an employee or self-employed, you must obtain the worker's Social Security number. A worker who does not have a Social Security number can obtain one by filing *Form SS-5*. This is a Social Security Administration (SSA) form, not an IRS form. If a self-employed worker performs services for your church (and earns at least \$600 for the year), but fails to provide you with his or her Social Security number, then the church is required by law to withhold a specified percentage of compensation as backup withholding. The backup withholding rate is 24 percent for 2020.

A self-employed person can stop backup withholding by providing the church with a correct Social Security number.

The church will need the correct number to complete the worker's *Form 1099-MISC Miscellaneous Income* (discussed later).

Churches can be penalized if the Social Security number they report on a *Form 1099-MISC* is incorrect, unless they have exercised due diligence. A church will be deemed to have exercised due diligence if it has self-employed persons provide their Social Security numbers using *Form W-9*. It is a good idea for churches to present self-employed workers (e.g., guest speakers, contract laborers) with a *Form W-9* and to backup withhold unless the worker returns the form. The church should retain each *Form W-9* to demonstrate its due diligence.

All taxes withheld through backup withholding must be reported to the IRS on *Form 945*. The *Form 945* for 2019 must be filed with the IRS by January 31, 2020. However, if you made deposits on time in full payment of the taxes for the year, you may file the return by February 10, 2020.

☞ **Key Point:** Many times churches will host guest speakers or other workers from other countries. Non-resident aliens are not taxed in the same manner as U.S. citizens. While they are not subject to the above rules, they are subject to other mandatory reporting and withholding rules. Churches should seek professional assistance in determining the applicable reporting and withholding rules for payments made to workers from other countries.

Step 4. Have each employee complete a *Form W-4*.

Employees need to provide their employer with a *Form W-4 Employee's Withholding Certificate* to enable the employer to know how much income tax to withhold from their pay. In the past, withholding was based on the number of allowances an employee claimed on *Form W-4*. The IRS has made major changes to *Form W-4* for 2020. Note the following:

- The new design reduces the form's complexity and increases the transparency and accuracy of the withholding system. While it uses the same underlying information as the old design, it replaces complicated worksheets with more straightforward questions that make accurate withholding easier for employees.
- Withholding allowances are no longer used for the redesigned *Form W-4* to increase transparency, simplicity, and accuracy. In the past, the value of a withholding allowance was tied to the amount of the personal exemption. Due to changes in law, currently you cannot claim personal exemptions or dependency exemptions.
- Employees who have submitted *Form W-4* in any year before 2020 are not required to submit a new form merely because of the redesign. Employers will continue to compute withholding based on the information from the employee's most recently submitted *Form W-4*.
- The redesigned *Form W-4* makes it easier for employees to have their withholding match their tax liability. But some employees may prefer to have more of their money withheld from their paychecks throughout the year and then get that money back as a refund when they file their tax returns. The simplest way to increase withholding is to enter on line 6 of the *Form W-4* for 2019 or line 4c of the *Form W-4* for 2020 the additional amount employees would like their employer to withhold from each paycheck after their *Form W-4* takes effect.
- To provide maximum accuracy, employees are encouraged to use the Tax Withholding Estimator available at [IRS.gov/W4App](https://www.irs.gov/W4App). Updates and improvements to the estimator are underway that will be compatible with the redesigned *Form W-4* in 2020.
- Beginning in 2020, all new employees must use the redesigned form. Similarly, any employees hired prior to 2020 who wish to adjust their withholding must use the redesigned form.
- Employers may ask employees hired before 2020 to submit new *Forms W-4* using the redesigned version of the form, but as part of the request you should explain that:
 - ✓ They are not required to submit a new *Form W-4*, and
 - ✓ If they do not submit a new *Form W-4*, withholding will continue based on a valid form previously submitted.

- For those employees who furnished forms before 2020 and who do not furnish new ones after 2019, you must continue to withhold based on the forms previously submitted. You are not permitted to treat employees as failing to furnish *Forms W-4* if they don't furnish new *Forms W-4*. Note that special rules apply to *Forms W-4* claiming exemption from withholding.
- Ministers generally are exempt from tax withholding with respect to compensation received from the exercise of ministry (unless they have elected voluntary withholding).

Step 5. Compute each employee's taxable wages.

The amount of taxes that a church should withhold from an employee's wages depends on the amount of the employee's wages and the information contained on his or her *Form W-4*. A church must determine the wages of each employee that are subject to withholding. Wages subject to federal withholding include pay given to an employee for services performed. The pay may be in cash or in other non-cash forms. Measure pay that is not in money (such as property) by its fair market value and not the cost to the church. Wages often include a number of items in addition to salary. (There is a comprehensive list of examples in Step 10.)

Step 6. Determine the amount of income tax to withhold from each employee's wages.

The way employers will figure federal income tax withholding for 2020 is changing to match the changes to the new *Form W-4*. Beginning in 2020, employers use IRS *Publication 15-T* to figure the amount of federal income tax to withhold from their employees' wages.

Beginning with the 2020 *Form W-4*, employees will no longer be able to request adjustments to their withholding using withholding allowances. Instead, using the new *Form W-4*, employees will provide employers with amounts to increase or reduce taxes and amounts to increase or decrease the amount of wage income subject to income tax withholding. The computations described in *Publication 15-T* will allow employers to figure withholding regardless of whether the employee provided a *Form W-4* in an earlier year or will provide a new *Form W-4* in 2020. *Publication 15-T* also allows employers to figure withholding based on their payroll system (automated or manual) and withholding method of choice.

Publication 15-T describes five methods for determining the amount of income taxes to be withheld from an employee's wages:

1. Percentage method tables for automated payroll systems
2. Wage bracket method tables for manual payroll systems with *Forms W-4* from 2020 or later

3. Wage bracket method tables for manual payroll systems with *Forms W-4* from before 2020
4. Percentage method tables for manual payroll systems with *Forms W-4* from 2020 or later
5. Percentage method tables for manual payroll systems with *Forms W-4* from before 2020

Key Point: The IRS is asserting that the new method for computing withheld taxes is allegedly simpler. But many employers believe the opposite is true. Fortunately, the IRS is launching an online withholding estimator at [IRS.gov/W4App](https://www.irs.gov/W4App) to provide employers with the most accurate withholding method.

Wages paid to a minister as compensation for ministerial services are exempt from income tax withholding. However, ministers who report their income taxes as employees can enter into a voluntary withholding arrangement with their church. Under such an arrangement, the church withholds federal income taxes from the minister's wages as if the minister's wages are not exempt from withholding. Some ministers find voluntary withholding attractive since it avoids the often difficult task of budgeting for four significant quarterly tax payments.

A minister initiates voluntary withholding by providing the church with a completed IRS *Form W-4*. The filing of this form is deemed to be a request for voluntary withholding.

Voluntary withholding arrangements may be terminated at any time by either the church or minister or by mutual consent.

The tax code specifies that ministers are self-employed for Social Security with respect to services performed in the exercise of ministry. Therefore, a church whose minister elects voluntary withholding is only obligated, and may only agree, to withhold the minister's federal income taxes. The minister is still required to use the estimated tax procedure to report and prepay SECA. However, ministers electing voluntary withholding can indicate on line 6 of *Form W-4* (2019) or line 4c of *Form W-4* (2020) that they want an additional amount of income taxes to be withheld from their paycheck that will be sufficient to pay the estimated SECA liability by the end of the year. This additional withholding of income taxes becomes a credit that can be applied against a minister's SECA on *Form 1040*. It is reported by the church as additional income taxes withheld on its quarterly *Form 941*. Many churches incorrectly report these additional withholdings as FICA.

Since any tax paid by voluntary withholding is deemed to be timely paid, a minister who pays SECA using this procedure will not be liable for any underpayment penalty (assuming that a sufficient amount of taxes are withheld).

Step 7. Withhold FICA from non-minister employees' wages.

Employees and employers each pay FICA equal to 7.65 percent of an employee's wages. The 7.65 percent tax rate is comprised of two components: (1) a Medicare hospital insurance (HI) tax of 1.45 percent and (2) an old age, survivor and disability (Social Security) tax of 6.2 percent. There is no maximum amount of wages subject to the HI tax. For 2019, the maximum amount of wages subject to the Social Security tax (the 6.2 percent amount) was \$132,900. It increases to \$137,700 for 2020.

Beginning in 2013, the ACA increased the employee portion of the HI tax by an additional tax of 0.9 percent on wages received in excess of \$200,000. This additional tax is required to be withheld once wages paid to a non-minister employee reach \$200,000. However, unlike the general 1.45 percent HI tax on wages, this additional tax is on the combined wages of the employee and the employee's spouse, in the case of a joint return. The threshold amount is \$250,000 in the case of a joint return or surviving spouse and \$200,000 for single persons. The \$250,000 and \$200,000 amounts are not adjusted for inflation and remain the same for 2020.

Key Point: Even though the tax does not take effect until income reaches \$250,000 for married couples filing jointly, the withholding mandate takes effect with any employee's wages exceeding \$200,000. Therefore, it is possible for an employee to have the additional tax withheld but not owe the additional tax. In these instances, the additional tax withheld is treated as an additional tax payment on the employee's individual tax return. Since the tax is on combined wages for married couples filing jointly, it is also possible that the combination of wages on a couple's *Form 1040* will initiate the tax without any associated withholding of the tax.

The Social Security tax rates for 2019 and 2020 are shown in the following table:

| Year | Tax on Employee | Tax on Employer | Combined Tax |
|------|-----------------|-----------------|--------------|
| 2019 | 7.65% | 7.65% | 15.3% |
| 2020 | 7.65% | 7.65% | 15.3% |

Key Point: Federal law allowed churches that had non-minister employees as of July 1984 to exempt themselves from the employer's share of FICA by filing a *Form 8274* with the IRS by October 30, 1984. Many churches did so. The exemption was available only to those churches that were opposed for religious reasons to the payment of Social Security taxes. The effect of such an exemption is to treat all non-minister church employees as self-employed for Social Security

purposes. Such employees must pay SECA if they are paid \$108.28 or more for the year. Churches hiring their first non-minister employee after 1984 have until the day before the due date of their first quarterly *Form 941* to file the exemption application. Churches can revoke their exemption by filing a *Form 941* accompanied by full payment of FICA for that quarter. Many churches have done so, often inadvertently.

Step 8. The church must deposit the taxes it withholds.

Churches accumulate three kinds of federal payroll taxes:

1. Income taxes withheld from employees' wages
2. The employees' share of FICA (withheld from employees' wages)
3. The employer's share of FICA

Most employers must deposit payroll taxes on a monthly or semiweekly basis. An employer's deposit status is determined by the total taxes reported in a four-quarter lookback period. For 2020, the lookback period will be July 1, 2018, through June 30, 2019.

Monthly depositor rule. Churches that reported payroll taxes of \$50,000 or less in the lookback period will deposit their withheld taxes for 2020 on a monthly basis. Payroll taxes withheld during each calendar month, along with the employer's share of FICA, must be deposited by the fifteenth day of the following month.

Semiweekly depositor rule. Churches that reported payroll taxes of more than \$50,000 in the lookback period must deposit their withheld taxes on a semiweekly basis. This means that for paydays falling on Wednesday, Thursday, or Friday, the payroll taxes must be deposited on or by the following Wednesday. For all other paydays, the payroll taxes must be deposited on the Friday following the payday.

\$100,000 Next-Day Deposit Rule. Regardless of whether a church is a monthly schedule depositor or a semiweekly schedule depositor, if accumulated taxes withheld reach \$100,000 or more on any day during a deposit period, the taxes must be deposited by the next business day. Additionally, any employer subject to this deposit rule becomes a semiweekly depositor for the remainder of the calendar year and the following calendar year.

Payment with return rule. If you accumulate less than a \$2,500 tax liability during the current or previous quarter, you may make a payment with *Form 941* instead of depositing monthly. See IRS *Publication 15* for more information.

Key Point: All deposits must be made using the

Electronic Federal Tax Payment System® (EFTPS). There are penalties for depositing late or for mailing payments directly to the IRS that are required to be deposited, unless you have reasonable cause for doing so. To enroll in EFTPS, call 1-800-555-4477, or to enroll online, visit *EFTPS.gov*. If you do not want to use EFTPS, you can arrange for your tax professional, financial institution, payroll service, or other trusted third party to make deposits on your behalf.

Key Point: New churches in their first year of existence are treated as a monthly depositor unless the \$100,000 Next-Day Deposit Rule applies.

Step 9. All employers subject to income tax withholding, FICA, or both must file *Form 941* quarterly.

Form 941 reports the number of employees and amount of FICA and withheld income taxes that are payable. *Form 941* is due on the last day of the month following the end of each calendar quarter.

| Quarter | Ending | Due Date of <i>Form 941</i> |
|------------------------|--------------|-----------------------------|
| 1st (January–March) | March 31 | April 30 |
| 2nd (April–June) | June 30 | July 31 |
| 3rd (July–September) | September 30 | October 31 |
| 4th (October–December) | December 31 | January 31 |

If any due date for filing shown above falls on a Saturday, Sunday, or legal holiday, you may file your return on the next business day.

Form 941 may be filed electronically. For more information, visit the IRS website at *IRS.gov* or call 1-866-255-0654.

Key Point: *Form 944* replaces *Form 941* for eligible small employers. The purpose of *Form 944* is to reduce the burden on the smallest employers by allowing them to file their employment tax returns annually and, in most cases, pay the employment tax due with their return. Generally, you are eligible to file this form only if your payroll taxes for the year are \$1,000 or less. Do not file *Form 944* unless the IRS has sent you a notice telling you to file it.

Step 10. Prepare a *Form W-2* for every employee, including ministers employed by the church.

Key Point: Congress has enacted legislation requiring that *Forms W-2, W-3, 1099-MISC, and 1096* be filed

by January 31 and eliminating the extended due date (March 31) for electronically filed *Forms W-3* and *1096*.

A church reports each employee's taxable income and withheld income taxes as well as FICA on this form. A church should furnish *Copies B, C, and 2* of the 2019 *Form W-2* to each employee by January 31, 2020. File *Copy A* with the SSA by January 31, 2020. Send all *Copies A* with *Form W-3 Transmittal of Wage and Tax Statements* to the SSA. If you file electronically, the due date remains January 31, 2020.

Key Point: Be sure to add cents to all amounts. Make all dollar entries without a dollar sign and comma, but with a decimal point and cents. For example, \$1,000 should read "1000.00". Government scanning equipment assumes that the last two figures of any amount are cents. If you report \$40,000 of income as "40000", the scanning equipment would interpret this as 400.00 (\$400)!

You may need some assistance with some of the boxes on the *Form W-2*. Consider the following:

Box a. Report the employee's Social Security number. Insert "applied for" if an employee does not have a Social Security number but has applied for one. If you do not provide the correct employee name and Social Security number on *Form W-2*, you may owe a penalty unless you have reasonable cause.

Box b. Insert your church's federal EIN. This is a nine-digit number that is assigned by the IRS. If you do not have one, you can obtain one by submitting a completed *Form SS-4* to the IRS. Some churches have more than one EIN (for example, some churches that operate a private school have a number for both the church and the school). Be sure that the EIN listed on an employee's *Form W-2* is the one associated with the employee's actual employer.

Box c. Enter your church's name, address, and ZIP Code™. This should be the same address reported on your *Form 941*.

Box d. You may use this box to identify individual *Forms W-2*. You are not required to use this box.

Box e. Enter the employee's name.

Box f. Enter the employee's address and ZIP Code.

Box 1. Report all wages paid to workers who are treated as employees for federal income tax reporting purposes. This includes the following:

- Salary, bonuses, prizes, and awards.
- Taxable fringe benefits (including cost of employer-provided group term life insurance coverage that exceeds \$50,000).
- The value of the personal use of an employer-provided car.
- Most Christmas, birthday, anniversary, retirement, and other

special occasion gifts paid by the church.

- Business expense reimbursements paid under a non-accountable plan (one that does not require substantiation of business expenses within a reasonable time, or does not require excess reimbursements to be returned to the church, or reimburses expenses out of salary reductions). Also note that such reimbursements are subject to income tax and Social Security withholding if paid to non-minister employees.
- If you reimburse employee travel expenses under an accountable plan using a per diem rate, include in Box 1 the amount by which your per diem rate reimbursements for the year exceed the IRS-approved per diem rates. Also note that such excess reimbursements are subject to income tax and Social Security withholding if paid to non-minister employees or ministers who have elected voluntary tax withholding. Use code L in Box 12 to report the amount equal to the IRS-approved rates.
- If you reimburse employee travel expenses under an accountable plan using a standard business mileage rate in excess of the IRS-approved rate (**58 cents per mile for 2019; 57.5 cents per mile for 2020**), include in Box 1 the amount by which your mileage rate reimbursements for the year exceed the IRS-approved rates. Also note that such excess reimbursements are subject to income tax and Social Security withholding if paid to non-minister employees or ministers who have elected voluntary tax withholding. Use code L in Box 12 to report the amount equal to the IRS-approved rates.
- Non-qualified moving expenses and expense reimbursements (except for reimbursements of the travel expenses of members of the U.S. Armed Forces on active duty).
- Any portion of a minister's SECA paid by the church.
- Amounts includible in income under a non-qualified deferred compensation plan (NQDC) because of section 409A.
- Designated Roth contributions made under a section 403(b) salary reduction agreement.
- Church reimbursements of a spouse's travel expenses incurred while accompanying a minister on a business trip represent income to the minister unless the spouse's presence serves a legitimate and necessary business purpose and the spouse's expenses are reimbursed by the church under an accountable plan.
- Churches that make a below-market loan to a minister of at least \$10,000 create taxable income to the minister (some exceptions apply). A below-market loan is a loan on which no interest is charged or on which interest is charged at a rate below the applicable federal rate.
- Churches that forgive a minister's debt to the church create taxable income to the minister.
- Severance pay.

- Payment of a minister's personal expenses by the church.
- Employee contributions to a Health Savings Account (HSA) unless contributed through a section 125 cafeteria plan.
- Employer contributions to an HSA if includible in the income of the employee.
- Employee contributions toward group health insurance premiums unless they are contributed through a section 125 cafeteria plan.
- "Love gifts" from the church to a pastor.

For ministers who report their income taxes as employees, do not report in Box 1 the annual fair rental value of a parsonage or any portion of a minister's compensation that was designated (in advance) as a housing allowance by the church. Also, some contributions made to certain retirement plans out of an employee's wages are not reported.

▲ Caution: Taxable fringe benefits not reported as income in Box 1 may constitute an automatic excess benefit transaction, exposing the recipient and members of the church board to intermediate sanctions in the form of substantial excise taxes.

🗨 Key Point: Churches should not include in Box 1 the annual fair rental value of a parsonage or a housing allowance provided to a minister as compensation for ministerial services.

Box 2. List all federal income taxes that you withheld from the employee's wages. The amounts reported in this box (for all employees) should correspond to the amount of withheld income taxes reported on your four *Forms 941*.

Box 3. Report an employee's wages subject to the Social Security component (the 6.2 percent rate for 2019) of FICA. Box 3 should not list more than the maximum wage base for the Social Security component of FICA (\$132,900 for 2019, \$137,700 for 2020). This box usually will be the same as Box 1, but not always. For example, certain retirement contributions are included in Box 3 that are not included in Box 1. To illustrate, contributions to a 403(b) plan by salary reduction agreement may be excludible from income and not reportable in Box 1, but they are subject to FICA and accordingly they represent Social Security and Medicare wages for non-minister employees. For ministers, this box should be left blank.

🗨 Key Point: Remember that ministers (including those who report their income taxes as employees) are self-employed for Social Security with respect to their ministerial services, and so they pay SECA rather than the employee's share of FICA.

Churches that filed a timely *Form 8274* exempting themselves from the employer's share of FICA do not report the wages of non-minister employees in this box since such employees are considered self-employed for Social Security purposes.

Box 4. Report the Social Security component (6.2 percent) of FICA that you withheld from a non-minister employee's wages. This tax is imposed on all wages up to a maximum of \$132,900 for 2019 and \$137,700 for 2020. Do not report the church's portion (the employer's share) of FICA. Ministers who report their income taxes as employees are still treated as self-employed for Social Security with respect to compensation from the performance of ministerial services. For ministers, this box should be left blank.

Box 5. Report a non-minister employee's current and deferred (if any) wages subject to the HI component (1.45 percent) of FICA. This will be an employee's entire wages regardless of amount. There is no ceiling. For persons earning less than the annual maximum earnings subject to the 6.2 percent Social Security tax (\$132,900 for 2019 and \$137,700 for 2020), Boxes 3 and 5 should show the same amount. If you pay more than \$132,900 (\$137,700 for 2020) to a non-minister employee in 2020, Box 3 should show \$132,900 (\$137,700 for 2020), and Box 5 should show the full amount of wages paid.

Box 6. Report the HI component of FICA that you withheld from the non-minister employee's wages. This tax is imposed on all wages, current and deferred (if any), regardless of amount.

Box 10. Show the total dependent care benefits under a dependent care assistance program (section 129) paid or incurred by you for your employee. Include the fair market value of employer-provided daycare facilities and amounts paid or incurred for dependent care assistance in a section 125 cafeteria plan. Report all amounts paid or incurred, including those in excess of the \$5,000 exclusion. Include any amounts over \$5,000 in Boxes 1, 3, and 5. For more information, see IRS *Publication 15-B*.

Box 11. The purpose of Box 11 is for the SSA to determine if any part of the amount reported in Box 1 or Box 3 or 5 was earned in a prior year. The SSA uses this information to verify that they have properly applied the Social Security earnings test and paid the correct amount of benefits. Report distributions to an employee from a non-qualified plan in Box 11. Also report these distributions in Box 1. Under non-qualified plans, deferred amounts that are no longer subject to a substantial risk of forfeiture are taxable even if not distributed. Report these amounts in Boxes 3 (up to the Social Security wage base) and 5. Do not report in Box 11 deferrals included in Box 3 or 5 and deferrals for current-year services (such as those with no risk of forfeiture).

If you made distributions and also are reporting any deferrals in Box 3 or 5, do not complete Box 11. See IRS *Publication 957*.

Unlike qualified plans, non-qualified plans do not meet the qualification requirements for tax-favored status. Non-qualified plans include those arrangements traditionally viewed as deferring the receipt of current compensation, such as a rabbi trust. Welfare benefit plans and plans providing termination pay, or early retirement pay, are not generally non-qualified plans.

Key Point: Non-qualified retirement plans are subject to many difficult technical rules and substantial penalties for compliance failures. Additional information is available in IRS *Publications 15* and *957*, but qualified professional guidance is also recommended.

Box 12. Insert the appropriate code and dollar amount in this box. Insert the code letter followed by a space and then insert the dollar amount on the same line within the box. Do not enter more than three codes in this box. If more are needed, use another *Form W-2*. Use capital letters for the codes and remember not to use dollar signs or commas. For example, to report a \$3,000 contribution to a section 403(b) tax-sheltered annuity, you would report “E 3000.00” in this box. The codes are as follows:

- A** — This will not apply to church employees.
- B** — This will not apply to church employees.
- C** — You (the church) provided your employee with more than \$50,000 of group term life insurance. Report the cost of coverage in excess of \$50,000. It should also be included in Box 1 (and in Boxes 3 and 5 for non-minister employees). See pages 14–15 for additional information.
- D** — Generally not applicable to churches.
- E** — The church made contributions to a 403(b) plan pursuant to a salary reduction agreement on behalf of the employee. Report the amount of the contributions. While this amount ordinarily is not reported in Box 1, it is included in Boxes 3 and 5 for non-minister employees since it is subject to FICA with respect to such workers.
- F** — Generally not applicable to churches.
- G** — Generally not applicable to churches.
- H** — Generally not applicable to churches.
- J** — You (the church) are reporting sick pay. Show the amount of any sick pay that is not includible in the employee’s income because he or she contributed to the sick pay plan.
- K** — Generally not applicable to churches.
- L** — You (the church) reimbursed the employee for employee business expenses using the standard mileage rate or the per diem rates, and the amount you reimbursed exceeds the amounts allowed under these methods. Enter code L in Box 12, followed by the amount of the reimbursements that equal the allowable standard mileage rate or

per diem rates. Any excess should be included in Box 1. For non-minister employees, report the excess in Boxes 3 (up to the Social Security wage base) and 5 as well. Do not include any per diem or mileage allowance reimbursements for employee business expenses in Box 12 if the total reimbursements are less than or equal to the amount deemed substantiated under the IRS-approved standard mileage rate or per diem rates.

- M, N** — Generally not applicable to churches.
- P** — Generally not applicable to churches.
- Q** — Generally not applicable to churches.
- R** — Report employer contributions to a medical savings account on behalf of the employee. Any portion that is not excluded from the employee’s income also should be included in Box 1.
- S** — Report employee salary reduction contributions to a SIMPLE retirement account. However, if the SIMPLE account is part of a 401(k) plan, use code D.
- T** — Report amounts paid (or expenses incurred) by an employer for qualified adoption expenses furnished to an employee under an adoption assistance program.
- V** — Generally not applicable to churches.
- W** — Report employer contributions to an HSA. Include amounts the employee elected to contribute using a section 125 cafeteria plan.
- Y** — It is no longer necessary to report deferrals under a section 409A NQDC in Box 12 using code Y.
- Z** — Report all amounts deferred (including earnings on deferrals) under a NQDC that are included in income under section 409A of the tax code because the NQDC fails to satisfy the requirements of section 409A. Do not include amounts properly reported on *Form 1099-MISC* or *W-2* for a prior year. Also, do not include amounts considered to be subject to a substantial risk of forfeiture for purposes of section 409A. The amount reported in Box 12 using code Z is also reported in Box 1.
- AA** — Generally not applicable to churches.
- BB** — Report designated Roth contributions under a section 403(b) salary reduction agreement. Do not use this code to report elective deferrals under code E.
- DD** — The ACA requires employers to report the cost of coverage under an employer-sponsored group health plan. IRS *Notice 2011-28* provided relief for smaller employers filing fewer than 250 *Forms W-2* by making the reporting requirement optional for them until further guidance is issued by the IRS. The reporting under this provision is for information only; the amounts reported are not included in taxable wages and are not subject to new taxes.
- EE** — Generally not applicable to churches.

Box 13. Check the appropriate box.

- **Statutory employee.** Churches rarely if ever have statutory employees. These include certain drivers, insurance agents, and salespersons.
- **Retirement plan.** Mark this checkbox if the employee was an active participant (for any part of the year) in any of the following: (1) a qualified pension, profit-sharing, or stock bonus plan described in section 401(a) (including a 401(k) plan); (2) an annuity contract or custodial account described in section 403(b); (3) a simplified employee pension (SEP) plan; or (4) a SIMPLE retirement account.
- **Third-party sick pay.** Churches generally will not check this box.

Box 14. This box is optional. Use it to provide information to an employee. Some churches report a church-designated housing allowance in this box. The IRS uses Box 14 for this purpose in a comprehensive minister tax example in the current edition of its *Publication 517*, but this is not a requirement.

§ Tax Tip: The IRS has provided the following suggestions to reduce the discrepancies between amounts reported on *Forms W-2, W-3, and 941*: First, be sure the amounts on *Form W-3* are the total amounts from *Forms W-2*. Second, reconcile *Form W-3* with your four quarterly *Forms 941* by comparing amounts reported for: (1) income tax withholding (Box 2); (2) Social Security and Medicare wages (Boxes 3, 5, and 7); and (3) FICA (Boxes 4 and 6). Amounts reported on *Forms W-2, W-3, and 941* may not match for valid reasons. If they do not match, you should determine that the reasons are valid.

Step 11. Prepare a Form 1099-MISC for every self-employed person receiving non-employee compensation of \$600 or more.

By January 31, 2020, churches must furnish *Copy B* of *Form 1099-MISC* to any self-employed person to whom the church paid non-employee compensation of \$600 or more in 2019. This form (rather than a *Form W-2*) should be provided to clergy who report their federal income taxes as self-employed, since the Tax Court and the IRS have both ruled that a worker who receives a *Form W-2* rather than a *Form 1099-MISC* is presumed to be an employee rather than self-employed. Other persons to whom churches may be required to issue a *Form 1099-MISC* include evangelists, guest speakers, and contractors.

Churches must send *Copy A* of *Forms 1099-MISC*, along with *Form 1096*, to the IRS by January 31, 2020, if non-employee compensation is reported in Box 7. If you file electronically, the due date for filing *Copy A* with the IRS is also January 31, 2020, if you are reporting non-employee compensation in Box 7. If

you are reporting amounts in other boxes besides Box 7, the deadline is February 28, 2020, if you file on paper or March 31, 2020, if you file electronically.

To illustrate, if a guest speaker visited a church in 2019 and received compensation from the church in an amount of \$600 or more (net of any housing allowance or travel expenses reimbursed under an accountable plan), then the church must issue the person *Copy B* of *Form 1099-MISC* by January 31, 2020.

Exceptions apply. For example, a church need not issue a *Form 1099-MISC* to a corporation (other than to attorneys that are incorporated) or to a person who will be receiving a *Form W-2* for services rendered to the church (all income should be reported on the *Form W-2*). Also, travel expense reimbursements paid to a self-employed person under an accountable reimbursement plan do not count toward the \$600 figure. Additionally, if supplies are purchased from a self-employed person, the amount does not count toward the \$600 filing limit if the amount for the supplies has been separately stated on the invoice from the contractor.

To complete *Form 1099-MISC*, the church will need to obtain the recipient's name, address, and Social Security number. Churches should obtain this information at the time of the person's visit, since it often can be difficult to obtain the necessary information at a later date. IRS *Form W-9* can be used to obtain this information. If a self-employed person who is paid \$600 or more during the course of a year by a church refuses to provide a Social Security number, then the church is required to withhold a percentage of the person's total compensation as backup withholding. See Step 3 above. The backup withholding rate is 24 percent for 2020.

2019 is the last year the Form 1099-MISC will be used to report non-employee compensation. Beginning with payments made in 2020, non-employee compensation will be reported on Form 1099-NEC, starting with the 2021 filings for the tax year 2020.

OTHER IMPORTANT REQUIREMENTS FOR CHURCHES

Reporting Group Term Life Insurance

You must include in the income of employees an imputed cost of employer-provided group term life insurance coverage (including death benefits under the benefits plan) that exceeds \$50,000. You must also include the imputed cost of all employer-provided group term life insurance on the life of a spouse or dependent if the coverage provided exceeds \$2,000. The imputed cost can be determined according to the following table:

| Cost Per \$1,000 of Protection for One-month Period | |
|---|----------|
| Age Brackets | Cost |
| Under 25 | 5 cents |
| 25–29 | 6 cents |
| 30–34 | 8 cents |
| 35–39 | 9 cents |
| 40–44 | 10 cents |
| 45–49 | 15 cents |
| 50–54 | 23 cents |
| 55–59 | 43 cents |
| 60–64 | 66 cents |
| 65–69 | \$1.27 |
| 70 and above | \$2.06 |

Example: Church A pays the premiums on a \$70,000 group term life insurance policy on the life of Pastor B with B's wife as beneficiary. Pastor B is 29 years old. Church A also pays the premium on a \$5,000 group term life insurance policy, which covers Pastor B's wife, who is 30 years old. The church would have to report \$19.20 as the imputed cost of the insurance provided to Pastor B and his wife. This amount is computed as follows: (1) For Pastor B, the table shows the cost per month for each \$1,000 of group term life insurance in excess of \$50,000. To compute the cost for Pastor B, take 6 cents x 12 months = 72 cents x 20 (corresponding to \$20,000 of group term life insurance in excess of \$50,000) = \$14.40. (2) In addition, the cost of the entire \$5,000 of insurance provided to Pastor B's wife would have to be computed. Take 8 cents x 12 months = 96 cents x 5 (corresponding to \$5,000 of group term life insurance) = \$4.80. Combine this amount with the cost of Pastor B's excess insurance to obtain the taxable amount of \$19.20. Church A should include this amount with wages in Box 1 of *Form W-2*. This amount should also be reported in Box 12 and labeled code C. Any includible amount is subject to income tax as well as FICA withholding for non-minister church employees.

Form I-9

All employers are responsible for verifying the identity and eligibility of employees to work in the United States. As employers, churches must complete an *Employment Eligibility Verification* form for each new employee. This form is better known as *Form I-9*.

Form I-9 is not an IRS form and is not filed with any government agency. However, it is important for churches to be

familiar with this form because they can be assessed fines for failing to comply with the requirements summarized below.

Churches should do the following:


- Ensure that each new employee completes Section 1 of the *Form I-9* on or before his or her first day of compensated work. Review the employee's documents and fully complete Section 2 of the *Form I-9* within three business days of the hire. Collect a *Form I-9* for all employees, including ministers, hired after November 6, 1986, even if the church has no doubt that someone is a U.S. citizen. An employee signs part of the form and the employer signs part of the form. The form's instructions list documents employees may show to verify their identity and eligibility to work in the United States.
- Review the U.S. Citizenship and Immigration Services website (*USCIS.gov*) for instructions that will assist you in completing the *Form I-9*. You can also download *Form I-9* from the USCIS website.
- Collect forms from new employees only, not from all applicants. When extending job offers, churches should clarify that employment is conditioned on completion of a *Form I-9*. Employers should remind new employees to bring their documents the first day of work. Forms should be completed no later than the end of the employee's third day at work.
- Accept documents that appear to be genuine and relate to the employee. If churches act reasonably when deciding whether a document is genuine, they will not be held responsible for a mistake. Churches may keep photocopies of original identification and verification documents with each employee form. This is not required by law but may be helpful in case there is ever a question about whether a document was genuine.
- Employers must retain an employee's completed *Form I-9* for as long as the individual works for the employer. Once the individual's employment has terminated, the employer must determine how long after termination the *Form I-9* must be retained, which is either three years after the date of hire or one year after the date employment is terminated, whichever is later. *Forms I-9* can be retained either on paper or microform or electronically.
- Upon request, show completed forms to authorized officials of the Department of Homeland Security (DHS), Department of Labor (DOL), or the U.S. Department of Justice Office of Special Counsel for Immigration-Related Unfair Employment Practices (OSC). Officials will give a minimum of three days' notice before inspection.
- Churches, like any employer, can be penalized for failing to comply with the *I-9* requirement. If you fail to complete, retain, or make available for inspection a *Form I-9* as required by law, you may face a civil penalty for each violation. There are additional penalties for knowingly hiring unauthorized aliens.


- Providing an employee’s Social Security number on *Form I-9* is voluntary for all employees unless an employer participates in the USCIS E-Verify program.

Annual Certification of Racial Nondiscrimination

Churches and other religious organizations that operate, supervise, or control a private school must file a certificate of racial nondiscrimination (*Form 5578*) each year with the IRS. The certificate is due by the fifteenth day of the fifth month following the end of the organization’s fiscal year. This is May 15 of the following year for organizations that operate on a calendar-year basis. For example, the *Form 5578* for 2019 is due May 15, 2020.

A private school is defined as an educational organization that normally maintains a regular faculty and curriculum and normally has a regularly enrolled body of pupils or students in attendance at the place where its educational activities are regularly conducted. The term includes primary, secondary, preparatory, or high schools — and colleges and universities, whether operated as a separate legal entity or an activity of a church.

 **Key Point:** The term “school” also includes preschools, and this is what makes the reporting requirement relevant for many churches. As many as 25 percent of all churches operate a preschool program.

 **Key Point:** Independent religious schools that are not affiliated with a church or denomination **and** file *Form 990* do not file *Form 5578*. Instead, they make their annual certification of racial nondiscrimination directly on *Form 990* (also called *Schedule E*).

Form 5578 is easy to complete. A church official simply identifies the church and the school and certifies that the school has “satisfied the applicable requirements of sections 4.01 through 4.05 of Revenue Procedure 75-50.” This reference is to the following requirements:

- The school has a statement in its charter, bylaws, or other governing instrument, or in a resolution of its governing body, that it has a racially nondiscriminatory policy toward students.
- The school has a statement of its racially nondiscriminatory policy toward students in all its brochures and catalogs dealing with student admissions, programs, and scholarships.
- The school makes its racially nondiscriminatory policy known to all segments of the general community served by the school through the publication of a notice of its racially nondiscriminatory policy at least annually in a newspaper of general circulation, through utilization of the broadcast media, or by displaying a notice of its racially nondiscriminatory

policy on its primary, publicly accessible internet homepage at all times during its taxable year (excluding temporary outages due to website maintenance or technical problems) in a manner reasonably expected to be noticed by visitors to the homepage. (Allowing the notice to be placed on a school’s website home page is a new concession granted by the IRS in 2019 in IRS Revenue Procedure 2019-22.)

However, such notice is not required if one or more exceptions apply. These include the following: (1) During the preceding three years, the enrollment consists of students at least 75 percent of whom are members of the sponsoring church or religious denomination, and the school publicizes its nondiscriminatory policy in religious periodicals distributed in the community. (2) The school draws its students from local communities and follows a racially nondiscriminatory policy toward students and demonstrates that it follows a racially nondiscriminatory policy by showing that it currently enrolls students of racial minority groups in meaningful numbers.

- The school can demonstrate that all scholarships or other comparable benefits are offered on a racially nondiscriminatory basis.

Filing the certificate of racial nondiscrimination is one of the most commonly ignored federal reporting requirements. Churches that operate a private school (including a preschool), as well as independent schools, may obtain *Form 5578* from the IRS website (*IRS.gov*) or by calling the IRS forms number: 1-800-TAX-FORM (1-800-829-3676).

Charitable Contribution Substantiation Rules

Several important rules apply to the substantiation of charitable contributions, including the following:

Cash contributions. All cash contributions, regardless of amount, must be substantiated by either a bank record (such as a cancelled check) or a written communication from the charity showing the name of the charity, the date of the contribution, and the amount of the contribution. The recordkeeping requirements **may not be satisfied by maintaining other written records**. In the past, donors could substantiate cash contributions of less than \$250 with “other reliable written records showing the name of the charity, the date of the contribution, and the amount of the contribution” if no cancelled check or receipt was available. This is no longer allowed. As noted below, additional substantiation requirements apply to contributions (of cash or property) of \$250 or more, and these must be satisfied as well.

Substantiation of contributions of \$250 or more. Donors will not be allowed a tax deduction for any individual cash (or property) contribution of \$250 or more unless they

receive a written acknowledgment from the church containing the following information:

- Name of the church
- Name of the donor (a Social Security number is not required)
- Date of the contribution
- Amount of any cash contribution
- For contributions of property (not including cash) valued by the donor at \$250 or more, the receipt must describe the property. No value should be stated.
- The receipt must contain one of the following: (1) a statement that no goods or services were provided by the church in return for the contribution; (2) a statement that goods or services that a church provided in return for the contribution consisted entirely of intangible religious benefits; or (3) a description and good faith estimate of the value of goods or services other than intangible religious benefits that the church provided in return for the contribution.
- The church may either provide separate acknowledgments for each single contribution of \$250 or more or one acknowledgement to substantiate several single contributions of \$250 or more. Separate contributions are not aggregated for purposes of measuring the \$250 threshold.
- The written acknowledgment must be received by the donor on or before the earlier of the following two dates: (1) the date the donor files a tax return claiming a deduction for the contribution or (2) the due date (including extensions) for filing the return.

Quid pro quo contributions of more than \$75. If a donor makes a quid pro quo contribution of more than \$75 (that is, a payment that is partly a contribution and partly a payment for goods or services received in exchange), the church must provide a written statement to the donor that satisfies two conditions:

1. The statement must inform the donor that the amount of the contribution that is tax-deductible is limited to the excess of the amount of any money (or the value of any property other than money) contributed by the donor over the value of any goods or services provided by the church or other charity in return.
2. The statement must provide the donor with a good faith estimate of the value of the goods or services furnished to the donor.


A written statement need not be issued if only **token goods or services** are provided to the donor or the gifts given were low-cost items in comparison to the overall donation.

For 2019, token goods or services were those that cost the church no more than \$11.10 to produce, contain the church's

logo and were given in exchange for a contribution of at least \$55.50. Low-cost items include items with a value not exceeding the lesser of \$111 or 2 percent of the amount of the contribution. This amount is adjusted annually for inflation. In addition, the rules do not apply to contributions in return for which the donor receives solely an intangible religious benefit that generally is not sold in a commercial context outside the donative context.

Gifts of property. Several additional rules apply to the substantiation of contributions of non-cash property valued by the donor at \$500 or more. Donors who claim a deduction over \$500 but not over \$5,000 for a non-cash charitable contribution must retain certain records and complete the front side (Section A, Part I, and Part II if applicable) of IRS *Form 8283* and enclose the completed form with the *Form 1040* on which the charitable contribution is claimed.

Special rules apply to donations of cars, boats, and planes valued by the donor at more than \$500. The church must provide the donor with a written acknowledgment and send a *Form 1098-C* to the IRS containing required information about the donation. *Form 1098-C* can be used as the written acknowledgment that must be issued to a donor. See the instructions to *Form 1098-C* for more information. Failure to file *Form 1098-C* can result in penalties assessed to the church and a loss of the donation deduction by the donor.

 **Key Point:** *Form 1098-C* is required to be provided to the donor near the date of the gift. It is not provided to the donor at the end of the tax year. All *Forms 1098-C* issued during a tax year should be provided to the IRS with *Form 1096* by February 28 of the next tax year.

For contributions of non-cash property valued at more than \$5,000 (\$10,000 for privately held stock), a donor must obtain a qualified appraisal of the donated property from a qualified appraiser and complete a qualified appraisal summary (Section B of *Form 8283*) and have the summary signed by the appraiser and a church representative. The completed *Form 8283* is then enclosed with the *Form 1040* on which the charitable contribution deduction is claimed. The appraisal must be enclosed for contributions of property (other than inventory and publicly traded securities) in excess of \$500,000.

Affordable Care Act Reporting

The ACA imposes the most significant reporting obligations since the introduction of *Form W-2* in 1943. In fact, the reporting obligations are similar to *Form W-2* in that there are forms that must be issued to individual employees and a transmittal form that is sent to the IRS along with copies of all the forms issued to employees. And, as with *Form W-2*, the IRS


can assess penalties for failure to comply with the reporting obligations.

Because of the similarities of these reporting requirements to *Form W-2*, some are calling them the “health care *W-2s*”. Of course, the analogy is not perfect. The *Form W-2* reports compensation and tax withholding, while these forms report health insurance information. The reporting requirements consist of the following forms:

- Providers of minimum essential coverage are required to file *Forms 1094-B* and *1095-B*. These forms are used to report certain information to the IRS and to employees about individuals who are covered by minimum essential coverage and therefore aren’t liable for the Individual Shared Responsibility Provision payment penalty. These forms must be filed by February 28, 2020 (March 31, 2020 if filed electronically). It is important to note that although filings of *Forms 1094-B* and *1095-B* are required by employers, the Individual Shared Responsibility Provision is no longer required of employees for tax years beginning in 2019.
- Applicable large employers, generally employers with 50 or more full-time employees (including full-time equivalent employees) in the previous year, must file one or more

Forms 1094-C (including a *Form 1094-C* designated as the Authoritative Transmittal, whether or not filing multiple *Forms 1094-C*) and must file a *Form 1095-C* for each employee who was a full-time employee of the employer for any month of the calendar year. Generally, the employer is required to furnish a copy of the *Form 1095-C* (or a substitute form) to the employee. These forms must be filed by February 28, 2020 (March 31, 2020 if filed electronically). The information reported on *Forms 1094-C* and *1095-C* is used to determine whether an employer owes a payment under the Employer Shared Responsibility Provisions of the ACA (the employer mandate or play or pay provisions).

See the instructions to these forms on the IRS website (IRS.gov) for more information.

 **Key Point:** Churches with fewer than 50 full-time employees, and an insured group health plan, generally have no reporting obligation. They are not required to file *Forms 1094-C* and *1095-C* since they have fewer than 50 employees, and their group plan insurer files the *Forms 1094-B* and *1095-B*.

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HELPFUL NUMBERS AND RESOURCES

1-800-TAX-FORM or 1-800-829-3676

To request IRS forms

IRS.gov

To visit the IRS home page

GuideStone.org/Tax Guide

To access GuideStone's helpful resources about ministerial tax issues and frequently asked questions about minister's housing allowance

ChurchLawandTax.com

To visit a *Christianity Today* website featuring Richard Hammar and a host of other professionals who provide information on church law, tax, finance, and risk management

ChurchLawandTaxStore.com

To visit *Christianity Today's* online store with church management resources to keep your church safe, legal, and financially sound

Church & Clergy Tax Guide

To purchase Richard Hammar's comprehensive tax guide published annually by Christianity Today International, visit *ChurchLawandTaxStore.com*.

Church Compensation: From Strategic Plan to Compliance

To purchase Elaine Sommerville's reference book that guides you through every aspect of employment compensation in easy-to-understand language, visit *ChurchLawandTaxStore.com*.




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