

# TAX SEMINAR

**Note: FICA Federal Income Compensation Act**

**Employer matches 7.65% of income (Social Security)**

**Employee pays 7.65% of income (Social Security)**

**Note: SECA Self Employment Compensation Act**

**Employee pays full 15.3% (Social Security)**

## SUBJECTS:

**Straight Salary Package (Pastor uses as he sees fit)**

**Salary plus IRS Approved Benefit Package for Ministers**

**Accounts Reimbursable**

**Direct Payments [ not taxable or even reported]**

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

### 1. Who is a Minister for Tax purposes ?

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

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

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

**Ministers for tax purposes are:**

**Eligible for a housing allowance**

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

**Exempt from income tax withholding,**

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

### 2. Is a minister employed or self-employed ?

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

### 3. What is an IRS form 1040 es ?

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

### 4. Parsonage Disadvantages

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

	<b>Salary No Benefits</b>	<b>Salary + Benefits + Acct. Reimbursable</b>	<b>Salary + Acct. Reimbursable + Housing Allowance</b>
<b>Salary</b>	\$30,000.00	\$15,620.00	\$ 5,620.00
<b>Housing</b>			\$10,000.00
<b>Acct. Reimbursable:</b>			
Auto Expense Based on 55.0 cents	\$ 5,500.00	\$ 5,500.00	\$ 5,500.00
Convention Expense	\$	\$	\$
Books (continued education)	\$	\$	\$
Meals (Ministry related)	\$	\$	\$
Cell Phone	\$	\$	\$
<b>Benefits:</b>			
Health Insurance	\$ 7,200.00	\$ 7,200.00	\$ 7,200.00
Life Insurance	\$ 1,380.00	\$ 1,380.00	\$ 1,380.00
Disability Insurance	\$ 300.00	\$ 300.00	\$ 300.00
<b>Tithe</b>	\$ 3,000.00	\$ 1,562.00	\$ 562.00
<b>SECA taxes 15.3%</b>	\$ 4,590.00	\$ 2,389.86	\$ 2,389.86
<b>Federal Income tax</b>	\$ 6,000.00	\$ 1,562.00	\$ 562.00
<b>State Income tax</b>	\$ 600.00	\$ 312.40	\$ 112.40
<b>Living Expense</b>	\$ 1,430.00	\$ 9,793.74	\$11,993.74

1. How to set-up

**a. Church must adopt a procedure**

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

**b. Church must adopt a separate procedure for item**

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

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

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

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