

If you qualify under federal tax laws as a “minister of the gospel,” there are a number of special tax rules that apply to your situation:

- You are exempt from certain withholding requirements.
- You may be exempt from social security and Medicare coverage.
- Most ministers pay self-employment (SE) tax, unless an exemption applies.
- You are eligible for a tax-free housing allowance.

Dual Status

Most ministers are subject to a dual-status tax treatment. You are an employee when it comes to income tax reporting, fringe benefits, and deducting expenses, but self-employed when it comes to social security tax reporting.

Sources of Income

Most ministers receive regular wages, reported on Form W-2 at year end. Ministers may also receive other funds, which may be subject to income tax and also included on Form W-2. They include:

- Gifts, bonuses, or trips paid or provided by the church.
- Reimbursements of a spouse’s travel expenses.
- Personal use of church-provided vehicles.
- Cost of group-term life insurance in excess of \$50,000 face value.
- Payment by the church of personal expenses.
- Nonqualified moving expense payments.
- Premiums for permanent life insurance if you can select the beneficiary.
- Church contributions to a traditional IRA or Roth IRA.
- Prizes or awards received as a part of your ministerial work, other than those for length of service.
 - Tuition payments for your spouse or children.

- Amounts the church pays toward your income tax or self-employment tax, other than through withholding from your salary.
- Any other item not specifically excludable from income.

Expenses related to W-2 income are reported on your Form 1040 on Form 2106 and Schedule A. A Schedule C is required when reporting income and related expenses from weddings, baptisms, funerals, and honorariums.

Deductible Expenses

The following expenses may be deductible:

- 50% of meal and entertainment expenses.
- Travel expenses for attending church functions.
- Educational expenses including tuition, books, fees, and travel expenses. Personal travel as a form of education is not deductible.
- Office equipment, books, computers, and other items that are expected to have a life of more than one year must generally be depreciated.
- Books, magazines, videotapes, etc., if used primarily for business.
- Vestments, robes, collars, and other special clothing not suitable for general wear, including the cost of cleaning.
- Long distance work-related telephone calls.
- Moving expenses.
- Gifts you make, if related to the ministry. Examples include music, teaching aids, and baptismal and wedding remembrances.
- Contributions to the church are only deductible on Schedule A.
- Medical, dental, and qualified long-term care insurance premiums are deductible on Form 1040, as a self-employed health insurance deduction, within certain limits.

For vehicles, either the standard mileage rate or actual vehicle expenses can be deducted.

If the church has an expense reimbursement plan, special rules apply. Interest on a vehicle is not deductible if you are an employee.

Parsonage or Housing Allowances

The rental allowance or fair rental value of a parsonage may be excluded from income tax. If you are employed by a local congregation, it must officially designate part of your salary as a housing allowance before the payment is made. The amount of the housing allowance cannot be determined at a later date. However, it can be adjusted annually. A resolution of a national church agency can designate the housing allowance if it directly employs you. If it has not been officially designated, your housing allowance is included in taxable income.

An amount officially designated as a rental allowance (including an amount to pay utility costs), can be excluded from gross income if the amount is:

- Used to provide or rent a home, and
- Is not more than reasonable pay for your services.

The amount excluded cannot be more than the fair rental value of your home, including furnishings, plus the cost of utilities, taxes, insurance, and repairs.

If you own a home and receive as part of your pay a housing allowance, you may exclude from gross income the lesser of:

- The amount you actually used to provide a home; or
- The amount officially designated as your housing allowance; or

- The fair rental value of your home, furnishings, utilities, garage, etc.

You must include in income on Form 1040, Line 7, the part of any housing allowance that is more than the smallest of the above amounts.

You may deduct on Schedule A mortgage interest and property taxes paid on the home, even though all or part of the mortgage is paid with funds from a tax-free housing allowance.

If you are a retired minister receiving taxable retirement income from an employer-funded qualified retirement plan, you may have part or all of it designated as a housing allowance by your former church or denominational headquarters. You must have severed your employment relationship with the church.

Your retirement plan may designate a portion of each pension distribution as housing allowance.

A retired ordained minister must keep records showing the pension was spent on qualified housing expenses, just like an ordained active minister. A minister's surviving spouse cannot exclude the housing allowance unless it is for ministerial services he or she performs or performed.

Social Security and Self-Employment Tax

All of your net earnings are subject to SE tax because a minister is considered self employed for social security tax purposes. Net earnings includes:

- Your ministerial salary.
- Payments for officiating at weddings, funerals, baptisms, masses, etc.
- Parsonage, rental, or housing allowances (even if not subject to income tax), or the value of a parsonage provided.

- Payments by the church for income or self-employment taxes, if not by withholding.
- The value of meals and lodging provided to you, your spouse, and dependents for the church's convenience.

Note: Ministers can elect out of the self-employment tax system based on religious opposition to public insurance for death, disability, old age, retirement, or medical care (including social security) by filing Form 4361.

Ministers typically receive a W-2 showing the wages paid in Box 1. Boxes 3, 4, 5, and 6, social security and Medicare wages, are left blank because a minister who is an employee is considered self-employed for FICA tax purposes.

The church cannot withhold FICA taxes from your pay, but you can voluntarily increase your federal income tax withholding to cover the SE tax you will owe.

This brochure contains general tax information for taxpayers. As each tax situation may be different, do not rely upon this information as your sole source of authority. Please seek professional advice for all tax situations.

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Tax Tips for the Clergy

