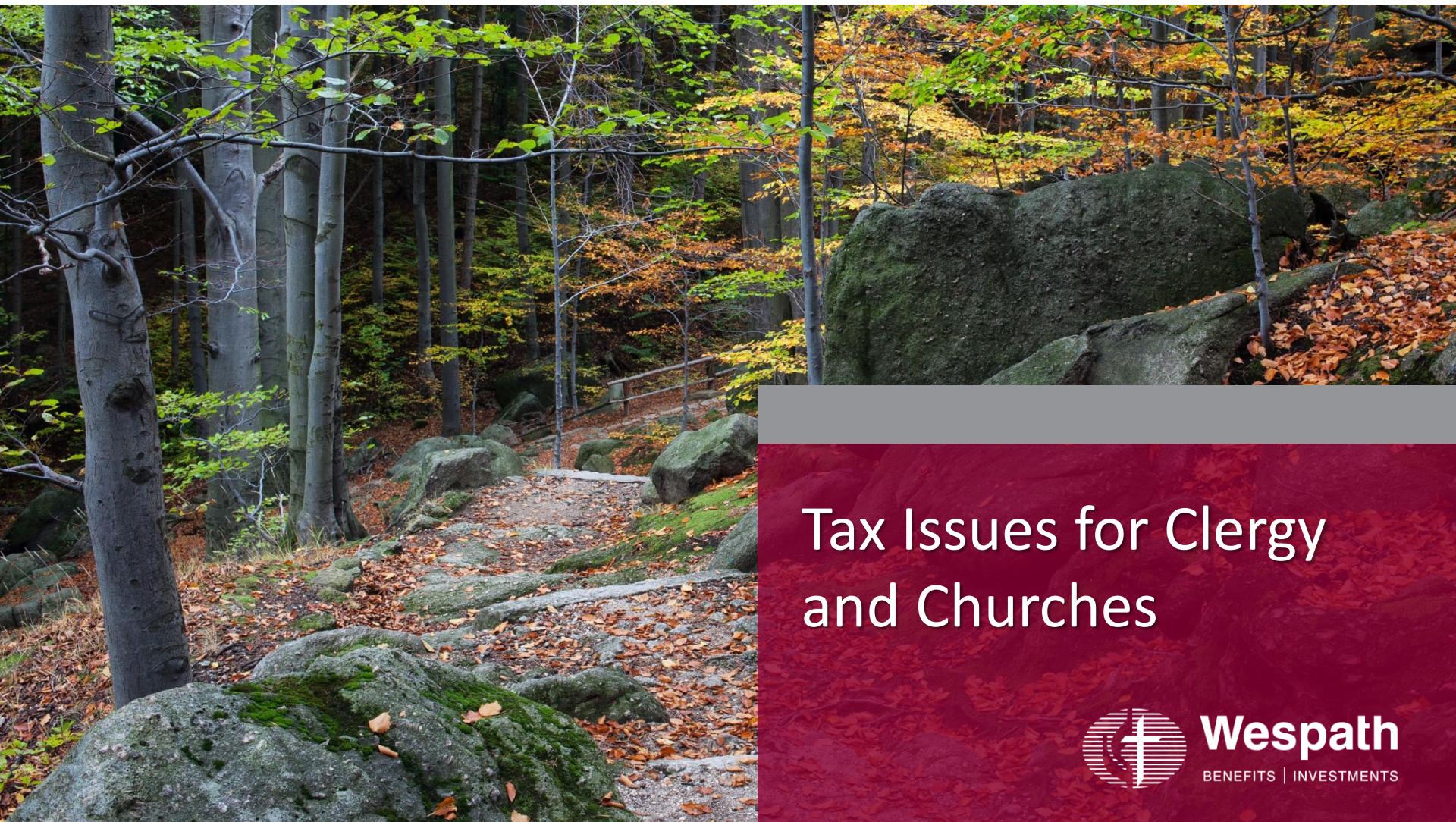


Quadrennial
Benefits
Conference



Tax Issues for Clergy and Churches



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United Methodist Clergy

Special

Clergy Pay What?

Income Tax

Governed by the Internal Revenue Code,
Internal Revenue Regulations, Revenue Rulings
and U.S. Court Decision

SECA/FICA – Social Security and Medicare Taxes

Governed by the Self Employment Contributions Act (SECA) or the Federal Insurance Contributions Act (FICA).

These taxes fund Social Security and Medicare.

- SECA is 15.3% of Wages/Income
- FICA is the same

BUT, ½ is paid by the employer (7.65%), and ½ is withheld from employee paychecks.

Key Point: The Employer Pays FICA.

BUT...

A self-employed individual is responsible for paying the entire share...employer and employee's...why?

They employ themselves

Clergy Pay Which One?

Most people pay FICA...

But clergy are special....so

Clergy pay SECA!

Clergy Work For Whom?

**Conference, Bishop or Local
Church?**

Conference Board of Pensions???

The Local Church

Employment Status?

Seriously?!

What does that mean?

Remember...

Clergy are treated as employees of the salary paying unit.

**That was for purposes
of income tax.**

But, remember, clergy are special...

So are also responsible for SECA.

Why?

Churches Don't Know Squat about
tax and finance.

Key Point!!!!!!

So, Congress made clergy
self-employed for purposes of SECA.

Easy right?

Not in the least.

- Most people who pay SECA have a particular employment status.
- They aren't "employees" at all.
- They are "independent contractors."
- That means they aren't "employees" of who/whatever is paying them.

So What?

When someone is an “independent contractor,” the “employer” will issue a tax form called a 1099 which will list the amounts paid during the course of the preceding year. They do NOT get a W-2.

So clergy get a 1099, right?

WRONG! Remember...

Special

Despite paying SECA, clergy are
“employees” for income tax purposes

Clergy Get a W-2

Clergy THUS

- a) Receive benefits through the administration of the conference board of pensions, are supervised by their bishop, but are employed by the local church for purposes of income tax.
- b) But clergy are self-employed for purposes of Social Security and Medicare, meaning they pay SECA, which is paid by them individually by April 15 and filed as a schedule SE with the rest of his or her tax return.
- c) BUT, as employees of local churches they are issued a W-2 by January 31 of each year, reflecting the wages paid by the local church with notes for tax-deferred pension and housing (we'll get there later).

Churches SHOULD NOT ...

...give clergy a 1099 reflecting their salary support, or withhold and pay FICA from and on behalf of clergy.

Churches SHOULD ...

- Give clergy a W-2 reflecting the cash support paid during the year
- Show -0- in the boxes for Social Security and Medicare Wages
- Reflect amounts paid before income tax in the Notes section of the W-2 to make SECA reporting easier for the clergy

What is housing?

Parsonages, housing allowances,
amounts paid for utilities, amounts
paid for “furnishings.”

So ... what does this mean?

Something for clergy to remember:

THIS IS ACTUALLY A BENEFIT!!!!

Where does the rubber hit the road?

When filing tax returns, clergy must complete a Schedule SE with Form 1040. Clergy report the total self-employment tax on line 56 of the 1040...as if any of them care about that. If using Turbo Tax clergy answer yes to questions about Religious Employment and clergy status. They then report the fair rental value and any additional amounts received that are not included in taxable wages (i.e. utilities allowances, directly paid utilities and additional amounts treated as “housing” for the purpose of purchasing furnishings.)

What's the Rule?

Clergy can exempt from INCOME TAX (not SECA) any compensation (in-kind or cash) paid for housing including rent, mortgage payments, utilities, furnishings or other expenses related to housing. BUT, the amount that may be exempted is limited to:

- The amount set by the congregation in a charge conference (will need some form of housing resolution that states what housing is provided and how much the church intends to pay as 'housing')
- The fair rental value of the pastor's home fully furnished with utilities paid; and
- The amount the pastor can actually substantiate with receipts

Case #1

Factory Worker Jack was paid \$45,000 in wages in 2015. He rents an apartment for \$500 a month in the small town of Missouri in which he works. His utilities (electric, gas, internet—gotta Tweet, home phone and basic cable—gotta have ESPN) totaled \$4,000 exactly. After housing and taxes, what \$ did he have available for the rest of living?

- Standard Deduction = \$6,300
- \$38,700 of Taxable Income
- Tax Bracket= 25% (but they are brackets)
- FICA=7.65% of Wages

SO.....

- Income Tax Owed=\$5,700* (take my word for it)
- FICA Withheld=\$3,442.50.
- Housing Paid=\$6,000+\$4,000=\$10,000
- What's Left?
 $\$45,000 - \$5,700 - \$3,442 - \$10,000 = \$25,858$

*Might be even less with above the line deductions.

Case #2

Pastor Jack get's the conference minimum for an Elder: \$35,000. He also is provided a parsonage with utilities paid by the local church he serves. The fair rental value of the parsonage is approximately \$6,000 annually and his utilities were also \$4,000. After housing and taxes, how much \$ did he have left?

- Standard Deduction = \$6,300
- \$28,700 of Taxable Income
- Tax Bracket=15%
- SECA=15.3% of Gross

SO...

- Income Tax Owed=\$3,850* (take my word for it)
- SECA Owed=\$6,885
- Housing Paid=\$0.00
- What's Left?

$$\$35,000 - \$3,850 - \$6,885 = \$24,765$$

*Will definitely be less because Self-Employment tax is an above the line deduction.

Let's say that Pastor Jack also tells his church before charge conference that he wants to designate an additional \$5,000 as additional housing allowance. Over the course of the year he spends \$5,000 on household needs, including a couch, a chair, a TV, paint for two rooms, a set of book cases, light bulbs and some flower pots for the front porch. He keeps all his receipts and the total exceeds \$5,000. When he files his income tax return, his taxable income will suddenly be reduced to \$23,800 and his income tax will be \$3,109, almost \$800 less. Jack will actually have \$25,006 left to live on. And remember, he made \$10,000 less than Factory Worker Jack.

Things Pastors Forget

- Child Tax Credit
- Deductibility of student loan interest
- Earned Income Credit
- Potential for income from rents
- Potential for capital gains

Things for BOP's To Remember

- Housing Exemption is a BENEFIT.
- Constellation of benefits is significant.
- BUT clergy compensation varies WIDELY.
- Healthy compensation can all be offset by cash flow issues:
 - SECA hits hard if not paid along the way
 - Especially 1st year Pastors might set a budget of expenses much too high then get caught with tax owed (no withholdings unless requested)

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