CLERGY TAXES Q & A

Reviewed Feb. 12, 2021

On Monday, Feb. 12, 2018 Discipleship Ministries presented a webinar on clergy taxes, and at the end we asked attendees to send us their questions. While this is our attempt to interpret those questions and respond, these should not be interpreted as legal advice, for which you should seek a qualified attorney who specializes in tax law.

If you don't find an answer to your question here, you might want to check our Zondervan 2020 Minister's Tax & Financial Guide. We suspect a Zondervan will release a 2021 version shortly.

This document prepared by GCFA will also be helpful with Housing Allowance questions.

++++++++++++

WITHHOLDING

Q: Can local church withhold money from clergy salary to help with taxes?
A: Yes, voluntary withholding is allowed for clergy, but it is technically for only federal or state tax, not for Self-Employment Tax (Social Security or medicare reported on Box 2 on your W-2 form). The distinction you might want to remember: as self-employed persons the responsibility is yours, not the employers, if this amount is not withheld or "under-withheld."

PENSION & SELF EMPLOYMENT TAX (SOCIAL SECURITY)

Q: You shared that regular PIP 403b contributions are not recorded in the box 1 taxable income on the W-2; just to clarify: if I make a pip Roth 403b contribution that should then be included in Box 1, correct? Or do I report that in a different way when doing my taxes and still excused the amount in box 1?
A: Not sure about Roth PIP. This is something to check with the Wespath/Board of Pensions (800-851-2201).

Q: Our Conference provides a resolution that officially designates my retiree pension as housing allowance. I always print this out and attach it to my tax return - meaning I cannot file online! Do I really need to attach the resolution?
A: No you do not; just keep a copy for your files.

Q: I am a 72 year old retired clergy member receiving social security as well as my pension. If I pastor a church part-time, am I still required to pay social security tax on my income from that church? Since I am already receiving benefits from the social security system, seems like the answer should be 'no' but I am not sure.

A: Yes any earned income is subject to self employment tax, even if you are already

receiving benefits from social security.

Q: I am preparing to retire soon and have a question about tax treatment of money invested through the General Board of Pensions/Wespath. Will everything I receive in retirement from Wespath be housing allowance (and thus tax free as long as it is spend on the home and it does not exceed the rental value of the house plus utilities)? More specifically, will the monies I have invested in my PIP account come to me as housing allowance, or only what the church invested in an MPP and CRSP account for me? Our conference passes a resolution each year saying pension payments are housing allowance, but I'm not sure if the personally invested PIP is covered by the resolution.
A: Usually all funds coming from the GBOPHB/Wesath is considered housing. One exception might be lump sum payments.

Q: I was pleasantly surprised to learn that 100 % of my pension can be considered housing allowance. After changing from active to retired status in the UMC, I will continue to work as a chaplain in some capacity. I will also be having my credentials recognized by another denomination and had thought about moving all my pension funds to merge them with other retirement funds I have. Is there any way to continue to use funds as a housing allowance if the money is not invested through the UMC?
A: No, only funds coming from a church pension board will count as the housing exclusion (we can't speak to what other denominations do or don't do). You should contact them directly, or speak to a representative at Wespath/General Board of Pensions.

Q: I am 67, receiving SS, and am still a FT pastor. I have only been contributing $12,000 annually to my PIP. Can I STILL make a retroactive contribution to my PIP to have it deducted from my taxable income for 2017? I plan to retire effective July 1, 2018 (yippee!) If so, how - and when can I do that?
A: You cannot make retroactive contributions to PIP (like you can with an IRA or HAS) but you can have your church send up to $24500 during 2018!

FORMS & REPORTING

Q: My question is this: Is my salary as pastor reported on 1040 just like my wife's salary is reported from her secular job? I've always had difficulties in understanding how to report my salary.
A: Yes, it gets reported on the same line on 1040.

Q: Is there a Self-employed health insurance deduction?
A: There is on schedule C

Q: I am a part time pastor and when I go to get my taxes done, the tax preparer never knows how to handle my deductions and what I can actually use as a deduction. This seminar today seemed to be geared toward full time pastors. I'm still confused. I usually go to H&R Block, but they have no clue how to do my tax returns anymore and I end up owing the government money. I guess that's not a question, but I'm at a loss for what to do.
A: Find someone who really understands clergy taxes. It doesn't matter if you are full or

part-time. Great place to check is with your Conference Treasurer or District Superintendent.

Q: Gifts to the Pastor from the church – At our United Methodist church the members have the invitation to make a contribution in December and the total is distributed to the ministers and staff in appreciation. Is this type of gift taxable income to the recipients? And if so, it should go into their W-2?
A: Yes, it is taxable income and should be reported on the W-2.

Q: I am a UMC clergy serving in McCamey, TX. The church provides a parsonage for my housing needs. I own my own home in Humble, Texas. Can I use my Form 1098 that the mortgage company sent me this year in my Income Tax Report?
A: Yes that gets reported on Schedule A. The amount of expenses from the home you own cannot be used as housing allowance because the church provides a parsonage.

Q: My husband retired in 2017. He will be counting his pension and PIP payments as housing allowance. He has Sched C income from book sales and honoraria. He also has social security income (we chose to retire early at age 62). Will I still fill out the IRC limitation worksheet pages like I did before he retired?
A: You no longer need to fill out this form

Q: I have a tax attorney friend who suggested that our 2018 taxes would work more favorably if we were paid as 1099 contractors rather than employees. Our conference tells us we must be W-2 employees, however. Is there a way to have part of my salary under one structure and part under another, and would that be advisable?
A: No that is not allowed. All income from the church is to be reported on W-2.

Q: My main question is how to handle the loss of Employee Unreimbursed Business Expenses, the Miscellaneous Itemized Deduction.
A: Fill out form 2106 and list all your unreimbursed business expenses. In 2017 that will flow into Schedule A miscellaneouse deductions. Also use that information to reduce your self-employment tax. In 2018 you can only use those deductions to reduce your self employment tax.

Q: I was concerned at the statement regarding treatment of mortgage payments.
One does not report as income housing allowance to the extent of expenses incurred. Well and good, so the mortgage payment – actually the interest, insurance and taxes portion thereof, since the principal is simply repayment of a debt – is counted to validate the housing allowance. So the mortgage interest etc has already been used to reduce one's taxable income.
How can one turn around and then ALSO deduct it as a deduction on schedule A?
A: That is what the tax code allows.

Q: Can you share with me the difference between Schedule C and Schedule A with business expenses. In the webinar, ya'll mentioned that unreimbursed business expenses go away – and that is what shows up on Schedule A by filling out Form 2016. When I enter honorariums and other income like this, it shows up on Schedule C and I also have the opportunity to deduct business expenses there.
A: You can only deduct on Schedule C expenses used to earn the Schedule C income.

Q: In my clergy circles there has been debate – some say that Schedule A business deductions are going away, but if we enter them on Schedule C we are fine. But you indicated using Form 2016 – which makes me think it goes back on Schedule A. Help?
A: You can only deduct on Schedule C expenses used to earn the Schedule C income. And it is Form 2106.

Q: I am a bi-vocational pastor. I work a full-time job and pastor two small churches. Can all the tax preparation information you gave in the presentation be applied to my ministry income?
A: Yes.

Q: You stated that in 2018 moving expenses would not be deductible. Does this mean that any money we receive from the church to reimburse us for our moving expenses now becomes taxable income for 2018?
A: If the money is reported as income you will not be able to deduct the expense. We received an update from GCFA Legal Department on Feb. 21, 2018 that says that even if the church pays the bill it will need to be reported on the clergyperson's W-2. We have included that update at the end of this document.

Q: I'm a LLP. My 3 small churches do not provide me a W-2, or 1099. I understand from reviewing IRS law that regardless of not receiving these, I am responsible for reporting on 1040 Schedule-C. Am I correct?
A: Yes

Q: I am new to UMC. In my previous church, the treasurer sent in my self-employment tax for me each month because I designated more tax on my W4 to cover my self-employment tax liability. In my current UMC Church, the treasurer is not sending any taxes in on my behalf. Whole new ballgame!
A: You will need to cover this tax in the four quarterly payments.

Q: I changed churches June 2017. One church included Housing allowance and UMPIP while the other only shows HSA in box 12 of the W2. Shouldn't all three be somewhere on the W2, but not include as taxable wages?
A: Yes they should.

Q: I thought I heard you say that clergy could pay self-employment tax monthly.
How would one do that? Can you set it up with the IRS online system to pay monthly?

A: If such an online feature exists we are not aware of it -- would like to hear more about it. You can set aside money monthly in your own account so you have the funds to pay the monethly estimated tax when the payments are due. ***UPDATE:*** *check out the IRS's Electronic Tax Payment System page to see if this might be an option for you.*

Q: The Church is not paying any taxes on my behalf. So, I need to also pay the 12% federal tax as well as state taxes, correct? My thought is then that my tax liability would be: (12% x taxable income) +(15.3% x taxable income + housing) = tax liability Correct? Also, my guess is that I need to contact my state government to find out about state taxes, correct?
A: Correct on all counts!

Q: Can you help me clear up how to put what amounts where in a Pastor's W2? I work for two UMC churches - one for 5 years with two pastors, and one for 10 years with one pastor. Overall I've worked with seven pastors and they each wanted their W2's done differently! For the longest time, I had blurred the lines between housing expenses and allowance (still not sure what to call them!) -- not realizing there was a distinction between whether the pastor was in a parsonage or not. Here's what I understand so please correct me where I might be wrong:

Cash compensation of course goes in Box 1. Housing/utilities allowance goes in Box 14. The difference I've seen among pastors is that some in a parsonage say it doesn't go on the W-2 at all. (I assume they show it elsewhere like a Schedule B.) One in the parsonage kept track of what he spent vs what I paid him each month, and the actual spent went in his Box 14, and then his Box 1 was adjusted for the difference. Others -- parsonage or no parsonage -- say the flat Housing/Utilities allowance goes in their Box 14, regardless of actual use.
A: This last part is correct. If there is unused/overestimated allowances the pastor can report that as "other income."

Also I've not been checking "retirement plan" on their W2 or showing that amount in Box 12 (E) as I do for lay employees with a plan. I've not been showing their Health Premiums value in Box 12 (DD) as for other employees, either. None have asked me to fill these values in.
A: Yes, you should.

As far as I know, none of these pastors have had any tax trouble and only seemed to be doing what they thought in good conscience was best. I mostly do what they prefer, but I'd really rather know what is proper or not. Obviously it's too late for 2017 W-2's, but I have a new pastor coming in to each of my churches this summer and I'd like to be prepared -- especially if either of them happen to be new.
A: Get Publication 517 and Publication 15 & 15A, downloadable from www.IRS.gov .

Accountable Reimbursement

Q: I have a accountable reimbursement plan made up of continuing education, mileage, and books, derived per set amounts for each category for the total. if I turn in less/more per category, is the church obligated to pay as long as I don't go over the total?
A: That is something to negotiate with the church. Usually you can only spend up to the budgeted amount.

Q: If my office is in the parsonage, can I include mileage from the parsonage to church #1 of 3, as mileage reimbursement? I have no church office. I usually only turn in total mileage from church #2, to #3, to parsonage…nothing from parsonage to church #1.
A: You need to start from the nearest church

Q: I have family members who are clergy. At family gatherings, we almost always discuss church life. Would those meals be deductible, or only if the meals are with church members? **A:** Basically only with members, not with family. Clergy gatherings, within the denomination or ecumenical or interfaith might be considered decuctible, depending on the purpose and meeting content.

Q: One question about dinners out with Congregation members. Often my wife and I go out to dinner with couples/people from our church. We usually take turns "picking up the tab." What portion of the tab is reimbursable if I pick up the tab for everyone--mine only, mine and the congregation members, or the whole tab? I have usually considered this as part of my reimbursable business expense. What is the best way to do this?
A: You can count all -- except for your wife.

Housing Allowances/Exclusions & Expenses

Q: How is Housing Allowance different from Housing Exclusion?
A: Allowance and exclusion are the same. Sometimes people use the term "allowance" for clergy who are not offered a parsonage, but the principle is the same for income taxes. ***Remember that the allowance or exclusion scenario is different for social security tax purposes.***

Q: Also, how does this affect clergy couple when one lives in one of the parsonage and the other gets an housing allowance?
A: You can declare different housing arrangements for each clergyperson. If you both live in the parsonage only the clergy apported to that charge can use the parsonage allowance. The other clergy spouse can take unreimbursed housing expenses against their housing allowance.

Q: I am a clergy person and I own my home. For housing expense: I can include: taxes and expenses related to housing, repairs, utilities, and purchase of items like washer/dryer. Is there anything else that can be added?

A: Yes, you could count cleaning supplies, property tax, home insurance, etc. Remember, that the amount you deduct is the lowest of 1) Fair Rental Value, 2) Actual costs, or 3) Housing allowance.

Q: Housing Allowance – It was said that various expenses of the house are eligible for spending the allowance on. Is there a list of these available or a source that may have them. Then I will advise a pastor who is a client.
A: All IRS Code 107 says is everything to provide a home (except food and maid service)

Q: If Housing Allowance is an allowance, are we supposed to receive the left over amount as salary? How does that work? How do we receive that. Is this allowance different from the Reimbursable Expenses Allowance?

A: You should receive 1/12 of this allowance each month, and if it is not used but is given to you the difference should be reported as income.

Q: I would like to have any information available about the Clergy Housing Allowance, ESPECIALLY the 2017 and 2018 Years.
A: Go to www.IRS.gov and type in "clergy housing allowance" and you will be given a chance to download and print the information.

Q: In the tax webinar, there was reference made to housing value and allowances in dealing with the primary residence. Which house is the primary when a parsonage is supplied, but the pastor serves part time and is there only a night or two a weekend? My home is nearly two hours away and that is where I complete most of my work week activities, everything except Sunday worshiip. Needless to say, the majority of my housing related expenses are attached to my main home. I am a part time local pastor if that context pertains to my situation.
A: Because the charge provides a parsonage, that is your primary residence.

Q: Are replacement appliances and/or replacement flooring/attached fixtures deductible as housing expenses?
A: Yes!

Q: What is the maximum amount that can be set aside as housing allowance?
A: Up to 100% of a clergypersons salary as reported on W-2. But it cannot be more than fair market rental value.

Q: Right now I have set my housing allowance at a minimum of what my expenses are/would be. Should I add the fair rental value of the parsonage to this dollar amount, or should I make my housing allowance just the fair rental value if it's the lower amount?
A: I would make it the higher amount. Then at the end of the year what is not used gets reported under other income as unused housing allowance

Q: I'm still unsure about the housing allowance set by the church. If a part of the salary is put into housing allowance and not all of it is used, do I lose the unused portion? Should the housing allowance figure be low to insure that I don't lose salary?

A: The housing allowance should be paid to you 1/12 each month. There would not be anything left over. If you set the housing too high, you simply have to report the overage as other income.

Q: I am a full-time elder living in a parsonage. I am paid $67,000 and declare at the beginning of the year $10,000 in utilities and appurtenances (though I will likely end up with $7,000 in actual expenses). My church pays that $10,000 within my gross income of $67k, meaning I do not turn in receipts for reimbursement like I do with business expenses.
A: That is the correct way to do it.

Q: Beyond that, there is nothing that has been reflected on my W-2 for "housing allowance." The house I live in would rent for about $1,200 per month. Here's my question:
Can the church pay me $14,400 less in "cash salary" and then provide me that same amount in housing allowance. If so, would that positively affect my tax liability?
A: Yes they can do that, and it will reflect a lower taxable income.

Q: I'm still unsure about the housing allowance set by the church. If a part of the salary is put into housing allowance and not all of it is used, do I lose the unused portion? Should the housing allowance figure be low to ensure that I don't lose salary?
A: Better to keep the amount higher, as it doesn't affect what the church actually pays you in total. You can always report excess as "other income."

Q: How does one go about having one's employer create a housing allowance and accountable reimbursements when one's employer is a hospital in a larger healthcare system? They have no finance committee of church council, so who or what substitutes for these entities? Are there other things to consider when receiving a housing allowance or reimbursement for business expenses in this situation?
A: Speak with the Human Resources people at the facility. There are sample forms that could be used in that setting, your conference office or Bishop's office may have them. Click here to find a packet prepared by our General Council on Finance & Administration (GCFA).

Q: I have two questions. Slide 31 covers self-employment taxes and lists taxable income and housing allowance. I thought housing allowance was NOT taxable. Also, slide 34 covers the 4 times during the year when estimated tax payments are due. H&R Block informed me that they do not have to fall on those exact dates; in fact, I make 4 estimated tax payments a year, but not always on those exact dates. Please advise.**A:** Housing allowance is not taxable income to the extent used – but is not excluded for social security purposes. In regard to payment of quarterly tax payments, you can pay them earlier than these dates, but anything paid after these dates is late and subject to penalty.

Q: If I live in a parsonage can I deduct housing expenses (Toilet paper, paper towels etc..) from that fair rental value that I have to report? Where would I deduct that? What line do I include fair rental value? I use turbo tax but it gets confusing and I don't remember that program providing for those housing deductions. I am considering doing all this myself, but I like the protections Turbo Tax provides.

A: Housing allowance is established by the church, then you deduct expenses from that. Fair Market Rental Value is the amount to use for your self employment tax on Schedule SE.

Q: I believe I heard one of you say that if the church is providing the pastor with a parsonage, they should be paying the utilities (and the clergy should pay for extras such as cable, internet, etc.). Is that correct? If so, where does that come from? I don't find anything in the BOD or in my conference journals. A corollary to that is this: if the church should be paying the utilities of the parsonage and is currently not, do you have any suggestions on how to approach that situation? Thanks again for all your work and your help in the area of clergy taxes!
A: Conferences differ on this, there probably is a statement adopted by the conference on "Parsonage Standards" that should be reported in the Journal (though might not be listed every year). Sometime it could be in the report of the Equitable Compensation Committee, or Conference Trustees. You might ask your Conference Secretary if s/he can help you locate a statement to this effect.

Recent Housing Allowance Update from GCFA Legal Services Dept.
Tax Cuts and Jobs Act Update

The Tax Cuts and Jobs Act (the "Act") made numerous changes to the taxation of both individuals and organizations. Several of the changes relate to deductions available to individuals. One such change that has possibly received less attention involves moving expenses.

As outlined extensively in the IRS's Publication 521, the "deduction of certain moving expenses to a new home because [the taxpayer] started or changed job locations" has been an available deduction, and it is created by Section 217 of the Tax Code. In addition to the available deduction, another section of the Code – Section 132(g) – provides that the reimbursement of qualified moving expenses by an employer will not be treated as a taxable fringe benefit. In other words, if the employee would be able to take the moving expense as a deduction, the employer could pay for those expenses on a tax-free basis.

Unfortunately for those who will incur moving expenses that would meet the deductibility standards outlined in Publication 521, the Act has suspended the application of Sections 217 and 132(g) from January 1, 2018 through December 31, 2025.

The end result of this suspension is that
(1) moving expenses incurred during that time period will not be a deductible expense (except for certain members of the Armed Forces) and (2) any reimbursement by, or

payment of, these expenses by an employer during the same time period will need to be reported as taxable income to the employee (again, except for certain members of the Armed Forces).

Thus, for example, if a local church covers some or all of the moving expenses of an employee, such as its pastor, the church will need to report that amount on Form W-2 as taxable income to the employee. And, as another example, if the payment of moving expenses is made by an annual conference on behalf of a pastor serving a local church, the conference will likely need to issue that pastor a Form 1099-MISC reflecting the amount paid (the instructions to Form 1099-MISC state Box 7 should include "taxable fringe benefits for nonemployees," which will presumably include moving expenses for the years during which Sections 217 and 132(g) are suspended).

GCFA's Legal Services
Department Rev. February 21,
2018