



# Clergy Taxes

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“The income tax has made more liars out of the American people than golf has.” – Will Rogers

Focusing specifically on challenges facing licensed or ordained pastors. Churches have their own set of issues.



## Goals for this session

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1. Increase awareness of tax challenges facing clergy
2. Learn of practical tax tips/strategies

### SO THAT YOU

1. Have more money in your pocket
2. Spend an appropriate amount of time/energy worrying about tax issues

Stress adequate withholding and quarterly estimated payments.



# The Confusing Nature of Clergy Taxes

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“The hardest thing in the world to understand is the income tax.” – Albert Einstein

Given minimal attention to in college accounting courses or on the CPA exam.



## Are pastors employees of the church or self-employed?

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# Yes


IRS considers pastors employees of the church.  
Wages reported on W-2.

Social Security Administration considers pastors to be self-employed and must file Schedule SE.

This is the source of much of the confusion. Pastors must play by two different sets of rules.

Since you are self-employed, that means you pay both the employer and employer share for SSA. 15.3% instead of 7.65%.

Home Office not applicable for IRS Employees



## How can pastors make their tax payments: Payroll withholding? Quarterly payments?

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# Yes

Most pastors make quarterly estimated payments.

Church can withhold for Income Tax but not for Social Security & Medicare.

If the church has lay employees already, it isn't any extra work to have them withhold taxes. The church reports this as withholding for Federal Income Tax, but you can withhold enough to cover income tax and self-employment taxes.

How much to withhold? As a rule of thumb (at least under the old tax laws), assume 30%. (e.g. paid \$1,000...\$300 withheld or put into savings). A married pastor with two kids may be fine with 20% under the new rules.

Moving Expenses are taxable so factor this in...roughly \$1,500 for Conference move or 30% of cost.



## Can pastors really opt out of Social Security?

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# Yes?

...if you are morally opposed to such public insurance programs.

NOTE: Opting out affects UMC retirement and disability benefits.

Dave Ramsey says he would opt out of Social Security in a heartbeat if he could because it is a crappy investment. Is that really moral grounds?

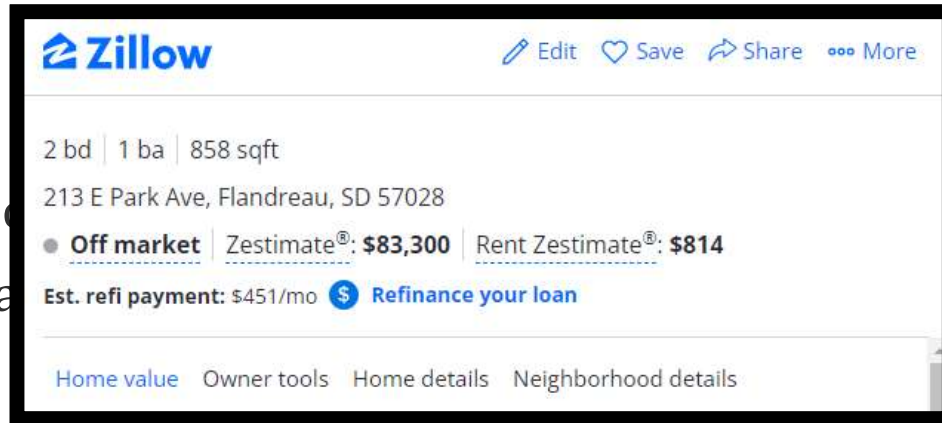
Why to not opt out: 1) Social Security & Medicare will not go away anytime soon. It will continue to change but not go away.

2) You have to be extremely well disciplined and informed to prepare for retirement, disability, untimely death.

3) Our UMC benefits add to the value of your investment into SS and Medicare.

4) You may have to leave the ministry to opt back in.

## Is housing taxable or not?



**Zillow** Edit Save Share More

2 bd | 1 ba | 858 sqft

213 E Park Ave, Flandreau, SD 57028

● **Off market** | Zestimate®: **\$83,300** | Rent Zestimate®: **\$814**

Est. refi payment: \$451/mo [Refinance your loan](#)

[Home value](#) [Owner tools](#) [Home details](#) [Neighborhood details](#)

No  
Tax  
t)

For a lay person, you must include the value of housing as income for both. For pastors, you only include for Self-Employment. Fair Rental Value is very subjective. If there are similar rental properties in town, this would be a good comparison. I just heard earlier this year that using 12% of the market value (Zillow) is a good estimate.



# The Clergy Comp Form

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“I’m proud to be paying taxes in the United States.  
The only thing is, I could be just as proud for half the  
money.” — Arthur Godfrey

Many important tax decisions are made here that could cost/save thousands.



# Designate a Housing Exclusion

## SECTION I: INCOME

*Instructions: The Minimum Base Salary for a full-time clergy is: Full Connection - \$45,809; Less than Full Connection - \$43,695. Designated Housing Exclusion does not affect church financially but can reduce pastor's taxable income.*

	2022
<b>A. Base Salary</b> .....	44,000
<b>B. Other</b> (e.g. social security or health ins. allowance) ..... +	0
Describe: <input type="text"/>	
<b>C. Total Compensation</b> (Add lines A and B) .....	= 44,000
<b>D. Designated Housing Exclusion</b> .....	5,000

Designated housing exclusion should almost never be zero. If you live in a parsonage, this covers any unreimbursed expenses...which I'll cover later. If you receive a cash housing allowance, this covers any expenses over and above that.

No affect on church. This is different than the Cash Housing Allowance which is money actually paid to the pastor in lieu of a parsonage. Cash Housing Allowance is paid out regularly. Wisconsin?

Can't be declared retroactively so, if you forget and don't notice until September, you need to get it approved and only expenses from September forward can reduce your income tax.

Estimate high! No penalty for being too high, but, if it is not higher than your expenses, you don't get the full benefit. If Exclusion is \$5,000 but only spend \$1,000, the remaining \$4,000 gets added back on when you file taxes. If Exclusion is \$1,000 and you spend \$2,000, you can still only exclude only \$1,000 from income.

# Do you have Medical or Dependent Care expenses?

## SECTION II: SALARY REDUCTIONS

*Instructions: These amounts are subtracted from the pastor's paycheck and remitted to the Dakotas Conference. Lines A, B, C, and D will also reduce the pastor's taxable income as reported in Box 1 of the W-2.*

<u>Health Insurance</u>	2022
A. HealthFlex Pastor's Share (Fund 20/21).....	4,834
A1. HSA Contribution (Do not withhold as this is info for W-2) .....	1,500
B. Medical Reimbursement Account (Fund 25/26).....	0
C. Dependent Care Account (Fund 30/31).....	1,200

This is actually set during open enrollment, but it does end up on your Clergy Comp Form. Only applies to those on Conference health plan. This reduces Self-Employment AND income tax so \$1,000 in MRA means your tax bill will be about \$300 lower. Treat this like use it or lose it in that you don't want to overestimate.

# Make a UMPIP contribution

<b>Pastor's Contribution to UMPIP</b>	
<b>D. Before-Tax</b> (Tax Deferred) (Fund 35/36) .....	2,400
<b>E. After-Tax</b> (Taxable) (Fund 40/41) .....	0
<b>F. ROTH</b> (Taxable) (Fund 45/46) .....	0

Before-Tax, After-Tax, or ROTH, that's up to you. Before-Tax cuts your tax bill now. The others cut it in the future. The more important thing is that you are putting money away for retirement. Even if Social Security is greatly reduced, that won't affect UMPIP.

Just a side note while we're on the subject of payroll deductions. Can pastors have their tithe withheld from their pay check? Yes, but it is after-tax.



# How to Win at Clergy Taxes

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“If you get up early, work late, and pay your taxes,  
you will get ahead — if you strike oil.” – J. Paul Getty

Here's the more practical stuff that is too often neglected.

## Get your treasurer on board

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We try hard to make sure your Treasurer has all the info they need. Make sure your treasurer has a copy of the Clergy Comp Form.

Also, point them to our website. There are articles and helps in the Finance & Benefits area that will walk your treasurer through paying you correctly or how to use the Clergy Comp Form to fill out your W-2.

## Get a system that works for you

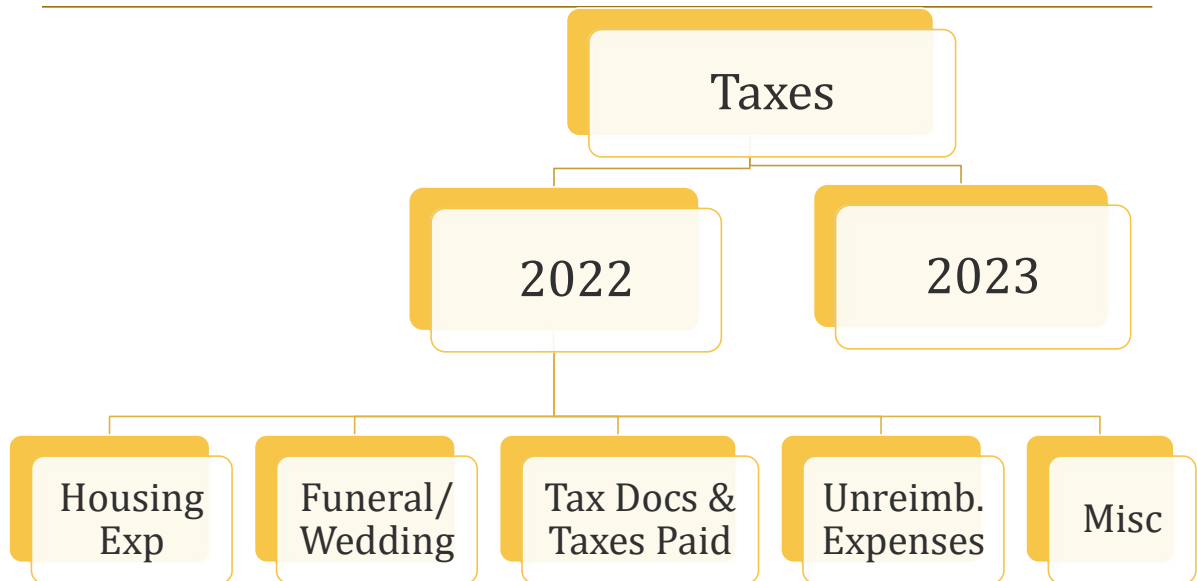
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Similar with ARP, get a system that works for you. Paper or electronic so that you can capture everything you need.

## Get a system that works for you

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Here's the filing system I would recommend for taxes. After you get all your Tax Docs (W-2, 1099's, etc), you should be able to just bring this into your tax preparer.

## Housing Expenses Digression

### RECEIPTS/INVOICES/DOCUMENTATION TO KEEP (if not reimbursed or paid for by church)

- |  |   |
|--|---|
| <ul style="list-style-type: none"><li>• Down payment on a home</li><li>• Mortgage payments (including both interest and principal)</li><li>• Real estate taxes</li><li>• Property insurance</li><li>• Rent payments</li><li>• Utilities (electricity, gas, water, trash pickup, local telephone charges, internet access fees)</li><li>• Homeowners association dues</li></ul> | <ul style="list-style-type: none"><li>• Renters insurance</li><li>• Furnishings and appliances (purchase and repair)</li><li>• Decorations (curtains, blinds, wall hangings)</li><li>• Structural repairs and remodeling</li><li>• Yard maintenance and improvements</li><li>• Maintenance items (household cleansers, light bulbs, pest control, etc.)</li></ul> |
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Housing Expenses are the area I get the most questions about. The IRS never spells this out so I've compiled this list from a number of sources that I trust.





## Something for the Miscellaneous Folder

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### Moving Expenses

- No longer deductible
- Taxable if paid by employer or reimbursed

### Educational Assistance

- Employers can help repay student loans
- Need to adopt Section 127 Plan

### Reimbursements

- Non-accountable are taxable

Moving expenses are taxable. If Conference pays, you will receive 1099. If church pays, it should be added to W-2.

There is a template for Section 127. Investing in Leaders Grants up to \$25k. Will coordinate with church to help make tax free.

## Get a system that works for you

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Sept 15

Jan 15

Apr 15

June 15

[www.irs.gov/Payments/Direct-Pay](http://www.irs.gov/Payments/Direct-Pay)

Or

Form 1040-ES

Setup reminders for important dates...especially if you make quarterly estimated payments. Put it in your phone, on your calendar, or sticky note.

Two things to take note of that are kind of quirky:

- 1)The IRS chose the 1<sup>st</sup>, 4<sup>th</sup>, 6<sup>th</sup>, and 9<sup>th</sup> month for the due dates. Between April & June, you still owe a quarter even though it's only for two months.
- 2)April is the due date for the 1<sup>st</sup> quarter as well as the due date for any taxes owed from prior year. Without proper planning, this can be a killer.

I have a calculator to help estimate.



## Get a tax professional

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<p><b>CONNIE BUSKOHL</b> Sioux Falls, SD Phone: 1-877-477-2623 Email: connie@cuskohl.com</p>	<p><b>PERRY KUDRNA</b> Rapid City, SD Phone: 605-716-8693 Email: perry@ktllp.com</p>
<p><b>JIM BROWN</b> Aberdeen, SD Phone: 605-229-4359 Email: jbrown@klabobrown.com</p>	<p><b>DONNA KUPER</b> Dell Rapids, SD Phone: 605-359-4993 Email: kupercomplete@goldenwest.net</p>
<p><b>JEANETTE GRAVESETH</b> Bismarck, ND Phone: 701-471-5573 Email: gravseth@bis.midco.net</p>	

At least for the first year, I encourage you to get someone familiar with clergy taxes. If you just go to H&R Block, that may not cut it. Clergy taxes are a specialist. If you do go to a regular tax preparer, refer them to me if they have questions.

## Questions?

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Related to the topic of Clergy Tax

