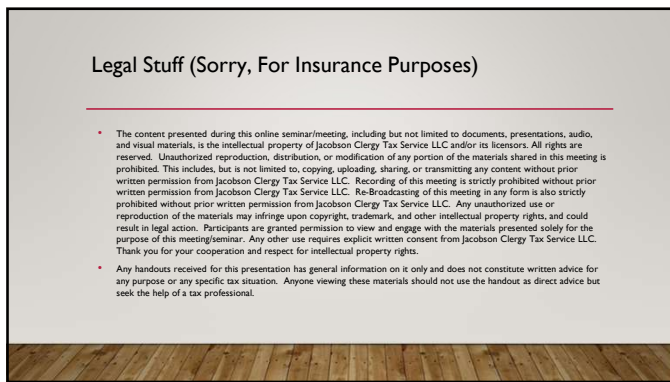
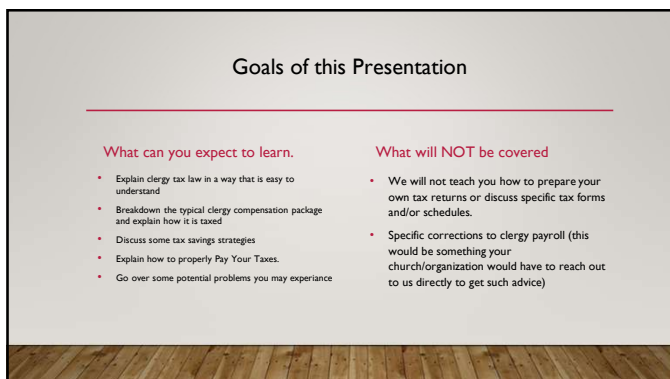




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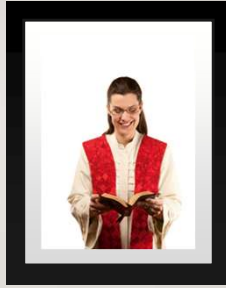
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3

WHO IS CLERGY FOR TAX PURPOSES?

- According to the IRS, clergy are individuals who are duly ordained, commissioned or licensed by a religious body constituting a church or church denomination. They are given the authority to conduct religious worship and administer ordinances. If a church or denomination ordains some ministers and licenses or commissions others, anyone licensed or commissioned must be able to perform substantially all the religious functions of an ordained minister to be treated as a minister for Social Security. (Note: the first requirement must be Ordained, Licensed and/or Commissioned).
- Meaning a licensed or commissioned clergy person must be able to perform the majority of functions that an ordained clergy person can. Examples include leading worship (which can actually mean several things), providing the sacraments (communion), has management responsibility in a local church or religious denomination (control, conduct, or maintenance of a religious organization), and/or is considered to be a religious leader by his or her church or denomination.



4

ARE CLERGY EMPLOYEES?

- Clergy are NOT Self Employed
 - Most clergy are considered employees (according to the tests currently used by the IRS and the courts). They should receive a Form W-2 from their church reporting their taxable income.
 - Note: if this is a truly called or installed position, your income should not be reported on a 1099-NEC form.
 - However, clergy are ***treated*** as self-employed for Social Security purposes.
 - Clergy are considered to have what is called a *dual tax status*.



5

WHAT DOES THIS MEAN FOR SOCIAL SECURITY AND MEDICARE TAXES?

Normally, when you are an employee, your Social Security and Medicare Taxes are withheld from your paycheck for you.

Furthermore, as an employee, you only pay one half of your Social Security and Medicare Taxes (7.65%)

Your employer normally pays the other 7.65%

However, because you are Clergy, you are responsible for the following:

Paying your own Social Security and Medicare Taxes on your Income Tax Return

*Known as Self-Employment Tax (or SE Tax)

Pay both the employer and employee halves of Social Security and Medicare Tax

*Total of 15.3%

6



THE CHURCH CAN NOT WITHHOLD

- It is illegal for the church or any religious institution to withhold Social Security and Medicare Taxes for Clergy.
- This also can include those employed by secular organizations (such as hospital chaplains and campus ministers)

If this is happening to you, we'll talk about this later.

7



CASH SALARY

- Subject To Income Tax
- Subject To Self Employment Tax (Social Security and Medicare)

8

SOCIAL SECURITY OFFSET/REIMBURSEMENT

Some denominations will give pastors money toward the cost of Social Security

- This usually equals the employer portion of Social Security (7.65%)

This is treated the same as cash salary for tax purposes

- Subject to Income Tax
- Subject To Self Employment Tax (Social Security and Medicare)

9

Polling Question #1

- What state are you in currently?
- Type your answer in the chat box!



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HOUSING ALLOWANCES AND PARSONAGE



11

WHAT'S THE DIFFERENCE?

- **Housing Allowance-** When the Congregation allows Clergy to allocate a portion of their compensation package to pay for housing expenses. This is given to them in the form of cash (usually in their paycheck).
- **Parsonage/Manse/Rectory-** When the church provides the housing itself. The church actually owns the property and allows the clergy person to live there rent free.



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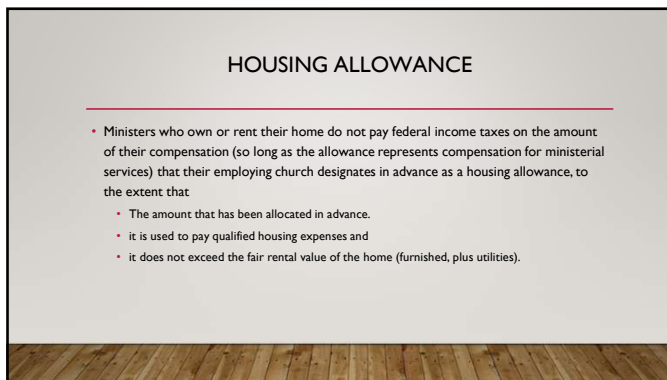


SELF EMPLOYMENT TAX ON HOUSING ALLOWANCE

ANY AMOUNT RECEIVED IS ALWAYS SUBJECT TO SELF EMPLOYMENT TAX (SOCIAL SECURITY AND MEDICARE TAX). MEANING YOU WILL PAY THE 15.3% SOCIAL SECURITY AND MEDICARE TAX

*You save on the income tax

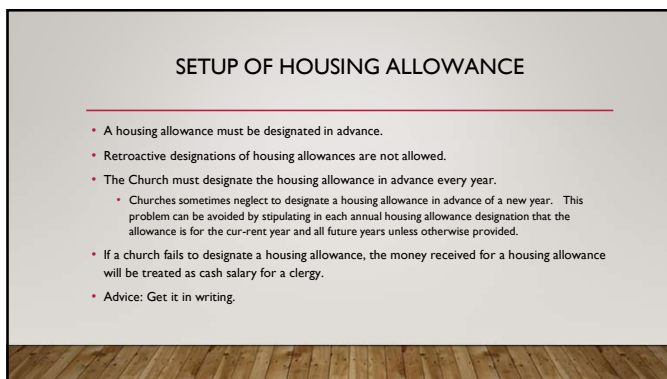
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HOUSING ALLOWANCE

- Ministers who own or rent their home do not pay federal income taxes on the amount of their compensation (so long as the allowance represents compensation for ministerial services) that their employing church designates in advance as a housing allowance, to the extent that
 - The amount that has been allocated in advance.
 - it is used to pay qualified housing expenses and
 - it does not exceed the fair rental value of the home (furnished, plus utilities).

14



SETUP OF HOUSING ALLOWANCE

- A housing allowance must be designated in advance.
- Retroactive designations of housing allowances are not allowed.
- The Church must designate the housing allowance in advance every year.
 - Churches sometimes neglect to designate a housing allowance in advance of a new year. This problem can be avoided by stipulating in each annual housing allowance designation that the allowance is for the current year and all future years unless otherwise provided.
- If a church fails to designate a housing allowance, the money received for a housing allowance will be treated as cash salary for a clergy.
- Advice: Get it in writing.

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EXPENSES TO CONSIDER WHEN CALCULATING HOUSING ALLOWANCE

- Mortgage payments on a loan to purchase or improve your home (includes both interest and principal)
- Rent
- Real Estate Taxes
- Property Insurance (including Renters Insurance)
- Furnishing and Appliances (including repairs)
- Structural Repairs and Remodeling
- Yard Maintenance (Landscaping and Snowplowing)
- Maintenance Items (Pest Control, Security, Etc.)
- Homeowners Association Dues
- Utilities (electricity, gas, water, trash pickup, local telephone charges that are non-cellular, etc.)
- Should not (at this time) include streaming services.

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HOW TO CALCULATE FAIR RENTAL VALUE

Renters

- Usually easier because you are renting (unless you're receiving rent at a discount)

Home Owners

- Compare rentals in your area (bad idea)
- Contact a Real Estate Agent
- Contact A Property Management Company
- Contact an Appraiser (Can Be Costly)
- Do NOT go by Zillow or other real estate websites (or AI)

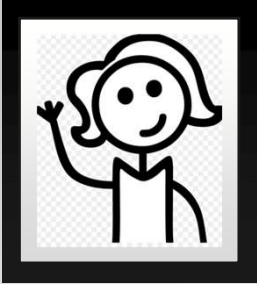
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EXAMPLE I

- Sally gets a housing allowance of \$10,000
- She has a Fair Rental Value of \$10,000
- She only has \$8,000 in qualified housing expenses
- Sally will pay income tax on the unused portion of the housing allowance
 - \$2,000

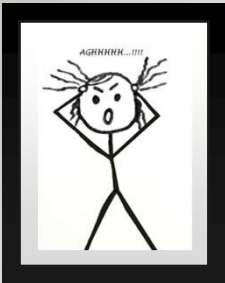
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EXAMPLE 2

- June has a housing allowance of \$10,000
- June has qualified housing expenses in the amount of \$10,000
- June had her real estate agent friend provide a Fair Rental Value on the home in the amount of \$7,000
- June will pay tax on the difference between Fair Rental Value and the amount designated as her housing allowance.
 - \$3,000

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EXAMPLE 3

- Roberta has a housing allowance of \$10,000
- Roberta has \$11,000 in qualified housing expenses
- Roberta had her house appraised and they determined it's fair rental value was \$12,000
- Roberta is mad because she missed out on a tax break.
- Again, the IRS Code does NOT allow for a retroactive housing allowance or allow you to go back and change it for past expenses or past rental values.

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HOUSING ALLOWANCE CONTINUED

- A reminder that the housing allowance exclusion is an exclusion for federal income taxes only. Ministers must add the housing allowance as income in reporting self-employment taxes.
 - This means the whole amount, not the amount after expenses is subject to SE Tax.

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LIVE IN A PARSONAGE/MANSE/RECTORY?

- The fair rental value of a church-owned home provided to a Clergy as compensation for ministerial services is not subject to federal income tax.
- Clergy cannot exclude the fair rental value of a residence when computing self-employment
- If you pay housing expenses, you may still be able to designate a housing allowance (typically for utilities, appliances and furnishings).
- The church should provide this rental value to you and should be based on what the market could rent the property for.

22

Polling Question #2

- Are you currently (or will you be) serving in a congregational setting (church, synagogue, etc)
 - Please type your answer in the chat box.

23

OTHER ITEMS AND THEIR TAXATION

24

HEALTH INSURANCE PREMIUMS

Not Subject To Income
Tax

Not Subject To Self
Employment Tax (Social
Security and Medicare
Tax)

25

RETIREMENT



- Money that a church sends to your retirement fund or pension dues are not subject to income tax or self employment tax (Social Security and Medicare Tax)

26

RETIREMENT CONTINUED

A 403(b) Plan is when you contribute to your retirement. This is different from the plan that your employer pays into.

There are typically two types of 403(b) plans available.

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PRE-TAX 403(B) VS. ROTH 403(B)

Pre-Tax 403(b)

- Contributions are not subject to income tax
- Contributions are not subject to self employment tax (Social Security and Medicare)
- Distributions are subject to income tax
- Retirement Distributions are not subject to self employment tax (Social Security and Medicare)
- You can take a housing allowance on the distributions as long as it remains in your denominations Retirement Plan (DO NOT ROLL OVER)

ROTH 403(b)

- Contributions are subject to income tax and self employment tax (Social Security and Medicare)
- Distributions are not subject to income tax and self employment tax (Social Security and Medicare)

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EXPENSE REIMBURSEMENTS

Accountable Plan

- You submit receipts to your employer
- They write you a reimbursement check for the exact amount
- Not subject to any tax
- This can also include a church credit card

Non-Accountable Plan

- Your contract states you have an expense account of \$2,000
- The church hands you a check for \$2,000 in the beginning of the year so that you have the money to cover your expenses without submitting any receipts
- Fully taxable . You can write off the expenses on your tax return, but won't save much (we'll discuss this next slide).

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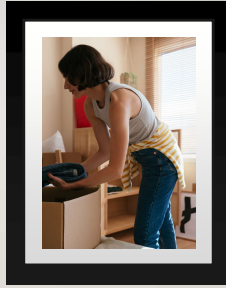
UNREIMBURSED CLERGY EXPENSES

- Can not be deducted against income tax
 - This was due to the changes made by congress know as the Tax Cuts and Jobs Act (See Big Beautiful Bill Later)
- Can reduce Self Employment Tax (Social Security and Medicare Tax)
 - You'll save roughly 15.3% (so 15 cents on every dollar you spend)
 - If you would have been reimbursed for these expenses, you would have saved 100%

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Moving Reimbursements

Due to the One Big Beautiful Bill, moving expense reimbursements are subject to income tax and SECA (Social Security and Medicare Tax). Should be included as Salary on the W-2.



31

HOW DO I PROPERLY CALCULATE MY SE TAX?



- In order to calculate your SE Tax, you must first determine your SE Income.
- $SE\ Income = Clergy\ Income - Clergy\ Related\ Expenses + Housing\ Allowance + Parsonage\ Value$
- Once SE Income is calculated, you will then pay roughly 15.3% of tax.

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EXEMPTION FROM SOCIAL SECURITY TAX

- If clergy members meet several requirements, they may opt out of Social Security and pay no SE Tax.
- You must file form 4361.
 - The deadline is the due date of the federal tax return for the second year in which a clergy has net earnings from self-employment of \$400 or more.
- The exemption is available only to clergy members who are opposed on the basis of religious considerations to the acceptance of benefits under the Social Security, Social Insurance and Social Welfare program(s).
- A clergy's opposition must be to accepting benefits under Social Security.
- Economic or any other non-religious considerations are not a valid basis for the exemption, nor is opposition to paying the self-employment tax.

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WHAT HAPPENS IF I OPT OUT OF SOCIAL SECURITY?

- By opting out of Social Security, you are telling the federal government that the Church will fully support and take care of you when you retire.
- You are also telling the government that *potentially* you will not collect on social security when you retire.
 - This can include previous payments you made to Social Security you made as an employee before you became clergy.
 - This is because a minister must certify opposition, on the basis of religious principles, to acceptance of public insurance.



34

BEFORE YOU OPT OUT OF SOCIAL SECURITY YOU SHOULD....



- Consult a tax professional.
- Consult a financial planner.
- Consult the head of your religious order or denomination.
 - There are many religious orders and denominations that DO NOT allow you to opt out of Social Security
 - Example: Presbyterian Church USA does not allow Pastors to opt out due to the fact that their pension plan is setup to work with Social Security, and they do not have a religious objection to Social Security.

35

HOW DO CLERGY PAY THEIR TAXES TO THE GOVERNMENT?



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WHAT ABOUT
INCOME TAX
WITHHOLDING?

- Churches can withhold federal income (and ONLY federal income tax).
- You must have a *voluntary withholding* agreement with the church.
- Your church may not do this since the church is not required to do so.
- If your church does not withhold federal income tax, you will be required to pay it on your tax return (along with your social security and Medicare tax.
- Keep in mind that even if your church withholds, it will not be enough to pay your entire tax bill (most likely)

37

PAY YOUR TAXES THROUGH YOUR TAX RETURN

- Ministers must prepay their income taxes and self-employment taxes using the estimated tax procedure, unless they have entered into a voluntary with-holding arrangement with their church and the amount of Federal Income Tax Withholding will cover the entire balance due (if it won't, pay quarterly yourself).
- You will need to make estimated tax payments for 2024 if you expect to owe at least \$1,000.
- Estimates are paid quarterly
- Use Form 1040-ES to pay your estimates
- Those who do not pay estimated tax payments will be subject to an estimated tax penalty.

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ESTIMATED
TAX DUE
DATES

*These are 2024 Due Dates. Typically, the due dates are April 15, June 15, September 15 and January 15 (of the following year). Estimates paid after the 1/15 deadline will not count toward estimated payments and will not relieve estimated tax penalties.

2026 Estimated Payment Dates for Individuals		
Installment	Tax Period Covered	Due Date
First	January 1 to March 31, 2026	April 15, 2026
Second	April 1 to May 31, 2026	June 15, 2026
Third	June 1 to August 31, 2026	September 15, 2026
Fourth	September 1 to December 31, 2026	January 15, 2027*

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FORM 1040-ES

Separate form.

1040-ES **26 Estimated Tax** **Payment Voucher 1** OMB No. 1545-0045

File only if you are making a payment of estimated tax by check or money order. Mail this voucher with your check or money order payable to "United States Treasury." Write your social security number and "2025 Form 1040-ES" on your check or money order. Do not send cash. Enclose, but do not staple or attach, your payment with this voucher.

Calendar year—Due April 15, 2026

Amount of estimated tax you are paying by check or money order

Your first name and middle initial	Your last name	Your social security number
If joint payment, complete for spouse		
Spouse's first name and middle initial	Spouse's last name	Spouse's social security number
Address (number, street, and apt. no.)		
City, town, or post office. If you have a foreign address, also complete spaces below		
State		ZIP code
Foreign country name		Foreign postal code
Foreign province/county		

For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see Instructions.

Form 1040-ES (2025)

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You Can Also Pay Online

- Pay online at IRS.Gov
 - Pay for free via ACH Bank Debit
 - You can pay by credit card, but that is done through third party services that charge a hefty fee.
- Most states also allow for online payments of Estimated Taxes
 - See your state's website for details

41

Polling Question #3

- Do you feel like you have learned something today (so far)
 - Please answer in the chat box.

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COMMON MISTAKES



43

MY CHURCH IS WITHHOLDING SOCIAL SECURITY AND MEDICARE TAXES

- Can a church, hospital, or university treat clergy/ministers/chaplains (or seminary professor if applicable) as employees for Social security tax/FICA purposes and withhold the employee's share of FICA taxes from their wages?
- No. Ministers are always self-employed for Social security/FICA purposes when performing services for the church (§1402(a)(8)). Thus, it is incorrect for the church or employer of a chaplain (or seminary professor if applicable) to do so because payments for services as a minister are not subject to FICA (§3121(b)(8)).
- Even if the church/university/hospital or organization treated them as FICA wages, the minister would still owe self-employment tax for those wages (assuming they hadn't timely filed Form 4361 to opt out of the system), so they would really be unnecessarily paying both FICA and SE tax on the same wages.
- If a church or organization does pay FICA tax on a minister's wages, the minister should request a corrected W-2 and (Form W-2-C) the church should amend prior payroll tax returns (e.g., 940, 941s) so that the minister's wages are not included as FICA wages to obtain a refund. The church must then refund the minister the erroneous FICA that was withheld to the minister.

44

MY CHURCH FORGOT INCLUDE MY SOCIAL SECURITY OFFSET/REIMBURSEMENT ON MY W-2

- Your Social Security Offset/Reimbursement is treated as cash salary and must be included in box 1 (and box 16 for state if applicable) of your W-2.
- If this was not done, a corrected W-2 (form W-2C) must be issued, and the amount in those boxes must be increased by the Social Security offset/reimbursement

45

MY CHURCH TREATED MY HOUSING ALLOWANCE AS CASH SALARY ON MY W-2

- Your Housing Allowance amount should never be included in box 1 of the W-2. Any taxable housing allowance will be calculated through your tax return. It is not your Congregations job to "keep track" of your taxable housing allowance
- If this was done, a corrected W-2 (form W-2C) must be issued, and the amount in those boxes must be reduced by the housing allowance.
- The amount for a housing allowance may go in Box 14.

46

MY CHURCH HAS UNDER-VALUED THE FAIR RENTAL VALUE OF MY PARSONAGE

- When a church fills out a contract for a pastor, many times it may designate a percentage of your salary as a "parsonage value" for pension dues payment purposes
- This is incorrect for tax purposes because fair rental value must be based on the rental market in your area.
- The church must come up with a fair rental value for tax purposes.
 - Compare rentals in your area (VERY bad idea)
 - Contact a Real Estate Agent
 - Contact A Property Management Company
 - Contact an Appraiser (Can Be Costly)
 - Do NOT go by Zillow or other real estate websites

47

My Church is Allocating A Housing Allowance and I Am Paying Rent To Them and Living In Their Parsonage/Manse/Rectory

- Sometimes, the Congregation (to try and save their clergy money) will have the clergy obtain a housing allowance and then rent out church owned property because the fair rental value of the church owned property is very high and this would save the clergy money when figuring out SE Tax (Social Security and Medicare Tax)
- This is not allowed and the clergy will still be required to pay SE Tax on the actual fair rental value of the church owned residence.
- Typically seen in high income areas.

48

HRA's- Can My Church Directly Reimburse Me For Medical Expenses Tax Free

- The short answer is that it is highly unlikely without it being a taxable benefit.
- In order to get a tax free benefit, they would need to properly set up a Health Reimbursement Arrangement (HRA).
- The church should NOT manage the HRA themselves but contract it out to a third party (Like how they do it with HSA and Flex Spending accounts).
- This is because these entities are legal nightmares and you must be HIPAA, Department of Labor, and IRS compliant. Otherwise, the church can be hit with steep fines that could cost them tens of thousands of dollars.
 - Most churches do not have the security measures put in place to be HIPAA compliant.
- These payments would likely be taxable to you as cash salary if they are not proper HRA's.

49

Can I Get A Clergy Housing Allowance and Rent Out My Home On AirBNB?

- The short answer is that you will likely lose part or all of your clergy housing benefit.
- Clergy housing is based on using the funds towards your primary personal residence.
- Once you start renting out part or all of your home, the property then becomes an income/business property.
- The amount of the benefit lost would depend on how much of the space (including common areas) the tenant would have access to as a rental.
 - Square footage of rental space vs entire home.
- It is not based on number of days rented.
- Even if you list the property as "unavailable" but still have it listed on AirBNB, the IRS see this as you advertising the rental, and you would still (likely) lose part or all of your housing benefit.

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ADVICE TO PREVENT ERRORS



Ask Question

Do not just assume your church treasurer has all the answers.



Get Professional Help

You may not even know that a mistake has been made. If the IRS catches it, you could be hit with back taxes, interest, and potentially high penalties.



Clergy Tax Law is Not Black and White

The IRS code is left open ended for a reason, and it's not a good one.

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