



Minister Taxes and Legal Update

SAN JACINTO BAPTIST ASSOCIATION
JANUARY 2025

UPDATES FOR 2025

1. Standard mileage rate 70 cents per mile, 14 cents charity, 21 cents medical
 2. \$23,500 maximum contribution deferral to 403(b) or 401(k) plan
 3. \$7,500 catch-up limit for contributions deferral to 403(b) or 401(k) age 50 or older
 4. Standard deduction \$29,200 - 2024 and \$30,000 - 2025 for joint returns \$14,600 – 2024 and \$15,000 - 2025 for filing single and married filing separately
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IMPORTANT FILING DEADLINES

1. W-2's – due to employees January 31, 2025
 2. W-2 Copy A & W-3 – due January 31, 2025
 3. 1099's NEC and MISC- due to vendors January 31, 2025
 4. 1099's Copy A & 1096 - January 31, 2025
 5. Request 1 extension of time to file W-2 & W-3 with SSA by filing Form 8809 - if IRS grants have additional 30 days to file
 6. Penalty varies from \$60 to \$330 per 1099 form if not filed by deadline
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MINISTER CRITERIA

Two Steps

1. Must be commissioned, licensed, or ordained
2. If step 1 above is met, then you must be performing ministerial duties:
 - Baptism, Lord's Supper, weddings (sacerdotal functions)
 - Conducting religious worship services
 - Control, conduct or maintenance of religious organizations
 - Teaching (theological seminaries)
 - Considered a religious leader by the church

Employees who meet the above two steps must be treated as ministers! This isn't optional!!!

MINISTER CREDENTIALS

General Rule – Ministry begins with ordination


Exception for Licensed Minister

- who has been granted authority to perform substantially all the religious functions of an ordained minister

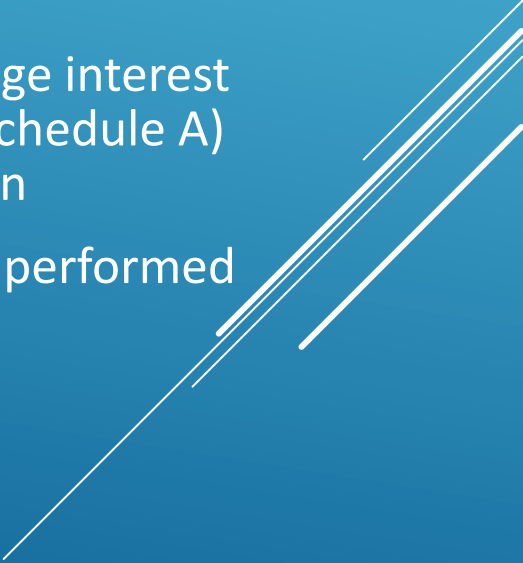
- Marriages
- Funerals
- Baptisms
- Communion
- Preaching
- Teaching

UNIQUE TAX ISSUES FOR MINISTERS

Ministers have a dual tax status

1. Employee for IRS purposes (W-2)
 2. Self-Employed for Social Security (SECA)
 - file form SE on 1040
 - never ever never ever withhold social security
 - IRC Sec 3121 states that ministers wages are not wages for FICA
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MINISTER FOR TAX PURPOSES MEANS

1. Eligible for a minister's housing allowance – IRC Sec 107
 2. Is self-employed for Social Security purposes – IRC Sec 1402(c)
 3. Is exempt from federal income tax withholding – IRC Sec 1401(a)(9)
 4. Use quarterly estimated tax procedures to pay in their taxes unless they elect to voluntarily withhold on W-4 furnished to church – Reg.31.3402(p)-1
 5. “Double dipping” benefit for deducting mortgage interest and real estate taxes as itemized deductions (Schedule A) and inclusion in housing allowance computation
 6. These rules only apply with respect to services performed in exercise of ministry
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MINISTER HOUSING

Available only to those meet the IRS criteria for Minister

Must be the lesser of:

- Fair rental value of similar furnished house
- Amount designated
- Actual housing expense incurred

Exempt from Federal Income taxes

Must add as income for (SECA) Self-employment income unless exempt

MINISTER HOUSING

Must be designated by the employer/payer (the church)
and

Must be designated in advance of being paid and


Must be designated in writing

Can be amended during the year => amendment is only
effective on a prospective bases

Responsibility falls on the minister to notify the church of
any inaccurate estimates for changes



QUALIFIED HOUSING EXPENSE

- Down Payment on home
 - Mortgage payment (principal & interest)
 - Rental payment
 - Real estate taxes
 - Homeowners insurance
 - Utilities (gas. Electricity, water, sewerage/trash, telephone, cable/satellite)
 - Furnishings and appliances
 - Repairs and remodeling
 - Yard care/Landscape
 - Maintenance items (cleaners, light bulbs, pest control, etc)
 - HOA dues
 - Not Housekeeping services
 - Not food
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IS SELF EMPLOYMENT TAX OPTIONAL?

- ▶ Exemption for Social Security coverage – IRC Sec 1402(e)
- ▶ Exemption only to ministers opposed on the basis of religious consideration to acceptance of benefits under the social security program (or any other public insurance system providing retirement or medical benefits)
- ▶ Form 4361
- ▶ Applies only to ministerial services income
- ▶
 - due by the date for the Form 1040 for the 2nd year in which the minister had self employment income of \$400 or more which any portion is attributable to ministerial work
 - Not effective until approved by the IRS
 - Election is irrevocable
 - DO NOT LOSE THE APPROVED FORM

SELF EMPLOYMENT FOR RETIRED MINISTERS

May be eligible to exclude housing allowance from income in figuring self-employment income

- ▶ - portion of retired minister's pension income from a denominational pension fund must be designated and approved by the pension board
- ▶ - caution!!! Many facts and circumstances are relevant in determining whether retirement has occurred

COMPENSATION


- ▶ Base salary/wages
- ▶ Bonuses
- ▶ Reimbursement for portion of SE tax
- ▶ Special occasion gifts
- ▶ Incentive compensation
- ▶ Severance pay
- ▶ Below market loans
- ▶ Gift Cards
- ▶ Noncash Gifts
- ▶ Personal use of employer provided auto
- ▶ Payment of auto expenses
- ▶ Auto allowances
- ▶ Benevolence pay to employees

- ▶ Personal portion of cell phones
- ▶ Life insurance outside of group plan
- ▶ Travel advances without subsequent documentation
- ▶ Reimbursements through a non-accountable reimbursement plan
- ▶ Forgiveness of minister's debt to the church
- ▶ Travel for spouses & family

TIP→ Any payment to employees based on past or present performance is considered compensation unless specifically exempted

TIP→ Everything that benefits you is taxable until find the specific IRC that says it is not taxable.

COMPENSATION PACKAGE

- Must meet the following criteria:
 - ❖ Must be decided by independent persons
 - ❖ Be based on outside comparable data
 - ❖ Be documented in writing with the basis for the amount of compensation determined
 - Tip: Determine every benefit provided and document these in writing prior to the start of the next year.
 - Be approved by governing board & reflects in minutes
 - Include cash and noncash compensation and fringe benefits
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FRINGE BENEFITS

Nontaxable - Normally

- Housing Allowance
- Contributions to Qualified Retirement Plans
- Health Insurance Premiums (group plan provided)
- Employer provided room and board (for the convenience of the employer)
- Reimbursements under an accountable plan
- Benefits provided through a cafeteria plan


Taxable

- Group term life insurance (\$50,000 and greater taxable)
- Payment of out-of-pocket medical expenses (Sec 125, MSA's)
- Employer provided auto personal use always taxable

PAYROLL - REPORTING

Churches are subject to many of the same payroll tax rules as for other for-profit organizations

Form 941- Quarterly Reporting

- Taxable items are included on the quarterly reports
 - Minister's housing allowance is never included since it is not taxable
 - Should always reconcile with ledgers
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PAYROLL - REPORTING

W-2 – Annual Reporting

- Taxable items included along with appropriate taxes that have been withheld
- Special reporting required for certain benefits and forms of compensation in Box 12
 - C - Group term life > \$50,000
 - E - Elective deferrals into retirement plans
 - DD - Value of employer provided health insurance benefits required to be disclosed
- Housing allowance can be reported in Box 14, but not mandatory. Should never ever be included anywhere else on W-2

PAYROLL - MINISTER W-2

22222		a Employee's social security number 333-22-4444		OMB No. 1545-0008					
b Employer identification number (EIN) 01-7585210			1 Wages, tips, other compensation 45,000.00		2 Federal income tax withheld				
c Employer's name, address, and ZIP code NATIONAL BAPTIST CHURCH 445 ANYSTREET ANYTOWN, TX 77999			3 Social security wages		4 Social security tax withheld				
			5 Medicare wages and tips		6 Medicare tax withheld				
			7 Social security tips		8 Allocated tips				
d Control number			9		10 Dependent care benefits				
e Employee's first name and initial REV. MARK		Last name SMITH		Suff.		11 Nonqualified plans		12a	
551 N MAIN ST. ANYTOWN, TX 77999			13 Statutory employee <input type="checkbox"/> Retirement plan <input type="checkbox"/> Third-party sick pay <input type="checkbox"/>		12b				
			14 Other HOUSING ALLOWANCE \$15,800.00		12c				
					12d				
f Employee's address and ZIP code									
15 State Employer's state ID number		16 State wages, tips, etc.		17 State income tax		18 Local wages, tips, etc.		19 Local income tax	20 Locality name

Form **W-2** Wage and Tax Statement
Copy 1—For State, City, or Local Tax Department

2023

Department of the Treasury—Internal Revenue Service

PAYROLL – NON-MINISTER W-2

22222		a Employee's social security number 333-22-4444		OMB No. 1545-0008					
b Employer identification number (EIN) 01-7585210			1 Wages, tips, other compensation 40,000.00		2 Federal income tax withheld 1,302.00				
c Employer's name, address, and ZIP code NATIONAL BAPTIST CHURCH 445 ANYSTREET ANYTOWN, TX 77999			3 Social security wages 40,000.00		4 Social security tax withheld 2,480.00				
			5 Medicare wages and tips 40,000.00		6 Medicare tax withheld 580.00				
			7 Social security tips		8 Allocated tips				
d Control number			9		10 Dependent care benefits				
e Employee's first name and initial NON-MINISTER		Last name SMITH		Suff.		11 Nonqualified plans		12a C o o d e	
551 N MAIN ST. ANYTOWN, TX 77999		f Employee's address and ZIP code		13 Statutory employee Retirement plan Third-party sick pay <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>		12b C o o d e			
				14 Other		12c C o o d e			
						12d C o o d e			
15 State Employer's state ID number		16 State wages, tips, etc.		17 State income tax		18 Local wages, tips, etc.		19 Local income tax	20 Locality name


Form **W-2** Wage and Tax Statement
Copy 1 – For State, City, or Local Tax Department

2024


Department of the Treasury – Internal Revenue Service

REIMBURSEMENT PLANS

- ▶ Accountable Plans
 - Must be written
 - Reimbursement is not taxable
 - Not reportable on W-2

 - ▶ Nonaccountable Plans
 - Reimbursement is taxable
 - Reportable as wages on W-2
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ACCOUNTABLE PLANS REQUIREMENTS


- ▶ Reimbursements are made only with adequate substantiation.
 - ▶ Written evidence required for all expenses, and receipts are required for expenses of \$75 or more.
 - ▶ Receipts must substantiate the amount, date, place and business nature of each expense.
 - ▶ Expenses must be substantiated, and excess reimbursements returned to the church within a reasonable period of time.
 - no more than 60 days after expense incurred
 - ▶ excess reimbursement no later than 120 days from payment
 - ▶ Reimbursements are not made from salary reductions
 - ▶ - reimbursement of expenses comes out of employer's fund not by reducing employee's salary
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NON-ACCOUNTABLE EXPENSE PLANS


1. Any sort of plan that does not require an accounting
2. A plan that is deemed to not be timely carried out
3. Netting arrangement -

Pastor receives \$1,000 each week. Finance committee tells pastor that if he turns in his business expenses each week, then he can split the payment into part business expense and part salary payment. All of \$1,000 is taxable.


ADVANTAGES OF ACCOUNTABLE PLANS

1. Avoids the reimbursement being includable as taxable income
 2. Miscellaneous itemized deduction no longer allowed
 3. Avoids employee losing deduction because of standard deduction
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DISADVANTAGES OF ACCOUNTABLE PLANS


1. Employee keeps detailed expense records
 - Documentation falls on employees shoulders
 2. Plan cannot be considered part of compensation package
 3. Church has full authority to deny reimbursements for unsubstantiated expenses
 4. Amount budgeted is not payable unless expense is incurred and substantiated to the church
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PROPER DOCUMENTATION OF ALL EXPENSES

- ▶ Every expenditure of the church must be documented as to the exempt purpose of the expense.
 - ▶ For meals, entertainment and travel, the 5 “W’s” must be documented on the actual receipt.
 - ▶ Who
 - ▶ What
 - ▶ When
 - ▶ Where
 - ▶ Why
- 

PROPER DOCUMENTATION OF ALL EXPENSES

The following should be adopted and maintained by the church

- An accountable plan for all business expenses
 - A credit card acceptance policy that requires employees to submit receipts for all charges
 - Policy should be adopted to require immediate repayment of any expense that is determined to be a personal expense
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POLITICAL ACTIVITIES

Contributions to political campaign funds	Prohibited
Public statements of position (verbal or written) in favor or opposition to candidates for office – in church publications or functions	Prohibited
Provide forum for all candidates to address the church	Permitted
Public comments made by ministers and employees with campaigns not made at church facilities or publications accompanied with statement comments are strictly personal and not representative of church	Permitted
Invites all candidates for political office to address the church and informs congregation before each candidate's speech that the views expressed are those of the candidates and not the church and church does not endorse any candidate	Permitted
Invite only one candidate in political campaign to address church	Prohibited
Distributes a voter's guide containing questions demonstrating a bias on certain issues	Prohibited

POLITICAL ACTIVITIES

CHURCHES MUST MAINTAIN NEUTRALITY OR RISK LOSING THEIR TAX-EXEMPT STATUS

Endorsement of candidates	Prohibited
Campaign activities by employees within the context of their employment	Prohibited
Fundraising on behalf of a candidate	Prohibited
Newspaper ads urging voters to vote for or against a candidate	Prohibited
Church web sites containing information supporting or opposing candidates for public office	Prohibited
Distributes a compilation of voting records of all members or Congress on major legislative issues involving a wide range of subjects; publication contains no opinion and contents do not imply approval or disapproval of any members or their voting records	Permitted

IRS RESOURCES

Telephone Numbers:

General Information	1-800-829-1040
Non-Profit taxes	1-877-829-5500

Web Site:

Tax Forms and Publications
Status of Refund
www.irs.gov

Publications:

Pub 15	Circular E, Employer's Tax Guide
Pub 15-A	Employer's Supplemental Tax Guide
Pub 15-B	Employer's Tax Guide to Fringe Benefits
Pub 463	Travel, Gift, & Car Expenses
Pub 517	Social Security and Other Information for Clergy
Pub 526	Charitable Contributions
Pub 1771 Disclosure	Charitable Contributions – Substantiation &
Pub 571	Tax-Sheltered Annuity Plans (403(b) plans)
Pub 1828 Organization	Tax Guide for Churches and Religious

OTHER RESOURCES

Other Publications

GuideStone Financial - Ministers Tax Guide

www.guidestone.org

Church & Clergy Tax Guide - Richard Hammer

Minister's Tax & Financial Guide – Dan Busby

Church Law & Tax Report

Church Compensation – Elaine L. Sommerville, CPA

Web Sites:

Christian Ministry Resources – www.churchlawandtax.com

The Church Network – www.nacba.net

Evangelical Council of Financial Accountability (ECFA)

www.ecfa.org

THANK YOU!

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