

LICENSING SCHOOL 2021

A Guide to Clergy Taxes and
Local Church Finances

PART I: Clergy Taxes

Are you a “Minister” in the eyes of the IRS?

You must be ordained, licensed, or commissioned
AND meet some of the following four tests

1. Perform sacraments
2. Considered a religious leader by your church or parent denomination
3. Conduct religious worship
4. Have management responsibility in the control, conduct, or maintenance of your local church or religious denomination

Ministers performing services of a routine nature, such as those performed by secretaries, clerks, and janitors, generally do not qualify as ministers for tax purposes.

Tax Provisions for Ministers

1. “Self-employed” for social security purposes
2. Exempt from mandatory income tax withholding
3. Exclude the “housing exclusion” for income tax purposes
4. Potential “double deduction” of mortgage interest and real estate taxes
5. Accountable Reimbursement

1. Self-Employed Tax Status

1. Ministers must file Form 1040-ES (Estimated Taxes) on a quarterly schedule to pay Social Security and Medicare obligations; file electronically at www.EFTPS.gov .
2. Your church should not deduct FICA tax (Social Security or Medicare) from your paycheck

2021 SECA (Self-Employment Contributions Act)

| | |
|---------------------------------|-------|
| Social Security* | 12.4% |
| Medicare* | 2.9% |
| Social Sec Wage Limit \$142,800 | |

**Note: Employees that are not ministers have half this amount withheld from their paycheck and the employer pays the other half*

SECA Example

| | |
|--------------|--------------------------------|
| 50,000 | Base Pay |
| <u>5,000</u> | less Accountable Reimbursement |
| 45,000 | Annual Salary |
| 5,580 | 12.4% Social Security |
| <u>1,305</u> | 2.9% Medicare |
| 6,885 | SECA Annual Amount |

2. Income Tax Status

1. Ministers are common law employees of the church for income tax purposes and liability
2. Your church must report your earned income to the IRS and provide you a W2 Form
3. Ministers are responsible for paying Federal and State Income Taxes. Two choices:
 1. Pay Federal Income Taxes quarterly at the same time that Social Security and Medicare is paid EFTPS website and pay State Income Taxes quarterly through iFile website.
 2. Or you may complete Federal form W-4 and State form VA-4 to voluntarily request withholding from your paycheck

3. Housing Exclusion

Ministers are eligible to receive lodging from the church, free of income tax liability by excluding dollars from gross income. The housing exclusion must be set at Charge Conference.

The Housing Exclusion will be excluded from your earned income before it is reported on your W2. The Housing Exclusion cannot exceed the amount compensated.

What is my Housing Exclusion?

If you own a home, you can exclude the following expenses you expect to incur including

- Down payment on purchasing a home
- Mortgage principal and interest payments
- Real Estate taxes
- Homeowners insurance
- Improvements and repairs
- Landscaping, gardening, and pest control
- Furnishings (purchased, repaired, or replaced)
- Household items (brooms, light bulbs, dishes)
- Utilities (gas, electricity, water) and Trash collection
- Non-business phone expenses

When estimating add 10% for unexpected expenses.

What if I rent a home?

If you rent a home, you can exclude the following expenses you expect to incur including

- Rental payments
- Renters insurance
- Furnishings (purchased, repaired, or replaced)
- Household items (brooms, light bulbs, dishes)
- Utilities (gas, electricity, water) and Trash collection
- Non-business phone expenses

When estimating add 10% for unexpected expenses.

What if I live in a parsonage?

If you live in a parsonage, you can exclude your expenses not paid by the church including

- Umbrella policy
- Landscaping, gardening, and pest control
- Furnishings (purchased, repaired, or replaced)
- Household items (brooms, light bulbs, dishes)
- Utilities (gas, electricity, water) and Trash collection
- Non-business phone expenses

When estimating add 10% for unexpected expenses.

Simply explained...

1. Estimate your expected housing expenses for the upcoming year. The annual amount will be reported on your Clergy Compensation Form and approved at Charge Conference. This is called your Housing Exclusion.
2. Your church will reduce your earned income by your housing exclusion before it is reported on your W2 Form.
3. When you file your taxes, you will report actual housing expenses. Your allowable deduction will be the lesser of
 1. The furnished fair rental value of your home (www.zillow.com)
 2. The actual expenses incurred
 3. The housing exclusion established at the time of Charge Conference

What else do I need to do?

Keep organized records throughout the year

- All expenditures for your home (keep actual receipts)

Seek advise from a qualified CPA should you have additional questions. *Zondervan Minister's Tax & Financial Guide* is an excellent reference material. IRS Publication 517 is also a great resource.

Moving expenses

- As of 1/1/2018, Tax Cuts and Jobs Acts excludes moving expenses, applicable until 2025
 - Moving expenses paid directly by the employer are now a taxable benefit to the employee
 - Moving expenses paid by employee and reimbursed by the employer are now taxable benefit to the employee
 - Moving expenses paid by employee and unreimbursed are not deductible from taxation
- Local church treasurer must add the benefit of the moving expenses to the W2
- Local church must report the moving expenses in EVC so it is included in the pension calculation

Income tax Example

| Parsonage | Own | Rent | |
|------------------------------|------------------------------|------------------------------|--------------------------------------|
| 50,000 | 50,000 | 50,000 | Base Pay |
| 5,000 | 5,000 | 5,000 | less Accountable Reimbursement |
| <hr/> 45,000 | <hr/> 45,000 | <hr/> 45,000 | Annual Salary |
| - | 15,000 | - | plus Paid Housing Allowance |
| 2,600 | 2,600 | 2,600 | plus Moving expense |
| 24 | 24 | 24 | plus Life Insurance Benefit Premium |
| <hr/> 2,624 | <hr/> 17,624 | <hr/> 2,624 | |
| 8,000 | 30,000 | 18,000 | less Housing Exclusion |
| 4,600 | 4,600 | 4,600 | less Personal medical withholding |
| 2,400 | 2,400 | 2,400 | less Personal pension withholding |
| <hr/> 15,000 | <hr/> 37,000 | <hr/> 25,000 | |
| <hr/> <hr/> 32,624 | <hr/> <hr/> 25,624 | <hr/> <hr/> 22,624 | Taxable income reported on W2 |

4. Double Deduction

Ministers who own their own home and itemize their deductions are eligible to deduct mortgage interest and property taxes on Schedule A (Form 1040) even though these items are excluded from taxable income as part of the housing exclusion.

5. Accountable Reimbursement

What is an Accountable Reimbursement Policy?

A method of claiming and reimbursing professional or business expense rather than providing an expense allowance. Expenses are substantiated and reimbursed; therefore are not reported for taxes.

When should the policy be set up?

At the time of charge conference, the accountable reimbursement should be established.

How should expenses be substantiated?

Original receipts of business expenses and a log of mileage with destination and purpose must be submitted for reimbursement. Items less than \$75 can be listed with a purpose. Items purchased belong to the church, unless other agreements are made.

Remaining amounts

What happens at the end of the year?

You may not be reimbursed for more than the established and agreed-upon amount as documented at Charge Conference. The unspent amount belongs to the church at the end of the year at no obligation to take any further action. SPR may authorize the remaining amount to be paid to the minister. If so, it must be reported as taxable income on your W2. Or SPR can choose to 'roll-over' the unspent amount for the next year's accountable reimbursement.

Proper Reimbursement Items

- Reasonable travel and related expenses for meetings
- Church approved trips to preach at another church
- Trips to visit members at hospitals, nursing homes, homes
- Business lunch meetings with officers of the church
- Church related continuing education
- A computer required for church work
- Vestments worn for worship
- Church related books and periodicals
- Office furnishings (desk, chair, telephone, etc)
- Phone calls for church business

Improper Reimbursement Items

- Mileage to church from home for daily work (or lunch)
- Meals with friends at which church matters are discussed
- Spouse's travel (under most circumstances)
- Vacations (including a trip to the Holy Land)
- Trips to see a sick relative
- Everyday clothing (ie. business suit)
- Medical expenses, Child care expenses, insurance premiums
- Charitable contributions
- Housing related expenses or moving expenses
- Subscriptions for personal use

PART II: Local Church Finances

1. Apportionments and Benevolences
2. Statistics – Equipping Vital Congregations
3. Your Local Church Finance Team

1. Apportionments and Benevolences

As United Methodists we are connected. We recognize that as United Methodists we can collectively do what no individual church, district, or conference can do alone. That is why Apportionments are called the *First-Mile Giving*.

Second-Mile Giving allows local churches to support specific missionaries and ministries through *The Advance*, *Special Sundays*, and *Virginia Advance Specials*.

2021 Conference Apportionments

| Conference Apportionments | |
|--------------------------------------|------------------|
| 401 – Conference Mission & Ministry | 2,510,000 |
| 402 – Conference Services | 1,830,000 |
| 403 – District Superintendents Fund | 1,820,000 |
| 404 – Equitable Compensation | 200,000 |
| 405 – Church Extension & Development | 900,000 |
| 406 – Virginia Education Fund | 420,000 |
| Total | 7,680,000 |

2021 Clergy Benefits Apportionments

| Clergy Benefits Apportionments | |
|--|------------|
| 407 - Active Clergy Health | 9,710,000 |
| 408 - Retire Clergy Health | 6,060,000 |
| 409 - Pension Liability Assessment Pre82 | 0 |
| Total | 16,000,000 |

2021 General Church Apportionments

| General Church Apportionments | |
|--|-----------|
| 410 – Episcopal Fund | 865,000 |
| 411 – World Service | 2,150,000 |
| 412 – General & Interdenominational Fd | 325,000 |
| 413 – Ministerial Education | 675,000 |
| 414 – Black College Fund | 315,000 |
| 415 – Africa University Fund | 70,000 |
| Total | 5,750,000 |

How can I find out more about Second Mile Giving?

1. *The Advance* www.umcmmission.org
2. *Special Sundays* www.umcgiving.org
3. *Virginia Advance Specials* www.vaumc.org
4. *Initiatives of Hope* www.vaumc.org
5. *Annual Conference Offering* www.vaumc.org

2. Statistics

All local United Methodist churches, nation-wide, must submit statistical information at the end of each year:

- Membership
- Assets and Expenses
- Income

All local churches must also provide weekly data at www.evc.vaumc.org.

2021 Calculation of Apportionments

All apportionments except Active Clergy Health

2019 Local Church Expenses

2019 All Churches Expenses

$$\frac{\text{2019 Local Church Expenses}}{\text{2019 All Churches Expenses}} = \text{Church Decimal} \times \text{Conference Budget} = \text{Your Church Ministry Share}$$

Active Clergy Health Apportionment

TIER 1
\$5,000 flat amt
for each full-time
active clergy

+

TIER 2
Your clergy's salary
divided by all
clergy's salary

=

Your
Church's
Share of
Active
Clergy
Health

3. Local Church Finances

The *2016 Book of Discipline* ¶258 sets forth the expectations for the administrative structure of your church. The Finance Committee must be an active part in the life of the church where internal controls must be in place.

Internal Controls Written Policy

Your Finance Committee should have a written policy of Internal Controls. *Finance – Handling God's Money in the Church* (Cokesbury) gives your church guidelines to equip you in leading the financial ministry of your church.

Conference Treasurer's Office

Should you have questions, we are here to help!

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Or call us at 804-521-1100.