MINISTERS’ TAXES MADE EASY

Federal income tax filing made easy.

by Dan Busby
Vonna Laue
Michael Martin
John Van Drunen
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Appreciation

The authors express their sincere appreciation to Mr. Michael Batts, CPA and managing partner, Batts Morrison Wales & Lee, P.A., Orlando, FL, and the staff of the firm for their valued assistance in reviewing the two sample tax returns included in this guide.
Ministers continue to be faced with a plethora of tax and finance developments. A summary of some of the more significant developments follows (see the “In the News” link at ECFA.Church for current updates on these issues and much more):

**District Court calls minister's housing exclusion unconstitutional.** A Wisconsin federal district court issued a ruling in the fall of 2017 declaring the minister's housing exclusion unconstitutional.

This decision does not come as a surprise as the same judge issued a similar ruling back in 2013 before the case was dismissed by a higher appeals court on the technical grounds of standing. Judge Barbara Crabb writes in her latest ruling, “I adhere to my earlier conclusion that [the minister's housing exclusion] violates the establishment clause because it does not have a secular purpose or effect and because a reasonable observer would view the statute as an endorsement of religion.”

Fast forward several years, and the parties and issues are very similar except that the plaintiff bringing the case (Freedom From Religion Foundation) has tried adjusting its approach to overcome the standing hurdle.

**What is the immediate impact for ministers using housing allowances?**

As of this publication, there is no immediate impact on ministers using the housing exclusion from their church or other employer. We are awaiting a ruling on an appeal to the Seventh Circuit Court of Appeals.

The appeals court could disagree with the lower court and find the housing exclusion constitutional. In the alternative, if the lower court ruling is upheld on appeal, the district court's ruling states it will not go into effect until 180 days after the appeals process concludes. The longer-term impact hinges on how the appeals court rules and whether additional appeals are filed in the case.

**What about ministers living in parsonages?**

This pending court case does not apply to Section 107(1) of the tax code. In other words, the ruling has no impact whatsoever on ministers living in church-provided housing (“parsonages”).

**Tax reform—how are ministers and churches impacted?** Massive new tax legislation was enacted in December 2017 with most of the changes effective for 2018 returns filed in 2019.

Most individual tax provision are temporary. They expire after 2025. Unless the provisions are extended by another Congress, the provisions will revert automatically to the rules in effect for 2017.

The most significant issues for ministers are:

- The standard deduction nearly doubled to $24,000 for couples, $12,000 for singles, and $18,000 for household heads. Those age 65 or up and blind people get $1,250 more per person. Given these much higher amounts, it is a sure thing that fewer ministers will itemize their deductions for 2018.

- Personal exemptions for individual filers and their dependents are repealed.

- The new law pares back or axes many deductions claimed by ministers:
  - The popular deduction for state and local taxes is squeezed. You can now deduct any combination of residential property taxes and income or sales taxes up to a $10,000 cap.
Deductions for job-related moves are gone. If moving expenses are reimbursed by an employer, the amount is taxable income.

All miscellaneous write-offs on Schedule A subject to the 2%-of-adjusted gross income threshold are eliminated. This includes unreimbursed employee business expenses, tax return preparation costs, theft losses, and more. *Note:* Ministers should be sure their church-related expenses are reimbursed under an accountable plan. Unreimbursed expenses will have absolutely no value for 2018 and later years.

Medical expense deductions are enhanced. The new law temporarily lowers the adjusted gross income threshold for deducting 2018 medical expense on Schedule A from 10% to 7.5%.

- The law keeps seven tax brackets, but with different rates and break points.
- The penalty for the individual mandate under the Affordable Care Act has been eliminated.
- The child tax credit is doubled to $2,000 for each dependent under age 17, with up to $1,400 of the credit refundable to lower-income taxpayers, and it is available to many more taxpayers.
## Key Federal Tax Limits, Rates, and Other Data

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<tr>
<th></th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
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<tr>
<td><strong>Standard deductions, exemptions, and exclusions:</strong></td>
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<td>Standard Deductions</td>
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<td>Foreign earned income exclusion</td>
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<td>SECA (OASDI &amp; Medicare)</td>
<td>15.3% on wages up to $250,000 married-joint, $125,000 married-separate, and $200,000 all others</td>
<td>15.3% on wages up to $250,000 married-joint, $125,000 married-separate, and $200,000 all others</td>
<td>15.3% on wages up to $250,000 married-joint, $125,000 married-separate, and $200,000 all others</td>
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<td>OASDI maximum compensation base</td>
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<td>Social security Full Retirement Age (FRA)</td>
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<td>66 years</td>
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<td>Medicare Part B premiums - Basic</td>
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<td>Earnings ceiling for social security (for employment before FRA; special formula in FRA year)</td>
<td>Below FRA: $16,920</td>
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<td>Earnings limit in year FRA attained</td>
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<td><strong>Benefits and contributions:</strong></td>
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<td>Maximum annual contribution to defined contribution plan</td>
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<td>Maximum annual contribution to health flexible spending arrangements</td>
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<td>Standard per diem: Lowest rates in continental USA</td>
<td>Lodging S91</td>
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<td>Lodging S94</td>
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<td>in continental USA</td>
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<td>Moving &amp; medical auto mileage rate</td>
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<td>Charitable auto mileage rate</td>
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<td>14¢ per mile</td>
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<td>Bicycle commuting rate</td>
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<td>Monthly limit on free parking</td>
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<td>Transit passes/token – monthly tax-free limit</td>
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<td><strong>Other:</strong></td>
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<tr>
<td>Gift tax annual exclusion</td>
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<td>$15,000</td>
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</table>

(1) Privately owned vehicle mileage rates set by the U.S. General Services Administration
(2) Disallowed except as necessary for the safety of employees.
The Tax System for Ministers

**Get the Big Picture**

Six special tax provisions are available only to individuals who qualify as “ministers” under federal tax rules and who perform services that qualify in the exercise of ministry under federal tax rules.

**Special Tax Provisions for Ministers**

1. Exclusion of the housing allowance for income tax purposes and the fair rental value of a church-owned parsonage provided rent-free to ministers.
2. Exemption of ministers from self-employment social security tax under very limited circumstances.
3. For social security tax purposes, treatment of ministers as self-employed as it relates to income from ministerial services.
4. Exemption of ministers’ compensation from mandatory income tax withholding.
5. Eligibility for a voluntary income tax withholding arrangement between minister-employees and the church.
6. Potential “double deduction” of mortgage interest and real estate taxes as itemized deductions and as excludable housing expenses for housing allowance purposes for ministers living in minister-provided housing.

When it comes to who should be considered a minister for tax purposes, the opinion of the IRS (based on tax law) is the only one that counts. The opinion of the worker or employer is not important. But unfortunately even the IRS does not seem to consistently apply the same rules in determining who is a minister.

Classification as a minister for tax purposes is very important. It determines how a minister prepares the tax return for income and social security tax purposes. For example, a qualified minister is eligible for the housing allowance. This alone can exclude thousands of dollars from income taxation. Also, ministers calculate self-employment social security tax on Schedule SE and pay the tax with Form 1040. Nonministers have one-half of their social security (FICA) tax withheld from salary payments, and the employer pays the other half.

According to tax law, there is a two-step process for determining whether the special tax provisions available to ministers apply to a particular worker. The first is whether the individual qualifies as a minister. The second is whether the minister is performing ministerial services.

**Remember**

The major tax benefit for most ministers is the special housing allowance treatment.

**Remember**

There is some flexibility in applying certain ministerial tax provisions. For example, ministers are exempt from mandatory income tax withholding but can enter into a voluntary income tax withholding arrangement. However, if ministers qualify for the housing allowance, self-employment social security tax (using Schedule SE) applies, not FICA—this is not optional.

**Caution**

Determination of ministerial status is far from a precise matter. Only a review of all the pertinent facts and circumstances for a particular minister will assist in determining whether an individual will qualify for ministerial tax status.
● Ministers Serving Local Churches

If you are employed by a church and are ordained, commissioned, or licensed and meet the following four tests, the IRS will generally consider you a minister. You

- administer the sacraments,
- are considered to be a religious leader by your church,
- conduct worship services, and
- have management responsibility in the control, conduct, or maintenance of your church.

Based on guidelines issued by the IRS, some of the four tests, but not necessarily all, must be met in determining ministerial status. This flexible approach is beneficial to many ministers because some positions relating to music, education, youth, or administration will not meet all four tests.

There is no requirement that you must be qualified to perform and actually perform every sacrament. If you are qualified to perform certain sacraments and actually perform or could perform some of the sacraments on occasion, you will generally meet this test. A similar test applies to conducting religious worship and providing management services. If you currently conduct religious worship and provide management services, have done it in the past, or could do it in the future, the test will generally be met.

Job titles have little significance for tax purposes. A licensed, commissioned, or ordained minister may have a job title that implies a ministry function. However, the actual responsibilities of the position will determine if the four-factor test above is met (see above). Ministers performing services of a routine nature, such as those performed by secretaries, clerks, and janitors, generally do not qualify as a minister for tax purposes.

Because of the inconsistency of these rulings, ministers serving in a local church who do not clearly meet all four factors should review these matters with a qualified professional adviser before filing income tax returns.

● Ministers in Denominational, Administrative, and Teaching Positions

Ordained, commissioned, or licensed ministers not serving local churches may qualify as “ministers” for federal tax purposes in the following situations:

Denominational service

This category encompasses the administration of religious denominations and their integral agencies, including teaching or administration in parochial schools, colleges, or universities that are under the authority of a church or denomination.

The IRS uses the following criteria to determine if an institution is an integral agency of a church:

- Did the church incorporate the institution?
- Does the corporate name of the institution suggest a church relationship?
➤ Does the church continuously control, manage, and maintain the institution?
➤ If dissolved, will the assets be turned over to the church?
➤ Are the trustees or directors of the institution appointed by, or must they be approved by, the church and may they be removed by the church?
➤ Does the church require annual reports of finances and general operations?
➤ Does the church contribute to the support of the institution?

**Assignment by a church to another parachurch ministry**

Services performed by a minister for a parachurch organization based upon a substantive assignment or designation by a church may provide the basis for ministerial tax treatment. The housing allowance should be designated by the employing organization, not the assigning church.

The following characteristics must be present for an effective assignment:

➤ A sufficient relationship must exist between the minister and the assigning church to justify the assignment of the minister.
➤ An adequate relationship must exist between the assigning church and the parachurch organization to which the minister is assigned to justify the assignment.

To substantiate the relationship between the minister and the church, the church must determine “if there is sufficient authority, power, or legitimacy for the church to assign this particular minister.” Such matters as being the ordaining church, providing ongoing supervision, denominational affiliation, contributing significant financial support, or being the long-term “home church” would all appear to support this relationship.

In addressing the relationship between the church and the parachurch organization, the church must answer the question “why the church should assign a minister to this particular ministry.” Essentially, the assignment of the minister must accomplish the ministry purposes of the church.

In considering an assignment, it is important to distinguish between the process of assigning and the documentation of the assignment. The process of assigning expresses the church’s theology, philosophy, and policy of operation—its way of doing ministry. The documentation of the assignment provides evidence that the church is providing ministry through the particular individual assigned.

The following are keys to a proper assignment:

➤ A written policy describing the specific requirements for the relationship of the church both to the minister being assigned and to the parachurch organization to which the minister is assigned. This would include the church’s theological and policy goals for the assignment.
➤ A formal review to confirm the qualifications of the minister and the proposed ministry with a parachurch organization.
➤ A written assignment coupled with guidelines explaining how the church should supervise the minister and how the parachurch organization should report to the church.
➤ A periodic (at least annual) formal review of the minister’s activities to confirm that the assignment continues to comply with the policy.
• Social Security Status of Ministers

Ministers engaged in the exercise of ministry are always treated as self-employed for social security tax purposes. Ministers pay social security under the Self-Employment Contributions Act (SECA) instead of the Federal Insurance Contributions Act (FICA). It is possible to become exempt from SECA only if a minister meets strict exemption requirements. The request for exemption must be filed using Form 4361 within a specified time from the beginning of ministry. The request for exemption must be approved by the IRS (see page 33).

Earnings that are not from the exercise of ministry are generally subject to social security tax under FICA or SECA as applied to all workers.

• Income Tax Status of Ministers

Are ministers employees or self-employed (independent contractors) for income tax purposes? The IRS considers virtually all ministers to be employees for income tax purposes. The income tax filing status has many ramifications for what and how churches and ministers report to the IRS.

The IRS often applies a common-law test to decide whether ministers are employees or self-employed for income tax purposes. Generally, a minister is an employee if the employer has the legal right to control both what the minister does and how it is done, even if the minister has considerable discretion and freedom of action. However, ministers who are employees of a church for income tax purposes may also be self-employed for income tax purposes with respect to certain services (baptisms, marriages, and funerals).

Determining if you are an employee or self-employed for income tax purposes will determine several other tax-related issues:

- Minister-employees must be given Form W-2 and report their compensation on page 1 of Form 1040. Expenses reimbursed under a nonaccountable plan must be included in compensation on Form W-2.

- Accident, long-term care insurance, and qualified group health insurance premiums paid directly by a church or reimbursed by a church, after the minister provides substantiation, are not reportable as income to the minister-employee but must be reported as taxable income to the self-employed minister.

Minister-employees may deduct health, accident, and long-term care insurance premiums paid personally, and not reimbursed by the church, on Schedule A as a medical and dental expense, subject to a limitation of adjusted gross income (7.5% for 2018 and 10% for 2019 and beyond).
The impact of a minister being considered self-employed for income tax purposes is generally very significant even if only health insurance is considered. Reporting these premiums as taxable (minister-employee) versus tax-free (self-employed minister for income purposes) can impact the minister’s tax bill by thousands of dollars. If health insurance premiums are included in taxable income, a low-income minister might also have his or her earned income tax credit reduced or eliminated.

- Health savings accounts, health reimbursement arrangements, or flexible spending accounts are only available to ministers who are employees for income tax purposes.

- Group-term life insurance of $50,000 or less provided by a church is tax-free to minister-employees but represents taxable income for self-employed ministers.

- A voluntary arrangement to withhold income tax may be used by minister-employees but may not be used by the self-employed.

**Recommended Filing Status**

Nearly every minister serving a local church qualifies as an employee for income tax purposes. It is wise to file as an employee for income tax purposes, unless the minister can clearly demonstrate that self-employed status is appropriate. Few ministers can substantiate filing as self-employed for income tax purposes.

Even though ministers may take exception to the reporting of the church, the church has a responsibility under the law to determine the proper filing method and to proceed accordingly.

**Evangelists and Missionaries**

The qualifications of itinerant evangelists for the special ministerial tax provisions are generally the same as for ministers serving local churches.

Most evangelists are self-employed both for income tax and self-employment social security tax purposes. The only exception is the evangelist who has formed a corporation and is an employee of the corporation. In this instance, the evangelist is an employee for income tax purposes, but remains self-employed for social security tax purposes.

Missionaries are also subject to the same rules to qualify for ministerial status for tax purposes. Qualifying for benefits such as a housing allowance is often not so important for minister-missionaries because of the foreign earned income exclusion. However, the question of ministerial tax status is vitally important to determine if ministers are subject to social security as employees or as self-employed persons. The foreign-earned income exclusion affects income tax but not social security tax.
Nearly all ministers should have a portion of salary designated as a housing allowance. Maximizing housing benefits requires careful planning. For ministers living in church-owned housing, a housing allowance that covers expenses such as furnishings, personal property insurance on contents, utilities, and so on could save several hundred dollars of income taxes annually. A properly designated housing allowance may be worth thousands of dollars in tax savings for ministers living in their own homes or rented quarters. For ministers without a housing allowance, every dollar of compensation is taxable for federal income tax purposes.

The housing allowance provides an opportunity to exclude dollars from gross income. The designated housing allowance should be subtracted from compensation before the church completes the data on Form W-2. The housing allowance designation is not entered on Form 1040 or related schedules, except Schedule SE, since it is not a deduction for income tax purposes. However, any unused portion of the housing designation must be reported as income on page 2, Form 1040.

If the church properly designates a portion of a minister’s cash salary for expenses of a home provided by the minister, the exclusion is commonly referred to as a housing allowance. If the church properly designates a portion of the cash salary for expenses incurred in relation to church-provided housing, the exclusion is often called a parsonage allowance. In either instance, it is an exclusion from income tax, not self-employment tax.

Ministers are eligible to exclude the fair rental value of church-provided housing for income tax purposes without any official action by the church. However, a cash housing allowance related to church-provided or minister-provided housing is only excludable under the following rules:

➤ **The allowance must be officially designated by the church.** The designation should be stated in writing, preferably by resolution of the top governing body, in an employment contract, or—at a minimum—in the church budget and payroll records. If the only reference to the housing allowance is in the church budget, the budget should be formally approved by the top governing body of the church.

Tax law does not specifically say an oral designation of the housing allowance is unacceptable. In certain instances, the IRS has accepted an oral housing designation. Still, the use of a written designation is preferable and highly recommended. The lack of a written designation significantly weakens the defense for the housing exclusion upon audit.

➤ **The housing allowance must be designated prospectively by the church.** Cash housing allowance payments made prior to a designation of the housing allowance are fully taxable for income tax purposes. Carefully word the resolution so that it will remain in effect until a subsequent resolution is adopted (see the examples on page 15).

➤ **Only actual expenses can be excluded from income.** The source of the funds used to pay the minister’s housing expenses must be compensation earned by the minister in the exercise of ministry in the current year.

➤ **Only an annual comparison by ministers of housing expenses to the housing allowance is required.** For example, if the housing allowance designation is stated in terms of a weekly or monthly amount, only a comparison of actual housing expenses to the annualized housing allowance is required.

➤ **The housing allowance exclusion cannot exceed the fair rental value of the housing, plus utilities.**
Types of Housing Arrangements

Ministers Living in a Parsonage Owned by or Rented by a Church

If a minister lives in a church-owned parsonage or housing rented by the church, the fair rental value of the housing is not reported for income tax purposes. The fair rental value is subject only to self-employment tax.

A minister may request a housing allowance to cover expenses incurred in maintaining the church-owned or rented housing. Examples of allowable expenses are utilities, repairs, furnishings, and appliances. If the actual expenses exceed the housing allowance designated by the church, the excess amount cannot be excluded from income.

If the church owns the parsonage, the church may wish to provide an equity allowance to help compensate ministers for equity not accumulated through home ownership. An equity allowance is taxable both for income and social security tax purposes, unless directed to a 403(b) tax-sheltered annuity or certain other retirement programs.

Ministers Owning or Renting Their Own Home

If a minister owns or rents a home, the minister may exclude, for income tax purposes, a cash housing allowance that is not more than reasonable pay for services and is the lowest of (1) the amount used to provide a home from current church income, (2) the amount prospectively and officially designated, or (3) the fair rental value of the furnished home, plus utilities.

Many ministers make the mistake of automatically excluding from income, for income tax purposes, the total designated housing allowance, even though the fair rental value of the furnished home or actual housing expenses are less than the designation. This practice may cause a significant underpayment of income taxes.

Example: A minister lives in a personally owned home. The church prospectively designated $28,000 of the salary as housing allowance. The minister spends $27,000 for housing-related items. The fair rental value of the home is $29,000.

Since the amount spent is lower than the designated housing allowance or the fair rental value, the excludable housing is $27,000. Therefore, $1,000 ($28,000 less $27,000) must be added to taxable income on Form 1040, page 2, line 1. Unless the minister has opted out of social security, the entire $28,000 is reportable for social security purposes on Schedule SE.

Designating the Housing Allowance

The following steps are often followed in designating and excluding the housing allowance:

1. A minister estimates the housing-related expenses to be spent in the coming year and presents this information to the church.
2. The church then adopts a written housing allowance designation based on the estimate.

3. At the close of the tax year, the minister who provides his or her own housing compares the amount designated for housing, the housing expenses substantiated, and the fair rental value of the home including furnishings and utilities. The lower of these amounts is excluded for income tax purposes. Ministers living in church-provided housing must compare the amount designated and actual housing expenses and exclude the lower of the two amounts.

**Designation Limits**

The IRS does not place a limit on how much of ministerial compensation may be designated as a housing allowance by the employing church. But practical and reasonable limits usually apply.

Unless the amount is justified based on anticipated expenses and is within the fair rental value limit, it is generally inadvisable for the church to exclude 100% of compensation.

It is often best for the church to overdesignate your parsonage allowance by a reasonable amount, subject to the fair rental value test, to allow for unexpected expenses and increases in utility costs. Any excess housing allowance designated should be shown as income on line 7 of Form 1040.

**Reporting the Housing Allowance to Ministers**

The designated housing allowance may be reflected for minister-employees on Form W-2 in Box 14 with the notation, “Housing Allowance.” Though not required, this reporting method is suggested by Publication 517. Or, churches can report the designated housing allowance to ministers by providing a statement separate from Form W-2. This may be in a memo or letter. The statement should not be attached to your income tax returns.

Your church may erroneously include the housing allowance on Form W-2, Box 1. If this happens, the church should prepare a corrected Form W-2.

**Accounting for the Housing Allowance**

**Determining Fair Rental Value**

The determination of the fair rental value of church-provided housing for self-employment social security purposes is solely the responsibility of ministers. The church is not responsible to set the value. The fair rental value should be based on comparable rental values of other similar residences in the immediate neighborhood or community, comparably furnished.

One of the best methods to use in establishing fair rental value of your housing is to request a local realtor to estimate the value in writing. Place the estimate in your tax file and annually adjust the value for inflation and other local real estate valuation factors.

**Housing Allowance in Excess of Actual Expenses or Fair Rental Value**

Some ministers erroneously believe that they may exclude every dollar of the housing designation adopted by the church without limitation. The housing designation is merely the starting point. If reasonable compensation, actual expenses, or the fair rental value is lower, the lowest amount is eligible for exclusion from income.
The Housing Allowance

**Example:** A minister living in a personally owned home receives cash compensation of $60,000 from the church. The church prospectively designates $25,000 as a housing allowance. The fair rental value is $26,000. Actual housing expenses for the year are $24,000. The amount excludable from income is limited to the actual housing expenses of $24,000.

**Actual Expenses in Excess of the Designated Housing Allowance or Fair Rental Value**

Actual housing expenses that exceed the designated housing allowance are not excludable from income. There are no provisions to carry over "unused" housing expenses to the next year.

**Example:** A minister living in a personally owned home receives cash compensation of $60,000 from the church. The church prospectively designates $30,000 of the $60,000 as a housing allowance. Actual housing expenses for the year are $50,000. The fair rental value is $28,000. The expenses were unusually high because of a down payment on that house. The amount excludable from income is limited to the fair rental value of $28,000. There is no carryover of the $22,000 ($50,000 less $28,000) of actual expenses in excess of the designated housing allowance to the next tax year.

● **Housing Allowances for Retired Ministers**

Pension payments, retirement allowances, or disability payments paid to retired ministers from an established plan are generally taxable as pension income. However, denominations often designate a housing allowance for retired ministers to compensate them for past services to local churches of the denomination or in denominational administrative positions. The housing allowance designated relates only to payments from the denominationally sponsored retirement program.

Withdrawals from a denominationally sponsored 403(b), also called a tax-sheltered annuity (TSA), or 401(k) plan qualify for designation as a housing allowance. Withdrawals from a 403(b) or 401(k) plan not sponsored by a local church are not eligible for designation as a housing allowance. Retired ministers may also exclude the rental value of a home furnished by a church or a rental allowance paid by a church as compensation for past services.

If a denomination or organization reports the gross amount of pension or TSA payments on Form 1099-R and designates the housing allowance, the minister may offset the housing expenses and reflect the net amount on page 1, Form 1040. A supplementary schedule such as the following example should be attached to the tax return:

| Pensions and annuity income (Form 1040, line 4a) | $10,000 |
| Less housing exclusion | $8,000 |
| Form 1040, line 4b | $2,000 |

For retired ministers, the amount excluded for income tax purposes is limited to the lowest of (1) the amount used to provide a home, (2) the properly designated housing allowance, or (3) the fair rental value of the furnished home, plus utilities.
Housing Allowance Resolutions

Parsonage owned by or rented by a church

Whereas, the Internal Revenue Code permits ministers to exclude from gross income “the rental value of a home furnished as part of compensation” or a church-designated allowance paid as a part of compensation to the extent that actual expenses are paid from the allowance to maintain a parsonage owned or rented by the church;

Whereas, the church compensates (insert name) for services in the exercise of ministry; and

Whereas, the church provides (insert name) with rent-free use of a parsonage owned by (rented by) the church as a portion of the compensation for services rendered to the church in the exercise of ministry;

Resolved, That the compensation of (insert name) is $4,500 per month, of which $2,000 per month is a designated housing allowance; and

Resolved, That the designation of $2,000 per month as a housing allowance shall apply until otherwise provided.

Home owned or rented by ministers

Whereas, the Internal Revenue Code permits a minister to exclude from gross income a church-designated allowance paid as part of compensation to the extent used for actual expenses in owning or renting a home; and

Whereas, the church compensates (insert name) for services in the exercise of ministry;

Resolved, That the compensation of (insert name) is $4,500 per month, of which $2,000 per month is a designated housing allowance; and

Resolved, That the designation of $2,000 per month as a housing allowance shall apply until otherwise provided.

Evangelists

Whereas, the Internal Revenue Code permits ministers to exclude from gross income a church-designated allowance paid as part of compensation to the extent used in owning or renting a permanent home; and

Whereas, the church compensates (insert name) for services in the exercise of ministry as an evangelist;

Resolved, That the honorarium paid to (insert name) shall be $1,512, consisting of $312 for travel expenses (with documentation provided to the church), $500 for housing allowance, and a $700 honorarium.
# Housing Allowance Worksheet

Ministers Living in Housing

Owned or Rented by the Church

Name: ____________________________________________________________

For the period ___________________, 20___ to ___________________, 20___

Date designation approved _______________________, 20___

**Allowable Housing Expenses** *(expenses paid by minister from current income)*

<table>
<thead>
<tr>
<th>Estimated Expenses</th>
<th>Actual</th>
</tr>
</thead>
<tbody>
<tr>
<td>Utilities <em>(gas, electricity, water)</em> and trash collection</td>
<td>$ _________</td>
</tr>
<tr>
<td>Decoration and redecoration</td>
<td>_________</td>
</tr>
<tr>
<td>Structural maintenance and repair</td>
<td>_________</td>
</tr>
<tr>
<td>Landscaping, gardening, and pest control</td>
<td>_________</td>
</tr>
<tr>
<td>Furnishings <em>(purchase, repair, replacement)</em></td>
<td>_________</td>
</tr>
<tr>
<td>Personal property insurance on minister-owned contents</td>
<td>_________</td>
</tr>
<tr>
<td>Personal property taxes on contents</td>
<td>_________</td>
</tr>
<tr>
<td>Umbrella liability insurance</td>
<td>_________</td>
</tr>
</tbody>
</table>

**Subtotal**


10% allowance for unexpected expenses


**TOTAL**


$ _________ | $ _________ *(A)*

Properly designated housing allowance


$ _________ *(B)*

The amount excludable from income for federal income tax purposes is the *lower* of A or B (or reasonable compensation).
# Housing Allowance Worksheet

**Minister Living in Home**

**Minister Owns or Is Buying**

---

**Name:**

---

For the period _____________, 20___ to _____________, 20___

Date designation approved _____________, 20___

**Allowable Housing Expenses** *(expenses paid by minister from current income)*

<table>
<thead>
<tr>
<th>Expense Description</th>
<th>Estimated Expenses</th>
<th>Actual</th>
</tr>
</thead>
<tbody>
<tr>
<td>Down payment on purchase of housing</td>
<td>$ __________</td>
<td>$ __________</td>
</tr>
<tr>
<td>Housing loan principal and interest payments <em>(1)</em></td>
<td>__________</td>
<td>__________</td>
</tr>
<tr>
<td>Real estate commission, escrow fees</td>
<td>__________</td>
<td>__________</td>
</tr>
<tr>
<td>Real property taxes</td>
<td>__________</td>
<td>__________</td>
</tr>
<tr>
<td>Personal property taxes on contents</td>
<td>__________</td>
<td>__________</td>
</tr>
<tr>
<td>Homeowner’s insurance</td>
<td>__________</td>
<td>__________</td>
</tr>
<tr>
<td>Personal property insurance on contents</td>
<td>__________</td>
<td>__________</td>
</tr>
<tr>
<td>Umbrella liability insurance</td>
<td>__________</td>
<td>__________</td>
</tr>
<tr>
<td>Structural maintenance and repair</td>
<td>__________</td>
<td>__________</td>
</tr>
<tr>
<td>Landscaping, gardening, and pest control</td>
<td>__________</td>
<td>__________</td>
</tr>
<tr>
<td>Furnishings <em>(purchase, repair, replacement)</em></td>
<td>__________</td>
<td>__________</td>
</tr>
<tr>
<td>Decoration and redecoration</td>
<td>__________</td>
<td>__________</td>
</tr>
<tr>
<td>Utilities <em>(gas, electricity, water)</em> and trash collection</td>
<td>__________</td>
<td>__________</td>
</tr>
<tr>
<td>Homeowner’s association dues/condominium fees</td>
<td>__________</td>
<td>__________</td>
</tr>
</tbody>
</table>

**Subtotal**

[____________]

10% allowance for unexpected expenses

[____________]

**TOTAL**

$ [____________] $ [____________] *(A)*

Properly designated housing allowance

$ [____________] *(B)*

Fair rental value of home, including furnishings, plus utilities

$ [____________] *(C)*

*(1)* Loan payments on home equity loans or second mortgages are includible only to the extent the loan proceeds were used for housing expenses.

The amount excludable from income for federal income tax purposes is the *lowest* of A, B, or C (or reasonable compensation).
# Housing Allowance Worksheet

**Minister Living in Home**

**Minister Is Renting**

Name: __________________________________________________________________________________

For the period ________________, 20__ to ________________, 20__

Date designation approved ________________, 20__

<table>
<thead>
<tr>
<th>Allowable Housing Expenses (expenses paid by minister from current income)</th>
<th>Estimated Expenses</th>
<th>Actual</th>
</tr>
</thead>
<tbody>
<tr>
<td>Housing rental payments</td>
<td>$ _________</td>
<td>$ _________</td>
</tr>
<tr>
<td>Personal property insurance on minister-owned contents</td>
<td>_________</td>
<td>_________</td>
</tr>
<tr>
<td>Personal property taxes on contents</td>
<td>_________</td>
<td>_________</td>
</tr>
<tr>
<td>Umbrella liability</td>
<td>_________</td>
<td>_________</td>
</tr>
<tr>
<td>Structural maintenance and repair</td>
<td>_________</td>
<td>_________</td>
</tr>
<tr>
<td>Landscaping, gardening, and pest control</td>
<td>_________</td>
<td>_________</td>
</tr>
<tr>
<td>Furnishings (purchase, repair, replacement)</td>
<td>_________</td>
<td>_________</td>
</tr>
<tr>
<td>Decoration and redecoration</td>
<td>_________</td>
<td>_________</td>
</tr>
<tr>
<td>Utilities (gas, electricity, water) and trash collection</td>
<td>_________</td>
<td>_________</td>
</tr>
<tr>
<td>Other rental expenses</td>
<td>_________</td>
<td>_________</td>
</tr>
</tbody>
</table>

**Subtotal**

10% allowance for unexpected expenses

**TOTAL**

$ _________ $ _________ (A)

Properly designated housing allowance

$ _________ (B)

---

The amount excludable from income for federal income tax purposes is the lower of A or B (or reasonable compensation).
Ask most ministers how much they are paid, and the response will often be “My check from the church is $1,000 a week.” But that tells us very little. Not only is your salary subject to tax, but so are many fringe benefits that you may receive.

What are fringe benefits? A fringe benefit is any cash, property, or service that ministers receive from the church in addition to salary. The term “fringe benefits” is really a misnomer because ministers have come to depend on them as a part of the total compensation package. All fringe benefits are taxable income to ministers unless specifically exempted by the Internal Revenue Code.

Many fringe benefits can be provided by a church to a minister without any dollar limitation (qualified health insurance is an example), while other fringe benefits are subject to annual limits (dependent care is an example). A brief discussion of some of the key fringe benefits follows.

### Tax Treatment of Compensation Elements

- **Business and professional expenses reimbursed with adequate accounting.** If the church reimburses ministers under an accountable plan for employment-related professional or business expenses (for example, auto, other travel, subscriptions, and entertainment), the reimbursement is not taxable compensation and is not reported to the IRS by the church or ministers. Per diem reimbursements up to IRS-approved limits also qualify as excludable reimbursements.

- **Business and professional expense payments without adequate accounting.** Many churches pay periodic allowances or reimbursements to ministers for business expenses with no requirement to account adequately for the expenses. These payments do not meet the requirements of an accountable expense reimbursement plan.

  Allowances or reimbursements under a nonaccountable plan must be included in a minister’s taxable income on Form W-2, and there is no income tax deduction for unreimbursed business expenses.

- **Cell phones.** Cell phones and similar devices provided to employees are excludable from an employee’s income as a fringe benefit and are not subject to stringent recordkeeping requirements in certain situations. The cell phones must be provided for “substantial reasons relating to the employer’s business, other than providing compensation to the employee.” Cell phones provided for employee morale or goodwill, or to recruit prospective employees, are not provided for “noncompensatory business purposes.”

  If the organization does not have a substantial noncompensatory business reason for providing a cell phone to an employee, or reimbursing the employee for business use of his or her personal cell phone, the value of the use of the phone or the amount of the reimbursement is includible in gross income, reportable on Forms 941 and W-2, and for lay employees is subject to employment tax withholding.

- **Club dues and memberships.** Dues for professional organizations (such as ministerial associations) or public service organizations (such as Kiwanis, Rotary, and Lions Clubs) are generally reimbursable.

  Other club dues are generally not reimbursable (including any club organized for business, pleasure, recreation, or other social purposes). If the church pays the health, fitness, or athletic facility dues for a minister, the amounts paid are generally fully includible in the minister’s income as additional compensation.
Computers. The value of the personal use of a church-provided computer may qualify as a nontaxable fringe benefit if the personal use is minimal or infrequent. Otherwise, the personal use must be valued and reported as taxable income on Form W-2.

Disability insurance. If the church pays the disability insurance premiums (and the minister is named as the beneficiary) as a part of the compensation package, the premiums are excluded from income. However, any disability policy proceeds must be included in gross income. This is based on who paid the premiums for the policy covering the year when the disability started. If the premiums are shared between the church and a minister, then the benefits are taxable in the same proportion as the payment of the premiums.

Conversely, if you pay the disability insurance premiums or have the church withhold the premiums from your salary, you receive no current deduction and any disability benefits paid under the policy are not taxable to you.

A third option is for the church to pay the disability premiums. But instead of treating the premiums as tax-free, the church treats the premiums as additional ministerial compensation. Benefits you receive under this option are tax-free.

Educational reimbursement plans. If your church requires you to take educational courses or if you take job-related courses, and your church either pays the expenses directly to the educational organization or reimburses you for the expenses after you make a full accounting, you may not have to include in income the amount paid by your church.

While there are no specific dollar limits on educational expenses paid under a nonqualified reimbursement plan, the general ordinary and necessary business expense rules do apply. These types of payments may be discriminatory.

Though the education may lead to a degree, expenses may be deductible or reimbursable if the education:

- is required by your church to keep your salary, status, or job (and serves a business purpose of your church), or
- maintains or improves skills required in your present employment.

Even though the above requirements are met, expenses do not qualify if the education is:

- required to meet the minimum educational requirements of your present work, or
- part of a program of study that will qualify you for a new occupation.

Entertainment expenses. Entertainment expenses that represent an ordinary and necessary business expense generally qualify for reimbursement under an accountable business expense reimbursement plan.

Flexible spending account (FSA). “Cafeteria” (called cafeteria plans because a person can choose among several benefit options) or FSAs are plans used to reimburse the employee for certain personal expenses. They are provided by employers to pre-fund dependent care, medical, or dental expenses (often called a healthcare flexible spending account) in pre-tax dollars.
A cafeteria or flexible spending plan cannot discriminate in favor of highly compensated participants for contributions, benefits, or eligibility to participate in the plan. While only larger churches generally offer cafeteria plans because of plan complexity and cost, many churches could feasibly offer an FSA.

The money is the account holder's to use during the plan year. Ultimately the employer owns the account and any unused balance at the end of the plan year or any administrative grace period is forfeited to the employer.

An administrative grace period may be adopted as a way to provide relief without running afoul of the prohibition on deferred compensation. Under this provision, employees are permitted a grace period of $2\frac{1}{2}$ months immediately following the end of the plan year. Expenses for qualified benefits incurred during the grace period may be paid or reimbursed from benefits or contributions remaining unused at the end of the plan year. There is also the option of rolling over any unused FSA dollars into the next plan year, but this option is subject to a $500 limit.

**Health insurance.** If the church pays a minister-employee's qualified group health insurance premiums directly to the insurance carrier, the premiums are tax-free to the minister. However, if similar payments are made for a minister whom the church considers to be self-employed for income tax purposes, the payments represent additional taxable income.

**Health savings account (HSA).** HSAs are individual, portable, tax-free, interest-bearing accounts (typically held by a bank or insurance company) through which individuals with a high-deductible health plan (HDHP) save for medical expenses. The purpose of an HSA is to pay what basic coverage would ordinarily pay.

Within limits, HSA contributions made by employers are excludable from income tax and social security wages and do not affect the computation of the earned income credit. HSA contributions may not be funded through salary reduction. Earnings on amounts in an HSA are not currently taxable, and HSA distributions used to pay for medical expenses are not taxable.

Funding of an HSA by the employer may fluctuate from one month to the next. This is unlike a cafeteria or flexible spending account, under which changes in contributions are generally only available on each January 1.

Only employees who are enrolled in qualifying high-deductible plans may participate in an HSA. A state high-risk health insurance plan (high-risk pool) qualifies as an HDHP if it does not pay benefits below the minimum annual deductible under the HSA rules.

HSA withdrawals do not qualify to cover over-the-counter medications (other than insulin or doctor-prescribed medicine). Additionally, there is an excise tax for nonqualified HSA withdrawals (withdrawals not used for qualified medical expenses) of 20%.

**Life insurance/group-term.** If the group life coverage provided under a nondiscriminatory plan does not exceed $50,000 for ministers, the life insurance premiums are generally tax-free.
to minister-employees. Group-term life insurance coverage of more than $50,000 provided to a minister by the church is taxable under somewhat favorable IRS tables.

> **Retirement plans**

- **457 deferred compensation plans (also known as Rabbi Trusts or Top Hat plans).** Churches may make cash contributions to 457 deferred compensation plans to fund their future obligation to pay deferred compensation benefits. The funds contributed are tax deferred in a similar manner to other tax deferred vehicles such as a 403(b) plan.

  In some instances, depending on a participant’s includible income (generally, includible income is a participant’s salary without including parsonage), churches can make contributions that exceed the IRS maximum annual contribution limits for a 403(b) plan.

  These plans are intended to provide a degree of certainty that accumulated deferred compensation benefits will actually be paid. Amounts contributed to an irrevocable plan should not revert to the church until all nonqualified deferred compensation benefits have been paid to eligible participants.

  Because trust assets are subject to the claims of the church’s creditors in the case of insolvency or bankruptcy, the creation of a 457 plan does not cause the arrangement to be treated as “funded” for income tax purposes.

  Distribution rules for 457 plans are not as flexible as for 403(b) accounts. For example, money in a 457 plan is not eligible to be rolled over into qualified retirement plans such as 403(b) plans or IRAs.

- **Individual retirement accounts.** Amounts contributed by a church for a minister-employee’s Individual Retirement Account (IRA) are includible in the employee’s compensation on the Form W-2 and are subject to self-employment tax. IRA contributions may fall into one of the following categories:

  - **Contributions to a regular IRA.** Each spouse may, in the great majority of cases, make deductible contributions to his or her IRA up to the dollar limitation (e.g., $5,500 reduced by adjusted gross income limits). The adjusted gross income phaseout ranges for 2019 are $103,000 to $123,000 for married taxpayers and $64,000 to $74,000 for singles. (The phaseout amounts are different if the minister-employee is not an active participant but his or her spouse is.) Catch-up contributions of $1,000 may be made by taxpayers age 50 and over.

  - **Contributions to a Roth IRA.** Nondeductible contributions may be made to a Roth IRA. The buildup of interest and dividends within the account may be tax-free depending on how and when you withdraw the money from the account.

- **Keogh plans.** If a minister has self-employment income for income tax purposes, a Keogh plan (also called “qualified retirement plans”) may be used. Amounts contributed to a Keogh plan are not taxed until distribution if the contribution limits are observed. If a minister withdraws money from a Keogh plan before reaching the age of 59½, the minister will be subject to a 10% early withdrawal penalty.
➤ **Social security tax reimbursement.** Churches commonly reimburse ministers for a portion or all of their self-employment social security (SECA) tax liability. Any social security reimbursement must be reported as taxable income.

Because of the deductibility of the self-employment tax in both the income tax and self-employment tax computations, a full reimbursement is effectively less than the gross 15.3% rate.

➤ **Tuition and fee discounts.** If you are an employee of a church-operated elementary, secondary, or undergraduate institution, certain tuition and fee discounts provided to a minister, spouse, or dependent children are generally tax-free. The discounts must be nondiscriminatory and relate to an educational program.

If you are employed by the church and not by the church-related or church-operated private school, any tuition and fee discounts that you receive are taxable income.

➤ **Vehicles/personal use of church-owned vehicle.** The personal use of a church-provided vehicle is considered a taxable fringe benefit. The fair market value of the personal use must be included in the minister’s gross income, unless the full value is reimbursed to the church.
### Reporting Compensation, Fringe Benefits, and Reimbursements for Income Tax Purposes*

<table>
<thead>
<tr>
<th>Explanation</th>
<th>Minister-Employee</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bonus or gift from the church</td>
<td>Taxable income/Form W-2</td>
</tr>
<tr>
<td>Business and professional expenses reimbursed with adequate accounting</td>
<td>Tax-free/excluded</td>
</tr>
<tr>
<td>Business and professional expense reimbursed without adequate accounting</td>
<td>Taxable Income</td>
</tr>
<tr>
<td>Club dues paid by the church</td>
<td>Taxable income/Form W-2 (exception for dues for professional organizations and civic and public service groups)</td>
</tr>
<tr>
<td>Compensation reported to the minister by the church</td>
<td>Form W-2</td>
</tr>
<tr>
<td>Dependent care assistance payments</td>
<td>Tax-free, subject to limitations</td>
</tr>
<tr>
<td>Educational assistance programs</td>
<td>May be eligible to exclude up to $5,250 of qualified assistance</td>
</tr>
<tr>
<td>401(k) plan</td>
<td>Eligible for 401(k)</td>
</tr>
<tr>
<td>403(b) tax-sheltered annuity</td>
<td>Eligible for 403(b)</td>
</tr>
<tr>
<td>Gifts/personal (not handled through the church)</td>
<td>Tax-free/excluded</td>
</tr>
<tr>
<td>Health Savings Account</td>
<td>Tax-free, if plan is properly established</td>
</tr>
<tr>
<td>Healthcare flexible spending account</td>
<td>Tax-free, if plan is properly established</td>
</tr>
<tr>
<td>Housing allowance</td>
<td>Excludable, subject to limitations</td>
</tr>
<tr>
<td>IRA payments by church</td>
<td>Taxable income/Form W-2, may be deducted on Form 1040</td>
</tr>
<tr>
<td>Insurance, disability, paid by minister; minister is beneficiary</td>
<td>Premiums paid after tax; proceeds are tax-free</td>
</tr>
<tr>
<td>Insurance, disability paid by church; minister is beneficiary</td>
<td>Premiums are tax-free; proceeds are taxable</td>
</tr>
<tr>
<td>Insurance, group-term life paid by church</td>
<td>Premiums on first $50,000 of coverage is tax-free</td>
</tr>
</tbody>
</table>

* Many of these compensation elements are conditioned on plans being properly established and subject to annual limits.
<table>
<thead>
<tr>
<th><strong>Explanation</strong></th>
<th><strong>Minister-Employee</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Insurance, health</td>
<td>Tax-free, if directly paid by church as part of a qualifying group plan. If paid by minister and not reimbursed by church, deduct on Schedule A</td>
</tr>
<tr>
<td>Insurance, life, whole or universal, church is beneficiary</td>
<td>Tax-free/excluded</td>
</tr>
<tr>
<td>Insurance, life, whole or universal, minister designates beneficiary</td>
<td>Taxable income/Form W-2</td>
</tr>
<tr>
<td>Insurance, long-term care</td>
<td>Tax-free if directly paid by the church or reimbursed to minister on substantiation. If paid by minister and not reimbursed by church, deduct on Schedule A subject to limitations</td>
</tr>
<tr>
<td>Loans, certain low-interest or interest-free loans over $10,000 to ministers</td>
<td>Imputed interest (the difference between the IRS-established interest rate and the rate charged) is taxable income/Form W-2</td>
</tr>
<tr>
<td>Moving expenses paid by the church (only applies to certain qualified expenses)</td>
<td>Taxable for 2018/Form W-2</td>
</tr>
<tr>
<td>Pension payments by the church to a denominational plan for minister</td>
<td>Tax-deferred. No reporting required until the funds are withdrawn by minister or pension benefits are paid</td>
</tr>
<tr>
<td>Per diem payments for meals, lodging, and incidental expenses</td>
<td>May be used for travel away from home under an accountable reimbursement plan</td>
</tr>
<tr>
<td>Professional income (weddings, funerals)</td>
<td>Taxable income/Schedule C (C-EZ)</td>
</tr>
<tr>
<td>Property transferred to minister at no cost or less than fair market value</td>
<td>Taxable income/Form W-2</td>
</tr>
<tr>
<td>Retirement or farewell gift to minister from church</td>
<td>Generally taxable income/Form W-2</td>
</tr>
<tr>
<td>Salary from church</td>
<td>Report salary on Form 1040, Line 1</td>
</tr>
<tr>
<td>Social security reimbursed by church to minister</td>
<td>Taxable income/Form W-2</td>
</tr>
<tr>
<td>Travel paid for minister’s spouse by the church</td>
<td>May be tax-free if there is a business purpose</td>
</tr>
<tr>
<td>Tuition and fee discounts</td>
<td>May be tax-free in certain situations</td>
</tr>
<tr>
<td>Value of home provided to minister</td>
<td>Tax-free/excluded, subject to limitations</td>
</tr>
<tr>
<td>Vehicles/personal use of church-owned automobile</td>
<td>Taxable income/Form W-2</td>
</tr>
<tr>
<td>Voluntary withholding</td>
<td>Eligible for voluntary withholding agreement</td>
</tr>
</tbody>
</table>
Most ministers spend several thousand dollars each year on church-related business expenses. For example, the ministry-related portion of auto expenses is often a major cost.

Business and professional expenses fall into three basic categories: (1) expenses reimbursed under an accountable plan, (2) expenses paid under a nonaccountable plan, and (3) unreimbursed expenses. Neither of the last two categories provide any income tax benefit to a minister.

The reimbursement of an expense never changes the character of the item from personal to business. Business expenses are business whether or not they are reimbursed. Personal expenses are always nondeductible and nonreimbursable. If a personal expense is inadvertently reimbursed by the church, ministers should immediately refund the money to the church.

To be reimbursable, a business expense must be both ordinary and necessary. An ordinary expense is one that is common and accepted in your field. A necessary expense is one that is helpful and appropriate for your field. An expense does not have to be indispensable to be considered necessary.

- **Accountable and Nonaccountable Expense Reimbursement Plans**

An accountable plan is a reimbursement or expense allowance arrangement established by your church that requires (1) a business purpose for the expenses, (2) substantiation of the expenses to the church, and (3) the return of any excess reimbursements.

The substantiation of expenses and return of excess reimbursements must be handled within a reasonable time. The following methods meet the “reasonable time” definition:

- **The fixed date method** applies if:
  - an advance is made within 30 days of when an expense is paid or incurred;
  - an expense is substantiated to the church within 60 days after the expense is paid or incurred; and
  - any excess amount is returned to the church within 120 days after the expense is paid or incurred.

- **The periodic statement method** applies if:
  - the church provides employees with a periodic statement that sets forth the amount paid that is more than substantiated expenses under the arrangement;
  - the statements are provided at least quarterly;
  - the church requests that ministers provide substantiation for any additional expenses that have not yet been substantiated and/or return any amounts remaining unsubstantiated within 120 days of the statement.

Expenses that are substantiated and reimbursed are not included on Form W-2 or deducted on your tax return. Expenses that are not substantiated and reimbursed cannot be deducted for income tax purposes.
The IRS disallows deductions for a portion of unreimbursed business expenses on the premise that the expenses can be allocated to your tax-exempt housing allowance (see page 29). This is another reason that all ministers should comply with the accountable expense reimbursement rules. The goal should be to eliminate all unreimbursed business expenses.

**Nonaccountable Expense Reimbursement Plans**

If you do not substantiate your business expenses to the church, or if the amount of the reimbursement exceeds your actual expenses and the excess is not returned to the church within a reasonable period, your tax life becomes more complicated.

If your church pays you an “allowance” for business expenses, it represents taxable compensation. The term “allowance” implies that the payment is not based upon documented expenses, does not meet the adequate accounting requirements for an accountable plan, and must be included in your income.

Nonaccountable reimbursements and excess reimbursements over IRS mileage or per diem limits must be included in your gross income and reported as wages on Form W-2. Unreimbursed expenses are not deductible for income tax purposes.

● **Documenting Business Expenses**

For expenses to be treated as reimbursable, you must show that you spent the money and that you spent it for a legitimate business reason. To prove that you spent the money, you generally need to provide documentary evidence that can be confirmed by a third party. Canceled checks, credit card statements, or other receipts are an excellent starting point. To the IRS, third-party verification is important; if business expenses are paid in cash, be sure to get a receipt.

Documenting a business expense can be time-consuming. The IRS is satisfied if you note the five Ws on the back of your credit card slip or other receipt:

➤ Why (business purpose)
➤ What (description, including itemized accounting of cost)
➤ When (date)
➤ Where (location)
➤ Who (names of those for whom the expense was incurred; e.g., Pastor Mark Smith)

The only exception to the documentation rules is if your individual outlays for business expenses, other than for lodging, come to less than $75. The IRS does not require receipts for such expenses, although the five Ws are still required. You always need a receipt for lodging expenses regardless of the amount. A church may apply a documentation threshold lower than $75.
● Auto Expense Reimbursements

A minister’s car expenses are reimbursable to the extent they are for business (or income producing) rather than personal use. Generally, only those expenses that are necessary to drive and maintain a car that is used to go from one workplace to another are deductible.

Mileage and Actual Expense Methods

In determining the amount eligible for reimbursement for the business use of a personal car, you can use one of two methods to figure your deduction: the standard mileage rate or the actual expense method. The simplicity of the standard mileage rate method is compelling.

Standard Mileage Rate Method

If your church pays you a fixed mileage rate up to the IRS standard rate (see page 5 for rates) and you provide the church with the time, place, and business purpose of your driving, you have made an adequate accounting of your automobile expenses, qualifying for a tax-free reimbursement.

If the church does not reimburse you for auto expenses or reimburses you under a nonaccountable plan, you may not deduct the expenses for income tax purposes.

The standard mileage rate, which includes depreciation and maintenance costs, is based on the government’s estimate of the average cost of operating an automobile. Depending upon the make, age, and cost of the car, the mileage rate may be more or less than your actual auto expense. If you use the mileage rate, you also may be reimbursed for parking fees, tolls, and the business portion of the personal property tax.

Commuting

Personal mileage is never reimbursable. Commuting mileage is personal mileage.

Travel to and from home and church (a regular work location) and for church services and other work at the church is commuting and is not reimbursable. The same rule applies to multiple trips made in the same day. On the other hand, the cost of traveling between your home and a temporary work location is generally reimbursable. Once you arrive at the first work location, temporary or regular, you may be reimbursed for trips between work locations.

A regular place of business is any location at which you work or perform services on a regular basis. These services may be performed every week, for example, or merely on a set schedule.

A temporary place of business is any location at which you perform services on an irregular or short-term (i.e., generally a matter of days or weeks) basis.

Documentation of Auto Expense

To support your automobile expense reimbursement, automobile expenses must be substantiated by adequate records. A weekly or monthly mileage log that identifies dates, destinations, business
purposes, and odometer readings in order to allocate total mileage between business and personal use is a basic necessity if you use the mileage method. If you use the actual expense method, a mileage log and supporting documentation on expenses are required.

**Per diem allowance**

The IRS provides per diem allowances under which the amount of away-from-home meals and lodging expenses may be substantiated. These rates may not be used to reimburse volunteers. Higher per diem rates apply to certain locations annually identified by the IRS. For more information on these rules, see IRS Publication 1542.

- **Other Business and Professional Expenses**

  **Business gifts**

  You may be reimbursed up to $25 per donee for business gifts to any number of individuals every year. Incidental costs, such as for engraving, gift wrapping, insurance, and mailing do not need to be included in determining whether the $25 limit has been exceeded.

  The gifts must be related to your ministry. Gifts to church staff or board members would generally be deductible, subject to the $25 limit. Wedding and graduation gifts generally do not qualify as business expenses.

  **Cell phones**

  The IRS treats the value of a church-provided cell phone and similar telecommunications equipment (including the value of any personal use by the employee) as excludible from the employee’s income, as long as the cell phone is provided to the employee primarily for a noncompensatory business reason (such as the employer’s need to contact the employee at all times for work-related emergencies). Providing a cell phone to promote morale or goodwill, to attract a prospective employee, or to furnish additional compensation to an employee is evidence that there is no noncompensatory business reason.

  Church staff may be reimbursed for the business use of a cell phone, but the church should probably require the employee to submit a copy of the monthly bill and evidence that the bill has been paid.

  If a church does not have a substantial noncompensatory business reason for providing a cell phone to an employee or reimbursing the employee for business use of his or her personal cell phone, then the value of the use of the phone or the amount of the reimbursement is includible in gross income, reportable on Forms 941 and W-2, and for lay employees is subject to employment tax withholding.

  Cell phones a minister owns and uses more than 50% for ministry may be depreciated for reimbursement purposes as five-year recovery property. The business portion of depreciation may be reimbursed under an accountable expense reimbursement plan, if the 50% business, “convenience of the church,” and “condition of employment” tests are met.

  As a minister-employee, the use of a cell phone must be for the “convenience of the church” and required as a “condition of employment.” The “convenience of the church” test will generally be met if the cell phone is furnished for substantial “noncompensatory business reasons.” Whether a minister (or other church employee) passes the “condition of employment” test is based on all the
facts and circumstances and is not determined merely by an employer’s statement that the use of the cell phone is a condition of employment.

If a minister meets the “convenience of the employer” and “condition of employment” tests but does not use the cell phone more than 50% of the time for work, he or she must depreciate it using the straight-line method. The minister may be reimbursed the business-related phone call charges and the business-related portion of the monthly fees.

Entertainment

Entertainment expenses may qualify for reimbursement under an accountable expense reimbursement plan if they represent an ordinary and necessary business expense.

Personal computers

Personal computers a minister owns and uses more than 50% for ministry may be depreciated for reimbursement purposes as five-year recovery property but no reimbursement is available under Section 179 (see next item). The business portion of depreciation may be reimbursed under an accountable expense reimbursement plan if the 50% business, “convenience of the church,” and “condition of employment” tests are met (see the discussion of these topics under “Cell phones” on pages 29-30).

If a computer is provided by the church in the church office but you prefer to work at home on your personal computer, it is not being used for the church’s convenience. If you meet the “convenience of the church” and “condition of employment” tests but do not use your computer (and related equipment) more than 50% of the time for your work, you must depreciate these items using the straight-line method to calculate the amount reimbursable.

Adequate records of the business use of your computer should be maintained to substantiate your deductions.

Subscriptions and books

Subscriptions to minister-related periodicals are reimbursable. If the information in a periodical relates to your ministerial preparation, that news magazine may even qualify.

The cost of books related to your ministry may be reimbursed.

 Allocation of Business Expenses

The IRS takes the position that the deduction of unreimbursed business expenses on Schedule C (C-EZ) is limited to the extent that they are allocable to an excluded housing allowance or the fair rental value of church-provided housing. The IRS applies what is often referred to as the “Deason rule” (referring to a 1964 Tax Court Memorandum).

IRS Publication 517, Social Security and Other Information for Members of the Clergy and Religious Workers, explains this topic in detail and includes the concept
in a completed tax return example. The most recent *Tax Guide for Churches and Other Religious Organizations* and *Minister Audit Technique Guide*, both issued by the IRS, clearly apply the expense allocation concept.

Since the housing allowance is not tax-exempt for self-employment purposes, the IRS takes the position in their *Minister Audit Technique Guide* that the Deason rule does not apply to the computation of a minister’s self-employment taxes.

Under the IRS guidelines, if you exclude a housing allowance or are provided housing by your church, you cannot deduct expenses that are allocable to your excluded rental or parsonage allowance. Home mortgage interest and real estate taxes are still deductible on Schedule A as itemized deductions even though the same amounts are excluded for income tax purposes under the housing allowance rules.

A statement containing all the following information should be attached to your tax return:

- A list of each item of taxable ministerial income by source (such as wages, salary, honoraria from weddings, baptisms, etc.) plus the amount
- The amount of excluded housing allowance or the fair rental value of church-provided housing
- A list of each item of unreimbursed ministerial expense plus the amount
- A statement that the other deductions on your tax return are not allocable to the excluded housing allowance

This limitation requires the following calculation:

1. Housing allowance (the fair rental value of a church-provided parsonage and the housing allowance excluded from gross income; this may be less than the church-designated housing allowance) $ ________
2. Total income from ministry:
   - Salary (including the fair rental value of a church-provided parsonage and the housing allowance excluded from gross income) $ ________
   - Fees
   - Allowances (nonaccountable plan) ________
   - $ ________
3. Divide line 1 amount by line 2 amount = % of nontaxable income ________ %
4. Total unreimbursed business and professional expenses, less 50% of meals and entertainment expenses $ ________
5. Multiply line 4 total by line 3 percentage (these are nondeductible expenses allocable to tax-exempt income) $ ________
6. Subtract line 5 amount from line 4 amount (these are deductible expenses for federal income tax purposes on Schedule C [C-EZ]) $ ________
**Income Taxes**

The federal income tax is a pay-as-you-go tax. You must pay the tax as you earn or receive income during the year. Employees usually have income tax withheld from their pay. However, the pay of a qualified minister is not subject to federal income tax withholding. Ministers who are employees for income tax purposes may enter into a voluntary withholding agreement with the church to cover any income tax and self-employment social security tax that are due. IRS Publication 505 provides additional information on tax withholding and estimated taxes.

- **Tax Withholding**

  Churches are not required to withhold income taxes from wages paid to ministers for services performed in the exercise of their ministry. The exemption does not apply to nonministerial church employees such as a secretary, organist, or custodian.

  Minister-employees may have a voluntary withholding agreement with the employing church to cover income taxes (the amount may be set high enough to also cover the self-employment social security tax liability). Ministers need only file Form W-4 with the church to establish a voluntary withholding arrangement.

- **Estimated Tax**

  Estimated tax is the method used to pay income and self-employment taxes for income that is not subject to withholding. Your estimated tax is your expected tax for the year minus your expected withholding and credits.

  If you are filing a declaration of estimated tax, complete the quarterly Forms 1040-ES. If 2018 estimated taxes are $1,000 or less, no declaration of estimated tax is required.

  If your estimated tax payments for 2019 equal 90% of the 2018 tax liability, you will generally avoid underpayment penalties. An option is to make the 2019 estimated tax payments equal 100% of your 2018 federal and social security taxes (Form 1040, page 2, line 15). This method generally avoids underpayment penalties and is easier to calculate.

  In estimating 2019 taxes, net earnings from self-employment should be reduced by 7.65% before calculating the self-employment tax of 15.3%. There also is an income tax deduction for one-half of your self-employment tax (Form 1040, Schedule 1, line 27).

  You pay one-fourth of your total estimated taxes in installments as follows:

<table>
<thead>
<tr>
<th>For the Period</th>
<th>2019 Due Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>January 1 - March 31</td>
<td>April 15</td>
</tr>
<tr>
<td>April 1 - May 31</td>
<td>June 17</td>
</tr>
<tr>
<td>June 1 - August 31</td>
<td>September 16</td>
</tr>
<tr>
<td>September 1 - December 31</td>
<td>January 15</td>
</tr>
</tbody>
</table>

  **Idea**

  Though not required, churches should offer to withhold federal (and state and local, where applicable) income taxes (never FICA taxes!) from ministerial pay. Filing Forms 1040-ES often means saving up money for the 4/15, 6/15, 9/15, and 1/15 deadlines. Withholding the proper amount each week or payday is so much more efficient.

  **Filing Tip**

  When using the estimated tax method of submitting income and social security tax money to the IRS, pay at least as much as your previous year’s total taxes (before offsetting withhold, estimated tax payments, etc.). Spread the payments equally over the four Forms 1040-ES. This will generally avoid underpayment penalties.

  **Remember**

  State income tax payment requirements may also be met by making estimated state tax payments.
Social Security Taxes

Social security taxes are collected under two systems. Under the Federal Insurance Contributions Act (FICA), the employer pays one-half of the tax and the employee pays the other half. Under the Self-Employment Contributions Act (SECA), the self-employed person pays all the tax (self-employment tax) as calculated on the taxpayer’s Schedule SE.

Compensation received by ministers for services performed in the exercise of ministry is self-employment income and is always subject to self-employment tax (SECA). Ministerial income is exempt from SECA only if you have opted out of social security. Federal Insurance Contributions Act (FICA) social security tax should never be withheld from the compensation of qualified ministers.

- **Opting Out of Social Security Taxes**

  All ministers are automatically covered by social security (SECA) for services in the exercise of ministry, unless an exemption has been received based on the filing with and approval by the IRS of Form 4361. You must certify that you oppose, either conscientiously or because of religious principles, the acceptance of any public insurance (with respect to services performed as a minister), including social security coverage. This includes an opposition to insurance that helps pay for or provides services for medical care (such as Medicare) and social security benefits. Your opinion of the financial stability of the social security program is not a valid basis to file for exemption.

  **Deadline for Filing for an Exemption**

  The application for exemption from self-employment tax must be filed by the date your tax return is due, including extensions, for the second year in which you had net ministerial income of $400 or more. These do not have to be consecutive tax years.

- **Computing the Self-Employment Tax**

  The following tax rates apply to net earnings from self-employment of $400 or more each year:

<table>
<thead>
<tr>
<th>Year</th>
<th>Tax Rate OASDI</th>
<th>Tax Rate Medicare</th>
<th>Maximum Earnings Base OASDI</th>
<th>Maximum Earnings Base Medicare</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>12.4%</td>
<td>2.9%</td>
<td>$127,200</td>
<td>no limit</td>
</tr>
<tr>
<td>2018</td>
<td>12.4%</td>
<td>2.9%</td>
<td>128,400</td>
<td>no limit</td>
</tr>
<tr>
<td>2019</td>
<td>12.4%</td>
<td>2.9%</td>
<td>132,900</td>
<td>no limit</td>
</tr>
</tbody>
</table>

  OASDI = Old-age, survivors, and disability insurance, or social security

- **Self-Employment Tax Deductions**

  You can take an income tax deduction equal to one-half of your self-employment tax liability. The deduction is claimed against gross income on line 27 of Form 1040, Schedule 1. You may also deduct a portion of your self-employment tax liability in calculating your self-employment tax. This deduction is made on Schedule SE, Section A, line 4 or Section B, line 4a, by multiplying self-employment income by .9235. The purpose of these deductions is to equalize the social security (and income) taxes paid by (and for) employees and self-employed persons with equivalent income.
Form 1040

New for 2018, the IRS has simplified the basic tax Form 1040 from two full pages down to two half pages. With this simplified design, from 79 lines in 2017 down to 23 lines now, the IRS is no longer offering Forms 1040A or 1040EZ.

The first half page of the new Form 1040 includes basic taxpayer and dependent identification information, while the second page is where all income and tax reporting occur. To accomplish this simplified design, the IRS has moved many of the less frequently used fields and added them to Schedules 1-5. Many ministers may report information on several of these schedules, especially as it relates to self-employment taxes.

Reviewing the Form 1040 and Schedules 1-5 line by line may jog one's memory about money received or spent in 2018.

- Filing status. Married filing jointly: If the minister's spouse died in 2018, he or she can still file jointly and take advantage of tax rates that would be lower than if he or she files as a single person or as a head of household.
- Married filing separately: If the minister is married and lives in a separate-property state, compute the tax two ways—jointly and separately. Then, file the return resulting in the lower tax.

Filing Tip

All compensation from Form W-2 is reported on line 1. Be sure the church has not included the housing allowance amount in Box 1 of Form W-2.
• Head of household: If the minister is single, he or she may qualify as head of household if he or she provided a home for someone else—like a parent. Filing as head of household rather than as a single person can save a bundle on taxes.

• Qualifying widow(er): If the minister's spouse died in 2016 or 2017 and he or she has a dependent child, there is benefit from joint-return rates as a qualifying widow(er).

• Dependents. Remember to include a social security number for any dependents. If a child does not have one, obtain Form SS-5, Application for a Social Security Number, at http://www.ssa.gov/online/ssa-5.html. If unable to secure the social security number before the filing deadline, the minister may file for an extension of time to file.

**Form 1040 – Page 2**

• **Income (lines 1 to 6). Line 1:** If the minister is considered an employee for income tax purposes, he or she should receive Form W-2 from the employer. The total amount of the taxable wages is shown in Box 1 of Form W-2; attach Copy B of the W-2 to your Form 1040. Include the data from other W-2s received for the minister or spouse on this line. If the church erroneously included the housing allowance in Box 1, Form W-2, the minister should ask the church to reissue a corrected Form W-2.

If the cash housing allowance designated and paid by the employer exceeds the lowest of (1) the amount used to provide a home from current ministerial income, (2) the amount
properly designated by the employer, or (3) the fair rental value of the home including utilities and furnishings, enter the difference on line 1.

**Line 2a:** Here’s where to note any tax-exempt interest from municipal bonds or municipal bond funds. Don’t worry—that income is not taxable. But social security recipients must count all their tax-exempt interest when computing how much of their social security benefits will be taxable.

**Line 2b:** Include as taxable-interest income the total amount of earnings on savings accounts, certificates of deposit, credit union accounts, corporate bonds and corporate bond mutual funds, U.S. treasuries and U.S. government mutual funds, and interest paid to the minister for a belated federal or state tax refund (whether or not a Form 1099-INT has been received). If the statements due have not yet been received, call the issuer to get them. If more than $1,500 of taxable interest income was received in 2018, Schedule B must also be completed.

**Line 3b:** Enter as dividend income only ordinary dividends, not capital-gains dividends paid by mutual funds, which are reported on Schedule D. Form 1099-DIV statements show the amount and type of ordinary dividends received during 2018. If more than $1,500 in dividend income was received in 2018, Schedule B must be completed. Remember: earnings from a money-market mutual fund are considered dividend income, not interest income.

**Line 4a:** Report all distributions from IRAs, pensions and annuities on this line, including amounts that were rolled over tax-free in 2018 from one account into another.

**Line 4b:** Report the taxable portion of these distributions. If any distributions were received from a denominationally sponsored plan, the minister may be eligible to exclude a portion or all of these payments as a housing allowance.

**Line 5a:** No more than 85% of social security benefits can be taxed for 2018 and none at all if the provisional income is below $32,000 on a joint return, $25,000 for singles. If the income doesn’t exceed the threshold, leave this line blank. If it does, use the worksheet on Form 1099-SSA to compute taxes on the benefits.

**Line 5b:** Report any taxable portion of social security benefits on this line.

- **Tax computation (lines 7 to 13).** **Line 8:** Claim the standard deduction only if the amount exceeds what could be written off in itemizing expenses on Schedule A. For 2018, the standard deduction is $24,000 joint, $18,000 head of household, and $12,000 single. The amounts are higher if the minister or spouse is 65 or older or legally blind.

**Line 12a:** If the minister has a dependent child (a child under the age of 17 at the end of the tax year), he or she should complete Schedule 8812 to claim up to a maximum credit of $2,000 per qualifying child. This credit can reduce the actual taxes owed dollar-for-dollar, but only $1,400 per child can be refundable beyond 2018.

**Line 16:** Did the minister have a voluntary withholding arrangement whereby the employing church withheld federal income tax from the minister’s compensation? Then show the amount of federal income tax the church withheld (from the W-2, Box 2) along with other federal income tax withholding from other employment of the minister or spouse here. Also include tax withheld on the other Forms 1099 and W-2. The amount withheld should be shown in Box 6 of Form 1099-SSA and Box 4 of other Forms 1099.
Line 17a: Enter the earned income tax credit here or let the IRS calculate it. If the minister has a qualifying child, Schedule EIC must be completed.

Line 17b: Enter the amount of your child tax credit on this line based on the completion of Schedule 8812.

- Refund or amount owed (lines 19 to 23). Line 23: The IRS assumes the taxpayer must pay the estimated tax penalty if he or she owes $1,000 or more beyond what has been paid through withholding or estimated tax and the amount due is more than 110% of the 2017 tax bill. The minister may qualify for one of several exceptions, however. Use Form 2210 to document an exception to an underpayment penalty.

### Schedule 1 – Additional income and adjustments to income

<table>
<thead>
<tr>
<th>Additional Income</th>
<th>Adjustments to Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>1-9b</td>
<td>23</td>
</tr>
<tr>
<td>10</td>
<td>24</td>
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<tr>
<td>11</td>
<td>25</td>
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</tr>
<tr>
<td>15a</td>
<td>29</td>
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<td>20a</td>
<td>34</td>
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<tr>
<td>21</td>
<td>35</td>
</tr>
<tr>
<td>22</td>
<td>36</td>
</tr>
</tbody>
</table>

Schedule 1, Line 10: If a refund of a state or local tax was received in 2018 that was deducted on Schedule A in a prior year, include the refund here.

Line 12: Ministers almost always receive some honoraria or fee income from speaking engagements, weddings, funerals, and so on. This income, less related expenses (see page 138), should be reported on Schedule C or C-EZ and entered on this line.
**Line 13:** Enter capital-gains dividends here if there were no other capital gains or losses in 2018.

**Line 23:** If you or your spouse is an eligible educator, you can deduct up to $500 (married filing jointly) for unreimbursed teaching-related expenses on this line.

**Line 25:** Contributions made by a taxpayer to a health savings account (HSA) up to $3,450 for an individual plan and $6,900 for a family plan are deductible on this line. Individuals who have reached age 55 by the end of the tax year are allowed to increase their annual contribution for years after 2018.

**Line 27:** One-half of the social security tax that is deductible for income tax purposes is reflected on this line. This number comes from Schedule SE, Section A, line 6, or Section B, line 13.

**Line 33:** Interest paid on a qualifying student loan may be deducted on this line. The maximum deductible amount of interest is $2,500, and it is phased out at high income levels.

**Line 36:** If a minister is employed as a chaplain or any other minister-employee of a non-religious organization, use this line for the deduction of 403(b) contributions that were sent directly to the plan. On the dotted line next to line 36, enter the amount of the deduction and identify it as indicated.

### Schedule 2 – Tax

<table>
<thead>
<tr>
<th>SCHEDULE 2 (Form 1040)</th>
<th>Tax</th>
</tr>
</thead>
<tbody>
<tr>
<td>Department of the Treasury Internal Revenue Service</td>
<td>38-44</td>
</tr>
<tr>
<td>Name(s) shown on Form 1040</td>
<td>Reserved</td>
</tr>
<tr>
<td></td>
<td>Alternative minimum tax. Attach Form 6251</td>
</tr>
<tr>
<td></td>
<td>Excess advance premium tax credit repayment. Attach Form 8962</td>
</tr>
<tr>
<td></td>
<td>Add the amounts in the far right column. Enter here and include on Form 1040, line 11</td>
</tr>
</tbody>
</table>

**Line 45:** Few ministers will have taxable income high enough to trigger the alternative minimum tax.

**Line 46:** If a minister had an excess advance payment of the premium tax credit, it would be calculated on Form 8962 with the amount carried over to line 46.
Schedule 3 – Nonrefundable Credits

**Line 48:** If you paid income tax to a foreign country of U.S. possession, you may be able to take this credit. Generally, you must complete and attach Form 1116 to do so. However, if all of your foreign source gross income was from interest and dividends and all of that income and the foreign tax paid on it were reported to you on Form 1099-INT, Form 1099-DIV, or Schedule K and the total of your foreign taxes wasn’t more than $600 if married filing jointly, you generally do not have to complete Form 1116.

**Line 49:** You may be able to take this credit if you paid someone to care for:
(1) Your qualifying child under age 13 whom you claim as your dependent, (2) Your disabled spouse or any other disabled person who couldn’t care for himself or herself, or (3) Your child whom you couldn’t claim as a dependent because of the rules for children of divorced or separated parents.

**Line 50:** If you (or your dependent) paid qualified expenses in 2018 for yourself, your spouse, or your dependent to enroll in or attend an eligible educational institution, you may be able to take an education credit. See Form 8863 for details.

**Line 51:** Taxpayers with adjusted gross income of $63,000 or less may claim a credit on this line equal to a certain percentage of the employee contributions made to a retirement account or IRA (must complete Form 8880).

**Filing Tip**

Schedule 3, Line 51. If contributions were made to a 403(b) or 401(k) plan, and the adjusted gross income was $50,000 or less, the minister may be eligible for the retirement savings contributions credit. The credit is also available for contributions to either a traditional or a Roth IRA. The excluded portion of minister’s housing does not reduce this credit.
**Schedule 4 - Other Taxes**

**Line 57:** If the taxpayer is a qualified minister (see pages 2–9) and has not opted out of social security (see pages 104–8), he or she is self-employed for social security tax purposes. Social Security is not withheld by the church but is calculated on Schedule SE if there were net earnings of $400 or more and paid with Form 1040. The tax is 15.3% of the first $128,400 of 2018 self-employment income. If the total wages and self-employment earnings were less than $128,400, time and headaches can probably be saved by filing the Short Schedule SE on the front of the SE form.

**Line 59:** The minister will owe the tax on qualified plans plus the 10% penalty on the amount withdrawn from the IRA or another retirement plan if the minister was under 59 1/2, unless certain exceptions are met.

**Schedule 5 - Other Payments and Refundable Credits**

**Line 65:** Reserved.

**Line 66:** 2018 estimated tax payments and amount applied from 2017 return.

**Line 67a:** Reserved.

**Line 67b:** Reserved.

**Line 68:** Net premium tax credit. Attach Form 8962.

**Line 69:** Excess social security and tier 1 RRTA tax withheld.

**Line 70:** Credit for federal tax on fuels. Attach Form 4136.

**Line 71:** Credits from Form: a □ 2439 b □ Reserved c □ 8885 d □ __________________

**Line 72:** Add the amounts in the far right column. These are your total other payments and refundable credits. Enter here and include on Form 1040, line 17.

For Paperwork Reduction Act Notice, see your tax return instructions. Cat. No. 17421C Schedule 4 (Form 1040) 2018

For Paperwork Reduction Act Notice, see your tax return instructions. Cat. No. 71421R Schedule 5 (Form 1040) 2018
Line 66: Don't get confused: Even though the fourth-quarter 2018 estimated tax payment was made in January 2019, it's counted on the 2018 return.

Schedule A (Itemized Deductions)

If the minister lives in church-provided housing, he or she often cannot itemize. But run down Schedule A just to see whether there might be more write-offs than the standard deduction will permit.

- Medical and dental expenses (lines 1 to 4). Don't overlook the cost of getting to and from the doctor or pharmacist. Write off 18 cents per mile plus the cost of parking. If the taxpayer didn't drive, deduct any bus, train, or taxi fares. The cost of trips to see out-of-town specialists and as much as $50 a day for the cost of lodging when out of town to get medical care count toward the 7.5% limit of adjusted gross income. Include all health insurance premiums, as well as Medicare Part B premiums for 2018.

- Taxes you paid (lines 5 to 7). Even though real estate taxes are a housing expense excludable under the housing allowance, they may still be deducted (even for multiple properties if not deducted elsewhere on the return) on line 5b as an itemized deduction—one of the few “double benefits” allowed in the tax law.

- Interest you paid (lines 8 to 10). Line 8a: If the minister bought a house during 2018, review all escrow or settlement papers for any mortgage interest paid that was not shown on the lender's year-end statement. If interest was paid on a second mortgage or line of credit secured by the minister's home, include the interest expense here. It is possible to deduct mortgage interest as an itemized deduction even if the interest is included in housing expenses subject to a housing allowance. Interest on a home equity loan or line of credit is not deductible on Schedule A unless the loan proceeds were used to buy, build, or substantially improve the minister's home that secures the loan. Likewise, the only mortgage interest properly includible as housing expense under a housing allowance is when the loan proceeds were used to provide housing. For example, interest on a second mortgage used to finance a child's college education is not deductible on Schedule A and does not qualify as a housing expense for housing allowance purposes.

Don't overlook points paid to get the mortgage. All of the points are generally deductible as interest here. Points paid for a refinancing must be amortized over the life of the loan. But it is permissible to deduct on the 2018 return the portion of all points paid that correspond with the percentage of refinancing used for home improvements.

- Gifts to charity (lines 11 to 14). Line 16: For gifts you made in 2018, there must be written acknowledgments from the charity of any single gifts of $250 or more and for all gifts of cash.

Line 12: Deduct charitable mileage for any volunteer work at the rate of 14 cents a mile.
Schedule C (C-EZ)

Nearly every minister should file Schedule C or Schedule C-EZ. While a minister should receive Form W-2 for employment compensation and report the amount in Box 1 of Form W-2 on Form 1040, line 1, most ministers have some income from honoraria or fees related to weddings or funerals. Additionally, a minister may have speaking fees unrelated to the employer, product royalties, and other self-employment income reportable on Schedule C (C-EZ).

Only expenses related to the income reported on Schedule C (C-EZ) may be deducted on the form. For example, if a minister received honoraria of $500 for speaking at a church other than where employed, the $500 is reported on Schedule C (C-EZ) and the travel and other expenses related to the speaking engagement are deductible on the form. Expenses related to a minister’s primary employment (compensation that was reported on Form W-2) is no longer deductible. This highlights the importance of churches adopting an accountable expense reimbursement policy. If using Schedule C-EZ, reflect the data as follows:

- **Gross receipts. Line 1:** Include income from honoraria, fees, product royalties, and other income earned as an independent contractor.
- **Total expenses. Line 2:** Only include business expenses related to the income on line 1.

Schedule SE

Most ministers will need to file Schedule SE to report income subject to self-employment taxes. Most frequently, a minister will be able to utilize the short-form (page 1 of the form), but the decision matrix at the top of the form will indicate if a minister may need to utilize the long form (page 2 of the form).

When computing the self-employment tax, net earnings include the gross income earned from performing qualified services minus the deductions related to that income. See Self-Employment Social Security Tax Worksheet on pages 52 and 68.

Form 2441

If the minister paid someone to care for his or her child or other qualifying person so he or she (and spouse, if filing a joint return) could work or look for work in 2018, the minister may be able to take the credit for child and dependent care expenses.

- **Qualifying person (Line 2[a]).** A qualifying person is any child under age 13 who can be claimed as a dependent. If the child turned 13 during the year, the child is a qualifying person for the part of the year he or she was under age 13.

- **Qualified expenses (Line 2[c]).** These include amounts paid for household services and care of the qualifying person while the taxpayer worked or looked for work. Child support payments are not qualified expenses. Household services include the services of a cook, maid, babysitter, housekeeper, or cleaning person if the services were partly for the care of the qualifying person.
Form 8863

Education credits may be taken if the minister, spouse, or a dependent claimed on the taxpayer’s return was a student enrolled at or attending an eligible educational institution.

- **American Opportunity Credit (Part I).** The minister may be able to take a credit of up to $2,500 for qualified expenses paid in 2018 for each student who qualifies for the credit (see instructions for Form 8863).

- **Lifetime learning credit (Part II).** The maximum lifetime learning credit for 2018 is $2,000, regardless of the number of students. The lifetime learning credit cannot be taken for any student for whom the American Opportunity Credit is being taken.

- **Qualified expenses (worksheet in form instructions).** Generally, qualified expenses are amounts paid in 2018 for tuition and fees required for the student’s enrollment or attendance at an eligible educational institution. Qualified expenses do not include amounts paid for room and board, insurance, medical expenses, transportation, or course-related books, supplies, and equipment.

Form 8889

The minister may be required to file Form 8889 if he or she participated in a Health Savings Account (HSA) in 2018.

- **HSA distributions (Line 14).** Amounts withdrawn from the HSA in 2018 are reflected on this line. There is generally no tax impact of HSA withdrawals unless they exceed unreimbursed medical expenses.

- **Unreimbursed medical expenses (Line 15).** Medical expenses that were not reimbursed by your medical insurance may generally be included on this line.

Form 8962

The premium tax credit is for those that were enrolled in health insurance through a state marketplace. The credit provides financial assistance to pay the premiums. This form reconciles whether there is a refund owed to a taxpayer or whether the taxpayer owes additional taxes related to an advance payment of the premium tax credit. There is an example of this form in use on page 67, which includes an excess advance payment of the premium tax credit.

- **Part I.** This section determines the annual contribution amount one is required to pay out of pocket.

- **Part II.** This section reconciles how much one has paid based on Form 1095-A and how much should be paid based on actual income as determined in Part I.

- **Part III.** This section is used to determine any necessary repayment of excess advance payment of a premium tax credit.

- **Parts IV & V.** Use these parts to make allocations as it may relate to divorces, married filing separately, marriages, or where a policy is shared between two tax families. See the Instructions to 8962 for further details.
Sample Return No. 1

Accountable expense reimbursement plan
Minister owns residence
Pays federal taxes through voluntary withholding
Church reimbursed nonqualifying moving expenses

Minister considered to be an employee for income tax purposes with an accountable business expense plan.

The Browns live in a home they are personally purchasing. Pastor Brown has entered into a voluntary withholding agreement with the church, and $12,000 of federal income taxes are withheld.

Income, Benefits, and Reimbursements:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Church salary</td>
<td>$64,850</td>
</tr>
<tr>
<td>Christmas and other special occasion gifts paid by the church based on designated member-gifts to the church</td>
<td>750</td>
</tr>
<tr>
<td>Honoraria for performing weddings, funerals, and baptisms</td>
<td>650</td>
</tr>
<tr>
<td>Honorarium for speaking at another church</td>
<td>1,000</td>
</tr>
<tr>
<td>Reimbursement of self-employment tax</td>
<td>12,000</td>
</tr>
<tr>
<td>Moving expenses reimbursed</td>
<td>6,750</td>
</tr>
<tr>
<td>Church-related expenses were reimbursed to Pastor Brown under an accountable expense reimbursement plan</td>
<td>7,593</td>
</tr>
</tbody>
</table>

Housing fair rental value test applied

Business Expenses, Itemized Deductions, Housing, and Other Data:

100% of church-related expenses (including 9,412 business miles) paid personally were reimbursed by the church under an accountable expense plan, based on timely substantiation of the expenses.

Expenses related to honoraria income:
- Parking and tolls: $50
- Travel: $912 x 54.5¢ per mile = $497
- Other: $200

Potential itemized deductions:
- Unreimbursed doctors, dentists, and drugs: $1,500
- State and local income taxes:
  - 2017 taxes paid in 2018: $400
  - Withheld from salary: $1,600
  - Real estate taxes on home: $1,000
  - Home mortgage interest: $14,850
- Cash contributions: $8,200
- Noncash contributions – household furniture/fair market value: $266
- Student loan interest: $1,906

Housing data:
- Designation: $26,000
- Actual expenses: $25,625
- Fair rental value including utilities: $25,000

403(b) pre-tax contributions for Pastor Brown:
- Voluntary employee contributions made under a salary reduction agreement: $500
- Nonvoluntary employer contributions: $2,000
Line 1 – See page 53 for the calculation of the excess housing allowance.
### Additional Income and Adjustments to Income

**Name(s) shown on Form 1040:**
Milton L. Brown

<table>
<thead>
<tr>
<th>Line</th>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>10</td>
<td>Taxable refunds, credits, or offsets of state and local income taxes</td>
<td>10</td>
</tr>
<tr>
<td>11</td>
<td>Alimony received</td>
<td>11</td>
</tr>
<tr>
<td>12</td>
<td>Business income or (loss). Attach Schedule C or C-EZ</td>
<td>1,120</td>
</tr>
<tr>
<td>13</td>
<td>Capital gain or (loss). Attach Schedule D if required. If not required, check here</td>
<td>13</td>
</tr>
<tr>
<td>14</td>
<td>Other gains or (losses). Attach Form 4797</td>
<td>14</td>
</tr>
<tr>
<td>15a</td>
<td>Reserved</td>
<td>15a</td>
</tr>
<tr>
<td>16a</td>
<td>Reserved</td>
<td>16a</td>
</tr>
<tr>
<td>17</td>
<td>Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E</td>
<td>17</td>
</tr>
<tr>
<td>18</td>
<td>Farm income or (loss). Attach Schedule F</td>
<td>18</td>
</tr>
<tr>
<td>19</td>
<td>Unemployment compensation</td>
<td>19</td>
</tr>
<tr>
<td>20a</td>
<td>Reserved</td>
<td>20a</td>
</tr>
<tr>
<td>21</td>
<td>Other income. List type and amount</td>
<td>21</td>
</tr>
<tr>
<td>22</td>
<td>Combine the amounts in the far right column. If you don’t have any adjustments to income, enter here and include on Form 1040, line 6. Otherwise, go to line 23</td>
<td>1,120</td>
</tr>
</tbody>
</table>

**Adjustments to Income**

<table>
<thead>
<tr>
<th>Line</th>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>23</td>
<td>Educator expenses</td>
<td>23</td>
</tr>
<tr>
<td>24</td>
<td>Certain business expenses of reservists, performing artists, and fee-based government officials. Attach Form 2106</td>
<td>24</td>
</tr>
<tr>
<td>25</td>
<td>Health savings account deduction. Attach Form 8899</td>
<td>25</td>
</tr>
<tr>
<td>26</td>
<td>Moving expenses for members of the Armed Forces. Attach Form 3903</td>
<td>26</td>
</tr>
<tr>
<td>27</td>
<td>Deductible part of self-employment tax. Attach Schedule SE</td>
<td>5,988</td>
</tr>
<tr>
<td>28</td>
<td>Self-employed SEP, SIMPLE, and qualified plans</td>
<td>28</td>
</tr>
<tr>
<td>29</td>
<td>Self-employed health insurance deduction</td>
<td>29</td>
</tr>
<tr>
<td>30</td>
<td>Penalty on early withdrawal of savings</td>
<td>30</td>
</tr>
<tr>
<td>31a</td>
<td>Alimony paid Recipient’s SSN</td>
<td>31a</td>
</tr>
<tr>
<td>32</td>
<td>IRA deduction</td>
<td>32</td>
</tr>
<tr>
<td>33</td>
<td>Student loan interest deduction</td>
<td>33</td>
</tr>
<tr>
<td>34</td>
<td>Reserved</td>
<td>34</td>
</tr>
<tr>
<td>35</td>
<td>Reserved</td>
<td>35</td>
</tr>
<tr>
<td>36</td>
<td>Add lines 23 through 35</td>
<td>7,994</td>
</tr>
</tbody>
</table>

Line 27 – See page 33 for the explanation of the self-employment tax deduction.
<table>
<thead>
<tr>
<th>Other Taxes</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>57  Self-employment tax. Attach Schedule SE</td>
<td>57</td>
</tr>
<tr>
<td>58  Unreported social security and Medicare tax from: Form a □ 4137  b □ 8919</td>
<td>58</td>
</tr>
<tr>
<td>59  Additional tax on IRAs, other qualified retirement plans, and other tax-favored accounts. Attach Form 5329 if required</td>
<td>59</td>
</tr>
<tr>
<td>60a Household employment taxes. Attach Schedule H</td>
<td>60a</td>
</tr>
<tr>
<td>60b Repayment of first-time homebuyer credit from Form 5405, Attach Form 5405 if required</td>
<td>60b</td>
</tr>
<tr>
<td>61  Health care: individual responsibility (see instructions)</td>
<td>61</td>
</tr>
<tr>
<td>62  Taxes from: a □ Form 8959  b □ Form 8960</td>
<td>62</td>
</tr>
<tr>
<td>63  Section 965 net tax liability installment from Form 965-A</td>
<td>63</td>
</tr>
<tr>
<td>64  Add the amounts in the far right column. These are your total other taxes</td>
<td>64</td>
</tr>
</tbody>
</table>

For Paperwork Reduction Act Notice, see your tax return instructions.
### Itemized Deductions

**Milton L. Brown**

**Social Security Number:** 541-16-8194

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Medical and Dental Expenses</strong></td>
<td>1,500</td>
</tr>
<tr>
<td><strong>Taxes You Paid</strong></td>
<td></td>
</tr>
<tr>
<td>State and local taxes</td>
<td></td>
</tr>
<tr>
<td>- State and local income taxes or general sales taxes; Include income taxes</td>
<td>2,000</td>
</tr>
<tr>
<td>- Enter smaller of line 5d and $10,000 ($5,000 if married filing separately)</td>
<td>3,000</td>
</tr>
<tr>
<td><strong>Interest You Paid</strong></td>
<td></td>
</tr>
<tr>
<td>Home mortgage interest and points; If you didn't use all of your</td>
<td></td>
</tr>
<tr>
<td>home mortgage loan(s) to buy, build, or improve your home, see instructions</td>
<td></td>
</tr>
<tr>
<td>- Home mortgage interest and points reported to you on Form 1098</td>
<td>14,850</td>
</tr>
<tr>
<td><strong>Gifts to Charity</strong></td>
<td></td>
</tr>
<tr>
<td>Gifts by cash or check; if you made any gift of $250 or more, see</td>
<td>8,200</td>
</tr>
<tr>
<td>instructions</td>
<td></td>
</tr>
<tr>
<td><strong>Casualty and Theft Losses</strong></td>
<td></td>
</tr>
<tr>
<td>Casualty and theft losses(s) from a federally declared disaster (other than</td>
<td>8,466</td>
</tr>
<tr>
<td>net qualified disaster losses; Attach Form 4684 and enter the amount from</td>
<td></td>
</tr>
<tr>
<td>line 16 of that form; See instructions</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
</tr>
<tr>
<td>Add the amounts in the far right column for lines 4 through 10. Also, enter</td>
<td>26,316</td>
</tr>
<tr>
<td>this amount on Form 1040, line 8</td>
<td></td>
</tr>
</tbody>
</table>

For Paperwork Reduction Act Notice, see the Instructions for Form 1040.
Nearly every minister receives honoraria and fee income with related expenses that are reportable on Schedule C (C-EZ).
Line 2 – See Attachment 2 on page 52.

Line 4 – This line results in the deduction of a portion of the self-employment tax liability.

A minister must use Section B–Long Schedule if he or she received nonministerial wages (subject to FICA) and the total of these wages and net ministerial self-employment earnings (W-2 and Schedule C [C-EZ]-related) is more than $128,400.

The Long Schedule is shown here for illustrative purposes.
Credit for Qualified Retirement Savings Contributions

**Form 8880**

**Department of the Treasury**

**Internal Revenue Service**

**You cannot take this credit if either of the following applies.**

- The amount on Form 1040, line 7 or Form 1040NR, line 36 is more than $31,500 ($47,250 if head of household; $63,000 if married filing jointly).
- The person(s) who made the qualified contribution or elective deferral (a) was born after January 1, 2001; (b) is claimed as a dependent on someone else’s 2018 tax return; or (c) was a student (see instructions).

<table>
<thead>
<tr>
<th></th>
<th>(a) You</th>
<th>(b) Your spouse</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Traditional and Roth IRA contributions, and ABLE account contributions by the designated beneficiary for 2018. Do not include rollover contributions.</td>
<td>1</td>
</tr>
<tr>
<td>2</td>
<td>Elective deferrals to a 401(k) or other qualified employer plan, voluntary employee contributions, and 501(c)(18)(D) plan contributions for 2018 (see instructions)</td>
<td>2</td>
</tr>
<tr>
<td>3</td>
<td>Add lines 1 and 2</td>
<td>3</td>
</tr>
<tr>
<td>4</td>
<td>Certain distributions received after 2015 and before the due date (including extensions) of your 2018 tax return (see instructions). If married filing jointly, include both spouses’ amounts in both columns. See instructions for an exception.</td>
<td>4</td>
</tr>
<tr>
<td>5</td>
<td>Subtract line 4 from line 3. If zero or less, enter -0-</td>
<td>5</td>
</tr>
<tr>
<td>6</td>
<td>In each column, enter the smaller of line 5 or $2,000</td>
<td>6</td>
</tr>
<tr>
<td>7</td>
<td>Add the amounts on line 6. If zero, stop; you can’t take this credit.</td>
<td>7</td>
</tr>
<tr>
<td>8</td>
<td>Enter the amount from Form 1040, line 7* or Form 1040NR, line 36</td>
<td>8</td>
</tr>
<tr>
<td>9</td>
<td>Enter the applicable decimal amount shown below.</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>If line 8 is—</th>
<th>And your filing status is—</th>
</tr>
</thead>
<tbody>
<tr>
<td>Over—</td>
<td>But not over—</td>
</tr>
<tr>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td>$19,000</td>
<td>$19,000</td>
</tr>
<tr>
<td>$20,000</td>
<td>$20,500</td>
</tr>
<tr>
<td>$28,500</td>
<td>$30,750</td>
</tr>
<tr>
<td>$30,750</td>
<td>$31,500</td>
</tr>
<tr>
<td>$31,500</td>
<td>$36,000</td>
</tr>
<tr>
<td>$40,000</td>
<td>$41,000</td>
</tr>
<tr>
<td>$41,000</td>
<td>$47,250</td>
</tr>
<tr>
<td>$47,250</td>
<td>$63,000</td>
</tr>
<tr>
<td>$63,000</td>
<td>---</td>
</tr>
</tbody>
</table>

Note: If line 9 is zero, stop; you can’t take this credit.

10 | Multiply line 7 by line 9 | 10 | 50 |
11 | Limitation based on tax liability. Enter the amount from the Credit Limit Worksheet in the instructions | 11 | 2,682 |
12 | Credit for qualified retirement savings contributions. Enter the smaller of line 10 or line 11 here and on Schedule 3 (Form 1040), line 51; or Form 1040NR, line 48 | 12 | 50 |

* See Pub. 590-A for the amount to enter if you claim any exclusion or deduction for foreign earned income, foreign housing, or income from Puerto Rico or for bona fide residents of American Samoa.

For Paperwork Reduction Act Notice, see your tax return instructions.
Attachment 1.
Computation of expenses, allocatable to tax-free ministerial income, that are nondeductible.

<table>
<thead>
<tr>
<th>Description</th>
<th>Taxable</th>
<th>Tax-Free</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salary as a minister</td>
<td>$ 57,850</td>
<td>$ 57,850</td>
<td></td>
</tr>
<tr>
<td>Housing allowance:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Amount designated and paid by church</td>
<td>$ 26,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Actual expenses</td>
<td>25,625</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fair rental value of home (including furnishings and utilities)</td>
<td>25,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Taxable portion of allowance (excess of amount designated &amp; paid over</td>
<td></td>
<td>1,000</td>
<td>1,000</td>
</tr>
<tr>
<td>lesser of actual expenses or fair rental value)</td>
<td>$</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tax-free portion of allowance (lesser of amount designated, actual expenses, or fair rental value)</td>
<td>25,000</td>
<td>25,000</td>
<td></td>
</tr>
<tr>
<td>Gross income from weddings, baptisms, and honoraria</td>
<td>1,650</td>
<td></td>
<td>1,650</td>
</tr>
<tr>
<td>Ministerial Income</td>
<td>$ 60,500</td>
<td>$ 25,000</td>
<td>$ 85,500</td>
</tr>
</tbody>
</table>

% of nondeductible expenses: $25,000/$85,500 = 29%

Schedule C-EZ Deduction Computation

<table>
<thead>
<tr>
<th>Description</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Parking and tolls</td>
<td>$ 50</td>
</tr>
<tr>
<td>Other</td>
<td>200</td>
</tr>
<tr>
<td>Mileage (912 miles x 54.5 cents per mile)</td>
<td>497</td>
</tr>
<tr>
<td>Unadjusted Schedule C-EZ expenses</td>
<td>747</td>
</tr>
<tr>
<td>Minus:</td>
<td></td>
</tr>
<tr>
<td>Nondeductible part of Schedule C-EZ expenses (29% x $747)</td>
<td>217</td>
</tr>
<tr>
<td>Schedule C-EZ deductions (line 2) (See page 150)</td>
<td>$ 530</td>
</tr>
</tbody>
</table>

Attachment 2.
Net earnings from self-employment (attachment to Schedule SE, Form 1040)

<table>
<thead>
<tr>
<th>Description</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Church wages</td>
<td>$ 57,850</td>
</tr>
<tr>
<td>Housing allowance</td>
<td>26,000</td>
</tr>
<tr>
<td>Net profit from Schedule C-EZ</td>
<td>1,120</td>
</tr>
<tr>
<td></td>
<td>84,970</td>
</tr>
<tr>
<td>Less:</td>
<td></td>
</tr>
<tr>
<td>Schedule C-EZ expenses allocable to tax-free income</td>
<td>(217)</td>
</tr>
<tr>
<td>Net Self-Employed Income</td>
<td></td>
</tr>
<tr>
<td>Schedule SE, Section A, line 2 (See page 50)</td>
<td>$ 84,753</td>
</tr>
</tbody>
</table>
### Housing Allowance Worksheet

**Minister-Owned Home**

Name: _______________________________

For the period ______________, 2018 to ______________, 2018

Date designation approved ______________, 2017

#### Allowable Housing Expenses (expenses paid from current income)

<table>
<thead>
<tr>
<th>Estimated Expenses</th>
<th>Actual</th>
</tr>
</thead>
<tbody>
<tr>
<td>Down payment on purchase of housing</td>
<td>$ __________</td>
</tr>
<tr>
<td>Housing loan principal and interest payments</td>
<td>$ 18,117</td>
</tr>
<tr>
<td>Real estate commission, escrow fees</td>
<td>$ __________</td>
</tr>
<tr>
<td>Real property taxes</td>
<td>$ 900</td>
</tr>
<tr>
<td>Personal property taxes on contents</td>
<td>$ __________</td>
</tr>
<tr>
<td>Homeowner’s insurance</td>
<td>$ 500</td>
</tr>
<tr>
<td>Personal property insurance on contents</td>
<td>$ 150</td>
</tr>
<tr>
<td>Umbrella liability insurance</td>
<td>$ 100</td>
</tr>
<tr>
<td>Structural maintenance and repair</td>
<td>$ __________</td>
</tr>
<tr>
<td>Landscaping, gardening, and pest control</td>
<td>$ __________</td>
</tr>
<tr>
<td>Furnishings (purchase, repair, replacement)</td>
<td>$ __________</td>
</tr>
<tr>
<td>Decoration and redecoration</td>
<td>$ __________</td>
</tr>
<tr>
<td>Utilities (gas, electricity, water) and trash collection</td>
<td>$ 3,500</td>
</tr>
<tr>
<td>Local telephone expense (base charge)</td>
<td>$ 150</td>
</tr>
<tr>
<td>Homeowner’s association dues/condominium fees</td>
<td>$ 219</td>
</tr>
</tbody>
</table>

**Subtotal**

$ 23,636

10% allowance for unexpected expenses

$ 2,364

**TOTAL**

$ 26,000  $ 25,625 (A)

Properly designated housing allowance

$ 26,000 (B)

Fair rental value of home, including furnishings, plus utilities

$ 25,000 (C)

**Note:** The amount excludable from income for federal income tax purposes is the lowest of A, B, or C.

The $1,000 difference between the designation ($26,000) and the fair rental value ($25,000) is reported as additional income on Form 1040, page 2, line 1.
Pastor Brown received reimbursements of $7,593 under an accountable expense reimbursement plan. The reimbursements are not included on Form W-2 or deductible on Form 1040. There is no requirement to add the reimbursements to income taxable for social security purposes on Schedule SE.
Sample Return No. 2

Minister considered to be an employee for income tax purposes with a nonaccountable business expense plan.

The Halls live in church-provided housing.

Income, Benefits, and Reimbursements:
- Church salary – Donald: $11,000
- Salary – Julie (W-2 not shown)/Federal withholding of $250: $13,350
- Christmas and other special occasion gifts paid by the church based on designated member-gifts to the church: $500
- Honoraria for performing weddings, funerals, baptisms, and outside speaking engagements: $5,200
- Interest income (taxable): $750
- Reimbursement of self-employment tax: $2,100
- Business expense allowance (no accounting provided to church): $1,700

Note: Estimated $24,500 in income for health insurance exchange subsidy at the beginning of year/Form 1095-A reports $12,153 on lines 33A and 33B, and $11,653 on line 33C.

Business Expenses, Itemized Deductions, 403(b) Contributions, Housing Data, and Moving Expense Data:
- Church-related expenses paid personally:
  - Business use of personally owned auto (W-2 related): 7,860 miles
  - Personal nondeductible commuting: 2,432 miles

Seminar expenses:
- Airfare: $675
- Lodging: $334
- Subscriptions: $200
- Books (less than one-year life): $100
- Supplies: $803
- Continuing education tuition (related to church employment): $500

Travel expense related to honoraria (Schedule C-EZ):
- Airfare: $2,042
- Business use of personally owned auto: 2,297 miles x 54.5¢ per mile = $1,252
- Lodging: $400
- Supplies: $700

Potential itemized deductions:
- Unreimbursed doctors, dentists, and drugs: $3,050
- State and local income taxes: $460
- Personal property taxes: $300
- Cash contributions: $3,310

Housing data:
- Designation: $2,000
- Actual expenses: $1,000
- Fair rental value, including furnishings and utilities: $11,150

403(b) pre-tax contributions for Pastor Hall:
- Voluntary employee contributions made under a salary reduction agreement: $500
Line 7 – Julie’s W-2, $9,150, Donald’s W-2, $12,800 (see page 70), plus $1,000 of excess housing allowance (see page 69).
### SCHEDULE 1
(Form 1040)

#### Additional Income and Adjustments to Income

- **Name(s) shown on Form 1040:** Donald L. Hall
- **Your social security number:** 482 11 6043

<table>
<thead>
<tr>
<th>Additional Income</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1-9b Reserved</td>
<td></td>
</tr>
<tr>
<td>10 Taxable refunds, credits, or offsets of state and local income taxes</td>
<td>10</td>
</tr>
<tr>
<td>11 Alimony received</td>
<td>11</td>
</tr>
<tr>
<td>12 Capital gain or (loss). Attach Schedule D if required. If not required, check here</td>
<td>12</td>
</tr>
<tr>
<td>13 Other gains or (losses). Attach Form 4797</td>
<td>13</td>
</tr>
<tr>
<td>15a Reserved</td>
<td>15b</td>
</tr>
<tr>
<td>16a Reserved</td>
<td>16b</td>
</tr>
<tr>
<td>17 Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E</td>
<td>17</td>
</tr>
<tr>
<td>18 Farm income or (loss). Attach Schedule F</td>
<td>18</td>
</tr>
<tr>
<td>19 Unemployment compensation</td>
<td>19</td>
</tr>
<tr>
<td>20a Reserved</td>
<td>20b</td>
</tr>
<tr>
<td>21 Other income. List type and amount</td>
<td>21</td>
</tr>
<tr>
<td>22 Combine the amounts in the far right column. If you don’t have any adjustments to income, enter here and include on Form 1040, line 5. Otherwise, go to line 23.</td>
<td>22</td>
</tr>
<tr>
<td>23 Educator expenses</td>
<td>23</td>
</tr>
<tr>
<td>24 Certain business expenses of reservists, performing artists, and fee-basis government officials. Attach Form 2106</td>
<td>24</td>
</tr>
<tr>
<td>25 Health savings account deduction. Attach Form 8889</td>
<td>25</td>
</tr>
<tr>
<td>26 Moving expenses for members of the Armed Forces. Attach Form 3903</td>
<td>26</td>
</tr>
<tr>
<td>27 Deductible part of self-employment tax. Attach Schedule SE</td>
<td>27</td>
</tr>
<tr>
<td>28 Self-employed SEP, SIMPLE, and qualified plans</td>
<td>28</td>
</tr>
<tr>
<td>29 Self-employed health insurance deduction</td>
<td>29</td>
</tr>
<tr>
<td>30 Penalty on early withdrawal of savings</td>
<td>30</td>
</tr>
<tr>
<td>31a Alimony paid</td>
<td>31a</td>
</tr>
<tr>
<td>32 IRA deduction</td>
<td>32</td>
</tr>
<tr>
<td>33 Student loan interest deduction</td>
<td>33</td>
</tr>
<tr>
<td>34 Reserved</td>
<td>34</td>
</tr>
<tr>
<td>35 Reserved</td>
<td>35</td>
</tr>
<tr>
<td>36 Add lines 23 through 35</td>
<td>36</td>
</tr>
</tbody>
</table>

For Paperwork Reduction Act Notice, see your tax return instructions. 
Cat. No. 71499F 
Schedule 1 (Form 1040) 2018

### SCHEDULE 2
(Form 1040)

#### Tax

- **Name(s) shown on Form 1040:** Donald L. Hall
- **Your social security number:** 482 11 6043

<table>
<thead>
<tr>
<th>Tax</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>36-44 Reserved</td>
<td>36-44</td>
</tr>
<tr>
<td>45 Alternative minimum tax. Attach Form 6251</td>
<td>45</td>
</tr>
<tr>
<td>46 Excess advance premium tax credit repayment. Attach Form 6962</td>
<td>46</td>
</tr>
<tr>
<td>47 Add the amounts in the far right column. Enter here and include on Form 1040, line 11</td>
<td>47</td>
</tr>
</tbody>
</table>

For Paperwork Reduction Act Notice, see your tax return instructions. 
Cat. No. 71499U 
Schedule 2 (Form 1040) 2018
Computation of expenses related to honoraria/page 59

<table>
<thead>
<tr>
<th>Item</th>
<th>Deductible</th>
<th>Nondeductible</th>
</tr>
</thead>
<tbody>
<tr>
<td>Airfare</td>
<td>$2,042</td>
<td>796</td>
</tr>
<tr>
<td>Auto</td>
<td>2,297 x .545</td>
<td>489</td>
</tr>
<tr>
<td>Lodging</td>
<td>400 x 61%</td>
<td>156</td>
</tr>
<tr>
<td>Supplies</td>
<td>700 x 61%</td>
<td>273</td>
</tr>
</tbody>
</table>

Total: $4,394 x 61% = 2,680

For Paperwork Reduction Act Notice, see your tax return instructions.
(1) Expenses have been reduced by 39% as allocable to tax-free income (see page 68 for percentage). Most ministers are employees for income tax purposes (with that income reported on line 1, Form 1040, page 2) and also have honoraria and fee income and related expenses that are reportable on Schedule C (C-EZ). For an explanation of expenses related to the honoraria in this sample return, see page 58.
Line 2 – See the schedule on page 68 for the calculation of this amount.

Line 4 – This line results in the deduction of a portion of the self-employment tax liability.

A minister may use Section A-Short Schedule unless he received nonministerial wages (subject to FICA) and the total of these wages and net ministerial self-employment earnings (W-2 and Schedule C-related) is more than $128,400.
If you are eligible for the Earned Income Credit, you must file page 1 of Schedule EIC if you have a qualifying child. Compute your credit on Worksheet B found in the IRS instruction booklet.

**Before you begin:**

- You can't claim the EIC for a child who didn't live with you for more than half of the year.
- If you take the EIC even though you are not eligible, you may not be able to take the credit for up to 10 years. See the instructions for details.
- It will take us longer to process your return and issue your refund if you don't fill in all lines that apply for each qualifying child.

---

### Qualifying Child Information

<table>
<thead>
<tr>
<th>Child 1</th>
<th>Child 2</th>
<th>Child 3</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Child's name</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>David K.</td>
<td>Sarah E.</td>
<td></td>
</tr>
<tr>
<td><strong>Child's SSN</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>514-42-7465</td>
<td>416-49-9125</td>
<td></td>
</tr>
</tbody>
</table>

---

5. **Child's relationship to you**

- Son
- Daughter

---

6. **Number of months child lived with you in the United States during 2018**

- If the child lived with you for more than half of 2018 but less than 7 months, enter "7."
- If the child was born or died in 2018 and your home was the child's home for more than half the time he or she was alive during 2018, enter "12."
- 12 months: Do not enter more than 12 months.
- 12 months: Do not enter more than 12 months.
- 12 months: Do not enter more than 12 months.
Worksheet B—2018 EIC—Line 17a

Use this worksheet if you answered “Yes” to Step 5, question 2.

\( \checkmark \) Complete the parts below (Parts 1 through 3) that apply to you. Then, continue to Part 4.

\( \checkmark \) If you are married filing a joint return, include your spouse’s amounts, if any, with yours to figure the amounts to enter in Parts 1 through 3.

### Part 1

**Self-Employed, Members of the Clergy, and People With Church Employee Income Filing Schedule SE**

<table>
<thead>
<tr>
<th>Line</th>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1a</td>
<td>Enter the amount from Schedule SE, Section A, line 3, or Section B, line 3, whichever applies.</td>
<td>33,210</td>
</tr>
<tr>
<td>1b</td>
<td>Enter any amount from Schedule SE, Section B, line 4b, and line 5a.</td>
<td>+</td>
</tr>
<tr>
<td>1c</td>
<td>Combine lines 1a and 1b.</td>
<td>=</td>
</tr>
<tr>
<td>1d</td>
<td>Enter the amount from Schedule SE, Section A, line 6, or Section B, line 13, whichever applies.</td>
<td>-</td>
</tr>
<tr>
<td>1e</td>
<td>Subtract line 1d from 1c.</td>
<td>=</td>
</tr>
</tbody>
</table>

\[ \text{Total: } 1e = 31,807 \]

### Part 2

Self-Employed NOT Required To File Schedule SE

For example, your net earnings from self-employment were less than $400.

2. Don’t include on these lines any statutory employee income, any net profit from services performed as a notary public, any amount exempt from self-employment tax as the result of the filing and approval of Form 4029 or Form 4361, or any other amounts exempt from self-employment tax.

<table>
<thead>
<tr>
<th>Line</th>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>2a</td>
<td>Enter any net farm profit or (loss) from Schedule F, line 34, and from farm partnerships, Schedule K-1 (Form 1065), box 14, code A*.</td>
<td></td>
</tr>
<tr>
<td>2b</td>
<td>Enter any net profit or (loss) from Schedule C, line 31; Schedule C-EZ, line 3; and Schedule K-1 (Form 1065), box 14, code A (other than farming)*.</td>
<td>+</td>
</tr>
<tr>
<td>2c</td>
<td>Combine lines 2a and 2b.</td>
<td>=</td>
</tr>
</tbody>
</table>

\[ \text{Total: } 2c \]

*If you have any Schedule K-1 amounts, complete the appropriate line(s) of Schedule SE, Section A. Reduce the Schedule K-1 amounts as described in the Partner’s Instructions for Schedule K-1. Enter your name and social security number on Schedule SE and attach it to your return.

### Part 3

**Statutory Employees Filing Schedule C or C-EZ**

3. Enter the amount from Schedule C, line 1, or Schedule C-EZ, line 1, that you are filing as a statutory employee.

\[ \text{Total: } 3 \]

### Part 4

**All Filers Using Worksheet B**

Note: If line 4b includes income on which you should have paid self-employment tax but didn’t, we may reduce your credit by the amount of self-employment tax not paid.

4a. Enter your earned income from Step 5.

\[ \text{Total: } 4a \]

4b. Combine lines 1e, 2c, 3, and 4a. This is your total earned income.

\[ \text{Total: } 4b = 31,807 \]

5. If you have:
   - 3 or more qualifying children, is line 4b less than $49,194 ($54,884 if married filing jointly)?
   - 2 qualifying children, is line 4b less than $45,802 ($51,492 if married filing jointly)?
   - 1 qualifying child, is line 4b less than $40,320 ($46,010 if married filing jointly)?
   - No qualifying children, is line 4b less than $15,270 ($20,950 if married filing jointly)?

**Yes.** If you want the IRS to figure your credit, see Credit figured by the IRS, earlier. If you want to figure the credit yourself, enter the amount from line 4b on line 6 of this worksheet.

**No.** You can’t take the credit. Enter “No” in the space to the left of Form 1040, line 17.

---

Included on Line 1a: Julie Hall’s salary $13,350
Schedule SE income 19,860
$33,210

Worksheet B is found in the IRS instruction booklet. Complete this worksheet whether or not you have a qualifying child.
### Part 5

**All Filers Using Worksheet B**

6. Enter your total earned income from Part 4, line 4b.  
   6. 31,807

7. Look up the amount on line 6 above in the EIC Table to find the credit. Be sure you use the correct column for your filing status and the number of children you have. Enter the credit here.

   If line 7 is zero, **STOP** You can’t take the credit.
   Enter “No” in the space to the left of Form 1040, line 17.
   7. 4,142

8. Enter the amount from Form 1040, line 7.  
   8. 29,017

9. Are the amounts on lines 8 and 6 the same?  
   - [ ] Yes. Skip line 10; enter the amount from line 7 on line 11.  
   - [x] No. Go to line 10.

### Part 6

**Filers Who Answered “No” on Line 9**

10. If you have:  
   - [ ] No qualifying children, is the amount on line 8 less than $8,590 ($14,200 if married filing jointly)?  
   - [x] 1 or more qualifying children, is the amount on line 8 less than $18,700 ($24,350 if married filing jointly)?  

   - [ ] Yes. Leave line 10 blank; enter the amount from line 7 on line 11.
   - [x] No. Look up the amount on line 8 in the EIC Table to find the credit. Be sure you use the correct column for your filing status and the number of children you have. Enter the credit here.

   Look at the amounts on lines 10 and 7.  
   Then, enter the smaller amount on line 11.  
   10. 4,731

### Part 7

**Your Earned Income Credit**

11. **This is your earned income credit.**

   **Reminder**—  
   ✓ If you have a qualifying child, complete and attach Schedule EIC.

   ![Schedule EIC]

   ![Form 1040]

   **CAUTION**  
   If your EIC for a year after 1996 was reduced or disallowed, see Form 8862, who must file, earlier, to find out if you must file Form 8862 to take the credit for 2018.

   **Enter this amount on Form 1040, line 17a.**
Line 4 – Earned income from EIC Worksheet B, line 46 (plus nontaxable combat pay), less the rental value of a home or the nontaxable portion of an allowance for a furnished home (per Form 8812 instructions)
### 2018 Child Tax Credit and Credit for Other Dependents

**Worksheet—Continued**

**Before you begin Part 2:** / Figure the amount of any credits you are claiming on Schedule 3; Form 5695, Part II*; Form 8910; Form 8936; or Schedule R.

<table>
<thead>
<tr>
<th>Part 2</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>9. Enter the amount from Form 1040, line 11.</td>
<td>9 536</td>
</tr>
<tr>
<td>10. Add any amounts from:</td>
<td></td>
</tr>
<tr>
<td>Schedule 3, line 48</td>
<td></td>
</tr>
<tr>
<td>Schedule 3, line 49</td>
<td></td>
</tr>
<tr>
<td>Schedule 3, line 50</td>
<td></td>
</tr>
<tr>
<td>Schedule 3, line 51</td>
<td>250</td>
</tr>
<tr>
<td>Form 5695, line 30*</td>
<td></td>
</tr>
<tr>
<td>Form 8910, line 15</td>
<td></td>
</tr>
<tr>
<td>Form 8936, line 23</td>
<td></td>
</tr>
<tr>
<td>Schedule R, line 22</td>
<td></td>
</tr>
<tr>
<td>Enter the total.</td>
<td>10 250</td>
</tr>
</tbody>
</table>

11. Are the amounts on lines 9 and 10 the same?

☐ Yes. 

You can’t take this credit because there is no tax to reduce. However, you may be able to take the additional child tax credit if line 1 is more than zero. See the TIP below.

☐ No. Subtract line 10 from line 9.

12. Is the amount on line 8 more than the amount on line 11?

☐ Yes. Enter the amount from line 11. Also, you may be able to take the additional child tax credit if line 1 is more than zero. See the TIP below.

☐ No. Enter the amount from line 8.

This is your child tax credit and credit for other dependents.

You may be able to take the additional child tax credit on Form 1040, line 17b, if you answered "Yes" on line 11 or line 12 above.

- First, complete your Form 1040 through line 17a (also complete Schedule 5, line 72).
- Then, use Schedule 8812 to figure any additional child tax credit.

CAUTION

If your child tax credit or additional child tax credit for a year after 2015 was reduced or disallowed, see Form 8862, who must file to find out if you must file Form 8862 to take the credit for 2018.

*if applicable.
Credit for Qualified Retirement Savings Contributions

You cannot take this credit if either of the following applies:

- The amount on Form 1040, line 7 or Form 1040NR, line 36 is more than $31,500 ($47,250 if head of household; $63,000 if married filing jointly).
- The person(s) who made the qualified contribution or elective deferral (a) was born after January 1, 2001; (b) is claimed as a dependent on someone else’s 2018 tax return; or (c) was a student (see instructions).

1. Traditional and Roth IRA contributions, and ABLE account contributions by the designated beneficiary for 2018. Do not include rollover contributions.

2. Elective deferrals to a 401(k) or other qualified employer plan, voluntary employee contributions, and 501(c)(18)(D) plan contributions for 2018 (see instructions).

3. Add lines 1 and 2.

4. Certain distributions received after 2015 and before the due date (including extensions) of your 2018 tax return (see instructions). If married filing jointly, include both spouses’ amounts in both columns. See instructions for an exception.

5. Subtract line 4 from line 3. If zero or less, enter 0.

6. In each column, enter the smaller of line 5 or $2,000.

7. Add the amounts on line 6. If zero, stop; you can’t take this credit.

8. Enter the amount from Form 1040, line 7 or Form 1040NR, line 36.

9. Enter the applicable decimal amount shown below.

<table>
<thead>
<tr>
<th>If line 8 is —</th>
<th>And your filing status is —</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Married filing jointly</td>
</tr>
<tr>
<td>$19,000</td>
<td>0.5</td>
</tr>
<tr>
<td>$20,500</td>
<td>0.5</td>
</tr>
<tr>
<td>$28,500</td>
<td>0.5</td>
</tr>
<tr>
<td>$30,750</td>
<td>0.5</td>
</tr>
<tr>
<td>$31,500</td>
<td>0.5</td>
</tr>
<tr>
<td>$38,000</td>
<td>0.2</td>
</tr>
<tr>
<td>$41,000</td>
<td>0.1</td>
</tr>
<tr>
<td>$47,250</td>
<td>0.1</td>
</tr>
<tr>
<td>$63,000</td>
<td>0.0</td>
</tr>
</tbody>
</table>

Note: If line 9 is zero, stop; you can’t take this credit.

10. Multiply line 7 by line 9.

11. Limitation based on tax liability. Enter the amount from the Credit Limit Worksheet in the instructions.

12. Credit for qualified retirement savings contributions. Enter the smaller of line 10 or line 11 here and on Schedule 3 (Form 1040), line 51; or Form 1040NR, line 48.

* See Pub. 590-A for the amount to enter if you claim any exclusion or deduction for foreign earned income, foreign housing, or income from Puerto Rico or for bona fide residents of American Samoa.
Form 8962 | Premium Tax Credit (PTC)

Department of the Treasury
Internal Revenue Service

2018

Attach to Form 1040 or Form 1040NR.
Go to www.irs.gov/Form8962 for instructions and the latest information.

Name shown on return
Donald L. Hall

Your social security number
482-11-6043

You cannot take the PTC if your filing status is married filing separately unless you qualify for an exception (see instructions). If you qualify, check the box.

Part I  Annual and Monthly Contribution Amount

1  Tax family size. Enter your tax family size (see instructions).
   a  2b
2  Modified AGI. Enter your modified AGI (see instructions).
   b  Enter the total of your dependents’ modified AGI (see instructions).
   c  2b
3  Household income. Add the amounts on lines 2a and 2b (see instructions).
   d  29,017
   e  0
   f  29,017
4  Federal poverty line. Enter the federal poverty line amount from Table 1-1, 1-1-3, or 1-2-3 (see instructions). Check the appropriate box for the federal poverty table used.
   g  Hawaii
   h  Other 48 states and DC
5  Household income as a percentage of federal poverty line (see instructions).
   i  117%
6  Did you enter 401% on line 5? (See instructions if you entered less than 100%).
   j  No. Continue to line 7.
   k  Yes. You are not eligible to take the PTC. If advance payment of the PTC was made, see the instructions for how to report your excess advance PTC repayment amount.
   l  0.0201

Part II  Premium Tax Credit Claim and Reconciliation of Advance Payment of Premium Tax Credit

9  Are you allocating policy amounts with another taxpayer or do you want to use the alternative calculation for year of marriage (see instructions)?
   a  Yes. Skip to Part IV, Allocation of Policy Amounts, or Part V, Alternative Calculation for Year of Marriage.
   b  No. Continue to line 10.
10  See the instructions to determine if you can use line 11 or must complete lines 12 through 23.
   c  Yes. Continue to line 11. Compute your annual PTC. Then skip lines 12-23. Compute your monthly PTC and continue to line 24.
   d  No. Continue to lines 12-23. Compute your monthly PTC and continue to line 24.

Annual Calculation

(a) Annual enrollment premiums (Form(s)
1095-A, line 32A)
(b) Annual applicable
SLCP premium (Form(s) 1095-A, line 32B)
(c) Annual contribution amount
(lines a)
(d) Annual maximum premium assistance (subtract c from b, if zero or less, enter -0)
(e) Annual premium tax credit allowed (smaller of a or d)
(f) Annual advance payment of PTC (Form(s)
1095-A, line 32C)

11  Annual Totals
   a  12,153
   b  12,153
   c  583
   d  11,570
   e  11,570
   f  11,653

Monthly Calculation

(e) Monthly enrollment premiums (Form(s)
1095-A, lines 21-32, column A)
(f) Monthly applicable
SLCP premium (Form(s) 1095-A, lines 21-32, column B)
(g) Monthly contribution amount
(amount from line 8b or alternative marriage monthly calculation)
(h) Monthly maximum premium assistance
(subtract c from b, if zero or less, enter -0)
(i) Monthly premium tax credit allowed
(smaller of a or d)
(j) Monthly advance payment of PTC (Form(s)
1095-A, lines 21-32, column C)

12 January
13 February
14 March
15 April
16 May
17 June
18 July
19 August
20 September
21 October
22 November
23 December
24 Total premium tax credit. Enter the amount from line 11(a) or add lines 12(a) through 23(a) and enter the total here
25 Advance payment of PTC. Enter the amount from line 11(f) or add lines 12(f) through 23(f) and enter the total here
26 Net premium tax credit. If line 24 is greater than line 25, subtract line 25 from line 24. Enter the difference here and on Schedule 5 (Form 1040), line 70, or Form 1040NR, line 85. If line 24 equals line 25, enter -0. Stop here. If line 26 is greater than line 24, leave this line blank and continue to line 27.

Part III  Repayment of Excess Advance Payment of the Premium Tax Credit

27 Excess advance payment of PTC. If line 25 is greater than line 24, subtract line 24 from line 25. Enter the difference here
28 Repayment limitation (see instructions)
29 Excess advance premium tax credit repayment. Enter the smaller of line 27 or line 28 here and on Schedule 2
(Firm(s) 1040), line 46, or Form 1040NR, line 44

For Paperwork Reduction Act Notice, see your tax return instructions.

Cat. No. 3784Z

Form 8962 (2018)
Attachment 1.

Computation of expenses, allocatable to tax-free ministerial income, that are nondeductible

<table>
<thead>
<tr>
<th>Description</th>
<th>Taxable</th>
<th>Tax-Free</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salary as a minister (less housing allowance designation and 403(b) contributions)</td>
<td>$ 8,500</td>
<td>$ 8,500</td>
<td></td>
</tr>
<tr>
<td>Special occasion gifts</td>
<td>500</td>
<td>500</td>
<td></td>
</tr>
<tr>
<td>Reimbursement of self-employment tax</td>
<td>2,100</td>
<td>2,100</td>
<td></td>
</tr>
<tr>
<td>Expense allowance under nonaccountable plan</td>
<td>1,700</td>
<td>1,700</td>
<td></td>
</tr>
<tr>
<td>Housing allowance:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Amount designated and paid by church</td>
<td>$ 2,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Actual expenses</td>
<td>1,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Taxable portion of allowance</td>
<td>$ 1,000</td>
<td>1,000</td>
<td>2,000</td>
</tr>
<tr>
<td>Fair rental value of home (including furnishings and utilities)</td>
<td></td>
<td>11,150</td>
<td>11,150</td>
</tr>
<tr>
<td>Schedule C gross income from ministry</td>
<td></td>
<td>5,200</td>
<td>5,200</td>
</tr>
<tr>
<td>Ministerial income</td>
<td>$ 19,000</td>
<td>$ 12,150</td>
<td>$ 31,150</td>
</tr>
<tr>
<td>% of nondeductible expenses: $12,150/$31,150 = 39%</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Unreimbursed Employee Business Expenses

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business mileage:</td>
<td></td>
</tr>
<tr>
<td>7,860 x 54.5¢ per mile</td>
<td>$ 4,284</td>
</tr>
<tr>
<td>Travel expense:</td>
<td></td>
</tr>
<tr>
<td>Airfare</td>
<td>675</td>
</tr>
<tr>
<td>Lodging</td>
<td>334</td>
</tr>
<tr>
<td>Business expenses:</td>
<td></td>
</tr>
<tr>
<td>Books and supplies</td>
<td>903</td>
</tr>
<tr>
<td>Subscriptions</td>
<td>200</td>
</tr>
<tr>
<td>Continuing education tuition</td>
<td>500</td>
</tr>
<tr>
<td></td>
<td>$ 6,896</td>
</tr>
</tbody>
</table>

Attachment 2.

Net earnings from self-employment (attachment to Schedule SE, Form 1040)

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salary paid by church as reflected on Form W-2, Box 1</td>
<td>$ 12,800</td>
</tr>
<tr>
<td>Net profit or loss as reflected on Schedule C or C-EZ (includes speaking honoraria, offerings you receive for weddings, baptisms, funerals, and other fees)</td>
<td>2,520</td>
</tr>
<tr>
<td>Housing allowance excluded from salary on Form W-2</td>
<td>2,000</td>
</tr>
<tr>
<td>Fair rental value of church-provided housing (including paid utilities)</td>
<td>11,150</td>
</tr>
<tr>
<td></td>
<td>28,470</td>
</tr>
<tr>
<td>Less:</td>
<td></td>
</tr>
<tr>
<td>Unreimbursed ministerial business and professional expenses or reimbursed expenses paid under a nonaccountable plan ($6,896 See above and $1,714 computation/p.58)</td>
<td>8,610</td>
</tr>
<tr>
<td>Net earnings from self-employment (to Schedule SE) (See page 60)</td>
<td>$ 19,860</td>
</tr>
</tbody>
</table>
**Housing Allowance Worksheet**  
Minister Living in Housing  
Owned or Rented by the Church

Name: Donald L. Hall

For the period January 1, 2018 to December 31, 2018

Date designation approved December 20, 2017

**Allowable Housing Expenses** *(expenses paid from current income)*

<table>
<thead>
<tr>
<th>Description</th>
<th>Estimated Expenses</th>
<th>Actual</th>
</tr>
</thead>
<tbody>
<tr>
<td>Utilities <em>(gas, electricity, water)</em> and trash collection</td>
<td>$ ______________</td>
<td>$ ______________</td>
</tr>
<tr>
<td>Local telephone expense <em>(base charge)</em></td>
<td>250</td>
<td>275</td>
</tr>
<tr>
<td>Decoration and redecoration</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Structural maintenance and repair</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Landscaping, gardening, and pest control</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Furnishings <em>(purchase, repair, replacement)</em></td>
<td>1,218</td>
<td>460</td>
</tr>
<tr>
<td>Personal property insurance on minister-owned contents</td>
<td>200</td>
<td>190</td>
</tr>
<tr>
<td>Personal property taxes on contents</td>
<td>150</td>
<td>75</td>
</tr>
<tr>
<td>Umbrella liability insurance</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Subtotal**  

1,818

10% allowance for unexpected expenses  

182

**TOTAL**  

$ 2,000  

$ 1,000 *(A)*

Properly designated housing allowance  

$ 2,000 *(B)*

The amount excludable from income for federal income tax purposes is the lower of A or B.

Because actual housing expenses are less than the designated allowance, the housing exclusion is limited to $1,000. The $1,000 difference between the designation and the exclusion is reported as excess housing allowance on Form 1040, page 2, line 1 (see page 56).
Explanation of compensation reported on Form W-2, Box 1:

Salary ($11,000 less $2,000 housing allowance and $500 403[b] contributions) $ 8,500
Special occasion gifts 500
Reimbursement of self-employment tax 2,100
Expense allowance under nonaccountable plan 1,700
$12,800
### Projected 2019 Filing Dates

<table>
<thead>
<tr>
<th>Month</th>
<th>Date</th>
<th>Event Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>January</td>
<td>15</td>
<td>Quarterly Estimated Taxes (last payment for prior tax period)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>February</td>
<td>15</td>
<td>W-4 (if claimed an exemption, to continue same exemption in current year)</td>
</tr>
<tr>
<td>April</td>
<td>15</td>
<td>Personal tax returns due (unless automatic extension, see October 15)</td>
</tr>
<tr>
<td></td>
<td>15</td>
<td>Quarterly Estimated Taxes, if not paid with return (first payment for current tax year)</td>
</tr>
<tr>
<td>June</td>
<td>17</td>
<td>Quarterly Estimated Taxes (2nd payment for current tax year)</td>
</tr>
<tr>
<td>September</td>
<td>16</td>
<td>Quarterly Estimated Taxes (3rd payment for current tax year)</td>
</tr>
<tr>
<td>October</td>
<td>15</td>
<td>Personal tax returns due (if automatic extension)</td>
</tr>
</tbody>
</table>


Citations

The Tax System for Ministers

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  Shelley v. Commissioner, T.C.M. 432 (1994)
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  Treas. Reg. 1.1402(c)-5
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- Voluntary withholding of income tax for clergy
  Rev. Rul. 68-507

The Housing Allowance

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  Mosley v. Commissioner, T.C.M. 457 (1994)
- Determination of housing exclusion amount
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  Rev. Rul. 75-22

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  Code Sec. 1402(a)
- Healthcare flexible spending account
  Code Sec. 105(b), (e)
- Health reimbursement arrangements
  Code Sec. 105(b), (e)
  Rev. Rul. 2002-41
  IRS Notice 2002-45
  IRS Policy 80,600
- Health savings accounts
  Code Sec. 233
  IRS Notice 2004-2
  IRS Notice 2004-23
  Rev. Rul. 2004-38
  IRS Notice 2004-50
- Highly compensated employees
  Code Sec. 414(q)
  Treas. Reg. 1.132-8(f)(1)
- Medical insurance premiums paid by the church
  Code Sec. 106(a)
  Code Sec. 4980B
- Nontaxable fringe benefits
  Code Sec. 132
- Property transfers
  Treas. Reg. 1.61-2(d)(2)
- Reimbursement payments excludable from recipient’s income
  Letter Ruling 9112022
- Sabbatical Pay
  Kant v. Commissioner,

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- Opting out of social security
  Code Sec. 1402(e)
  Treas. Reg. 1.1402(e)-3A
- Social security coverage for clergy
  Code Sec. 1402(c)(2) and (4)
  Code Sec. 3121(b)(8)(A)
  Code Sec. 3401(a)(9)
  Rev. Rul. 80-110

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  Treas. Reg. 1.274-5T(f)
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  Dalan v. Commissioner, T.C.M. 106 (1988)
  Deason v. Commissioner, 41 T.C. 465 (1964)
- Educational expenses
  Ltr. Rul. 9431024
  Burt v. Commissioner, 40 T.C.M. 1164 (1980)
- Personal computer expenses
  Code Sec. 280F
  Rev. Rul. 86-129
- Traveling/commuting
  Rev. Rul. 94-47
  Rev. Rul. 90-23
  Walker v. Commissioner, 101 T.C.M. 537 (1993)

Citations

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- Healthcare flexible spending account
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  Rev. Rul. 2002-41
  IRS Notice 2002-45
  IRS Policy 80,600
- Health savings accounts
  Code Sec. 233
  IRS Notice 2004-2
  IRS Notice 2004-23
  Rev. Rul. 2004-38
  IRS Notice 2004-50
- Highly compensated employees
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  Code Sec. 106(a)
  Code Sec. 4980B
- Nontaxable fringe benefits
  Code Sec. 132
- Property transfers
  Treas. Reg. 1.61-2(d)(2)
- Reimbursement payments excludable from recipient’s income
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- Sabbatical Pay
  Kant v. Commissioner,

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  Code Sec. 3401(a)(9)
  Rev. Rul. 80-110

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  Rev. Rul. 86-129
- Traveling/commuting
  Rev. Rul. 94-47
  Rev. Rul. 90-23
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Executive Vice President

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