



Introduction to Minister Tax and Finance Matters



FCMM exists to enable pastors, staff members, and missionaries to serve Christ throughout their lives by assisting employing ministry organizations in providing retirement and other benefits.



Rev. Jerry Rich, M.Div., MBA

Vice President – Client Services

CERTIFIED FINANCIAL PLANNER™,
Chartered Retirement Planning
CounselorSM, Certified Kingdom
Advisor[®]

FCMM (“Free Church Ministers and Missionaries”) **Benefits & Retirement** is the denominational organization of the **Evangelical Free Church of America** that assists local churches and ministries in providing benefits programs to their staff.



FCMM Services – for EFCA and like-minded ministries

- **Retirement Plan**, including optional in-plan annuities
- **Long Term Disability Insurance Plan**
- **Payroll Service**
- **Group Health Insurance** (partnering with GuideStone)
- Coming in 2017: long term care insurance
- Trusted advice for human resources and benefits

prepare today,

ready tomorrow

Minister Tax and Finance Matters

1. Understanding **Minister** (aka “clergy”) **Tax Status**
 - a. IRS definition
 - b. Dual tax status – Employee for income, Self-employed for Social Security
 - c. Housing allowance
 - d. Tax filing and payment
2. **Social Security** Participation – What About Opting Out?
3. Negotiating **Compensation** – Structuring Salary and Benefits
4. **Funding Latter Years** of Ministry – “Retirement” Planning from the Beginning

1-Understanding Clergy Tax Status

- A. How “minister” is determined for IRS purposes.
- B. Ministers have dual status regarding income tax and Social Security.
- C. The benefit of housing allowance
- D. Tax filing and tax payment

Downloadable free resource: <http://www.fcmmbenefits.org/documents/ministers-taxes-made-easy-2017-2016-returns>. This is a subset of Zondervan Minister’s Tax & Financial Guide

A. Definition of “minister” per IRS

IRS Publication 517 – Social Security and other Information for Members of Clergy and Religious Workers

- “Ministers are individuals who are duly ordained, commissioned, or licensed by a religious body constituting a church or church denomination. Ministers have the authority to conduct religious worship, perform sacerdotal functions, and administer ordinances or sacraments according to the prescribed tenets and practices of that church or denomination.”
- “If a church or denomination ordains some ministers and licenses or commissions others, anyone licensed or commissioned must be able to perform substantially all the religious functions of an ordained minister to be treated as a minister for social security purposes.”

Factors in the IRS determination

1. Person must be credentialed as clergy (i.e. ordained, commissioned, or licensed), and
2. Meet “balancing test” of the following factors:
 - a. Have authority to conduct religious worship.
 - b. Have authority to perform “sacerdotal” functions.
 - c. Have authority to administer ordinances/sacraments.
 - d. Have management responsibilities in the local church or denomination.
 - e. Be considered to be a religious leader by the church or denomination.

Clergy credentialing

- For ministers serving in churches that have denominational credentialing (EFCA: ordination or licensing for pastors, commissioning for missionaries), the IRS will primarily look to that authority for valid credentialing.
- If a local church of a credentialing denomination separately grants clergy credentials there is less IRS credence for the local credential.
- If a local church grants credentials, the church's bylaws should make specific provision to establish the chain of authority and should include:
 - Guidelines and procedures for granting credentials.
 - Guidelines and procedures for revoking credentials.
 - Statement of privileges and duties conveyed upon credentialed persons.
- Clergy credentials should not be granted for purpose of tax benefits.

B. Five special tax rules with respect to compensation of clergy for services performed in exercise of ministry

- Parsonage exclusion from taxable income
- Housing allowance exclusion from taxable income
- Self-employed status for Social Security tax
- Exemption from income tax mandatory withholding
- Exemption from self-employment (Social Security) taxes if properly elected only for reasons of religious objection to public insurance benefits.

Dual tax status of clergy

- Ministers meeting IRS definition for “minister” are
 - *Employees* for income tax reporting (receive W-2), and
 - *Self-employed* for Social Security purposes (pay self-employment tax rate and file Schedules C and SE)
- NOTE: The tax aspects of clergy status are not separable (exemption from withholding, self-employment income subject to SE tax, provision for housing allowance exclusion – ALL occur together).

Tax status comparison

	Social Security & Medicare paid by... (2016: Paid on up to \$118,500, after which SS caps out and Medicare tax continues)		Paycheck withholding required?	Housing allowance can reduce taxable income?
	Staff Person:	Employer:		
Regular employee	7.65% FICA-employee	7.65% FICA-employer	Yes	No
Clergy employee	15.3% SECA	—	No	Yes

FICA = Federal Insurance Contributions Act
SECA = Self-Employment Contributions Act

C. Benefit of clergy housing allowance

- What is it? Exclusion from gross income for income tax purposes (but not exclusion from SE tax) of the amount used to provide a home, limited to the smallest of
 1. The amount **actually** used to provide a home, substantiated by documented eligible expenses.
 2. The amount **officially designated** in advance by the church board.
 3. The **fair rental value** of the home, including furnishings and utilities.
- What may be included in total of actual expenses?
 - Mortgage payments, utilities, repairs, furnishings, insurance, property taxes, maintenance, improvements, homeowner association dues.
- What if I live in a church-provided parsonage?
 - The value is not included in reportable income but annual rental value must be added to taxable income for calculating SE tax. If the minister pays utilities or maintenance, the amount may be designated in advance as housing allowance.

Benefit of clergy housing allowance in retirement

- A church retirement plan (like FCMM Retirement Plan) only may designate retirement distributions as housing allowance. The same guidelines apply as when employed by a church.

D. Tax filing and payment

Ministers pay income tax and SE tax by either ...

- Quarterly Estimated Tax filing, or
- Voluntary withholding by requesting that employer withhold a per-paycheck.
 - Not calculated by tax withholding tables but determined by the minister estimating required amount.
 - Exact allocation between income tax and SE tax is sorted out when filing Form 1040.

Tax form examples

Form 1040, page 1:
 Line 7 – reporting excess (unused) housing allowance
 Line 27 – Deduction for half of SE tax from Form SE

Form **1040** Department of the Treasury - Internal Revenue Service **U.S. Individual Income Tax Return** **2015** OMB No. 1545-0047 IRS Use Only - Do not write or stamp in this space.

For the year Jan. 1 - Dec. 31, 2015, or other tax year beginning 2015, ending 2015

Your first name and initial: **Milton L. Brown**
 Last name: **Brown**

If a joint return, spouse's first name and initial: **Alessia S. Brown**
 Last name: **Brown**

Home address (number and street). If you have a P.O. box, see instructions. Apt. no.:
418 Trenton Street

City, town or post office, state, and ZIP code. If you have a foreign address, also complete spaces below (see instructions):
Springfield, OH 45504

Foreign country name: Foreign province/state/county: Foreign postal code:

Filing Status
 1 Single
 2 Married filing jointly (even if only one had income)
 3 Married filing separately. Enter spouse's SSN above and full name here. ▶
 4 Head of household (with qualifying person). (See instructions.) If the qualifying person is a child but not your dependent, enter this child's name here. ▶
 5 Qualifying widow(er) with dependent child

Exemptions
 6a Yourself. If someone can claim you as a dependent, do not check box 6a.
 b Spouse
 c Dependents:
 (1) First name Last name (2) Dependent's social security number (3) Dependent's relationship to you (4) If child under age 17 qualifying for child tax credit (see instructions)
Charles Brown 514 43 9196 Son
 If more than four dependents, see instructions and check here. ▶

Income
 7 Wages, salaries, tips, etc. Attach Form(s) W-2 here. Also attach Forms W-2G and 1099-R if tax was withheld. **incl. Excess Housing Allow. \$1,000** 7 **58,850**
 8a Taxable interest. Attach Schedule B if required. 8a **675**
 b Tax-exempt interest. Do not include on line 8a. 8b **1,200**
 9a Ordinary dividends. Attach Schedule B if required. 9a **954**
 b Qualified dividends. 9b **954**
 10 Taxable refunds, credits, or offsets of state and local income taxes. 10
 11 Alimony received. 11
 12 Business income or (loss). Attach Schedule C or C-EZ. 12 **1,120**
 13 Capital gain or (loss). Attach Schedule D if required. If not required, check here ▶ 13 **150**
 14 Other gains or (losses). Attach Form 4797. 14
 15a IRA distributions. 15a b Taxable amount 15b
 16a Pensions and annuities. 16a b Taxable amount 16b
 17 Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E. 17
 18 Farm income or (loss). Attach Schedule F. 18
 19 Unemployment compensation. 19
 20a Social security benefits. 20a b Taxable amount 20b
 21 Other income. List type and amount. 21
 22 Combine the amounts in the far right column for lines 7 through 21. This is your total income ▶ 22 **61,749**

Adjusted Gross Income
 23 Reserved. 23
 24 Certain business expenses of reservists, performing artists, and fee-basis government officials. Attach Form 2106 or 2106-EZ. 24
 25 Health savings account deduction. Attach Form 8889. 25
 26 Moving expenses. Attach Form 3903. 26
 27 **Deductible part of self-employment tax. Attach Schedule SE.** 27 **5,988**
 28 Self-employed SEP, SIMPLE, and qualified plans. 28
 29 Self-employed health insurance deduction. 29
 30 Penalty on early withdrawal of savings. 30
 31a Alimony paid. b Recipient's SSN ▶ 31a
 32 IRA deduction. 32
 33 Student loan interest deduction. 33 **1,906**
 34 Reserved. 34
 35 Domestic production activities deduction. Attach Form 8803. 35
 36 Add lines 23 through 35. 36 **7,894**
 37 Subtract line 36 from line 22. This is your adjusted gross income ▶ 37 **53,855**

For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see separate instructions. Cat. No. 11320B Form **1040** (2015)

Source: Zondervan Minister's Tax & Financial Guide

Tax form examples

Form 1040, page 2:
Line 57 – SE tax from
Schedule SE

Form 1040 (2015) Page 2

Tax and Credits	38	Amount from line 37 (adjusted gross income)	38	53,855	
	39a	Check <input type="checkbox"/> You were born before January 2, 1951, <input type="checkbox"/> Blind, <input type="checkbox"/> Total boxes if: <input type="checkbox"/> Spouse was born before January 2, 1951, <input type="checkbox"/> Blind, checked <input type="checkbox"/> 39a			
	b	If your spouse itemizes on a separate return or you were a dual-status alien, check here <input type="checkbox"/> 39b			
	40	Itemized deductions (from Schedule A) or your standard deduction (see left margin)	40	26,316	
	41	Subtract line 40 from line 38	41	27,539	
	42	Exemptions. If line 38 is \$154,950 or less, multiply \$4,000 by the number on line 6d. Otherwise, see instructions	42	12,000	
	43	Taxable income. Subtract line 42 from line 41. If line 42 is more than line 41, enter -0-	43	15,539	
	44	Tax (see instructions). Check if any from: a <input type="checkbox"/> Form(s) 9814 b <input type="checkbox"/> Form 4972 c <input type="checkbox"/>	44	1,443	
	45	Alternative minimum tax (see instructions). Attach Form 6251	45		
	46	Excess advance premium tax credit repayment. Attach Form 8962	46		
	47	Add lines 44, 45, and 46	47	1,443	
	48	Foreign tax credit. Attach Form 1116 if required	48		
	49	Credit for child and dependent care expenses. Attach Form 2441	49		
	50	Education credits from Form 8863, line 19	50		
	51	Retirement savings contributions credit. Attach Form 8880	51		
	52	Child tax credit. Attach Schedule 8812, if required.	52	1,000	
	53	Residential energy credit. Attach Form 5695	53		
	54	Other credits from Form: a <input type="checkbox"/> 3800 b <input type="checkbox"/> 8801 c <input type="checkbox"/>	54		
	55	Add lines 48 through 54. These are your total credits	55	1,000	
	56	Subtract line 55 from line 47. If line 55 is more than line 47, enter -0-	56	443	
	57	Self-employment tax. Attach Schedule SE	57	11,975	
	58	Unreported social security and Medicare tax from Form: a <input type="checkbox"/> 4137 b <input type="checkbox"/> 8919	58		
	59	Additional tax on IRAs, other qualified retirement plans, etc. Attach Form 5329 if required	59		
	60a	Household employment taxes from Schedule H	60a		
	b	First-time homebuyer credit repayment. Attach Form 5405 if required	60b		
	61	Health care: individual responsibility (see instructions): Full-year coverage <input checked="" type="checkbox"/>	61		
	62	Taxes from: a <input type="checkbox"/> Form 8959 b <input type="checkbox"/> Form 8960 c <input type="checkbox"/> Instructions: enter code(s)	62		
	63	Add lines 56 through 62. This is your total tax	63	12,418	
	Payments	64	Federal income tax withheld from Forms W-2 and 1099	64	12,000
		65	2015 estimated tax payments and amount applied from 2014 return	65	
		66a	Earned income credit (EIC)	66a	
		b	Nontaxable combat pay election <input type="checkbox"/> 66b		
		67	Additional child tax credit. Attach Schedule 8812	67	
		68	American opportunity credit from Form 8863, line 8	68	
		69	Net premium tax credit. Attach Form 8962	69	
		70	Amount paid with request for extension to file	70	
		71	Excess social security and tier 1 RRTA tax withheld	71	
		72	Credit for federal tax on fuels. Attach Form 4136	72	
		73	Credits from Form: a <input type="checkbox"/> 2439 b <input type="checkbox"/> 8885 c <input type="checkbox"/> 8885 d <input type="checkbox"/>	73	
		74	Add lines 64, 65, 66a, and 67 through 73. These are your total payments	74	12,000
	Refund	75	If line 74 is more than line 63, subtract line 63 from line 74. This is the amount you overpaid	75	
		76a	Amount of line 75 you want refunded to you . If Form 8878 is attached, check here <input type="checkbox"/>	76a	
		b	Routing number <input type="text"/> c Type: <input type="checkbox"/> Checking <input type="checkbox"/> Savings		
		d	Account number <input type="text"/>		
		77	Amount of line 75 you want applied to your 2016 estimated tax	77	
	Amount You Owe	78	Amount you owe. Subtract line 74 from line 63. For details on how to pay, see instructions	78	418
		79	Estimated tax penalty (see instructions)	79	
	Third Party Designee	Do you want to allow another person to discuss this return with the IRS (see instructions)? <input type="checkbox"/> Yes. Complete below. <input type="checkbox"/> No			
		Designee's name	Phone no.	Personal identification number (PIN)	
	Sign Here	Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.			
		Your signature	Date	Your occupation	
		<i>William A. Brown</i>	4/15/16	Minister	
		Spouse's signature. If a joint return, both must sign.	Date	Spouse's occupation	
		<i>Alessia S. Brown</i>	4/15/16	Housewife	
		Print/Type preparer's name	Preparer's signature	Date	
		Firm's name	Firm's EIN	Check <input type="checkbox"/> if self-employed	
		Firm's address	Phone no.	PTIN	

Source: Zondervan Minister's Tax & Financial Guide

Tax form examples

Schedule C

Source: Zondervan Minister's Tax & Financial Guide

SCHEDULE C-EZ (Form 1040) **Net Profit From Business** (Sole Proprietorship) OMB No. 1545-0074

Department of the Treasury Internal Revenue Service (IRS) **2015** Attachment Sequence No. 09A

▶ Partnerships, joint ventures, etc., generally must file Form 1065 or 1065-B. ▶ Attach to Form 1040, 1040NR, or 1041. ▶ See instructions on page 2.

Name of proprietor: **Milton L. Brown** Social security number (SSN): **541-16-8194**

Part I General Information

You May Use Schedule C-EZ Instead of Schedule C Only if You:

- Had business expenses of \$5,000 or less.
- Use the cash method of accounting.
- Did not have an inventory at any time during the year.
- Did not have a net loss from your business.
- Had only one business as either a sole proprietor, qualified joint venture, or statutory employee.

And You:

- Had no employees during the year.
- Do not deduct expenses for business use of your home.
- Do not have prior year unallowed passive activity losses from this business, and
- Are not required to file Form 4562, Depreciation and Amortization, for this business. See the instructions for Schedule C, line 13, to find out if you must file.

A Principal business or profession, including product or service: **Minister**

B Enter business code (see page 2): **813000**

C Business name. If no separate business name, leave blank.

D Enter your EIN (see page 2)

E Business address (including suite or room no.). Address not required if same as on page 1 of your tax return.

City, town or post office, state, and ZIP code

F Did you make any payments in 2015 that would require you to file Form(s) 1099? (see the instructions for Schedule C) Yes No

G If "Yes," did you or will you file required Forms 1099? Yes No

Part II Figure Your Net Profit

1	Gross receipts. Caution: If this income was reported to you on Form W-2 and the "Statutory employee" box on that form was checked, see <i>Statutory employees</i> in the instructions for Schedule C, line 1, and check here <input type="checkbox"/>	1,650
2	Total expenses (see page 2). If more than \$5,000, you must use Schedule C	530
3	Net profit. Subtract line 2 from line 1. If less than zero, you must use Schedule C. Enter on both Form 1040, line 12, and Schedule SE, line 2, or on Form 1040NR, line 13, and Schedule SE, line 2 (see instructions). (Statutory employees do not report this amount on Schedule SE, line 2.) Estates and trusts, enter on Form 1041, line 3	1,120

Part III Information on Your Vehicle. Complete this part **only** if you are claiming car or truck expenses on line 2.

4 When did you place your vehicle in service for business purposes? (month, day, year) ▶ **1/1/07**

5 Of the total number of miles you drove your vehicle during 2015, enter the number of miles you used your vehicle for:
 Schedule C **864**

a Business **9,412** b Commuting (see page 2) **1,216** c Other

6 Was your vehicle available for personal use during off-duty hours? Yes No

7 Do you (or your spouse) have another vehicle available for personal use? Yes No

8a Do you have evidence to support your deduction? Yes No

b If "Yes," is the evidence written? Yes No

For Paperwork Reduction Act Notice, see the separate instructions for Schedule C (Form 1040). Cat. No. 14374D Schedule C-EZ (Form 1040) 2015

Tax form examples

Schedule C-EZ/SE:
 Line 3 – Report total income including housing allowance for SE tax calculation
 Line 12 – SE Tax result to enter in 1040 Line 57

Source: Zondervan Minister's Tax & Financial Guide

Schedule SE (Form 1040) 2015 Attachment Sequence No. **17** Page **2**

Name of person with self-employment income (as shown on Form 1040 or Form 1040NR)
Milton L. Brown Social security number of person with self-employment income ▶ **541-16-8194**

Section B—Long Schedule SE

Part I Self-Employment Tax

Note. If your only income subject to self-employment tax is church employee income, see instructions. Also see instructions for the definition of church employee income.

A If you are a minister, member of a religious order, or Christian Science practitioner and you filed Form 4361, but you had \$400 or more of other net earnings from self-employment, check here and continue with Part I

1a Net farm profit or (loss) from Schedule F, line 34, and farm partnerships, Schedule K-1 (Form 1065), box 14, code A. **Note.** Skip lines 1a and 1b if you use the farm optional method (see instructions)

b If you received social security retirement or disability benefits, enter the amount of Conservation Reserve Program payments included on Schedule F, line 4b, or listed on Schedule K-1 (Form 1065), box 20, code Z

2 Net profit or (loss) from Schedule C, line 31; Schedule C-EZ, line 3; Schedule K-1 (Form 1065), box 14, code A (other than farming); and Schedule K-1 (Form 1065-B), box 9, code J1. Ministers and members of religious orders, see instructions for types of income to report on this line. See instructions for other income to report. **Note.** Skip this line if you use the nonfarm optional method (see instructions)

3 Combine lines 1a, 1b, and 2

4a If line 3 is more than zero, multiply line 3 by 92.35% (.9235). Otherwise, enter amount from line 3. **Note.** If line 4a is less than \$400 due to Conservation Reserve Program payments on line 1b, see instructions.

b If you elect one or both of the optional methods, enter the total of lines 15 and 17 here

c Combine lines 4a and 4b. If less than \$400, **stop**; you do not owe self-employment tax. **Exception.** If less than \$400 and you had church employee income, enter -0- and continue ▶

5a Enter your church employee income from Form W-2. See instructions for definition of church employee income **5a**

b Multiply line 5a by 92.35% (.9235). If less than \$100, enter -0- **5b**

6 Add lines 4c and 5b **6** **78,269**

7 Maximum amount of combined wages and self-employment earnings subject to social security tax or the 6.2% portion of the 7.65% railroad retirement (tier 1) tax for 2015 **7** **118,500** **00**

8a Total social security wages and tips (total of boxes 3 and 7 on Form(s) W-2) and railroad retirement (tier 1) compensation. If \$118,500 or more, skip lines 8b through 10, and go to line 11

b Unreported tips subject to social security tax (from Form 4137, line 10)

c Wages subject to social security tax (from Form 8919, line 10)

d Add lines 8a, 8b, and 8c **8d**

9 Subtract line 8d from line 7. If zero or less, enter -0- here and on line 10 and go to line 11 ▶ **9** **118,500**

10 Multiply the smaller of line 6 or line 9 by 12.4% (.124) **10** **9,705**

11 Multiply line 6 by 2.9% (.029) **11** **2,270**

12 Self-employment tax. Add lines 10 and 11. Enter here and on Form 1040, line 57, or Form 1040NR, line 55

13 Deduction for one-half of self-employment tax. Multiply line 12 by 50% (.50). Enter the result here and on Form 1040, line 27, or Form 1040NR, line 27 **13** **5,988**

Part II Optional Methods To Figure Net Earnings (see instructions)

Farm Optional Method. You may use this method only if (a) your gross farm income¹ was not more than \$7,320, or (b) your net farm profits² were less than \$5,284.

14 Maximum income for optional methods **14** **4,860** **00**

15 Enter the smaller of: two-thirds (2/3) of gross farm income¹ (not less than zero) or \$4,880. Also include this amount on line 4b above **15**

Nonfarm Optional Method. You may use this method only if (a) your net nonfarm profits³ were less than \$5,284 and also less than 72.189% of your gross nonfarm income,⁴ and (b) you had net earnings from self-employment of at least \$400 in 2 of the prior 3 years. **Caution.** You may use this method no more than five times.

16 Subtract line 15 from line 14 **16**

17 Enter the smaller of: two-thirds (2/3) of gross nonfarm income⁴ (not less than zero) or the amount on line 16. Also include this amount on line 4b above **17**

¹ From Sch. F, line 9, and Sch. K-1 (Form 1065), box 14, code B.

² From Sch. F, line 34, and Sch. K-1 (Form 1065), box 14, code A—minus the amount you would have entered on line 1b had you not used the optional method.

³ From Sch. C, line 31; Sch. C-EZ, line 3; Sch. K-1 (Form 1065), box 14, code A; and Sch. K-1 (Form 1065-B), box 9, code J1.

⁴ From Sch. C, line 7; Sch. C-EZ, line 1; Sch. K-1 (Form 1065), box 14, code C; and Sch. K-1 (Form 1065-B), box 9, code J2.

Tax form examples

Form 1040-ES Voucher for quarterly estimated tax payment

Source: Internal Revenue Service

Form 1040-ES Department of the Treasury Internal Revenue Service		2016 Estimated Tax		Payment Voucher 3 OMB No. 1545-0074	
File only if you are making a payment of estimated tax by check or money order. Mail this voucher with your check or money order payable to "United States Treasury." Write your social security number and "2016 Form 1040-ES" on your check or money order. Do not send cash. Enclose, but do not staple or attach, your payment with this voucher.				Calendar year — Due Sept. 15, 2016	
				Amount of estimated tax you are paying by check or money order.	
				Dollars	Cents
Print or type	Your first name and initial		Your last name		Your social security number
	If joint payment, complete for spouse				
	Spouse's first name and initial		Spouse's last name		Spouse's social security number
	Address (number, street, and apt. no.)				
	City, state, and ZIP code. (If a foreign address, enter city, also complete spaces below.)				
	Foreign country name		Foreign province/county		Foreign postal code

For Privacy Act and Paperwork Reduction Act Notice, see instructions.

Tear off here

Form 1040-ES Department of the Treasury Internal Revenue Service		2016 Estimated Tax		Payment Voucher 2 OMB No. 1545-0074	
File only if you are making a payment of estimated tax by check or money order. Mail this voucher with your check or money order payable to "United States Treasury." Write your social security number and "2016 Form 1040-ES" on your check or money order. Do not send cash. Enclose, but do not staple or attach, your payment with this voucher.				Calendar year — Due June 15, 2016	
				Amount of estimated tax you are paying by check or money order.	
				Dollars	Cents
Print or type	Your first name and initial		Your last name		Your social security number
	If joint payment, complete for spouse				
	Spouse's first name and initial		Spouse's last name		Spouse's social security number
	Address (number, street, and apt. no.)				
	City, state, and ZIP code. (If a foreign address, enter city, also complete spaces below.)				
	Foreign country name		Foreign province/county		Foreign postal code

For Privacy Act and Paperwork Reduction Act Notice, see instructions.

Tear off here

Form 1040-ES Department of the Treasury Internal Revenue Service		2016 Estimated Tax		Payment Voucher 1 OMB No. 1545-0074	
File only if you are making a payment of estimated tax by check or money order. Mail this voucher with your check or money order payable to "United States Treasury." Write your social security number and "2016 Form 1040-ES" on your check or money order. Do not send cash. Enclose, but do not staple or attach, your payment with this voucher.				Calendar year — Due April 18, 2016	
				Amount of estimated tax you are paying by check or money order.	
				Dollars	Cents
Print or type	Your first name and initial		Your last name		Your social security number
	If joint payment, complete for spouse				
	Spouse's first name and initial		Spouse's last name		Spouse's social security number
	Address (number, street, and apt. no.)				
	City, state, and ZIP code. (If a foreign address, enter city, also complete spaces below.)				
	Foreign country name		Foreign province/county		Foreign postal code

For Privacy Act and Paperwork Reduction Act Notice, see instructions.

Form 1040-ES (2016)

Tax form examples

W₄ withholding form for voluntary amount

Federal income taxes are not required to be withheld from the salary of clergy. But under a voluntary withholding agreement, federal income tax may be withheld—even sufficient to cover the self-employment tax liability. This withholding must be identified as “federal income tax withheld” (and not social security taxes withheld).

-Reporting Procedures for Congregations by Dan Busby

----- Separate here and give Form W-4 to your employer. Keep the top part for your records. -----

Form W-4 Department of the Treasury Internal Revenue Service	Employee's Withholding Allowance Certificate ▶ Whether you are entitled to claim a certain number of allowances or exemption from withholding is subject to review by the IRS. Your employer may be required to send a copy of this form to the IRS.	OMB No. 1545-0074 2016
1 Your first name and middle initial _____ Last name _____		2 Your social security number _____
Home address (number and street or rural route) _____		3 <input type="checkbox"/> Single <input type="checkbox"/> Married <input type="checkbox"/> Married, but withhold at higher Single rate. Note: If married, but legally separated, or spouse is a nonresident alien, check the "Single" box.
City or town, state, and ZIP code _____		4 If your last name differs from that shown on your social security card, check here. You must call 1-800-772-1213 for a replacement card. ▶ <input type="checkbox"/>
5 Total number of allowances you are claiming (from line H above or from the applicable worksheet on page 2) _____		5 EXEMPT
6 Additional amount, if any, you want withheld from each paycheck		6 \$ _____
7 I claim exemption from withholding for 2016, and I certify that I meet both of the following conditions for exemption. <ul style="list-style-type: none"> • Last year I had a right to a refund of all federal income tax withheld because I had no tax liability, and • This year I expect a refund of all federal income tax withheld because I expect to have no tax liability. If you meet both conditions, write "Exempt" here ▶ 7 _____		
Under penalties of perjury, I declare that I have examined this certificate and, to the best of my knowledge and belief, it is true, correct, and complete.		
Employee's signature (This form is not valid unless you sign it.) ▶ _____		Date ▶ _____
8 Employer's name and address (Employer: Complete lines 8 and 10 only if sending to the IRS.) _____		9 Office code (optional) _____
		10 Employer identification number (EIN) _____

For Privacy Act and Paperwork Reduction Act Notice, see page 2. Cat. No. 10220Q Form **W-4** (2016)

Source: Internal Revenue Service

Tax form examples

W-2 Wage and Tax Statement:
No entries in Boxes 3-8

22222		Void <input type="checkbox"/>	a Employee's social security number 541-16-8194		For Official Use Only ▶ OMB No. 1545-0008		
b Employer identification number (EIN) 38-9417217			1 Wages, tips, other compensation 57850.00		2 Federal income tax withheld 12000.00		
c Employer's name, address, and ZIP code Magnolia Springs Church 4805 Douglas Road Springfield, OH 45504			3 Social security wages		4 Social security tax withheld		
			5 Medicare wages and tips		6 Medicare tax withheld		
			7 Social security tips		8 Allocated tips		
			9		10 Dependent care benefits		
d Control number		e Employee's first name and initial Milton L.		Last name Brown		Suff.	
f Employee's address and ZIP code 418 Trenton Street Springfield, OH 45504			11 Nonqualified plans		12a See instructions for box 12 E 500		
			13 Statutory employee <input type="checkbox"/> Retirement plan <input checked="" type="checkbox"/> Third-party sick pay <input type="checkbox"/>		12b		
			14 Other		12c		
					12d		
15 State Employer's state ID number OH 677803			16 State wages, tips, etc. 57850.00		17 State income tax 1600.00		
			18 Local wages, tips, etc.		19 Local income tax		
					20 Locality name		

Form **W-2** Wage and Tax Statement **2015** Department of the Treasury—Internal Revenue Service
 Copy A For Social Security Administration — Send this entire page with Form W-3 to the Social Security Administration; photocopies are not acceptable. For Privacy Act and Paperwork Reduction Act Notice, see the separate instructions. Cat. No. 10134D

Do Not Cut, Fold, or Staple Forms on This Page

Source: Zondervan Minister's Tax & Financial Guide

2-What about opting out of Social Security?

- Ministers are given the ability to opt out of the Social Security system if the procedures for obtaining exemption are followed, including filing of Form 4361.
- The only basis is conscientious and theological objection to receiving public insurance program benefits. Must be a credentialed minister.
- Procedure (must be completed by tax return due date for second year following receiving clergy credential):
 1. Notify credentialing authority of intent to file Form 4361.
 2. Complete and file Form 4361.
 3. Respond to IRS inquiry to confirm understanding of basis of exemption, signing additional certification under penalty of perjury that the beliefs are sincerely held.
 4. Upon IRS approval, opt-out is irrevocable.

Economic or stewardship reasons are not valid objections for opt-out.

- Not valid:
 1. My tax preparer told me I could take advantage of this tax break.
 2. I don't think Social Security will be viable in the future.
 3. I can manage the money better.
 4. I don't believe in paying the tax.
- Scope of benefits from which minister would be opting out:
 1. Supplemental retirement income
 2. Survivor benefits
 3. Spousal benefits
 4. Disability coverage
 5. Medicare
 6. Any future benefits that may be added

Is clergy status a “good deal”?

- Not necessarily. Some may pay more taxes after becoming a minister under the IRS rules.
- Benefit of housing allowance exclusion may be more than offset by the higher SE tax rate.
- Purpose of clergy status should never be for tax benefit.
- Many churches add a “SS offset” in additional salary to clergy employees. This is simply additional salary but may be considered equitable employer expense rather than employer saving FICA tax.

Tax payment and withholding

	Social Security & Medicare paid by...		Paycheck withholding required?	Housing allowance can reduce taxable income?
	Staff Person:	Employer:		
Regular employee	7.65%	7.65%	Yes	No
Clergy employee	15.3%	—	No	Yes

3-Negotiating Compensation – Structuring Salary and Benefits

- Except for large church, you will need to be the most knowledgeable party on clergy status and benefits.
- Most churches want to provide the most effective compensation...
 - Significance of housing allowance to the pastor
 - Other tax-free benefits (retirement plan, group health insurance)
- And want to have a helpful discussion about putting together the best compensation package.

Structuring the compensation package

- When dealing with a lump sum budget for the pastor ...
 - Seek to move away from the lump sum idea in future years.
 - Move business expense (reimbursement) out of compensation budget to operating budget. Include mileage reimbursement, professional memberships, subscriptions, office supplies, business meals, etc. Handle this as accountable expense plan. (See Minister's Tax & Financial Guide.)
 - Separate cost of benefits from salary.
 - Remaining compensation comprises actual salary.
- Lack of employer-provided benefits lowers the effective compensation and often means that essential needs are not met.

The benefit of benefits

- Employer-provided benefits represent cost of doing business, not compensation.
- Most common benefits
 1. Life insurance (Premiums for up to \$50k coverage are non-taxable .)
 2. Group health insurance
 - Nontaxable benefit when provided by church as group health plan.
 - Nontaxable benefit when church pays or reimburses premiums for pastor as the only full-time employee.
 - Affordable Care Act requires that individual (i.e. non-group) health insurance cannot be paid or reimbursed by employer. Only method is to add taxable salary and not specify the use.
 - Download <http://www.fcmmbenefits.org/documents/healthcare-reimbursements-5-roads-summary-ecfa> for current information.
 3. Retirement plan and contributions
 4. Disability insurance
 - Employer-paid benefit vs. employee-deducted expense. (When salary-deducted premiums are paid, amount is not tax-free but later benefit claim payout is nontaxable.)

4-Funding Latter Years of Ministry

Planning for “Retirement” is simply putting aside income now to fund future years.

“Retirement”?

- Numbers 8:24-26 NIV
 - *This applies to the Levites: Men twenty-five years old or more shall come to take part in the work at the Tent of Meeting, but at the age of fifty, they must retire from their regular service and work no longer. They may assist their brothers in performing their duties at the Tent of Meeting....*
- We may be called to a lifetime of ministry, but the time may come when our abilities are more limited or when a church is not ready to provide us a salary.
- Need to plan for funding of your lifetime of ministry for your final XX years.

How will you support yourself as you serve the Lord in the last 20+ years of your life?

Three simple rules to prepare funding for your future:

- Start to contribute **early** (to tax advantaged retirement funds)
- Contribute **regularly**
- Contribute at **increasing** rates

The value of starting early

- For every **\$1** invested during your 30s, earning 6%, you'd have to invest **\$3** in your 50s to match the value at retirement.
- For every **\$1** invested during your 30s, earning 3%, you'd have to invest **\$2** in your 50s to match the value at retirement.



“Rule of Thumb” Planning Goals

Regular contributions ...

Over a 40-year career, contribute
15% of income annually to
retirement savings (employer and
employee contributions combined)

Source: T. Rowe Price

Note: 2/3s of middle income employees are saving < 5%.

Source: LIMRA

Other planning issues along the way

- Diversify investments among different types of assets (Prov 11:2 NLT: *Divide your investments among many places, for you do not know what risks might lie ahead.*)
- Increase your rate of contributing over your years
 - Example: 10% in 20s, 12% in 30s, 15%+ in 40s and up
- IRS “Catch-up” contribution provision for deferrals, starting at age 50
 - Retirement Plan: Up to \$6k over the regular \$18k annual limit.
 - Individual Retirement Account: Up to \$1k over the regular \$5.5k annual limit.
- Social Security timing
- Inflation
- Medical care and expense, including possible long term care insurance
- Longevity: outliving retirement assets
 - Monthly benefit or annuity can provide monthly income for life

Advantages of a Church Plan [403(b)(9)], such as FCMM Retirement Plan

- **Housing Allowance** – distributions from funds contributed while eligible for housing allowance may be designated by the church plan as housing allowance
- **Flexibility** – local church may establish classes for contributions to recognize different staff levels
- **Simplicity** – exempt from ERISA requirements, annual “testing” – and resulting employer costs
- **Low/No cost to employer** – unlike contracting with a Third Party Administrator, FCMM operates and maintains the plan with no employer fees
- **Higher Elective Contribution Limits** – much higher in 403(b)(9) plan (\$18k/year) vs Individual Retirement Account (\$5.5k)

Questions or feedback:

Jerry Rich

jerry.rich@fcmmbenefits.org

www.fcmmbenefits.org

(800) 995-5357 fcmm@fcmmbenefits.org

