

Top Ten Tips for Completing your Pastor's W-2



THE UNITED METHODIST
FOUNDATION
of Western Pennsylvania

Webinar

Top Ten Tips for Completing your Pastor's W-2



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Executive Director

Disclaimer

The information contained herein is general in nature and should not be construed as legal, accounting, tax advice or opinion by the UM Foundation to the user. The user is also cautioned that this material may not be applicable to or suitable for the user's specific circumstances or needs, and may require consideration of non-tax and other-tax factors if any action is to be contemplated. The user should contact his or own tax professional prior to taking any action based upon this information. The UM Foundation assumes no obligation to inform the user of any changes in tax laws or other factors that could affect the information contained herein.



THE UNITED METHODIST
FOUNDATION
of Western Pennsylvania

Founded
in 1970

Member of
National
Assoc. of UM
Foundations

Complement
and
Reinforces
Stewardship
Ministries

Separately
Incorporated

Supporting
Organization
of W. PA
Annual
Conference

What We Do...

- Provide responsible and faithful investment management for churches and agencies
- Enable planned giving through which individuals can support Christian ministries
- Offer education and support in financial stewardship and leadership

What We Do...

- Grant Program
- Recommend Capital Campaign Consultants



Objectives of Today's Webinar

- Define the Dual-Status Tax Classification of Ministers
- Describe the Housing Allowance Exclusion
- Complete Your Pastor's Form W-2

Scope of Today's Webinar

- To help treasurers complete their pastor's Form W-2
- We also conduct Clergy Tax Seminars for Pastors.

Treasurers are invited to attend as well!



Clergy Tax Seminars in 2019

February 18, 2019

Altoona Area

Registration Deadline

February 15, 2019

Check-in at 9:00 AM

Begins at 9:30 A.M.

March 3, 2019

The UM Center

1204 Freedom Road

Cranberry TWP, PA 16066

Registration Deadline

February 24, 2019

Check-in at 9:00 AM

Begins at 9:30 A.M.

**Register on our website www.umfoundation.org
by visiting the Events Calendar.**

Important Ministerial Tax Issues for IRS

- Special rules for FICA/Medicare
- Special rules for Self Employment tax
- Special rules for federal income tax withholding
- Special rules for housing allowance

WARNING

Misclassification of workers is a big issue with churches and the IRS (see IRS publication 517)

Important Ministerial Tax Issues for IRS

For the purpose of this webinar a Minister/Pastor is ordained or licensed person who has been appointed by the bishop to be in charge of a local church or churches. The Pastor in this formal sense is the official representative of the Annual Conference and is responsible for serving effectively in the ministry of “Word, Sacrament, and Order” in that appointment. In a less formal sense Pastor is a title synonymous with Minister.

WARNING

Misclassification of workers is a big issue with churches and the IRS (see IRS publication 517)

Tip # 1: Who Can Be Classified As A Minister

- For federal tax purposes a Minister is always credentialed –ordained, commissioned or licensed; and
- A Minister is compensated for performing ministerial duties including some or all of the following:
 - Performing of sacerdotal functions
 - Conducting religious worship services
 - Have management responsibility in a local church or denomination
 - Teach or perform administrative duties in a seminary
 - Perform duties under a valid assignment from a Church

Tip # 2: Who is a Minister for DOL & Employment Rules

- The courts have ruled that the employment laws do not apply to the relationship between a church and its ministers thus excluding them from wage and hour and nondiscrimination requirements
- While the definitions are similar, the definition of a Minister for IRS purposes is not the same as the definition of a Minister for DOL purposes
 - May only be available to churches
 - Does not have to be the predominant portion of the duties
 - Does not have to have ministerial credentials

Tip # 3: Classification for Federal Income Tax

- Truly self-employed, i.e., income earned outside the church, such as honorariums
 - Most Instances – Self Employed; Report on Schedule C
- Employee of the Church
 - Most Instances – Common Law Employee
 - Participation in Benefit Plans
 - Retirement Plan and Health Care Plan
 - The correct reporting on Form W-2

Special rules allow a Minister to not have federal income tax withheld from his/her pay. This is not an exclusion from federal income tax overall.

Tip # 4: Classification for Social Security

- There are two ways to pay into the system:
 1. Self Employed Contributions Act (SECA)
 2. Federal Insurance Contributions Act (FICA)
- The law says Ministers receiving compensation from the performance of ministerial duties must pay in through SECA. There is not an option to pay in through FICA.
- Therefore, for Social Security only, Ministers are self-employed and required to file Schedule SE, unless they have obtained an exemption by filing Form 4361.

Tip # 5: Housing Allowance Exclusion



Not a Deduction or Exemption

IRC Section 107

“value of home furnished, or allowance paid to rent or provide a home”

Lesser of:

Amount of resolution

Amount spent

Fair Market Rental Value

Tip # 6: Housing Allowance Issues

- Must be designated by the salary paying unit and ...
- Must be designated in advance of being paid and ...
- Must be designated in writing

Tip # 7: Housing Allowance Dos and Don'ts

- Do not report as wages on Form 941 or in Box 1 of Form W-2 (It is an exclusion)
- Do not ask the minister to account for his/her housing expenses at the end of the year
- Only pay to those properly classified as a minister and performing ministerial duties
- Do not pay to anyone who is having FICA/Medicare taxes withheld and matched

Tip # 8: Love Gifts – “The Gift That is Not A Gift”

- Any amount received for the provision of services is not a gift, but is taxable income
- Any gift received from an employer that is more than a small token item is taxable pursuant to Internal Revenue Code Section 102

Tip # 9: Clergy Case Fact Sheet

Cash Salary	\$49,000
Housing Allowance	\$10,000
UMPIP (403b) pre-tax	\$1,470
Health Savings Account (HSA)	\$1,000
Wage Base W-2 Box 1	\$36,530
State Wage W-2 Box 16	\$48,000
Local Wage W-2 Box 18	\$38,000
UMPIP pre-tax 12a code E	\$1,470
HSA 12d code W	\$1,000

Tip # 10: Clergy Form W-2

22222		Void <input type="checkbox"/>		a Employee's social security number 123-45-6789		For Official Use Only ▶ OMB No. 1545-0008					
b Employer identification number (EIN) XX-XXXXXX				1 Wages, tips, other compensation 36,530		2 Federal income tax withheld					
c Employer's name, address, and ZIP code First UMC Heaven Bound St. Anytown, PA 10000				3 Social security wages		4 Social security tax withheld					
				5 Medicare wages and tips		6 Medicare tax withheld					
				7 Social security tips		8 Allocated tips					
d Control number				9		10 Dependent care benefits					
e Employee's first name and initial		Last name		Suff.		11 Nonqualified plans		12a See instructions for box 12 E 1,470			
Susan Q Asbury 123 Jesus way Anytown, PA 10000				13 Statutory employee <input type="checkbox"/>		Retirement plan <input type="checkbox"/>		Third-party sick pay <input type="checkbox"/>		12b	
				14 Other				12c		12d W 1000.00	
				f Employee's address and ZIP code							
15 State Employer's state ID number PA XX-XXXXXX		16 State wages, tips, etc. 48,000		17 State income tax		18 Local wages, tips, etc.		19 Local income tax 38,000		20 Locality name	

Form **W-2** Wage and Tax Statement

2019

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

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Questions???



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