

### How Are Ministers Treated Differently in Tax Matters?\*

**Who is a Minister?** The Internal Revenue Service usually uses one of two tests to determine if a minister is a minister for tax purposes. The IRS normally uses the *Wingo* or *Knight* test. In deciding if a person is a “minister” for federal tax purposes, the following five factors must be considered: (1) the person must be ordained, commissioned, or licensed; (2) administration of sacraments; (3) conduct of religious worship; (4) management responsibilities in the local church or a parent denomination; (5) considered to be a religious leader by the church or parent denomination. In general, the IRS and the courts require that a minister be ordained, commissioned, or licensed, and then they apply a “balancing test” with respect to the other four factors. The more factors that a person satisfies, the more likely he will be deemed to be a minister for tax reporting purposes.

**Employee for Federal and State Income Tax:** A minister is considered an employee for federal and state income tax purposes. The minister should complete a W-4, G-4, I-9, and GA New Hire Reporting Form. However, the tax code does allow the minister to ask for voluntary withholding of federal and state income tax from his taxable income. The church must abide by the wishes of the minister concerning the withholding of federal and state income tax as expressed on the minister’s W-4 and G-4. If the minister is employed on a regular basis by the church and has taxable income, then the church must provide the minister a completed W-2. As a general rule, only interim ministers serving less than 12 months and evangelists are provided Form 1099-MISC.

**Self-Employed for Social Security:** Ministers are unique in the treatment of Social Security taxes. For federal and state income tax, a minister is considered an employee of the church, but for Social Security purposes, the minister is considered self-employed. The minister must pay the self-employment tax for Social Security (currently 15.3%) on taxable income plus housing allowance and/or fair rental value of the church-owned parsonage on his individual tax return. Therefore, the church cannot pay the minister’s social security tax to the government as Social Security self-employment tax. (If the church does send to the government the minister’s Social Security tax as Social Security taxes, recent experience has indicated the government will not recognize the Social Security payment. However, the minister can elect to withhold extra federal income tax withholding on his W-4 to cover what normally would have been his Social Security liability.) The church should not report a minister’s Social Security wages on Form 941 or on the minister’s W-2. (About 60% of churches give their minister a Social Security offset to help him pay the Social Security self-employment tax. The Social Security offset is normally half the amount the minister will owe on his Social Security taxes. If the church gives the minister a Social Security offset, then this amount must be added to his taxable wages as additional income.)

**Eligible for Housing Allowance:** Ministers are eligible for a housing allowance. If the minister can meet federal guidelines, then the housing allowance amount will not be subject to federal and state income taxes. However, the housing allowance is subject to the Social Security self-employment tax.

**Salary Reduction Agreement to the Church Retirement Plan:** If a minister reduces his salary to send contributions to his church retirement plan at GuideStone Financial Resources of the Southern Baptist Convention, then the contribution is tax deferred for federal and state income taxes plus the Social Security self-employment taxes.

**Workers Compensation:** Ministers must be counted as employees concerning fulfilling the legal requirements of the state of Georgia Worker Compensation laws.

**Social Security Exemption:** A new minister can opt out Social Security if he meets the IRS requirements.

**Housing Allowance is Not Normally Reported on W-2:** Reporting the housing allowance on the W-2 is optional.

**Retirement Income from the Church Retirement Plan Can Be Designated as a Housing Allowance:** A minister can designate up to 100% of retirement income from his Church Retirement Plan at Guidestone Financial Resources as housing allowance. If the expenditure of the housing allowance meets federal guidelines, then the housing allowance would not be subject to federal and state income taxes and the Social Security self-employment tax. Even if the retirement income is not designated as a housing allowance, the retirement income is only subject to federal and state income taxes. If retired, the retirement income from the Church Retirement Plan is not subject to the Social Security Self-Employment tax.

This document is intended to provide churches, pastors, and staff with current and accurate information about the subjects covered. However, such information is not intended to be sufficient for dealing with a particular legal problem, and the authors and distributors do not warrant or represent its suitability for such purpose. The reader should not rely upon this document as a substitute for independent legal consultation or IRS instructions.

\*For more information on this subject and other tax matters, order *The Church & Clergy Tax Guide* by Dr. Richard Hammar.