

## Church Financial Hot Topic

### Social Security Basics for Ministers and Churches\*

Like other taxpayers, most ministers and church employees pay a significant amount of their income for Social Security each year. Unfortunately, however, some ministers and churches may not understand the basic rules about Social Security. Ministers are employees for federal and state income taxes and self-employed for Social Security taxes. Failure to understand these rules can lead ministers to underpay Social Security taxes. Churches not aware of the rules could violate federal payroll tax procedures.

**Do ministers have to pay Social Security taxes?** Yes, unless the minister has opted out of Social Security and has the paperwork to prove the IRS' acceptance of the minister's decision of opting out of Social Security. If the minister has opted out of Social Security on his ministerial income, he still must pay Social Security taxes on income he earns from secular employment.

**What's the difference between SECA and FICA?** SECA is short for the Self Employment Contributions Act and refers to the rate which self-employed workers pay towards Social Security. FICA is short for Federal Insurance Contributions Act and refers to the rate at which employees and their employer contribute toward Social Security. Employers and employees together pay FICA, and self-employed workers like ministers pay SECA.

**Do ministers have to pay self-employment taxes on their ministerial income?** Yes, ministers must pay Social Security taxes at the self-employment rate, 15.3%, on their ministerial taxable income and housing allowance because ministers are considered self-employed for Social Security purposes.

**Can a church pay FICA for a minister?** No, a church cannot pay FICA for a minister. By law, ministers are treated as self-employed for Social Security purposes and subject to SECA for their ministerial earnings and housing allowance. Churches that pay FICA taxes for their ministers are not doing their ministers a favor; churches are violating the law.

**Does a minister have to pay Social Security taxes on a housing allowance and the rental value of a church parsonage?** Yes, although a housing allowance is excluded from income for federal and state income tax purposes, a minister must pay Social Security taxes (SECA) on a housing allowance and the fair rental value of a church parsonage.

**Do churches have to pay FICA for their nonministerial employees?** Yes, a church must pay FICA for non-ministerial employees unless the church has elected to exempt itself by filing the correct forms with the IRS.

**Can a church give a minister a Social Security allowance to help offset the expense of SECA?** Yes, a church can give a minister a Social Security allowance to help offset the expense of SECA. About 60% of churches give their ministers a Social Security offset to help the minister pay his Social Security taxes. A Social Security offset is taxable income for the minister.

**Will Social Security provide sufficient income for retirement?** It is generally believed Social Security will provide 25-40% of income needs in retirement. Therefore, Social Security alone will not meet retirement income needs. Churches need to take an active lead to make sure all employees with taxable income are in the Church Retirement Plan at GuideStone Financial Resources of the SBC. As a general rule, churches and employees need to contribute at least 10% of a church staff member's salary and housing allowance into the Church Retirement Plan to have sufficient retirement income.

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