Clergy: Get Smart About Your Taxes

Made Possible by Your Church's Generous Support
Of the World Service Fund

DISCIPLESHIP MINISTRIES
The United Methodist Church

Kansas Area United Methodist
FOUNDATION

Email: KSloane@umcdiscipleship.org

Join our Facebook Community!

www.facebook.com/UMCstewardship

www.umcdiscipleship.org/stewardship

@umcstewardship

Check Out the Clergy Taxes Q&A PDF

CLERGY TAXES Q & A

Reviewed Feb. 10, 2021

On Monday, Feb. 12, 2018 Discipleship Ministries presented a webinar on clergy taxes, and at the end we asked attendees to send us their questions. While this is our attempt to interpret those questions and respond, these should not be interpreted as legal advice, for which you should seek a qualified attorney who specializes in tax law.

If you don't find an answer to your question here, you might want to check our Zondervan 2020 Minister's Tax & Financial Guide. We suspect a Zondervan will release a 2021 version shortly.

This document prepared by GCFA will also be helpful with Housing Allowance questions.

++++++++++++

WITHHOLDING

Q: Can local church withhold money from clergy salary to help with taxes?

A: Yes, voluntary withholding is allowed for clergy, but it is technically for only federal or state tax, not for Social Security or medicare (reported on Box 2 on your W-2 form). The distinction you might want to remember: as self-employed persons the responsibility is yours, not the employers, if this amount is not withheld or "under-withheld."

PENSION & SOCIAL SECURITY

Q: You shared that regular PIP 403b contributions are not recorded in the box 1 taxable income on the W-2; just to clarify: if I make a pip Roth 403b contribution that should then be included in Box 1, correct? Or do I report that in a different way when doing my taxes and still excused the amount in box 1?

A: Not sure about Roth PIP. This is something to check with the Wespath/Board of Pensions (800-851-2201).

Q: Our Conference provides a resolution that officially designates my retiree pension as housing allowance. I always print this out and attach it to my tax return - meaning I cannot file online! Do I really need to attach the resolution?

A: No you do not; just keep a copy for your files.

Q: I am a 72 year old retired clergy member receiving social security as well as my pension. If I pastor a church part-time, am I still required to pay social security tax on my income from that church? Since I am already receiving benefits from the social security system, seems like the answer should be 'no' but I am not sure.

Our Guest Presenter

Rev. Don Joiner,

Certified Financial Planner
Clergy tax preparer.

Economic Impact Payment

a.k.a. “Stimulus Check”

- If you received paper check or paid electronically
- Must be reported on your 2020 tax return.
- Even though you received the second payment in 2021
- There is no tax on these stimulus payments
- Must report on line 30 of the 1040

Economic Impact Payment

a.k.a. "Stimulus Check"

- If you did not receive what you should have you will receive credit on your 2020 tax return
- If you received too much there is no need to return or pay tax on it.

2020 Consolidated Appropriations Act

- Reinstatement of the Mortgage Insurance Premium.
- Qualified Medical Expense reinstatement to 7.5%.
- Qualified tuition and related expenses (above the line)
- Required Minimum Distribution (RMD) increased to age 72 (starting this year, 2020)

2020 Increase in Standard Deduction

- $12,400 single
- $24,800 couples
- $18,650 head of household in 2020
- Plus, $1,650/person 65+
  - $2,600 if joint return
  - $1,650 if unmarried
- No longer personal exemption

2020 CARES Act Charitable Deduction

- Part of the CARES Act (which also brought PPP Loans)
- $300 charitable deduction on top of standard deduction
- Do not have to itemize deduction to get this!
- 2021 increase to $600 on a joint return

Personal Residence Changes

- Mortgage interest deduction limited to mortgages under $750,000 for primary residence and second home
- Primary residence property tax as well as state income and sales tax deduction limited to $10,000
- Deduction for moving expense gone (except for military)

Business Expense Deductions

- All previously subject to 2% AGI are eliminated.
  - Employee Business Expense
  - Tax preparation fees
  - Safe Deposit Fees, etc.

No Home Office Deductions

- No deduction for equipment for pandemic/virtual ministry
- Could be in Accountable Reimbursement
- Can use these expenses when you file Self-Employment tax (Schedule SE)

Child Tax Credit

- $2,000/child under 17
- $500 credit for each dependent not a qualifying child

7 Tax Brackets - Individuals

- 10%, 12%, 22%, 24%, 32%, 37%
- Most are in in 12%
  - Up to $80,250 taxable income for married
  - Up to $40,125 for singles
- The 22% bracket begins with taxable income above these levels

Other Changes

- Most estates are exempt from Estate Tax
- Individual Mandate for health insurance eliminated in 2019 tax year

Let's Take a Poll:

Where are you on the journey?

- ❑Age 20-39?
- ❑Age 40-59?
- ❑Age 60+?

Clergy Taxes & Finances Are Unique

- Limited Income
- Other income is self-employment income
- Employee and self-employed
- Itinerancy
- Spouse's job possibilities challenged

Clergy Taxes & Finances Are Unique

- Limited investment for housing
- Living in parsonage is taxable
- Gifts from church are taxable
- Estimated tax payments instead of withholding

Clergy Taxes & Finances Are Unique

✓Strategic Tax Planning

- Begins with your compensation plan
- Must be in place before you receive your pay
- Every clergy can have a housing allowance
- Everyone can make contributions to the Pension (UMPIP)
- Everyone has business expenses

Clergy Taxes & Finances Are Unique

✓Strategic Tax Planning

- Housing
- Parsonage
- Or Furnishings Allowance
- Every Clergy Person should have a housing allowance

The Parsonage Allowance

Internal Revenue Code #107 provides an exclusion from gross income for a 'parsonage allowance,' housing specifically provided as part of the compensation for the services performed as a minister of the gospel.

The Parsonage Allowance

This includes:

- The rental value of a home furnished as part of compensation
- Or a housing allowance to provide a home including furnishings and appurtenances (i.e. garage) and the cost of utilities (maintenance and repair of such)
- A minister can receive a parsonage allowance for only one house
- It must be approved annually and in advance of using the allowance

How Much Is A Housing Allowance?

The lesser of:

1. The amount actually used to provide a home,
2. The amount officially designated as a housing allowance, or
3. The fair rental value of the home, including furnishings and appurtenances, plus the cost of utilities, maintenance, and repairs (including supplies)

- May not include food or maid services.

Housing Allowance Plus Deductions

Even though a housing allowance used to pay mortgage interest and property taxes is excluded from gross income, those deductions are still allowed as Schedule A deductions from income.

Retired Clergy

- Funds received from the church's pension program are considered housing allowance and are not taxable income to the extent spent.

- Also, pension income is not taxable for Social Security or self-employment tax purposes

Business-related Expenses

- Much of clergy life is business related
  - Keep a log of what you do, mileage used, and money spent
  - Funds reimbursed in an accountable reimbursement plan are not taxable income (nor is it a deduction)
  - All clergy have expenses not reimbursed

Business-related Expenses

- Is it a business event?
- Is the expense deductible?
- Do I have a receipt / record of payment?
- Your contribution to the church is not a business deduction!

Pension Contribution

- Clergy: personal pension plan (UMPIP)
- Contributions, deducted from your compensation, and paid by the church to the Board of Pension is not taxable income for income tax or self-employment tax
- May contribute $19,500 (plus $6,500 if 50+) per year from your compensation.

It Adds Up and Makes a Difference

Example #1

$42,000	Salary
-12,000	Housing allowance
- 3,600	Pension contribution
$26,400	taxable compensation for income tax purposes

It Adds Up and Makes a Difference

Example #1

If in a 12% tax bracket

Save $1,872	Income tax
540	Pension contribution
$2,412	Savings on income tax

It Adds Up and Makes a Difference

Example #2

- Self-employment Tax

    Taxable income

    Plus housing allowance

    Minus unreimbursed business expenses (use IRS form 2106)

It Adds Up and Makes a Difference

Example #2

Self-employment tax

$26,400	taxable income
$12,000	housing allowance
- $3,400	less unreimbursed business exp.
$35,000	taxable for self-employ tax (15.3%)

It Adds Up and Makes a Difference

Example #2

Tax savings

$2,412	Income tax savings
510	Self-employment savings (from Business expenses)
$2,922	Total savings

Estimated Tax Payments

Clergy should pay ¼ of their total estimated tax due by:

April 15

June 15

September 15

January 15 (of the following year)

Financial Planning Is Imperative

- Start with a spending plan
- Money saved from taxes could be used
  - Building an emergency fund
  - Reducing debt
- Money earned outside of the local church should be spent according to your plan

Questions?

Thank You!

Upcoming Webinars

Thursday, March 9, 2021, 6:30 PM, CDT

The Church Audit: You Can Do This!

Every congregation needs to do a church audit, but it doesn't have to be a big expense or an insurmountable obstacle. There is an Updated Local Church Audit Guide, available free for United Methodist churches, that will take you through it step by step. Going through the process builds confidence among financial leaders and projects transparency to your donors. Join us as we explore the tools that can make this process easier than you thought. Live Zoom session will follow.

Thursday, May 11, 2021, 6:30 PM, CDT

Panel: What Will We Take From the Pandemic?

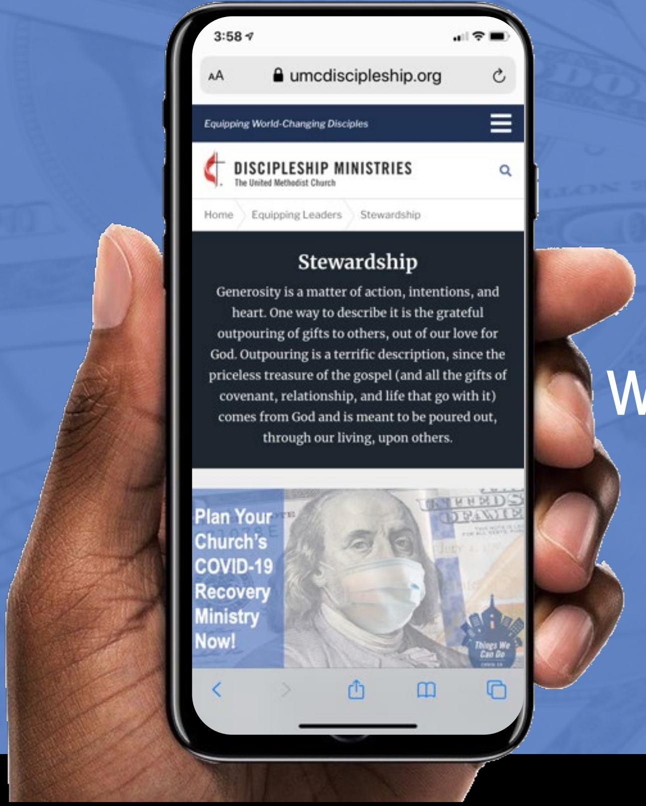
Join us as we bring together a group of leaders in stewardship and generosity to discuss what the days ahead might look like: what must we preserve from the past, what should we discard, and what new innovations will we need as we move into the future!

www.umcdiscipleship.org/webinars

Email: KSloane@umcdiscipleship.org

Join our Facebook Community!

www.facebook.com/UMCstewardship



www.umcdiscipleship.org/stewardship

@umcstewardship