

2020

Tax & Money
SERIES

EDITION

MINISTERS' TAXES MADE EASY

Federal income tax filing made easy.



by Dan Busby & Michael Martin



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Appreciation

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This publication is designed to provide accurate and authoritative information regarding the subject matter covered. The text has been significantly excerpted from the *Zondervan Minister's Tax & Financial Guide*, 2020 edition. It is distributed with the understanding that neither the publisher nor the authors are engaged in rendering legal, accounting, or other professional services. If legal advice or other expert assistance is required, the services of a competent professional person should be sought.

Every effort has been made to make the materials in this text current as of the date of publication. Federal tax law, however, is subject to change. Congress can modify the law as it has on numerous occasions over the years. Also, court decisions and IRS rulings can significantly affect the application of federal tax laws. Such changes may affect the accuracy of this publication.

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New Bonus Videos for Ministers

From authors: Dan Busby and Michael Martin



- **Introduction**
Video: “Welcome to the World of Minister’s Taxes!”
- **Taxes for Ministers:**
Video: “Should I File My Taxes as a Minister?”
- **Compensation Planning:**
Video: “Minister’s Compensation Worksheet – Step-by-Step”
- **The Pay Package:**
Video: Creative AND Compliant Compensation Strategies for Ministers”
- **Housing Exclusion:**
Video: “How to Approve the Minister’s Housing Allowance”
- **Business Expenses:**
Video: “Why an Accountable Expense Reimbursement Plan Is Critical for Churches”
- **Retirement and Social Security:**
Video: “Social Security and Medicare Tax for Ministers – Avoiding the Common Confusion!”
- **Paying Taxes:**
Video: “3 Ways to Pay Your Taxes as a Minister”

Recent Developments

Ministers continue to be faced with a plethora of tax and finance developments. A summary of some of the more significant developments follows (see the “In the News” link at [ECFA.Church](#) for current updates on these issues and much more):

Major court victory for the ministers’ housing allowance. Thousands of pastors and churches across America scored a major victory in the latest court challenge to the ministers’ housing exclusion.

The lawsuit was the latest attempt to overturn the housing allowance by the Freedom From Religion Foundation (FFRF), a nonprofit that describes itself as a “nonprofit, state/church watchdog and voice for freethought (atheism, agnosticism, skepticism).”

FFRF initiated this set-up case by designating housing allowances for its leaders that were denied by the IRS for not qualifying as “ministers” entitled to the benefit. In late 2017, a federal district court in Wisconsin agreed with FFRF’s argument that the housing allowance is discriminatory and a violation of the First Amendment’s Establishment Clause.

In its highly anticipated opinion on March 15, 2019, the U.S. Seventh Circuit Court of Appeals unanimously reversed a lower federal district court, which had ruled in late 2017 against the long-standing housing exclusion for ministers. Instead, the appeals court likened the ministers’ housing exclusion to other similar benefits in the tax code for work-related housing, finding the provision permissible under the First Amendment and well-established legal precedent.

ECFA has actively defended the housing exclusion, including supporting an amicus (friend of the court) brief that was cited by the appeals court judges in their favorable decision in this case. This decision is a win not just for the ministers’ housing exclusion but for the “more than 2,600 federal and state tax laws that provide religious exemptions” cited by the Seventh Circuit, some of which date back to early 1800s.

FFRF has conceded defeat in its latest legal challenge to the minister’s housing allowance. This welcome news for pastors and churches comes from a June 14, 2019 press statement by FFRF announcing it would not pursue further appeals in the current case to the U.S. Supreme Court.

Changes to the Form 1040 for 2019 tax returns filed in 2020. After the 1040’s major overhaul for 2018 tax returns to take into account tax reform, some taxpayers told the IRS that they found the redesigned forms confusing. In response, the IRS has attempted to improve the 1040 with a variety of tweaks.

One big change is a reduction of the number of schedules. Six new schedules that appeared in 2018 are whittled down to three for 2019. Some of the schedules are combined, while some information is returned to the base 1040 form.

There is a new line for capital gains on the 1040, and IRA distributions get their own line separate from pensions and annuities. An addition to Schedule 1 is a space to enter “date of divorce,” which accommodates the change in tax treatment of alimony enacted by tax reform.

There is a new form for filers taking the new Qualified Business Income (QBI) deduction—the 20% write-off for self-employment income or owners of pass-through entities. Form 8995 is for the simple version of the QBI deduction that is available to taxpayers below certain income thresholds, while Form 8995-A is for taxpayers subject to the more complex QBI computation. Many ministers will qualify for the QBI based on their Schedule C net income from speaking, wedding and funeral fees, for example.

And, in an effort to modernize, the decimal places for cents have been removed from each line of the forms. The IRS says most people round, and the extra room allows for other information to be made larger or clearer. But if you want to stick to tradition and include cents on each line, the IRS will accept this.

Here are some of the notable changes from 2018 that are reflected on the 2019 forms:

- The filing status line at the top of Form 1040 asks for additional information for taxpayers whose filing status is married, filing separately (the name of the spouse) and head of household and qualifying widow(er) (name of child who isn't a dependent).
- The detailed listing of types of gross income, which had been on schedules last year, is now on page 1 of Form 1040. For example, the line for capital gains or losses, which was on the 2018 Schedule 1, is now on Form 1040, Line 6.
- The checkbox for health care coverage has been removed; health care coverage is not required in 2019 in order to avoid a tax penalty.
- Several of the most-used credits (e.g., the earned income credit and the additional child tax credit) have been moved from schedules to page 2 of Form 1040.
- Lines to identify any foreign address and to name a third party with which the IRS had permission to discuss the return, which had been on Schedule 6, have been moved to page 2 of the main form.
- 2018 Schedules 4, 5, and 6 are obsolete for 2019.
- Schedule 1: Additional Income and Adjustments to Income adds new lines upon which alimony recipients and payors must include the date of the original divorce or separation agreement. This is necessary because only alimony based on pre-2019 agreements is included in income/is deductible.
- Schedule 2: Additional Taxes includes several line items from 2018 Schedule 4.
- Schedule 3: Additional Credits and Payments combines nonrefundable credits and refundable credits from 2018 Schedules 3 and 5.

Seniors get a new simplified tax form for 2019. If you are 65 or older (or turned 65 any time in 2019), you have the option to use a new simple tax form for seniors, known as the 1040-SR, when you file your 2019 taxes in April 2020.

Form 1040-SR is designed to be “as similar as practicable” to Form 1040-EZ and will serve as a simplified tax form for seniors with uncomplicated finances. While Form 1040-EZ only allows you to report income from wages, salaries, and tips, Form 1040-SR will allow income from certain other sources, as well.

One helpful inclusion is a standard deduction chart that is printed on the form, so seniors do not have to hunt in the instructions to figure out the amount to include.

Filing the 1040-SR is not mandatory. Seniors can continue to use the Form 1040 if desired.

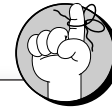
Key Federal Tax Limits, Rates, and Other Data			
	2018	2019	2020
Standard deductions, exemptions, and exclusions:			
Standard Deductions	Married-Joint Return \$24,000 Head of Household 18,000 Single 12,000 Married-Separate Returns 12,000	Married-Joint Return \$24,400 Head of Household 18,350 Single 12,200 Married-Separate Returns 12,200	Married-Joint Return \$24,800 Head of Household 18,650 Single 12,400 Married-Separate Returns 12,400
Foreign earned income exclusion	\$104,100	\$105,900	\$105,900
Social security:			
SECA (OASDI & Medicare) rate	15.3% on wages up to \$250,000 married-joint, \$125,000 married-separate and \$200,000 all others	15.3% on wages up to \$250,000 married-joint, \$125,000 married-separate and \$200,000 all others	15.3% on wages up to \$250,000 married-joint, \$125,000 married-separate and \$200,000 all others
OASDI maximum compensation base	\$128,400	\$132,900	\$137,700
Social security cost of living benefit increase	2%	2.8%	1.6%
Medicare Part B premiums - Basic	\$108.50	\$134.00	\$135.50
Earnings ceiling for social security (for employment before FRA; special formula in FRA year)	Below FRA: \$17,040 Over FRA: None	Below FRA: \$17,640 Over FRA: None	Below FRA: \$18,240 Over FRA: None
Earnings limit in year FRA attained	\$45,360	\$46,920	\$18,600
Benefits and contributions:			
Maximum annual contribution to defined contribution plan	\$55,000	\$56,000	\$57,000
Maximum salary deduction for 401(k)/403(b)	\$18,500	\$19,000	\$19,500
401(k) & 403(b) over 50 "catch up" limit	\$6,000	\$6,000	\$6,500
Maximum income exclusion for nonqualified plans in 501(c)(3) organizations (IRC 457)	\$18,500	\$19,000	\$19,500
IRA contribution limit - age 49 and below - age 50 and above	\$5,500 \$6,500	\$6,000 \$7,000	\$6,000 \$7,000
Highly compensated employee limit	\$120,000	\$125,000	\$130,000
Maximum annual contribution to health flexible spending arrangements	\$2,650	\$2,700	\$2,750
Per diem and mileage rates and other transportation:			
Standard per diem: Lowest rates in the continental USA	Lodging \$93 Meals & Incidentals \$51	Lodging \$94 Meals & Incidentals \$55	Lodging \$96 Meals & Incidentals \$55
Business auto mileage rate	54.5¢ per mile	58¢ per mile	57.5¢ per mile
Moving & medical auto mileage rate	18¢ per mile	20¢ per mile	17¢ per mile
Charitable auto mileage rate	14¢ per mile	14¢ per mile	14¢ per mile
Maximum value of reimbursement of business expenses (other than lodging) without receipt	\$75	\$75	\$75
Monthly limit on free parking	\$260	\$265	\$270
Transit passes/token - monthly tax-free limit	\$260	\$265	\$270

Part 1: The Tax System for Ministers

Six special tax provisions are available only to individuals who qualify as “ministers” under federal tax rules and who perform services that qualify in the exercise of ministry under federal tax rules.

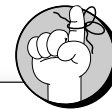
Special Tax Provisions for Ministers

1. For income tax purposes, exclusion of the housing allowance and the fair rental value of a church-owned parsonage provided rent-free to ministers.
2. For social security tax purposes, treatment of ministers as self-employed as it relates to income from ministerial services.
3. Exemption of ministers from self-employment social security tax under *very limited* circumstances.
4. Exemption of ministers’ compensation from mandatory income tax withholding.
5. Eligibility for a voluntary income tax withholding arrangement between the minister and the church.
6. Potential “double deduction” of mortgage interest and real estate taxes as itemized deductions *and* as excludable housing expenses for housing allowance purposes for ministers living in minister-provided housing.



Remember

The major tax benefit for most ministers is the special housing allowance treatment.



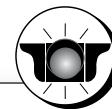
Remember

There is some flexibility in applying certain ministerial tax provisions. For example, ministers are exempt from mandatory income tax withholding but can enter into a voluntary income tax withholding arrangement. However, if ministers qualify for the housing allowance, self-employment social security tax (using Schedule SE) applies, not FICA—*this is not optional*.

When it comes to who should be considered a minister for tax purposes, the opinion of the IRS (based on tax law) is the only one that counts. The opinion of the worker or employer is not important.

Classification as a minister for tax purposes is very important. It determines how a minister prepares the tax return for income and social security tax purposes. For example, a qualified minister is eligible for the housing allowance. This alone can exclude thousands of dollars from income taxation. Also, ministers calculate self-employment social security tax on Schedule SE and include it with other taxes on Form 1040. Conversely, nonministers have one-half of their social security (FICA) tax withheld from salary payments, and the employer pays the other half.

According to tax law, there is a two-step process for determining whether the special tax provisions available to ministers apply to a particular worker. The first is whether the individual qualifies as a minister. The second is whether the minister is performing ministerial services.



Caution

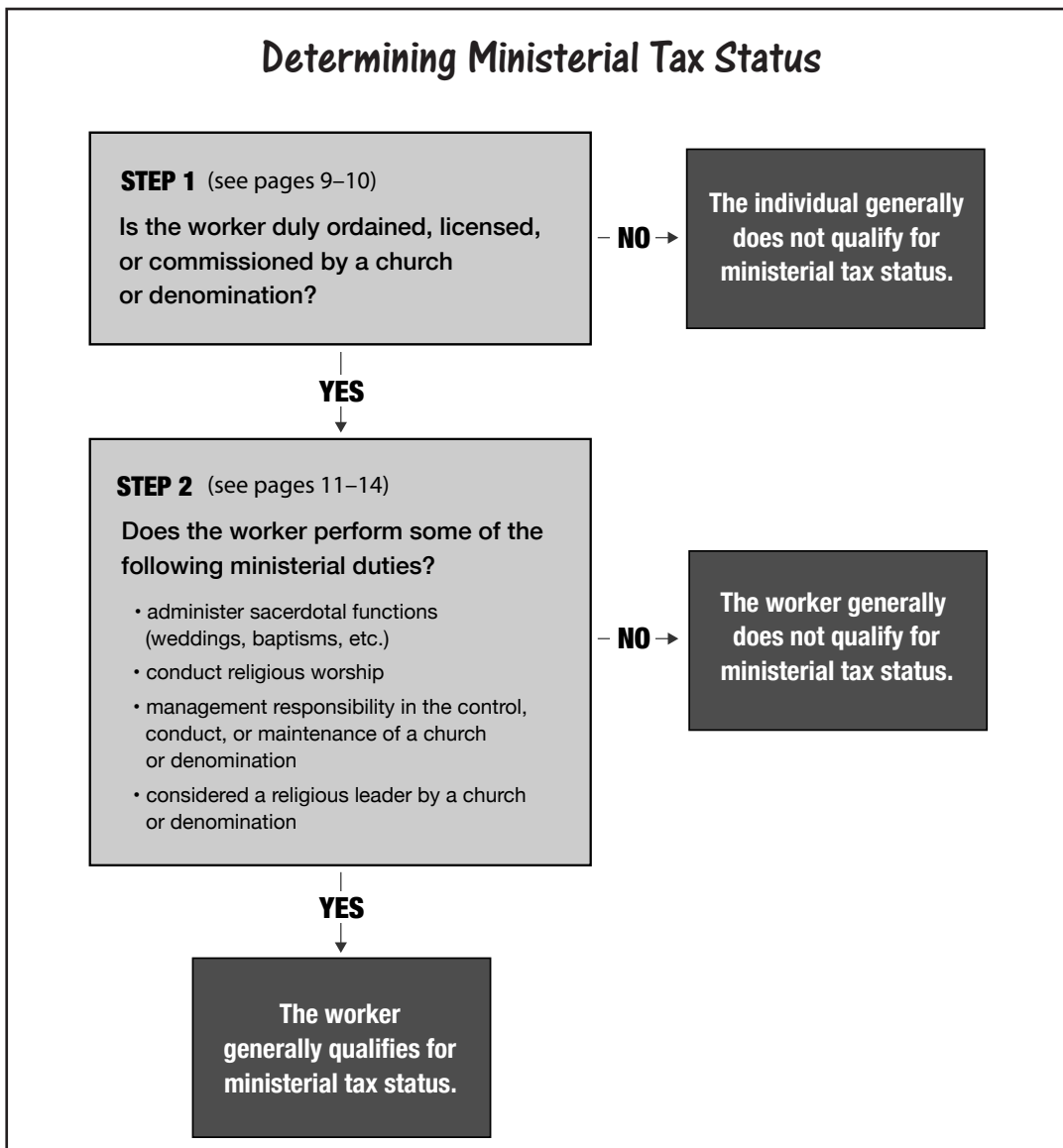
Determination of ministerial status is far from a precise matter. Only a review of all the pertinent facts and circumstances for a particular minister will assist in determining whether an individual will qualify for ministerial tax status.

● **Ministers Serving Local Churches**

If you are employed by a church and are ordained, commissioned, or licensed and meet the following four tests, the IRS will generally consider you a minister. You

- administer the sacraments,
- are considered a religious leader by your church,
- conduct worship services as part of your regular ministerial duties, and
- have management responsibility in the control, conduct, or maintenance of your church.

The IRS and the courts generally use a balanced approach in applying the above four tests, but not necessarily all, must be met in determining ministerial status. This flexible approach is beneficial to many ministers because some positions relating to music, education, youth, or administration will not meet all four tests.



There is no requirement that you must be qualified to perform and actually perform *every* sacrament. If you are qualified to perform certain sacraments and actually perform or could perform some of the sacraments on occasion, you will generally meet this test. A similar test applies to conducting religious worship and providing management services. If you currently conduct religious worship and provide management services, have done it in the past, or could do it in the future, the test will generally be met.

Job titles have little significance for tax purposes. A licensed, commissioned, or ordained minister may have a job title that implies a ministry function. However, the actual responsibilities of the position will determine if the four-factor test above is met. Individuals performing services of a routine nature, such as those performed by secretaries, clerks, and janitors, generally do not qualify as a minister for tax purposes.

● **Ministers in Denominational, Administrative, and Teaching Positions**

Ordained, commissioned, or licensed ministers not serving local churches may qualify as “ministers” for federal tax purposes in the following situations:

Denominational service

Denominational service encompasses the administration of religious denominations and their integral agencies, including teaching or administration in religious schools, colleges, or universities that are under the authority of a denomination.

Assignment by a church to another parachurch ministry

Services performed by a minister for a parachurch organization based upon a *substantive* assignment or designation by a church or denomination may provide the basis for ministerial tax treatment. If a housing allowance is provided, it should be designated by the employing organization, not the assigning church or denomination.

The following characteristics must be present for an effective assignment:

- A sufficient relationship must exist between the minister and the assigning church or denomination to justify the assignment of the minister.
- An adequate relationship must exist between the assigning church or denomination and the parachurch organization to which the minister is assigned to justify the assignment.

In addressing the relationship between the church or denomination and the parachurch organization, the question that must be answered is why the church or denomination should assign a minister to this particular organization. Essentially, the assignment of the minister must accomplish the ministry purposes of the church or denomination.

When a church or denomination considers an assignment, it is important to distinguish between the process of assigning and the documentation of the assignment. The process of assigning expresses the church’s or denomination’s theology, philosophy, and policy of operation—its way of doing ministry. The documentation of the assignment provides evidence that the church or denomination is providing ministry through the particular individual assigned.

Other service

If a minister is not engaged in service performed in the exercise of the ministry of a local church or an integral agency of a church, or if a minister is not serving under a substantive assignment from a

church or denomination, then the definition of a qualifying minister becomes much narrower. Tax law and regulations provide little guidance for ministers in this category.

Tax Court cases and IRS rulings suggest that an individual will qualify for the special tax treatment of a minister only if the individual's services for the church *substantially involve conducting religious worship or performing sacerdotal functions*. This definition might include preaching, conducting Bible studies, spiritual and pastoral counseling, conducting crusades, producing religious television and radio broadcasts, and publishing religious literature.

How much time constitutes substantial involvement in conducting worship or administering the sacraments? This is difficult to say. However, in two IRS letter rulings, the IRS determined that 5% of the minister's working hours were not sufficient to qualify for tax treatment as a minister.

Based on IRS rulings, it is clear that ministers serving as chaplains in government-owned-and-operated hospitals or in state prisons fall in a special category. They are employees for social security (FICA) purposes and qualify for the housing allowance exclusion. If they have opted out of social security by filing Form 4361, the exemption does not apply to this employment.

● Social Security Status of Ministers

Ministers engaged in the exercise of ministry are always treated as self-employed for social security tax purposes. Ministers pay social security under the Self-Employment Contributions Act (SECA) instead of the Federal Insurance Contributions Act (FICA). It is possible to become exempt from SECA only if a minister meets strict exemption requirements. The request for exemption must be filed using Form 4361 within a specified time from the beginning of ministry. The request for exemption must be approved by the IRS (see page 34).

A minister's earnings that are not from the exercise of ministry are generally subject to social security tax under FICA or for nonministerial employment or SECA for ministerial independent contractor earnings.



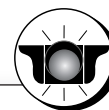
Caution

Social security is one of the most confusing issues for many ministers. FICA-type social security *never* applies to an individual who qualifies as a minister for tax purposes. Stated another way, if a housing allowance has been designated for a minister, FICA tax should not be deducted from pay—the minister is responsible to determine the social security tax by completing Schedule SE each year.

● Income Tax Status of Ministers

Are ministers employees or self-employed (independent contractors) for income tax purposes? The IRS considers virtually all ministers to be employees for income tax purposes. The income tax filing status has many ramifications for what and how churches and ministers report to the IRS.

The IRS often applies a common-law test to decide whether ministers are employees or self-employed for income tax purposes. (While the IRS and the courts have applied other tests to determine the status of workers, the other tests generally reach the same conclusion as when the common law test is applied.) Ministers are generally considered employees for income tax purposes if they meet the criteria reflected under three categories (behavioral control, financial control, and the relationship of the parties) as outlined in IRS Publication 15-A.



Caution

The IRS considers virtually all ministers as employees for income tax purposes. Employee income tax status actually is very beneficial to most ministers. Many fringe benefits are tax-free only to employees.

Determining if you are an employee or self-employed for income tax purposes will determine several other tax-related issues:

- ❑ Minister-employees must be given Form W-2 and report their compensation on page 1 of Form 1040. Expenses reimbursed under a nonaccountable plan must be included in compensation on Form W-2.
- ❑ Accident, long-term care insurance, and qualified group health insurance premiums paid directly by a church are not reportable as income to the minister-employee but must be reported as taxable income to the self-employed minister.

Minister-employees may deduct health, accident, and long-term care insurance premiums paid personally, and not reimbursed by the church, on Schedule A as a medical and dental expense, subject to a limitation of adjusted gross income (10% for 2019 and beyond).

The impact of a minister being considered self-employed for income tax purposes is generally very significant even if only health insurance is considered. Reporting these premiums paid by the church as tax-free (minister-employee) versus taxable (self-employed minister for income purposes) can impact the minister's tax bill by thousands of dollars. If health insurance premiums are included in taxable income, a low-income minister might also have his or her earned income tax credit reduced or eliminated.

- ❑ Health savings accounts, health reimbursement arrangements, or flexible spending accounts are only available to ministers who are employees for income tax purposes.
- ❑ Group-term life insurance of \$50,000 or less provided by a church is tax-free to minister-employees but represents taxable income for self-employed ministers.
- ❑ A voluntary arrangement to withhold income tax may be used by minister-employees but may not be used by the self-employed.

● Recommended Filing Status

Nearly every minister serving a local church qualifies as an employee for income tax purposes and should receive Form W-2. Few ministers can substantiate filing as self-employed for income tax purposes. Even though ministers may take exception to the reporting of the church, the church has a responsibility under the law to determine the proper filing method and to proceed accordingly.



Key Issue

The defining court case on the topic of income tax status for ministers was a 1994 case in which a Methodist minister claimed he was self-employed for income tax purposes. The Tax Court held that he was an employee for income tax purposes. A federal appeals court upheld the decision.



Caution

With rare exceptions, ministers should receive Form W-2 from their church or other employer. Few ministers qualify as independent contractors for income tax purposes (even though considered self-employed for social security tax purposes). A church generally has sufficient control over the minister to qualify for W-2 treatment.



Key Issue

It is vital for churches to treat ministers as employees (Form W-2) for income tax purposes in nearly every instance. If ministers are not considered employees for income tax purposes, it jeopardizes the tax-free treatment of fringe benefits like health, accident, and long-term care insurance premiums, group-term life premiums, and certain other fringe benefits.

Part 2: The Housing Exclusion

Nearly all ministers should have a portion of salary designated as a housing allowance in order to potentially exclude at least a portion of the designation for income tax purposes. Maximizing housing benefits requires careful planning. For ministers living in church-owned housing, a housing allowance that covers expenses such as furnishings, personal property insurance on contents, utilities, and so on could save several hundred dollars of income taxes annually. A properly designated housing allowance may be worth thousands of dollars in tax savings for ministers living in their own homes or rented quarters. For ministers without a housing allowance, every dollar of compensation is taxable for federal income tax purposes.

The designated housing allowance should be subtracted from compensation before the church completes the data on Form W-2. The housing allowance designation is not entered on Form 1040 or related schedules, except Schedule SE, since it is not a deduction for income tax purposes. However, any unused portion of the housing designation must be reported as income on page 2, Form 1040.

If the church properly designates a portion of a minister's cash salary for expenses of a *home they provide*, it is commonly referred to as a "housing allowance." If the church properly designates a portion of the minister's cash salary for expenses incurred in relation to *church-provided housing*, it is often called a "parsonage allowance." In either instance, it is an opportunity for a minister to exclude dollars from gross income for income tax purposes, not for social security purposes.

Ministers are eligible to exclude the fair rental value of church-provided housing for income tax purposes without any official action by the church. However, a cash housing allowance related to church-provided or minister-provided housing is only excludable under the following guidelines:

- **The allowance must be *officially* designated by the church.** The designation should be stated in writing, preferably by resolution of the top governing body, in an employment contract, or—at a minimum—in the church budget and payroll records. If the only reference to the housing allowance is in the church budget, the budget should be formally approved by the top governing body of the church.

Tax law does not specifically say an oral designation of the housing allowance is unacceptable. In certain instances, the IRS has accepted an oral housing designation. Still, the lack of a written designation significantly weakens the defense for the housing exclusion upon audit.
 - **The housing allowance must be designated *prospectively* by the church.** Cash housing payments made prior to a designation of the housing allowance are fully taxable for income (and social security) tax purposes. Carefully word the resolution so that it will remain in effect until a subsequent resolution is adopted (see the examples on page 16).
 - **Only actual housing expenses paid *during* the calendar year can be excluded from income.** The source of the funds used to pay the minister's housing expenses must be compensation earned by the minister in the exercise of ministry in the current year.
 - **Only an *annual* comparison by ministers of housing expenses to the housing allowance is required.** For example, if the housing allowance designation is stated in terms of a weekly or monthly amount, only a comparison of actual housing expenses to the annualized housing allowance is required.
 - **The housing allowance exclusion cannot exceed the fair rental value of the housing, plus utilities.**
-

● Types of Housing Arrangements

Ministers Living in a Parsonage Owned by or Rented by a Church

If a minister lives in a church-owned parsonage or housing rented by the church, the fair rental value of the housing is not reported for income tax purposes. The fair rental value is only subject to self-employment tax.

A minister may request a housing allowance to cover expenses incurred in maintaining church-owned or church-rented housing. A cash housing allowance that is not more than reasonable pay for services is excludable for income tax purposes, subject to the lowest of (1) actual housing expenses paid from current ministerial income, or (2) the amount prospectively and officially designated. If the actual expenses exceed the housing allowance designated by the church, the excess amount cannot be excluded from income. The expenses shown on the worksheet on page 17 may qualify as part of the housing exclusion for a minister living in housing owned or rented by the church.

It is appropriate for minister's out-of-pocket expenses for the maintenance of a church-owned parsonage to be reimbursed by the church. These reimbursements are not excludable as part of a housing allowance. If such expenses are not reimbursed, they may be excluded from income under a housing allowance.

Ministers Owning or Renting Their Own Home

If a minister owns or rents a home, the minister may exclude, for income tax purposes, a cash housing allowance that is not more than reasonable pay for services and is the *lowest* of (1) the amount used to provide a home from current church income, (2) the amount prospectively and officially designated, or (3) the fair rental value of the furnished home, plus utilities.

Many ministers make the mistake of automatically excluding from income, for income tax purposes, the total designated housing allowance, even though the fair rental value of the furnished home or actual housing expenses are less than the designation. This practice may cause a significant underpayment of income taxes.

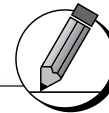
Example: A minister lives in a personally owned home. The church prospectively designated \$28,000 of the salary as a housing allowance. The minister spends \$27,000 for housing-related items. The fair rental value of the home is \$29,000, including furnishings and utilities.

Since the amount spent is lower than the designated housing allowance or the fair rental value, the excludable housing is \$27,000. Therefore, \$1,000 (\$28,000 less \$27,000) must be added to taxable income on Form 1040, page 1, Line 1. Unless the minister has opted out of social security, the entire \$28,000 is reportable for social security purposes on Schedule SE.

● Designating the Housing Allowance

The following steps are often followed in designating and excluding the housing allowance:

1. A minister estimates the housing-related expenses to be spent in the coming year and presents this information to the church.
2. The church then adopts a written housing allowance designation based on the estimate.



Tip

The designation of a housing allowance for ministers living in church-provided housing is often overlooked. While the largest housing allowance benefits go to ministers with mortgage payments on their own homes, a housing allowance of a few thousand dollars is often beneficial to ministers in a church-provided home.

- The minister who provides his or her own housing should compare reasonable compensation, the amount designated for housing, actual housing expenses, and the fair rental value. The *lowest* of these amounts is excluded for income tax purposes.

Ministers living in church-provided housing must compare reasonable compensation, the amount designated, and actual housing expenses, and exclude the lowest of these amounts.

Designation Limits

The IRS does not place a limit on how much of ministerial compensation may be designated as a housing allowance by the church. But practical and reasonable limits usually apply.

Unless the amount is justified based on anticipated expenses and is within the fair rental value limit, it is generally inadvisable for the church to exclude 100% of compensation.

It is often best for the church to overdesignate your parsonage allowance by a reasonable amount, subject to the fair rental value test, to allow for unexpected expenses and increases in utility costs. Any excess housing allowance designated should be shown as income on Form 1040, page 1, Line 1 with the notation "Excess housing allowance."



Remember

The housing allowance designation may be prospectively amended at any time during the year, regardless of whether the church uses a calendar or fiscal year. Changing the designation to cover expenses that have already been paid (almost all ministers use the cash basis for tax purposes) is *not* acceptable.

● Reporting the Housing Allowance to Ministers

The designated housing allowance may be reflected for minister-employees on Form W-2 in Box 14 with the notation, "Housing Allowance." Though not required, this reporting method is reflected in IRS Publication 517. Or, a church can report the designated housing allowance to a minister by providing a written statement separate from Form W-2. The statement should not be attached to your income tax returns.

A church might erroneously include the housing allowance on Form W-2, Box 1. If this happens, the church should prepare a corrected Form W-2.

● Accounting for the Housing Allowance

Determining Fair Rental Value

The determination of the fair rental value of church-provided housing for self-employment social security purposes is solely the responsibility of the minister. The church is not responsible to set the fair rental value. The fair rental value should be based on comparable rental values of other similar residences in the immediate neighborhood or community, comparably furnished, plus utilities.

One of the best methods to use in establishing fair rental value of your housing is to request a local realtor to estimate the value in writing. Place the estimate in your tax file and annually adjust the value for inflation and other local real estate valuation factors.

Housing Allowance in Excess of Actual Expenses or Fair Rental Value

Some ministers erroneously believe that they may exclude every dollar of the housing *designation* adopted by the church without limitation. The housing designation is merely the starting point in calculating the housing exclusion. If reasonable compensation, actual expenses, or the fair rental value is lower, the *lowest* amount is eligible for exclusion from income.

Example: A minister living in a personally owned home receives cash compensation from the church of \$80,000. The church prospectively designates \$25,000 as a housing allowance. The fair rental value is \$26,000. Actual housing expenses for the year are \$24,000. The amount excludable from income is limited to the actual housing expenses of \$24,000.

Actual Expenses in Excess of the Designated Housing Allowance or Fair Rental Value

Actual housing expenses that exceed the designated housing allowance are not excludable from income. There are no provisions to carry over “unused” housing expenses to the next year.

Example: A minister living in a personally owned home receives cash compensation of \$60,000 from the church. The church prospectively designates \$30,000 of the \$60,000 as a housing allowance. Actual housing expenses for the year are \$50,000. The fair rental value is \$28,000. The expenses were unusually high because of a down payment on that house. The amount excludable from income is limited to the fair rental value of \$28,000. There is no carryover of the \$22,000 (\$50,000 less \$28,000) of actual expenses in excess of the designated housing allowance to the next tax year.

● **Housing Allowances for Retired Ministers**

Pension payments, retirement allowances, or disability payments paid to retired ministers from an established plan are generally taxable as pension income. However, denominations generally designate a housing allowance for retired ministers to compensate them for past services to local churches of the denomination or in denominational administrative positions. The housing allowance designated relates only to payments from the denominationally sponsored retirement program.

Withdrawals from a denominationally sponsored 403(b), also called a tax-sheltered annuity (TSA), or 401(k) plan qualify for designation as a housing allowance. Withdrawals from a 403(b) or 401(k) plan not sponsored by a denomination or a local church are not eligible for designation as a housing allowance. Retired ministers may also exclude the rental value of a home furnished by a church or a rental allowance paid by a church as compensation for past services.

If a denomination reports the gross amount of pension or TSA payments on Form 1099-R and designates the housing allowance, the minister may offset the housing expenses and reflect the net amount on Form 1040, page 1, Line 4c. A supplementary schedule such as the following example should be attached to the tax return:

Pensions and annuity income (Form 1040, Line 4a)	\$ 10,000
Less housing exclusion	<u>8,000</u>
Form 1040, Line 4b	<u>\$ 2,000</u>



Remember

Payments to ministers from denominational retirement plans are generally designated as a housing allowance. While a local church may designate a housing allowance for a retired minister, it is unclear if the IRS will honor the designation on the minister’s tax return.

For a retired minister, the amount excluded for income tax purposes is limited to the lowest of (1) the amount used to provide a home, (2) the properly designated housing allowance, or (3) the fair rental value of the furnished home, plus utilities. A surviving spouse cannot exclude a housing allowance from income.

Housing Allowance Resolutions

Parsonage owned by or rented by a church

Whereas, the Internal Revenue Code permits ministers to exclude from gross income “the rental value of a home furnished as part of compensation” or a church-designated allowance paid as a part of compensation to the extent that actual expenses are paid from the allowance to maintain a parsonage owned or rented by the church;

Whereas, the church compensates (insert name) for services in the exercise of ministry; and

Whereas, the church provides (insert name) with rent-free use of a parsonage owned by (rented by) the church as a portion of the compensation for services rendered to the church in the exercise of ministry;

Resolved, That the compensation of (insert name) is \$4,500 per month, of which \$2,000 per month is a designated housing allowance; and

Resolved, That the designation of \$2,000 per month as a housing allowance shall apply until otherwise provided.

Home owned or rented by ministers

Whereas, the Internal Revenue Code permits a minister to exclude from gross income a church-designated allowance paid as part of compensation to the extent used for actual expenses in owning or renting a home; and

Whereas, the church compensates (insert name) for services in the exercise of ministry;

Resolved, That the compensation of (insert name) is \$4,500 per month, of which \$2,000 per month is a designated housing allowance; and

Resolved, That the designation of \$2,000 per month as a housing allowance shall apply until otherwise provided.

Special Speaker

Whereas, the Internal Revenue Code permits ministers to exclude from gross income a church-designated allowance paid as part of compensation to the extent used in owning or renting a permanent home; and

Whereas, the church compensated (insert name) for services in the exercise of ministry as an evangelist;

Resolved, That the honorarium paid to (insert name) shall be \$1,512, consisting of \$312 for travel expenses (with documentation provided to the church), \$500 for housing allowance, and a \$700 honorarium.

Housing Allowance Worksheet

Ministers Living in Housing Owned or Rented by the Church

Name: _____

For the period _____, 20__ to _____, 20__

Date designation approved _____, 20__

Allowable Housing Expenses (*expenses paid by minister from current income*)

	<u>Estimated Expenses</u>	<u>Actual</u>
Utilities (<i>gas, electricity, water</i>) and trash collection	\$ _____	\$ _____
Decoration and redecoration	_____	_____
Structural maintenance and repair	_____	_____
Landscaping, gardening, and pest control	_____	_____
Furnishings (<i>purchase, repair, replacement</i>)	_____	_____
Personal property insurance on minister-owned contents	_____	_____
Personal property taxes on contents	_____	_____
Umbrella liability insurance	_____	_____
Subtotal	_____	
10% allowance for unexpected expenses	_____	
TOTAL	\$ <u>_____</u>	\$ <u>_____</u> (A)
Properly designated housing allowance		\$ <u>_____</u> (B)

The amount excludable from income for federal income tax purposes is the *lower* of A or B (or reasonable compensation).

Housing Allowance Worksheet

Minister Living in Home Minister Owns or Is Buying

Name: _____

For the period _____, 20__ to _____, 20__

Date designation approved _____, 20__

Allowable Housing Expenses (*expenses paid by minister from current income*)

	<u>Estimated Expenses</u>	<u>Actual</u>
Down payment on purchase of housing	\$ _____	\$ _____
Housing loan principal and interest payments ⁽¹⁾	_____	_____
Real estate commission, escrow fees	_____	_____
Real property taxes	_____	_____
Personal property taxes on contents	_____	_____
Homeowner's insurance	_____	_____
Personal property insurance on contents	_____	_____
Umbrella liability insurance	_____	_____
Structural maintenance and repair	_____	_____
Landscaping, gardening, and pest control	_____	_____
Furnishings (<i>purchase, repair, replacement</i>)	_____	_____
Decoration and redecoration	_____	_____
Utilities (<i>gas, electricity, water</i>) and trash collection	_____	_____
Homeowner's association dues/condominium fees	_____	_____
Subtotal	_____	_____
10% allowance for unexpected expenses	_____	_____
TOTAL	\$ _____	\$ _____ (A)
Properly designated housing allowance		\$ _____ (B)
Fair rental value of home, including furnishings, plus utilities		\$ _____ (C)

⁽¹⁾ Loan payments on home equity loans or second mortgages are includible only to the extent the loan proceeds were used for housing expenses.

The amount excludable from income for federal income tax purposes is the *lowest* of A, B, or C (or reasonable compensation).

Housing Allowance Worksheet

Minister Living in Home

Minister Is Renting

Name: _____

For the period _____, 20__ to _____, 20__

Date designation approved _____, 20__

Allowable Housing Expenses *(expenses paid by minister from current income)*

	<u>Estimated Expenses</u>	<u>Actual</u>
Housing rental payments	\$ _____	\$ _____
Personal property insurance on minister-owned contents	_____	_____
Personal property taxes on contents	_____	_____
Umbrella liability insurance	_____	_____
Structural maintenance and repair	_____	_____
Landscaping, gardening, and pest control	_____	_____
Furnishings <i>(purchase, repair, replacement)</i>	_____	_____
Decoration and redecoration	_____	_____
Utilities <i>(gas, electricity, water)</i> and trash collection	_____	_____
Other rental expenses	_____	_____
Subtotal	_____	_____
10% allowance for unexpected expenses	_____	_____
TOTAL	\$ <u>_____</u>	\$ <u>_____</u> (A)
Properly designated housing allowance		\$ <u>_____</u> (B)

The amount excludable from income for federal income tax purposes is the lower of A or B (or reasonable compensation).

Part 3: Compensation and Fringe Benefits

Ask most ministers how much they are paid, and the response will often be “My check from the church is \$1,000 a week.” But that tells us very little. Not only is your salary subject to tax, but so are many fringe benefits that you may receive.

What are fringe benefits? A fringe benefit is any cash, property, or service that ministers receive from the church in addition to salary. The term “fringe benefits” is really a misnomer because ministers have come to depend on them as a part of the total compensation package. All fringe benefits are taxable income to ministers unless specifically exempted by the Internal Revenue Code.

Many fringe benefits can be provided by a church to a minister without any dollar limitation (group health insurance is an example), while other fringe benefits are subject to annual limits (dependent care is an example). A brief discussion of some of the key fringe benefits follows.

● Tax Treatment of Compensation Elements

- **Business and professional expenses reimbursed *with* adequate accounting.** If the church reimburses the minister under an *accountable* plan for employment-related professional or business expenses (for example, auto, other travel, subscriptions, and entertainment), the reimbursement is not taxable compensation and is not reported to the IRS by the church or the minister. Per diem reimbursements up to IRS-approved limits also qualify as excludable reimbursements.
- **Business and professional expense payments *without* adequate accounting.** Many churches pay periodic allowances or reimbursements to ministers for business expenses with no requirement to account adequately for the expenses. These payments do not meet the requirements of an accountable expense reimbursement plan.

Allowances or reimbursements under a *nonaccountable* plan must be included in a minister's taxable income on Form W-2, and there is no income tax deduction for unreimbursed business expenses related to W-2 income.

- **Cell phones.** Cell phones and similar devices provided to employees are excludable from an employee's income as a fringe benefit and are not subject to stringent recordkeeping requirements in certain situations. The cell phones must be provided for “substantial reasons relating to the employer's business, other than providing compensation to the employee.” Cell phones provided for employee morale or goodwill, or to recruit prospective employees, are not provided for “noncompensatory business purposes.”

If the church does not have a substantial noncompensatory business reason for providing a cell phone to an employee, or reimbursing the employee for business use of his or her personal cell phone, the value of the use of the phone or the amount of the reimbursement is includible in gross income, reportable on Forms 941 and W-2, and for lay employees is subject to employment tax withholding.

- **Club dues and memberships.** Dues for professional organizations (such as ministerial associations) or public service organizations (such as Kiwanis, Rotary, and Lions Clubs) are generally reimbursable.

Other club dues are generally not reimbursable (including any club organized for business, pleasure, recreation, or other social purposes). If the church pays the health, fitness, or athletic facility dues for a minister, the amounts paid are generally fully includible in the minister's income as additional compensation.

- **Computers and laptops.** The treatment of church-provided computers, laptops, and other peripheral equipment follow the same rules as for cell phones (see page 20). As long as the church has provided the computer equipment for non-compensatory business reasons, it is treated as a tax-free fringe benefit.
- **Disability insurance.** If the church pays the disability insurance premiums (and the minister is named as the beneficiary) as a part of the compensation package, the premiums are excluded from income. However, any disability policy proceeds must be included in gross income. This is based on who paid the premiums for the policy covering the year when the disability started. If the premiums are shared between the church and a minister, then the benefits are taxable in the same proportion as the payment of the premiums.

Conversely, if you pay the disability insurance premiums or have the church withhold the premiums from your salary, you receive no current deduction and any disability benefits paid under the policy are not taxable to you.

A third option is for the church to pay the disability premiums. But instead of treating the premiums as tax-free, the church treats the premiums as additional ministerial compensation. Benefits you receive under this option are tax-free.

- **Educational reimbursement plans.** If your church requires you to take educational courses or if you take job-related courses, and your church either pays the expenses directly to the educational organization or reimburses you for the expenses after you make a full accounting, you may not have to include in income the amount paid by your church.

While there are no specific dollar limits on educational expenses paid under a nonqualified reimbursement plan, the general ordinary and necessary business expense rules do apply. These types of payments may be discriminatory.

Though the education may lead to a degree, expenses may be deductible or reimbursable if the education:

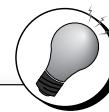
- is required by your church to keep your salary, status, or job (and serves a business purpose of your church), or
- maintains or improves skills required in your present employment.

Even though the above requirements are met, expenses do not qualify if the education is:

- required to meet the minimum educational requirements of your present work, or
- part of a program of study that will qualify you for a new occupation.

- **Embezzled funds.** If a minister embezzles funds from a church, the amount embezzled is reportable as taxable income on the minister's tax return. If the embezzlement occurred during prior years, amended tax returns should be filed by the minister for each year when the embezzlement occurred. Even if embezzled funds are refunded to the church, the act of embezzlement is complete and the full amount embezzled is taxable income.

The precise amount embezzled usually cannot be determined. However, if the church knows the exact amount misappropriated, the amount should be reported as compensation. When the



Idea

Statistics suggest that ministers are seven times more likely to need disability insurance than life insurance before age 65. When a church provides the maximum disability insurance as a tax-free benefit, it can reduce the awkwardness of a minister's transition relating to disability while serving the church.

exact amount embezzled is indeterminable, the church should consider filing Form 3949-A, Information Referral. The form may be used to report suspected illegal activity, including embezzlement.

- **Entertainment expenses.** Entertainment expenses that represent an ordinary and necessary business expense generally qualify for reimbursement under an accountable business expense reimbursement plan.
- **Flexible spending account (FSA).** “Cafeteria” (called cafeteria plans because a person can choose among several benefit options) or FSAs are plans used to reimburse the employee for certain personal expenses. They are provided by churches to pre-fund dependent care, medical, or dental expenses (often called a healthcare flexible spending account) in pre-tax dollars.

A cafeteria or flexible spending plan cannot discriminate in favor of highly compensated participants for contributions, benefits, or eligibility to participate in the plan. While only larger churches generally offer cafeteria plans because of the complexity and cost, many churches could feasibly offer an FSA.

The money is the account holder’s to use during the plan year. Ultimately the employer owns the account and any unused balance at the end of the plan year or any administrative grace period is forfeited to the employer.

An administrative grace period may be adopted before the beginning of an FSA plan year as a way to provide relief without running afoul of the prohibition on deferred compensation. Under this provision, employees are permitted a grace period of 2½ months immediately following the end of the plan year. Expenses for qualified benefits incurred during the grace period may be paid or reimbursed from benefits or contributions remaining unused at the end of the plan year. There is also the option of rolling over any unused FSA dollars into the next plan year, but this option is subject to a \$500 limit.

- **Health insurance.** If the church pays a minister-employee’s qualified group health insurance premiums directly to the insurance carrier, the premiums are tax-free to the minister. However, if similar payments are made for a minister whom the church considers to be self-employed for income tax purposes, the payments represent additional taxable income.
- **Health savings account (HSA).** HSAs are individual, portable, tax-free, interest-bearing accounts (typically held by a bank or insurance company) through which individuals with a high-deductible health plan (HDHP) save for medical expenses. The purpose of an HSA is to pay what basic coverage would ordinarily pay.

Within limits, HSA contributions made by employers are excludable from income tax and social security wages and do not affect the computation of the earned income credit. Earnings on amounts in an HSA are not currently taxable, and HSA distributions used to pay for medical expenses are not taxable.

An HSA is often compared with an FSA. While both accounts can be used for medical expenses, some key differences exist between them. For example, unused funds in the FSA during a given tax year are forfeited once the year ends. Also, while the elected contribution amount for the year can be changed by an employee with an HSA anytime during the year, the elected contribution amount for an FSA is fixed and can only be changed at the beginning of the following tax year.



Warning

Consult with your ministry’s professional tax advisors before reimbursing medical expenses for employees. Under changes brought by the Affordable Care Act, non-compliant reimbursements may result in penalties of \$100 per employee per day.

Only employees who are enrolled in qualifying HDHPs may participate in an HSA. A state high-risk health insurance plan (high-risk pool) qualifies as an HDHP if it does not pay benefits below the minimum annual deductible under the HSA rules.

HSA withdrawals do not qualify to cover over-the-counter medications (other than insulin or doctor-prescribed medicine). Additionally, there is an excise tax for nonqualified HSA withdrawals (withdrawals not used for qualified medical expenses) of 20%.

- **Life insurance/group-term.** If the group life coverage provided under a nondiscriminatory plan does not exceed \$50,000 for ministers, the life insurance premiums are generally tax-free to minister-employees. Group-term life insurance coverage of more than \$50,000 provided to a minister by the church is taxable under somewhat favorable IRS tables.
- **Meals.** If meals are furnished to the minister by the church on the church premises for the church's convenience (e.g., having a minister on call or if there are few, if any, restaurants nearby) and as a condition of employment, a minister does not include their value in income if the benefits are nondiscriminatory. The "convenience" test is met if the meals furnished on church premises are provided to at least half of the employees. *Note:* The benefits are taxable to a minister in computing self-employment for social security tax.

If meals provided by the church are a means of giving the minister more pay and there is no other business reason for providing them, their value is extra taxable income.

The value of church-provided snacks for staff is excluded from employee compensation as a de minimus fringe benefit.

➤ Retirement plans

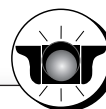
- ☐ **457 deferred compensation plans (also known as Rabbi Trusts or Top Hat plans).** Churches may make cash contributions to 457 deferred compensation plans to fund their future obligation to pay deferred compensation benefits. The funds contributed are tax deferred in a similar manner to other tax deferred vehicles such as a 403(b) plan.

In some instances, depending on a participant's includible income (generally, includible income is a participant's salary without including parsonage), churches can make contributions that exceed the IRS maximum annual contribution limits for a 403(b) plan.

These plans are intended to provide a degree of certainty that accumulated deferred compensation benefits will actually be paid. Amounts contributed to an irrevocable plan should not revert to the church until all nonqualified deferred compensation benefits have been paid to eligible participants.

Because trust assets are subject to the claims of the church's creditors in the case of insolvency or bankruptcy, the creation of a 457 plan does not cause the arrangement to be treated as "funded" for income tax purposes.

Distribution rules for 457 plans are not as flexible as for 403(b) accounts. For example, money in a 457 plan is not eligible to be rolled over into qualified retirement plans such as 403(b) plans or IRAs.



Caution

An allowance to cover the minister's self-employment social security tax provides absolutely no tax benefit since the amount is fully taxable. However, paying at least one-half of the minister's social security tax is important so this amount can be properly shown as a fringe benefit for compensation analysis purposes.

- **Individual retirement accounts.** Amounts contributed by a church for a minister-employee's Individual Retirement Account (IRA) are includible in the employee's compensation on the Form W-2 and are subject to self-employment tax. IRA contributions may fall into one of the following categories:
 - **Contributions to a regular IRA.** Each spouse may, in the great majority of cases, make deductible contributions to his or her IRA up to the dollar limitation (e.g., \$6,000 reduced by adjusted gross income limits for 2019). The adjusted gross income phaseout ranges for 2019 are \$103,000 to \$123,000 for married taxpayers and \$64,000 to \$74,000 for singles. (The phaseout amounts are different if the minister is not an active participant but his or her spouse is.) Catch-up contributions of \$1,000 may be made by taxpayers age 50 and over.
 - **Contributions to a Roth IRA.** Nondeductible contributions may be made to a Roth IRA. The buildup of interest and dividends within the account may be tax-free depending on how and when you withdraw the money from the account.
- **Keogh plans.** If a minister has self-employment income for income tax purposes, a Keogh plan (also called "qualified retirement plans") may be used. Amounts contributed to a Keogh plan are not taxed until distribution if the contribution limits are observed. If a minister withdraws money from a Keogh plan before reaching the age of 59½, the minister will be subject to a 10% early withdrawal penalty.

- **Social security tax reimbursement.** Churches commonly reimburse ministers for a portion or all of their self-employment social security (SECA) tax liability. Any social security reimbursement must be reported as taxable income.

Because of the deductibility of the self-employment tax in both the income tax and self-employment tax computations, a full reimbursement is effectively less than the gross 15.3% rate.

- **Tuition and fee discounts.** If you are an employee of a church-operated elementary, secondary, or undergraduate institution, certain tuition and fee discounts provided to a minister, spouse, or dependent children are generally tax-free. The discounts must be nondiscriminatory and relate to an educational program.

If you are employed by the church and not by the church-related or church-operated private school, any tuition and fee discounts that you receive are taxable income.

- **Vehicles/personal use of church-owned vehicle.** The personal use of a church-provided vehicle is considered a taxable fringe benefit. The fair market value of the personal use must be included in the minister's gross income, unless the full value is reimbursed to the church.
- **Vehicle use/nonpersonal.** The total value of a qualified nonpersonal-use vehicle is excluded from income as a working condition fringe. The term "qualified nonpersonal-use vehicle" means any vehicle that is not likely to be used more than a small amount for personal purposes because of its nature or design.

Example: A church provides the minister with a vehicle to use for church business. The minister does not qualify for a home office and leaves the car parked at the church when it is not being driven for business purposes. There is a written agreement with the church that prohibits personal use of the vehicle. Only in an emergency is the car driven for personal benefit. This vehicle should qualify under the nonpersonal-use provision, and the entire value of the nonpersonal use of the vehicle would be excluded from income.

Reporting Compensation, Fringe Benefits, and Reimbursements for Income Tax Purposes*

Explanation	Minister-Employee
Bonus or gift from the church	Taxable income/Form W-2
Business and professional expenses reimbursed with adequate accounting	Tax-free/excluded
Business and professional expense reimbursed without adequate accounting	Taxable income/Form W-2
Club dues paid by the church	Taxable income/Form W-2 (exception for dues for professional organizations and civic and public service groups)
Compensation reported to the minister by the church	Taxable income/Form W-2
Dependent care assistance payments	Tax-free, subject to limitations
Educational assistance programs	May be eligible to exclude up to \$5,250 of qualified assistance
401(k) plan	Eligible for 401(k) (either tax-deferred or taxable with tax-free growth)
403(b) tax-sheltered annuity	Eligible for 403(b)
Gifts/personal (not handled through the church)	Tax-free
Health Savings Account	Tax-free
Healthcare flexible spending account	Tax-free
Housing allowance	Tax-free, subject to limitations
IRA payments by church	Taxable income/Form W-2, may be deducted
Insurance, disability, paid by minister; minister is beneficiary	Premiums paid after tax; proceeds are tax-free
Insurance, disability paid by church; minister is beneficiary	Premiums are tax-free; proceeds are taxable
Insurance, group-term life paid by church	Premiums on first \$50,000 of coverage is tax-free
* Many of these compensation elements are conditioned on plans being properly established and subject to annual limits.	

Explanation	Minister-Employee
Insurance, health	Tax-free, if directly paid by church as part of a qualifying group plan. If paid by minister and not reimbursed by church, deduct on Schedule A, subject to limitations
Insurance, life, whole or universal, church is beneficiary	Tax-free
Insurance, life, whole or universal, minister designates beneficiary	Taxable income/Form W-2
Insurance, long-term care	Tax-free if directly paid by the church or reimbursed to minister on substantiation. If paid by minister and not reimbursed by church, deduct on Schedule A subject to limitations
Loans, certain low-interest or interest-free loans over \$10,000 to ministers	Imputed interest (the difference between the IRS-established interest rate and the rate charged) is taxable income/Form W-2
Moving expenses paid by the church (only applies to certain qualified expenses)	Taxable (not deductible by minister)/Form W-2
Pension payments by the church to a denominational plan for minister	Tax-deferred. No reporting required until the funds are withdrawn by minister or pension benefits are paid
Per diem payments for meals, lodging, and incidental expenses	May be used for travel away from home under an accountable reimbursement plan
Professional income (weddings, funerals)	Taxable income/Schedule C
Property transferred to minister at no cost or less than fair market value	Taxable income/Form W-2
Retirement or farewell gift to minister from church	Generally taxable income/Form W-2
Salary from church	Taxable income/Form W-2
Social security reimbursed by church to minister	Taxable income/Form W-2
Travel paid for minister's spouse by the church	May be tax-free if there is a business purpose
Tuition and fee discounts	May be tax-free in certain situations
Value of home provided to minister	Tax-free
Vehicles/personal use of church-owned automobile	Taxable income/Form W-2
Voluntary withholding	Eligible for voluntary withholding agreement

Part 4: Business and Professional Expenses

Most ministers spend several thousand dollars each year on church-related business expenses. For example, the ministry-related portion of auto expenses is often a major cost.

Business and professional expenses fall into three basic categories: (1) expenses reimbursed under an accountable plan, (2) expenses paid under a nonaccountable plan, and (3) unreimbursed expenses. Neither of the last two categories provide any income tax benefit to a minister.

The reimbursement of a personal expense by a church does not change the character of the item from personal to business. Business expenses are business expenses whether or not they are reimbursed. Personal expenses are always nondeductible and nonreimbursable. If a personal expense is inadvertently reimbursed by the church, ministers should immediately refund the money to the church.

To be reimbursable, a business expense must be both ordinary and necessary. An ordinary expense is one that is common and accepted in your field. A necessary expense is one that is helpful and essential for your field. An expense does not have to be indispensable to be considered necessary.



Key Issue

Combining an accountable expense reimbursement plan with a housing allowance or health reimbursement arrangement (or any other fringe benefit plan) is not permissible. These concepts are each covered under separate sections of the tax law and cannot be commingled.

● **Accountable and Nonaccountable Expense Reimbursement Plans**

An accountable plan is a reimbursement or expense advance arrangement established by your church that requires (1) a business purpose for the expenses, (2) substantiation of the expenses to the church, and (3) the return of any excess reimbursements to the church.

The substantiation of expenses and return of excess reimbursements must be handled within a reasonable time. The following methods meet the “reasonable time” definition:

- The fixed date method applies if:
 - an advance is made within 30 days of when an expense is paid or incurred;
 - an expense is substantiated to the church within 60 days after the expense is paid or incurred; and
 - any excess amount is returned to the church within 120 days after the expense is paid or incurred.
- The periodic statement method applies if:
 - the church provides employees with a periodic statement that sets forth the amount paid that is more than substantiated expenses under the arrangement;
 - the statements are provided at least quarterly;
 - the church requests that ministers provide substantiation for any additional expenses that have not yet been substantiated and/or return any amounts remaining unsubstantiated within 120 days of the statement.

Business expenses that are substantiated and reimbursed are not included on Form W-2. Business expenses that are reimbursed but not substantiated are included on Form W-2 in Box 1.

The IRS disallows deductions for a portion of unreimbursed business expenses on Schedule C on the premise that the expenses can be allocated to your tax-exempt housing allowance. This is another reason that all ministers should comply with the accountable expense reimbursement rules. The goal should be to eliminate all unreimbursed business expenses.

Nonaccountable Expense Reimbursement or Allowances

If you do not substantiate your business expenses to the church, or if the amount of the reimbursement exceeds your actual expenses and the excess is not returned to the church within a reasonable period, your tax life becomes more complicated.

If your church pays you an “allowance” in lieu of reimbursing substantiated business expenses, it represents taxable compensation. The term “allowance” implies that the payment is not based upon substantiated expenses, does not meet the adequate accounting requirements for an accountable plan, and must be included in your income.

Nonaccountable reimbursements, allowances, and excess reimbursements over IRS mileage or per diem limits must be included in your gross income and reported as wages on Form W-2. These expenses are not deductible for income tax purposes.

● Substantiating Business Expenses

For expenses to be treated as a tax-free reimbursement, a minister must show that the money was spent and that it was spent for a legitimate business reason. To prove that you spent the money, you generally need to provide documentary evidence that can be confirmed by a third party. Canceled checks, credit card statements, or other receipts are an excellent starting point. To the IRS, third-party verification is important. If business expenses are paid in cash, be sure to get a receipt.

Documenting a business expense can be time-consuming. The IRS is satisfied if the five Ws are noted:

- Why (business purpose)
- What (description, including itemized accounting of cost)
- When (date)
- Where (location)
- Who (names of those for whom the expense was incurred; *e.g.*, Pastor Mark Smith)

The only exception to the documentation rules is if your individual outlays for business expenses, other than for lodging, come to less than \$75. The IRS does not require receipts for such expenses, although the five Ws are still required. You always need a receipt for lodging expenses regardless of the amount. A church may apply a documentation threshold lower than \$75.

For more detailed information, refer to IRS Publication 535, Business Expenses, and Publication 463, Travel, Entertainment, Gift, and Car Expenses.



Warning

Many ministers are paid expense “allowances.” These payments accomplish nothing in terms of good stewardship. “Allowances” are fully taxable for income and social security tax purposes.



Remember

When ministers provide a listing of business expenses to the church or other employer—this is only a report, not documentation. Documentary evidence is much more than a report. It involves a detailed support of the five Ws (why, what, when, where, and who).

● Auto Expense Reimbursements

A minister's car expenses are reimbursable to the extent they are for business (or income producing) rather than personal use. Generally, only those expenses that are necessary to drive and maintain a car that is used to go from one workplace to another are deductible.

Mileage and Actual Expense Methods

In determining the amount eligible for reimbursement for the business use of a personal car, you can use one of two methods to figure your deduction: the standard mileage rate or the actual expense method. The simplicity of the standard mileage rate method is compelling.

Standard Mileage Rate Method

If your church pays you a mileage rate up to the IRS standard rate (58 cents per mile for 2019) and you provide the church with the time, place, and business purpose of your driving, you have made an adequate accounting of your automobile expenses, qualifying for a tax-free reimbursement.

If the church does not reimburse you for auto expenses or reimburses you under a nonaccountable plan, you may not deduct the expenses for income tax purposes except on Schedule C in relation to Schedule C income.

The standard mileage rate, which includes depreciation and maintenance costs, is based on the government's estimate of the average cost of operating an automobile. Depending upon the make, age, and cost of the car, the mileage rate may be more or less than your actual auto expense. If you use the mileage rate, you also may be reimbursed for parking fees, tolls, and the business portion of the personal property tax.

Documentation of Auto Expense

To support your automobile expense reimbursement, automobile expenses must be substantiated by adequate records. A weekly or monthly mileage log that identifies dates, destinations, business purposes, and odometer readings in order to allocate total mileage between business and personal use is a basic necessity if you use the mileage method. If you use the actual expense method, a mileage log and supporting documentation of expenses are required.

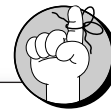
Per diem allowance

The IRS provides per diem allowances under which the amount of away-from-home meals and lodging expenses may be substantiated. These rates may not be used to reimburse volunteers. Higher per diem rates apply to certain locations annually identified by the IRS. For more information on these rules, see IRS Publication 1542.

Commuting

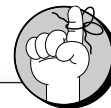
Personal mileage is never reimbursable. Commuting mileage is personal mileage.

Travel to and from home and church (a regular work location) and for church services and other work at the church is commuting and is not reimbursable. The same rule applies to multiple trips made in the same day. On the other hand, the cost of traveling between your home and a temporary



Remember

The standard mileage rate may generate lower reimbursement than using actual expenses in some instances. But the simplicity of the standard mileage method is very compelling.

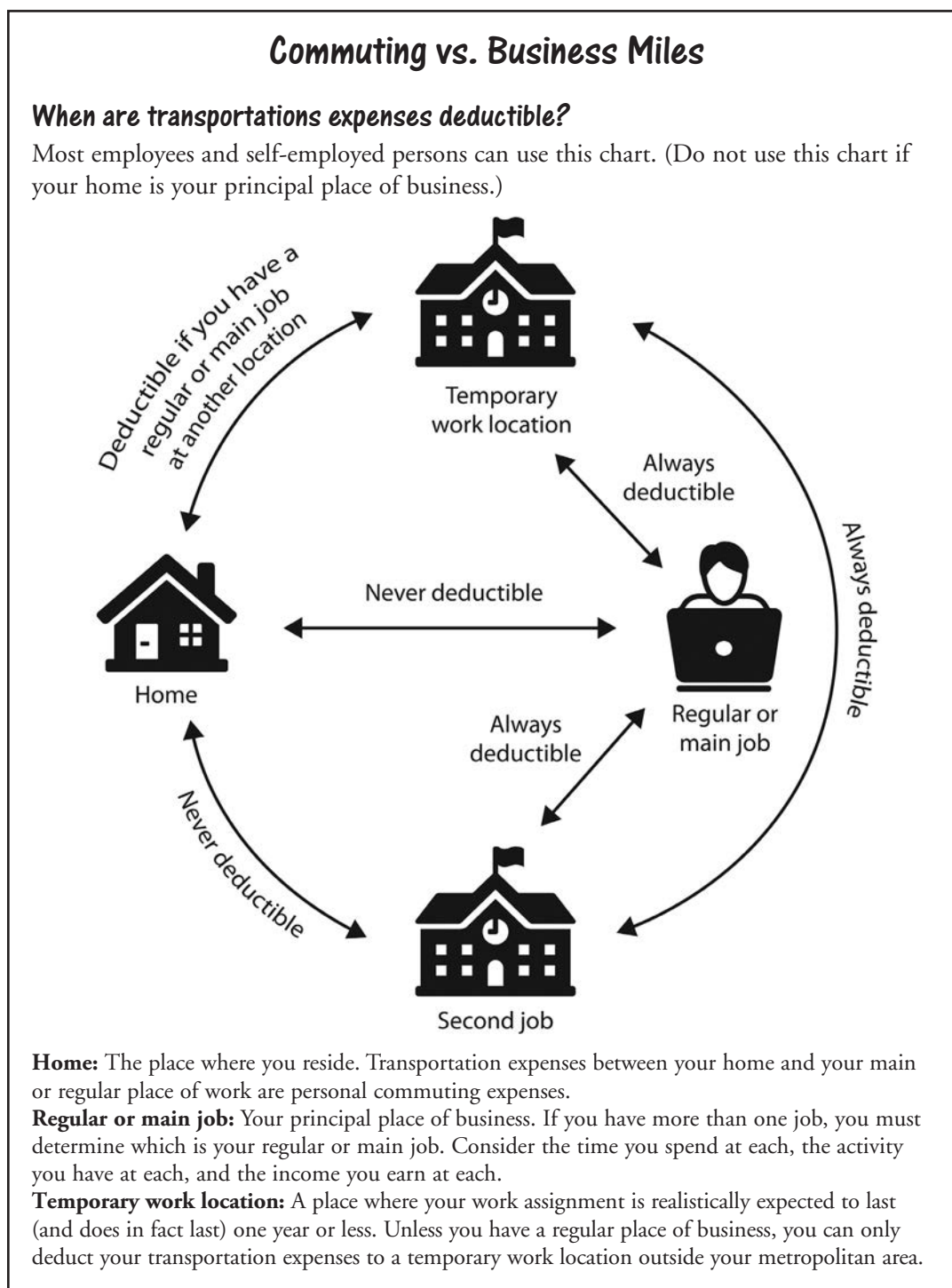


Remember

For your records to withstand an IRS audit, use a daily mileage log to document business vs. personal mileage. Whether you keep a notepad in the car or track the data on your smartphone, some type of log is the best approach to submitting data for reimbursement from your church.

work location is generally reimbursable. Once you arrive at the first work location, temporary or regular, you may be reimbursed for trips between work locations.

A regular place of business is any location at which you work or perform services on a regular basis. These services may be performed every week, for example, or merely on a set schedule. A temporary place of business is any location at which you perform services on an irregular or short-term (i.e., generally a matter of days or weeks) basis.



● Other Business and Professional Expenses

Business gifts

You may be reimbursed up to \$25 per donee for business gifts to any number of individuals every year. Incidental costs, such as for engraving, gift wrapping, insurance, and mailing do not need to be included in determining whether the \$25 limit has been exceeded.

The gifts must be related to ministry at the church. Gifts to church staff or board members would generally be deductible, subject to the \$25 limit. Wedding and graduation gifts generally do not qualify as business expenses.

Cell phones

The IRS treats the value of a church-provided cell phone and similar telecommunications equipment (including the value of any personal use by the employee) as excludible from the employee's income, as long as the cell phone is provided to the employee primarily for a noncompensatory business reason (such as the employer's need to contact the employee at all times for work-related emergencies). Providing a cell phone to promote morale or goodwill, to attract a prospective employee, or to furnish additional compensation to an employee is evidence that there is no noncompensatory business reason.

Church staff may be reimbursed for the business use of a cell phone, but the church should generally require the employee to submit a copy of the monthly bill and evidence that the bill has been paid.

If a church does not have a substantial noncompensatory business reason for providing a cell phone to an employee or reimbursing the employee for business use of his or her personal cell phone, then the value of the use of the phone or the amount of the reimbursement is includible in gross income, reportable on Forms 941 and W-2, and for lay employees is subject to employment tax withholding.

As a minister, the use of a cell phone must be for the "convenience of the church" and required as a "condition of employment." The "convenience of the church" test will generally be met if the cell phone is furnished for substantial "noncompensatory business reasons." Whether a minister (or other church employee) passes the "condition of employment" test is based on all the facts and circumstances and is not determined merely by an employer's statement that the use of the cell phone is a condition of employment.

If a minister meets the "convenience of the employer" and "condition of employment" tests but does not use the cell phone more than 50% of the time for work, he or she must depreciate it using the straight-line method for reimbursement purposes. The minister may be reimbursed the business-related phone call charges and the business-related portion of the monthly fees.

Entertainment

Entertainment expenses may qualify for reimbursement under an accountable expense reimbursement plan if they represent an ordinary and necessary business expense.

Meals

Meal expenses are reimbursable if they are ordinary and necessary and are either directly related to, or associated with, your ministerial responsibilities.

- **Lunches as business or personal expense.** The issue of a minister's lunch expenses can be a thorny one. When a minister is not traveling away from home on business and the minister eats

alone, the meal cost is personal and not reimbursable. Ministers generally eat lunch every day and often with others. A key question is whether the lunch expense is a business expense and reimbursable under an accountable expense reimbursement plan. It is solely the minister's responsibility to document the basis for claiming a lunch expense with another church staff member as an ordinary and necessary business expense. A church has no burden to prove that an expense is a business expense instead of a personal expense.

- **Lunches with non-church staff members.** If these lunches are occasional and there is a church business connection, these lunches may qualify for reimbursement under an accountable expense reimbursement plan. For example, a pastor may have lunch once a month with the pastor of another church across town to discuss how each other handles certain issues in a church. A lunch of this type likely qualifies as a reimbursable business expense. Similar principles apply to the scenario of a pastor having a meal with church volunteers.
- **Lunches with other church staff.** Ministers often eat lunch with one or more other church staff members. If the minister picking up the tab turns the expense in for reimbursement under an accountable expense reimbursement plan, should the church treasurer consider the amount as an ordinary and necessary business expense and reimburse the expense and consider the amount tax-free? Or, should the church treasurer pay the expense and include it in compensation on Form W-2 as a personal expense? Or, should the church treasurer consider it a personal expense and refuse to pay the amount, since there is not a good basis for the church to pay any personal expenses?

While an occasional meal with another church staff member may represent an ordinary and necessary business expense, frequent meals of this nature will rarely meet the business expense test. A monthly meeting with one or more staff members to discuss planning and church operational issues could meet the ordinary and necessary business expense test. However, a daily, every-few-days, weekly, or bi-weekly meeting with the same staff members is unlikely to meet the business expense test.

Certain meal expenses incurred in the minister's home may be reimbursable if they are ordinary and necessary business expenses. The minister should keep a log including date(s), names of guests, ministry purpose, and cost (not comparable value if purchased at a restaurant). Some ministers claim reimbursements for providing overnight lodging for church-related guests based on the value of motel lodging. There is no basis for such reimbursements since no out-of-pocket expense was incurred.

Employer-owned laptops or reimbursements

With the passage of tax reform, the treatment of employer-owned laptops or reimbursements now follow similar rules for cell phones as discussed above. As long as an employer has provided computer equipment (or reimbursements for the equipment) primarily for noncompensatory business reasons, it is treated as a tax-free fringe benefit.



Warning

If a minister purchases a computer and uses it primarily for church work and meets the "condition" and "convenience" tests, only the depreciation on the business portion of the computer can be reimbursed by the church, not the entire cost of the business portion, based on the Section 179 first-year write-off rules.

Part 5: Paying Income Taxes

The federal income tax is a pay-as-you-go tax. You must pay the tax as you earn or receive income during the year. Lay employees are subject to income tax withholding. However, the pay of a qualified minister is not subject to federal income tax withholding. Ministers who are employees for income tax purposes may enter into a voluntary withholding agreement with the church to cover any income tax and self-employment social security tax that are due. IRS Publication 505 provides additional information on tax withholding and estimated taxes.

● Tax Withholding

Churches are not required to withhold income taxes from wages paid to ministers for services performed in the exercise of their ministry. The exemption does not apply to nonministerial church employees such as a secretary, organist, or custodian.

Ministers may have a voluntary withholding agreement with the employing church to cover income taxes (the amount may be set high enough to also cover the self-employment social security tax liability). Ministers need only file Form W-4 with the church to establish a voluntary withholding arrangement.

● Estimated Tax

Estimated tax is the method used to pay income and self-employment taxes for income that is not subject to withholding. Your estimated tax is your expected tax for the year minus your expected withholding and credits.

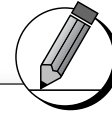
If you are filing a declaration of estimated tax, the employee must complete the quarterly Forms 1040-ES. If 2020 estimated taxes are \$1,000 or less, no declaration of estimated tax is required.

If your estimated tax payments for 2020 equal 90% of the 2019 tax liability, you will generally avoid underpayment penalties. An option is to make the 2020 estimated tax payments equal 100% of your 2019 federal and social security taxes (Form 1040, page 2, Line 16). This method generally avoids underpayment penalties and is easier to calculate.

In estimating 2020 taxes, net earnings from self-employment should be reduced by 7.65% before calculating the self-employment tax of 15.3%. There also is an income tax deduction for one-half of your self-employment tax (Form 1040, Schedule 1, Line 14).

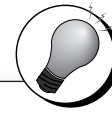
You pay one-fourth of your total estimated taxes in installments as follows:

<u>For the Period</u>	<u>2020 Due Date</u>
January 1 - March 31	April 15
April 1 - May 31	June 17
June 1 - August 31	September 15
September 1 - December 31	January 15



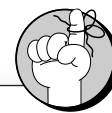
Filing Tip

When using the estimated tax method of submitting income and social security tax money to the IRS, pay at least as much as your previous year's total taxes (before offsetting withholding, estimated tax payments, etc.). Spread the payments equally over the four Forms 1040-ES. This will generally avoid underpayment penalties.



Idea

Though not required, churches should offer to withhold federal (and state and local, where applicable) income taxes (never FICA taxes!) from ministerial pay. Filing Forms 1040-ES often means saving up money for the 4/15, 6/15, 9/15, and 1/15 deadlines. Withholding the proper amount each week or payday is so much more efficient.



Remember

State income tax payment requirements may also be met by making estimated state tax payments.

Part 6: Paying Social Security Taxes

Social security taxes are collected under two systems. Under the Federal Insurance Contributions Act (FICA), the employer pays one-half of the tax and the employee pays the other half. Under the Self-Employment Contributions Act (SECA), the self-employed person pays all the tax (self-employment tax) as calculated on the taxpayer’s Schedule SE.

Compensation received by ministers for services performed in the exercise of ministry is self-employment income and is always subject to self-employment tax (SECA). Ministerial income is exempt from SECA only if you have opted out of social security. Federal Insurance Contributions Act (FICA) social security tax should *never* be withheld from the compensation of qualified ministers.

● **Computing the Self-Employment Tax**

The following tax rates apply to net earnings from self-employment of \$400 or more each year:

Year	Tax Rate		Maximum Earnings Base	
	OASDI	Medicare	OASDI	Medicare
2018	12.4%	2.9%	\$128,400	no limit
2019	12.4%	2.9%	132,900	no limit
2020	12.4%	2.9%	137,700	no limit

OASDI = Old-age, survivors, and disability insurance, or social security



Warning

Opting out of social security is relatively simple. Form 4361 must be filed by the due date of the tax return for the second year with \$400 or more, any portion of which comes from the exercise of ministry. But the simplicity of opting out should not be confused with the significant difficulty of complying with the requirements for opting out.

● **Self-Employment Tax Deduction**

You can take an income tax deduction equal to one-half of your self-employment tax liability. The deduction is claimed against gross income on Line 14 of Form 1040, Schedule 1. You may also deduct a portion of your self-employment tax liability in calculating your self-employment tax. This deduction is made on Schedule SE, Section A, Line 4 or Section B, Line 4a, by multiplying self-employment income by .9235. The purpose of these deductions is to equalize the social security (and income) taxes paid by (and for) employees and self-employed persons with equivalent income.



Key Issue

Unless ministers have opted out of social security, the net ministerial income plus the excluded housing allowance and the fair rental value of church-provided housing is subject to self-employment social security tax. This is true even if the minister is retired and receiving social security benefits. There is no age limit on paying social security tax.

● **Opting Out of Social Security Taxes**

All ministers are automatically covered by social security (SECA) for services in the exercise of ministry, unless an exemption has been received based on the filing with and approval by the IRS of Form 4361. You must certify that you oppose, either conscientiously or because of religious principles, the *acceptance* of any public insurance (with respect to services performed as a minister), including social security coverage. This includes an opposition to insurance that helps pay for or provides services for medical care (such as Medicare) and social security benefits. Your opinion of the financial stability of the social security program is not a valid basis to file for exemption.

Deadline for Filing for an Exemption

The application for exemption from self-employment tax must be filed by the date your tax return is due, including extensions, for the second year in which you had net ministerial income of \$400 or more. These do not have to be consecutive tax years.

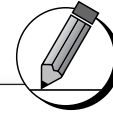
Part 7: Form 1040 – Line by Line Return Preparation

Form 1040

New for 2019, the IRS has further simplified the basic tax Form 1040 by reducing the six schedules used in 2018 down to three half-pages.

The first half-page of the new Form 1040 includes basic taxpayer and dependent identification information, while the second page is where all income and tax reporting occur. To accomplish this simplified design, the IRS has moved many of the less frequently used fields and added them to Schedules 1–3. Many ministers may report information on several of these schedules, especially as it relates to self-employment taxes.

Reviewing the Form 1040 and Schedules 1–3 line-by-line may jog your memory about money received or spent in 2019.



Filing Tip

All compensation from Form W-2 is reported on Line 1. Be sure the church has not included the housing allowance amount in Box 1 of Form W-2.

- **Filing status. Married filing jointly:** If the minister’s spouse died in 2019, he or she can still file jointly and take advantage of tax rates that would be lower than if he or she files as a single person or as a head of household.

Married filing separately: If the minister is married and lives in a separate-property state, compute the tax two ways—jointly and separately. Then, file the return resulting in the lower tax.

Form 1040 Department of the Treasury—Internal Revenue Service (99)		2019		OMB No. 1545-0074	IRS Use Only—Do not write or staple in this space.																																													
Filing Status <input type="checkbox"/> Single <input type="checkbox"/> Married filing jointly <input type="checkbox"/> Married filing separately (MFS) <input type="checkbox"/> Head of household (HOH) <input type="checkbox"/> Qualifying widow(er) (QW) Check only one box. If you checked the MFS box, enter the name of spouse. If you checked the HOH or QW box, enter the child’s name if the qualifying person is a child but not your dependent. ▶																																																		
Your first name and middle initial		Last name		Your social security number																																														
If joint return, spouse’s first name and middle initial		Last name		Spouse’s social security number																																														
Home address (number and street). If you have a P.O. box, see instructions.				Apt. no.	Presidential Election Campaign Check here if you, or your spouse if filing jointly, want \$3 to go to this fund. Checking a box below will not change your tax or refund. <input type="checkbox"/> You <input type="checkbox"/> Spouse																																													
City, town or post office, state, and ZIP code. If you have a foreign address, also complete spaces below (see instructions).																																																		
Foreign country name		Foreign province/state/country		Foreign postal code																																														
Standard Deduction <input type="checkbox"/> Spouse itemizes on a separate return or you were a dual-status alien Someone can claim: <input type="checkbox"/> You as a dependent <input type="checkbox"/> Your spouse as a dependent																																																		
Age/Blindness You: <input type="checkbox"/> Were born before January 2, 1955 <input type="checkbox"/> Are blind Spouse: <input type="checkbox"/> Was born before January 2, 1955 <input type="checkbox"/> Is blind																																																		
Dependents (see instructions): (1) First name Last name (2) Social security number (3) Relationship to you (4) <input checked="" type="checkbox"/> if qualifies for (see instructions): Child tax credit Credit for other dependents																																																		
<table border="1"> <tr> <td>1</td> <td>Wages, salaries, tips, etc. Attach Form(s) W-2</td> <td>1</td> </tr> <tr> <td>2a</td> <td>Tax-exempt interest</td> <td>2a</td> </tr> <tr> <td>3a</td> <td>Qualified dividends</td> <td>3a</td> </tr> <tr> <td>4a</td> <td>IRA distributions</td> <td>4a</td> </tr> <tr> <td>c</td> <td>Pensions and annuities</td> <td>4c</td> </tr> <tr> <td>5a</td> <td>Social security benefits</td> <td>5a</td> </tr> <tr> <td>6</td> <td>Capital gain or (loss). Attach Schedule D if required. If not required, check here ▶ <input type="checkbox"/></td> <td>6</td> </tr> <tr> <td>7a</td> <td>Other income from Schedule 1, line 9</td> <td>7a</td> </tr> <tr> <td>b</td> <td>Add lines 1, 2b, 3b, 4b, 4d, 5b, 6, and 7a. This is your total income</td> <td>7b</td> </tr> <tr> <td>8a</td> <td>Adjustments to income from Schedule 1, line 22</td> <td>8a</td> </tr> <tr> <td>b</td> <td>Subtract line 8a from line 7b. This is your adjusted gross income</td> <td>8b</td> </tr> <tr> <td>9</td> <td>Standard deduction or itemized deductions (from Schedule A)</td> <td>9</td> </tr> <tr> <td>10</td> <td>Qualified business income deduction. Attach Form 8995 or Form 8995-A</td> <td>10</td> </tr> <tr> <td>11a</td> <td>Add lines 9 and 10</td> <td>11a</td> </tr> <tr> <td>b</td> <td>Taxable income. Subtract line 11a from line 8b</td> <td>11b</td> </tr> </table>						1	Wages, salaries, tips, etc. Attach Form(s) W-2	1	2a	Tax-exempt interest	2a	3a	Qualified dividends	3a	4a	IRA distributions	4a	c	Pensions and annuities	4c	5a	Social security benefits	5a	6	Capital gain or (loss). Attach Schedule D if required. If not required, check here ▶ <input type="checkbox"/>	6	7a	Other income from Schedule 1, line 9	7a	b	Add lines 1, 2b, 3b, 4b, 4d, 5b, 6, and 7a. This is your total income	7b	8a	Adjustments to income from Schedule 1, line 22	8a	b	Subtract line 8a from line 7b. This is your adjusted gross income	8b	9	Standard deduction or itemized deductions (from Schedule A)	9	10	Qualified business income deduction. Attach Form 8995 or Form 8995-A	10	11a	Add lines 9 and 10	11a	b	Taxable income. Subtract line 11a from line 8b	11b
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Standard Deduction for— • Single or Married filing separately, \$12,200 • Married filing jointly or Qualifying widow(er), \$24,400 • Head of household, \$18,350 • If you checked any box under Standard Deduction, see instructions.																																																		
For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see separate instructions. Cat. No. 11320B Form 1040 (2019)																																																		

Head of household: If the minister is single, he or she may qualify as head of household if he or she provided a home for someone else—like a parent. Filing as head of household rather than as a single person can save a bundle on taxes.

Qualifying widow(er): If the minister's spouse died in 2017 or 2018 and he or she has a dependent child, there is benefit from joint-return rates as a qualifying widow(er).

- **Dependents.** Remember to include a social security number for any dependents. If a child does not have one, obtain Form SS-5, Application for a Social Security Number, at <http://www.ssa.gov/online/ssa-5.html>. If unable to secure the social security number before the filing deadline, the minister may file for an extension of time to file.
- **Income and deductions (Lines 1 to 11b).** **Line 1:** If the minister is considered an employee for income tax purposes, he or she should receive Form W-2 from the church. The total amount of the taxable wages is shown in Box 1 of Form W-2; attach Copy B of the W-2 to your Form 1040. Include the data from other W-2s received for the minister or spouse on this line. If the church erroneously included the housing allowance in Box 1, Form W-2, the minister should ask the church to reissue a corrected Form W-2.

If the cash housing allowance designated and paid by the church exceeds the lowest of (1) the amount used to provide a home from current ministerial income, (2) the amount properly designated by the employer, or (3) the fair rental value of the home including utilities and furnishings, enter the difference on Line 1.

Line 2a: Here's where to note any tax-exempt interest from municipal bonds or municipal bond funds. Don't worry—that income is not taxable. But social security recipients must count all their tax-exempt interest when computing how much of their social security benefits will be taxable.

Line 2b: Include as taxable-interest income the total amount of earnings on savings accounts, certificates of deposit, credit union accounts, corporate bonds and corporate bond mutual funds, U.S. treasuries and U.S. government mutual funds, and interest paid to the minister for a belated federal or state tax refund (whether or not a Form 1099-INT has been received). If the statements due have not yet been received, call the issuer to get them. If more than \$1,500 of taxable interest income was received in 2019, Schedule B must also be completed.

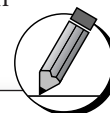
Line 3b: Enter as dividend income only ordinary dividends, not capital-gains dividends paid by mutual funds, which are reported on Schedule D. Form 1099-DIV statements show the amount and type of ordinary dividends received during 2019. If more than \$1,500 in dividend income was received in 2019, Schedule B must be completed. Remember: earnings from a money-market mutual fund are considered dividend income, not interest income.

Line 4a: Report all distributions from IRAs, pensions and annuities on this line, including amounts that were rolled over tax-free in 2019 from one account into another.

Line 4b: Report the taxable portion of these distributions. If any distributions were received from a denominationally sponsored plan, the minister may be eligible to exclude a portion or all of these payments as a housing allowance.

Line 5a: No more than 85% of social security benefits can be taxed for 2019 and none at all if the provisional income is below \$32,000 on a joint return, \$25,000 for singles. If the income doesn't exceed the threshold, leave this line blank. If it does, use the worksheet on Form 1099-SSA to compute taxes on the benefits.

Line 5b: Report any taxable portion of social security benefits on this line.



Filing Tip

Form 1040, Page 1, Line 1. If the housing allowance designated by the employer exceeds the housing allowance exclusion to which the minister is entitled, he or she must include the difference on Line 1 with a description "Excess housing allowance."

Line 6: Enter capital-gains dividends if there were no other capital gains or losses in 2019.

Line 9: Claim the standard deduction only if the amount exceeds what could be written off in itemizing expenses on Schedule A. For 2019, the standard deduction is \$24,400 joint, \$18,350 head of household, \$12,200 single, and \$12,200 for married filing separately. The amounts are higher if the minister or spouse is 65 or older or legally blind.

Line 10: Compute your qualified business income deduction on Form 8995/8995-A and reflect the amount on Line 10. Most ministers will qualify for this deduction because of Schedule C net income from fees for speaking, weddings, funerals, etc.

Form 1040 – Page 2

The image shows Form 1040 (2019) Page 2. It includes the following sections and lines:

- 12a** Tax (see inst.) Check if any from Form(s): 1 8814 2 4972 3
- 12b** Add Schedule 2, line 3, and line 12a and enter the total
- 13a** Child tax credit or credit for other dependents
- 13b** Add Schedule 3, line 7, and line 13a and enter the total
- 14** Subtract line 13b from line 12b. If zero or less, enter -0-
- 15** Other taxes, including self-employment tax, from Schedule 2, line 10
- 16** Add lines 14 and 15. This is your **total tax**
- 17** Federal income tax withheld from Forms W-2 and 1099
- 18** Other payments and refundable credits:
 - 18a** Earned income credit (EIC)
 - 18b** Additional child tax credit. Attach Schedule 8812
 - 18c** American opportunity credit from Form 8863, line 8
 - 18d** Schedule 3, line 14
 - 18e** Add lines 18a through 18d. These are your **total other payments and refundable credits**
- 19** Add lines 17 and 18e. These are your **total payments**
- 20** If line 19 is more than line 16, subtract line 16 from line 19. This is the amount you **overpaid**
- 21a** Amount of line 20 you want **refunded to you**. If Form 8888 is attached, check here
- 21b** Routing number
- 21c** Type: Checking Savings
- 21d** Account number
- 22** Amount of line 20 you want **applied to your 2020 estimated tax**
- 23** **Amount you owe**. Subtract line 19 from line 16. For details on how to pay, see instructions
- 24** Estimated tax penalty (see instructions)

Refund section includes lines 20, 21a-d, and 22.

Amount You Owe section includes lines 23 and 24.

Third Party Designee section asks if you want to allow another person to discuss the return with the IRS.

Sign Here section includes signature lines for the preparer and spouse, with fields for date, occupation, and PTIN.

Paid Preparer Use Only section includes fields for the preparer's name, signature, date, PTIN, firm's name, phone number, address, and EIN.

- **Tax computation (Lines 12 to 19). Line 13a:** If the minister has a dependent child (a child under the age of 17 at the end of the tax year), he or she should complete Schedule 8812 to claim up to a maximum credit of \$2,000 per qualifying child. This credit can reduce the actual taxes owed dollar-for-dollar, but only \$1,400 per child can be refundable beyond 2019.

Line 17: Show the amount of federal income tax the church withheld (from the W-2, Box 2) along with other federal income tax withholding from other employment of the minister or spouse here. Also include tax withheld on the other Forms 1099 and W-2. The amount withheld should be shown in Box 6 of Form 1099-SSA and Box 4 of other Forms 1099.

Line 18b: Enter the amount of your child tax credit on this line based on the completion of Schedule 8812.

- **Refund or amount owed (Lines 20 to 24). Line 24:** The IRS assumes the taxpayer must pay the estimated tax penalty if he or she owes \$1,000 or more beyond what has been paid through withholding or estimated tax and the amount due is more than 110% of the 2018 tax bill. The minister may qualify for one of several exceptions, however. Use Form 2210 to document an exception to an underpayment penalty.

Schedule 1 – Additional Income and Adjustments to Income

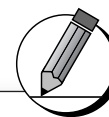
SCHEDULE 1 (Form 1040 or 1040-SR)		Additional Income and Adjustments to Income		OMB No. 1545-0074 2019 Attachment Sequence No. 01
Department of the Treasury Internal Revenue Service		▶ Attach to Form 1040 or 1040-SR. ▶ Go to www.irs.gov/Form1040 for instructions and the latest information.		
Name(s) shown on Form 1040 or 1040-SR			Your social security number	
Part I Additional Income				
1	Taxable refunds, credits, or offsets of state and local income taxes	1		
2a	Alimony received	2a		
b	Date of original divorce or separation agreement (see instructions) ▶			
3	Business income or (loss). Attach Schedule C	3		
4	Other gains or (losses). Attach Form 4797	4		
5	Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E	5		
6	Farm income or (loss). Attach Schedule F	6		
7	Unemployment compensation	7		
8	Other income. List type and amount ▶	8		
9	Combine lines 1 through 8. Enter here and on Form 1040 or 1040-SR, line 7a	9		
Part II Adjustments to Income				
10	Educator expenses	10		
11	Certain business expenses of reservists, performing artists, and fee-basis government officials. Attach Form 2106	11		
12	Health savings account deduction. Attach Form 8889	12		
13	Moving expenses for members of the Armed Forces. Attach Form 3903	13		
14	Deductible part of self-employment tax. Attach Schedule SE	14		
15	Self-employed SEP, SIMPLE, and qualified plans	15		
16	Self-employed health insurance deduction	16		
17	Penalty on early withdrawal of savings	17		
18a	Alimony paid	18a		
b	Recipient's SSN			
c	Date of original divorce or separation agreement (see instructions) ▶			
19	IRA deduction	19		
20	Student loan interest deduction	20		
21	Reserved for future use	21		
22	Add lines 10 through 21. These are your adjustments to income . Enter here and on Form 1040 or 1040-SR, line 8a	22		
For Paperwork Reduction Act Notice, see your tax return instructions.		Cat. No. 71479F		Schedule 1 (Form 1040 or 1040-SR) 2019

Schedule 1, Line 1: If a refund of a state or local tax was received in 2019 that was deducted on Schedule A in a prior year, include the refund here.

Line 3: Ministers almost always receive some honoraria or fee income from speaking engagements, weddings, funerals, and so on. This income, less related expenses, should be reported on Schedule C and entered on this line.

Line 10: If you or your spouse is an eligible educator, you can deduct up to \$500 (married filing jointly) for unreimbursed teaching-related expenses on this line.

Line 12: Contributions made by a taxpayer to a health savings account (HSA) up to \$3,450 for an individual plan and \$6,900 for a family plan are deductible on this line. Individuals who have



Filing Tip

Schedule 1, Line 3. The only ministerial income that should be reported on Line 3 is fees from weddings, funerals, speaking engagements, and similar income. Expenses related to this income should be deducted on Schedule C.

reached age 55 by the end of the tax year are allowed to increase their annual contribution for years after 2019.

Line 14: One-half of the social security tax that is deductible for income tax purposes is reflected on this line. This number comes from Schedule SE, Section A, Line 6, or Section B, Line 13.

Line 20: Interest paid on a qualifying student loan may be deducted on this line. The maximum deductible amount of interest is \$2,500, and it is phased out at high income levels.

Line 21: Line 21 would be used if Congress extends the tuition and fees deduction for 2019.

Line 22: If a minister is employed as a chaplain or any other minister of a nonreligious organization, use the dotted space next to Line 22 for the deduction of 403(b) contributions that were sent directly to the plan.

Schedule 2 – Additional Taxes

SCHEDULE 2 (Form 1040 or 1040-SR)		Additional Taxes		OMB No. 1545-0074	
Department of the Treasury Internal Revenue Service		▶ Attach to Form 1040 or 1040-SR. ▶ Go to www.irs.gov/Form1040 for instructions and the latest information.		2019 Attachment Sequence No. 02	
Name(s) shown on Form 1040 or 1040-SR				Your social security number	
Part I Tax					
1	Alternative minimum tax. Attach Form 6251	1			
2	Excess advance premium tax credit repayment. Attach Form 8962	2			
3	Add lines 1 and 2. Enter here and include on Form 1040 or 1040-SR, line 12b	3			
Part II Other Taxes					
4	Self-employment tax. Attach Schedule SE	4			
5	Unreported social security and Medicare tax from Form: a <input type="checkbox"/> 4137 b <input type="checkbox"/> 8919	5			
6	Additional tax on IRAs, other qualified retirement plans, and other tax-favored accounts. Attach Form 5329 if required	6			
7a	Household employment taxes. Attach Schedule H	7a			
7b	Repayment of first-time homebuyer credit from Form 5405. Attach Form 5405 if required	7b			
8	Taxes from: a <input type="checkbox"/> Form 8959 b <input type="checkbox"/> Form 8960 c <input type="checkbox"/> Instructions; enter code(s)	8			
9	Section 965 net tax liability installment from Form 965-A	9			
10	Add lines 4 through 8. These are your total other taxes . Enter here and on Form 1040 or 1040-SR, line 15	10			
For Paperwork Reduction Act Notice, see your tax return instructions. Cat. No. 71478U Schedule 2 (Form 1040 or 1040-SR) 2019					

Line 1: Few ministers will have taxable income high enough to trigger the alternative minimum tax.

Line 2: If a minister had an excess advance payment of the premium tax credit, it would be calculated on Form 8962 with the amount carried over to Line 2.

Line 4: If the taxpayer is a qualified minister and has not opted out of social security, he or she is self-employed for social security tax purposes. Social security is not withheld by the church but is calculated on Schedule SE if there were net earnings of \$400 or more and paid with Form 1040. The tax is 15.3% of the first \$132,900 of 2019 self-employment income. If the total wages and self-employment earnings were less than \$132,900, time and headaches can probably be saved by filing the Short Schedule SE on the front of the SE form.

Line 5b: The minister will owe the tax on qualified plans plus the 10% penalty on the amount withdrawn from the IRA or another retirement plan if the minister was under 59½, unless certain exceptions are met.

Line 7b: Enter the first-time homebuyer credit you have to repay if you bought the home in 2008.

Line 8: Don't get confused: Even though the fourth-quarter 2019 estimated tax payment was made in January 2020, it's counted on the 2019 return.

Schedule 3 – Additional Credits and Payments

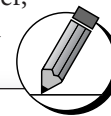
SCHEDULE 3 (Form 1040 or 1040-SR)		Additional Credits and Payments		OMB No. 1545-0074
Department of the Treasury Internal Revenue Service		▶ Attach to Form 1040 or 1040-SR. ▶ Go to www.irs.gov/Form1040 for instructions and the latest information.		2019 Attachment Sequence No. 03
Name(s) shown on Form 1040 or 1040-SR			Your social security number	
Part I Nonrefundable Credits				
1	Foreign tax credit. Attach Form 1116 if required	1		
2	Credit for child and dependent care expenses. Attach Form 2441	2		
3	Education credits from Form 8863, line 19	3		
4	Retirement savings contributions credit. Attach Form 8880	4		
5	Residential energy credit. Attach Form 5695	5		
6	Other credits from Form: a <input type="checkbox"/> 3800 b <input type="checkbox"/> 8801 c <input type="checkbox"/> _____	6		
7	Add lines 1 through 6. Enter here and include on Form 1040 or 1040-SR, line 13b	7		
Part II Other Payments and Refundable Credits				
8	2019 estimated tax payments and amount applied from 2018 return	8		
9	Net premium tax credit. Attach Form 8962	9		
10	Amount paid with request for extension to file (see instructions)	10		
11	Excess social security and tier 1 RRTA tax withheld	11		
12	Credit for federal tax on fuels. Attach Form 4136	12		
13	Credits from Form: a <input type="checkbox"/> 2439 b <input type="checkbox"/> Reserved c <input type="checkbox"/> 8885 d <input type="checkbox"/> _____	13		
14	Add lines 8 through 13. Enter here and on Form 1040 or 1040-SR, line 18d	14		
For Paperwork Reduction Act Notice, see your tax return instructions.		Cat. No. 71480G		Schedule 3 (Form 1040 or 1040-SR) 2019

Line 1: If you paid income tax to a foreign country of U.S. possession, you may be able to take this credit. Generally, you must complete and attach Form 1116 to do so. However, if all of your foreign-source gross income was from interest and dividends; and all of that income and the foreign tax paid on it was reported to you on Form 1099-INT, Form 1099-DIV, or Schedule K; and the total of your foreign taxes wasn't more than \$600 if married filing jointly, then you generally do not have to complete Form 1116.

Line 2: You may be able to take this credit if you paid someone to care for: (1) your qualifying child under age 13 whom you claim as your dependent, (2) your disabled spouse or any other disabled person who couldn't care for himself or herself, or (3) your child whom you couldn't claim as a dependent because of the rules for children of divorced or separated parents.

Line 3: If you (or your dependent) paid qualified expenses in 2019 for yourself, your spouse, or your dependent to enroll in or attend an eligible educational institution, you may be able to take an education credit. See Form 8863 for details.

Line 4: Taxpayers with adjusted gross income of \$63,000 or less may claim a credit on this line equal to a certain percentage of the employee contributions made to a retirement account or IRA (must complete Form 8880).



Filing Tip

Schedule 3, Line 4. If contributions were made to a 403(b) or 401(k) plan, and the adjusted gross income was \$50,000 or less, the minister may be eligible for the retirement savings contributions credit. The credit is also available for contributions to either a traditional or a Roth IRA. The excluded portion of minister's housing does not reduce this credit.

Schedule A – Itemized Deductions

If the minister lives in church-provided housing, he or she often cannot itemize. But run down Schedule A just to see whether there might be more write-offs than the standard deduction will permit.

- **Medical and dental expenses (Lines 1 to 4).** Don't overlook the cost of getting to and from the doctor or pharmacist. Write off 20 cents per mile plus the cost of parking. If the taxpayer didn't drive, deduct any bus, train, or taxi fares. The cost of trips to see out-of-town specialists and as much as \$50 a day for the cost of lodging when out of town to get medical care count toward the 10% limit of adjusted gross income. Include all health insurance premiums, as well as Medicare Part B premiums for 2019.
- **Taxes you paid (Lines 5 to 7).** Even though real estate taxes are a housing expense excludable under the housing allowance, they may still be deducted (even for multiple properties if not deducted elsewhere on the return) on Line 5b as an itemized deduction—one of the few “double benefits” allowed in the tax law.

The deduction for state and local taxes is limited to \$10,000 (\$5,000 if married filing married separately). State and local taxes are the taxes that you include on Lines 5a, 5b, and 5c.

- **Interest you paid (Lines 8 to 10).** The rules for deducting interest vary, depending on whether the loan proceeds are used for business, personal, or investment activities. See Publication 535 for more information about deducting business interest expenses. See Publication 550 for more information about deducting investment interest expenses. You can't deduct personal interest. However you can deduct qualified home mortgage interest (on your Schedule A) and interest on certain student loans (on Form 1040, Schedule 1, Line 20), as explained in Publications 936 and 970.

If you use the proceeds of a loan for more than one purpose (for example, personal and business), you must allocate the interest on the loan to each use.

You allocate interest on a loan in the same way as the loan is allocated, by tracing disbursements of the debt proceeds to specific uses.

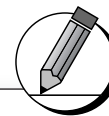
Line 8a: If the minister bought a house during 2019, review all escrow or settlement papers for any mortgage interest paid that was not shown on the lender's year-end statement. If interest was paid on a second mortgage or line of credit secured by the minister's home, include the interest expense here.

It is possible to deduct mortgage interest as an itemized deduction even if the interest is included in housing expenses subject to a housing allowance. Interest on a home equity loan or line of credit is not deductible on Schedule A unless the loan proceeds were used to buy, build, or substantially improve the minister's home that secures the loan.

Likewise, the only mortgage interest properly includible as housing expense under a housing allowance is when the loan proceeds were used to provide housing. For example, interest on a second mortgage used to finance a child's college education is not deductible on Schedule A and does not qualify as a housing expense for housing allowance purposes.

Don't overlook points paid to get the mortgage. All of the points are generally deductible as interest here. Points paid for a refinancing must be amortized over the life of the loan. But it is permissible to deduct on the 2019 return the portion of all points paid that correspond with the percentage of refinancing used for home improvements.

- **Gifts to charity (Lines 11 to 14).** **Line 16:** For gifts you made in 2019, there must be written acknowledgments from the charity of any single gifts of \$250 or more and for all gifts of cash.



Filing Tip

Schedule A, 8a-c. These lines relate to the most significant tax break available to ministers who own their own homes. Even though real estate taxes, mortgage interest, and points are excludable under the housing allowance, subject to certain limits, the same amounts are deductible as itemized deductions.

The following amounts are not deductible as charitable contributions:

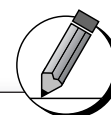
- An amount paid to or for the benefit of a college or university in exchange for the right to purchase tickets to an athletic event in the college or university's stadium.
- Travel expenses (including meals and lodging) while away from home performing donated services, unless there was no significant element of personal pleasure, recreation, or vacation in the travel.
- Political contributions
- Dues, fees, or bills paid to country clubs, lodges, fraternal orders, or similar groups.
- Value of your time or services.
- Value of blood given to a blood bank.
- The transfer of a future interest in tangible personal property. Generally no deduction is allowed until the entire interest has been transferred.
- Gifts to individuals and groups that are operated for personal profit.
- Gifts to foreign organizations.
- Gifts to civic leagues, social and sports clubs, labor unions, and chambers of commerce.
- Cost of tuition.

Line 12: Deduct charitable mileage for any volunteer work at the rate of 14 cents a mile.

Schedule C – Net Profit from Business

Nearly every minister should file Schedule C. While a minister should receive Form W-2 for employment compensation and report the amount in Box 1 of Form W-2 on Form 1040, Line 1, most ministers have some income from honoraria or fees related to weddings or funerals. Additionally, a minister may have speaking fees unrelated to the employer, product royalties, and other self-employment income reportable on Schedule C.

Only expenses related to the income reported on Schedule C may be deducted on the form. For example, if a minister received honoraria of \$500 for speaking at a church other than where employed, the \$500 is reported on Schedule C and the travel and other expenses related to the speaking engagement are deductible on the form. Expenses related to a minister's primary employment (compensation that was reported on Form W-2) is no longer deductible. This highlights the importance of churches adopting an accountable expense reimbursement policy.



Filing Tip

Schedule C. Only business expenses related to the income reported on Schedule C may be reported on the form. A minister's housing expenses are not deducted on this form (or generally any other form). Unreimbursed expenses related to employee compensation are not deductible as a result of tax reform.

Schedule SE – Self-Employment Tax

Most ministers will need to file Schedule SE to report income subject to self-employment taxes.

When computing the self-employment tax, net earnings include the gross income earned from performing qualified services minus the deductions related to that income.

Form 2441 – Child and Dependent Care Expenses

If the minister paid someone to care for his or her child or other qualifying person so he or she (and spouse, if filing a joint return) could work or look for work in 2019, the minister may be able to take the credit for child and dependent care expenses.

- **Qualifying person (Line 2[a]).** A qualifying person is any child under age 13 who can be claimed as a dependent. If the child turned 13 during the year, the child is a qualifying person for the part of the year he or she was under age 13.
- **Qualified expenses (Line 2[c]).** These include amounts paid for household services and care of the qualifying person while the taxpayer worked or looked for work. Child support payments are not qualified expenses. Household services include the services of a cook, maid, babysitter, housekeeper, or cleaning person if the services were partly for the care of the qualifying person.

Form 8863 – Education Credits

Education credits may be taken if the minister, spouse, or a dependent claimed on the taxpayer's return was a student enrolled at or attending an eligible educational institution.

- **American Opportunity Credit (Part I).** The minister may be able to take a credit of up to \$2,500 for qualified expenses paid in 2019 for each student who qualifies for the credit (see instructions for Form 8863).
- **Lifetime learning credit (Part II).** The maximum lifetime learning credit for 2019 is \$2,000, regardless of the number of students. The lifetime learning credit cannot be taken for any student for whom the American Opportunity Credit is being taken.
- **Qualified expenses (worksheet in form instructions).** Generally, qualified expenses are amounts paid in 2019 for tuition and fees required for the student's enrollment or attendance at an eligible educational institution. Qualified expenses do not include amounts paid for room and board, insurance, medical expenses, transportation, or course-related books, supplies, and equipment.

Form 8880 – Credit for Qualified Retirement Savings Contributions

You may be able to take a tax credit for making eligible contributions to your IRA or employer-sponsored retirement plan. And, beginning in 2018, if you're the designated beneficiary you may be eligible for a credit for contributions to your Achieving a Better Life Experience (ABLE) account.

You're eligible for the credit if you're

1. age 18 or older;
2. not a full-time student; and
3. not claimed as a dependent on another person's return.

The amount of the credit is 50%, 20% or 10% of your retirement plan or IRA or ABLE account contributions, depending on your adjusted gross income (reported on your Form 1040 series return). The maximum contribution amount that may qualify for the credit is \$2,000 (\$4,000 if married filing jointly), making the maximum credit \$1,000 (\$2,000 if married filing jointly). Use the following chart to calculate your credit.

The Saver's Credit can be taken for your contributions to a traditional or Roth IRA; your 401(k), SIMPLE IRA, SARSEP, 403(b), 501(c)(18), or government 457(b) plan; and your voluntary after-tax employee contributions to your qualified retirement and 403(b) plans.

Credit Rate	Married Filing Jointly	Head of Household	All Other Filers*
50% of your contribution	AGI not more than \$38,500	AGI not more than \$28,875	AGI not more than \$19,250
20% of your contribution	\$38,501 – \$41,500	\$28,876 – \$31,125	\$19,251 – \$20,750
20% of your contribution	\$41,501 – \$64,000	\$31,126 – \$48,000	\$20,751 – \$32,000
0% of your contribution	more than \$64,000	more than \$48,000	more than \$32,000

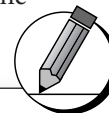
Rollover contributions (money that you moved from another retirement plan or IRA) aren't eligible for the Saver's Credit.

The Saver's Credit can be taken for your contributions to an ABLER account if you're the designated beneficiary.

Form 8889 – Health Savings Account

The minister may be required to file Form 8889 if he or she participated in a Health Savings Account (HSA) in 2109.

- **HSA distributions (Line 14).** Amounts withdrawn from the HSA in 2019 are reflected on this line. There is generally no tax impact of HSA withdrawals unless they exceed unreimbursed medical expenses.
- **Unreimbursed medical expenses (Line 15).** Medical expenses that were not reimbursed by your medical insurance may generally be included on this line.



Tip

There is no requirement to file Form 8889 if HSA withdrawals for the year do not exceed unreimbursed medical expenses.

Form 8962 – Premium Tax Credit

The premium tax credit is for those that were enrolled in health insurance through a state marketplace. The credit provides financial assistance to pay the premiums. This form reconciles whether there is a refund owed to a taxpayer or whether the taxpayer owes additional taxes related to an advance payment of the premium tax credit.

- **Part I.** This section determines the annual contribution amount one is required to pay out of pocket.
- **Part II.** This section reconciles how much one has paid based on Form 1095-A and how much should be paid based on actual income as determined in Part I.
- **Part III.** This section is used to determine any necessary repayment of excess advance payment of a premium tax credit.
- **Parts IV & V.** Use these parts to make allocations as it may relate to divorces, married filing separately, marriages, or where a policy is shared between two tax families. See the Instructions to 8962 for further details.

Form 8995 – Qualified Business Income Deduction Simplified Computation

A minister may deduct up to the lesser of 20% of the taxpayer's qualified business income from the taxable income reported on Schedule C (and certain other income). Enter the amount from Schedule C, Line 31 on Form 8995, Line 1. Enter the amount from Line 15 of Form 8995 on Form 1040, page 1, Line 10.

Sample Return No. 1 – Active Minister

Minister considered to be an employee for income tax purposes with an accountable business expense plan.

The Browns live in a home they are personally purchasing. Pastor Brown has entered into a voluntary withholding agreement with the church, and \$12,000 of federal income taxes are withheld.

Income, Benefits, and Reimbursements:

Church salary	\$74,850
Christmas and other special-occasion gifts paid by the church based on designated member-gifts to the church	750
Honoraria for performing weddings, funerals, and baptisms	650
Honorarium for speaking as an evangelist at another church	1,000
Interest income:	
Taxable	325
Self-employment tax allowance	12,000

Business Expenses, Itemized Deductions, Housing, and Other Data:

100% of church-related expenses (including 9,412 business miles) paid personally were reimbursed by the church under an accountable expense plan, based on timely substantiation of the expenses.

Expenses related to honoraria income:

Parking	\$ 50
Travel – 950 x 58¢ per mile	551

Potential itemized deductions:

Unreimbursed doctors, dentists, and drugs	1,500
State and local income taxes: withheld from 2019 salary	1,600
Real estate taxes on home	2,000
Home mortgage interest	14,850
Cash charitable contributions	8,200
Noncash charitable contributions – household furniture/fair market value	480

Student loan interest	1,906
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Housing data:

Designation	26,000
Actual expenses	25,625
Fair rental value plus furnishings including utilities	25,000

403(b) pre-tax contributions for Pastor Brown:

Voluntary employee contributions made under a salary reduction agreement	500
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Nonvoluntary employer contributions	2,000
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Moving expenses reimbursed	6,750
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Form **1040** Department of the Treasury—Internal Revenue Service (99) **2019** U.S. Individual Income Tax Return OMB No. 1545-0074 IRS Use Only—Do not write or staple in this space.

Filing Status Single Married filing jointly Married filing separately (MFS) Head of household (HOH) Qualifying widow(er) (QW)
 Check only one box. If you checked the MFS box, enter the name of spouse. If you checked the HOH or QW box, enter the child's name if the qualifying person is a child but not your dependent. ▶

Your first name and middle initial Milton L.	Last name Brown	Your social security number 541 16 8194
If joint return, spouse's first name and middle initial Alessia S.	Last name Brown	Spouse's social security number 238 49 7249
Home address (number and street). If you have a P.O. box, see instructions. 418 Trenton Street		Apt. no.
City, town or post office, state, and ZIP code. If you have a foreign address, also complete spaces below (see instructions). Springfield, OH 45504		Presidential Election Campaign Check here if you, or your spouse if filing jointly, want \$3 to go to this fund. Checking a box below will not change your tax or refund. <input checked="" type="checkbox"/> You <input type="checkbox"/> Spouse
Foreign country name	Foreign province/state/county	Foreign postal code

Standard Deduction **Someone can claim:** You as a dependent Your spouse as a dependent
 Spouse itemizes on a separate return or you were a dual-status alien

Age/Blindness **You:** Were born before January 2, 1955 Are blind **Spouse:** Was born before January 2, 1955 Is blind

Dependents (see instructions):

(1) First name	Last name	(2) Social security number	(3) Relationship to you	(4) <input checked="" type="checkbox"/> if qualifies for (see instructions): Child tax credit	<input type="checkbox"/> Credit for other dependents
Charles	Brown	514 43 9196	Son	<input checked="" type="checkbox"/>	<input type="checkbox"/>
				<input type="checkbox"/>	<input type="checkbox"/>
				<input type="checkbox"/>	<input type="checkbox"/>
				<input type="checkbox"/>	<input type="checkbox"/>

1 Wages, salaries, tips, etc. Attach Form(s) W-2	Excess Housing Allowance \$1,000	1	68,850
2a Tax-exempt interest	2a	2b	325
3a Qualified dividends	3a	3b Ordinary dividends. Attach Sch. B if required	
4a IRA distributions	4a	4b Taxable amount	
c Pensions and annuities	4c	4d Taxable amount	
5a Social security benefits	5a	5b Taxable amount	
6 Capital gain or (loss). Attach Schedule D if required. If not required, check here		6	
7a Other income from Schedule 1, line 9		7a	1,205
b Add lines 1, 2b, 3b, 4b, 4d, 5b, 6, and 7a. This is your total income		7b	70,380
8a Adjustments to income from Schedule 1, line 22		8a	8,611
b Subtract line 8a from line 7b. This is your adjusted gross income		8b	61,769
9 Standard deduction or itemized deductions (from Schedule A)	9	27,130	
10 Qualified business income deduction. Attach Form 8995 or Form 8995-A	10	224	
11a Add lines 9 and 10		11a	26,906
b Taxable income. Subtract line 11a from line 8b		11b	34,863

For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see separate instructions. Cat. No. 11320B Form **1040** (2019)

Line 1 – See page 58 for the calculation of the excess housing allowance.

Form 1040 (2019)

Page **2**

12a	Tax (see inst.) Check if any from Form(s): 1 <input type="checkbox"/> 8814 2 <input type="checkbox"/> 4972 3 <input type="checkbox"/>	12a	3,737		
b	Add Schedule 2, line 3, and line 12a and enter the total	12b	3,737		
13a	Child tax credit or credit for other dependents	13a	2,000		
b	Add Schedule 3, line 7, and line 13a and enter the total	13b	2,050		
14	Subtract line 13b from line 12b. If zero or less, enter -0-	14	1,687		
15	Other taxes, including self-employment tax, from Schedule 2, line 10	15	13,409		
16	Add lines 14 and 15. This is your total tax	16	15,096		
17	Federal income tax withheld from Forms W-2 and 1099	17	12,000		
18	Other payments and refundable credits:				
a	Earned income credit (EIC)	18a			
b	Additional child tax credit. Attach Schedule 8812	18b			
c	American opportunity credit from Form 8863, line 8	18c			
d	Schedule 3, line 14	18d			
e	Add lines 18a through 18d. These are your total other payments and refundable credits	18e	0		
19	Add lines 17 and 18e. These are your total payments	19	12,000		
20	If line 19 is more than line 16, subtract line 16 from line 19. This is the amount you overpaid	20			
21a	Amount of line 20 you want refunded to you . If Form 8888 is attached, check here <input type="checkbox"/>	21a			
b	Routing number	c	Type: <input type="checkbox"/> Checking <input type="checkbox"/> Savings		
d	Account number				
22	Amount of line 20 you want applied to your 2020 estimated tax	22			
23	Amount you owe. Subtract line 19 from line 16. For details on how to pay, see instructions	23	3,096		
24	Estimated tax penalty (see instructions)	24			

• If you have a qualifying child, attach Sch. EIC.
• If you have nontaxable combat pay, see instructions.

Refund

Direct deposit? See instructions.

Amount You Owe

Third Party Designee

Do you want to allow another person (other than your paid preparer) to discuss this return with the IRS? See instructions. Yes. Complete below. 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 <i>Milton A. Brown</i>	Date 4/15/20	Your occupation Minister	If the IRS sent you an Identity Protection PIN, enter it here (see inst.)
Spouse's signature. If a joint return, both must sign. <i>Alessia S. Brown</i>	Date 4/15/20	Spouse's occupation Housewife	If the IRS sent your spouse an Identity Protection PIN, enter it here (see inst.)
Phone no.	Email address		

Paid Preparer Use Only

Preparer's name	Preparer's signature	Date	PTIN	Check if: <input type="checkbox"/> 3rd Party Designee <input type="checkbox"/> Self-employed
Firm's name	Phone no.		Firm's EIN	
Firm's address				

Go to www.irs.gov/Form1040 for instructions and the latest information.

Form **1040** (2019)

SCHEDULE 1
(Form 1040 or 1040-SR)

Department of the Treasury
Internal Revenue Service

Additional Income and Adjustments to Income

▶ Attach to Form 1040 or 1040-SR.

▶ Go to www.irs.gov/Form1040 for instructions and the latest information.

OMB No. 1545-0074

2019
Attachment
Sequence No. **01**

Name(s) shown on Form 1040 or 1040-SR

Milton L. Brown

Your social security number

541-16-8194

Part I Additional Income

1	Taxable refunds, credits, or offsets of state and local income taxes	1	
2a	Alimony received	2a	
b	Date of original divorce or separation agreement (see instructions) ▶		
3	Business income or (loss). Attach Schedule C	3	1,205
4	Other gains or (losses). Attach Form 4797	4	
5	Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E	5	
6	Farm income or (loss). Attach Schedule F	6	
7	Unemployment compensation	7	
8	Other income. List type and amount ▶	8	
9	Combine lines 1 through 8. Enter here and on Form 1040 or 1040-SR, line 7a	9	1,205

Part II Adjustments to Income

10	Educator expenses	10	
11	Certain business expenses of reservists, performing artists, and fee-basis government officials. Attach Form 2106	11	
12	Health savings account deduction. Attach Form 8889	12	
13	Moving expenses for members of the Armed Forces. Attach Form 3903	13	
14	Deductible part of self-employment tax. Attach Schedule SE	14	6,705
15	Self-employed SEP, SIMPLE, and qualified plans	15	
16	Self-employed health insurance deduction	16	
17	Penalty on early withdrawal of savings	17	
18a	Alimony paid	18a	
b	Recipient's SSN		
c	Date of original divorce or separation agreement (see instructions) ▶		
19	IRA deduction	19	
20	Student loan interest deduction	20	1,906
21	Reserved for future use	21	
22	Add lines 10 through 21. These are your adjustments to income . Enter here and on Form 1040 or 1040-SR, line 8a	22	8,611

For Paperwork Reduction Act Notice, see your tax return instructions.

Cat. No. 71479F

Schedule 1 (Form 1040 or 1040-SR) 2019

Schedule 1, Line 14 – See page 34 for the explanation of the self-employment tax deduction.

SCHEDULE 2
(Form 1040 or 1040-SR)

Additional Taxes

OMB No. 1545-0074

2019
Attachment
Sequence No. **02**

Department of the Treasury
Internal Revenue Service

▶ Attach to Form 1040 or 1040-SR.
▶ Go to www.irs.gov/Form1040 for instructions and the latest information.

Name(s) shown on Form 1040 or 1040-SR
Milton L. Brown

Your social security number
541-16-8194

Part I Tax

1	Alternative minimum tax. Attach Form 6251	1	
2	Excess advance premium tax credit repayment. Attach Form 8962	2	
3	Add lines 1 and 2. Enter here and include on Form 1040 or 1040-SR, line 12b	3	

Part II Other Taxes

4	Self-employment tax. Attach Schedule SE	4	13,409
5	Unreported social security and Medicare tax from Form: a <input type="checkbox"/> 4137 b <input type="checkbox"/> 8919	5	
6	Additional tax on IRAs, other qualified retirement plans, and other tax-favored accounts. Attach Form 5329 if required	6	
7a	Household employment taxes. Attach Schedule H	7a	
7b	Repayment of first-time homebuyer credit from Form 5405. Attach Form 5405 if required	7b	
8	Taxes from: a <input type="checkbox"/> Form 8959 b <input type="checkbox"/> Form 8960 c <input type="checkbox"/> Instructions; enter code(s)	8	
9	Section 965 net tax liability installment from Form 965-A	9	
10	Add lines 4 through 8. These are your total other taxes . Enter here and on Form 1040 or 1040-SR, line 15	10	13,409

For Paperwork Reduction Act Notice, see your tax return instructions.

Cat. No. 71478U

Schedule 2 (Form 1040 or 1040-SR) 2019

SCHEDULE 3
(Form 1040 or 1040-SR)

Additional Credits and Payments

OMB No. 1545-0074

2019
Attachment
Sequence No. **03**

Department of the Treasury
Internal Revenue Service

▶ Attach to Form 1040 or 1040-SR.
▶ Go to www.irs.gov/Form1040 for instructions and the latest information.

Name(s) shown on Form 1040 or 1040-SR
Milton L. Brown

Your social security number
541-16-8194

Part I Nonrefundable Credits

1	Foreign tax credit. Attach Form 1116 if required	1	
2	Credit for child and dependent care expenses. Attach Form 2441	2	
3	Education credits from Form 8863, line 19	3	
4	Retirement savings contributions credit. Attach Form 8880	4	50
5	Residential energy credit. Attach Form 5695	5	
6	Other credits from Form: a <input type="checkbox"/> 3800 b <input type="checkbox"/> 8801 c <input type="checkbox"/>	6	
7	Add lines 1 through 6. Enter here and include on Form 1040 or 1040-SR, line 13b	7	50

Part II Other Payments and Refundable Credits

8	2019 estimated tax payments and amount applied from 2018 return	8	
9	Net premium tax credit. Attach Form 8962	9	
10	Amount paid with request for extension to file (see instructions)	10	
11	Excess social security and tier 1 RRTA tax withheld	11	
12	Credit for federal tax on fuels. Attach Form 4136	12	
13	Credits from Form: a <input type="checkbox"/> 2439 b <input type="checkbox"/> Reserved c <input type="checkbox"/> 8885 d <input type="checkbox"/>	13	
14	Add lines 8 through 13. Enter here and on Form 1040 or 1040-SR, line 18d	14	

For Paperwork Reduction Act Notice, see your tax return instructions.

Cat. No. 71480G

Schedule 3 (Form 1040 or 1040-SR) 2019

SCHEDULE A
(Form 1040 or 1040-SR)

Department of the Treasury
Internal Revenue Service (99)

Name(s) shown on Form 1040 or 1040-SR

Itemized Deductions

► Go to www.irs.gov/ScheduleA for instructions and the latest information.
► Attach to Form 1040 or 1040-SR.

Caution: If you are claiming a net qualified disaster loss on Form 4684, see the instructions for line 16.

OMB No. 1545-0074

2019

Attachment
Sequence No. **07**

Your social security number

541-16-8194

Milton L. Brown

Medical and Dental Expenses	Caution: Do not include expenses reimbursed or paid by others.			
	1 Medical and dental expenses (see instructions)	1	1,500	
	2 Enter amount from Form 1040 or 1040-SR, line 8b	2	61,769	
	3 Multiply line 2 by 10% (0.10)	3	6,177	
	4 Subtract line 3 from line 1. If line 3 is more than line 1, enter -0-	4		0
Taxes You Paid	5 State and local taxes.			
	a State and local income taxes or general sales taxes. You may include either income taxes or general sales taxes on line 5a, but not both. If you elect to include general sales taxes instead of income taxes, check this box <input type="checkbox"/>	5a	1,600	
	b State and local real estate taxes (see instructions)	5b	2,000	
	c State and local personal property taxes	5c		
	d Add lines 5a through 5c	5d	3,600	
	e Enter the smaller of line 5d or \$10,000 (\$5,000 if married filing separately)	5e	3,600	
	6 Other taxes. List type and amount ►	6		
7 Add lines 5e and 6	7		3,600	
Interest You Paid <small>Caution: Your mortgage interest deduction may be limited (see instructions).</small>	8 Home mortgage interest and points. If you didn't use all of your home mortgage loan(s) to buy, build, or improve your home, see instructions and check this box <input type="checkbox"/>			
	a Home mortgage interest and points reported to you on Form 1098. See instructions if limited	8a	14,850	
	b Home mortgage interest not reported to you on Form 1098. If paid to the person from whom you bought the home, see instructions and show that person's name, identifying no., and address ►	8b		
	c Points not reported to you on Form 1098. See instructions for special rules	8c		
	d Reserved	8d		
	e Add lines 8a through 8c	8e	14,850	
9 Investment interest. Attach Form 4952 if required. See instructions	9			
10 Add lines 8e and 9	10		14,850	
Gifts to Charity <small>Caution: If you made a gift and got a benefit for it, see instructions.</small>	11 Gifts by cash or check. If you made any gift of \$250 or more, see instructions	11	8,200	
	12 Other than by cash or check. If you made any gift of \$250 or more, see instructions. You must attach Form 8283 if over \$500.	12	480	
	13 Carryover from prior year	13		
	14 Add lines 11 through 13	14		8,680
Casualty and Theft Losses	15 Casualty and theft loss(es) from a federally declared disaster (other than net qualified disaster losses). Attach Form 4684 and enter the amount from line 18 of that form. See instructions	15		
Other Itemized Deductions	16 Other—from list in instructions. List type and amount ►	16		
Total Itemized Deductions	17 Add the amounts in the far right column for lines 4 through 16. Also, enter this amount on Form 1040 or 1040-SR, line 9	17		27,130
	18 If you elect to itemize deductions even though they are less than your standard deduction, check this box <input type="checkbox"/>			

For Paperwork Reduction Act Notice, see the Instructions for Forms 1040 and 1040-SR. Cat. No. 17145C Schedule A (Form 1040 or 1040-SR) 2019

Lines 5b and 8a – The real estate taxes and home mortgage interest are deducted on this form plus excluded from income on Line 1, Form 1040, page 1 as a housing allowance.

SCHEDULE C
(Form 1040 or 1040-SR)

Profit or Loss From Business
(Sole Proprietorship)

OMB No. 1545-0074

Department of the Treasury
Internal Revenue Service (99)

Go to www.irs.gov/ScheduleC for instructions and the latest information.

Attach to Form 1040, 1040-SR, 1040-NR, or 1041; partnerships generally must file Form 1065.

2019
Attachment
Sequence No. **09**

Name of proprietor

Milton L. Brown

Social security number (SSN)

541-16-8194

A Principal business or profession, including product or service (see instructions)

Minister

B Enter code from instructions

813000

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

D Employer ID number (EIN) (see instr.)

E Business address (including suite or room no.)

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

F Accounting method: (1) Cash (2) Accrual (3) Other (specify)

G Did you "materially participate" in the operation of this business during 2019? If "No," see instructions for limit on losses Yes No

H If you started or acquired this business during 2019, check here

I Did you make any payments in 2019 that would require you to file Form(s) 1099? (see instructions) Yes No

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

Part I Income

1 Gross receipts or sales. See instructions for line 1 and check the box if this income was reported to you on Form W-2 and the "Statutory employee" box on that form was checked <input type="checkbox"/>	1	1,650
2 Returns and allowances	2	
3 Subtract line 2 from line 1	3	
4 Cost of goods sold (from line 42)	4	
5 Gross profit. Subtract line 4 from line 3	5	
6 Other income, including federal and state gasoline or fuel tax credit or refund (see instructions)	6	
7 Gross income. Add lines 5 and 6	7	1,650

Part II Expenses. Enter expenses for business use of your home **only** on line 30.

8 Advertising	8		18 Office expense (see instructions)	18	
9 Car and truck expenses (see instructions)	9	445	19 Pension and profit-sharing plans	19	
10 Commissions and fees	10		20 Rent or lease (see instructions):		
11 Contract labor (see instructions)	11		a Vehicles, machinery, and equipment	20a	
12 Depletion	12		b Other business property	20b	
13 Depreciation and section 179 expense deduction (not included in Part III) (see instructions)	13		21 Repairs and maintenance	21	
14 Employee benefit programs (other than on line 19)	14		22 Supplies (not included in Part III)	22	
15 Insurance (other than health)	15		23 Taxes and licenses	23	
16 Interest (see instructions):			24 Travel and meals:		
a Mortgage (paid to banks, etc.)	16a		a Travel	24a	
b Other	16b		b Deductible meals (see instructions)	24b	
17 Legal and professional services	17		25 Utilities	25	
28 Total expenses before expenses for business use of home. Add lines 8 through 27a	28	445	26 Wages (less employment credits)	26	
29 Tentative profit or (loss). Subtract line 28 from line 7	29	1,205	27a Other expenses (from line 48)	27a	
30 Expenses for business use of your home. Do not report these expenses elsewhere. Attach Form 8829 unless using the simplified method (see instructions). Simplified method filers only: enter the total square footage of: (a) your home: _____ and (b) the part of your home used for business: _____. Use the Simplified Method Worksheet in the instructions to figure the amount to enter on line 30	30		27b Reserved for future use	27b	
31 Net profit or (loss). Subtract line 30 from line 29.	31	1,205			

32a All investment is at risk.
32b Some investment is not at risk.

For Paperwork Reduction Act Notice, see the separate instructions.

Cat. No. 11334P

Schedule C (Form 1040 or 1040-SR) 2019

Gross receipts:
Honoraria (weddings, etc.) \$650
Speaking honorarium 1,000
\$1,650

Expenses:
See Attachment 1 on page 57

Name of person with self-employment income (as shown on Form 1040, 1040-SR, or 1040-NR) **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		<input type="checkbox"/>
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)	1a	
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 AH	1b	()
2 Net profit or (loss) from Schedule C, line 31; and Schedule K-1 (Form 1065), box 14, code A (other than farming). 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)	2	94,899
3 Combine lines 1a, 1b, and 2	3	94,899
4a If line 3 is more than zero, multiply line 3 by 92.35% (0.9235). 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.	4a	87,639
b If you elect one or both of the optional methods, enter the total of lines 15 and 17 here	4b	
c Combine lines 4a and 4b. If less than \$400, stop ; you don't owe self-employment tax. Exception: If less than \$400 and you had church employee income , enter -0- and continue ▶	4c	87,639
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% (0.9235). If less than \$100, enter -0-	5b	
6 Add lines 4c and 5b	6	87,639
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 2019	7	132,900
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 \$132,900 or more, skip lines 8b through 10, and go to line 11	8a	
b Unreported tips subject to social security tax (from Form 4137, line 10)	8b	
c Wages subject to social security tax (from Form 8919, line 10)	8c	
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	132,900
10 Multiply the smaller of line 6 or line 9 by 12.4% (0.124)	10	10,867
11 Multiply line 6 by 2.9% (0.029)	11	2,542
12 Self-employment tax. Add lines 10 and 11. Enter here and on Schedule 2 (Form 1040 or 1040-SR), line 4, or Form 1040-NR, line 55	12	13,409
13 Deduction for one-half of self-employment tax. Multiply line 12 by 50% (0.50). Enter the result here and on Schedule 1 (Form 1040 or 1040-SR), line 14, or Form 1040-NR, line 27	13	6,705

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

Farm Optional Method. You may use this method only if (a) your gross farm income ¹ wasn't more than \$8,160, or (b) your net farm profits ² were less than \$5,891.		
14 Maximum income for optional methods	14	5,440
15 Enter the smaller of: two-thirds (2/3) of gross farm income ¹ (not less than zero) or \$5,440. Also include this amount on line 4b above	15	
Nonfarm Optional Method. You may use this method only if (a) your net nonfarm profits ³ were less than \$5,891 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 income ⁴ (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; and Sch. K-1 (Form 1065), box 14, code A.
⁴ From Sch. C, line 7; and Sch. K-1 (Form 1065), box 14, code C.

Line 2 – See Attachment 2 on page 57.
 Line 13 – This line results in the deduction of a portion of the self-employment tax liability.
 A minister must use Section B—Long Schedule if he or she received nonministerial wages (subject to FICA) and the total of these wages and net ministerial self-employment earnings (W-2 and Schedule C-related) is more than \$132,900. The Long Schedule is shown here for illustrative purposes.

Form **8880**

Credit for Qualified Retirement Savings Contributions

OMB No. 1545-0074

2019

Attachment Sequence No. **54**

Department of the Treasury
Internal Revenue Service

▶ Attach to Form 1040, 1040-SR, or 1040-NR.

▶ Go to www.irs.gov/Form8880 for the latest information.

Name(s) shown on return

Milton L. Brown

Your social security number

541-16-8194



You **cannot** take this credit if **either** of the following applies.

- The amount on Form 1040 or 1040-SR, line 8b; or Form 1040-NR, line 35, is more than \$32,000 (\$48,000 if head of household; \$64,000 if married filing jointly).
- The person(s) who made the qualified contribution or elective deferral (a) was born after January 1, 2002; (b) is claimed as a dependent on someone else's 2019 tax return; or (c) was a **student** (see instructions).

	(a) You	(b) Your spouse
1 Traditional and Roth IRA contributions, and ABLE account contributions by the designated beneficiary for 2019. Do not include rollover contributions		
2 Elective deferrals to a 401(k) or other qualified employer plan, voluntary employee contributions, and 501(c)(18)(D) plan contributions for 2019 (see instructions)	500	
3 Add lines 1 and 2	500	
4 Certain distributions received after 2016 and before the due date (including extensions) of your 2019 tax return (see instructions). If married filing jointly, include both spouses' amounts in both columns. See instructions for an exception	0	
5 Subtract line 4 from line 3. If zero or less, enter -0-	500	
6 In each column, enter the smaller of line 5 or \$2,000	500	
7 Add the amounts on line 6. If zero, stop ; you can't take this credit		500
8 Enter the amount from Form 1040 or 1040-SR, line 8b;* or Form 1040-NR, line 35	61,769	
9 Enter the applicable decimal amount from the table below.		

If line 8 is—		And your filing status is—		
Over—	But not over—	Married filing jointly	Head of household	Single, Married filing separately, or Qualifying widow(er)
Enter on line 9—				
---	\$19,250	0.5	0.5	0.5
\$19,250	\$20,750	0.5	0.5	0.2
\$20,750	\$28,875	0.5	0.5	0.1
\$28,875	\$31,125	0.5	0.2	0.1
\$31,125	\$32,000	0.5	0.1	0.1
\$32,000	\$38,500	0.5	0.1	0.0
\$38,500	\$41,500	0.2	0.1	0.0
\$41,500	\$48,000	0.1	0.1	0.0
\$48,000	\$64,000	0.1	0.0	0.0
\$64,000	---	0.0	0.0	0.0

Note: If line 9 is zero, **stop**; you can't take this credit.

10 Multiply line 7 by line 9	10	50
11 Limitation based on tax liability. Enter the amount from the Credit Limit Worksheet in the instructions	11	3,737
12 Credit for qualified retirement savings contributions. Enter the smaller of line 10 or line 11 here and on Schedule 3 (Form 1040 or 1040-SR), line 4; or Form 1040-NR, line 48	12	50

* See Pub. 590-A for the amount to enter if you claim any exclusion or deduction for foreign earned income, foreign housing, or income from Puerto Rico or for bona fide residents of American Samoa.

For Paperwork Reduction Act Notice, see your tax return instructions.

Cat. No. 33394D

Form **8880** (2019)

Form 8995 Department of the Treasury Internal Revenue Service	Qualified Business Income Deduction Simplified Computation ▶ Attach to your tax return. ▶ Go to www.irs.gov/Form8995 for instructions and the latest information.	OMB No. XXXX-XXXX 2019 Attachment Sequence No. 55	
Name(s) shown on return Milton L. Brown		Your taxpayer identification number 541-16-8194	
1	(a) Trade, business, or aggregation name	(b) Taxpayer identification number	(c) Qualified business income or (loss)
i	Minister	541-16-8194	1,205
ii			
iii			
iv			
v			
2	Total qualified business income or (loss). Combine lines 1i through 1v, column (c)	2 1,120 ⁽¹⁾	
3	Qualified business net (loss) carryforward from the prior year	3 (0)	
4	Total qualified business income. Combine lines 2 and 3. If zero or less, enter -0-	4 1,120	
5	Qualified business income component. Multiply line 4 by 20% (0.20)		5 224
6	Qualified REIT dividends and publicly traded partnership (PTP) income or (loss) (see instructions)	6	
7	Qualified REIT dividends and qualified PTP (loss) carryforward from the prior year	7 ()	
8	Total qualified REIT dividends and PTP income. Combine lines 6 and 7. If zero or less, enter -0-	8	
9	REIT and PTP component. Multiply line 8 by 20% (0.20)		9 0
10	Qualified business income deduction before the income limitation. Add lines 5 and 9		10 224
11	Taxable income before qualified business income deduction	11 34,639	
12	Net capital gain (see instructions)	12 0	
13	Subtract line 12 from line 11. If zero or less, enter -0-	13 34,639	
14	Income limitation. Multiply line 13 by 20% (0.20)		14 6,928
15	Qualified business income deduction. Enter the lesser of line 10 or line 14. Also enter this amount on the applicable line of your return ▶		15 224
16	Total qualified business (loss) carryforward. Combine lines 2 and 3. If greater than zero, enter -0-	16 (0)	
17	Total qualified REIT dividends and PTP (loss) carryforward. Combine lines 6 and 7. If greater than zero, enter -0-	17 (0)	

For Privacy Act and Paperwork Reduction Act Notice, see instructions. Cat. No. 37806C Form 8995 (2019)

(1) Schedule C net profit (page 52)	\$1,205
Less: Social security tax deduction associated with the net profit:	
\$1,205 x .9235 = \$1,112	
x 15.3% = 170	
x 50% = 85	85
Qualified business income	\$1,120

Attachment 1.**Computation of expenses, allocatable to tax-free ministerial income, that are nondeductible.**

	<u>Taxable</u>	<u>Tax-Free</u>	<u>Total</u>
Salary as a minister	\$ 67,850		\$ 67,850
Housing allowance:			
Amount designated and paid by church	\$ 26,000		
Actual expenses	25,625		
Fair rental value of home (including furnishings and utilities)	25,000		
Taxable portion of allowance (excess of amount designated & paid over lesser of actual expenses or fair rental value)	<u>\$ 1,000</u>	1,000	1,000
Tax-free portion of allowance (lesser of amount designated, actual expenses, or fair rental value)		25,000	25,000
Gross income from weddings, baptisms, and honoraria	<u>1,650</u>		<u>1,650</u>
Ministerial Income	<u>\$ 70,500</u>	<u>\$ 25,000</u>	<u>\$ 95,500</u>
% of nondeductible expenses: \$25,000/\$95,500 = 26%			

The IRS takes the position that the deduction of unreimbursed business expenses on Schedule C is limited to the extent that they are allocable to an excluded housing allowance or the fair rental value of church-provided housing.

Schedule C Deduction Computation

Parking and tolls	\$ 50
Mileage (950 miles x 58 cents per mile)	<u>551</u>
Unadjusted Schedule C expenses	601
Minus:	
Nondeductible part of Schedule C expenses (26% x \$601)	<u>156</u>
Schedule C deductions (Line 28) (See page 52)	<u>\$ 445</u>

Attachment 2.**Net earnings from self-employment (attachment to Schedule SE, Form 1040)**

Church wages	\$ 67,850
Housing allowance	26,000
Net profit from Schedule C	<u>1,205</u>
	95,055
Less:	
Schedule C expenses allocable to tax-free income	<u>(156)</u>
Net Self-Employed Income	
Schedule SE, Section B, Line 2 (See page 54)	<u>\$ 94,899</u>

Housing Allowance Worksheet

Minister-Owned Home

Name: Milton L. Brown

For the period January 1, 20 19 to December 31, 20 19

Date designation approved December 20, 20 18

Allowable Housing Expenses (*expenses paid from current income*)

	<u>Estimated Expenses</u>	<u>Actual</u>
Down payment on purchase of housing	\$ _____	\$ _____
Housing loan principal and interest payments	<u>18,117</u>	<u>17,875</u>
Real estate commission, escrow fees	_____	_____
Real property taxes	<u>900</u>	<u>2,000</u>
Personal property taxes on contents	_____	_____
Homeowner's insurance	<u>500</u>	<u>550</u>
Personal property insurance on contents	<u>150</u>	<u>200</u>
Umbrella liability insurance	<u>100</u>	_____
Structural maintenance and repair	_____	<u>550</u>
Landscaping, gardening, and pest control	_____	<u>200</u>
Furnishings (<i>purchase, repair, replacement</i>)	_____	<u>400</u>
Decoration and redecoration	_____	_____
Utilities (<i>gas, electricity, water</i>) and trash collection	<u>3,500</u>	<u>3,500</u>
Local telephone expense (<i>base charge</i>)	<u>150</u>	<u>150</u>
Homeowner's association dues/condominium fees	<u>219</u>	<u>200</u>
Subtotal	<u>23,636</u>	
10% allowance for unexpected expenses	<u>2,364</u>	
TOTAL	\$ <u>26,000</u>	\$ <u>25,625</u> (A)
Properly designated housing allowance		\$ <u>26,000</u> (B)
Fair rental value of home, including furnishings, plus utilities		\$ <u>25,000</u> (C)

Note: The amount excludable from income for federal income tax purposes is the *lowest* of A, B, or C.

The \$1,000 difference between the designation (\$26,000) and the fair rental value (\$25,000) is reported as additional income on Form 1040, page 1, Line 1.

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 67850.00		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		
d Control number			9		10 Dependent care benefits		
e Employee's first name and initial Milton L.		Last name Brown		Suff.		11 Nonqualified plans	
f Employee's address and ZIP code 418 Trenton Street Springfield, OH 45504			12a See instructions for box 12 E 500		12b		
			13 Statutory employee <input type="checkbox"/> Retirement plan <input checked="" type="checkbox"/> Third-party sick pay <input type="checkbox"/>		12c		
			14 Other Housing Allowance 26000		12d		
15 State Employer's state ID number OH 677803		16 State wages, tips, etc. 67850.00		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

2019

Department of the Treasury—Internal Revenue Service
For Privacy Act and Paperwork Reduction Act Notice, see the separate instructions.

Copy A For Social Security Administration — Send this entire page with Form W-3 to the Social Security Administration; photocopies are not acceptable.

Cat. No. 10134D

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Explanation of compensation reported on Form W-2, Box 1:

Salary (\$64,850 less \$26,000 housing allowance and \$500 403[b] contributions)	\$ 48,350
Special occasion gifts	750
Reimbursement of self-employment tax	12,000
Moving expense reimbursement of nonqualified expenses	<u>6,750</u>
	<u>\$ 67,850</u>

Pastor Brown received reimbursements of \$7,593 under an accountable expense reimbursement plan. The reimbursements are not included on Form W-2 or deductible on Form 1040. There is no requirement to add the reimbursements to income taxable for social security purposes on Schedule SE.

Sample Return No. 2 – Retired Minister

Minister was an employee for income tax purposes and has since retired.

The Halls live in church-provided housing.

Income, Benefits, and Reimbursements:

Denominational annuity distribution	\$19,500
Honoraria for performing weddings, funerals, baptisms, and outside speaking engagements	3,200
Interest income (taxable)	750
Social security benefit	31,500
Expenses related to honoraria income:	
Travel – 2,297 x 58¢ per mile	1,332
Meals	96
Housing data:	
Designation	\$19,500
Actual expenses	20,500
Fair rental value, plus furnishings, including utilities	25,000

Form **1040** Department of the Treasury—Internal Revenue Service (99) **2019** U.S. Individual Income Tax Return OMB No. 1545-0074 IRS Use Only—Do not write or staple in this space.

Filing Status Single Married filing jointly Married filing separately (MFS) Head of household (HOH) Qualifying widow(er) (QW)
 Check only one box. If you checked the MFS box, enter the name of spouse. If you checked the HOH or QW box, enter the child's name if the qualifying person is a child but not your dependent. ▶

Your first name and middle initial: **Donald L.** Last name: **Hall** Your social security number: **482 | 11 | 6043**

If joint return, spouse's first name and middle initial: **Julie M.** Last name: **Hall** Spouse's social security number: **720 | 92 | 1327**

Home address (number and street). If you have a P.O. box, see instructions. Apt. no. **Presidential Election Campaign**
 Check here if you, or your spouse if filing jointly, want \$3 to go to this fund. Checking a box below will not change your tax or refund. You Spouse

City, town or post office, state, and ZIP code. If you have a foreign address, also complete spaces below (see instructions). **804 Linden Avenue**

Foreign country name: **Pensacola, FL 32502** Foreign province/state/county Foreign postal code If more than four dependents, see instructions and ✓ here ▶

Standard Deduction Someone can claim: You as a dependent Your spouse as a dependent Spouse itemizes on a separate return or you were a dual-status alien

Age/Blindness You: Were born before January 2, 1955 Are blind Spouse: Was born before January 2, 1955 Is blind

(1) Dependents (see instructions):		(2) Social security number	(3) Relationship to you	(4) ✓ if qualifies for (see instructions):	
(i) First name	Last name			Child tax credit	Credit for other dependents
				<input type="checkbox"/>	<input type="checkbox"/>
				<input type="checkbox"/>	<input type="checkbox"/>
				<input type="checkbox"/>	<input type="checkbox"/>
				<input type="checkbox"/>	<input type="checkbox"/>

Standard Deduction for—
 • Single or Married filing separately, \$12,200
 • Married filing jointly or Qualifying widow(er), \$24,400
 • Head of household, \$18,350
 • If you checked any box under Standard Deduction, see instructions.

1	Wages, salaries, tips, etc. Attach Form(s) W-2	1	
2a	Tax-exempt interest	2b	750
3a	Qualified dividends	3b	
4a	IRA distributions	4b	
c	Pensions and annuities	4c	19,500
5a	Social security benefits	5a	31,500
6	Capital gain or (loss). Attach Schedule D if required. If not required, check here	6	
7a	Other income from Schedule 1, line 9	7a	3,001
b	Add lines 1, 2b, 3b, 4b, 4d, 5b, 6, and 7a. This is your total income	7b	3,751
8a	Adjustments to income from Schedule 1, line 22	8a	126
b	Subtract line 8a from line 7b. This is your adjusted gross income	8b	3,625
9	Standard deduction or itemized deductions (from Schedule A)	9	24,400
10	Qualified business income deduction. Attach Form 8995 or Form 8995-A	10	
11a	Add lines 9 and 10	11a	24,400
b	Taxable income. Subtract line 11a from line 8b	11b	0

Line 9 – This reflects the standard deduction for married filing jointly in 2019.

Line 10 – Since taxable income (see Line 11b) was zero, the minister did not qualify for the qualified business income deduction based on Schedule C net profit.

SCHEDULE 1 (Form 1040 or 1040-SR) Department of the Treasury Internal Revenue Service	Additional Income and Adjustments to Income ▶ Attach to Form 1040 or 1040-SR. ▶ Go to www.irs.gov/Form1040 for instructions and the latest information.	OMB No. 1545-0074 <div style="font-size: 24pt; font-weight: bold; text-align: center;">2019</div> Attachment Sequence No. 01
Name(s) shown on Form 1040 or 1040-SR Donald L. Hall		Your social security number 482 11 6043
Part I Additional Income		
1 Taxable refunds, credits, or offsets of state and local income taxes	1	
2a Alimony received	2a	
b Date of original divorce or separation agreement (see instructions) ▶		
3 Business income or (loss). Attach Schedule C	3	3,001
4 Other gains or (losses). Attach Form 4797	4	
5 Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E	5	
6 Farm income or (loss). Attach Schedule F	6	
7 Unemployment compensation	7	
8 Other income. List type and amount ▶	8	
9 Combine lines 1 through 8. Enter here and on Form 1040 or 1040-SR, line 7a	9	3,001
Part II Adjustments to Income		
10 Educator expenses	10	
11 Certain business expenses of reservists, performing artists, and fee-basis government officials. Attach Form 2106	11	
12 Health savings account deduction. Attach Form 8889	12	
13 Moving expenses for members of the Armed Forces. Attach Form 3903	13	
14 Deductible part of self-employment tax. Attach Schedule SE	14	126
15 Self-employed SEP, SIMPLE, and qualified plans	15	
16 Self-employed health insurance deduction	16	
17 Penalty on early withdrawal of savings	17	
18a Alimony paid	18a	
b Recipient's SSN		
c Date of original divorce or separation agreement (see instructions) ▶		
19 IRA deduction	19	
20 Student loan interest deduction	20	
21 Reserved for future use	21	
22 Add lines 10 through 21. These are your adjustments to income . Enter here and on Form 1040 or 1040-SR, line 8a	22	126
For Paperwork Reduction Act Notice, see your tax return instructions. Cat. No. 71479F Schedule 1 (Form 1040 or 1040-SR) 2019		

SCHEDULE 2 (Form 1040 or 1040-SR) Department of the Treasury Internal Revenue Service	Additional Taxes ▶ Attach to Form 1040 or 1040-SR. ▶ Go to www.irs.gov/Form1040 for instructions and the latest information.	OMB No. 1545-0074 <div style="font-size: 24pt; font-weight: bold; text-align: center;">2019</div> Attachment Sequence No. 02
Name(s) shown on Form 1040 or 1040-SR Donald L. Hall		Your social security number 482-11-6043
Part I Tax		
1 Alternative minimum tax. Attach Form 6251	1	
2 Excess advance premium tax credit repayment. Attach Form 8962	2	
3 Add lines 1 and 2. Enter here and include on Form 1040 or 1040-SR, line 12b	3	
Part II Other Taxes		
4 Self-employment tax. Attach Schedule SE	4	252
5 Unreported social security and Medicare tax from Form: a <input type="checkbox"/> 4137 b <input type="checkbox"/> 8919	5	
6 Additional tax on IRAs, other qualified retirement plans, and other tax-favored accounts. Attach Form 5329 if required	6	
7a Household employment taxes. Attach Schedule H	7a	
b Repayment of first-time homebuyer credit from Form 5405. Attach Form 5405 if required	7b	
8 Taxes from: a <input type="checkbox"/> Form 8959 b <input type="checkbox"/> Form 8960	8	
c <input type="checkbox"/> Instructions; enter code(s)		
9 Section 965 net tax liability installment from Form 965-A	9	
10 Add lines 4 through 8. These are your total other taxes . Enter here and on Form 1040 or 1040-SR, line 15	10	252
For Paperwork Reduction Act Notice, see your tax return instructions. Cat. No. 71478U Schedule 2 (Form 1040 or 1040-SR) 2019		

Schedule 1, Line 14 – See page 34 for explanation of the self-employment tax deduction.

SCHEDULE C
(Form 1040 or 1040-SR)

Profit or Loss From Business
(Sole Proprietorship)

OMB No. 1545-0074

2019
Attachment
Sequence No. **09**

Department of the Treasury
Internal Revenue Service (99)

▶ Go to www.irs.gov/ScheduleC for instructions and the latest information.

▶ Attach to Form 1040, 1040-SR, 1040-NR, or 1041; partnerships generally must file Form 1065.

Name of proprietor Donald L. Hall		Social security number (SSN) 482-11-6043
A Principal business or profession, including product or service (see instructions) Minister	B Enter code from instructions ▶ 8 1 3 0 0 0	
C Business name. If no separate business name, leave blank.	D Employer ID number (EIN) (see instr.) 	
E Business address (including suite or room no.) ▶ City, town or post office, state, and ZIP code		
F Accounting method: (1) <input type="checkbox"/> Cash (2) <input type="checkbox"/> Accrual (3) <input type="checkbox"/> Other (specify) ▶		
G Did you "materially participate" in the operation of this business during 2019? If "No," see instructions for limit on losses . . . <input type="checkbox"/> Yes <input type="checkbox"/> No		
H If you started or acquired this business during 2019, check here . . . <input type="checkbox"/>		
I Did you make any payments in 2019 that would require you to file Form(s) 1099? (see instructions) . . . <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No		
J If "Yes," did you or will you file required Forms 1099? . . . <input type="checkbox"/> Yes <input type="checkbox"/> No		

Part I Income	
1 Gross receipts or sales. See instructions for line 1 and check the box if this income was reported to you on Form W-2 and the "Statutory employee" box on that form was checked . . . ▶ <input type="checkbox"/>	1 3,200
2 Returns and allowances	2
3 Subtract line 2 from line 1	3 3,200
4 Cost of goods sold (from line 42)	4
5 Gross profit. Subtract line 4 from line 3	5 3,200
6 Other income, including federal and state gasoline or fuel tax credit or refund (see instructions)	6
7 Gross income. Add lines 5 and 6 ▶	7 3,200

Part II Expenses. Enter expenses for business use of your home only on line 30.			
8 Advertising	8	18 Office expense (see instructions)	18
9 Car and truck expenses (see instructions).	9 187	19 Pension and profit-sharing plans	19
10 Commissions and fees	10	20 Rent or lease (see instructions):	20
11 Contract labor (see instructions)	11	a Vehicles, machinery, and equipment	20a
12 Depletion	12	b Other business property	20b
13 Depreciation and section 179 expense deduction (not included in Part III) (see instructions).	13	21 Repairs and maintenance	21
14 Employee benefit programs (other than on line 19)	14	22 Supplies (not included in Part III)	22
15 Insurance (other than health)	15	23 Taxes and licenses	23
16 Interest (see instructions):	16	24 Travel and meals:	24
a Mortgage (paid to banks, etc.)	16a	a Travel	24a
b Other	16b	b Deductible meals (see instructions)	24b 12
17 Legal and professional services	17	25 Utilities	25
28 Total expenses before expenses for business use of home. Add lines 8 through 27a ▶	28 199	26 Wages (less employment credits)	26
29 Tentative profit or (loss). Subtract line 28 from line 7	29 3,001	27a Other expenses (from line 48)	27a
30 Expenses for business use of your home. Do not report these expenses elsewhere. Attach Form 8829 unless using the simplified method (see instructions). Simplified method filers only: enter the total square footage of: (a) your home: _____ and (b) the part of your home used for business: _____ . Use the Simplified Method Worksheet in the instructions to figure the amount to enter on line 30	30	27b Reserved for future use	27b
31 Net profit or (loss). Subtract line 30 from line 29. • If a profit, enter on both Schedule 1 (Form 1040 or 1040-SR), line 3 (or Form 1040-NR, line 13) and on Schedule SE, line 2 . (If you checked the box on line 1, see instructions). Estates and trusts, enter on Form 1041, line 3 . • If a loss, you must go to line 32.	31 3,001		
32 If you have a loss, check the box that describes your investment in this activity (see instructions). • If you checked 32a, enter the loss on both Schedule 1 (Form 1040 or 1040-SR), line 3 (or Form 1040-NR, line 13) and on Schedule SE, line 2 . (If you checked the box on line 1, see the line 31 instructions). Estates and trusts, enter on Form 1041, line 3 . • If you checked 32b, you must attach Form 6198 . Your loss may be limited.			32a <input type="checkbox"/> All investment is at risk. 32b <input type="checkbox"/> Some investment is not at risk.

(1) Expenses have been reduced by 86% as allocable to tax-free income. Nearly every minister has honoraria and fee income and related expenses that are reportable on Schedule C.

SCHEDULE SE
(Form 1040 or
1040-SR)

Self-Employment Tax

OMB No. 1545-0074

2019

Department of the Treasury
Internal Revenue Service (99)

▶ Go to www.irs.gov/ScheduleSE for instructions and the latest information.
▶ Attach to Form 1040, 1040-SR, or 1040-NR.

Attachment
Sequence No. **17**

Name of person with self-employment income (as shown on Form 1040, 1040-SR, or 1040-NR)

Donald L. Hall

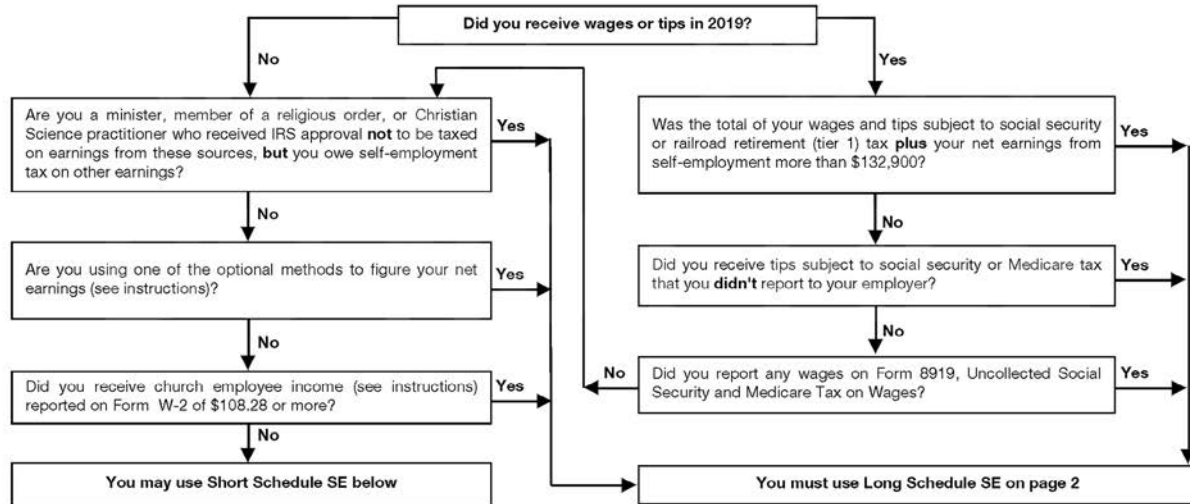
Social security number of person
with self-employment income ▶

482-11-6043

Before you begin: To determine if you must file Schedule SE, see the instructions.

May I Use Short Schedule SE or Must I Use Long Schedule SE?

Note: Use this flowchart **only** if you must file Schedule SE. If unsure, see *Who Must File Schedule SE* in the instructions.



Section A—Short Schedule SE. Caution: Read above to see if you can use Short Schedule SE.

1a Net farm profit or (loss) from Schedule F, line 34, and farm partnerships, Schedule K-1 (Form 1065), box 14, code A	1a	
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 AH	1b	()
2 Net profit or (loss) from Schedule C, line 31; and Schedule K-1 (Form 1065), box 14, code A (other than farming). Ministers and members of religious orders, see instructions for types of income to report on this line. See instructions for other income to report	2	1,780
3 Combine lines 1a, 1b, and 2	3	1,780
4 Multiply line 3 by 92.35% (0.9235). If less than \$400, you don't owe self-employment tax; don't file this schedule unless you have an amount on line 1b ▶	4	1,644
Note: If line 4 is less than \$400 due to Conservation Reserve Program payments on line 1b, see instructions.		
5 Self-employment tax. If the amount on line 4 is: • \$132,900 or less, multiply line 4 by 15.3% (0.153). Enter the result here and on Schedule 2 (Form 1040 or 1040-SR), line 4, or Form 1040-NR, line 55. • More than \$132,900, multiply line 4 by 2.9% (0.029). Then, add \$16,479.60 to the result. Enter the total here and on Schedule 2 (Form 1040 or 1040-SR), line 4, or Form 1040-NR, line 55 .	5	252
6 Deduction for one-half of self-employment tax. Multiply line 5 by 50% (0.50). Enter the result here and on Schedule 1 (Form 1040 or 1040-SR), line 14, or Form 1040-NR, line 27	6	126

For Paperwork Reduction Act Notice, see your tax return instructions. Cat. No. 11358Z Schedule SE (Form 1040 or 1040-SR) 2019

Line 2 – See the schedule on page 67 for the calculation of this amount.

Line 4 – This line results in the deduction of a portion of the self-employment tax liability.

A minister may use Section A-Short Schedule unless he received nonministerial wages (subject to FICA) and the total of these wages and net ministerial self-employment earnings (W-2 and Schedule C-related) is more than \$132,900.

Attachment 1.
Computation of expenses, allocatable to tax-free ministerial income, that are nondeductible

	<u>Taxable</u>	<u>Tax-Free</u>	<u>Total</u>
% of nondeductible expenses			
Parsonage allowance:			
Ministerial retirement benefits designated as housing allowance	\$ 19,500		
Actual expenses	20,500		
Fair rental value of home (including furnishings and utilities)	25,000		
Taxable portion of allowance	<u>0</u>		
Tax-free portion of allowance (lesser of amount designated, actual expenses, or fair rental value)		19,500	19,500
Gross income from occasional guest preaching engagements	<u>3,200</u>		<u>3,200</u>
Ministerial Income	<u>\$ 3,200</u>	<u>\$ 19,500</u>	<u>\$ 22,700</u>
% of nondeductible expenses: \$19,500/\$22,700 = 86%			

Schedule C Deduction Computation

	<u>Total</u>	<u>Deductible 14%</u>	<u>Nondeductible 86%</u>
Mileage (2,297 miles x 58 cents per mile)	\$ 1,332	\$ 187	\$ 1,145
Meal expenses (\$175 less 50% reduction)	<u>88</u>	<u>12</u>	<u>76</u>
Schedule C expenses	<u>1,420</u>	<u>199</u>	<u>1,221</u>

Attachment 2.
Computation for Schedule SE (Form 1040)

Gross income from Schedule C	\$ 3,200
Less:	
Unadjusted Schedule C expenses	<u>(1,420)</u>
Net Self-Employed Income – Schedule SE, Line 2 (See page 66)	<u>\$ 1,780</u>

Housing Allowance Worksheet

Minister Living in Housing Owned or Rented by the Church

Name: Donald L. Hall

For the period January 1, 2019 to December 31, 2019

Date designation approved December 20, 2018

Allowable Housing Expenses (*expenses paid from current income*)

	<u>Actual</u>	
Utilities (<i>gas, electricity, water</i>) and trash collection	\$ <u>6,500</u>	
Local telephone expense (<i>base charge</i>)	<u> </u>	
Decoration and redecoration	<u>3,000</u>	
Structural maintenance and repair	<u>7,600</u>	
Landscaping, gardening, and pest control	<u> </u>	
Furnishings (<i>purchase, repair, replacement</i>)	<u>3,000</u>	
Personal property insurance on minister-owned contents	<u>100</u>	
Personal property taxes on contents	<u>200</u>	
Umbrella liability insurance	<u>100</u>	
TOTAL	\$ <u>20,500</u>	(A)
Properly designated housing allowance	\$ <u>19,500</u>	(B)
Fair rental value of home, including furnishings, plus utilities	\$ <u>25,000</u>	(C)

The amount excludable from income for federal income tax purposes is the lowest of A, B, or C.

9898 <input type="checkbox"/> VOID <input type="checkbox"/> CORRECTED		OMB No. 1545-0119		2019 Form 1099-R		Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.			
PAYER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and phone no. XYZ Retirement Fund 2055 Castle Street Indianapolis, IN 46950		1 Gross distribution \$ 19500						2a Taxable amount \$	
PAYER'S TIN 79-0179214		RECIPIENT'S TIN 482-11-6043		3 Capital gain (included in box 2a) \$		4 Federal income tax withheld \$		Copy A For Internal Revenue Service Center File with Form 1096. For Privacy Act and Paperwork Reduction Act Notice, see the 2019 General Instructions for Certain Information Returns.	
RECIPIENT'S name Daniel L. Hall		5 Employee contributions/ Designated Roth contributions or insurance premiums \$		6 Net unrealized appreciation in employer's securities \$		7 Distribution code(s) 7			
Street address (including apt. no.) 804 Linden Avenue		City or town, state or province, country, and ZIP or foreign postal code Pensacola, FL 32502		9a Your percentage of total distribution %		9b Total employee contributions \$		10 Amount allocable to IRR within 5 years \$	
Account number (see instructions)		Date of payment		12 State tax withheld \$		13 State/Payer's state no. \$			
FATCA filing requirement <input type="checkbox"/>		11 1st year of desig. Roth contrib.		15 Local tax withheld \$		16 Name of locality		17 Local distribution \$	

Form **1099-R** Cat. No. 14436Q www.irs.gov/Form1099R Department of the Treasury - Internal Revenue Service

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Projected 2020 Filing Dates

January

- 15 Quarterly Estimated Taxes (last payment for prior tax period)

February

- 17 W-4 (if claimed an exemption, to continue same exemption in current year)

April

- 15 Personal tax returns due (unless automatic extension, see October 15)
- 15 Quarterly Estimated Taxes, if not paid with return (first payment for current tax year)

June

- 17 Quarterly Estimated Taxes (2nd payment for current tax year)

September

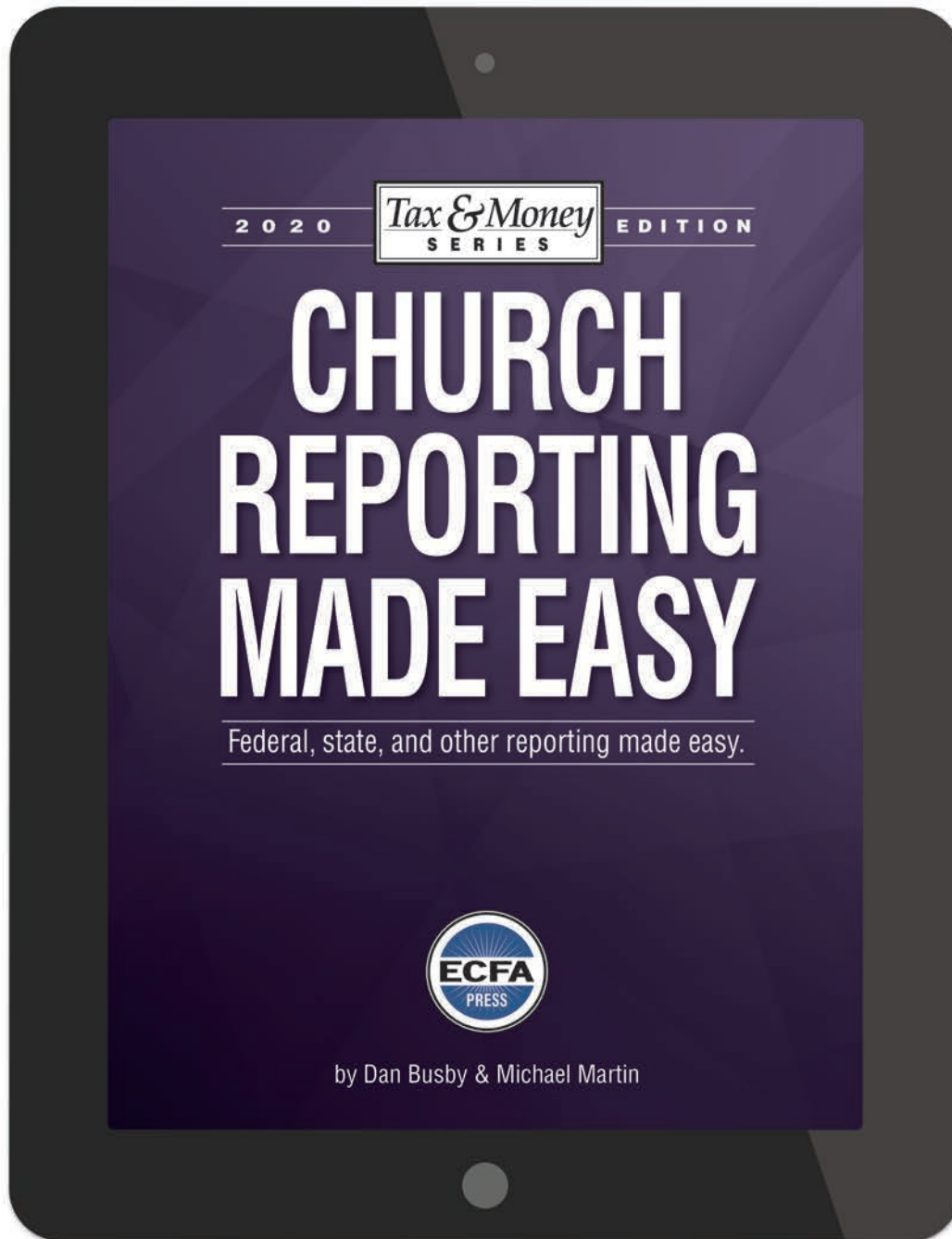
- 16 Quarterly Estimated Taxes (3rd payment for current tax year)

October

- 15 Personal tax returns due (if automatic extension)
-

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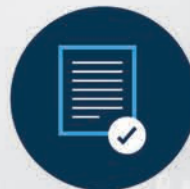
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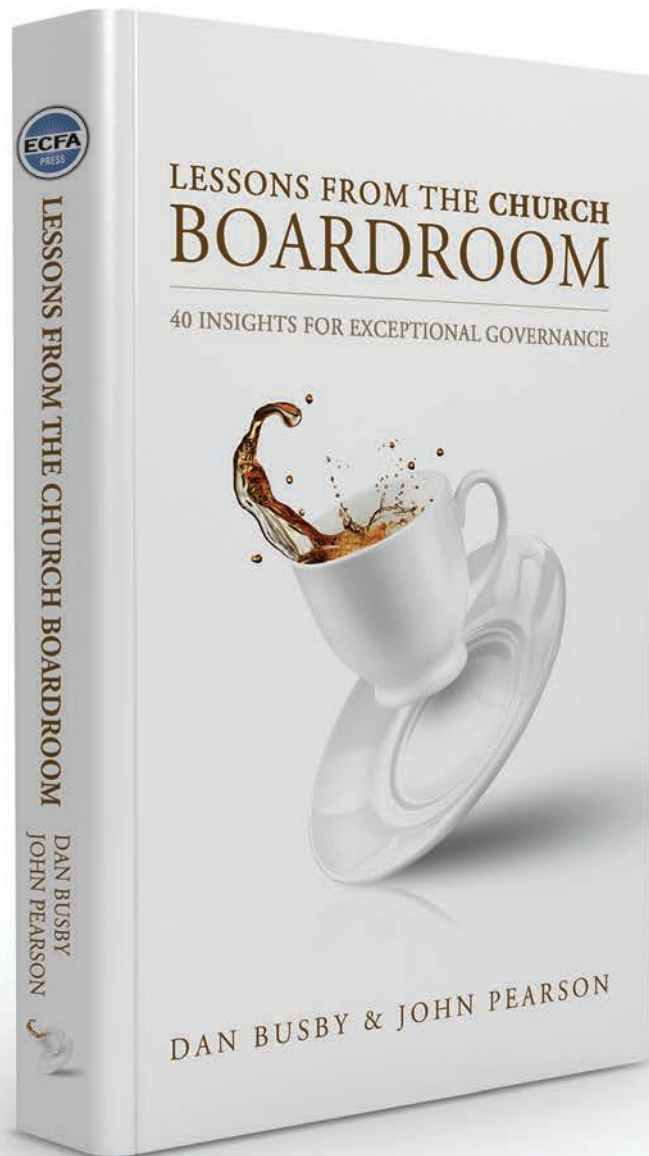


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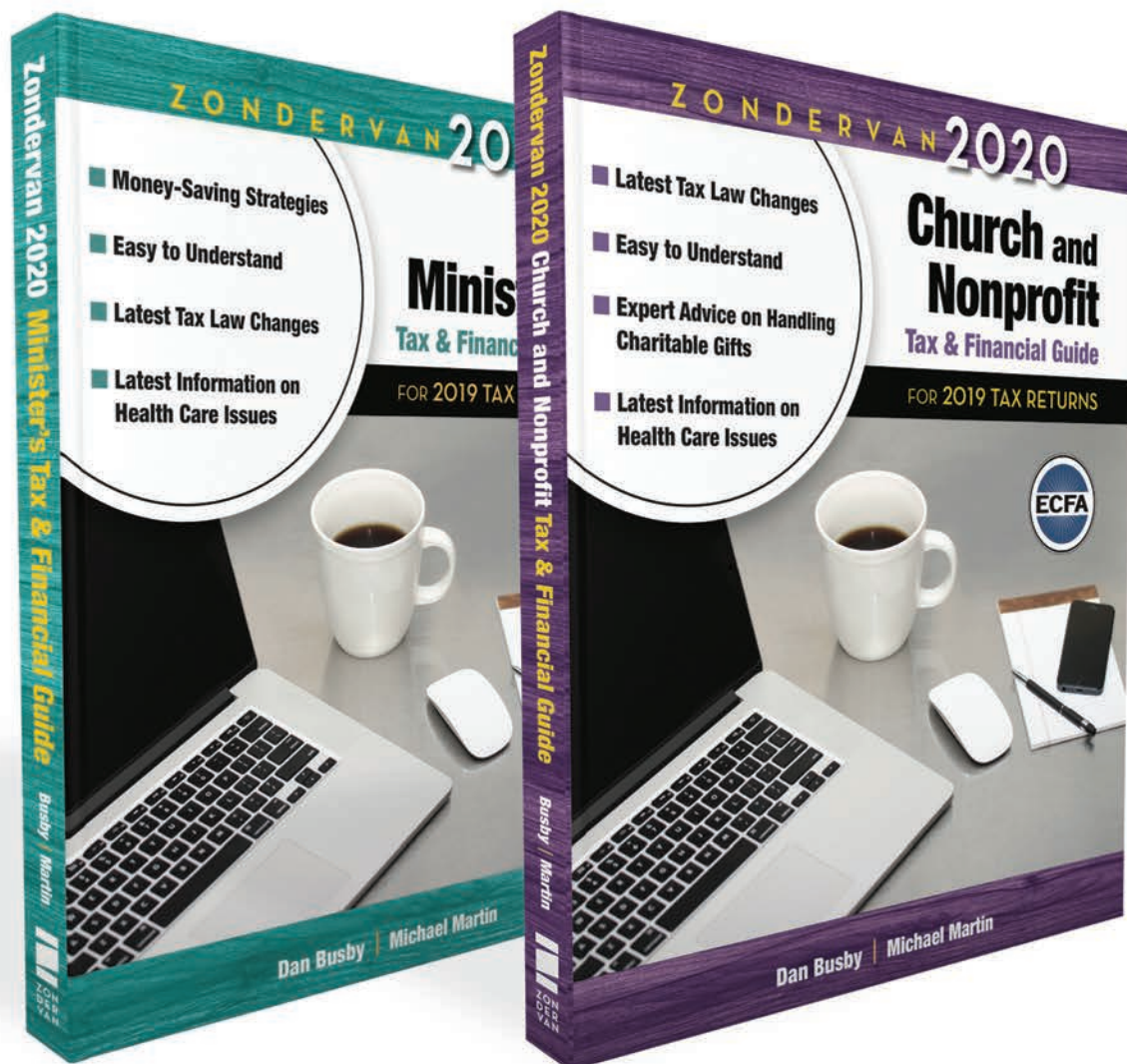


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