



Most Common Tax Mistakes Made by Clergy

Written by Keith Hamilton

According to the Internal Revenue Service, ministers are unique! Sometimes, church members and other individuals incorrectly assume ministers pay fewer taxes than the average tax payers. This is an incorrect assumption. Generally, ministers actually pay more taxes than the average tax payers. If the church does not handle its ministerial taxes correctly, the mistakes could cost the church and minister a lot of additional money and headaches.

The following **common tax mistakes** are often made by churches and ministers:

1. The minister is treated as a regular employee for Social Security and Medicare taxes.

This is a growing problem with churches. The minister is considered an employee for federal and, if applicable, state income tax purposes. However, the minister is self-employed for Social Security purposes. The minister, not the church, is responsible for his Social Security Self-Employment taxes (SECA). Some churches assist their minister by giving him a Social Security offset to help him pay the SECA tax, but even this wonderful benefit is subject to income taxes and the SECA tax.

2. The minister does not pay the Social Security Self Employment tax (SECA) on his salary, housing allowance, and, if applicable, the rental value of church-provided housing.

This is a common oversight by the church and minister. Furthermore, the minister should carefully check his annual Social Security benefit statement to make sure he was credited with the payment of the SECA tax on his housing allowance. In many cases, the credit for the SECA tax is not recorded on the Social Security benefit statement. According to a retired Social Security employee, almost 70% of ministers will not have the SECA tax reported correctly on the benefit statement. Of course, this would lower the minister's Social Security benefits.

3. The minister does not receive a W-2 from his local church.

If the minister has taxable income and the local church is his regular place of employment, then the church should provide him a W-2. The minister should not receive a 1099MISC from his local church. Generally, the only time a minister should receive a 1099MISC is if he has earned more than \$600 from an outside speaking engagement. The “outside” church or organization, not his local church, would issue the 1099MISC.

4. The minister deducts his local church business expenses on Schedule C of his income tax return.

The minister should deduct his local church business expenses on Schedule A. Of course, this IRS ruling means the minister would lose at least an equivalent of two percent of his adjusted gross income from his church-business deductions. A minister is wise to encourage his church to adopt an accountable business expense reimbursement plan to help cover his business expenses tax-free.

5. The minister does not keep receipts for housing expenses.

Hundreds of dollars in income taxes could be saved annually if ministers kept better records and receipts. The Internal Revenue Service allows generous exclusions for the housing allowance if the minister has kept good records.

6. The minister relies on his income tax preparer to help him with clergy tax issues.

It is not unusual for a minister to rely solely on a “general” tax preparer, who may or may not specialize in church and clergy tax matters, for his understanding of ministerial tax issues. It is not enough just to ask if the tax preparer does ministers’ taxes, but ask the tax preparer about specific tax issues that impact ministers’ income taxes. For instance, ask the tax preparer about Deason Rule. If the tax preparer has not heard of this ruling, then continue your search for a tax preparer that is familiar with special laws like this. (The Deason Rule impacts how the outside speaking income and expenses are deducted on Schedule C.)

7. The minister uses a Roth IRA or another retirement plan other than his church or denominational retirement plan.

Most church retirement plans like the one offered by the Southern Baptist Convention's GuideStone Financial Resources are 403(b)9 church retirement plans. Generally, 403(b)9 church retirement plans are not subject to SECA taxes on ministerial salary reduction contributions. In other words, ministers will save almost 15% in SECA taxes by using a church retirement plan over other personal retirement savings vehicles.

Mark 12:17 encourages a man to render to Caesar the things that are Caesar's and the things that are God's to God. Likewise, ministers should be careful to give to Caesar what is due, but the minister should also be on his guard to ensure that some is left over to give to God, too.

About Dr. Hamilton

Keith Hamilton, D.Ed.Min, CFP, CRPC is with the Georgia Baptist Convention. He has written several publications on establishing church designated funds, managing your household finances, and protecting your church and ministry from identity theft.