

Clergy: Get Smart About Your Taxes

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1

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You Are Invited:

STEWARDSHIP DISCUSSION FORUMS

2nd THURSDAY EACH MONTH AT 10:00AM CT

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2

Check Out the Clergy Taxes Q&A PDF

CLERGY TAXES Q & A

*Revised Feb. 18, 2021**

On Monday, Feb. 15, 2021 Discipleship Ministries presented a webinar on clergy taxes, and at the end we asked attendees to send us their questions. While this is our attempt to respond, these questions and responses should not be interpreted as legal advice, for which you should seek a qualified attorney who specializes in tax law.

If you don't find an answer to your question here, you might want to check our [Discipleship 2020 Ministry, Tools & Financials/Clubs](http://Discipleship2020.Ministry.Tools.&Financials/Clubs). We expect a [Discipleship 2020](http://Discipleship2020.Ministry.Tools.&Financials/Clubs) version shortly.

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

MINORITIES

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

A: Yes, voluntary withholding is allowed for clergy, but it is technically for only federal or state tax, not for Social Security or Medicare (reported on line 13a on your W-2 form). This distinction you might want to remember: as self-employed persons that responsibility is yours, not the employer, if the amount is not withheld or "under withheld."

PENSION & SOCIAL SECURITY

Q: How do I report regular P&R contributions that are not recorded in the box 1 taxable income on the W-2? Just to clarify, if make a pay roll 401k contribution that should then be included in box 1, correct? Or do I report that on a different way when doing my taxes and still record the amount in box 1?

A: Not sure about R&P. This is something to check with the Worship/Board of Finance/HR/HR 2020.


Q: Our Conference provides a resolution that officially designates my retiree pension as housing allowance. I always print this out and attach it to my tax return. Meaning I correct the correct IRS name used to attach the resolution?

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

Q: I am a 72 year old retired clergy member receiving social security as well as my pension. If I pastor a church part time, am I still required to pay social security tax on my income from that church? Social sec already receiving benefits from the social security system, versus the the answer should be not but I am not sure.

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3

Our Guest Presenter

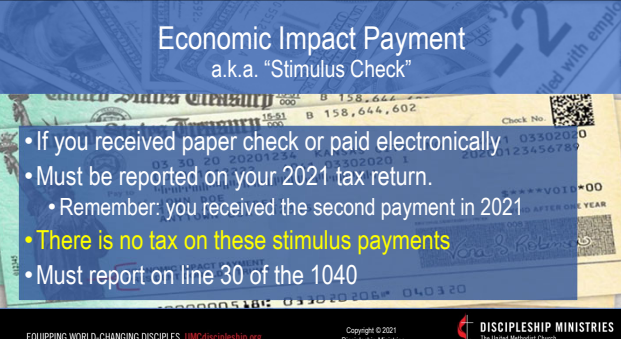


Rev. Don Joiner,
Certified Financial Planner
Clergy tax preparer.

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4

Economic Impact Payment
a.k.a. "Stimulus Check"

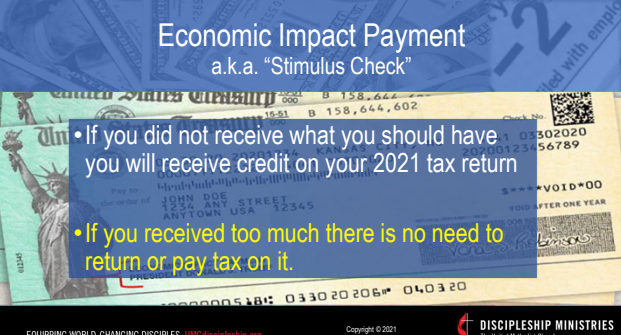


- If you received paper check or paid electronically.
- Must be reported on your 2021 tax return.
 - Remember: you received the second payment in 2021
- **There is no tax on these stimulus payments**
- Must report on line 30 of the 1040

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Economic Impact Payment
a.k.a. "Stimulus Check"



- If you did not receive what you should have you will receive credit on your 2021 tax return
- **If you received too much there is no need to return or pay tax on it.**

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2020 Consolidated Appropriations Act

- Reinstatement of the Mortgage Insurance Premium.
- Qualified Medical Expense reinstatement to 10%.
- Qualified tuition and related expenses (above the line)
- Required Minimum Distribution (RMD) increased to age 72 (starting last year, 2020)

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2021 Increase in Standard Deduction

- **\$12,500** single
- **\$25,100** couples
- **\$18,500** head of household in 2020
- Plus, **\$1,650**/person 65+
 - **\$2,600** if joint return
 - **\$1,650** if unmarried
- No longer personal exemption

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2020 CARES Act Charitable Deduction

- Part of the CARES Act (which also brought PPP Loans)
- **\$600** charitable deduction on top of standard deduction
 - This was increased from last year
- **Do not have to itemize deductions to get this!**

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Personal Residence Changes

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

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Business Expense Deductions

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

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No Home Office Deductions

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

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Child Tax Credit for 2021

- \$3,600/child 5 and under
- \$3,000/child ages 6 to 17* (new)
 - Age by Dec. 31, 2021
- Advance payments (unless you opt out)
 - \$300 a month for ages 5 and younger
 - \$250/month for ages 6-17

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7 Tax Brackets - Individuals

- 10%, 12%, 22%, 24%, 32%, 37%
- Most are in 12%
 - Up to \$81,050 taxable income for married filing jointly
 - Up to \$40,525 for singles
 - Up to \$54,200 for heads of households
- The 22% bracket begins with taxable income above these levels

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Other Changes

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

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Let's Take a Poll:

Where are you on the journey?

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

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Clergy Taxes & Finances Are Unique

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

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Clergy Taxes & Finances Are Unique

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

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Clergy Taxes & Finances Are Unique

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

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19

Clergy Taxes & Finances Are Unique

- ✓ Strategic Tax Planning
 - Housing
 - Parsonage
 - Or Furnishings Allowance
 - Every Clergy Person should have a housing allowance

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20

The Parsonage Allowance

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

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The Parsonage Allowance

This includes:

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

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How Much Is A Housing Allowance?

The lesser of:

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

- May not include food or maid services.

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Housing Allowance Plus Deductions

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

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Retired Clergy

- Funds received from the church's pension program are considered housing allowance and are not taxable income to the extent spent.
- Also, pension income is not taxable for self-employment tax purposes

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Business-related Expenses

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

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Business-related Expenses

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

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Pension Contribution

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

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28

It Adds Up and Makes a Difference

Example #1

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

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29

It Adds Up and Makes a Difference

Example #1

If in a 12% tax bracket	
Save \$1,872	Income tax
<u>540</u>	Pension contribution
\$2,412	Savings on income tax

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It Adds Up and Makes a Difference

Example #2

- Self-employment Tax
 - Taxable income
 - Plus housing allowance
 - Minus unreimbursed business expenses
(use IRS form 2106)

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31

It Adds Up and Makes a Difference

Example #2

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

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It Adds Up and Makes a Difference

Example #2

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

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Estimated Tax Payments

Clergy should pay 1/4 of their total estimated tax due by:

- April 15
- June 15
- September 15
- January 15 (of the following year)

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Financial Planning Is Imperative

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

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35

Questions?

Thank You!

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36

