Welcome to the 2015 Tax Return Preparation and Federal Reporting Guide: Ministers’ Tax Guide for 2014 Returns written exclusively for ministers and churches. We’re privileged once again to provide you with this useful guide to help you prepare your federal income tax forms.

Ministers’ taxes can be complicated. To help simplify this process, GuideStone brings you the 2015 Ministers’ Tax Guide, which has once again been written by noted attorney and CPA Richard Hammar. Our legal and compliance experts have reviewed the enclosed information to ensure it addresses specific tax issues that impact the ministers we are so privileged to serve.

In addition to this helpful guide, you can find further information on the IRS website, www.IRS.gov. For specific tax advice, you’ll want to consult an accountant or an attorney who is familiar with the nuances of ministers’ taxes.

Additional copies of this free booklet may be ordered through our Customer Relations department by calling 1-888-98-GUIDE (1-888-984-8433), weekdays from 7 a.m. to 6 p.m. CST. You can also download this booklet in part or in its entirety for free by visiting www.GuideStone.org/TaxGuide.

Once again, we are thankful to serve you with this annual Ministers’ Tax Guide, and we hope it will be a great resource for you. May God bless you in the ministry He has given you in 2015 and beyond!

Sincerely,

O.S. Hawkins
President — Chief Executive Officer
GuideStone Financial Resources of the Southern Baptist Convention
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Special Supplement

CURRENT STATUS OF THE HOUSING ALLOWANCE EXCLUSIONS

By Richard R. Hammar, J.D., LL.M., CPA

On November 13, 2014, a federal appeals court reversed a ruling by a federal district court in Wisconsin striking down the housing allowance as an unconstitutional preference for religion (Freedom from Religion Foundation, Inc. v. Lew, 2014 WL 5861632 (7th Cir. 2014)). The appeals court’s ruling means that the housing allowance remains valid, for now. This means that churches should designate a housing allowance for their ministers for 2015 by the end of 2014, as in prior years. Churches that fail to designate a housing allowance for 2015 by the end of 2014 may designate one in early 2015, but note that the allowance will only operate prospectively. The amount of a minister’s 2015 compensation designated by his or her employing church in advance as a housing allowance will remain non-taxable for income tax purposes so long as it is used for housing expenses and does not exceed either the fair rental value of a minister’s home or the church-designated allowance. It also means that the housing allowance exclusion is available to ministers in computing taxes for 2014.

The appeals court concluded that the Freedom from Religion Foundation, and two of its officers, lacked standing to challenge the housing allowance. Standing is a constitutional requirement for anyone bringing a lawsuit in federal court and generally means that a plaintiff must experience a direct injury. The Wisconsin court concluded that the plaintiffs had standing due to their “injury” of being denied a housing allowance exclusion should they claim one on their tax returns. But the appeals court refused to base standing on theoretical injury.

The court noted that to have standing to challenge the housing allowance, the Freedom from Religion Foundation’s officers would have to file tax returns claiming a housing allowance and then have their tax returns audited by the IRS and have the housing allowance denied. Only then would their injury be sufficiently tangible to satisfy the standing requirement.

The Freedom from Religion Foundation and its two officers face two challenges. First, housing allowances cannot be designated retroactively, so it will not be possible for the officers to file amended tax returns for prior years or claim a housing allowance for 2014. The Foundation will need to designate a housing allowance by the end of 2014 for 2015, and then, when filing their 2015 tax returns that are due in April of 2016, the officers would claim a housing allowance exclusion. Second, the IRS would then need to select one of these returns for audit. The audit rate is currently 1%, so it is unlikely that this would happen, even if the officers claimed housing allowances for several years.

Even if these hurdles are overcome and the officers meet the standing requirement, this simply gets them back into federal court. The appeals court did not address the constitutionality of the housing allowance in its ruling. It simply said that the plaintiffs lacked standing to challenge the constitutionality of the allowance. The appeals court ultimately may rule that the housing allowance is constitutional. Or it may decide that it is not. Either way, the ruling likely will be appealed to the United States Supreme Court, which will take even more time. Clearly, these steps will take considerable time, and, pursuant to the Wisconsin court’s original order, its ruling “will take effect at the conclusion of any appeals … or the expiration of the deadline for filing an appeal, whichever is later.”

Should the Freedom from Religion Foundation and its two officers ultimately prevail in their quest to strike down the housing allowance as an unconstitutional preference for religion, what would be the impact? A ruling by the Seventh Circuit Court of Appeals would apply to ministers in that circuit, which includes the states of Illinois, Indiana and Wisconsin. It would become a national precedent binding on ministers in all states if affirmed by the United States Supreme Court — an unlikely outcome because the Supreme Court accepts fewer than 1% of all appeals. Note, however, that the IRS would have the discretion to follow or not follow such a ruling in other circuits and might be inclined to follow it to promote consistency in tax administration. In conclusion, ministers and churches should be aware that the housing allowance remains under attack and one day may be invalidated.

Should that occur, two actions will need to be implemented quickly. First, ministers will experience an immediate increase in income taxes. As a result, they should be prepared to increase their quarterly estimated tax payments to reflect the increase in income taxes in order to avoid an underpayment penalty. Note that there will be no effect on self-employment taxes for which the housing allowance is not tax-exempt. And second, many churches will want to increase ministers’ compensation to offset the financial impact. Such an increase could be phased out over a period of years to minimize the impact on the church.

Key Point: Ministers should address the continuing availability of the housing allowance with a tax professional.
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Part 1. Introduction

HOW TO USE THIS GUIDE

This guide contains the basic information you need to complete your 2014 federal income tax return. It gives special attention to several forms and schedules and the sections of each form most relevant to ministers. It also includes a section on Federal Reporting Requirements for Churches, which begins on page 67, designed to help churches comply with their federal tax reporting requirements.

Key Point: Congress, the courts or the IRS may cause tax changes at any time, in some cases retroactively. This guide includes only the law in effect at the time of preparation. Be certain to refer to the final instructions on Form 1040 when completing your tax return. A number of tax provisions that expired at the end of 2013 were “extended” by Congress for another year in the closing days of 2014. These provisions, which now are available in reporting taxes for 2014, include: (1) The $250 above-the-line tax deduction for teachers for school expenses; (2) the election to take an itemized deduction for state and local general sales taxes in lieu of the itemized deduction permitted for state and local income taxes; (3) the above-the-line tax deduction for qualified higher education expenses; and (4) the deduction of distributions to charity of up to $100,000 from IRA accounts by persons age 70½ or older.

This guide is divided into the following sections:

- **Part 1: Introduction** — This section reviews tax highlights for 2014 and presents several preliminary questions you should consider before preparing your tax return.
- **Part 2: Special Rules for Ministers** — In this section, you learn whether or not you are a Minister for Tax Purposes, whether you are an employee or self-employed for both income tax and Social Security purposes, and how you pay your taxes.
- **Part 3: Step-By-Step Tax Return Preparation** — This section explains how to complete the most common tax forms and schedules for ministers.
- **Part 4: Comprehensive Examples and Forms** — This section shows a sample tax return prepared for an ordained minister and spouse and for a retired minister and spouse.
- **Federal Reporting Requirements for Churches** — This section provides assistance to churches (especially treasurers and bookkeepers) in filing federal tax forms.

TAX HIGHLIGHTS FOR 2014

1. Temporarily extend the American Opportunity Tax Credit

The American Opportunity Tax Credit is available for up to $2,500 of the cost of tuition and related expenses paid during the taxable year. Under this provision, taxpayers receive a tax credit based on 100% of the first $2,000 of tuition and related expenses paid during the taxable year and 25% of the next $2,000 of tuition and related expenses paid during the taxable year. Finally, 40% of the credit is refundable. This tax credit is subject to a phaseout for taxpayers with adjusted gross income in excess of $80,000 ($160,000 for married couples filing jointly).

Congress has extended the American Opportunity Tax Credit through 2017.

2. Temporarily extend the “third-child” earned income tax credit

Congress has extended through 2017 an increase in the earned income tax credit for families with three or more children and increased the phaseout range for all married couples filing a joint return.

3. Deduction for certain expenses of elementary and secondary school teachers

Congress has extended through 2014 the $250 above-the-line tax deduction for teachers and other school professionals for expenses paid or incurred for books, supplies (other than non-athletic supplies for courses of instruction in health or physical education), computer equipment (including related software and service), other equipment and supplementary materials used by the educator in the classroom.

4. Deduction for state and local general sales taxes

Congress enacted legislation in 2004 providing that, at the election of the taxpayer, an itemized deduction may be taken for state and local general sales taxes in lieu of the itemized deduction for state and local income taxes. This provision was added to address the unequal treatment of taxpayers in the nine states that assess no income tax. Taxpayers in these states cannot take advantage of the itemized deduction for state income taxes. Allowing them to deduct sales taxes will help offset this disadvantage.
5. Above-the-line deduction for qualified tuition-related expenses

Several years ago, Congress created an above-the-line tax deduction for qualified higher education expenses. The maximum deduction was $4,000 for taxpayers with AGI of $65,000 or less ($130,000 for joint returns) or $2,000 for taxpayers with AGI of $80,000 or less ($160,000 for joint returns).

6. Tax-free distributions from Individual Retirement Accounts (IRAs) for charitable purposes

Congress enacted legislation in 2006 allowing tax-free qualified charitable distributions of up to $100,000 from an IRA to a church or other charity. Note the following rules and conditions:

- A qualified charitable distribution is any distribution from an IRA directly by the IRA trustee to a charitable organization, including a church, that is made on or after the date the IRA owner attains age 70½.
- A distribution will be treated as a qualified charitable distribution only to the extent that it would be includible in taxable income without regard to this provision.
- This provision applies only if a charitable contribution deduction for the entire distribution would be allowable under present law, determined without regard to the generally applicable percentage limitations. For example, if the deductible amount is reduced because the donor receives a benefit in exchange for the contribution of some or all of his IRA, or if a deduction is not allowable because the donor did not have sufficient substantiation, the exclusion is not available with respect to any part of the IRA distribution.

7. The Affordable Care Act (“Obamacare”)

Those provisions of the Affordable Care Act that involve taxation, that have the greatest relevance to churches and church staff and that affect tax reporting in 2014 or future years are summarized below.

- One of the most important and divisive provisions in the legislation is a requirement that, beginning in 2014, applicable individuals are required to maintain minimum essential health care coverage or pay a penalty. A requirement that persons failing to provide such coverage would be subject to imprisonment was dropped during final consideration. Failure to maintain minimum essential health care coverage will result in a penalty of the greater of $95 or 1% of household income over a filing threshold for 2014 ($325 or 2% of income in 2015).
- The law implements reforms that prohibit insurance companies from refusing to sell coverage or renew policies because of an individual’s pre-existing conditions. Also, in the individual and small group market, the law eliminates the ability of insurance companies to charge higher rates due to gender or health status.
  - The law prohibits new plans and existing group plans from imposing annual dollar limits on the amount of coverage an individual may receive.
  - Tax credits to make it easier for the middle class to afford insurance will become available for people with income between 100% and 400% of the poverty line who are not eligible for other affordable coverage. In 2014, 400% of the poverty line comes out to about $46,680 for an individual or $95,400 for a family of four. The tax credit is advanceable, so it can lower your premium payments each month, rather than make you wait for tax time. It’s also refundable, so even moderate-income families can receive the full benefit of the credit. These individuals may also qualify for reduced cost-sharing (co-payments, co-insurance and deductibles).
  - For tax years beginning in 2014 or later, there are changes to the credit: (1) The maximum credit increases to 50% of premiums paid for small business employers and 35% of premiums paid for small tax-exempt employers; (2) to be eligible for the credit, a small employer must pay premiums on behalf of employees enrolled in a qualified health plan offered through a Small Business Health Options Program (SHOP) Marketplace or qualify for an exception to this requirement; and (3) the credit is available to eligible employers for two consecutive taxable years.

8. Other tax changes of interest to churches and church staff

Several tax developments in 2014 will affect tax reporting by both ministers and churches for 2014 and future years. Here is a rundown of some of the key provisions:

- You may be able to claim the earned income credit for 2014 if (1) you do not have a qualifying child and you earned less than $14,590 ($20,020 if married filing jointly); (2) a qualifying child lived with you and you earned less than $38,511 ($43,941 if married filing jointly); (3) two qualifying children lived with you and you earned less than $43,756 ($49,186 if married filing jointly); or (4) three or more qualifying children lived with you and you earned less than $46,997 ($52,427 if married filing jointly). The maximum earned income credit for 2014 is (1) $4,966 with no qualifying child, (2) $3,305 with one qualifying child, (3) $5,460 with two qualifying children and (4) $6,143 with three or more qualifying children.
• For contributions to a Traditional IRA, the deduction phase-out range for an individual covered by a retirement plan at work begins at income of $96,000 for joint filers and $60,000 for a single person or head of household.

• The dollar limit on annual elective deferrals an individual may make to a 403(b) retirement plan is $17,500 in 2014. It increases to $18,000 for 2015.

• The catch-up contribution limit on elective deferrals to a 403(b) retirement plan for individuals who had attained age 50 by the end of the year was $5,500 in 2014. It increases to $6,000 for 2015.

• The IRS has announced that it will not issue private letter rulings addressing the question of “whether an individual is a minister of the gospel for federal tax purposes.” This means taxpayers will not be able to obtain clarification from the IRS in a letter ruling on their status as a minister for any one or more of the following matters: (1) eligibility for a housing allowance, (2) eligibility for exemption from self-employment taxes, (3) self-employed status for Social Security or (4) exemption of wages from income tax withholding. The IRS also has announced that it will not address “whether amounts distributed to a retired minister from a pension or annuity plan should be excludible from the minister’s gross income as a housing allowance.”

• The standard business mileage rate was 56 cents per mile for business miles driven during 2014. The standard business mileage rate for 2015 is 57.5 cents per mile.

• The IRS maintains that a minister’s housing allowance is earned income in determining eligibility for the earned income credit for ministers who have not opted out of Social Security by filing a timely Form 4361. For ministers who have opted out of Social Security, the law is less clear, and the IRS has not provided guidance.

• Recent tax law changes will result in lower taxes and lower estimated tax payments for many taxpayers. Be sure your estimated tax calculations or withholdings take into account the most recent tax law changes.

• Many churches employ retired persons who are receiving Social Security benefits. Persons younger than full retirement age may have their Social Security retirement benefits cut if they earn more than a specified amount. Full retirement age (the age at which you are entitled to full retirement benefits) for persons born from 1943–1954 is 66 years. In the year you reach full retirement age, your monthly Social Security retirement benefits are reduced by $1 for every $2 of earned income in excess of a specified amount. For 2015 this annual amount is $15,720.

• For 2014 the following inflation adjustments took effect:
  – The amounts of income you need to earn to boost you to a higher tax rate were adjusted for inflation.
  – The value of each personal and dependency exemption, available to most taxpayers, increased to $3,950.
  – The standard deduction is $12,400 for married couples filing a joint return and $6,200 for singles and married individuals filing separately. Nearly two out of three taxpayers take the standard deduction, rather than itemizing deductions such as mortgage interest, charitable contributions and state and local taxes.

• Will Congress give ministers another opportunity to revoke an exemption from Social Security? It does not look likely, at least for now. No legislation is pending that would provide ministers with this option.

**PRELIMINARY QUESTIONS**

Below are several questions you should consider before preparing your 2014 federal tax return.

Q. **Must ministers pay federal income taxes?**
   A. Yes. Ministers are not exempt from paying federal income taxes.

Q. **How much income must I earn to be required to file a tax return?**
   A. Generally, ministers are required to file a federal income tax return if they have earnings of $400 or more. Different rules apply to some ministers who are exempt from self-employment taxes.

Q. **Can I use the simpler Forms 1040A or 1040EZ rather than the standard Form 1040?**
   A. Most ministers must use the standard Form 1040.

Q. **What records should I keep?**
   A. You should keep all receipts, cancelled checks and other evidence to prove amounts you claim as deductions, exclusions or credits.

Q. **What is the deadline for filing my federal income tax return?**
   A. The deadline for filing your 2014 federal tax return is April 15, 2015.
Q. What if I am unable to file my tax return by the deadline?
A. You can obtain an automatic six-month extension (from April 15 to October 15, 2015) to file your 2014 Form 1040 if you file Form 4868 by April 15, 2015, with the IRS service center for your area. Your Form 1040 can be filed at any time during the six-month extension period. An extension only relieves you from the obligation to file your return; it is not an extension of the obligation to pay your taxes. You must make an estimate of your tax for 2014 and pay the estimated tax with your Form 4868.

Q. Should I prepare my own tax return?
A. The answer depends on your ability and experience in working with financial information and in preparing tax returns. Keep in mind: ministers’ taxes present a number of unique rules, but these rules are not complex. Many ministers will be able to prepare their own tax returns if they understand the unique rules that apply. This is not hard. These rules are summarized in this document. On the other hand, if you experienced unusual events in 2014, such as the sale or purchase of a home or the sale of other capital assets, it may be prudent to obtain professional tax assistance. The IRS provides a service called Taxpayer Assistance, but it is not liable in any way if its agents provide you with incorrect answers to your questions. Free taxpayer publications are available from the IRS, and many of these are helpful to ministers.

➤ Recommendation. If you need professional assistance, here are some tips that may help you find a competent tax professional:

- Ask other ministers in your community for their recommendations.
- If possible, use a CPA who specializes in tax law and who is familiar with the rules that apply to ministers. A CPA has completed a rigorous educational program and is subject to strict ethical requirements.
- Ask local tax professionals if they work with ministers and, if so, with how many.
- Ask local tax professionals a few questions to test their familiarity with ministers’ tax issues. For example, ask whether ministers are employees or self-employed for Social Security. Anyone familiar with ministers’ taxes will know that ministers are self-employed for Social Security with respect to their ministerial duties. Or, ask a tax professional if a minister’s church salary is subject to income tax withholding. The answer is no, and anyone familiar with ministers’ taxes should be able to answer this question.
Part 2. Special Rules for Ministers

WHO IS A MINISTER FOR FEDERAL TAX PURPOSES?

**Key Point:** The IRS has its own criteria for determining who is a minister for tax purposes.

The criteria the IRS uses to determine who is a minister are not necessarily the same as those used by churches and denominations. Whether or not one qualifies as a Minister for Tax Purposes is a very important question, since special tax and reporting rules apply to ministers under federal tax law. These rules include:

- Eligibility for housing allowances
- Self-employed status for Social Security
- Exemption of wages from income tax withholding (ministers use the quarterly estimated tax procedure to pay their taxes, unless they elect voluntary withholding)
- Eligibility under very limited circumstances to exempt themselves from self-employment taxes

These special rules only apply with respect to services performed in the exercise of ministry.

**Example:** Pastor J is an ordained minister at his church. In addition, he works a second job for a secular employer. Assume that Pastor J qualifies as a minister for federal tax purposes. Since his church duties constitute services performed in the exercise of ministry, the church can designate a portion of his compensation as a housing allowance. However, the secular employer cannot designate any portion of Pastor J’s compensation as a housing allowance since this work would not be service in the exercise of ministry.

According to the IRS, ministers are individuals who are duly ordained, commissioned or licensed by a religious body constituting a church or church denomination. They are given the authority to conduct religious worship and administer ordinances (baptism and Lord’s supper). If a church or denomination ordains some ministers and licenses or commissions others, anyone licensed or commissioned must be able to perform substantially all the religious functions of an ordained minister to be treated as a minister for Social Security. See IRS Publication 517.

ARE MINISTERS EMPLOYEES OR SELF-EMPLOYED FOR FEDERAL TAX PURPOSES?

**Key Point:** Most ministers are considered employees for federal income tax purposes under the tests currently used by the IRS and the courts and should receive a Form W-2 from their church reporting their taxable income. However, ministers are self-employed for Social Security (with respect to services they perform in the exercise of their ministry).

Ministers have a dual tax status. For federal income taxes they ordinarily are employees, but for Social Security they are self-employed with regard to services performed in the exercise of ministry. These two rules are summarized below:

1. **Income taxes.** For federal income tax reporting, most ministers are employees under the tests currently used by the IRS. This means that they should receive a Form W-2 from their church at the end of each year (rather than a Form 1099). It also means that they report their employee business expenses on Schedule A rather than on Schedule C. A few ministers are self-employed, such as some traveling evangelists and interim pastors. Also, many ministers who are employees of a local church are self-employed for other purposes. For example, the minister of a local church almost always will be an employee, but will be self-employed with regard to guest speaking appearances in other churches and services performed directly for individual members (such as weddings and funerals).

**Example:** Pastor B is a minister at First Baptist Church. He is an employee for federal income tax reporting purposes with respect to his church salary. However, he is self-employed with respect to honoraria he receives for speaking in other churches and for compensation church members give him for performing personal services such as weddings and funerals. The church issues Pastor B a Form W-2 reporting his church salary. Pastor B reports this amount as wages on line 7 of Form 1040. He reports his compensation and expenses from self-employment activities on Schedule C.

**Key Point:** Most ministers will be better off financially being treated as employees, since the value of various fringe benefits will be tax-free, the risk of an IRS audit is substantially lower, and reporting as an employee avoids the additional taxes and penalties that often apply to self-employed ministers who are audited by the IRS and reclassified as employees.

**Tax-savings tip.** Ministers and other church staff members should carefully review their Form W-2 to be sure that it does not report more income than was actually received. If an error was made, the church should issue a corrected tax form (Form W-2C).
**The Tax Court Test.** The United States Tax Court has created a seven-factor test for determining whether a minister is an employee or self-employed for federal income tax reporting purposes. The test requires consideration of the following seven factors: (1) the degree of control exercised by the employer over the details of the work, (2) which party invests in the facilities used in the work, (3) the opportunity of the individual for profit or loss, (4) whether or not the employer has the right to discharge the individual, (5) whether the work is part of the employer’s regular business, (6) the permanency of the relationship and (7) the relationship the parties believe they are creating. Most ministers will be employees under this test.

2. **Social Security.** The tax code treats ministers as self-employed for Social Security with respect to services performed in the exercise of their ministry — even if they report their income taxes as an employee. This means that ministers must pay self-employment taxes (Social Security taxes for the self-employed, sometimes referred to as SECA) unless they have filed a timely exemption application (Form 4361) that has been approved by the IRS. As noted below, few ministers qualify for this exemption.

**Key Point:** While most ministers are employees for federal income tax reporting purposes, they are self-employed for Social Security with respect to services they perform in the exercise of their ministry. This means that ministers are not subject to the employee’s share of Social Security and Medicare taxes, even though they report their income taxes as employees and receive a Form W-2 from their church. Rather, they pay the self-employment tax (SECA).

**EXEMPTION FROM SOCIAL SECURITY (SELF-EMPLOYMENT) TAXES**

If ministers meet several requirements, they may exempt themselves from self-employment taxes with respect to their ministerial earnings. Among other things, the exemption application (Form 4361) must be submitted to the IRS within a limited time period. The deadline is the due date of the federal tax return for the second year in which a minister has net earnings from self-employment of $400 or more, any part of which comes from ministerial services. Further, the exemption is available only to ministers who are opposed on the basis of religious considerations to the acceptance of benefits under the Social Security program (or any other public insurance system that provides retirement or medical benefits). A minister who files the exemption application may still purchase life insurance or participate in retirement programs administered by non-governmental institutions (such as a life insurance company).

A minister’s opposition must be to accepting benefits under Social Security (or any other public insurance program). Economic or any other non-religious considerations are not a valid basis for the exemption, nor is opposition to paying the self-employment tax.

The exemption is only effective when it is approved by the IRS. Few ministers qualify for exemption. Many younger ministers opt out of Social Security without realizing that they do not qualify for the exemption. A decision to opt out of Social Security is irrevocable. Congress did provide ministers with a brief window of time to revoke an exemption by filing Form 2031 with the IRS. This opportunity expired in 2002 and has not been renewed. An exemption from self-employment taxes applies only to ministerial services. Ministers who have exempted themselves from self-employment taxes must pay Social Security taxes on any non-ministerial compensation they receive. And, they remain eligible for Social Security benefits based on their non-ministerial employment, assuming that they have worked enough quarters. Generally, 40 quarters are required. Also, the Social Security Administration has informed the author of this text that ministers who exempt themselves from self-employment taxes may qualify for Social Security benefits (including retirement and Medicare) on the basis of their spouse’s coverage, if the spouse had enough credits. However, the amount of these benefits will be reduced by the so-called “windfall elimination provision.” Contact a Social Security Administration office for details.

**Key Point:** The amount of earnings required for a quarter of coverage in 2015 is $1,220. A quarter of coverage is the basic unit for determining whether a worker is insured under the Social Security program.

**Key Point:** Ministers must pay Social Security tax on their wages, even when working after retirement (unless they exempted themselves from Social Security as a minister and they are employed in a ministerial capacity).

**HOW DO MINISTERS PAY THEIR TAXES?**

**Key Point:** Ministers must prepay their income taxes and self-employment taxes using the estimated tax procedure, unless they have entered into a voluntary withholding arrangement with their church with respect to federal income tax only.

As noted above, ministers’ wages are exempt from federal income tax withholding. This means that a church does not have to withhold income taxes from a minister’s paycheck. And, since ministers are self-employed for Social Security with respect to their ministerial services, a church does not withhold the employee’s share of Social Security and Medicare taxes from a minister’s wages. Ministers must prepay their income taxes and self-employment taxes using the estimated tax procedure, unless they have entered into a voluntary withholding arrangement with their church. Estimated taxes must be paid.