ACKNOWLEDGMENTS

Both the author and Christianity Today’s Church Law & Tax Team would like to thank CPA Elaine Sommerville for her assistance with reviewing the material in the Guide.


This publication is intended to provide a timely, accurate, and authoritative discussion of tax reporting compliance and the impact of recent changes in the tax laws. It is not intended as a substitute for legal, accounting, or other professional advice. If legal, tax, or other expert assistance is required, the services of a competent professional should be sought. Although we believe this book provides accurate information, there may be changes resulting from IRS or judicial interpretations of the tax code, new tax regulations, or technical corrections that occurred after the printing of this edition that are not reflected in the text.

Master Plan Tax Services of Flower Mound, Texas, reviewed the material in the Ministers’ Tax Guide. For additional information, visit MasterPlanTaxes.com.

The tax guide is made available as a free benefit to those we serve.

The intricacies of the tax law seem to become more complicated each year, especially for pastors. Each year, we mark it a privilege to provide this tax guide to our participants as a resource when preparing their own taxes. While this book addresses commonly asked questions and forms, you can find more extensive information on the IRS website, IRS.gov. While GuideStone® cannot offer tax or legal advice, GuideStone is pleased to provide this information as a resource. For specific advice, you should consult with your tax and legal advisors who are familiar with the intricacies of ministerial taxes and your circumstances.

This tax guide serves as a tangible reminder of our vision to honor the Lord by being a lifelong partner with our participants in enhancing their financial security. You can refer your colleagues to GuideStone.org/TaxGuide for copies of this booklet, in whole or in part, along with other helpful resources on compensation planning, minister’s housing allowance and Social Security.

May the Lord richly bless you in the ministry you have received from Him!

Sincerely,

O.S. Hawkins
President
GuideStone
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PART 1: Introduction

All references in this publication to line numbers on IRS forms are for the draft versions of the 2021 forms since the final forms had not been released by the IRS as of the date of publication.

HOW TO USE THIS GUIDE
This book contains the basic information you need to complete your 2021 federal income tax return. It gives special attention to several forms and schedules and the sections of each form most relevant to ministers. The companion resource and Part 5 in this guide — Federal Reporting Requirements for Churches — helps churches comply with their federal tax reporting requirements.

This guide is divided into the following sections:

- **Part 1: Introduction** — This section reviews tax highlights for 2021 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 Sample Forms** — This section shows a sample tax return prepared for an ordained minister and spouse and for a retired minister and spouse.

- **Part 5: Federal Reporting Requirements for Churches** — This resource provides assistance to churches (especially treasurers and bookkeepers) in filing federal tax forms.

TAX HIGHLIGHTS FOR 2021

1. The American Rescue Plan Act of 2021 (ARPA)
ARPA was enacted by Congress to deliver immediate and direct relief to families and workers impacted by the COVID-19 crisis. Key features include:

- A third round of economic impact payments of up to $1,400 for individuals or $2,800 for married couples plus $1,400 for each dependent claimed on a tax return. Payments are phased out for income over $75,000 (single) or $150,000 (married).

- The Child Tax Credit: (1) is increased from $2,000 to $3,600 for children under 6 and $3,000 for other children under 18. (2) Children 17 years old and younger are now covered by the Child Tax Credit. (3) The credit is fully refundable, meaning that lower-income households will be entitled to receive the full credit benefit.

- $10 billion to assist distressed homeowners.

- $25 billion in emergency rental assistance.

- The Infrastructure Investment and Jobs Act (2021) eliminated the employee retention credit for wages paid after September 30, 2021 (except for wages paid by an eligible recovery startup business).

2. Other Tax Changes of Interest to Ministers and Other Church Staff
There were several tax developments in prior years that affect tax reporting by both ministers and churches for 2021 and future years. Here is a rundown of some of the key provisions:

- You may be able to claim the earned income credit (EIC) for 2021 if (1) you do not have a qualifying child and you earned less than $21,430 ($27,380 if married filing jointly (MF)); (2) a qualifying child lived with you and you earned less than $42,158 ($48,108 if MF); (3) two qualifying children lived with you and you earned less than $47,915 ($53,865 if MF); or (4) three or more qualifying children lived with you and you earned less than $51,464 ($57,414 if MF). The maximum EIC for 2021 is (1) $1,502 with no qualifying child; (2) $3,618 with one qualifying child; (3) $5,980 with two qualifying children; and (4) $6,728 with three or more qualifying children.

- For contributions in 2021 to a Traditional Individual Retirement Account (IRA), the deduction phaseout range for an individual covered by a retirement plan at work begins at an income of $105,000 for joint filers and $66,000 for a single person or head of household. These are 2021 amounts that increase to $109,000 for joint filers and $68,000 for a single person or head of household for 2022.

- The dollar limit on annual elective deferrals an individual may make to a 403(b) retirement plan is $19,500 for 2021. It increases to $20,500 for 2022.

- 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 $6,500 for 2021. For 2022, the limit remains at $6,500.
• 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 parsonage exclusion or housing allowance; (2) eligibility for exemption from self-employment taxes (SECA); (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 excludable from the minister's gross income as a parsonage allowance."

• The standard business mileage rate was 56 cents per mile for business miles driven during 2021. The standard business mileage rate for 2022 is 58.5 cents per mile.

• 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 in 1943–1954 is 66 years. If you are under full retirement age for the entire year, $1 is deducted from your benefit payments for every $2 you earn above the annual limit. For 2022 that limit is $19,560. In the year you reach full retirement age, your monthly benefit payments are reduced by $1 for every $3 you earn above a different limit. For 2022 that limit is $51,960 ($4,330 per month), but only earnings before the month you reach full retirement age are counted.

• 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.

• In March 2019, a three-judge panel of a federal appeals court (the Seventh Circuit Court of Appeals) unanimously affirmed the constitutionality of the minister’s housing allowance. Gaylor v. Mnuchin, 919 F.3d 420 (7th Cir. 2019). No further legal challenges to the housing allowance occurred in 2021.

• The CARES Act (2020) encouraged Americans to contribute to churches and charitable organizations by permitting them to deduct up to $300 of cash contributions whether they itemize their deductions or not. Congress extended this deduction through 2021 and increased it to $600 for married couples filing a joint return.

PRELIMINARY QUESTIONS
Below are several questions you should consider before preparing your 2021 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 to report their SECA. Different rules apply to ministers who are exempt from SECA.

Q. What records should I keep?
A. You should keep all receipts, canceled checks, and other evidence to prove amounts you claim as deductions, exclusions, or credits. Documentation should be maintained for six years from the time you file your tax return.

Q. What is the deadline for filing my federal income tax return?
A. The instructions to Form 1040 state that the deadline for filing Form 1040 for the 2021 tax year is April 15, 2022. As of this publication, there are no congressional or executive discussions to extend this deadline.

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 17, 2022) to file your 2021 Form 1040 if you file Form 4868 by April 15, 2022, 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 relieves you from only 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 2021 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. These rules are summarized in this document. Easily accessible tax software will also accommodate the unique rules applicable to ministers, but it does not relieve a minister from understanding the rules in order to accurately utilize the software. On the other hand, if you experienced unusual events in 2021, 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 or an enrolled agent (EA) who specializes in tax law and is familiar with the rules that apply to ministers. A CPA has completed a rigorous educational program, and both CPAs and EAs have passed exams. Both must keep up continuing education and are subject to strict ethical requirements. However, the tax law is broad and complicated, so it should not be assumed that all CPAs or EAs are familiar with the unique rules applicable to ministers.

- 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 prepay their taxes unless they elect voluntary withholding)
- Eligibility, under very limited circumstances, to exempt themselves from SECA

These special rules apply only to persons qualifying as a minister and with respect to compensation received in the exercise of ministerial services.

EXAMPLE: Pastor J is an ordained minister employed by a 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 his 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 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, perform sacramental functions, and administer ordinances or sacraments according to the tenets and practices of that church or denomination. 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 Tax Purposes. See IRS Publication 517.

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

KEY POINT: Most ministers are 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 their 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). Formerly, it meant that they reported their employee business expenses on Schedule A rather than on Schedule C. (The deduction for employee business expenses as Miscellaneous Itemized Deductions on Schedule A is suspended through 2025, so employee business expenses are not deductible at this time.)

A few ministers are self-employed, such as some traveling evangelists and some 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 1 of Form 1040. He reports his compensation and expenses from the outside self-employment activities on Schedule C.
KEY POINT: Most ministers will be better off financially being treated as employees since the value of some 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.

KEY POINT: Ministers and other church staff members should carefully review their Form W-2 to be sure it does not report more income than was actually received or fails to report taxable benefits provided by the church. If an error was made, the church should issue a corrected tax form (Form W-2c). If the church refuses to correct the income reported on the original Form W-2, the minister should still include the additional income on the Form 1040.

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 federal 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 SECA (Social Security taxes for the self-employed) unless they have timely filed an 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 (FICA), even though they report their income taxes as employees and receive a Form W-2 from their church. A minister’s Form W-2 should not report any amounts in Boxes 3, 4, 5, and 6. Rather, they pay SECA by completing Schedule SE with their Form 1040.

EXEMPTION FROM SECA
If ministers meet several requirements, they may exempt themselves from SECA 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 nongovernmental institutions (such as a life insurance company). Additionally, the exemption does not require a minister to revoke all rights to Social Security benefits earned through his participation in the system through secular employment.

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

The exemption is effective only when it is approved by the IRS. Few ministers qualify for the exemption. Many younger ministers opt out of the SECA without realizing that they do not qualify for the exemption. A decision to opt out of SECA is irrevocable. But section 419.6.4113 (02-13-2020) of the IRS Internal Revenue Manual explicitly recognizes that under some conditions, ministers who have exempted themselves from SECA solely for economic reasons can revoke their exemption. The IRS does have the authority to revoke a minister’s decision to opt out of SECA if it is determined the decision is based on economic reasons rather than theological reasons. Check with a tax attorney, CPA, or EA for additional information.

An exemption from SECA applies only to compensation for ministerial services. Ministers who have exempted themselves from SECA 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 they have worked enough quarters. Generally, 40 quarters are required. Also, the Social Security Administration (SSA) has informed the author of this text that ministers who exempt themselves from SECA may qualify for Social Security benefits (including retirement and Medicare) on the basis of their spouse’s coverage if the spouse had enough credits.
KEY POINT: The amount of earnings required for a quarter of coverage in 2022 is $1,510. A quarter of coverage is the basic unit for determining whether a worker is insured under the Social Security program.

KEY POINT: Ministers who work after they retire must continue to pay SECA on their ministerial income and wages (unless they exempted themselves from SECA as a minister, and they are employed in a ministerial capacity). However, amounts received from retirement plans related to ministerial services are not subject to SECA.

HOW DO MINISTERS PAY THEIR TAXES?

KEY POINT: Ministers must prepay their income taxes and SECA 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 may not withhold income taxes from a minister’s paycheck without specific written permission. And, since ministers are self-employed for Social Security with respect to their ministerial services, a church may never withhold the employee’s share of FICA from a minister’s wages. Ministers must prepay their income taxes and SECA using the estimated tax procedure unless they enter into a voluntary withholding arrangement with their church. Estimated taxes must be paid in quarterly installments. If your estimated tax paid for the current year is less than your actual tax, you may have to pay an underpayment penalty. You can amend your estimated tax payments during the year if your circumstances change. For example, if your income or deductions increase unexpectedly, you should refigure your estimated tax liability for the year and amend your remaining quarterly payments accordingly or submit additional payments.

You will need to make estimated tax payments for 2022 if you expect to owe at least $1,000 in tax for 2022 after subtracting your withholding and credits and if you expect your withholding and credits to be less than the smaller of (1) 90% of the tax to be shown on your 2022 tax return or (2) 100% of the tax shown on your 2021 tax return (10% if adjusted gross income (AGI) exceeds $150,000, or if married filing separately, more than $75,000). Your 2021 tax return must cover all 12 months.

The four-step procedure for reporting and paying estimated taxes for 2022 is summarized below.

Step 1:
Estimated tax payments may be paid using either of the following methods:

- Obtain a copy of IRS Form 1040-ES for 2022 before April 15, 2022. You can obtain forms by calling the IRS toll-free forms hotline at 1-800-TAX-FORM (800-829-3676) or from the IRS website (IRS.gov). If you paid estimated taxes last year, you should receive a copy of your 2022 Form 1040-ES in the mail with payment vouchers preprinted with your name, address, and Social Security number (SSN).

- Enroll in the Electronic Federal Tax Payment System® (EFTPS) at EFTPS.gov and establish an online account to be used to submit payments. You may also use IRS.gov/Payments to submit payments. (This is the preferred payment method since the IRS is slow to process payments physically mailed to it.)

Step 2:
Compute your estimated tax for 2022 using the Form 1040-ES worksheet. Ministers’ quarterly estimated tax payments should take into account both income taxes and SECA.

Step 3:
Pay one-fourth of your total estimated taxes for 2022 in each of four quarterly installments as follows:

<table>
<thead>
<tr>
<th>For the period</th>
<th>Due date</th>
</tr>
</thead>
<tbody>
<tr>
<td>January 1–March 31</td>
<td>April 15, 2022</td>
</tr>
<tr>
<td>April 1–May 31</td>
<td>June 15, 2022</td>
</tr>
<tr>
<td>June 1–August 31</td>
<td>September 15, 2022</td>
</tr>
<tr>
<td>September 1–December 31</td>
<td>January 17, 2023</td>
</tr>
</tbody>
</table>

You must send each payment to the IRS, accompanied by one of the four payment vouchers contained in Form 1040-ES. If enrolled in the EFTPS system, all four payments may be prescheduled for automatic payment at the scheduled dates. A refund associated with an overpayment of your taxes for 2021 may be applied to your estimated tax payments due for 2022.

WARNING: If your 2021 tax return is not completed by April 15, 2022, you must go ahead and begin making your estimated tax payments to avoid potential underpayment penalties. A tax refund on your 2021 tax return can be used to adjust any estimated tax payment not made at the time of the filing of the return. Do not wait until your 2021 return is completed to determine and pay your 2022 estimated tax payments.

Step 4:
After the close of 2022, compute your actual tax liability on Form 1040. Only then will you know your actual income, deductions, exclusions, and credits. If you overpaid your estimated taxes (that is, actual taxes computed on Form 1040
are less than all of your estimated tax payments plus any withholding), you can elect to have the overpayment credited against your first 2023 quarterly estimated tax payment or spread it out in any way you choose among any or all of your next four quarterly installments. Alternatively, you can request a refund of the overpayment. If you underpaid your estimated taxes (that is, your actual tax liability exceeds the total of your estimated tax payments plus any withholding), you may have to pay a penalty.

**KEY POINT:** Ministers who report their income taxes as employees can request that their employing church voluntarily withhold income taxes from their wages. Simply furnish the church with a completed Form W-4 Employee’s Withholding Allowance Certificate or other written authorization. Since ministers are not employees for Social Security with respect to ministerial compensation, the church may not withhold the employee’s share of FICA. However, ministers can request on Form W-4 (line 4c) that an additional amount of income tax be withheld to cover their estimated SECA liability for the year. The excess income tax withheld is a credit that is applied against the minister’s SECA liability. Many churches unintentionally withhold FICA in addition to income taxes for a minister who requests voluntary withholding. Such withholding must be reported as income tax withheld. Withholding income tax is a preferential method of paying taxes since it is considered to have been equally paid throughout the year, no matter the date it is actually withheld. This means withholding can be adjusted later in the year, and it is treated as if it was paid evenly throughout the year, thus avoiding potential underpayment penalties.
PART 3: STEP-BY-STEP TAX RETURN PREPARATION

TAX FORMS AND SCHEDULES
This step-by-step analysis covers these forms and schedules:

Form 1040 is the basic document you will use. It summarizes all your tax information. Details are reported on supplementary schedules and forms.

Schedule A is for itemized deductions for medical and dental expenses, taxes, interest, certain disaster-related casualty losses, and charitable contributions.

KEY POINT: Beginning with tax year 2018, no miscellaneous itemized deductions that formerly were subject to a 2% of AGI limitation are allowed. This and other changes to Schedule A are addressed later in this guide.

Schedule B is for reporting dividend and interest income.

Schedule C is for reporting your income and expenses from business activities you conduct other than in your capacity as an employee. Examples would be fees received for guest speaking appearances in other churches or fees received directly from members for performing personal services, such as weddings and funerals.

Schedule SE is for reporting Social Security taxes due on your self-employment income. Ministers use this schedule since they are deemed self-employed for Social Security with respect to ministerial services (unless they have obtained an approved Form 4361 from the IRS).

These forms and schedules, along with others, are included in the illustrated example in Part 4 of this guide. These forms and schedules are the ones most commonly used by ministers. You can obtain them by calling the IRS toll-free forms hotline at 1-800-TAX-FORM (1-800-829-3676). They also are available on the IRS website (irs.gov).

FORM 1040
Step 1: Filing Status
Select the appropriate filing status from the five options listed in this section of the Form 1040.

Step 2: Name and Address
Print or type the information in the spaces provided. If you are married filing a separate return, enter your spouse’s name in the space provided in the “Filing Status” section at the top of Form 1040. If you filed a joint return for 2020 and you are filing a joint return for 2021 with the same spouse, be sure to enter your names and SSNs in the same order as on your 2020 return.

If you plan to move after filing your return, use Form 8822 to notify the IRS of your new address.

If you (or your spouse) changed your name because of marriage, divorce, etc., be sure to report the change to the SSA before filing your return. This prevents delays in processing your return and issuing refunds. It also safeguards your future Social Security benefits. If a name change with the SSA has not been completed, the name on file with the SSA must be used in filing your tax return.

Enter your P.O. Box number only if your Post Office™ does not deliver mail to your home.

For taxpayers with foreign mailing addresses, spaces have been added to include the name of the foreign country/province/state and a foreign postal code.

If you want $3 to go to the presidential election campaign fund, check the box labeled “you”. If you are filing a joint return, your spouse can also have $3 go to the fund (check “spouse”). If you check a box, your tax or refund will not change.

Step 3: Dependents
In the past, taxpayers were allowed a personal exemption for themselves and certain dependents. Dependents determine various credits, such as the child tax credit, as well as other tax-related items such as educational credits, medical expenses, childcare credit, and EIC, just to name a few.

Step 4: Income
Several items of income are reported on lines 1 through 8 of Form 1040, including amounts carried over from Schedule 1, lines 1 through 9. The most important of these (for ministers) are discussed below.

KEY POINT: Some items, such as the housing allowance, are not reported as income. They are called exclusions and are explained below.

Line 1. Wages, salaries, tips, etc.
As an employee, you should receive a Form W-2 from your church reporting your wages at the end of each year. Report this amount on line 1.

Determining church wages or salary. Besides a salary, ministers’ wages reported on Form W-2 may include several other items, including the following:

- Bonuses
• The cost of sending a minister to the Holy Land (if paid by a church)
• Most Christmas and special occasion offerings
• Retirement gifts paid by a church
• The portion of a minister's SECA paid by a church
• Personal use of a church-owned vehicle
• Purchases of church property for less than fair market value
• Business expense reimbursements under a non-accountable plan
• Imputed cost of group term life insurance coverage exceeding $50,000
• Church reimbursements of a spouse's travel expenses incurred while accompanying a minister on a business trip (unless the spouse's presence serves a legitimate business purpose and the spouse's expenses are reimbursed under an accountable arrangement)
• Discretionary funds established by a church for a minister to spend on current needs — if the minister is allowed to distribute funds for his personal benefit or does not have to account for the funds in an arrangement similar to an accountable expense reimbursement plan
• Imputed interest from below-market interest loans of at least $10,000 made by a church to a minister (some exceptions apply)
• Cancellation of a minister's debt to a church
• Severance pay
• Payment of a minister's personal expenses by the church
• Love gifts or other special occasion gifts

KEY POINT: The IRS can assess intermediate sanctions in the form of substantial excise taxes (i.e., monetary penalties) against ministers who benefit from an excess benefit transaction. Sanctions apply only to a minister who is a "disqualified person" (meaning an officer, director, or other control party as well as relatives of such persons). In some cases, the IRS can assess additional penalties against members of a church board that approved an excess benefit transaction. Excess benefit transactions may occur if a church pays a minister an excessive salary, makes a large retirement or other special occasion gift to a minister, gives church property (such as a parsonage) to the minister, or sells church property to the minister at an unreasonably low price. Sanctions may be avoided if a transaction or an item of compensation is approved by an independent board on the basis of outside comparable data, such as independent compensation surveys or fair market evaluations, and the basis for the board's decision is documented.

KEY POINT: The IRS has ruled that disqualified persons receive automatic excess benefits resulting in intermediate sanctions, regardless of amount, if they use church assets (vehicles, homes, credit cards, computers, etc.) for personal purposes or receive nonaccountable expense reimbursements (not supported by adequate documentation of business purpose) unless such benefits are reported as taxable income by the church on the disqualified person’s Form W-2 or by the disqualified person on his Form 1040 for the year in which the benefits are provided. The concept of automatic excess benefits directly affects the compensation practices of most churches and exposes some ministers and church board members to intermediate sanctions.

If some of these items were not reported on your Form W-2, they still must be reported as income. Your church should issue a corrected Form W-2 (Form W-2c) for the year in which one or more items of taxable income were not reported on your Form W-2. If you receive a Form W-2c and have filed an income tax return for the year shown, you may have to file an amended return. Compare amounts on Form W-2c with those reported on your income tax return. If the corrected amounts change your U.S. income tax, file Form 1040X Amended U.S. Individual Income Tax Return with Copy B of Form W-2c to amend the return you previously filed. Even if the church does not issue Form W-2c, the additional items of income should be included on the original or an amended Form 1040. You, the taxpayer, have the ultimate responsibility to report all taxable income even if your church does not properly report the income.

In addition to what is reported on Form W-2 (or Form W-2c), line 1 will also report the amount of excess housing allowance (the amount by which the housing allowance exceeds the lesser of the minister's housing expenses or the fair rental value of the minister's home, furnished, plus utilities).

Items not reported on line 1. Some kinds of income are not taxable. These items are called exclusions. Most exclusions apply in computing both income taxes and SECA. The housing allowance is an example of an exclusion that applies only to income taxes and not to SECA. Some of the more common exclusions for ministers include:

Gifts. Gifts, as defined by the Internal Revenue Code and the courts, are excludible from taxable income so long as they are not compensation for services. However, employers are
not permitted to give tax-free gifts to employees. Likewise, the IRS and the courts have ruled that gifts ministers receive directly from members of their congregations may not always be excluded as gifts from taxable income. Before excluding gifts from taxable income, the minister should consult with a tax professional.

Life insurance and inheritances. Life insurance proceeds and inheritances are excludible from taxable income. Income earned before distributions of proceeds is generally taxable as income.

Employer-paid group life insurance. Employees may exclude the cost of employer-provided group term life insurance so long as the amount of coverage does not exceed $50,000.

Tuition reductions. School employees may exclude from their taxable income a qualified tuition reduction provided by their employer. A qualified tuition reduction is a reduction in tuition charged to employees or their spouses or dependent children by an employer that is an educational institution.

Lodging. The value of lodging furnished to a minister (i.e., a parsonage) is excluded from income. This exclusion is not available in the computation of SECA. The value of lodging furnished to a non-minister employee on an employer’s premises and for the employer’s convenience may be excludible from taxable income if the employee is required to accept the lodging as a condition of employment.

Educational assistance. Amounts paid by an employer for an employee’s tuition, fees, and books may be excludible from the employee’s taxable income if the church has adopted a written educational assistance plan. The exclusion may not exceed $5,250 per year.

Employer-provided childcare. The child and dependent care credit is a tax credit that may help you pay for the care of eligible children and other dependents (qualifying persons). The credit is calculated based on your income and a percentage of expenses that you incur for the care of qualifying persons to enable you to go to work, look for work, or attend school. For 2021, ARPA made the credit substantially more generous (up to $4,000 for one qualifying person and $8,000 for two or more qualifying persons) and potentially refundable, so you might not have to owe taxes to claim the credit (so long as you meet the other requirements). This means that more taxpayers will be eligible for the credit for the first time and that, for many taxpayers, the amount of the credit will be larger than in prior years. The credit is reported on IRS Form 2441.

KEY POINT: Some exclusions are available only to taxpayers who report their income taxes as employees and not as self-employed persons. Many, however, apply to both employees and self-employed persons.

There are four other exclusions that are explained below — the housing allowance, tax-sheltered annuities (TSAs), qualified scholarships, and sale of a home.

1. Housing Allowance

KEY POINT: The housing allowance was challenged in federal court as an unconstitutional preference for religion. In 2020, a federal appeals court rejected the challenge and affirmed the constitutionality of the housing allowance.

The most important tax benefit available to ministers who own or rent their homes is the housing allowance exclusion. Ministers who own or rent their homes do not pay federal income taxes on the amount of their compensation that their employing church designates in advance as a housing allowance, to the extent that (1) the allowance represents compensation for ministerial services; (2) it is used to pay housing expenses; and (3) it does not exceed the fair rental value of the home (furnished, plus utilities). Housing-related expenses include mortgage payments, rent, utilities, repairs, furnishings, insurance, property taxes, additions, and maintenance.

A church cannot designate a housing allowance retroactively.

Some churches fail to designate housing allowances prospectively and thereby deprive ministers of an important tax benefit.

Ministers who live in a church-owned parsonage do not pay federal income taxes on the fair rental value of the parsonage.

TAX SAVING TIP: Ministers who live in a church parsonage and incur any out-of-pocket expenses in maintaining the parsonage (such as utilities, property taxes, insurance, furnishings, or lawn care) should be sure that their employing church designates in advance a portion of their annual cash compensation as a parsonage allowance. The amount so designated is not reported as wages on the minister’s Form W-2 at the end of the year (if the allowance exceeds the actual expenses, the difference must be reported as income by the minister). This is an important tax benefit for ministers living in a church-provided parsonage. Unfortunately, many of these ministers are not aware of this benefit or are not taking advantage of it.

TAX SAVING TIP: Ministers who own their homes lose the largest component of their housing allowance exclusion when they pay off their home mortgage loan. Many
ministers in this position have obtained home equity loans or a conventional loan secured by a mortgage on their otherwise debt-free home and have claimed their payments under these kinds of loans as a housing expense in computing their housing allowance exclusion. The Tax Court has ruled that this is permissible only if the loan proceeds were spent on housing-related expenses.

$ TAX SAVINGS TIP: Ministers should be sure that the designation of a housing or parsonage allowance for the next year is on the agenda of the church (or church board) for one of its final meetings during the current year. The designation should be an official action, and it should be duly recorded in the minutes of the meeting. The IRS also recognizes designations included in employment contracts and budget line items — assuming in each case that the designation was appropriately adopted in advance by the church and supported by underlying documentation as to each minister's anticipated housing expenses.

The rental value of a parsonage and a housing allowance are exclusions only for federal income tax reporting purposes. Ministers cannot exclude a housing allowance or the fair rental value of a parsonage when computing SECA unless they are retired. The tax code specifies that SECA does not apply to “the rental value of any parsonage or any parsonage allowance provided after the [minister] retires.”

States vary in the tax treatment of the housing allowance, so ministers should check their state income tax rules to determine eligibility for a housing allowance exclusion.

The housing allowance is available to ministers whether they report their income taxes as employees or as self-employed (whether the church issues them a Form W-2 or a Form 1099).

Housing Expenses to Include in Computing Your Housing Allowance Exclusion

Ministers who own or rent their homes should take the following expenses into account in computing their housing allowance exclusion:

- Down payment on a home (It is often difficult to exclude the full amount of a down payment for a new home, since a housing allowance is nontaxable only to the extent that it does not exceed the lesser of the amount designated by a minister's church, the actual housing expenses or the fair rental value of a minister's home, furnished, plus utilities.)

- Mortgage payments on a loan to purchase or improve your home (include both interest and principal)

- Rent

- Real estate taxes

- Property insurance

- Utilities (electricity, gas, water, trash pickup, land-line telephone charges, etc.)

- Furnishings and appliances (purchase and repair)

- Structural repairs and remodeling

- Yard maintenance and improvements

- Maintenance items (pest control, etc.)

- Homeowners association dues

KEY POINT: In 2007, the Tax Court characterized internet expenses as utility expenses. This suggests that a housing allowance may be used to pay for internet expenses (e.g., internet access, cable television). Neither the IRS nor the Tax Court has addressed this issue directly, so be sure to check with a tax professional about the application of a housing allowance to these expenses.

Please note the following:

- A housing allowance must be designated in advance. Retroactive designations of housing allowances are not effective.

- The housing allowance designated by the church is not necessarily nontaxable. It is nontaxable (for income taxes) only to the extent that it is used to pay for housing expenses and, for ministers who own or rent their homes, does not exceed the fair rental value of their home (furnished, plus utilities).

- A housing allowance can be amended during the year if a minister's housing expenses are more than expected. However, an amendment is only effective prospectively. Ministers should notify their church if their actual housing expenses are significantly more than the housing allowance designated by the church. But note that it serves no purpose to designate a housing allowance greater than the fair rental value of a minister's home (furnished, plus utilities).

- If the housing allowance designated by the church exceeds housing expenses or the fair rental value of a minister's home, the excess housing allowance should be reported on line 1 of Form 1040.

- The housing allowance exclusion is an exclusion for federal income taxes only. Ministers must add the housing allowance as income in reporting SECA on Schedule SE (unless they are exempt from SECA).

- The fair rental value of a church-owned home provided to a minister as compensation for ministerial services is not subject to federal income tax.
EXAMPLE: A church designated $25,000 of Pastor D's 2021 compensation as a housing allowance. Pastor D's housing expenses for 2021 were utilities of $4,000, mortgage payments of $18,000, property taxes of $4,000, insurance payments of $1,000, repairs of $1,000, and furnishings of $1,000. The fair rental value of the home (including furnishings) is $19,000. Pastor D's housing allowance is nontaxable in computing income taxes only to the extent that it is used to pay housing expenses and does not exceed the fair rental value of his home (furnished, plus utilities). Stated differently, the nontaxable portion of a housing allowance is the least of the following three amounts: (1) the housing allowance designated by the church; (2) actual housing expenses; or (3) the fair rental value of the home (furnished, plus utilities). In this case, the lowest of these three amounts is the fair rental value of the home, furnished plus utilities ($23,000), and so this represents the nontaxable portion of Pastor D's housing allowance. Pastor D must report the difference between this amount and the housing allowance designated by his church ($2,000) as additional income on line 1 of Form 1040.

EXAMPLE: Same facts as the previous example, except the church designated $12,000 of Pastor D's salary as a housing allowance. The lowest of the three amounts, in this case, would be $12,000 (the church-designated housing allowance), and so this represents the nontaxable amount. Note that Pastor D's actual housing expenses were more than the allowance, and so he was penalized because of the low allowance designated by his church.

EXAMPLE: Pastor Y owns a home and incurred housing expenses of $12,000 in 2021. These expenses include mortgage principal and interest, property taxes, utilities, insurance, and repairs. The church designated (in advance) $12,000 of Pastor Y's 2021 compensation as a housing allowance. Pastor Y is able to itemize expenses on Schedule A (Form 1040). He is able to claim itemized deductions on Schedule A for both his mortgage interest and his property taxes (up to $10,000), even though his taxable income was already reduced by these items because of their inclusion in the housing allowance. This is often referred to as the double deduction. In fact, it represents an exclusion and a deduction.

EXAMPLE: In preparing his income tax return for 2021, Pastor H discovers that his church failed to designate a housing allowance for him for 2021. He asks his church to pass a resolution retroactively granting the allowance for 2021. Such a resolution is ineffective, and Pastor H will not be eligible for any housing allowance exclusion in 2021.

KEY POINT: Federal law makes it a crime to knowingly falsify any document with the intent to influence "the investigation or proper administration of any matter within the jurisdiction of any department or agency of the United States ... or in relation to or contemplation of any such matter or case," and this provision contains no exemption for churches or pastors. It is possible that a pastor's backdating of a board resolution to qualify for a housing allowance for the entire year is fraud and violates this provision in the Sarbanes-Oxley Act, exposing the pastor to a fine or imprisonment. Even if the pastor’s action does not violate the Act, it may result in civil or criminal penalties for tax fraud under the tax code.

TAX SAVINGS TIP: Ministers should be sure that the designation of a housing or parsonage allowance for the next year is on the agenda of the church board or appropriate committee for one of its final meetings during the current year. The designation should be an official action, and it should be duly recorded in the minutes of the meeting. The IRS also recognizes designations included in employment contracts and budget line items — assuming in each case that the designation was duly adopted in advance by the church.

How much should a church designate as a housing allowance?

The IRS has stated that there are no limitations on how much of a minister’s compensation can be designated by his employing church as a housing allowance. However, as noted above, this means little since the nontaxable portion of a church-designated housing allowance for ministers who own or rent their homes cannot exceed the lesser of (1) actual housing expenses or (2) the fair rental value of the home (furnished, plus utilities).

Many churches base the housing allowance on their minister's estimate of actual housing expenses for the new year. The church provides the minister with a form on which anticipated housing expenses for the new year are reported. For ministers who own their homes, the form asks for projected expenses in the following categories: down payment, mortgage payments, property taxes, property insurance, utilities, furnishings and appliances, repairs and improvements, maintenance, and miscellaneous. Many churches designate an allowance in excess of the anticipated expenses itemized by the minister. Basing the allowance solely on a minister’s anticipated expenses penalizes the minister if actual housing expenses turn out to be higher than expected. In other words, the allowance should take into account unexpected housing costs or inaccurate projections of expenses.
KEY POINT: The housing allowance is available only if three conditions are met: (1) the recipient is a Minister for Tax Purposes (as defined above); (2) the allowance is compensation for services performed in the exercise of ministry; and (3) the allowance is properly designated by the church.

Churches sometimes neglect to designate a housing allowance in advance of a new calendar year. For example, a church board may discover in March of 2022 that it failed to designate a housing allowance for its pastor for 2022. It is not too late to act. The church should immediately designate a portion of its minister’s remaining compensation for 2022 as a housing allowance. This problem can be avoided by stipulating in each annual housing allowance designation that the allowance is for the current year and all future years unless otherwise provided. If such a resolution had been adopted in the December 2020 board meeting (e.g., “for 2021 and future years”), it would not matter that the church neglected to designate a minister’s 2022 allowance until March of 2022, since the previous designation would have carried over. Such safety net designations are not a substitute for annual housing allowances (they have never been addressed or endorsed by the IRS or Tax Court). Rather, they provide a basis for claiming a housing allowance if a church neglects to designate one.

KEY POINT: Churches cannot designate a housing allowance retroactively.

KEY POINT: The IRS has ruled that a retired minister is eligible for a housing allowance exclusion if the following conditions are satisfied: (1) a portion of the retired minister’s pension income is designated as a housing allowance by his church or the church pension board of a denominational pension fund; (2) the retired minister has severed his relationship with the local church and relies on the fund for a pension; and (3) the pensions paid to retired ministers “compensate them for past services to the local churches of the denomination or to the denomination.” Retired ministers who receive benefits from a denominational pension fund will be eligible in most cases to have some or all of their benefits designated in advance as a housing allowance. This is an attractive benefit for retired ministers that is not available with some other kinds of retirement plans. Retired ministers also can exclude from their gross income the rental value of a home (furnished, plus utilities) provided to them by their church as a part of their pay for past services. A minister’s surviving spouse cannot exclude a housing allowance or rental value of a parsonage unless the allowance or parsonage is for ministerial services performed.

The SECA does not apply to the rental value of a parsonage or a housing allowance provided after a minister retires.

KEY POINT: Ministers who own their homes lose the largest component of their housing allowance exclusion when they pay off their home mortgage loan. Many ministers in this position have obtained home equity loans — or a conventional loan secured by a mortgage on their otherwise debt-free home — and have claimed their payments under these kinds of loans as a housing expense in computing their housing allowance exclusion. The Tax Court has ruled that this is permissible only if the loan proceeds were spent on housing-related expenses.

2. SECTION 403(B) RETIREMENT PLANS

Payments made by your church and your salary reduction contributions to a 403(b) plan are not reportable income for income tax or SECA purposes as long as the total amount credited to your retirement account does not exceed contribution limits under sections 415(c) and 402(g) of the tax code.

Contribution Limits
For 2021, total annual additions (employer contributions, salary reduction, and tax-paid contributions) could not exceed the lesser of 100% of your compensation (excluding a minister’s housing allowance) or $58,000. This rule is known as the “section 415(c) limit.” The limit does not include the additional catch-up contributions of $6,500 that may be contributed through elective deferrals by persons over age 50. Excess contributions can result in income tax, additional taxes, and penalties. The effect of excess contributions depends on the type of excess contribution. The distributed excess amount may not be rolled over to another 403(b) plan or to an IRA.

NEW IN 2022: The limit on annual additions is $61,000 for 2022.

Minister’s Housing Allowance and Contribution Limits
For 2021, the section 415(c) limit restricts 403(b) contributions to the lesser of 100% of compensation or $58,000. For 2022, this amount is $61,000. Does the term “compensation” include a minister’s housing allowance? This is an important question for ministers since the answer will determine how much can be contributed to a 403(b) plan. If the housing allowance is treated as compensation, then ministers will be able to contribute larger amounts. The tax code specifies that the term “compensation”, for purposes of applying the section 415(c) limit to a 403(b)(3) plan, “means the participant’s includible compensation determined under section 403(b)(3).” Section 403(b)(3) defines “compensation” to include “the amount of
compensation which is received from the employer . . . and
which is includible in gross income.* Section 107 of the tax code
specifies that a minister’s housing allowance (or the annual
rental value of a parsonage) is not included in the minister’s
gross income for income tax reporting purposes. Therefore,
it would appear that the definition of “compensation” for
purposes of computing the section 415(c) limit would not
include the portion of a minister’s housing allowance that is
excludible from gross income or the annual rental value of
a parsonage. For many years, the IRS website included
the following question and answer addressing this issue:

Q. I am an employee minister in a local church. Each
year, my church permits $25,000 as a yearly tax-free
housing allowance. I would like to use my yearly housing
allowance as compensation to determine my annual
contribution limits (to a TSA) under section 415(c) of the
Internal Revenue Code. May I do so?
A. No. For purposes of determining the limits on contributions
under section 415(c) of the Internal Revenue Code,
amounts paid to an employee minister, as a tax-free
housing allowance, may not be treated as compensation
pursuant to the definitions of compensation under section
1.415-2(d) of the income tax regulations.

Q KEY POINT: Churches that include the housing allowance
as compensation when calculating the amount of the
church’s contribution to 403(b) plans must perform an
additional calculation to ensure the total contributions
to the plan do not exceed the maximum contribution
allowed under section 415(c). This is especially important
for ministers who designate a significant portion of their
income as housing allowance. It is possible that the
amount of contribution required under a denomination
plan is greater than the amount legally allowed under
the law. In these instances, a church should contact its
denominational offices for clarification on the correct
amount to contribute to the plan.

Taxation of Distributions from a 403(b) Plan
Amounts you contribute through employer discretionary
contributions, employee salary reduction contributions, and
the earnings attributable to these contributions generally
cannot be withdrawn until an employee:
• Reaches age 59½
• Has a severance from employment
• Dies
• Becomes disabled
• Encounters financial hardship (in the case of elective
deferrals)

In some cases of financial hardship, you may withdraw your
own salary reduction contributions (but not the earnings on
them) prior to the occurrence of any of the above events. A
403(b) plan may make hardship distributions only if permitted
by the plan.

Once amounts are distributed, they are generally taxable as
ordinary income unless designated in advance as a minister’s
housing allowance. In addition, if amounts are distributed
prior to your reaching age 59½, you will be assessed an
additional tax of 10% of the amount that is includible in
income, unless one of several exceptions applies, including
the following:
• The distributions are part of a series of substantially equal
periodic payments made over your life or the lives of your
beneficiaries and after you separate from service.
• The distributions are made after you separate from service
in or after the year in which you reach age 55.
• The distributions do not exceed the amount of
unreimbursed medical expenses that you could deduct
for the current year.
• The distributions are made after your death or after you
become totally and permanently disabled.
• The distributions are made to an alternate payee pursuant
to a qualified domestic relations order (QDRO).
• IRA distributions made for qualified higher education
expenses.
• IRA distributions made for the purchase of a first home, up
to $10,000.

The additional tax is computed on Form 5329.

* NEW IN 2021: Distributions prior to age 59½ that do not
satisfy one of the above exceptions are subject to an
additional tax on early distributions of 10% multiplied
by the amount of the distribution. However, the CARES
Act (2020) provides that the 10% additional tax on early
distributions does not apply to any coronavirus-related
distribution (CRD) of up to $100,000 from a 403(b) plan
and some other retirement plans. The CARES Act defines
a CRD as any distribution from an eligible retirement
plan made on or after January 1, 2020, and before
December 31, 2020, to a qualified individual. Distributions
generally are included in income ratably over a three-
year period, starting with the year in which you receive
your distribution. The amount of distribution subject to
tax may also be reduced if the funds are returned to the
plan within three years of the original distribution. While

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these specific provisions were not extended through 2021, the Consolidated Appropriations Act (2021) provides for a similar provision to allow for up to $100,000 distribution without being subject to the 10% early withdrawal penalty.

You cannot keep retirement funds in your retirement account indefinitely. You generally have to start taking withdrawals from your IRA or 403(b) plan when you reach age 70½. However, because of changes made by the SECURE Act (2019), if your seventieth birthday is July 1, 2019, or later, you do not have to take withdrawals until you reach age 72. Roth IRAs do not require withdrawals until after the death of the owner. Your required minimum distribution (RMD) is the minimum amount you must withdraw from your account each year. Your withdrawals will be included in your taxable income except for any part that can be received tax-free (such as qualified distributions from designated Roth accounts). Calculating your RMD can be difficult. Basically, it is the account balance as of the end of the immediately preceding calendar year divided by a distribution period from the IRS’ Uniform Lifetime Table. The beginning date for your first RMD for a 403(b) plan is April 1 of the year following the calendar year in which you: (1) reach age 72 (age 70½ if born before July 1, 1949) or (2) retire (if your plan allows this), whichever date is later. The IRS website contains helpful resources for computing your RMD amounts and payout periods. The CARES Act (2020) waived the RMD for 2020, so for some ministers, 2021 may be the first year to consider these rules.

⚠️ CAUTION: If you do not take any RMDs or if the distributions are not large enough, you may have to pay a 50% excise tax on the amount not distributed as required.

Salary Reduction Contributions
(Section 402(g))
In addition to the section 415(c) limit, there is an annual limit on elective deferral contributions. The limit applies to the total of all elective deferrals contributed (even if contributed through different employers) for the year on your behalf to a variety of retirement plans, including 403(b) plans. Generally, you cannot defer more than an allowable amount each year for all plans covering you. For 2021, the allowable limit was $19,500. If you defer more than the allowable amount for a tax year, you must include the excess in your taxable income for that year.

*NEW IN 2022*: The dollar limit on annual elective deferrals increases to $20,500.

🔗 KEY POINT: Church employees can make a special election that allows their employer to contribute up to $10,000 for the year, even if this is more than 100% of your compensation. The total contributions over your lifetime under this election cannot be more than $40,000.

The limit on elective deferrals increases for individuals who have attained age 50 by the end of the year. The additional amount that may be made is the lesser of (1) the applicable dollar amount or (2) the participant’s compensation for the year reduced by any other elective deferrals of the participant for the year. The applicable dollar amount is $6,500 for 2021 and 2022. Catch-up contributions are not subject to any other contribution limits and are not taken into account in applying other contribution limits.

3. QUALIFIED SCHOLARSHIPS
Amounts received as a qualified scholarship by a candidate for a degree may be excluded from gross income. A qualified scholarship is any grant amount that, in accordance with the conditions of the grant, is used for tuition and course-related expenses. Qualified tuition and related expenses are those used for (1) tuition and fees required for the enrollment or attendance at an educational institution or (2) fees, books, supplies, and equipment required for courses of instruction at the educational institution.

The scholarship need not specify that it is to be used only for qualified tuition and related expenses. All that is required is that the recipient uses the scholarship for such expenses and that the scholarship does not specify that it is to be used for non-qualified expenses (such as room and board).

In addition to these requirements, the scholarship must meet additional requirements if the recipient is an employee or a family member of an employee. Generally, the scholarship must be non-compensatory in nature and selected using non-employment-related criteria, and an independent committee must make the selection of the recipient. Additional requirements may also apply. The church should seek the advice of a CPA or tax attorney to determine the proper treatment of scholarships to employees and their children.

🔗 KEY POINT: Amounts paid by a church for the education of a pastor or other church employee cannot be treated as a nontaxable scholarship if paid as compensation for services.

Any amount received in excess of the qualified tuition and related expenses, such as amounts received for room and board, is not eligible for this exclusion and must be included on the recipient’s Form 1040.

Any amount received that represents payment for teaching, research, or other services required as a condition for
receiving a qualified scholarship cannot be excluded from gross income. In addition, amounts paid by a church for the education of a pastor or other church employee cannot be treated as a nontaxable scholarship if paid as compensation for services.

**EXAMPLE:** First Baptist Church establishes a scholarship fund for seminary students. Robert is a church member who is pursuing a master’s degree at a seminary. The church votes to award him a scholarship of $2,500 for 2022. So long as Robert uses the scholarship award for tuition or other course-related expenses, he need not report it as income on his federal tax return. The better practice would be for the church to stipulate that the scholarship is to be used for tuition or other course-related expenses (e.g., fees, books, supplies) or for the church to pay the expenses directly to the educational institution. This will ensure that the scholarship does not inadvertently become taxable income because its specific use was not designated, and the recipient used it for non-qualified expenses. As long as amounts are paid through a qualified scholarship plan, the church is not required to report the scholarship on Form 1099-MISC or 1099-NEC to the recipient.

**KEY POINT:** A church may not establish a scholarship plan that is directed solely at a small group of potential candidates. For example, a church cannot set up a scholarship plan for its ministers or the children of its ministers. A smaller church may not even set up a plan solely for its members. In order to navigate these essential rules, qualified counsel should be sought in developing any scholarship plan for the church.

### 4. SALE OR EXCHANGE OF YOUR PRINCIPAL RESIDENCE

A taxpayer who is an individual may exclude up to $250,000 ($500,000 if MFJ) of gain realized on the sale or exchange of a principal residence. To be eligible for the exclusion, the taxpayer must have owned and used the residence as a principal residence for at least two of the five years ending on the date of the sale or exchange.

A taxpayer who fails to meet these requirements by reason of a change of place of employment, health, or (to the extent provided under regulations) unforeseen circumstances is able to exclude an amount equal to the fraction of the $250,000 ($500,000 if MFJ) that is equal to the fraction of the two years that the ownership and use requirements are met. The exclusion under this provision may not be claimed for more than one sale or exchange during any two-year period unless the special provisions for unforeseen circumstances apply.

**Lines 2a and 2b. Interest income: attach Schedule B if more than $1,500**

Complete this line if you had interest income. Tax-exempt interest income is reported on line 2a with taxable interest income reported on line 2b. If you had taxable dividend and interest income of more than $1,500, complete Schedule B.

**Lines 3a and 3b. Dividend income: attach Schedule B if more than $1,500**

Complete this line only if you had dividend income. Qualified dividend income is reported on line 3a with all dividend income reported on line 3b. If you had dividend and interest income of more than $1,500, complete Schedule B.

**Lines 4a and 4b. IRA distributions**

You should receive a Form 1099-R showing the total amount of your pension and annuity payments before income tax or other deductions were withheld. This amount should be shown in Box 1 of Form 1099-R.

**Lines 5a and 5b. Pensions and annuities**

Pension and annuity payments include distributions from 401(k) and 403(b) plans. Do not include the following payments on lines 5a and 5b. Instead, report them on line 1:

- Disability pensions received before you reach the minimum retirement age set by your employer.
- Corrective distributions (including any earnings) of excess salary deferrals or excess contributions to retirement plans. The plan must advise you of the year(s) the distributions are includable in income.

Many denominational pension funds annually designate 100% of pension and disability benefits paid to retired ministers as a housing allowance. In such cases, the Form 1099-R may show that the taxable amount of the pension income is not determined by checking the box on line 2b of Form 1099-R. If you are a retired or disabled minister, you may exclude all or a portion of your pension or disability income from your gross income reported on line 5 of Form 1040 if (1) you can document that the monies were actually spent on housing-related expenses during the tax year, (2) the amount excluded does not exceed the fair rental value of the home (furnished, plus utilities), and (3) the applicable pension board designated the retirement payments as housing allowance.
IRS Publication 517 states: “If you are a retired minister, you can exclude from your gross income the rental value of a home (plus utilities) furnished to you by your church as a part of your pay for past services, or the part of your pension that was designated as a rental allowance. However, a minister’s surviving spouse cannot exclude the rental value unless the rental value is for ministerial services . . . performed.”

KEY POINT: Surviving spouses of deceased ministers cannot exclude any portion of the benefits received from their deceased spouse’s 403(b) account as a housing allowance.

**Lines 6a and 6b. Social Security benefits**

KEY POINT: Individuals who receive Social Security retirement, disability, or survivor benefits may have to pay taxes on a portion of their benefits.

Some taxpayers have to pay federal income taxes on their Social Security benefits. This usually happens only if you have other substantial income in addition to your benefits (such as wages, self-employment, interest, dividends, and other taxable income that must be reported on your tax return).

You generally will pay tax on only 50% or 85% of your Social Security benefit, depending on the amount of your other income.

If you:

- **File a federal tax return as an individual or married filing separately, and your combined income is**
  - Between $25,000 and $34,000, you may have to pay income tax on up to 50% of your benefits.
  - More than $34,000, up to 85% of your benefits may be taxable.

- **File a joint return, and you and your spouse have a combined income that is**
  - Between $32,000 and $44,000, you may have to pay income tax on up to 50% of your benefits.
  - More than $44,000, up to 85% of your benefits may be taxable.

Your combined income is your AGI plus nontaxable interest and half of your Social Security benefits.

Each January, you will receive a Form SSA-1099 Social Security Benefit Statement showing the amount of benefits you received in the previous year. You can use this Benefit Statement when you complete your federal income tax return to find out if your benefits are subject to tax.

For additional information on the taxability of Social Security benefits, see IRS Publication 915 Social Security and Equivalent Railroad Retirement Benefits. Publication 915 is available at IRS.gov.

**Line 7. Capital gain (or loss)**

Report on line 7 capital gains or losses (attach Schedule D) from the sale of capital assets. These include stocks, bonds, and property. Gain or loss is reported on Schedule D. You also may have to file Form 8949 (see the instructions to both forms for details).

KEY POINT: Schedule D is for reporting capital gains and losses from investments. Schedule 1, line 4 (“other gains or losses”) is for reporting sales of other assets such as equipment used in a business.

**Line 8. Other income**

Income not reported on lines 1 through 7 is reported on Schedule 1, with the total reported on Form 1040 line 8. The most important of these for ministers include the following:

1. **Line 3 (Schedule 1). Business income**

Report self-employment earnings (from Schedule C). Self-employment earnings include:

- Compensation reported to you on a Form 1099-NEC
- Fees received directly from church members for performing personal services (such as weddings and funerals)
- Honoraria you received for speaking in other churches

If you received income from any of these kinds of activities, compute your net earnings on Schedule C and transfer this amount to line 3 of Schedule 1.

2. **Line 8 (Schedule 1). “Other income”**

“Other income” is reported on line 8 of Schedule 1. Other income includes the following items:

- A canceled debt or a debt paid for you by another person (unless the person who canceled or paid your debt intended it to be a gift)
- The fair market value of a free tour you receive from a travel agency for organizing a group of tourists (in some cases, this may be reported on Schedule C)
- Most prizes and awards
- Some taxable distributions from a Health Savings Account (HSA) or Archer Medical Savings Account (MSA) (see IRS Publication 969)
* Jury duty pay

* Recapture of a charitable contribution deduction if the charitable organization disposes of the donated property within three years of the contribution

* Taxable benefits provided by the church but not included on Form W-2 or Form W-2c (also remember to include these benefits on Schedule SE for the calculation of SECA)

### Line 9. Total income

Report total income on this line. This is the sum of the amounts reported on lines 1-7 of Form 1040, plus the additional categories of income reported on lines 1-9 of Schedule 1 included on line 8 of Form 1040.

### Step 5: Adjustments to Income

#### Line 10. Adjustments to income

You may deduct certain adjustments from total income (line 9) to compute your AGI. Report the adjustments on lines 11 through 26 of Form 1040 (Schedule 1). The total amount is subtracted from line 9 (Form 1040) to compute AGI that is reported on line 11.

The two most relevant adjustments for ministers are the deduction for half of the SECA and payments to an IRA. Both are summarized below.

1. **Line 15 (Schedule 1). Half of SECA**

   **KEY POINT:** Every minister who pays SECA on ministerial income qualifies for this deduction. Some are not claiming it.

   All ministers are self-employed for Social Security with respect to their ministerial income. They can deduct half of their actual SECA as an adjustment on line 15 (Schedule 1) of Form 1040, whether they are able to itemize deductions on Schedule A or not.

2. **Line 20 (Schedule 1). Payments to an IRA**

   An IRA is a personal savings plan that allows you to set aside money for retirement while offering tax advantages. You can set up different kinds of IRAs with a variety of organizations, such as a bank or other financial institution, a mutual fund, or a life insurance company.

   The original IRA is referred to as a Traditional IRA. A Traditional IRA is any IRA that is not a Roth IRA or a SIMPLE IRA. You may be able to deduct some or all of your contributions to a Traditional IRA. You may also be eligible for a tax credit equal to a percentage of your contribution. Amounts in your Traditional IRA, including earnings, generally are not taxed until distributed to you. IRAs cannot be owned jointly. However, any amounts remaining in your IRA upon your death can be paid to your beneficiary or beneficiaries.

   Prior to 2021, if you were 70½ or older, you could not make a regular contribution to a Traditional IRA. However, you could contribute to a Roth IRA and make rollover contributions to a Roth or Traditional IRA regardless of your age.

   **NEW IN 2021:** For 2021 and later, there is no age limit on making regular contributions to Traditional or Roth IRAs.

   To contribute to a Traditional IRA, you, or your spouse, if you file a joint return, must have taxable compensation, such as wages, salaries, commissions, tips, bonuses, or net income from self-employment. Compensation does not include earnings and profits from property, such as rental income, interest and dividend income, or any amount received as pension or annuity income or as deferred compensation.

   If you file a joint return, you may be able to contribute to an IRA even if you didn’t have taxable compensation as long as your spouse did. Each spouse can make a contribution up to the current limit; however, the total of your combined contributions can’t be more than the taxable compensation reported on your joint return.

   For 2021, if you file a joint return and your taxable compensation is less than that of your spouse, the most that can be contributed for the year to your IRA is the smaller of the following two amounts: (1) $6,000 ($7,000 if you are age 50 or older) or (2) the total compensation includible in the gross income of both you and your spouse for the year, reduced by your spouse’s IRA contribution for the year to a Traditional IRA and any contributions for the year to a Roth IRA on behalf of your spouse. (The contribution limits remain unchanged for 2022.)

   All IRA contributions must be made by the due date of your tax return, not including extensions. This means that your 2021 IRA contribution must be made by April 15, 2022, even if you obtain an extension for filing this return.

   **EXAMPLE:** A church has a senior pastor who is 52 years old and a youth pastor who is 30 years old. The church does not participate in a retirement program for its staff. In 2022, the senior pastor can contribute $7,000 to an IRA (maximum annual contribution of $6,000 plus a “catch-up” contribution of $1,000), and the youth pastor can contribute $6,000.

   Your allowable deduction may be reduced or eliminated, depending on your filing status, the amount of your income, and if you or your spouse are covered by an
employer-provided retirement plan. The deduction begins to decrease (phase out) when your income rises above a certain amount and is eliminated altogether when it reaches a higher amount. The amounts vary depending on your filing status. For 2021, if you were covered by an employer-provided retirement plan, then the deduction for contributions to your IRA is completely phased out when AGI reaches $125,000 (MFJ) or $76,000 (single). (For 2022, the limits are $129,000 (MFJ) and $78,000 (single).)

If your spouse was covered by an employer retirement plan at any time during 2021 and you made contributions to your IRA, your allowable IRA deduction is completely phased out when AGI reaches $208,000 (MFJ). (For 2022, the limit is $214,000 (MFJ).) (See IRS Publication 590-A.) The Form W-2 you receive from your church or other employer has a box used to show whether you were covered by a retirement plan during the year. The "Retirement Plan" box should have a mark in it if you were covered. Employer retirement plans include 403(b) TSAs.

Figure your deduction using the worksheets in the instructions to Form 1040 or in Publication 590-A.

Individuals who cannot claim a deduction for an IRA contribution still can make non-deductible IRA contributions, subject to the lesser of $6,000 (2021 and 2022) or earned income limits. Earnings on these amounts continue to accumulate on a tax-deferred basis. When distributions are made from the IRA, special rules apply in figuring the tax on the distributions when both deductible and non-deductible contributions were made to the IRA. Form 8606 is used to designate a contribution as non-deductible and must be filed or the full amount of future withdrawals may be taxed. Withdrawals before age 59½ are subject to a 10% penalty tax that also applies to deductible IRA contributions.

Distributions from a Traditional IRA are fully or partially taxable in the year of distribution. Use Form 8606 to figure the taxable portion of withdrawals. If you made only deductible contributions, distributions are fully taxable.

A Roth IRA differs from a Traditional IRA in several respects. A Roth IRA does not permit a deduction at the time of contribution. Regardless of your age, you may be able to establish and make non-deductible contributions to a Roth IRA. However, you may be limited in the amount of non-deductible contributions you may make to your Roth IRA due to your AGI. For those filing as MFJ, no contribution may be made to a Roth IRA in 2021 if your AGI, as modified, is $208,000 or above. For those filing as single, no contribution may be made to a Roth IRA if your AGI, as modified, is $140,000 or more. (For 2022, the Roth IRA contribution is phased out totally when AGI is $214,000 for taxpayers MFJ and $144,000 for singles and head-of-household filers.)

You do not report Roth contributions on your tax return. To be a Roth IRA, the account or annuity must be designated as a Roth IRA when it is set up. Like a Traditional IRA, a Roth IRA can be set up, but there are limitations on the amount that can be contributed and the time of year that contributions can be made. You do not include in your gross income qualified distributions or distributions that are a return of your regular contributions from your Roth IRA. Refer to Publication 590-A for additional information on Roth IRAs.

For information on conversions from a Traditional IRA to a Roth IRA, refer to Publication 590-A.

In the past, if you were 70½ or older, you could not make a regular contribution to a Traditional IRA. However, you could still contribute to a Roth IRA and make rollover contributions to a Roth or Traditional IRA regardless of your age, subject to the above-described income limitations. For 2021 and later, there is no age limit on making regular contributions to Traditional or Roth IRAs.

**Charitable contributions.** An IRA owner age 70½ or over can directly transfer, tax-free, up to $100,000 per year to an eligible charity. Distributions from employer-sponsored retirement plans, including SIMPLE IRA plans and simplified employee pension (SEP) plans, are not eligible. To qualify, the funds must be transferred directly by the IRA custodian to the eligible charity. Distributed amounts may be excluded from the IRA owner’s income, resulting in lower taxable income for the IRA owner. However, if the IRA owner excludes the distribution from income, no deduction, such as a charitable contribution deduction on Schedule A, may be taken for the distributed amount.

To report a qualified charitable distribution (QCD) on your Form 1040 tax return, you generally report the full amount of the charitable distribution on the line for IRA distributions (line 4a, Form 1040). On the line for the taxable amount, enter zero if the full amount was a QCD. Enter “QCD” next to this line. See the Form 1040 instructions for additional information.

Not all charities are eligible. For example, donor-advised funds and supporting organizations are not eligible recipients.

Amounts transferred to a charity from an IRA are counted in determining whether the owner has met the IRA’s RMD.

**KEY POINT:** The QCD does need a qualifying receipt from the recipient charity with the mandated "no goods or services" statement. A church may include the gift on
the IRA owner’s regular giving statement in an attempt to fulfill this requirement. Care should be taken not to take a deduction for the QCD if it is included on the regular giving statement. Best practice is for the recipient charity or church to issue a separate statement for the gift.

**Line 11. Adjusted gross income**

Adjusted Gross Income (AGI) is gross income minus adjustments to income. Gross income includes your wages, dividends, capital gains, business income, retirement distributions, as well as other income. Adjustments to income include such items as educator expenses, student loan interest, alimony payments, or contributions to a retirement account. Your AGI will never be more than your gross total income on your return and, in some cases, may be lower. AGI is an important number since it is used to determine the amount of various deductions and credits.

**Step 6: Tax Computation**

**Line 12. Itemized deductions or standard deduction**

**KEY POINT:** Itemize your deductions on Schedule A only if they exceed the standard deduction for your filing status.

On line 12, you enter either your itemized deductions from Schedule A or a standard deduction amount. Itemized deductions are discussed under Schedule A in this guide. For 2021, the standard deduction amounts are as follows:

<table>
<thead>
<tr>
<th>Filing status</th>
<th>Standard deduction amount (2021)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single</td>
<td>$12,550</td>
</tr>
<tr>
<td>Married filing jointly or qualifying widow(er)</td>
<td>$25,100</td>
</tr>
<tr>
<td>Married filing separately</td>
<td>$12,550</td>
</tr>
<tr>
<td>Head of household</td>
<td>$18,800</td>
</tr>
</tbody>
</table>

**Line 13. Qualified business income deduction**

Ministers who have income from business activities (conducted other than in their capacity as an employee of the church) and report their income on Schedule C, may be entitled to a federal tax deduction of up to 20% of their qualified business income (QBI). This deduction is also referred to as the IRC Section 199A deduction. Section 199A limits the deduction to the lesser of (1) 20% of the QBI less one-half of the SECA directly related to the QBI, the self-employed health insurance deduction, and the self-employed qualified plan contribution deduction related to the qualified business or (2) 20% of taxable income before the QBI deduction less net capital gains.

Upon publication of this guide, it has been interpreted that the qualified business trade or business activities of a self-employed minister may be considered a “specified service trade or business”. Thus, there may be an exception to the deductibility of the QBI deduction. If a minister’s income before this deduction (reported on line 9 of the Form 1040) exceeds $164,900 ($329,800 MFJ) for 2021, then the deduction may be limited; if AGI exceeds $213,300 ($426,600 MFJ) for 2021, then the deduction is unavailable. Attach either Form 8995 or 8995-A and possibly Schedules A, B, and/or C (Form 8995-A), as needed.

**Line 16. Compute tax**

Most ministers can use the tax tables to determine their income taxes. Some higher-income ministers must use the tax rate schedules (a spouse’s income is considered in deciding whether or not to use the tax rate schedules).

**Step 7: Credits**

A credit is a direct dollar-for-dollar reduction in your tax liability. It is much more valuable than deductions and exclusions, which merely reduce taxable income. On your 2021 Form 1040, non-refundable credits (e.g., credits that do not generate a tax refund if the credit amount exceeds taxable income) are reported on lines 1-7 of Schedule 3, and the total amount for all credits is carried over to line 20 of Form 1040.

The more common and important credits for ministers are the child tax credit, the credit for child and dependent care expenses, and the retirement savings credit. Each of these is addressed below.

**Lines 19 and 28. Child tax credit and additional child tax credit**

For 2021, the child tax credit (CTC) provides a credit of up to $3,600 per child under age 6 and $3,000 per child from ages 6 to 17. If the credit exceeds taxes owed, families may receive the excess amount as a refund. In July of 2021, the IRS began prepaying the amount of a family’s anticipated CTC unless the taxpayer opted out of the advance payments. The amount of the credit received through the advance payments is reconciled to the amount of credit available for 2021 on Form 8812. Advance credits received in excess of the total credit available will have to be repaid to the IRS.

For families with other dependents — including children age 18 and full-time college students ages 19–24 — a non-refundable credit of up to $500 each may be available.

There is no cap on the total credit amount that a filer with multiple children can claim. The credit is fully refundable;
low-income families qualify for the maximum credit regardless of how much they earn. If the credit exceeds taxes owed, families can receive the excess amount as a tax refund.

The credit phases out in two steps. First, the credit begins to decrease at $112,500 of income for single parents ($150,000 for married couples), declining in value at a rate of 5% of AGI over that amount until it reaches pre-2021 levels. Second, the credit’s value is further reduced by 5% of AGI over $200,000 for single parents ($400,000 for married couples).

In 2022, the credit is set to revert to its prior-law levels unless extended by Congress. Under those rules, taxpayers could claim a CTC of up to $2,000 for each child under age 17. The credit would decrease by 5% of AGI over $200,000 for single parents ($400,000 for married couples). If the credit exceeded taxes owed, taxpayers could receive up to $1,400 as a tax refund known as the additional child tax credit (ACTC) or refundable CTC. However, the ACTC would be limited to 15% of earnings above $2,500, which means filers with very low income could not claim the credit, or they could claim a reduced credit.

If the CTC reverts to prior law for 2022, then the amount of the refundable portion of the CTC is based on a calculation of earned income that does not include housing allowance. Therefore, it is possible that having a portion of income designated as housing allowance may decrease the amount of the ACTC (the refundable portion). Ministers should prepare tax estimates using a variety of scenarios to determine their best tax advantage. This nuance is especially pertinent to ministers who have several children and the potential to receive a substantial ACTC.

**Line 20 (Form 1040) Schedule 3 line 2. Credit for child and dependent care expenses: attach Form 2441**

Complete this line if you are eligible for a credit for child or dependent care expenses. See the instructions to Form 1040, Schedule 3 line 2, for details and conditions or the instructions for Form 2441 Child and Dependent Care Expenses.

See IRS Publication 972 for additional information.

**Line 20 (Form 1040) Schedule 3 line 4. Retirement savings contributions credit (saver’s credit)**

If you make eligible contributions to certain eligible retirement plans or an IRA, you may be able to take a tax credit. The amount of the saver’s credit you can get is generally based on the contributions you make and your credit rate. Refer to Publication 590-A or the instructions for Form 8880 for more information. If you are eligible for the credit, your credit rate can be as low as 10% or as high as 50%, depending on your AGI. The lower your income, the higher the credit rate; your credit rate also depends on your filing status. These two factors will determine the maximum credit you may be allowed to take. You are not eligible for the credit if your AGI exceeds a certain amount.

The credit is available with respect to elective deferrals to a 401(k) plan, a 403(b) annuity, a SIMPLE or a SEP, contributions to a Traditional or Roth IRA, and voluntary after-tax employee contributions to a 403(b) annuity or qualified retirement plan. The amount of the credit for 2021 is described in the following table:

<table>
<thead>
<tr>
<th>Adjusted Gross Income</th>
<th>Joint Returns</th>
<th>Heads of Households</th>
<th>Single Filers</th>
<th>Amount of Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>$1–$39,500</td>
<td>$1–$29,625</td>
<td>$1–$19,750</td>
<td>50% of eligible contributions up to $2,000 ($1,000 maximum credit)</td>
<td></td>
</tr>
<tr>
<td>$39,501–$43,000</td>
<td>$29,626–$32,250</td>
<td>$19,751–$21,500</td>
<td>20% of eligible contributions up to $2,000 ($400 maximum credit)</td>
<td></td>
</tr>
<tr>
<td>$43,001–$66,000</td>
<td>$32,251–$49,500</td>
<td>$21,501–$33,000</td>
<td>10% of eligible contributions up to $2,000 ($200 maximum credit)</td>
<td></td>
</tr>
<tr>
<td>more than $66,000</td>
<td>more than $49,500</td>
<td>more than $33,000</td>
<td>0%</td>
<td></td>
</tr>
</tbody>
</table>

For married couples filing jointly, each spouse is eligible for the credit.

For more information about this credit, see IRS Form 8880 and Publication 590-A.

**Step 8: Other Taxes**

**Line 23 (Form 1040) Schedule 2 line 21. Other taxes**

On Form 1040 for 2021, other taxes are derived from line 21 of Schedule 2 and the total of all taxes is carried over to line 23 of Form 1040. These include self-employment taxes which ministers must pay on ministerial income (unless exempt).

**Step 9: Payments**

On the 2021 Form 1040, amounts representing federal income tax withholding are reported on line 25, and estimated tax payments are reported on line 26, as well as tax overpayments from the prior year applied to current-year taxes. Other tax payments are reported on Schedule 3 and reported on line 31 of Form 1040. The two most important categories of tax payments are withheld taxes and estimated tax payments, as noted below.
Line 25. Federal income tax withheld

Federal income tax may be withheld from several sources of income. Form 1040 separately reports withholding from some of these different potential sources.

Line 25a — Federal income tax withheld from Forms W-2
Ministers’ wages based on the performance of ministerial services are exempt from federal income tax withholding. As a result, only those ministers who have entered into a voluntary withholding arrangement with their church will have income taxes withheld. The church should report the amount of voluntarily withheld taxes on the minister’s Form W-2.

KEY POINT: Ministers who enter into voluntary withholding arrangements will have federal and state income taxes withheld from their wages. However, a church does not withhold the employee’s share of FICA since ministers are self-employed for Social Security with respect to ministerial compensation. Ministers can request (on Form W-4 or through other written instructions) that their church withhold an additional amount of income taxes to cover their expected SECA liability. These additional withholdings must be treated as income taxes withheld (on Forms W-2 and 941) rather than the employee’s share of FICA. They constitute a payment that can be applied to both income taxes and SECA. Ministers still must complete Schedule SE to report their SECA liability.

Line 25b — Federal income tax withheld from Forms 1099
Federal income tax may be withheld from pension payments or distributions reported on Form 1099-R or from Social Security payments reported on Form SSA-1099 or from other income reported on Form 1099-NEC. Other potential sources may be from interest and dividends reported on Form 1099-B.

Line 25c — Federal income tax withheld from other forms
Income tax withheld from gambling winnings reported on Form W-2G or Additional Medicare Tax as calculated on Form 8959 is included on this line.

Line 26. Estimated tax payments

Compensation paid to ministers for ministerial duties is not subject to mandatory tax withholding. As a result, ministers must prepay their income tax and SECA by using the quarterly estimated tax procedure, unless they have entered into a voluntary withholding arrangement with their employing church. The estimated tax procedure is summarized in Part 2 of this guide in the section “How do ministers pay their taxes?”

The total amount of estimated tax payments made to the IRS for the 2021 tax year is reported as a payment of taxes on line 26 of Form 1040. Additionally, any amount of an overpayment from 2020 applied to the 2021 estimated tax payments is included on this line.

Line 27. Earned income credit

The earned income credit (EIC) reduces tax you owe and may give you a refund even if you do not owe any tax. A number of technical requirements must be met in order to qualify for this credit. Unfortunately, many taxpayers who qualify for the EIC do not claim it because it is so difficult to compute. In most cases, the amount of your EIC depends on (1) whether you have no qualifying child, one qualifying child, two qualifying children, or three or more qualifying children and (2) the amount of your earned income and modified AGI.

You may be able to claim the EIC for 2021 if you have non-retirement investment income of $10,000 or less. The maximum earned income credit for 2021 is (1) $1,502 with no qualifying child, (2) $3,618 with one qualifying child, (3) $5,980 with two qualifying children, and (4) $6,728 with three or more qualifying children.

If you qualify for it, the EIC reduces the tax you owe. Even if you do not owe tax, you can get a refund of the credit. Depending on your situation, the credit can be as high as $6,728 for 2021 ($6,935 for 2022).

You cannot take the credit for 2021 if your earned income (or AGI, if greater) is more than

- $21,430 ($27,380 if MFJ) if you do not have a qualifying child,
- $42,158 ($48,108 if MFJ) if you have one qualifying child,
- $47,915 ($53,865 if MFJ) if you have two qualifying children, or
- $51,464 ($57,414 if MFJ) if you have three or more qualifying children.

You can compute the credit yourself, or the IRS will compute it for you. To figure the amount of your EIC, you must use the EIC Worksheet and EIC Table in the instructions for Form 1040 line 27. Ministers may want to consider having the IRS compute the credit for them, especially due to confusion about how the housing allowance affects the credit.

The credit is reported on line 27 of Form 1040.

IRS Publication 596 is a 41-page publication that explains the EIC. The 2020 edition (the most recent available at the time of publication of this text) states, in general: “The rental value of a home or a housing allowance provided to a minister as part of the minister’s pay generally isn’t subject to income
tax but is included in net earnings from self-employment. For that reason, it is included in earned income for the EIC except for ministers who have opted out of SECA by filing a timely Form 4361 exemption application with the IRS.

Excerpts from Publication 596 confirm that ministers who are employees for income tax reporting purposes and who have not exempted themselves from SECA by filing a timely Form 4361 with the IRS include their housing allowance or the fair rental value of a parsonage in computing earned income for purposes of the EIC.

But what about ministers who have exempted themselves from SECA by filing a timely Form 4361 with the IRS? Do they include a housing allowance or the rental value of a parsonage in computing their earned income for purposes of the EIC? As noted above, Publication 596 explicitly states, with regard to ministers who have filed Form 4361, that “a nontaxable housing allowance or the nontaxable rental value of a home is not earned income.”

With respect to ministers who have filed a timely Form 4361, Publication 596 states:

> Whether or not you have an approved Form 4361, amounts you received for performing ministerial duties as an employee count as earned income. This includes wages, salaries, tips, and other taxable employee compensation.

> If you have an approved Form 4361, a nontaxable housing allowance or the nontaxable rental value of a home isn’t earned income. Also, amounts you received for performing ministerial duties, but not as an employee, don’t count as earned income. Examples include fees for performing marriages and honoraria for delivering speeches.

Ministers who are affected by this issue should consult their tax professional for help.

**KEY POINT:** The definition of “earned income” for the EIC is not the same definition of “earned income” for the ACTC discussed earlier in this publication.

**KEY POINT:** Once again, tax benefits may be affected by the housing allowance. Ministers should consider these various provisions and determine if the housing allowance is beneficial for them in light of how it affects the EIC and the ACTC.

**Step 10: Refund or Amount You Owe**

**Lines 36 and 38. Refund or amount you owe**

After totaling your payments on Form 1040 line 33, you can calculate whether you owe the government, or a refund is due you. If you owe a tax, be certain to enclose a check with your return in the amount you owe, payable to the “United States Treasury” or make the payment through your EFTPS account. There are also payment methods available directly through the IRS at IRS.gov/Payments, or practitioners can assist you in making a payment as a part of electronically filing your tax return. Do not attach the check to your return, but include it with a Form 1040-V. If you file your return electronically, the payment may be sent in separately using Form 1040-V. Include your daytime phone number and SSN, and write “Form 1040 for 2021” on the check. If you owe taxes, you also may have to pay an underpayment penalty (refer to line 38 of Form 1040). If you are paying taxes after April 15, 2022, you may also owe late payment penalties.

If you have overpaid your taxes, you have two options: (1) request a full refund or (2) apply the overpayment to your 2022 estimated tax (refer to line 36 of the Form 1040).

**Step 11: Sign Here**

You must sign and date the return at the bottom of page 2. If you are filing a joint return, your spouse must also sign the return. In the “your occupation” space, enter your occupation — minister. If you have your return prepared by a paid preparer, you will sign Form 8879, IRS e-file Signature Authorization, instead of signing the Form 1040, page 2.

If you or your spouse has been the victim of identity theft, the IRS will issue you an Identity Protection PIN that must also be entered in this section of the return. (This PIN must also be provided to your paid tax preparer in order for the return to be electronically filed.)

**OTHER FORMS AND SCHEDULES**

**SCHEDULE A**

**KEY POINT:** If your itemized deductions exceed your standard deduction, you should report your itemized deductions on Schedule A (Form 1040). This section will summarize the itemized deductions.

**Step 1: Medical and Dental Expenses (lines 1–4)**

You may deduct certain medical and dental expenses (for yourself, your spouse, and your dependents) if you itemize your deductions on Schedule A, but only to the extent that your expenses exceed 7.5% of your AGI. You must reduce your medical expenses by the amounts of any reimbursements you receive for those expenses before applying the 7.5% test. Reimbursements include amounts you receive from insurance or other sources for your medical expenses (including Medicare). It does not matter if the reimbursement is paid to the patient, the doctor, or the hospital.

Find IRS forms, instructions, and publications at IRS.gov or call 1-800-TAX-FORM.
The following expenses ARE deductible as medical expenses:

- Fees for medical services
- Fees for hospital services
- Lodging at a hospital during medical treatment (subject to some limits)
- Medical and hospital insurance premiums that you pay (do not include amounts paid to health sharing arrangements)
- Special equipment
- Medicare Part A premiums you pay if you are exempt from Social Security and voluntarily elect to pay Medicare Part A premiums
- Medicare Part B premiums you pay
- Medicare Part D premiums you pay
- Medicare Supplement premiums you pay (or are deducted from your pension)
- Long-term care insurance premiums, subject to certain limitations on the amount that may be deducted
- Special items (e.g., false teeth, artificial limbs, eyeglasses, hearing aids, crutches, etc.)
- Transportation for necessary medical care. For 2021, the standard mileage rate for medical travel was 16 cents per mile (it increases to 18 cents for 2022)
- Medicines and drugs requiring a prescription, and insulin
- The portion of a life-care fee or founder’s fee paid either monthly or in a lump sum under an agreement with a retirement home that is allocable to medical care
- Wages of an attendant who provides medical care
- The cost of home improvements if the main reason is for medical care
- Program to stop smoking
- Exercise expenses (including the cost of equipment to use in the home) if required to treat an illness (including obesity) diagnosed by a physician. The purpose of the expense should be to treat a disease rather than to promote general health, and the taxpayer would not have paid for the expense but for this purpose.

The following items are NOT deductible as medical expenses:

- Health club dues (except as noted above)
- Household help
- Life insurance
- Maternity clothes
- Non-prescription medicines and drugs
- Nursing care for a healthy baby
- Toothpaste, cosmetics, toiletries
- Trip for general improvement of health
- Most cosmetic surgery

**Step 2: Taxes You Paid (lines 5–7)**

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 seven states that do not have an income tax. Taxpayers in these states cannot take advantage of the itemized deduction for state income taxes. Allowing them to deduct sales taxes helps offset this disadvantage.

Taxpayers may claim an itemized deduction of up to $10,000 ($5,000 for married taxpayer filing a separate return) for the aggregate of:

- State and local property taxes and
- State and local income taxes (or sales taxes in lieu of income taxes) paid or accrued in the taxable year.

The $10,000 limitation applies until 2025.

Some states attempted to assist taxpayers in avoiding the above limitations by creating state-run charities that would grant tax credits in exchange for charitable contributions that would qualify for a tax deduction. The IRS issued regulations stating that to the extent a tax credit was granted, the charitable contribution would not be deductible.

**Step 3: Interest You Paid (lines 8–10)**

As a general matter, personal interest is not deductible. Qualified residence interest is not treated as personal interest and is allowed as an itemized deduction, subject to limitations. Qualified residence interest means interest paid or accrued during the taxable year on either acquisition indebtedness or home equity indebtedness. A qualified residence means the taxpayer’s principal residence and one other residence of the taxpayer selected to be a qualified residence. A qualified residence can be a house, condominium, cooperative, mobile home, house trailer, or boat.
Acquisition indebtedness is indebtedness that is incurred in acquiring, constructing, or substantially improving a qualified residence of the taxpayer and that secures the residence. Note the following two rules:

1. **Limit on loans taken out on or before December 15, 2017**

   For qualifying debt taken out on or before December 15, 2017, you can deduct home mortgage interest on up to only $1 million ($500,000 if you are married filing separately) of that debt. The only exception is for loans taken out on or before October 13, 1987 (see IRS Publication 936 for more information about loans taken out on or before October 13, 1987).

   See Publication 936 to figure your deduction if you have loans taken out on or before December 15, 2017, that exceed $1 million ($500,000 if you are married filing separately).

2. **Limit on loans taken out after December 15, 2017**

   For qualifying debt taken out after December 15, 2017, you can deduct home mortgage interest on up to only $750,000 ($375,000 if you are married filing separately) of that debt. If you also have qualifying debt subject to the $1 million limitation discussed above, the $750,000 limit for debt taken out after December 15, 2017, is reduced by the amount of your qualifying debt subject to the $1 million limit. An exception exists for certain loans taken out after December 15, 2017, but before April 1, 2020. If the exception applies, your loan may be treated in the same manner as a loan taken out on or before December 15, 2017. See IRS Publication 936 for more information about this exception. See Publication 936 to figure your deduction if you have loans taken out after October 13, 1987, that exceed $750,000 ($375,000 if you are married filing separately).

   The term “points” is sometimes used to describe certain charges paid by a borrower. They are also called loan origination fees, maximum loan charges, or premium charges. If the payment of any of these charges is **only** for the use of money, it ordinarily is interest paid in advance and must be deducted in installments over the life of the mortgage (not deducted in full in the year of payment). However, points are deductible in the year paid if the following requirements are satisfied:

   1. Your loan is secured by your main home. (Your main home is the one you ordinarily live in most of the time.)
   2. Paying points is an established business practice in the area where the loan was made.
   3. The points paid were not more than the points generally charged in that area.
   4. You use the cash method of accounting. This means you report income in the year you receive it and deduct expenses in the year you pay them. Most individuals use this method.

5. The points were not paid in place of amounts that ordinarily are stated separately on the settlement statement, such as appraisal fees, inspection fees, title fees, attorney fees, and property taxes.

6. The funds you provided at or before closing, plus any points the seller paid, were at least as much as the points charged. The funds you provided are not required to have been applied to the points. They can include a down payment, an escrow deposit, earnest money, and other funds you paid at or before closing for any purpose. You cannot have borrowed these funds from your lender or mortgage broker.

7. You use your loan to buy or build your main home.

8. The points were computed as a percentage of the principal amount of the mortgage.

9. The amount is clearly shown on the settlement statement (such as the Settlement Statement, Form HUD-1) as points charged for the mortgage. The points may be shown as paid from either your funds or the seller’s.

**KEY POINT:** Points are not currently deductible when paid in association with the refinancing of the home. These points must be amortized over the life of the new mortgage.

Refinancing a home mortgage may also create tax considerations. The amount of the new debt eligible as home acquisition debt is limited to the amount of the balance of the original old mortgage principal just before the refinancing unless additional proceeds are used to buy, build, or substantially improve a qualified home. If refinancing costs are rolled into the new debt, there will automatically be a portion of the interest paid on the new mortgage that is not deductible.

Congress enacted legislation in 2020 that provides for the deductibility of mortgage insrance premiums (MIP) through 2021. Use Form 1098 Mortgage Interest Statement to report MIP aggregating $600 or more that you received during the calendar year in the course of your trade or business from an individual, including a sole proprietor.

**Step 4: Gifts to Charity (lines 11–14)**

For 2021, cash contributions to churches, schools, and most other public charities that are U.S. organizations are deductible up to 100% of AGI. Contributions of property or cash contributions to supporting organizations, donor-advised funds, or private foundations are subject to different
limitations. See IRS Publication 526. Contributions made via cash, checks, credit cards, or other electronic transfer options are reported on line 11, while contributions of noncash property are reported on line 12.

If you cannot itemize your deductions, a cash contribution up to $300 ($600 for MFJ) is allowed on Form 1040 line 12b.

The value of personal services is never deductible as a charitable contribution, but unreimbursed expenses incurred in performing services on behalf of a church or other charity may be. For example, if you drive to and from volunteer work on behalf of a charity, you may deduct the actual cost of gas and oil or claim the standard charitable mileage rate of 14 cents for each substantiated mile (for 2021 and 2022). Unreimbursed travel expenses incurred while away from home (whether within the U.S. or abroad) in the course of donated services to a tax-exempt religious or charitable organization are deductible as a charitable contribution. There are two ways to do this.

Individuals performing the charitable travel can keep track of their own travel expenses and then claim a charitable contribution for the total on Schedule A.

Whether it is for travel expenses or other substantial out-of-pocket expenses related to performing services for a church or other nonprofit charity, a letter acknowledging the individual’s service and containing the “no goods or services” statement should be obtained from the church or charity.

No charitable deduction is allowed for travel expenses incurred while away from home in performing services for a religious or charitable organization unless there is no significant element of personal pleasure, recreation, or vacation involved in the travel.

Charitable contributions must be claimed in the year they are delivered. One exception is a check that is mailed to a charity — it is deductible in the year the check is mailed (and postmarked), even if it is received early in the next year.

Charitable contributions generally are deductible only to the extent they exceed the value of any premium or benefit received by the donor in return for the contribution.

There are limits on the amount of a contribution that can be deducted. Generally, cash contributions to churches, schools, and other public charities are deductible up to a maximum of 100% of AGI (2021). In some cases, contributions that exceed this limit can be carried over and claimed on future returns for up to five years. Some charitable contributions are limited to 20% or 30% of AGI, depending on the recipient and the form of the contribution.

Restricted contributions are those that are made to a church with the stipulation that they be used for a specified purpose. If the purpose is an approved project or program of the church, the designation will not affect the deductibility of the contribution. An example is a contribution to a church building fund. However, if a donor stipulates that a contribution be spent on a designated individual, no deduction is allowed unless the church exercises full administrative control over the donated funds to ensure that they are being spent in furtherance of the church’s exempt purposes. Restricted contributions that ordinarily are not deductible include contributions to church benevolence or scholarship funds that designate a specific recipient. Contributions to benevolence or scholarship funds ordinarily are deductible if the donor does not earmark a specific recipient.

Contributions to a church or missions board that specify a particular missionary may be tax-deductible if the church or missions board exercises full administrative and accounting control over the contributions and ensures that they are spent in furtherance of the church’s mission. Direct contributions to missionaries, or any other individual, are not tax-deductible, even if they are used for religious or charitable purposes.

Charitable contributions must be properly substantiated. Individual cash contributions of less than $250 may be substantiated by a canceled check or a receipt from the charity. Special rules govern the substantiation of individual contributions of cash or property of $250 or more. The donor must substantiate these contributions with a qualified receipt from the charity, including a listing of the contributions and a statement that there were no goods or services provided in exchange for the contributions. These rules are further explained in the part 5 supplement to this guide entitled Federal Reporting Requirements for Churches.

KEY POINT: It is the responsibility of the donor to confirm that all donations claimed are supported by qualifying receipts. The consequence of failure is a loss of any contribution not supported by a qualifying receipt. This error cannot be corrected if discovered after the tax return is filed. Some churches and charities fail to issue qualifying receipts, so donors must be vigilant in meeting this requirement since this is not an error that can be corrected after your tax return is filed.

If you contribute property that you value at $500 or more, you must include a completed Form 8283 with your Form 1040. Complete only Section A if the value claimed is $500 or more but less than $5,000. If you claim a deduction of more than $5,000 for a contribution of non-cash property (other than publicly traded securities), then you must obtain
a qualified appraisal of the property and include a qualified appraisal summary (Section B of Form 8283) with your Form 1040. If several related items are given, each with a value of less than $5,000, an appraisal may still be required since the group of items would be treated as one rather than on an individual basis.

Special rules apply to donations of cars, boats, and planes. A donation is not allowed if the value of the item is $500 or more unless the donor has received Form 1098-C. See the instructions to IRS Form 1098-C for details.

KEY POINT: The Tax Court has ruled in several cases that a donor who contributed property worth more than $5,000 to a church was not eligible for a charitable contribution deduction even though there was no dispute that the gift was given, or its value, because the donor failed to obtain a qualified appraisal or attach a qualified appraisal summary (Form 8283) to the tax return on which the contribution was claimed.

Step 5: Casualty and Theft Losses (line 15)
You can deduct personal casualty and theft losses attributable to a federally declared disaster only to the extent that:

1. The amount of each separate casualty or theft loss is more than $100 and
2. The total amount of all losses during the year (reduced by the $100 limit discussed above) is more than 10% of the amount on Form 1040 or 1040-SR line 11. See the instructions for Form 4684 and Publication 547 for more information.

NOTE: Job Expenses and Most Other Miscellaneous Deductions
Employee business expenses that are either unreimbursed or reimbursed by an employer under a non-accountable arrangement are no longer deductible by an employee through 2025 unless extended by Congress.

The elimination of an itemized deduction for unreimbursed employee business expenses will hit some clergy hard. But this impact can be minimized if a church reimburses employees’ business expenses under an accountable expense reimbursement arrangement. To be accountable, a church’s reimbursement arrangement must comply with all four of the following rules:

1. Expenses must have a business connection — that is, the reimbursed expenses must represent expenses incurred by an employee while performing services for the employer.
2. Employees are reimbursed only for expenses for which they provide an adequate accounting within a reasonable period of time (not more than 60 days after an expense is incurred).
3. Employees must return any excess reimbursement or allowance within a reasonable period of time (not more than 120 days after an excess reimbursement is paid).
4. The income tax regulations caution that in order for an employer’s reimbursement arrangement to be accountable, it must meet a reimbursement requirement in addition to the three requirements summarized above. The reimbursement requirement means that an employer’s reimbursements of an employee’s business expenses come out of the employer’s funds and not by reducing the employee’s salary.

Accountable expense reimbursement plans are always preferable for the employee. Ministers previously claiming expenses as miscellaneous deductions did not gain a full tax deduction benefit from the process. The elimination of “all miscellaneous itemized deductions that are subject to the 2 percent floor under present law” (including unreimbursed employee business expenses and employee expenses reimbursed under a non-accountable plan) has encouraged many churches to move to accountable expense reimbursement plans since section 62(a)(2)(A) of the tax code, which excludes from tax employer reimbursements of employee business expenses under an accountable plan (defined above), has not been modified.

SCHEDULE B
Schedule B is used to report taxable interest income and dividend income of more than $1,500.

Step 1: Interest Income (lines 1–4)
List (on line 1) the name of each institution or individual that paid you taxable interest if you received more than $1,500 of taxable interest in 2021. Be sure the interest you report on line 1 corresponds to any Forms 1099-INT you received from such institutions. Do not include tax-exempt interest. Taxable interest income is carried over to line 2b of Form 1040.

Step 2: Dividend Income (lines 5–6)
List (on line 5) the name of each institution that paid you dividends if you received more than $1,500 in dividends in 2021. Be sure the dividends you report on line 5 correspond to any Forms 1099-DIV you received from such institutions. Ordinary dividend income is carried over to line 3b of Form 1040.

Step 3: Foreign Accounts and Foreign Trusts (lines 7–8)
Be sure to complete this part of the schedule if you had more than $1,500 of either taxable interest or ordinary dividends.
KEY POINT: If you have foreign bank accounts, you may be subject to additional filings. This can also occur if your church has foreign bank accounts, and you have signature authority on the accounts. Many times, the foreign bank account reporting is overlooked by taxpayers. Failure to comply can create substantial penalties.

**SCHEDULE C**

KEY POINT: Most ministers who serve local churches or church agencies are employees for federal income tax purposes with respect to their church salary. They report their church salary on line 1 of Form 1040 and receive a Form W-2 from the church. They do not report their salary as self-employment earnings on Schedule C.

KEY POINT: Use Schedule C to report income and expenses from ministerial activities you conduct other than in your capacity as a church employee. Examples would be fees for guest speaking in other churches and fees received directly from church members for performing personal services, such as weddings and funerals.

**Step 1: Introduction**

Complete the first several questions on Schedule C. Ministers should list code 541990 on line B, since for many years, this was the code the IRS used in a clergy tax illustration in Publication 517. Some ministers who report their church compensation as self-employed point to this code as proof that ministers serving local churches can report as self-employed. This is not so. This code applies to the incidental self-employment activities of ministers who report their church salaries as employees. It also applies to those few ministers who are self-employed, such as traveling evangelists.

**Step 2: Income (lines 1–7)**

Report on line 1 your gross income from your self-employment activity.

**Step 3: Expenses (lines 8–27)**

CAUTION: Many ministers continue to report their income taxes as self-employed. One perceived advantage of doing so is the ability to deduct business expenses on Schedule C (and avoid the non-deductibility of unreimbursed and non-accountable reimbursed employee business expenses as itemized deductions on Schedule A). This advantage is often illusory. Most “self-employed” ministers, if audited by the IRS, would be reclassified as employees and their Schedule C deductions disallowed. This could result in substantial additional taxes, penalties, and interest.

The best way for ministers to handle their business expenses is through an accountable expense reimbursement arrangement.

Report any business expenses associated with your self-employment earnings on lines 8 through 27. For example, if you incur transportation, travel, or other expenses in the course of performing self-employment activities, you deduct these expenses on lines 8 through 27 of Schedule C. Previously self-employed persons could deduct only 50% of business meals and meals associated with entertainment. For meal expenses incurred from January 1, 2021, through December 31, 2023, the deduction for meal expenses provided by a restaurant is 100% deductible. This requires specific tracking of the source of meal or food expenses. For example, if a self-employed individual is claiming the standard government per diem for meals while away on a business trip, this expense would still be subject to a 50% reduction in the deductible amount. However, if the same individual ate at specific restaurants while traveling and maintained adequate documentation, the costs associated with these meals are 100% deductible.

KEY POINT: Deductions are not allowed for expenses with respect to entertainment, amusement, or recreation. To clarify the application of this rule to meals related to entertainment, the IRS issued regulations clarifying that taxpayers may deduct 50% of an otherwise allowable business meal expense (or 100% if provided by a restaurant) if (1) the expense is an ordinary and necessary expense paid or incurred during the taxable year in carrying on any trade or business; (2) the expense is not lavish or extravagant under the circumstances; (3) the taxpayer, or an employee of the taxpayer, is present at the furnishing of the food or beverages; (4) the food and beverages are provided to a current or potential business customer, client, consultant, or similar business contact; and (5) in the case of food and beverages provided during or at an entertainment activity, the food and beverages are purchased separately from the entertainment, or the cost of the food and beverages is stated separately from the cost of the entertainment on one or more bills, invoices, or receipts. The entertainment disallowance rule may not be circumvented through inflating the amount charged for food and beverages. Note that this clarification does not benefit employees whose business expenses are not reimbursed by their employer since such expenses are non-deductible.

Ministers may be required to reduce the expenses deducted on Schedule C if a portion of the income is excluded from income as a housing allowance. The rules under IRC Section
265 state that expenses associated with tax-free income may not be deducted. Therefore, expenses on Schedule C may have to be allocated between taxable and nontaxable income. (Many refer to this rule as the Deason Rule.)

Report self-employment income from Schedule C on Schedule 1 line 3 (Form 1040) and carry over this and other items of additional income reported on Schedule 1 to line 8 of Form 1040.

**SCHEDULE SE**

밤 KEY POINT: Use Schedule SE to report Social Security taxes on any income you earned as a minister if you have not applied for and received IRS approval of an exemption application (Form 4361). Remember, ministers (except for some chaplains) are self-employed for Social Security with respect to their ministerial services. They pay SECA and not FICA with respect to compensation from such services.

밤 KEY POINT: Ministers who have received IRS approval of an application for exemption from SECA (Form 4361) do not pay SECA on compensation received for their ministerial services. These ministers should enter “Exempt — Form 4361” on Form 1040, Schedule 2 line 4.

**Step 1: Part I (line 2)**

Most ministers use the short Schedule SE rather than the long Schedule SE. This means that they complete Part I “Self-Employment Tax,” on page 1 of the schedule rather than Part II. Ministers report their net self-employment earnings on line 2 of Part I. This amount is computed as follows:

Add the following to your church salary reported on Form W-2 in Box 1:

- Other items of church income (including taxable fringe benefits)
- Fees you receive for weddings, baptisms, funerals, etc.
- Self-employment earnings from outside businesses
- Annual rental value of a parsonage, including utilities paid by the church (unless you are retired)
- A housing allowance (unless you are retired)
- Business expense reimbursements (under a non-accountable plan)
- The value of meals served on the church’s premises for the convenience of the employer
- Any amount a church pays toward your income tax or SECA

And then deduct the following:

- Most income tax exclusions other than meals or lodging furnished for the employer’s convenience and the foreign earned income exclusion
- Salary reduction contributions (elective deferrals) to a TSA plan (403(b) plan) if included in your gross income above
- Pension payments or retirement allowances you receive for your past ministerial services
- Unreimbursed employee business expenses (net of reimbursements and after 50% reduction in meal expenses, if applicable)
- Business expenses that were not deducted on Schedule C due to the allocation of a portion of the business expenses to the tax-free housing allowance pursuant to the requirements of IRC Section 265(a)(1), better known as the “Deason Rule”

**Step 2: Part I (line 4)**

Ministers (and other taxpayers who are self-employed for Social Security) can reduce their taxable earnings by 7.65%, which is half the FICA paid by employers and employees. To do this, multiply net earnings from self-employment times 0.9235 on line 4. SECA is paid on the reduced amount.

**Step 3: Part I (line 12)**

SECA for 2021 is computed on this line. The self-employment tax rate for 2021 is 15.3%, which consists of the following two components:

1. A Medicare hospital insurance (HI) tax of 2.9% and
2. An old-age, survivor, and disability (Social Security) tax of 12.4%.

For 2021, the 2.9% HI tax applied to all net earnings from self-employment regardless of amount. For 2021, the 12.4% Social Security tax applied to only the first $142,800 of net self-employment earnings. (For 2022, the maximum earnings subject to Social Security tax is $147,000.)

**FORM 8959 ADDITIONAL MEDICARE TAX**

An additional Medicare (HI) tax is calculated on wages or self-employment income of higher-income taxpayers. A Medicare (HI) tax of an additional tax of 0.9% on wages received in excess of certain amounts must be calculated. This additional tax applies to ministers subject to self-employment tax. Unlike other Social Security and Medicare taxes, this additional tax is on the combined wages of a taxpayer and the taxpayer’s spouse, in the case of a joint
return. The threshold amount is $250,000 in the case of a joint return or surviving spouse and $200,000 for single persons. The $250,000 and $200,000 amounts are not adjusted for inflation and remain the same for 2022.

Ministers who are a part of a two-earner family may be subject to this additional tax and should plan accordingly. Each working spouse may have wages and self-employment income of less than $250,000, but when added together, the total exceeds the threshold. This additional tax should be considered in preparing estimated tax payments or withholding instructions.

**FORM 7202 CREDITS FOR SICK LEAVE AND FAMILY LEAVE FOR CERTAIN SELF-EMPLOYED INDIVIDUALS**

Ministers affected by the coronavirus in 2021 may be eligible for special credits available for those who could not work due to experiencing the virus or due to caring for someone with the virus. Other credits may be available for ministers who could not work due to requirements to care for a child who could not attend school or daycare. The credits originally provided for 2020 were extended through September 30, 2021. If a minister has been affected by the coronavirus, he should explore these potential credits since their churches would not have been eligible to claim the credit on any wages paid to the minister.
PART 4: COMPREHENSIVE EXAMPLE AND SAMPLE FORMS

EXAMPLE ONE: ACTIVE MINISTER
Rev. John Michaels is the minister of the First Baptist Church. He is married and has one child. The child is considered a qualifying child for the highest amount of the child tax credit. Mrs. Michaels is not employed outside the home. Rev. Michaels is a common-law employee of the church and he has not applied for an exemption from SECA. The church paid Rev. Michaels a salary of $45,000. In addition, as a self-employed person, he earned $4,000 during the year for weddings, baptisms, and honoraria. He made estimated tax payments during the year totaling $12,000. He taught a course at the local community college, for which he was paid $3,400. None of the wages paid to Rev. Michaels during 2021 were related to a coronavirus leave of absence under the Families First Coronavirus Response Act. Rev. Michaels owns a home next to the church. He makes a $1,125 per month mortgage payment of principal and interest only. His utility bills and other housing-related expenses for the year totaled $1,450, and the real estate taxes on his home amounted to $1,750 for the year. The church paid him $1,400 per month as his housing allowance. The home’s fair rental value is $1,380 per month (furnished, plus utilities). Additionally, Rev. Michaels made cash charitable contributions of $6,000 to section 501(c)(3) public charities in 2021. Rev. Michaels and his wife received coronavirus economic impact payments (stimulus checks) of $4,200 during 2021 and therefore do not qualify for the recovery rebate credit. Further, Rev. Michaels and his wife unenrolled from the monthly advance child tax credit payments in 2021.

The parts of Rev. and Mrs. Michaels’ income tax return are explained in the order they are completed. They are illustrated in the order that Rev. Michaels will assemble the return to send it to the IRS.

Form W-2 from Church
The church completed Form W-2 for Rev. Michaels as follows:

Box 1. The church entered Rev. Michaels’ $45,000 salary.

Box 2. The church left this box blank because Rev. Michaels did not request federal income tax withholding.

Boxes 3–6. Rev. Michaels is considered a self-employed person for purposes of FICA withholding, so the church left these boxes blank.

Box 14. The church entered Rev. Michaels’ total housing allowance for the year and identified it.

TurboTax® Tips: Listed below are tips for ministers who use TurboTax to complete their returns. We have listed our recommended responses to some of the questions asked by the software when entering your Form W-2 from your church. These tips should not be construed as an endorsement or recommendation of the TurboTax software.

1. “Do any of these apply to this Form W-2?”
   Be sure to check the box that says, “Religious employment — this income was for religious employment (clergy, nonclergy, religious sect).”

2. “About your religious employment.”
   Please note that ministers fall under the category of clergy employment.

3. “Tell us about your clergy housing.” TurboTax then asks for the parsonage or housing allowance, as well as the amount of qualifying expenses.
   The amount you should enter for qualifying expenses is the lesser of your actual housing expenses, the annual fair rental value of your home (furnished, plus utilities), or the amount of your pay that was designated as ministerial housing allowance by your church.

4. “How would you like us to calculate clergy self-employment tax?”
   Please note that SECA should be paid on wages and housing allowance. See Schedule SE TurboTax Tip for additional information.

Form W-2 from College
The community college gave Rev. Michaels a Form W-2 that showed the following:

Box 1. The college entered Rev. Michaels’ $3,400 salary.

Box 2. The college withheld $272 in federal income tax on Rev. Michaels’ behalf.

Boxes 3 and 5. As an employee of the college, Rev. Michaels is subject to FICA withholding on his full salary from the college.

Box 4. The college withheld $210.80 in Social Security taxes.

Box 6. The college withheld $49.30 in Medicare taxes.
Schedule C (Form 1040)
Note: For tax years 2019 and later, the IRS announced that it will not be issuing the Schedule C-EZ. Therefore, Schedule C will be used.

Some of Rev. Michaels’ entries on Schedule C are explained here.

Line 1. Rev. Michaels reports the $4,000 from weddings, baptisms, and honoraria.

Lines 2–7. Rev. Michaels fills out these lines to report his gross income reported on line 7. Rev. Michaels did not have any returns or allowances, cost of goods sold, or other income for the year. Therefore, the amount reported on line 7 is $4,000.

Lines 8–27a. Rev. Michaels reports his expenses related to the line 1 amount. The total consisted of $87 for marriage and family booklets and $251 for 448 miles of business use of his car, mainly in connection with honoraria. Rev. Michaels used the standard mileage rate to figure his car expense. He multiplied the standard mileage rate of 56 cents by 448 miles for a total of $251. These expenses total $338 ($251 + $87).

Line 9. Rev. Michaels reports his car expenses on this line. However, he cannot deduct the part of his expenses allocable to his tax-free housing allowance. He attaches Attachment 1 (shown later) to his return showing that 25% (or $63) of his car expenses are not deductible because they are allocable to that tax-free allowance. He subtracts the $63 from the $251 and enters the $188 difference on line 9. Rev. Michaels also reports information regarding his vehicle in Part IV.

Line 27a. Rev. Michaels reports $87 for marriage and family booklets. However, he cannot deduct the part of his expenses allocable to his tax-free parsonage allowance. He attaches a statement, Attachment 1 (shown later), to his return showing that 25% (or $22) of his expenses are not deductible because they are allocable to that tax-free allowance. He subtracts the $22 from the $87 and enters the $65 difference on line 27a. He also reports a description of the expense in Part V.

Line 28. Rev. Michaels enters his total expenses, less the 25% allocable to his tax-free housing allowance, ($188 + $65) on line 28.

Lines 29–31. He enters his tentative profit of $3,747 reported on line 29, less any expenses for business use of his home on line 31. Rev. Michael did not have any expenses for business use of his home; therefore, his net income is $3,747. Net income on Schedule C is also reported on Schedule 1 (Form 1040), line 3.

Lines 43–47b. Rev. Michaels fills out these lines to report information about his car.

Line 48. Rev. Michaels reports the total other expenses included on line 27a.

TurboTax Tip: TurboTax does not appear to calculate the non-deductible portion of the expenses which should be allocated to the tax-free portion of the housing allowance. The taxpayer will need to adjust the miscellaneous expenses and input the non-deductible figure as a negative into the software.

Schedule SE (Form 1040)
After Rev. Michael prepares Schedule C, he fills out Schedule SE (Form 1040). Rev. Michael is a minister, so his salary from the church is not considered church employee income. Additionally, Rev. Michael did not apply for an exemption from SECA by filing Form 4361 and therefore leaves the first box on Schedule SE unchecked. He fills out the following lines in Part I.

Line 2. Rev. Michaels attaches a statement (Attachment 2, shown later) that explains how he figures the amount ($63,826) he enters here. The calculation in Attachment 2 includes unreimbursed business expenses from his work for the church. Although unreimbursed business expenses are clearly no longer deductible on Schedule A as itemized deductions for federal income tax purposes, these expenses are still deductible by ministers for SECA purposes. Rev. Michaels’ records show that he drove 2,530 miles. He multiplies the miles driven by the mileage rate of 56 cents. The combined result is $1,417. Additionally, Rev. Michaels paid $219 for professional publications and booklets in connection with his work for the church. The total unreimbursed business expenses were $1,636. After including the $85 of Schedule C expenses allocable to tax-free income, the total deductions against self-employment income are $1,721.

Lines 4a–6. He multiplies $63,826 by 0.9235 to get his net earnings from self-employment ($58,943). This amount is then carried through to line 6 since Rev. Michael does not have any other adjustments.

Lines 8a–8d. Rev. Michaels enters the amount from Box 3 on his Form W-2 issued by the college on lines 8a and 8d, since he had no amounts to be reported on lines 8b or 8c.

Line 10. The amount on line 6 is less than $142,800, so Rev. Michaels multiplies the amount on line 6 ($58,943) by 0.124 to get the Social Security portion of the SECA of $7,309.

Line 11. He multiplies the amount on line 6 by 0.029 to calculate the Medicare portion of SECA of $1,709.

Line 12. He adds the Social Security tax from line 10 and the Medicare tax on line 11 to determine his total SECA of $9,018. Rev. Michaels enters that amount here and on Schedule 2 (Form 1040), lines 4 and 21.
Line 13. Rev. Michaels multiplies the amount on line 12 by 0.50 to get his deduction for the employer-equivalent portion of SECA of $4,509. He enters that amount here and on Schedule 1 (Form 1040), line 15.

TurboTax Tip: The software asks about SECA on clergy wages. The taxpayer should check the box to pay SECA on wages and housing allowance (assuming, as shown in this example, that the minister has not applied for exemption from SECA). Please note that the software does not appear to automatically reduce self-employment wages by the business expenses allocated to tax-free income. The taxpayer will need to adjust net self-employment income (as shown in Attachment 2) and input the reduced figure into the software. This can be done by going into the “Business Taxes” section and selecting “Self-Employment Tax.” Choose “Make Adjustments” and enter in the “Ministerial Business Expenses” item the additional expenses that were not deducted elsewhere on the return ($1,721 in this example — see Attachment 2).

Form 8995 QBI Deduction
Ministers who have net profit reported on Schedule C for ministerial services and who have 2021 taxable income of less than $164,900 ($329,800 if MFJ) before the application of a QBI deduction may be eligible for the QBI deduction.

After Rev. Michaels prepares Schedule SE, he fills out Form 8995.

Line 1i. In columns (a) and (b), Rev. Michaels enters the information regarding his ministerial income. In column (c), Rev. Michaels reports the net profit or loss from Schedule C, line 31 ($3,747) less the portion of the deductions for SECA allocable to this net profit ($3,747 * 0.9235 * 0.153 * 0.5 = $265) which results in $3,482 on line 1i, column (c). Since there are no other amounts listed on lines 1ii–1v, he also reports the amount on line 2.

Line 4. Rev. Michaels adds the total QBI or loss reported on line 2 ($3,482) to any qualified business net losses carried forward from the prior year. Since there are no qualified business net losses carried forward from the prior year, he enters the amount on line 4.

Line 5. Rev. Michaels multiplies line 4 by 20% and enters the resulting amount ($696) on line 5. Since there are no other amounts reported on lines 6–9, he also reports the amount on line 10.

Line 11. Rev. Michaels adds the total taxable income before qualified business income deduction ($22,178) on line 11. This amount is equal to Form 1040 line 11 ($47,878) less Form 1040 line 12c ($25,700). Since there is no amount reported on line 12, he also reports the amount on line 13.

Line 15. Rev. Michaels multiplies line 13 by 20% ($4,436), which he reports on line 14. He then reports the lesser of line 10 or line 14 on line 15 ($696). Rev. Michaels also enters this amount on Form 1040, line 13.

Lines 16–17. Rev. Michaels enters $0 on line 16 since line 2 plus line 3 is greater than zero and enters $0 on line 17 since line 6 and line 7 were $0.

Form 8812 Credits for Qualifying Children and Other Dependents
Special 2021 tax provisions allow certain taxpayers to claim a 100% refundable child tax credit. As such, Rev. Michaels prepares Form 8812 to calculate this credit.

Lines 1–3. Rev. Michaels enters in the amount from Form 1040, line 11 on lines 1 and 3 since he does not have any amounts to reported on lines 2a–2d.

Lines 4a–4c. Rev. Michaels enters 1 at lines 4a and 4b since the Michaels had one qualifying child under the age of 6 at the end of 2021. Line 4b is subtracted from line 4a, and zero is entered at line 4c.

Line 5. Rev. Michaels refers to the line 5 worksheet and enters $3,600 on line 5.

Line 8. Rev. Michaels enters the amount from line 5 on line 8, since he had no amounts to report on lines 6 or 7.

Line 9. Rev. Michaels enters $400,000 since his filing status is MFJ.

Lines 10–12. Line 9 is subtracted from line 3. Since the result is less than zero, Rev. Michaels enters zero on lines 10 and 11. Line 11 is then subtracted from line 8, and the result ($3,600) is entered on line 12.


Lines 14a–14e. Rev. Michaels enters zero on line 14a since this is the smaller of line 7 or line 12. Line 14a is subtracted from line 12, and the result ($3,600) is entered on line 14b. Lines 14c and 14d are zero, so Rev. Michaels enters $3,600 on line 14e.

Lines 14f–14i. Rev. Michaels and his wife opted out of receiving advance child tax credit payments in 2021. Therefore, he enters zero on line 14f, and $3,600 on lines 14g and 14i. This amount is also entered on line 28 of Form 1040. Rev. Michaels does not complete the remainder of Form 8812 since a box was checked on line 13, and since line 14g was not zero.

Form 1040, Schedule 1 (Form 1040), and Schedule 2 (Form 1040)
After Rev. Michaels prepares the above schedules, he fills out Form 1040, along with Schedules 1–3 to the extent required. He files a joint return with his wife. First, he fills out Form 1040,
Page 1 and completes the appropriate lines for his filing status and exemptions. Then, he fills out the rest of the forms as follows:

**Form 1040, line 1.** Rev. Michaels reports $48,640. This amount is the total of his $45,000 church salary, $3,400 college salary, and $240, the excess of the amount designated and paid to him as a housing allowance over the lesser of his actual expenses and the fair rental value of his home (furnished, plus utilities). The two salaries were reported to him in Box 1 of the Forms W–2 he received.

**Schedule 1 (Form 1040), line 3.** He reports his net profit of $3,747 from Schedule C, line 31. Since no other amounts are reported on Schedule 1 (Form 1040), lines 1–8, he also reports this amount on line 10, and carries the figure to Form 1040, line 8.

**Form 1040, line 9.** Rev. Michaels adds Form 1040, line 1, and the amount reported on Form 1040, line 8, and enters the total ($52,387) on line 9.

**Form 1040, line 10.** Because Rev. Michaels has reported deductible SECA on Schedule 1 (Form 1040) line 15, Rev. Michaels goes to Schedule 1 (Form 1040) and completes Part II of the form. Since there are no other amounts listed on lines 11–24, Rev. Michaels reports $4,509 on line 26 and enters this amount on Form 1040, line 10.

**Form 1040, line 12a.** He enters the standard deduction for taxpayers filing MFJ ($25,100) on line 12a.

**Form 1040, line 12b.** In 2021, a maximum $600 charitable contribution deduction for taxpayers filing MFJ is allowed on Form 1040, line 12b for qualifying charitable contributions. Since Rev. Michaels and his wife made cash contributions of $6,000 to a qualifying 501(c)(3) public charity, he enters the maximum contribution deduction of $600 on line 12b.

**Form 1040, line 12c.** Rev. Michaels adds the amounts on line 12a ($25,100) and line 12b ($600) and reports $25,700 on line 12c.

**Form 1040, line 13.** Rev. Michaels adds the QBI deduction on Form 8995, line 15, and enters the total on ($696) on line 13.

**Form 1040, line 14.** Rev. Michaels adds the amounts on Form 1040, lines 12 and 13, and enters the total ($26,396) on line 14.

**Form 1040, line 15.** Subtract line 14 from line 11. This amount is taxable income.

**Form 1040, Page 2, line 16.** Rev. Michaels uses the tax tables in the 2021 Form 1040 instructions to determine his applicable tax and enters the amount ($2,179) on the space provided on lines 16 and 18.

**Form 1040, Page 2, Line 19.** The Michaels can take the child tax credit for their daughter, Jennifer. Jennifer is under the age of 6 at the end of 2021. Rev. Michaels figured the credit by completing Form 8812 and determined that he qualifies for the $3,600 refundable credit, which will be reported on line 28 (not line 19). Therefore, Rev. Michael’s leaves line 19 blank.

**Form 1040, Page 2, line 23 and Schedule 2 (Form 1040).** Rev. Michaels completes Schedule 2 (Form 1040). Since the only amount reported on Schedule 2 (Form 1040) is his SECA from Schedule SE, he reports the amount ($9,018) on Schedule 2 (Form 1040) lines 4 and 21, and on Form 1040, Page 2, line 23.

**Form 1040, Page 2, line 24.** He adds the amount reported on line 22 and SECA reported on line 23. This represents his total tax obligation.

**Form 1040, Page 2, lines 25a and 25d.** He enters the federal income tax shown in Box 2 of his Form W-2 from the college.

**Form 1040, Page 2, line 26.** Rev. Michaels enters the $12,000 estimated tax payments he made for the year on line 26.

**Form 1040, Page 2, lines 27a–32.** Rev. Michaels completes the EIC worksheet in the Form 1040 instructions and determines that he does not qualify for the EIC. However, as described above, Rev. Michaels does qualify for the refundable child tax credit in 2021. Therefore, Rev. Michaels enters $3,600 on lines 28 and 32.

**Form 1040, Page 2, line 33.** Rev. Michaels adds the amount reported on lines 25d and 26 to show the total tax payments made on line 33 ($15,872).

**Form 1040, Page 2, line 34.** Rev. Michaels totals his overpayment by subtracting line 33 from line 24 ($4,675).
**Form W-2 Wage and Tax Statement**

**Copy B—To Be Filed With Employee’s FEDERAL Tax Return.**

This information is being furnished to the Internal Revenue Service.

**Employee’s social security number**

| 011-00-1111 |

**Employer’s identification number (EIN)**

| 00-0246810 |

| **First Baptist Church** |
| **1042 Main Street** |
| **Hometown, Texas 77099** |

**Control number**

|  |

| **John E. Michaels** |
| **1040 Main Street** |
| **Hometown, Texas 77099** |

**Employee’s first name and initial**

| John E. |

**Last name**

| Michaels |

**Suff.**

|  |

**State**

|  |

**State employer’s state ID number**

|  |

**State wages, tips, etc.**

|  |

**State income tax**

|  |

**Local wages, tips, etc.**

|  |

**Local income tax**

|  |

**Locality name**

|  |

**Wages, tips, other compensation**

| 45000.00 |

**Federal income tax withheld**

|  |

**Social security wages**

|  |

**Social security tax withheld**

|  |

**Medicare wages and tips**

|  |

**Medicare tax withheld**

|  |

**Social security tips**

|  |

**Allocated tips**

|  |

**Nonqualified plans**

|  |

**Statutory employee**

|  |

**Retirement plan**

|  |

**Third-party IRA pay**

|  |

**Housing Allowance**

| 16800.00 |

**Dependent care benefits**

|  |

**Department of the Treasury—Internal Revenue Service**

**Sample: from church**
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<th>OMB No. 1545-0008</th>
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| Employer identification number (EIN) |            |            |
|-------------------------------------|------------|
| 00-1357913                          |            |

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<tr>
<td>Hometown College</td>
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<tr>
<td>40 Honor Road</td>
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<tr>
<td>Hometown, Texas 77099</td>
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<tr>
<th>Employee's first name and initial</th>
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<tr>
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<td>Michaels</td>
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<tr>
<td>1040 Main Street</td>
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<th>See instructions for box 12</th>
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<table>
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<th>Locality name</th>
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<tr>
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**Form W-2 Wage and Tax Statement 2021**

**Copy B—To Be Filed With Employee’s FEDERAL Tax Return.**
This information is being furnished to the Internal Revenue Service.

Sample: from college
Form 1040
Department of the Treasury—Internal Revenue Service
U.S. Individual Income Tax Return

Filing Status
Check only one box.

☐ Single  ☑ Married filing jointly  ☐ Married filing separately (MFS)  ☐ Head of household (HOH)  ☐ Qualifying widow(er) (QW)

If you checked the MFS box, enter the name of your 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
John E.  Michaels  011 00 1111

If joint return, spouse’s first name and middle initial  Last name  Spouse’s social security number
Susan R.  Michaels  011 00 2222

Home address (number and street). If you have a P.O. box, see Instructions.
1040 Main Street  Apt. no.

City, town, or post office. If you have a foreign address, also complete spaces below.
Hometown
Foreign country name  Foreign province/state/county  Foreign postal code

State  ZIP code
Texas  77099

At any time during 2021, did you receive, sell, exchange, or otherwise dispose of any financial interest in any virtual currency?  ☐ Yes  ☑ No

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, 1957  ☐ Are blind  Spouse:  ☐ Was born before January 2, 1957  ☐ Is blind

Dependents (see instructions):  If more than four dependents, see instructions and check here.

(1) First name  Last name  Social security number  Relationship to you  Child tax credit
Jennifer  Michaels  011 00 3333  Daughter  ☑

Credit for other dependents

Attach Sch. B if required.

Standard Deduction for—
• Single or Married filing separately, $12,550
• Married filing jointly or Qualifying widow(er), $25,100
• Head of household, $18,650
• If you checked any box under Standard Deduction, see instructions

1  Wages, salaries, tips, etc. Attach Form(s) W-2  1  48,640
2a  Tax-exempt interest  2a  2b  Taxable interest
3a  Qualified dividends  3a  3b  Ordinary dividends
4a  IRA distributions  4a  4b  Taxable amount
5a  Pensions and annuities  5a  5b  Taxable amount
6a  Social security benefits  6a  6b  Taxable amount
7  Capital gain or (loss). Attach Schedule D if required. If not required, check here.  7
8  Other income from Schedule 1, line 10  8  3,747
9  Add lines 1, 2b, 3b, 4b, 5b, 6b, 7, and 8. This is your total income  9  52,387
10  Adjustments to income from Schedule 1, line 26  10  4,509
11  Subtract line 10 from line 9. This is your adjusted gross income  11  47,878
12a  Standard deduction or itemized deductions (from Schedule A)  12a  12b  25,100
12b  600  12c  25,700
13  Qualified business income deduction from Form 8995 or Form 8995-A  13  696
14  Add lines 12a and 12b  14  26,396
15  Taxable income. Subtract line 14 from line 11. If zero or less, enter -0-  15  21,482

For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see separate instructions.

Cat. No. 11320B  Form 1040 (2021)
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<th>Line</th>
<th>Description</th>
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<tbody>
<tr>
<td>16</td>
<td>Tax (see instructions). Check if any from Form(s): 1 8814 2 4972 3</td>
<td>2,179</td>
</tr>
<tr>
<td>17</td>
<td>Amount from Schedule 2, line 3</td>
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<tr>
<td>18</td>
<td>Add lines 16 and 17</td>
<td>2,179</td>
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<tr>
<td>19</td>
<td>Nonrefundable child tax credit or credit for other dependents from Schedule 8812</td>
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<td>20</td>
<td>Amount from Schedule 3, line 8</td>
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<td>21</td>
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<td>22</td>
<td>Subtract line 21 from line 18. If zero or less, enter -0-</td>
<td>2,179</td>
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<tr>
<td>23</td>
<td>Other taxes, including self-employment tax, from Schedule 2, line 21</td>
<td>9,018</td>
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<td>24</td>
<td>Add lines 22 and 23. This is your total tax</td>
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<td>25</td>
<td>Federal income tax withheld from:</td>
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<td>2021 estimated tax payments and amount applied from 2020 return</td>
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<td>27</td>
<td>Earned income credit (EIC)</td>
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<tr>
<td>28</td>
<td>Check here if you had not reached the age of 19 by December 31, 2021, and satisfy all other requirements for claiming the EIC. See instructions</td>
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<tr>
<td>29</td>
<td>Nontaxable combat pay election</td>
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<td>30</td>
<td>Prior year (2019) earned income</td>
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<td>Refundable child tax credit or additional child tax credit from Schedule 8812</td>
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<td>32</td>
<td>American opportunity credit from Form 8863, line 8</td>
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<td>33</td>
<td>Recovery rebate credit. See instructions</td>
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<td>34</td>
<td>Amount from Schedule 3, line 15</td>
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<tr>
<td>35</td>
<td>Add lines 21a through 25c</td>
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<tr>
<td>36</td>
<td>Add lines 27a and 28 through 31. These are your total other payments and refundable credits</td>
<td>3,600</td>
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<tr>
<td>37</td>
<td>Add lines 25d, 26, and 32. These are your total payments</td>
<td>15,872</td>
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**Refund**

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<td>If line 33 is more than line 24, subtract line 24 from line 33. This is the amount you overpaid</td>
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<td>35a</td>
<td>Amount of line 34 you want refunded to you. If Form 8868 is attached, check here</td>
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**Direct deposit?**

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**Amount You Owe**

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<th>Line</th>
<th>Description</th>
<th>Amount</th>
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<tbody>
<tr>
<td>36</td>
<td>Amount you owe. Subtract line 33 from line 24. For details on how to pay, see instructions</td>
<td></td>
</tr>
<tr>
<td>37</td>
<td>Estimated tax penalty (see instructions)</td>
<td></td>
</tr>
<tr>
<td>38</td>
<td>Add lines 25d, 26, and 32. These are your total payments</td>
<td></td>
</tr>
</tbody>
</table>

**Third Party Designee**

Do you want to allow another person to discuss this return with the IRS? See instructions.

**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.

**Joint return?**

Keep a copy for your records.

**Paid Preparer Use Only**

Go to www.irs.gov/Form1040 for instructions and the latest information.
### Part I Additional Income

<table>
<thead>
<tr>
<th></th>
<th></th>
<th>1</th>
<th>2a</th>
<th>3</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Taxable refunds, credits, or offsets of state and local income taxes</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2a</td>
<td>Alimony received</td>
<td></td>
<td>Date of original divorce or separation agreement (see instructions)</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Business income or (loss). Attach Schedule C</td>
<td></td>
<td></td>
<td>3,747</td>
</tr>
<tr>
<td>4</td>
<td>Other gains or (losses). Attach Form 4797</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>Farm income or (loss). Attach Schedule F</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>Unemployment compensation</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>8</td>
<td>Other income:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>a</td>
<td>Net operating loss</td>
<td>8a</td>
<td></td>
<td></td>
</tr>
<tr>
<td>b</td>
<td>Gambling income</td>
<td>8b</td>
<td></td>
<td></td>
</tr>
<tr>
<td>c</td>
<td>Cancellation of debt</td>
<td>8c</td>
<td></td>
<td></td>
</tr>
<tr>
<td>d</td>
<td>Foreign earned income exclusion from Form 2555</td>
<td>8d</td>
<td></td>
<td></td>
</tr>
<tr>
<td>e</td>
<td>Taxable Health Savings Account distribution</td>
<td>8e</td>
<td></td>
<td></td>
</tr>
<tr>
<td>f</td>
<td>Alaska Permanent Fund dividends</td>
<td>8f</td>
<td></td>
<td></td>
</tr>
<tr>
<td>g</td>
<td>Jury duty pay</td>
<td>8g</td>
<td></td>
<td></td>
</tr>
<tr>
<td>h</td>
<td>Prizes and awards</td>
<td>8h</td>
<td></td>
<td></td>
</tr>
<tr>
<td>i</td>
<td>Activity not engaged in for profit income</td>
<td>8i</td>
<td></td>
<td></td>
</tr>
<tr>
<td>j</td>
<td>Stock options</td>
<td>8j</td>
<td></td>
<td></td>
</tr>
<tr>
<td>k</td>
<td>Income from the rental of personal property if you engaged in the rental for profit but were not in the business of renting such property</td>
<td>8k</td>
<td></td>
<td></td>
</tr>
<tr>
<td>l</td>
<td>Olympic and Paralympic medals and USOC prize money (see instructions)</td>
<td>8l</td>
<td></td>
<td></td>
</tr>
<tr>
<td>m</td>
<td>Section 951(a) inclusion (see instructions)</td>
<td>8m</td>
<td></td>
<td></td>
</tr>
<tr>
<td>n</td>
<td>Section 951A(a) inclusion (see instructions)</td>
<td>8n</td>
<td></td>
<td></td>
</tr>
<tr>
<td>o</td>
<td>Section 461(l) excess business loss adjustment</td>
<td>8o</td>
<td></td>
<td></td>
</tr>
<tr>
<td>p</td>
<td>Taxable distributions from an ABLE account (see instructions)</td>
<td>8p</td>
<td></td>
<td></td>
</tr>
<tr>
<td>z</td>
<td>Other income. List type and amount</td>
<td>8z</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

|   | Total other income. Add lines 8a through 8z                                        | 9   |                           |     |
| 10| Combine lines 1 through 7 and 9. Enter here and on Form 1040, 1040-SR, or 1040-NR, line 8 | 10  | 3,747                     |     |
### Part II Adjustments to Income

<table>
<thead>
<tr>
<th></th>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>11</td>
<td>Educator expenses</td>
<td></td>
</tr>
<tr>
<td>12</td>
<td>Certain business expenses of reservists, performing artists, and fee-basis</td>
<td></td>
</tr>
<tr>
<td></td>
<td>government officials. Attach Form 2106</td>
<td></td>
</tr>
<tr>
<td>13</td>
<td>Health savings account deduction. Attach Form 8889</td>
<td></td>
</tr>
<tr>
<td>14</td>
<td>Moving expenses for members of the Armed Forces. Attach Form 3903</td>
<td></td>
</tr>
<tr>
<td>15</td>
<td>Deductible part of self-employment tax. Attach Schedule SE</td>
<td></td>
</tr>
<tr>
<td>16</td>
<td>Self-employed SEP, SIMPLE, and qualified plans</td>
<td></td>
</tr>
<tr>
<td>17</td>
<td>Self-employed health insurance deduction</td>
<td></td>
</tr>
<tr>
<td>18</td>
<td>Penalty on early withdrawal of savings</td>
<td></td>
</tr>
<tr>
<td>19a</td>
<td>Alimony paid</td>
<td></td>
</tr>
<tr>
<td></td>
<td>b Recipient’s SSN</td>
<td></td>
</tr>
<tr>
<td></td>
<td>c Date of original divorce or separation agreement (see instructions)</td>
<td></td>
</tr>
<tr>
<td>20</td>
<td>IRA deduction</td>
<td></td>
</tr>
<tr>
<td>21</td>
<td>Student loan interest deduction</td>
<td></td>
</tr>
<tr>
<td>22</td>
<td>Reserved for future use</td>
<td></td>
</tr>
<tr>
<td>23</td>
<td>Archer MSA deduction</td>
<td></td>
</tr>
<tr>
<td>24</td>
<td>Other adjustments:</td>
<td></td>
</tr>
<tr>
<td></td>
<td>a Jury duty pay (see instructions)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>b Deductible expenses related to income reported on line 8k from the</td>
<td></td>
</tr>
<tr>
<td></td>
<td>rental of personal property engaged in for profit</td>
<td></td>
</tr>
<tr>
<td></td>
<td>c Nontaxable amount of the value of Olympic and Paralympic</td>
<td></td>
</tr>
<tr>
<td></td>
<td>medals and USOC prize money reported on line 8l</td>
<td></td>
</tr>
<tr>
<td></td>
<td>d Reforestation amortization and expenses</td>
<td></td>
</tr>
<tr>
<td></td>
<td>e Repayment of supplemental unemployment benefits under the Trade Act of</td>
<td></td>
</tr>
<tr>
<td></td>
<td>1974</td>
<td></td>
</tr>
<tr>
<td></td>
<td>f Contributions to section 501(c)(18)(D) pension plans</td>
<td></td>
</tr>
<tr>
<td></td>
<td>g Contributions by certain chaplains to section 403(b) plans</td>
<td></td>
</tr>
<tr>
<td></td>
<td>h Attorney fees and court costs for actions involving certain unlawful</td>
<td></td>
</tr>
<tr>
<td></td>
<td>discrimination claims (see instructions)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>i Attorney fees and court costs you paid in connection with an award from</td>
<td></td>
</tr>
<tr>
<td></td>
<td>the IRS for information you provided that helped the IRS detect tax law</td>
<td></td>
</tr>
<tr>
<td></td>
<td>violations</td>
<td></td>
</tr>
<tr>
<td></td>
<td>j Housing deduction from Form 2555</td>
<td></td>
</tr>
<tr>
<td></td>
<td>k Excess deductions of section 67(e) expenses from Schedule K-1 (Form 1041</td>
<td></td>
</tr>
<tr>
<td></td>
<td>z Other adjustments. List type and amount</td>
<td></td>
</tr>
<tr>
<td>25</td>
<td>Total other adjustments. Add lines 24a through 24z</td>
<td>0</td>
</tr>
<tr>
<td>26</td>
<td>Add lines 11 through 23 and 25. These are your adjustments to income. Enter</td>
<td>4,509</td>
</tr>
<tr>
<td></td>
<td>here and on Form 1040 or 1040-SR, line 10, or Form 1040-NR, line 10a</td>
<td></td>
</tr>
</tbody>
</table>
### SCHEDULE 2 (Form 1040)

**Name(s) shown on Form 1040, 1040-SR, or 1040-NR**

John E. & Susan R. Michaels

**Your social security number**

011-00-1111

#### Part I  Tax

<table>
<thead>
<tr>
<th></th>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Alternative minimum tax. Attach Form 6251</td>
<td>1</td>
</tr>
<tr>
<td>2</td>
<td>Excess advance premium tax credit repayment. Attach Form 8962</td>
<td>2</td>
</tr>
<tr>
<td>3</td>
<td>Add lines 1 and 2. Enter here and on Form 1040, 1040-SR, or 1040-NR, line 17</td>
<td>3</td>
</tr>
</tbody>
</table>

#### Part II  Other Taxes

<table>
<thead>
<tr>
<th></th>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>4</td>
<td>Self-employment tax. Attach Schedule SE</td>
<td>4</td>
</tr>
<tr>
<td>5</td>
<td>Social security and Medicare tax on unreported tip income. Attach Form 4137</td>
<td>5</td>
</tr>
<tr>
<td>6</td>
<td>Uncollected social security and Medicare tax on wages. Attach Form 8919</td>
<td>6</td>
</tr>
<tr>
<td>7</td>
<td>Total additional social security and Medicare tax. Add lines 5 and 6</td>
<td>7</td>
</tr>
<tr>
<td>8</td>
<td>Additional tax on IRAs or other tax-favored accounts. Attach Form 5329 if required</td>
<td>8</td>
</tr>
<tr>
<td>9</td>
<td>Household employment taxes. Attach Schedule H</td>
<td>9</td>
</tr>
<tr>
<td>10</td>
<td>Repayment of first-time homebuyer credit. Attach Form 5405 if required</td>
<td>10</td>
</tr>
<tr>
<td>11</td>
<td>Additional Medicare Tax. Attach Form 8959</td>
<td>11</td>
</tr>
<tr>
<td>12</td>
<td>Net investment income tax. Attach Form 8960</td>
<td>12</td>
</tr>
<tr>
<td>13</td>
<td>Uncollected social security and Medicare or RRTA tax on tips or group-term life insurance from Form W-2, box 12</td>
<td>13</td>
</tr>
<tr>
<td>14</td>
<td>Interest on tax due on installment income from the sale of certain residential lots and timeshares</td>
<td>14</td>
</tr>
<tr>
<td>15</td>
<td>Interest on the deferred tax on gain from certain installment sales with a sales price over $150,000</td>
<td>15</td>
</tr>
<tr>
<td>16</td>
<td>Recapture of low-income housing credit. Attach Form 8611</td>
<td>16</td>
</tr>
</tbody>
</table>

*(continued on page 2)*
Part II  Other Taxes (continued)

17  Other additional taxes:
   a  Recapture of other credits. List type, form number, and amount ▶
   17a
   b  Recapture of federal mortgage subsidy. If you sold your home in 2021, see instructions .
   17b
   c  Additional tax on HSA distributions. Attach Form 8889 .
   17c
   d  Additional tax on an HSA because you didn’t remain an eligible individual. Attach Form 8889 .
   17d
   e  Additional tax on Archer MSA distributions. Attach Form 8853 .
   17e
   f  Additional tax on Medicare Advantage MSA distributions. Attach Form 8853 .
   17f
   g  Recapture of a charitable contribution deduction related to a fractional interest in tangible personal property .
   17g
   h  Income you received from a nonqualified deferred compensation plan that fails to meet the requirements of section 409A .
   17h
   i  Compensation you received from a nonqualified deferred compensation plan described in section 457A .
   17i
   j  Section 72(m)(5) excess benefits tax .
   17j
   k  Golden parachute payments 
   17k
   l  Tax on accumulation distribution of trusts
   17l
   m  Excise tax on insider stock compensation from an expatriated corporation .
   17m
   n  Look-back interest under section 167(g) or 460(b) from Form 8697 or 8866 .
   17n
   o  Tax on non-effectively connected income for any part of the year you were a nonresident alien from Form 1040-NR .
   17o
   p  Any interest from Form 8621, line 16f, relating to distributions from, and dispositions of, stock of a section 1291 fund .
   17p
   q  Any interest from Form 8621, line 24 .
   17q
   z  Any other taxes. List type and amount ▶
   17z

18  Total additional taxes. Add lines 17a through 17z .

19  Additional tax from Schedule 8812

20  Section 965 net tax liability installment from Form 965-A

21  Add lines 4, 7 through 16, 18, and 19. These are your total other taxes. Enter here and on Form 1040 or 1040-SR, line 23, or Form 1040-NR, line 23b .

\[ 9,018 \]
SCHEDULE C
(Form 1040)
Profit or Loss From Business
(Sole Proprietorship)
Department of the Treasury
Internal Revenue Service (IRS)

Go to www.irs.gov/ScheduleC for instructions and the latest information.
Attach to Form 1040, 1040-SR, 1040-NR, or 1041; partnerships must generally file Form 1065.

Name of proprietor
John E. Michaels
Social security number (SSN)
011-00-1111

Minister

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

E Business address (including suite or room no.)
1040 Main Street
City, town or post office, state, and ZIP code
Hometown, Texas 77099

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

G Did you "materially participate" in the operation of this business during 2021? If "No," see instructions for limit on losses.
☐ Yes ☐ No

H If you started or acquired this business during 2021, check here. ☐

I Did you make any payments in 2021 that would require you to file Form(s) 1099? See instructions.
☐ Yes ☐ No

J If "Yes," did you or will you file required Form(s) 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. □

2 Returns and allowances .

3 Subtract line 2 from line 1

4 Cost of goods sold (from line 42)

5 Gross profit. Subtract line 4 from line 3

6 Other income, including federal and state gasoline or fuel tax credit or refund (see instructions)

7 Gross income. Add lines 5 and 6.

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

8 Advertising .

9 Car and truck expenses (see instructions)

10 Commissions and fees

11 Contract labor (see instructions)

12 Depreciation and section 179 expense deduction (not included in Part III) (see instructions)

13 Employee benefit programs (other than on line 19)

14 Interest (see instructions): a Mortgage (paid to banks, etc.)

15 Insurance (other than health)

16 Gas and electric services

17 Legal and professional services

18 Office expense (see instructions)

19 Pension and profit-sharing plans

20 Rent or lease (see instructions): a Vehicles, machinery, and equipment

21 Repairs and maintenance

22 Supplies (not included in Part III)

23 Taxes and licenses

24 Travel and meals: a Travel

25 Utilities

26 Wages (less employment credits)

27a Other expenses (from line 48)

27b Reserved for future use

28 Total expenses before expenses for business use of home. Add lines 8 through 27a.

29 Tentative profit or (loss). Subtract line 28 from line 7.

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 .

31 Net profit (or loss). Subtract line 30 from line 29.

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), line 3, 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 you lost, you must go to line 32.

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

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

For Paperwork Reduction Act Notice, see the separate instructions.

Cat No. 1133-IP
Schedule C (Form 1040) 2021

50

Schedule C (Form 1040) 2021
### Part III Cost of Goods Sold (see instructions)

<p>| | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>33</td>
<td>Method(s) used to value closing inventory: □ Cost □ Lower of cost or market □ Other (attach explanation)</td>
<td></td>
</tr>
<tr>
<td>34</td>
<td>Was there any change in determining quantities, costs, or valuations between opening and closing inventory? If &quot;Yes,&quot; attach explanation</td>
<td>□ Yes □ No</td>
</tr>
<tr>
<td>35</td>
<td>Inventory at beginning of year. If different from last year's closing inventory, attach explanation</td>
<td>35</td>
</tr>
<tr>
<td>36</td>
<td>Purchases less cost of items withdrawn for personal use</td>
<td>36</td>
</tr>
<tr>
<td>37</td>
<td>Cost of labor. Do not include any amounts paid to yourself</td>
<td>37</td>
</tr>
<tr>
<td>38</td>
<td>Materials and supplies</td>
<td>38</td>
</tr>
<tr>
<td>39</td>
<td>Other costs</td>
<td>39</td>
</tr>
<tr>
<td>40</td>
<td>Add lines 35 through 39</td>
<td>40</td>
</tr>
<tr>
<td>41</td>
<td>Inventory at end of year</td>
<td>41</td>
</tr>
<tr>
<td>42</td>
<td>Cost of goods sold. Subtract line 41 from line 40. Enter the result here and on line 4</td>
<td>42</td>
</tr>
</tbody>
</table>

### Part IV Information on Your Vehicle. Complete this part only if you are claiming car or truck expenses on line 9 and are not required to file Form 4562 for this business. See the instructions for line 13 to find out if you must file Form 4562.

<p>| | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>43</td>
<td>When did you place your vehicle in service for business purposes? (month/day/year)</td>
<td>7/15/13</td>
</tr>
<tr>
<td>44</td>
<td>Of the total number of miles you drove your vehicle during 2021, enter the number of miles you used your vehicle for:</td>
<td></td>
</tr>
<tr>
<td>a</td>
<td>Business 448</td>
<td>b</td>
</tr>
<tr>
<td>45</td>
<td>Was your vehicle available for personal use during off-duty hours?</td>
<td>□ Yes □ No</td>
</tr>
<tr>
<td>46</td>
<td>Do you (or your spouse) have another vehicle available for personal use?</td>
<td>□ Yes □ No</td>
</tr>
<tr>
<td>47a</td>
<td>Do you have evidence to support your deduction?</td>
<td>□ Yes □ No</td>
</tr>
<tr>
<td>b</td>
<td>If &quot;Yes,&quot; is the evidence written?</td>
<td>□ Yes □ No</td>
</tr>
</tbody>
</table>

### Part V Other Expenses. List below business expenses not included on lines 8–26 or line 30.

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>

48 Total other expenses. Enter here and on line 27a   | 48 |

---

Schedule C (Form 1040) 2021
Self-Employment Tax

Part I Self-Employment Tax

Note: If your only income subject to self-employment tax is church employee income, see instructions for how to report your income and 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 □

Skip lines 1a and 1b if you use the farm optional method in Part II. See instructions.

1a Net farm profit or (loss) from Schedule F, line 34, and farm partnerships, Schedule K-1 (Form 1065), box 14, code A □

Skip line 2 if you use the nonfarm optional method in Part II. See instructions.

2 Net profit or (loss) from Schedule C, line 31; and Schedule K-1 (Form 1065), box 14, code A (other than farming). See instructions for other income to report or if you are a minister or member of a religious order □

3 Combine lines 1a, 1b, and 2 □

4a If line 3 is more than zero, multiply line 3 by 92.035% (0.92035). 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.

b If you elect one or both of the optional methods, enter the total of lines 15 and 17 here □

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 □

5a Enter your church employee income from Form W-2. See instructions for definition of church employee income □

b Multiply line 5a by 92.035% (0.92035). If less than $100, enter -0- □

6 Add lines 4c and 5b □

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 2021 □

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 $142,800 or more, skip lines 8b through 10, and go to line 11 □

b Unreported tips subject to social security tax from Form 4137, line 10 □

c Wages subject to social security tax from Form 8919, line 10 □

d Add lines 8a, 8b, and 8c □

9 Subtract line 8d from line 7. If zero or less, enter -0- here and on line 10 and go to line 11 □

10 Multiply the smaller of line 6 or line 9 by 12.4% (0.124) □

11 Multiply line 6 by 2.9% (0.029) □

12 Self-employment tax. Add lines 10 and 11. Enter here and on Schedule 2 (Form 1040), line 4 □

13 Deduction for one-half of self-employment tax. Multiply line 12 by 50% (0.50). Enter here and on Schedule 1 (Form 1040), line 15 □

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

Farm Optional Method. You may use this method only if (a) your gross farm income¹ wasn’t more than $8,820, or (b) your net farm profits² were less than $6,367.

14 Maximum income for optional methods □

15 Enter the smaller of: two-thirds (⅔) of gross farm income¹ (not less than zero) or $5,880. Also, include this amount on line 4b above □

Nonfarm Optional Method. You may use this method only if (a) you net nonfarm profits³ were less than $6,367 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 □

17 Enter the smaller of: two-thirds (⅔) of gross nonfarm income⁴ (not less than zero) or the amount on line 16. Also, include this amount on line 4b above □

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.
Name(s) shown on return
John E. & Susan R. Michaels

Your taxpayer identification number
001-00-1111

Note. You can claim the qualified business income deduction only if you have qualified business income from a qualified trade or business, real estate investment trust dividends, publicly traded partnership income, or a domestic production activities deduction passed through from an agricultural or horticultural cooperative. See instructions.

Use this form if your taxable income, before your qualified business income deduction, is at or below $164,900 ($164,925 if married filing separately; $329,800 if married filing jointly), and you aren’t a patron of an agricultural or horticultural cooperative.

<table>
<thead>
<tr>
<th></th>
<th>(a) Trade business, or aggregation name</th>
<th>(b) Taxpayer identification number</th>
<th>(c) Qualified business income or (loss)</th>
</tr>
</thead>
<tbody>
<tr>
<td>i</td>
<td>Minister</td>
<td>011-00-1111</td>
<td>3,482</td>
</tr>
<tr>
<td>ii</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>iii</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>iv</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

1. Total qualified business income or (loss). Combine lines 1i through 1v, column (c)

2. Qualified business net (loss) carryforward from the prior year

3. Total qualified business income. Combine lines 2 and 3. If zero or less, enter -0-

4. Qualified business income component. Multiply line 4 by 20% (0.20)

5. Qualified REIT dividends and publicly traded partnership (PTP) income or (loss) (see instructions)

6. Qualified REIT dividends and qualified PTP (loss) carryforward from the prior year

7. Total qualified REIT dividends and PTP income. Combine lines 6 and 7. If zero or less, enter -0-

8. REIT and PTP component. Multiply line 8 by 20% (0.20)

9. Qualified business income deduction before the income limitation. Add lines 5 and 9

10. Taxable income before qualified business income deduction (see instructions)

11. Net capital gain (see instructions)

12. Subtract line 12 from line 11. If zero or less, enter -0-

13. Income limitation. Multiply line 13 by 20% (0.20)

14. Qualified business income deduction. Enter the smaller of line 10 or line 14. Also enter this amount on the applicable line of your return (see instructions)

15. Total qualified business (loss) carryforward. Combine lines 2 and 3. If greater than zero, enter -0-

16. Total qualified REIT dividends and PTP (loss) carryforward. Combine lines 6 and 7. If greater than zero, enter -0-
Part I-A  Child Tax Credit and Credit for Other Dependents

1  Enter the amount from line 11 of your Form 1040, 1040-SR, or 1040-NR.  
   1  47,878

2a  Enter income from Puerto Rico that you excluded  
   2a  2

b Enter the amounts from line 44 and 50 of your Form 2555  
   2b  1

c Enter the amount from line 15 of your Form 4563  
   2c  0

d Add lines 2a through 2c  
   2d  47,878

3  Add lines 1 and 2d  
   3  0

4a Number of qualifying children under age 18 with the required social security number  
   4a  1

b Number of children included on line 4a who were under age 6 at the end of 2021  
   4b  1

c Subtract line 4b from line 4a  
   4c  0

5  If line 4a is more than zero, enter the amount from the Line 5 Worksheet; otherwise, enter 0.  
   5  3,600

6  Number of other dependents, including any qualifying children who are not under age 18 or who do not have the required social security number  
   6  0

Caution: Do not include yourself, your spouse, or anyone who is not a U.S. citizen, U.S. national, or U.S. resident alien. Also, do not include anyone you included on line 4a.

7  Multiply line 6 by $500  
   7  0

8  Add lines 5 and 7  
   8  3,600

9  Enter the amount shown below for your filing status.  
   • Married filing jointly—$400,000  
   • All other filing statuses—$20,000,000  
   9  400,000

10 Subtract line 9 from line 3.  
    • If zero or less, enter 0.  
    • If more than zero and not a multiple of $1,000, enter the next multiple of $1,000. For example, if the result is $425, enter $1,000; if the result is $1,025, enter $2,000, etc.  
   10  0

11 Multiply line 10 by 5% (0.05)  
   11  0

12 Subtract line 11 from line 8. If zero or less, enter 0.  
   12  3,600

13 Check all the boxes that apply to you (or your spouse if married filing jointly).  
   A Check here if you (or your spouse if married filing jointly) have a principal place of abode in the United States for more than half of 2021  
   B Check here if you (or your spouse if married filing jointly) are a bona fide resident of Puerto Rico for 2021

Part I-B  Filers Who Check a Box on Line 13

Caution: If you did not check a box on line 13, do not complete Part I-B; instead, skip to Part I-C.

14a Enter the smaller of line 7 or line 12  
   14a  0

b Subtract line 14a from line 12  
   14b  3,600

c If line 14a is zero, enter 0; otherwise, enter the amount from the Credit Limit Worksheet A  
   14c  0

d Enter the smaller of line 14a or line 14c  
   14d  0

e Add lines 14b and 14d  
   14e  3,600

f Enter the aggregate amount of advance child tax credit payments you (and your spouse if filing jointly) received for 2021. See your Letter(s) 6419 for the amounts to include on this line. If you are missing Letter 6419, see the instructions before entering an amount on this line.  
   14f  0

Caution: If the amount on this line doesn’t match the aggregate amounts reported to you (and your spouse if filing jointly) on your Letter(s) 6419, the processing of your return will be delayed.

Subtract line 14f from line 14e. If zero or less, enter 0; lines 14g through 14i and go to Part III  
   14g  3,600

h Enter the smaller of line 14d or line 14g. This is your credit for other dependents. Enter this amount on line 19 of your Form 1040, 1040-SR, or 1040-NR.  
   14h  0

i Subtract line 14h from line 14g. This is your refundable child tax credit. Enter this amount on line 28 of your Form 1040, 1040-SR, or 1040-NR.  
   14i  3,600

For Paperwork Reduction Act Notice, see your tax return instructions. Cat. No. 59761M Schedule 8812 (Form 1040) 2021
### Part I-C Filers Who Do Not Check a Box on Line 13

**Caution:** If you checked a box on line 13, do not complete Part I-C.

1a. Enter the amount from the Credit Limit Worksheet A

1b. Enter the smaller of line 12 or line 15a.

Additional child tax credit. Complete Parts II-A through II-C if you meet each of the following items.

1. You are not filing Form 2555.
2. Line 4a is more than zero.
3. Line 12 is more than line 15a.

1c. If you completed Parts II-A through II-C, enter the amount from line 27; otherwise, enter 0.

1d. Add lines 15b and 15c.

1e. Enter the aggregate amount of advance child tax credit payments you (and your spouse if filing jointly) received for 2021. See your Letter(s) 6419 for the amounts to include on this line. If you are missing Letter 6419, see the instructions before entering an amount on this line.

1f. Subtract line 15e from line 15d. If zero or less, enter -0- on lines 15f through 15h and go to Part III.

1g. Enter the smaller of line 15b or line 15f. This is your nonrefundable child tax credit and credit for other dependents. Enter this amount on line 19 of your Form 1040, 1040-SR, or 1040-NR.

1h. Subtract line 15f from line 15e. This is your additional child tax credit. Enter this amount on line 28 of your Form 1040, 1040-SR, or 1040-NR.

### Part II-A Additional Child Tax Credit (Use only if completing Part I-C)

**Caution:** If you file Form 2555, do not complete Parts II-A through II-C; you cannot claim the additional child tax credit.

**Caution:** If you checked a box on line 13, do not complete Parts II-A through II-C; you cannot claim the additional child tax credit.

2a. Subtract line 15b from line 12. If zero, skip Parts II-A and II-B and enter -0- on line 27.

2b. Number of qualifying children under 18 with the required social security number: \[ \times \$1,400. \]

Enter the result. If zero, skip Parts II-A and II-B and enter -0- on line 27.

2c. TIP: The number of children you use for this line is the same as the number of children you used for line 4a.

2d. Enter the smaller of line 16a or line 16b.

2e. Earned income (see instructions).

2f. Nonrefundable combat pay (see instructions).

2g. Is the amount on line 18a more than $2,500?

- Yes. Subtract $2,500 from the amount on line 18a. Enter the result.
- No. Leave line 19 blank and enter -0- on line 20.

2h. Multiply the amount on line 19 by 15% (0.15) and enter the result.

2i. Next. On line 16b, is the amount $4,200 or more?

- No. If line 20 is zero, enter -0- on line 15c. Otherwise, skip Part II-B and enter the smaller of line 17 or line 20 on line 27.
- Yes. If line 20 is equal to or more than line 17, skip Part II-B and enter the amount from line 17 on line 27. Otherwise, go to line 21.

### Part II-B Certain Filers Who Have Three or More Qualifying Children

21. Withheld social security, Medicare, and Additional Medicare taxes from Form(s) W-2, boxes 4 and 6. If married filing jointly, include your spouse's amounts with yours. If your employer withheld or you paid Additional Medicare Tax or tier 1 RRTA taxes, see instructions.

22. Enter the total of the amounts from Schedule 1 (Form 1040), line 15; Schedule 2 (Form 1040), line 5; Schedule 2 (Form 1040), line 6; and Schedule 2 (Form 1040), line 13.

23. Add lines 21 and 22.

24. 1040 and 1040-SR filers: Enter the total of the amounts from Form 1040 or 1040-SR, line 27a, and Schedule 3 (Form 1040), line 11.

1040-NR filers: Enter the amount from Schedule 3 (Form 1040), line 11.

25. Subtract line 24 from line 23. If zero or less, enter -0-.

26. Enter the larger of line 20 or line 25.

Next, enter the smaller of line 17 or line 26 on line 27.

### Part II-C Additional Child Tax Credit

27. Enter this amount on line 15c.
**Part III** Additional Tax (use only if line 14g or line 15f, whichever applies, is zero)

<table>
<thead>
<tr>
<th>Line</th>
<th>Description</th>
<th>Formula/Step</th>
</tr>
</thead>
<tbody>
<tr>
<td>28a</td>
<td>Enter the amount from line 14f or line 15e, whichever applies</td>
<td></td>
</tr>
<tr>
<td>28b</td>
<td>Enter the amount from line 14e or line 15d, whichever applies</td>
<td></td>
</tr>
<tr>
<td>29</td>
<td>Excess advance child tax credit payments. Subtract line 28b from line 28a. If zero, stop; you do not owe the additional tax</td>
<td></td>
</tr>
<tr>
<td>30</td>
<td>Enter the number of qualifying children taken into account in determining the annual advance amount you received for 2021. See your Letter 6419 for this number. If you are missing your Letter 6419, you are filing a joint return, or you received more than one Letter 6419, see the instructions before entering a number on this line. Caution: If the amount on this line doesn't match the number of qualifying children reported to you (and your spouse if filing jointly) on your Letter(s) 6419, the processing of your return will be delayed.</td>
<td></td>
</tr>
<tr>
<td>31</td>
<td>Enter the smaller of line 4a or line 30</td>
<td></td>
</tr>
<tr>
<td>32</td>
<td>Subtract line 31 from line 30. If zero, skip to line 40 and enter the amount from line 29; otherwise, continue to line 32</td>
<td></td>
</tr>
<tr>
<td>33</td>
<td>Enter the amount shown below for your filing status.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>+ Married filing jointly or Qualifying widow(er)—$60,000</td>
<td></td>
</tr>
<tr>
<td></td>
<td>+ Head of household—$50,000</td>
<td></td>
</tr>
<tr>
<td></td>
<td>+ All other filing statuses—$40,000</td>
<td></td>
</tr>
<tr>
<td>34</td>
<td>Subtract line 33 from line 3. If zero or less, enter -0-</td>
<td></td>
</tr>
<tr>
<td>35</td>
<td>Enter the amount from line 33</td>
<td></td>
</tr>
<tr>
<td>36</td>
<td>Divide line 34 by line 35. Enter the result as a decimal (rounded to at least three places). If the result is 1.000 or more, enter 1.000.</td>
<td></td>
</tr>
<tr>
<td>37</td>
<td>Multiply line 32 by $2,000</td>
<td></td>
</tr>
<tr>
<td>38</td>
<td>Multiply line 37 by line 36</td>
<td></td>
</tr>
<tr>
<td>39</td>
<td>Subtract line 38 from line 37</td>
<td></td>
</tr>
<tr>
<td>40</td>
<td>Subtract line 39 from line 29. If zero or less, enter -0-. This is your additional tax. If more than zero, enter this amount on Schedule 2 (Form 1040), line 19</td>
<td></td>
</tr>
</tbody>
</table>
Attachment 1. Computation of expenses, allocable to tax-free ministerial income, that are non-deductible.

<table>
<thead>
<tr>
<th>Description</th>
<th>Taxable</th>
<th>Tax-Free</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salary as a minister</td>
<td>$ 45,000</td>
<td>$ 45,000</td>
<td></td>
</tr>
<tr>
<td>Housing allowance:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Amount designated and paid by church ($1,400 x 12)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Actual expenses</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(Mortgage $1,125 x 12, Utilities/other $1,450, Real estate taxes $1,750)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fair rental value of home (including furnishings and utilities) ($1,380 x 12)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Taxable portion of allowance</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(excess of amount designated &amp; paid over lesser of actual expenses or fair rental value)</td>
<td>$ 240</td>
<td>240</td>
<td>240</td>
</tr>
<tr>
<td>Tax-free portion of allowance (lesser of amount designated, actual expenses, or fair rental value)</td>
<td></td>
<td>16,560</td>
<td>16,560</td>
</tr>
<tr>
<td>Gross income from weddings, baptisms, and honoraria</td>
<td>4,000</td>
<td></td>
<td>4,000</td>
</tr>
<tr>
<td>Ministerial Income</td>
<td>$ 49,240</td>
<td>$ 16,560</td>
<td>$ 65,800</td>
</tr>
<tr>
<td>% of non-deductible expenses: $16,560/$65,800 = 25%</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Schedule C Deduction Computation**

- Marriage and family booklets                                            $ 87
- Minus: Non-deductible part of marriage and family booklets (25% x $87)    $(22)
- Total marriage and family booklets (Line 27a)                            $ 65

Business use of car:

- 448 miles x 56¢                                                        $ 251
- Minus: Non-deductible part of business use of car (25% x $251)          $(63)
- Total business use of car (Line 9)                                      $ 188

**Schedule C deductions (Line 28)**                                       $ 253

Attachment 2. Attachment to Schedule SE (Form 1040)

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Church wages</td>
<td>$ 45,000</td>
</tr>
<tr>
<td>Housing allowance</td>
<td>16,800</td>
</tr>
<tr>
<td>Net profit from Schedule C</td>
<td>3,747</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>65,547</td>
</tr>
</tbody>
</table>

**Less:**

- **Schedule C expenses allocable to tax-free income**                     $ 85
- Ministerial employee unreimbursed business expenses:                     |
- Car expenses for church business:                                        |
- 2,530 miles x 56¢                                                       1,417
- Publications and booklets                                                219
- Net self-employment income                                               |

**Schedule SE, line 2**                                                     $ 63,826
EXAMPLE TWO: RETIRED MINISTER

Rev. William K. Green is a retired minister. He is 69 years old. He is married to Sarah J. Green. She is 65 years old and is also retired. For 2021, Rev. Green received $15,000 in annuity income, all of which was designated in advance by GuideStone as a housing allowance. Rev. Green had housing expenses of $13,000. The home’s fair rental value is $1,200 per month (furnished, plus utilities). Housing allowances for retired ministers are not taxable in computing federal income tax to the extent that they do not exceed the lesser of actual housing expenses or the annual fair rental value of the home (furnished, plus utilities). Retirement benefits, whether or not designated in advance as a housing allowance, are not subject to SECA.

Rev. Green received $12,000 of Social Security benefits in 2021, and his wife received $6,000. None of this income is taxable, however, because the Greens’ income is not enough to expose their Social Security benefits to tax.

In 2021, Rev. Green received $2,000 from occasional guest preaching engagements. He incurred $511 in expenses as a result of these activities ($436 of travel expenses and $75 of meal expenses). Note that Rev. Green will pay SECA on this income (see Schedule SE), since it represents compensation from active ministry. Rev. Green made cash contributions of $3,500 to qualifying 501(c)(3) public charities during 2021. Rev. Green and his wife received coronavirus economic impact payments (stimulus checks) in the amount of $2,800 in 2021, and therefore they do not qualify for a recovery rebate credit.

The parts of Rev. and Mrs. Green’s income tax return are explained in the order they are completed. They are illustrated in the order that Rev. Green will assemble the return to send it to the IRS.

Form 1099-R from GuideStone

GuideStone completed Form 1099-R for Rev. Green as follows:

Box 1. The $15,000 pension income Rev. Green receives from GuideStone.

Box 2b. Taxable amount not determined. GuideStone designated in advance 100% of pension income as a housing allowance. It is not taxable to the extent that it does not exceed the lesser of actual housing expenses or the annual fair rental value of the home (furnished, plus utilities).

Box 7. Rev. Green’s pension income is a normal distribution.

Schedule C (Form 1040)

Note: For 2019 and later tax years, the IRS announced that it will not be issuing the Schedule C-EZ. Therefore, Schedule C will be used.

Some of Rev. Green’s entries on Schedule C are explained here.

Line 1. Rev. Green reports the $2,000 from occasional guest preaching engagements.

Lines 2–7. Rev. Green fills out these lines to report his gross income reported on line 7. Rev. Green did not have any returns or allowances, cost of goods sold, or other income for the year. Therefore, the amount reported on line 7 is $2,000.

Line 9. Rev. Green reports his car expenses on this line. Rev. Green incurred 779 miles of business use of his car in connection with guest preaching. Rev. Green used the standard mileage rate to figure his car expense. He multiplied the standard mileage rate of 56 cents by 779 miles for a total of $436. However, he cannot deduct the part of his expenses allocable to his tax-free housing allowance. He attaches a statement, Attachment 1 (shown later), to his return showing that 76% (or $331) of his expenses are not deductible because they are allocable to that tax-free allowance. He subtracts the $331 from the $436 and enters the $105 difference on line 9.

Line 24b. Rev. Green also incurred $75 in business meal expenses in connection with meals purchased at restaurants while traveling to guest preaching engagements. Since the meals were purchased at a restaurant, Rev. Green is allowed to deduct 100% of his business-related meal expenses in 2021. However, he cannot deduct the part of his expenses allocable to his tax-free housing allowance. He attaches a statement, Attachment 1 (shown later), to his return showing that 76% (or $57) of his business meal expenses are not deductible because they are allocable to that tax-free allowance. He subtracts the $57 from the $75 and enters the $18 difference on line 24b.

Line 28. Rev. Green enters his total expenses, less the 76% allocable to his tax-free housing allowance ($105 + $18) on line 28.

Lines 29–31. He enters his tentative profit of $1,877 on lines 29 and 31 (since Rev. Green did not have any expenses for the business use of his home). The net income from Schedule C is also reported on Schedule 1 (Form 1040), line 3.

Lines 43–47b. Rev. Green fills out these lines to report information about his car.

TurboTax Tips: Listed below are tips for ministers who use TurboTax to complete their returns. These tips should not be construed as an endorsement or recommendation of the TurboTax software.

TurboTax does not appear to calculate the non-deductible portion of the expenses which should be allocated to the
tax-free portion of the housing allowance. The taxpayer will need to adjust the expenses (as shown in Attachment 1) and input the reduced figure into the software.

**Schedule SE (Form 1040)**

After Rev. Green prepares Schedule C, he fills out Schedule SE (Form 1040). Ministers are not church employees under this definition. Additionally, Rev. Green did not apply for an exemption from SECA by filing Form 4361 and therefore leaves the first box on Schedule SE unchecked. He fills out the following lines in Part I.

**Line 2.** Rev. Green attaches a statement, Attachment 2 (shown later), which calculates his net profit of $1,489, and he enters that amount here.

**Lines 4a–6.** He multiplies the $1,489 by 0.9235 to get his net earnings from self-employment ($1,375). This amount is then carried through to line 6.

**Line 10.** The amount on line 6 is less than $142,800, so Rev. Green multiplies the amount on line 6 ($1,375) by 0.124 to get his self-employment Social Security tax of $171.

**Line 11.** He multiplies the amount on line 6 by 0.029 to calculate the Medicare portion of SECA to be $40.

**Line 12.** He adds the Social Security tax from line 10 and the Medicare tax on line 11 to determine his total SECA of $211. Rev. Green enters that amount here and on Schedule 2 (Form 1040), line 4.

**Line 13.** Rev. Green multiplies the amount on line 12 by 0.50 to get his deduction for the employer-equivalent portion of self-employment tax of $106. He enters that amount here and on Schedule 1 (Form 1040), line 15.

**TurboTax Tip:** The software does not appear to reduce self-employment wages by the business expenses allocated to tax-free income. The taxpayer will need to adjust net self-employment income (as shown in Attachment 2) and input the reduced figure into the software. This can be done by going into the “Business Taxes” section and selecting “Self-Employment Tax.” Choose “Make Adjustments.” If the option does not populate for “Ministerial Business Expenses,” the expenses that were disallowed on Schedule C (since they were allocated to the housing allowance) can be entered as “Other SE NonFarm Profit (Loss)” ($388 in this example — see Attachment 1).

**Form 8895 QBI Deduction**

 Ministers who have net profit reported on Schedule C for ministerial services and who have 2021 taxable income of less than $164,900 ($329,800 if MFJ) before the application of a QBI deduction may be eligible for such a deduction.

However, since the Greens’ taxable income before the application of a QBI deduction is $0 (see the completion of Form 1040 section below), the Greens are not eligible for such a deduction in 2021.

**Form 1040, Schedule 1 (Form 1040), and Schedule 2 (Form 1040)**

After Rev. Green prepares Schedule C and Schedule SE, he fills out Form 1040, along with Schedules 1–3 to the extent required. Rev. Green files a joint return with his wife. First, he fills out Form 1040, page 1 and completes the appropriate lines for his filing status, including checking the appropriate boxes indicating that he and his wife were born before January 2, 1957. Then, he fills out the rest of the form as follows:

**Form 1040, line 5a.** Rev. Green reports his total annuity income of $15,000 on line 5a. He reports the taxable amount ($2,000) as computed on Attachment 1 (shown later) on line 5b.

**Form 1040, lines 6a and 6b.** Since none of Rev. Green’s Social Security benefits are taxable, he does not report any amount on line 6b.

**Schedule 1 (Form 1040), line 10.** He reports his net profit of $1,877 from Schedule C, line 1 on Schedule 1, line 3. Since no other amounts are reported on Schedule 1 (Form 1040), lines 1–8, he also reports this amount on line 10 and carries the figure to the blank space on Form 1040, line 8.

**Form 1040, line 9.** Rev. Green adds Form 1040, line 5b and the amount reported on the Form 1040, line 8 and enters the total ($3,877) on line 9.

**Form 1040, lines 10 and 11.** Because Rev. Green has reported a deductible SECA of $106 on Schedule 1 (Form 1040) line 15, Rev. Green goes to Schedule 1 (Form 1040) and completes the bottom section of the form. Since there are no other amounts listed on lines 11–25, Rev. Green reports $106 on line 26 and carries this amount to line 10 of Form 1040. Rev. Green then subtracts line 10 from line 9 and enters his AGI of $3,771 on line 11.

**Form 1040, lines 12a–12c.** Rev. Green enters his standard deduction of $27,800 (which takes into consideration the fact he and his wife were born before January 2, 1956) on line 12a. Additionally, in 2021, a maximum $600 charitable contribution deduction is allowed on Form 1040, line 12b for qualifying charitable contributions made by taxpayers filing MFJ. Since Rev. Green and his wife made cash contributions of $3,500 to qualifying 501(c)(3) public charities, he enters the maximum contribution deduction of $600 on line 12b.

**Form 1040, line 14.** Since there is no amount listed for QBI deduction on line 13, Rev Green reports $28,400 on line 14.
Form 1040, line 15. Rev. Green has no taxable income.

Form 1040, Page 2, line 23 and Schedule 2 (Form 1040). Rev. Green completes Schedule 2 (Form 1040). Since the only amount reported on Schedule 2 (Form 1040) is his SECA from Schedule SE, he reports the amount ($211) on Schedule 2 (Form 1040), line 21, and on Form 1040, line 23.

Form 1040, line 25b. Rev. Green did not have any income tax withheld from his pension.

Form 1040, line 27a. Special provisions allow certain taxpayers that do not have a qualifying child and that are older than age 65 to claim the EIC for 2021. Rev. Green completes the EIC Worksheet in the Form 1040 instructions, including EIC Worksheet B since he had self-employment income as a member of the clergy and calculates the EIC to be $210. He enters $210 on line 27a.

Form 1040, line 32 and 33. Rev. Green enters $210 on line 32 and 33 since he did not have any additional amounts on lines 25d–31.

Form 1040, line 37. Amount Rev. Green owes to the IRS.

TurboTax Tip: When entering information on Form 1099–R, the software does not appear to provide a method for entering the taxable portion of the distributions as computed at Attachment 1 since certain of the distributions were excludable as a ministerial housing allowance. The taxpayer can manually enter the taxable amount by choosing the "General Rule" and entering the amount determined at Attachment 1 in the field.
**GuideStone Financial Resources**  
5005 LBJ Freeway Ste 2200  
Dallas, Texas 75244-6152  
1-888-984-8433

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross distribution</td>
<td>$15000.00</td>
<td></td>
</tr>
<tr>
<td>2a Taxable amount</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2b Taxable amount not determined</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>3 Capital gain (included in box 2a)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4 Federal income tax withheld</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5 Employee contributions/Designated Roth contributions or insurance premiums</td>
<td></td>
<td></td>
</tr>
<tr>
<td>6 Net unrealized appreciation in employer's securities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>7 Distribution code(s)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>7a Your percentage of total distribution</td>
<td>%</td>
<td></td>
</tr>
<tr>
<td>7b Total employee contributions</td>
<td>$</td>
<td></td>
</tr>
<tr>
<td>8 Other</td>
<td></td>
<td></td>
</tr>
<tr>
<td>9a Your percentage of total distribution</td>
<td>%</td>
<td></td>
</tr>
<tr>
<td>9b Total employee contributions</td>
<td>$</td>
<td></td>
</tr>
<tr>
<td>10 Amount allocable to IRR within 5 years</td>
<td>$</td>
<td></td>
</tr>
<tr>
<td>11 1st year of distrib. Roth contrib.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>12 FATCA filing requirement</td>
<td></td>
<td></td>
</tr>
<tr>
<td>13 Date of payment</td>
<td></td>
<td></td>
</tr>
<tr>
<td>14 State tax withheld</td>
<td>$</td>
<td></td>
</tr>
<tr>
<td>15 State/Payer's state no.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>16 State distribution</td>
<td>$</td>
<td></td>
</tr>
<tr>
<td>17 Local tax withheld</td>
<td>$</td>
<td></td>
</tr>
<tr>
<td>18 Name of locality</td>
<td></td>
<td></td>
</tr>
<tr>
<td>19 Local distribution</td>
<td>$</td>
<td></td>
</tr>
</tbody>
</table>

**Form 1099-R**  
www.irs.gov/Form1099R  
Department of the Treasury - Internal Revenue Service
**Form 1040**  
Department of the Treasury—Internal Revenue Service  
U.S. Individual Income Tax Return  
2021  
OMB No. 1545-0074  
IRS Use Only—Do not write or staple in this space.

**Filing Status**  
Check only one box.

- [ ] Single  
- [ ] Married filing jointly  
- [ ] Married filing separately (MFS)  
- [ ] Head of household (HOH)  
- [ ] Qualifying widow(er) (QW)

If you checked the MFS box, enter the name of your 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**  
William K.  
<table>
<thead>
<tr>
<th>Last name</th>
<th>Social security number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Green</td>
<td>202202002</td>
</tr>
</tbody>
</table>

**If joint return, spouse's first name and middle initial**  
Sarah J.  
<table>
<thead>
<tr>
<th>Last name</th>
<th>Spouse's social security number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Green</td>
<td>303303003</td>
</tr>
</tbody>
</table>

**Home address (number and street). If you have a P.O. box, see instructions.**  
787 Adams Street  
Apt. no.

**City, town, or post office. If you have a foreign address, also complete spaces below.**  
*Anytown*  
State: New York  
ZIP code: 10002

**Foreign country name**

**Foreign province/state/county**

**Foreign postal code**

**At any time during 2021, did you receive, sell, exchange, or otherwise dispose of any financial interest in any virtual currency?**

- [ ] Yes  
- [X] No

**Standard Deduction**

<table>
<thead>
<tr>
<th>Someone can claim:</th>
<th>[ ] Yes</th>
<th>[ ] No</th>
</tr>
</thead>
<tbody>
<tr>
<td>You as a dependent</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Your spouse as a dependent</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Age/Blindness**

- [X] You: Were born before January 2, 1957  
- [X] Spouse: Was born before January 2, 1957  
- [ ] Are blind  
- [ ] Is blind

**Dependents**

- [ ] If more than four dependents, see instructions and check here

<table>
<thead>
<tr>
<th>(1) First name</th>
<th>(2) Last name</th>
<th>(3) Social security number</th>
<th>(4) Relationship to you</th>
<th>(5) If qualifies for Child tax credit</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Attach Schedule B if required.**

**Standard Deduction or itemized deductions (see Schedule A)**

<table>
<thead>
<tr>
<th>(1)</th>
<th>(2)</th>
<th>(3)</th>
<th>(4)</th>
</tr>
</thead>
<tbody>
<tr>
<td>12a</td>
<td>27,800</td>
<td>12b</td>
<td>600</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>(1)</th>
<th>(2)</th>
<th>(3)</th>
<th>(4)</th>
</tr>
</thead>
<tbody>
<tr>
<td>12c</td>
<td>28,400</td>
<td>13c</td>
<td>0</td>
</tr>
<tr>
<td>14c</td>
<td>28,400</td>
<td>15c</td>
<td>0</td>
</tr>
</tbody>
</table>

**Att. Sch. B if required.**

**For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see separate instructions.**

Cat No. 112088  
Form 1040 (2021)
Form 1040 (2021)

<table>
<thead>
<tr>
<th>Line</th>
<th>Description</th>
<th>Amounts</th>
</tr>
</thead>
<tbody>
<tr>
<td>16</td>
<td>Tax (see instructions). Check if any form: 1 8814 2 4972 3</td>
<td></td>
</tr>
<tr>
<td>17</td>
<td>Amount from Schedule 2, line 3</td>
<td></td>
</tr>
<tr>
<td>18</td>
<td>Add lines 16 and 17</td>
<td></td>
</tr>
<tr>
<td>19</td>
<td>Nonrefundable child tax credit or credit for other dependents from Schedule</td>
<td></td>
</tr>
<tr>
<td>20</td>
<td>Amount from Schedule 3, line 8</td>
<td></td>
</tr>
<tr>
<td>21</td>
<td>Add lines 19 and 20</td>
<td></td>
</tr>
<tr>
<td>22</td>
<td>Subtract line 21 from line 18. If zero or less, enter -0-</td>
<td></td>
</tr>
<tr>
<td>23</td>
<td>Other taxes, including self-employment tax, from Schedule 2, line 21</td>
<td>2211</td>
</tr>
<tr>
<td>24</td>
<td>Add lines 22 and 23. This is your total tax</td>
<td></td>
</tr>
<tr>
<td>25</td>
<td>Federal income tax withheld from:</td>
<td></td>
</tr>
<tr>
<td></td>
<td>a. Form(s) W-2</td>
<td>25a</td>
</tr>
<tr>
<td></td>
<td>b. Form(s) 1099</td>
<td>25b</td>
</tr>
<tr>
<td></td>
<td>c. Other forms (see instructions)</td>
<td>25c</td>
</tr>
<tr>
<td></td>
<td>d. Add lines 25a through 25c</td>
<td>25d</td>
</tr>
<tr>
<td>26</td>
<td>2021 estimated tax payments and amount applied from 2020 return</td>
<td>26</td>
</tr>
<tr>
<td>27a</td>
<td>Earned income credit (EIC)</td>
<td>27a</td>
</tr>
<tr>
<td></td>
<td>Check here if you had not reached the age of 19 by December 31, 2021, and</td>
<td></td>
</tr>
<tr>
<td></td>
<td>satisfy all other requirements for claiming the EIC. (see instructions)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>b. Nontaxable combat pay election</td>
<td>27b</td>
</tr>
<tr>
<td></td>
<td>c. Prior year (2019) earned income</td>
<td>27c</td>
</tr>
<tr>
<td>28</td>
<td>Refundable child tax credit or additional child tax credit from Schedule 8812</td>
<td>28</td>
</tr>
<tr>
<td>29</td>
<td>American opportunity credit from Form 8863, line 8</td>
<td>29</td>
</tr>
<tr>
<td>30</td>
<td>Recovery rebate credit. See instructions</td>
<td>30</td>
</tr>
<tr>
<td>31</td>
<td>Amount from Schedule 3, line 15</td>
<td>31</td>
</tr>
<tr>
<td>32</td>
<td>Add lines 27a and 28 through 31. These are your total other payments and</td>
<td></td>
</tr>
<tr>
<td></td>
<td>refundable credits</td>
<td>32</td>
</tr>
<tr>
<td>33</td>
<td>Add lines 25d, 26, and 32. These are your total payments</td>
<td></td>
</tr>
<tr>
<td>34</td>
<td>Refund</td>
<td></td>
</tr>
<tr>
<td></td>
<td>If line 33 is more than line 24, subtract line 24 from line 33. This is the</td>
<td></td>
</tr>
<tr>
<td></td>
<td>amount you overpaid</td>
<td>34</td>
</tr>
<tr>
<td>35a</td>
<td>Amount of line 34 you want refunded to you. If Form 8888 is attached, check</td>
<td>35a</td>
</tr>
<tr>
<td></td>
<td>here</td>
<td></td>
</tr>
<tr>
<td>36</td>
<td>Amount of line 34 you want applied to your 2022 estimated tax</td>
<td>36</td>
</tr>
<tr>
<td>37</td>
<td>Amount you owe. Subtract line 33 from line 24. For details on how to pay,</td>
<td>37</td>
</tr>
<tr>
<td></td>
<td>see instructions</td>
<td>38</td>
</tr>
<tr>
<td>38</td>
<td>Estimated tax penalty (see instructions)</td>
<td>38</td>
</tr>
</tbody>
</table>

**Refund Direct Deposit**

See instructions.

**Amount You Owe**

Do you want to allow another person to discuss this return with the IRS? See instructions.

- **Yes:** Complete below.
- **No:**

**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:**
- **Date:** 3/15/22
- **Your occupation:**
- **Retired Minister**

- **Spouse’s signature:**
- **Date:** 3/15/22
- **Spouse’s occupation:**
- **Retired**

- **Phone no:**
- **Email address:**

**Paid Preparer Use Only**

- **Preparer’s name:**
- **Preparer’s signature:**
- **Date:**
- **PTIN:**
- **Check if:**
- **Self-employed:**

Go to www.irs.gov/Form1040 for instructions and the latest information.
### Part I Additional Income

<table>
<thead>
<tr>
<th></th>
<th>Description</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Taxable refunds, credits, or offsets of state and local income taxes</td>
<td></td>
</tr>
<tr>
<td>2a</td>
<td>Alimony received</td>
<td>2a</td>
</tr>
<tr>
<td></td>
<td>Date of original divorce or separation agreement (see instructions)</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Business income or (loss). Attach Schedule C</td>
<td>3</td>
</tr>
<tr>
<td>4</td>
<td>Other gains or (losses). Attach Form 4797</td>
<td>4</td>
</tr>
<tr>
<td>5</td>
<td>Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E</td>
<td>5</td>
</tr>
<tr>
<td>6</td>
<td>Farm income or (loss). Attach Schedule F</td>
<td>6</td>
</tr>
<tr>
<td>7</td>
<td>Unemployment compensation</td>
<td>7</td>
</tr>
<tr>
<td>8</td>
<td>Other income:</td>
<td></td>
</tr>
<tr>
<td></td>
<td>a Net operating loss</td>
<td>8a</td>
</tr>
<tr>
<td></td>
<td>b Gambling income</td>
<td>8b</td>
</tr>
<tr>
<td></td>
<td>c Cancellation of debt</td>
<td>8c</td>
</tr>
<tr>
<td></td>
<td>d Foreign earned income exclusion from Form 2555</td>
<td>8d</td>
</tr>
<tr>
<td></td>
<td>e Taxable Health Savings Account distribution</td>
<td>8e</td>
</tr>
<tr>
<td></td>
<td>f Alaska Permanent Fund dividends</td>
<td>8f</td>
</tr>
<tr>
<td></td>
<td>g Jury duty pay</td>
<td>8g</td>
</tr>
<tr>
<td></td>
<td>h Prizes and awards</td>
<td>8h</td>
</tr>
<tr>
<td></td>
<td>i Activity not engaged in for profit income</td>
<td>8i</td>
</tr>
<tr>
<td></td>
<td>j Stock options</td>
<td>8j</td>
</tr>
<tr>
<td></td>
<td>k Income from the rental of personal property if you engaged in the rental for profit but were not in the business of renting such property</td>
<td>8k</td>
</tr>
<tr>
<td></td>
<td>l Olympic and Paralympic medals and USOC prize money (see instructions)</td>
<td>8l</td>
</tr>
<tr>
<td></td>
<td>m Section 951(a) inclusion (see instructions)</td>
<td>8m</td>
</tr>
<tr>
<td></td>
<td>n Section 951A(a) inclusion (see instructions)</td>
<td>8n</td>
</tr>
<tr>
<td></td>
<td>o Section 461(l) excess business loss adjustment</td>
<td>8o</td>
</tr>
<tr>
<td></td>
<td>p Taxable distributions from an ABLE account (see instructions)</td>
<td>8p</td>
</tr>
<tr>
<td></td>
<td>z Other income. List type and amount</td>
<td>8z</td>
</tr>
<tr>
<td>9</td>
<td>Total other income. Add lines 8a through 8z</td>
<td>9</td>
</tr>
<tr>
<td>10</td>
<td>Combine lines 1 through 7 and 9. Enter here and on Form 1040, 1040-SR, or 1040-NR, line 8</td>
<td>10</td>
</tr>
</tbody>
</table>
## Part II Adjustments to Income

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>11</td>
<td>Educator expenses</td>
</tr>
<tr>
<td>12</td>
<td>Certain business expenses of reservists, performing artists, and fee-basis government officials. Attach Form 2106</td>
</tr>
<tr>
<td>13</td>
<td>Health savings account deduction. Attach Form 8889</td>
</tr>
<tr>
<td>14</td>
<td>Moving expenses for members of the Armed Forces. Attach Form 3903</td>
</tr>
<tr>
<td>15</td>
<td>Deductible part of self-employment tax. Attach Schedule SE</td>
</tr>
<tr>
<td>16</td>
<td>Self-employed SEP, SIMPLE, and qualified plans</td>
</tr>
<tr>
<td>17</td>
<td>Self-employed health insurance deduction</td>
</tr>
<tr>
<td>18</td>
<td>Penalty on early withdrawal of savings</td>
</tr>
<tr>
<td>19a</td>
<td>Alimony paid</td>
</tr>
<tr>
<td></td>
<td>b Recipient’s SSN</td>
</tr>
<tr>
<td></td>
<td>c Date of original divorce or separation agreement (see instructions)</td>
</tr>
<tr>
<td>20</td>
<td>IRA deduction</td>
</tr>
<tr>
<td>21</td>
<td>Student loan interest deduction</td>
</tr>
<tr>
<td>22</td>
<td>Reserved for future use</td>
</tr>
<tr>
<td>23</td>
<td>Archer MSA deduction</td>
</tr>
<tr>
<td>24</td>
<td>Other adjustments:</td>
</tr>
<tr>
<td></td>
<td>a Jury duty pay (see instructions)</td>
</tr>
<tr>
<td></td>
<td>b Deductible expenses related to income reported on line 8k from the rental of personal property engaged in for profit</td>
</tr>
<tr>
<td></td>
<td>c Nontaxable amount of the value of Olympic and Paralympic medals and USOC prize money reported on line 8l</td>
</tr>
<tr>
<td></td>
<td>d Reforestation amortization and expenses</td>
</tr>
<tr>
<td></td>
<td>e Repayment of supplemental unemployment benefits under the Trade Act of 1974</td>
</tr>
<tr>
<td></td>
<td>f Contributions to section 501(c)(18)(D) pension plans</td>
</tr>
<tr>
<td></td>
<td>g Contributions by certain chaplains to section 403(b) plans</td>
</tr>
<tr>
<td></td>
<td>h Attorney fees and court costs for actions involving certain unlawful discrimination claims (see instructions)</td>
</tr>
<tr>
<td></td>
<td>i Attorney fees and court costs you paid in connection with an award from the IRS for information you provided that helped the IRS detect tax law violations</td>
</tr>
<tr>
<td></td>
<td>j Housing deduction from Form 2555</td>
</tr>
<tr>
<td></td>
<td>k Excess deductions of section 67(e) expenses from Schedule K-1 (Form 1041)</td>
</tr>
<tr>
<td></td>
<td>z Other adjustments. List type and amount</td>
</tr>
<tr>
<td>25</td>
<td>Total other adjustments. Add lines 24a through 24z</td>
</tr>
<tr>
<td>26</td>
<td>Add lines 11 through 23 and 25. These are your adjustments to income. Enter here and on Form 1040 or 1040-SR, line 10, or Form 1040-NR, line 10a</td>
</tr>
</tbody>
</table>
**SCHEDULE 2**  
(Form 1040)  

**Additional Taxes**  

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

<table>
<thead>
<tr>
<th><strong>Part I</strong></th>
<th>Tax</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Alternative minimum tax. Attach Form 6251</td>
</tr>
<tr>
<td>2</td>
<td>Excess advance premium tax credit repayment. Attach Form 8962</td>
</tr>
<tr>
<td>3</td>
<td>Add lines 1 and 2. Enter here and on Form 1040, 1040-SR, or 1040-NR, line 17</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Part II</strong></th>
<th>Other Taxes</th>
</tr>
</thead>
<tbody>
<tr>
<td>4</td>
<td>Self-employment tax. Attach Schedule SE</td>
</tr>
<tr>
<td>5</td>
<td>Social security and Medicare tax on unreported tip income. Attach Form 4137</td>
</tr>
<tr>
<td>6</td>
<td>Uncollected social security and Medicare tax on wages. Attach Form 8919</td>
</tr>
<tr>
<td>7</td>
<td>Total additional social security and Medicare tax. Add lines 5 and 6</td>
</tr>
<tr>
<td>8</td>
<td>Additional tax on IRAs or other tax-favored accounts. Attach Form 5329 if required</td>
</tr>
<tr>
<td>9</td>
<td>Household employment taxes. Attach Schedule H</td>
</tr>
<tr>
<td>10</td>
<td>Repayment of first-time homebuyer credit. Attach Form 5405 if required</td>
</tr>
<tr>
<td>11</td>
<td>Additional Medicare Tax. Attach Form 8959</td>
</tr>
<tr>
<td>12</td>
<td>Net investment income tax. Attach Form 8960</td>
</tr>
<tr>
<td>13</td>
<td>Uncollected social security and Medicare or RRTA tax on tips or group-term life insurance from Form W-2, box 12</td>
</tr>
<tr>
<td>14</td>
<td>Interest on tax due on installment income from the sale of certain residential lots and timeshares</td>
</tr>
<tr>
<td>15</td>
<td>Interest on the deferred tax on gain from certain installment sales with a sales price over $150,000</td>
</tr>
<tr>
<td>16</td>
<td>Recapture of low-income housing credit. Attach Form 8611</td>
</tr>
</tbody>
</table>

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

Cat. No. 71478U  
Schedule 2 (Form 1040) 2021

(continued on page 2)
### Part II Other Taxes (continued)

<table>
<thead>
<tr>
<th></th>
<th>Other additional taxes:</th>
</tr>
</thead>
<tbody>
<tr>
<td>17</td>
<td>Recapture of other credits. List type, form number, and amount ▶ 17a</td>
</tr>
<tr>
<td></td>
<td>Recapture of federal mortgage subsidy. If you sold your home in 2021, see instructions ▶ 17b</td>
</tr>
<tr>
<td></td>
<td>Additional tax on HSA distributions. Attach Form 8889 ▶ 17c</td>
</tr>
<tr>
<td></td>
<td>Additional tax on an HSA because you didn’t remain an eligible individual. Attach Form 8889 ▶ 17d</td>
</tr>
<tr>
<td></td>
<td>Additional tax on Archer MSA distributions. Attach Form 8889 ▶ 17e</td>
</tr>
<tr>
<td></td>
<td>Additional tax on Medicare Advantage MSA distributions. Attach Form 8853 ▶ 17f</td>
</tr>
<tr>
<td></td>
<td>Recapture of a charitable contribution deduction related to a fractional interest in tangible personal property ▶ 17g</td>
</tr>
<tr>
<td></td>
<td>Income you received from a nonqualified deferred compensation plan that fails to meet the requirements of section 409A ▶ 17h</td>
</tr>
<tr>
<td></td>
<td>Compensation you received from a nonqualified deferred compensation plan described in section 457A ▶ 17i</td>
</tr>
<tr>
<td></td>
<td>Section 72(m)(5) excess benefits tax ▶ 17j</td>
</tr>
<tr>
<td></td>
<td>Golden parachute payments ▶ 17k</td>
</tr>
<tr>
<td></td>
<td>Tax on accumulation distribution of trusts ▶ 17l</td>
</tr>
<tr>
<td></td>
<td>Excise tax on insider stock compensation from an expatriated corporation ▶ 17m</td>
</tr>
<tr>
<td></td>
<td>Look-back interest under section 167(g) or 460(b) from Form 8697 or 8866 ▶ 17n</td>
</tr>
<tr>
<td></td>
<td>Tax on non-effectively connected income for any part of the year you were a nonresident alien from Form 1040-NR ▶ 17o</td>
</tr>
<tr>
<td></td>
<td>Any interest from Form 8821, line 16f, relating to distributions from, and dispositions of, stock of a section 1291 fund ▶ 17p</td>
</tr>
<tr>
<td></td>
<td>Any interest from Form 8821, line 24 ▶ 17q</td>
</tr>
<tr>
<td></td>
<td>Any other taxes. List type and amount ▶ 17z</td>
</tr>
</tbody>
</table>

|   | Total additional taxes. Add lines 17a through 17z ▶ 18 |
|   | Additional tax from Schedule 8812 ▶ 19 |
| 20 | Section 965 net tax liability installment from Form 965-A ▶ 20 |
| 21 | Add lines 4, 7 through 16, 18, and 19. These are your total other taxes. Enter here and on Form 1040 or 1040-SR, line 23, or Form 1040-NR, line 23b ▶ 21 |

---

Schedule 2 (Form 1040) 2021
**SCHEDULE C**

**Profit or Loss From Business**

(Sole Proprietorship)


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

**Name of proprietor**

William K. Green  
204-20-0020

**Business address (including suite or room no.)** 787 Adams Street  
City, town or post office, state, and ZIP code Anytown, New York 10002

**Employer-ID number (EIN) (use only if you are a business that is required to file form 941)**

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

**Did you “materially participate” in the operation of this business during 2021?**  
If “No,” see instructions for limit on losses.

**Did you make any payments in 2021 that would require you to file Form(s) 1099?**

**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.

2. Returns and allowances

3. Subtract line 2 from line 1

4. Cost of goods sold (from line 42)

5. Gross profit. Subtract line 4 from line 3

6. Other income, including federal and state gasoline or fuel tax credit or refund (see instructions)

7. Gross income. Add lines 5 and 6

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

8. Advertising

9. Car and truck expenses (see instructions)

10. Commissions and fees

11. Contract labor (see instructions)

12. Depletion

13. Depreciation and section 179 expense deduction (not included in Part III)(see instructions)

14. Employee benefit programs (other than on line 19)

15. Insurance (other than health)

16. Interest (see instructions):

   a. Mortgage (paid to banks, etc.)

   b. Other

17. Legal and professional services

18. Office expense (see instructions)

19. Pension and profit-sharing plans

20. Rent or lease (see instructions):

   a. Vehicles, machinery, and equipment

   b. Other business property

21. Repairs and maintenance

22. Supplies (not included in Part III)

23. Taxes and licenses

24. Travel and meals:

   a. Travel

   b. Deductible meals (see instructions)

25. Utilities

26. Wages (less employment credits)

27. Other expenses (from line 45)

28. Total expenses before expenses for business use of home. Add lines 8 through 27a

29. Tentative profit or (loss). Subtract line 28 from line 7

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: [number]  
   and (b) the part of your home used for business: [number]. Use the Simplified Method Worksheet in the instructions to figure the amount to enter on line 30


   **If a profit, enter on both Schedule 1 (Form 1040), line 3, 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.**

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), line 3, 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.**

---

* See statement attached.
### Part III  Cost of Goods Sold (see instructions)

33  Method(s) used to value closing inventory:  
   - [ ] Cost  
   - [ ] Lower of cost or market  
   - [ ] Other (attach explanation)  

34  Was there any change in determining quantities, costs, or valuations between opening and closing inventory?  
   If "Yes," attach explanation  
   - [ ] Yes  
   - [ ] No

35  Inventory at beginning of year. If different from last year's closing inventory, attach explanation  
   - 35

36  Purchases less cost of items withdrawn for personal use  
   - 36

37  Cost of labor. Do not include any amounts paid to yourself  
   - 37

38  Materials and supplies  
   - 38

39  Other costs  
   - 39

40  Add lines 35 through 39  
   - 40

41  Inventory at end of year  
   - 41

42  Cost of goods sold. Subtract line 41 from line 40. Enter the result here and on line 4  
   - 42

### Part IV  Information on Your Vehicle

Complete this part only if you are claiming car or truck expenses on line 9 and are not required to file Form 4562 for this business. See the instructions for line 13 to find out if you must file Form 4562.

43  When did you place your vehicle in service for business purposes? (month/day/year)  
   - 7 / 15 / 13

44  Of the total number of miles you drove your vehicle during 2021, enter the number of miles you used your vehicle for:

   - [a] Business  779  
   - [b] Commuting (see instructions)  0  
   - [c] Other  12,682

45  Was your vehicle available for personal use during off-duty hours?  
   - [ ] Yes  
   - [ ] No

46  Do you (or your spouse) have another vehicle available for personal use?  
   - [ ] Yes  
   - [ ] No

47a  Do you have evidence to support your deduction?  
   - [ ] Yes  
   - [ ] No

   - If "Yes," is the evidence written?  
   - [ ] Yes  
   - [ ] No

### Part V  Other Expenses

List below business expenses not included on lines 8–26 or line 30.

   - 
   - 
   - 
   - 
   - 
   - 
   - 
   - 
   - 
   - 
   - 

48  Total other expenses. Enter here and on line 27a  
   - 48

---

Schedule C (Form 1040) 2021
Self-Employment Tax

Part I  Self-Employment Tax

Note: If your only income subject to self-employment tax is church employee income, see instructions for how to report your income and 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

Skip lines 1a and 1b if you use the farm optional method in Part II. See instructions.

1a  Net farm profit or (loss) from Schedule F, line 34, and farm partnerships, Schedule K-1 (Form 1065), box 14, code A

1b  ( )

Skip line 2 if you use the nonfarm optional method in Part II. See instructions.

2  Net profit or (loss) from Schedule C, line 31; and Schedule K-1 (Form 1065), box 14, code A (other than farming). See instructions for other income to report or if you are a minister or member of a religious order

3  Combine lines 1a, 1b, and 2

4a  If line 3 is more than zero, multiply line 3 by 92.35% (0.9235). Otherwise, enter amount from line 3

4b  0

4c  1,375

5a  Enter your church employee income from Form W-2. See instructions for definition of church employee income

5b  0

6  Add lines 4c and 5b

6  1,375

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 2021

7  142,800

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 $142,800 or more, skip lines 8b through 10, and go to line 11

8b  0

8c  0

8d  0

9  Subtract line 8d from line 7. If zero or less, enter 0 here and on line 10 and go to line 11

9  142,800

10  Multiply the smaller of line 6 or line 9 by 12.4% (0.124)

10  171

11  Multiply line 6 by 2.9% (0.029)

11  40

12  Self-employment tax. Add lines 10 and 11. Enter here and on Schedule 2 (Form 1040), line 4

12  211

13  Deduction for one-half of self-employment tax.

13  106

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

Farming Optional Method. You may use this method only if (a) your gross farm income wasn’t more than $8,820, or (b) your net farm profits were less than $6,367.

14  Maximum income for optional methods

14  5880

15  Enter the smaller of two-thirds (2/3) of gross farm income (not less than zero) or $5,880. Also, include this amount on line 4b above

15

Nonfarming Optional Method. You may use this method only if (a) your net nonfarm profits were less than $6,367 and also less than 72.189% of your gross nonfarm income, 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 (not less than zero) or the amount on line 16. Also, include this amount on line 4b above

17

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

Cat. No. 11356EZ  Schedule SE (Form 1040) 2021

* See statement attached.
Attachment 1. Computation of expenses, allocable to tax-free ministerial income, that are non-deductible.

% of Non-deductible Expenses

<table>
<thead>
<tr>
<th>Housing allowance:</th>
<th>Taxable</th>
<th>Tax-Free</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ministerial retirement benefits designated as housing allowance</td>
<td>$ 15,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Actual expenses</td>
<td>$ 13,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fair rental value of home (including furnishings and utilities) ($1,200 x 1.2)</td>
<td>$ 14,400</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Taxable portion of allowance</td>
<td></td>
<td></td>
<td>$ 2,000</td>
</tr>
<tr>
<td>(excess of amount designated &amp; paid over lesser of actual expenses or fair rental value)</td>
<td>$ 2,000</td>
<td>$ 2,000</td>
<td></td>
</tr>
<tr>
<td>Tax-free portion of allowance (lesser of amount designated, actual expenses, or fair rental value)</td>
<td></td>
<td>13,000</td>
<td>13,000</td>
</tr>
<tr>
<td>Gross income from occasional guest preaching engagements</td>
<td>2,000</td>
<td></td>
<td>2,000</td>
</tr>
<tr>
<td>Ministerial Income</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>% of non-deductible expenses; $13,000/$17,000 = 76%</td>
<td>$ 4,000</td>
<td>$ 13,000</td>
<td>$ 17,000</td>
</tr>
</tbody>
</table>

Schedule C Deduction Computation

Business use of car:
- 779 miles x 56¢
- $ 436
- Minus: Non-deductible part of business use of car (76% x $436)
- $ (331)
- Total business use of car (Line 9)
- $ 105
- Meal expenses
- $ 75
- Minus: Non-deductible part of meals & entertainment (76% x $75)
- $ (57)
- Total meal expenses (Line 24b)
- $ 18
- Schedule C deductions, Line 28
- $ 123

None of the other deductions claimed in the return are allocable to tax-free income.

Attachment 2. Computation of net earnings from self-employment

Computation for Schedule SE (Form 1040)

| Gross income from Schedule C                                                      | $ 2,000 |
| Less:                                                                            |         |
| Unadjusted Schedule C business use of car expenses                               | (436)   |
| Unadjusted Schedule C meal expenses                                              | (75)    |
| Net self-employment Income                                                       | (511)   |
| Schedule SE, line 2                                                              |         |
| $ 1,489                                                                         |         |
2022
FEDERAL REPORTING REQUIREMENTS
for Churches

Richard R. Hammar, J.D., LL.M., CPA
Senior Editor, Church Law & Tax

GuideStone®

This publication is intended to provide a timely, accurate, and authoritative discussion of tax reporting compliance and the impact of recent changes in the tax laws. It is not intended as a substitute for legal, accounting, or other professional advice. If legal, tax, or other expert assistance is required, the services of a competent professional should be sought. Although we believe this book provides accurate information, there may be changes resulting from IRS or judicial interpretations of the tax code, new tax regulations, or technical corrections that occurred after the printing of this edition that are not reflected in the text.

Master Plan Tax Services of Flower Mound, Texas, reviewed the material in the Federal Reporting Requirements. For additional information, visit MasterPlanTaxes.com.
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## HELPFUL NUMBERS AND RESOURCES

Find IRS forms, instructions, and publications at IRS.gov or call 1-800-TAX-FORM.
INTRODUCTION

The most important federal reporting obligation for most churches is the withholding and reporting of employee income taxes and Social Security taxes. These payroll reporting requirements apply, in whole or in part, to almost every church. Yet many churches do not fully comply with them for various reasons, including the following:

- The church treasurer is elected by the congregation and does not remain in office long enough to understand the application of the payroll tax reporting rules to churches.
- Church leaders assume that churches are exempt from the payroll tax reporting requirements. This is a false assumption. The courts have rejected the argument that the application of the payroll tax reporting rules to churches violates the constitutional guaranty of religious freedom.
- There are a number of special payroll tax reporting rules that apply to churches, and these often are not clearly understood by church staff members. These special rules include the following:
  - While most ministers are employees for federal income tax reporting, they are self-employed for Social Security with respect to compensation they receive for ministerial services. This means that they pay the “self-employment tax” (SECA) rather than the employee’s share of Social Security and Medicare taxes (FICA) — even if they report their federal income taxes as a church employee. It is a common mistake for churches to treat ministers as employees for Social Security and to withhold the employee’s share of FICA from their wages.
  - Wages paid to a minister as compensation for ministerial services are exempt from mandatory income tax withholding whether the minister reports income taxes as an employee or as self-employed. Ministers use the estimated tax procedure to pay their federal taxes, unless they have entered into a voluntary withholding agreement with their employing church (explained below).
  - Some churches are exempt from the employer’s share of FICA because they filed a timely exemption application. For most churches, this exemption had to be filed before October 31, 1984. The exemption does not excuse the church from income tax withholding, filing Form 941, or issuing Forms W-2 to church employees. The non-minister employees of a church that filed this exemption application are treated as self-employed for Social Security and must pay SECA if they are paid $108.28 or more during the year.

WARNING: Federal law specifies that any corporate officer, director, or employee who is responsible for withholding taxes and paying them over to the government may be liable for a penalty in the amount of 100% of such taxes if they are either not withheld or not paid over to the government. This penalty is of special relevance to church leaders, given the significant rate of non-compliance by churches with the payroll reporting procedures.

MAXIMIZING TAX BENEFITS FOR YOUR MINISTER

Housing Allowance (and Parsonage Allowance)

KEY POINT: The housing allowance was challenged in federal court as an unconstitutional preference for religion. In 2019, a federal appeals court rejected this argument and affirmed the constitutionality of the allowance.

The most important tax benefit available to ministers who own or rent their homes is the housing allowance exclusion. Unfortunately, many churches fail to designate a portion of their minister’s compensation as a housing allowance and thereby deprive the minister of an important tax benefit.

A housing allowance is simply a portion of a minister’s compensation that is so designated in advance by the minister’s employing church. For example, in December 2021, a church agrees to pay its pastor “total compensation” of $45,000 for 2022, and designates $15,000 of this amount as a housing allowance (the remaining $30,000 is salary). This costs the church nothing. It is simply a matter of designating part of a minister’s salary as a housing allowance.

The tax code specifies that the housing allowance of a minister who owns or rents a home is not taxable in computing federal income taxes to the extent that it is (1) declared in advance, (2) used for housing expenses, and (3) does not exceed the fair rental value of the minister’s home (furnished, plus utilities).

KEY POINT: A church cannot designate a housing allowance retroactively.

KEY POINT: Although repayments of principal and interest on a home mortgage loan qualify as a housing expense to which a housing allowance can be applied, costs associated with refinancing a principal residence or a home equity loan qualify only if the proceeds are used for housing expenses.

Ministers who live in a church-owned parsonage that is provided rent-free as compensation for ministerial services do not include the annual fair rental value of the parsonage as
income in computing their federal income taxes. The annual fair rental value is not deducted from the minister's income. Rather, it is not reported as additional income on Form 1040 (as it generally would be for non-clergy workers). Ministers who live in a church-provided parsonage do not pay federal income taxes on the amount of their compensation that their employing church designates in advance as a parsonage allowance, to the extent that the allowance represents compensation for ministerial services and is used to pay parsonage-related expenses such as utilities, repairs, and furnishings. 

Note that the housing allowance and fair rental value of a parsonage are nontaxable only when computing federal income taxes. Ministers must include their housing allowance and rental value of a parsonage as taxable income when computing their SECA (except for retired ministers). In addition, any housing provided to a minister that is excludible from taxable income pursuant to IRC §119 (relating to housing provided on an employer's premises *for the convenience of the employer*) also must be included in a minister's taxable income when computing self-employment income.

**KEY POINT: Be sure the designation of a housing allowance for the following year is on the agenda of the church or church board for its last meeting of the current year. The designation should be an official action, and it should be duly recorded in the minutes of the meeting. The IRS also recognizes designations in employment contracts and budget line items — assuming that the church duly adopted the designation, and it is reflected in a written document.**

**Accountable Reimbursements**

The elimination of an itemized deduction for most expenses, including unreimbursed employee business expenses, will hit some clergy hard. Many tax professionals are encouraging the use of accountable reimbursement plans as a means of easing the negative tax impact. The basis for this idea is the fact that while the Tax Cuts and Jobs Act of 2017 eliminated "all miscellaneous itemized deductions that are subject to the 2 percent floor" (including unreimbursed employee business expenses and nonaccountable reimbursed expenses), it did not modify or repeal section 62(a)(2)(A) of the tax code which excludes from tax employer reimbursements of employee business expenses under an accountable plan.

To be accountable, a church’s reimbursement arrangement must comply with all four of the following rules:

1. Expenses must have a business connection — that is, the reimbursed expenses must represent expenses incurred by an employee while performing services for the employer.

2. Employees are reimbursed only for expenses for which they provide an adequate accounting within a reasonable period of time (not more than 60 days after an expense is incurred).

3. Employees must return any excess reimbursement or allowance within a reasonable period of time (not more than 120 days after an excess reimbursement is paid).

4. The income tax regulations caution that in order for an employer’s reimbursement arrangement to be accountable, it must meet a reimbursement requirement in addition to the three requirements summarized above. The reimbursement requirement means that an employer’s reimbursements of an employee’s business expenses come out of the employer’s funds and not by reducing the employee’s salary.

**KEY POINT:** Reimbursements of business expenses under an accountable arrangement are not reported as taxable income on an employee’s Form W-2 or Form 1040, and there are no deductions to claim. In effect, the employee is reporting to the church rather than to the IRS. This often translates into significant tax savings for the employee.

An accountable reimbursement arrangement should be established by the church board or congregation in an appropriate resolution. Be sure to condition the reimbursement of any expense on adequate substantiation. This will include written evidence for all expenses and receipts for most expenses of $75 or more and for all lodging expenses, no matter the amount. For most expenses, the evidence must substantiate the amount, date, place, and business nature of each expense. The key point is this: A church must require the same degree of substantiation as would be required for a deduction on the minister’s income tax return.

Churches occasionally reimburse ministers for non-business expenses. Such reimbursements, though they require an accounting, ordinarily must be included in the minister’s wages for income tax reporting purposes, and they are not deductible by the minister. Instead, the entire amount of these reimbursements must be reported as taxable income on the minister’s Form W-2 and Form 1040. For example, reimbursing the travel costs associated with the minister’s spouse to travel with the minister is a non-business expense, even if the church requires the spouse to accompany the minister for accountability purposes. The reimbursement of the travel expenses would be taxable to the minister.

**Flexible Spending Accounts**

A health Flexible Spending Account (FSA) allows employees to be reimbursed for medical expenses. FSAs are usually funded through voluntary salary reduction agreements with one’s employer. No payroll taxes are deducted from employee contributions. The employer also may contribute.
FSAs have several benefits, including the following: (1) Employer contributions can be nontaxable; (2) No payroll taxes are deducted from employee contributions; (3) Withdrawals may be tax-free if used to pay qualified medical expenses; and (4) Employees can withdraw funds from an FSA to pay qualified medical expenses even if they have not placed the funds in the account.

Generally, distributions from a health FSA must be paid to reimburse the employee for qualified medical expenses. Qualified medical expenses are those incurred by an employee or the employee’s spouse and certain dependents (including a child under age 27 at the end of the year).

Employees must be able to receive the total amount they have elected to contribute for the year at any time during the year, regardless of the amount they have actually contributed.

FSAs are “use-it-or-lose-it” plans. This means that amounts in the account at the end of the plan year cannot be carried over to the next year. However, the plan can provide for a grace period of up to two and a half months after the end of the plan year. If there is a grace period, any qualified medical expenses incurred in that period can be paid from any amounts left in the account at the end of the previous year. An employer is not permitted to refund any part of the balance to the employee.

KEY POINT: An employer, at its option, may amend its cafeteria plan document to provide for the carryover to the immediately following plan year and may roll over any remaining amount, if previously elected as an option by the employer.

The maximum amount available for reimbursement of incurred medical expenses of an employee and the employee’s dependents under a health FSA cannot exceed $2,750 for 2021 and $2,850 for 2022.

Note that the Affordable Care Act (ACA) prohibits employers from using an FSA to pay for, or reimburse, the cost of individually-owned health insurance policies with pre-tax dollars.

KEY POINT: Non-prescription medicines (other than insulin) do not qualify as an expense for FSA purposes.

Section 403(b) Retirement Plans

A 403(b) plan, also known as a tax-sheltered annuity or retirement income account, is a retirement plan for certain employees of churches and other tax-exempt organizations. These plans have the following tax benefits: (1) Employees do not pay income tax on allowable contributions until they begin making withdrawals from the plan, usually after they retire. Note, however, that lay employees must pay FICA on their contributions made under a salary reduction agreement to a 403(b) plan. (2) Earnings and gains on amounts in an employee’s 403(b) account are not taxed until they are withdrawn. (3) Employees may be eligible to claim the retirement savings contributions credit (Saver’s Credit) for elective deferrals contributed to a 403(b) account.

There are limits on the amount of contributions that can be made to a 403(b) account each year. If contributions made to a 403(b) account are more than these contribution limits, penalties may apply. Generally, annual contributions to a 403(b) plan cannot exceed either the limit on annual additions or the limit on elective deferrals. See IRS Publication 571 for details.

COMPLYING WITH FEDERAL PAYROLL TAX REPORTING OBLIGATIONS

Step 1. Obtain an employer identification number (EIN) from the federal government if this has not been done.

This number must be recorded on some of the forms listed below and is used to reconcile a church’s deposits of withheld taxes with the Forms W-2 it issues to employees. The employer identification number (EIN) is a nine-digit number that looks like this: 00-0246810. If your church does not have an EIN, you may apply for one online. Go to the IRS website at IRS.gov for information. You may also apply for an EIN by calling 1-800-829-4933, or you can fax or mail Form SS-4 to the IRS. You should have only one EIN.

KEY POINT: An EIN is not a tax exemption number and has no relation to your nonprofit corporation status. It merely identifies you as an employer subject to tax withholding and reporting and ensures that your church receives proper credit for payments of withheld taxes. You can obtain an EIN by submitting a Form SS-4 to the IRS.

Step 2. Determine whether each church worker is an employee or self-employed.

In some cases, it is difficult to determine whether a particular worker is an employee or is self-employed. If in doubt, churches should treat a worker as an employee, since substantial penalties can be assessed against a church for treating a worker as self-employed, whom the IRS later reclassifies as an employee. In general, a self-employed worker is one who is not subject to the control of an employer with respect to how a job is to be done. Further, a self-employed person typically is engaged in a specific trade or business and offers his or her services to the general public.

The IRS and the courts have applied various tests to assist in classifying a worker as an employee or self-employed. Factors that tend to indicate employee status include the following:
• The worker is required to follow an employer’s instructions regarding when, where, and how to work.

• The worker receives on-the-job training from an experienced employee.

• The worker is expected to perform the services personally and not use a substitute.

• The employer rather than the worker hires and pays any assistants.

• The worker has a continuing working relationship with the employer.

• The employer establishes set hours of work.

• The worker is guaranteed a regular wage amount for an hourly, weekly, or other period of time.

• The worker is expected to work full time.

• The work is done on the employer’s premises.

• The worker must submit regular oral or written reports to the employer.

• The worker’s business expenses are reimbursed by the employer.

• The employer furnishes the worker’s tools, supplies, and equipment.

• The worker does not work for other employers.

• The worker does not advertise his or her services to the general public.

Not all of these factors must be present for a worker to be an employee. But if most of them apply, the worker is an employee. The most important factor is the first one listed, indicating an extensive amount of control over the worker. Once again: If in doubt, treat the worker as an employee.

**KEY POINT:** Some fringe benefits are nontaxable only when received by employees.

**Step 3. Obtain the Social Security number (SSN) for each worker.**

After determining whether a worker is an employee or self-employed, you must obtain the worker’s Social Security number (SSN). A worker who does not have an SSN can obtain one by filing Form SS-5. This is a Social Security Administration (SSA) form, not an IRS form. If a self-employed worker performs services for your church (and earns at least $600 for the year) but fails to provide you with his or her SSN, then the church is required by law to withhold a specified percentage of compensation as backup withholding. The backup withholding rate is 24% in 2022.

A self-employed person can stop backup withholding by providing the church with a correct SSN.

The church will need the correct number to complete the worker’s Form 1099-NEC (discussed later).

Churches can be penalized if the SSN they report on a Form 1099-NEC is incorrect unless they have exercised due diligence. A church will be deemed to have exercised due diligence if it has self-employed persons provide their SSNs using Form W-9. It is a good idea for churches to present self-employed workers (e.g., guest speakers, contract laborers) with a Form W-9 and to backup withhold unless the worker returns the form. The church should retain each Form W-9 to demonstrate its due diligence.

All taxes withheld through backup withholding must be reported to the IRS on Form 945. The Form 945 for 2021 must be filed with the IRS by January 31, 2022. However, if you made deposits on time in full payment of the taxes for the year, you may file the return by February 10, 2022.

**KEY POINT:** Many times, churches will host guest speakers or other workers from other countries. Nonresident aliens are not taxed in the same manner as U.S. citizens. While they are not subject to the above rules, they are subject to other mandatory reporting and withholding rules. Churches should seek professional assistance in determining the applicable reporting and withholding rules for payments made to workers from other countries.

**Step 4. Have each employee complete a Form W-4.**

Employees need to provide their employer with a Form W-4 to enable the employer to know how much income tax to withhold from their pay. In the past, withholding was based on the number of allowances an employee claimed on Form W-4. The IRS made major changes to Form W-4 for tax year 2019 and future years. Most importantly, withholding allowances are no longer used to determine the amount of taxes at all. To provide maximum accuracy, employees are encouraged to use the Tax Withholding Estimator available at IRS.gov/W4App.

**Step 5. Compute each employee’s taxable wages.**

The amount of taxes that a church should withhold from an employee’s wages depends on the amount of the employee’s wages and the information contained on his or her Form W-4. A church must determine the wages of each employee that are subject to withholding. Wages subject to federal withholding include pay given to an employee for services performed. The pay may be in cash or in other non-cash forms. Measure pay that is not in money (such as property) by its fair market value.
and not the cost to the church. Wages often include a number of items in addition to salary. (There is a comprehensive list of examples in Step 10.)

**Step 6. Determine the amount of income tax to withhold from each employee’s wages.**

The way employers determine federal income tax withholding is changing to match the changes to the new Form W-4. Beginning in 2020, employers use IRS Publication 15-T to figure the amount of federal income tax to withhold from their employees’ wages.

Beginning with the 2020 Form W-4, employees will no longer be able to request adjustments to their withholding using withholding allowances. Instead, using the new Form W-4, employees will provide employers with amounts to increase or reduce taxes and amounts to increase or decrease the amount of wage income subject to income tax withholding. The computations described in Publication 15-T will allow employers to figure withholding regardless of whether the employee provided a Form W-4 in an earlier year or will provide a new Form W-4 in 2022. Publication 15-T also allows employers to figure withholding based on their payroll system (automated or manual) and withholding method of choice.

Publication 15-T describes five methods for determining the amount of income taxes to be withheld from an employee’s wages in 2022:

1. Percentage method tables for automated payroll systems
2. Wage bracket method tables for manual payroll systems with Forms W-4 from 2020 or later
3. Wage bracket method tables for manual payroll systems with Forms W-4 from before 2019 or earlier
4. Percentage method tables for manual payroll systems with Forms W-4 from 2020 or later
5. Percentage method tables for manual payroll systems with Forms W-4 from before 2019 or earlier

**KEY POINT:** The IRS is asserting that the new method for computing withheld taxes is allegedly simpler. But many employers believe the opposite is true. Fortunately, the IRS is launching an online withholding estimator at IRS.gov/W4App to provide employers with the most accurate withholding method.

Wages paid to a minister as compensation for ministerial services are exempt from income tax withholding. However, ministers who report their income taxes as employees can enter into a voluntary withholding arrangement with their church. Under such an arrangement, the church withholds federal income taxes from the minister’s wages as if the minister’s wages are not exempt from withholding. Some ministers find voluntary withholding attractive since it avoids the often difficult task of budgeting for four significant quarterly tax payments.

A minister may initiate voluntary withholding by providing the church with a completed IRS Form W-4. The filing of this form is deemed to be a request for voluntary withholding. A minister may also request an amount of withholding through any other written instruction.

Voluntary withholding arrangements may be terminated at any time by either the church or minister or by mutual consent.

The tax code specifies that ministers are self-employed for Social Security with respect to services performed in the exercise of ministry. Therefore, a church whose minister elects voluntary withholding is only obligated, and may only agree, to withhold the minister’s federal income taxes. The minister is still required to use the estimated tax procedure to report and prepay SECA. However, ministers electing voluntary withholding can indicate on line 4c (2021 and 2022 Form W-4) that they want an additional amount of income taxes to be withheld from each pay period that will be sufficient to pay the estimated self-employment tax liability by the end of the year. This additional withholding of income taxes becomes a credit that can be applied against a minister’s SECA on Form 1040. It is reported by the church as additional income taxes withheld on its quarterly Form 941. Many churches incorrectly report these additional withholdings as FICA.

Since any tax paid by voluntary withholding is deemed to be timely paid, a minister who pays self-employment taxes using this procedure will not be liable for any underpayment penalty (assuming that a sufficient amount of taxes are withheld).

**Step 7. Withhold Social Security and Medicare taxes (FICA) from non-minister employees’ wages.**

Employees and employers each pay FICA equal to 7.65% of an employee’s wages. The 7.65% tax rate is comprised of two components: (1) a Medicare hospital insurance (HI) tax of 1.45%, and (2) an old age, survivor and disability (Social Security) tax of 6.2%. There is no maximum amount of wages subject to the HI tax. For 2021, the maximum wages subject to the Social Security tax (the 6.2% amount) was $142,800. It increases to $147,000 for 2022.

Beginning in 2013, the ACA increased the employee portion of the HI tax by an additional tax of 0.9% on wages received in excess of $200,000. (This tax is not matched by the employer.) This additional tax is required to be withheld once wages paid to a non-minister employee reach $200,000. However, unlike the general1.45% HI tax on wages, this additional tax is on the combined wages of the employee and the employee’s spouse, in the case of a joint return. The threshold amount is $250,000 in the case of a joint return or surviving spouse and $200,000
for single persons. The $250,000 and $200,000 amounts are not adjusted for inflation and remain the same for 2022.

KEY POINT: Even though the tax does not start until $250,000 for married couples filing jointly, the withholding mandate starts with any employee’s wages exceeding $200,000. Therefore, it is possible for an employee to have the additional tax withheld but not owe the additional tax. In these instances, the additional tax withheld is treated as an additional tax payment on the employee’s individual tax return. Since the tax is on combined wages for married couples filing jointly, it is also possible that the combination of wages on a couple’s Form 1040 will initiate the tax without any associated withholding of the tax.

The Social Security tax rates for 2021 and 2022 are shown in the following table:

<table>
<thead>
<tr>
<th>Year</th>
<th>Tax on Employee</th>
<th>Tax on Employee</th>
<th>Combined Tax</th>
</tr>
</thead>
<tbody>
<tr>
<td>2021</td>
<td>7.65%</td>
<td>7.65%</td>
<td>15.3%</td>
</tr>
<tr>
<td>2022</td>
<td>7.65%</td>
<td>7.65%</td>
<td>15.3%</td>
</tr>
</tbody>
</table>

KEY POINT: Federal law allowed churches that had non-minister employees as of July 1984 to exempt themselves from the employer’s share of FICA by filing a Form 8274 with the IRS by October 30, 1984. Many churches did so. The exemption was available only to those churches that were opposed, for religious reasons, to the payment of Social Security taxes. (Prior to 1984, nonprofit organizations, including churches, did not participate in the Social Security system.) The effect of such an exemption is to treat all non-minister church employees as self-employed for Social Security purposes. Such employees must pay SECA if they are paid $108.28 or more for the year. Churches hiring their first non-minister employee after 1984 have until the day before the due date for their first quarterly Form 941 to file the exemption application. Churches can revoke their exemption by filing a Form 941 accompanied by full payment of FICA for that quarter. Many churches have done so, often inadvertently.

Step 8. The church must deposit the taxes it withholds.

Churches accumulate three kinds of federal payroll taxes:
1. Income taxes withheld from employees’ wages
2. The employees’ share of FICA (withheld from employees’ wages)
3. The employer’s share of FICA

Most employers must deposit payroll taxes on a monthly or semiweekly basis. An employer’s deposit status is determined by the total taxes reported in a four-quarter lookback period. For 2022, the lookback period will be July 1, 2020, through June 30, 2021.

Monthly Depositor Rule. Churches that reported payroll taxes of $50,000 or less in the lookback period will deposit their withheld taxes for 2022 on a monthly basis. Payroll taxes withheld during each calendar month, along with the employer’s share of FICA, must be deposited by the fifteenth day of the following month.

Semiweekly Depositor Rule. Churches that reported payroll taxes of more than $50,000 in the lookback period must deposit their withheld taxes on a semiweekly basis. This means that for paydays falling on Wednesday, Thursday, or Friday, the payroll taxes must be deposited on or by the following Wednesday. For all other paydays, the payroll taxes must be deposited on the Friday following the payday.

$100,000 Next-Day Deposit Rule. Regardless of whether a church is a monthly schedule depositor or a semiweekly schedule depositor, if accumulated taxes withheld reach $100,000 or more on any day during a deposit period, the church must be deposited by the next business day. Additionally, any employer subject to this deposit rule becomes a semiweekly depositor for the remainder of the calendar year and the following calendar year.

Payment with Return Rule. If you accumulate less than a $2,500 tax liability during the current or previous quarter, you may make a payment with Form 941 instead of depositing monthly. See IRS Publication 15 for more information.

KEY POINT: All deposits must be made using the Electronic Federal Tax Payment System® (EFTPS). There are penalties for depositing late or for mailing payments directly to the IRS that are required to be deposited, unless you have reasonable cause for doing so. To enroll in EFTPS, call 1-800-555-4477, or to enroll online, visit EFTPS.gov. If you do not want to use EFTPS, you can arrange for your tax professional, financial institution, payroll service, or other trusted third party to make deposits on your behalf.

KEY POINT: New churches in their first year of existence are treated as monthly depositors unless the $100,000 Next-Day-Deposit Rule applies. Additionally, new churches, indicating they will make payroll tax deposits, are pre-enrolled in EFTPS and should receive a letter with their four-digit EFTPS PIN.

Step 9. All employers subject to income tax withholding, FICA, or both, must file Form 941 quarterly.

Form 941 reports the number of employees and amount of FICA and withheld income taxes that are payable. Form 941

Find IRS forms, instructions, and publications at IRS.gov or call 1-800-TAX-FORM.
is due on the last day of the month following the end of each calendar quarter.

<table>
<thead>
<tr>
<th>Quarter</th>
<th>Ending</th>
<th>Due date of Form 941</th>
</tr>
</thead>
<tbody>
<tr>
<td>1st (January–March)</td>
<td>March 31</td>
<td>April 30</td>
</tr>
<tr>
<td>2nd (April–June)</td>
<td>June 30</td>
<td>July 31</td>
</tr>
<tr>
<td>3rd (July–September)</td>
<td>September 30</td>
<td>October 31</td>
</tr>
<tr>
<td>4th (October–December)</td>
<td>December 31</td>
<td>January 31</td>
</tr>
</tbody>
</table>

If any due date for filing shown above falls on a Saturday, Sunday, or legal holiday, you may file your return on the next business day.

Form 941 may be filed electronically. For more information, visit the IRS website at IRS.gov.

**KEY POINT:** Form 944 replaces Form 941 for eligible small employers. The purpose of Form 944 is to reduce the burden on the smallest employers by allowing them to file their employment tax returns annually, and in most cases, pay the employment tax due with their return. Generally, you are eligible to file this form only if your payroll taxes for the year are $1,000 or less. Do not file Form 944 unless the IRS has sent you a notice telling you to file it.

**Step 10. Prepare a Form W-2 for every employee, including ministers employed by the church.**

**KEY POINT:** Congress has enacted legislation requiring that Forms W-2, W-3, 1099-NEC, and 1096 be filed by January 31 and eliminating the extended due date (March 31) for electronically filed Forms W-3 and 1096.

A church reports each employee's taxable income and withheld income taxes as well as FICA on this form. A church should furnish Copies B, C, and 2 of the 2021 Form W-2 to each employee by January 31, 2022. File Copy A with the SSA by January 31, 2022. Send all Copies A with Form W-3. If you file electronically, the due date remains January 31, 2022.

**KEY POINT:** Be sure to add cents to all amounts. Make all dollar entries without a dollar sign and comma, but with a decimal point and cents. For example, $1,000 should read “1000.00.” Government scanning equipment assumes that the last two figures of any amount are cents. If you report $40,000 of income as “40000”, the scanning equipment would interpret this as 400.00 ($400).

You may need some assistance with some of the boxes on the Form W-2. Consider the following:

**Box a.** Report the employee’s SSN. Insert “applied for” if an employee does not have an SSN but has applied for one. If you do not provide the correct employee name and SSN on Form W-2, you may owe a penalty unless you have reasonable cause.

**Box b.** Insert your church’s EIN. This is a nine-digit number that is assigned by the IRS. If you do not have one, you can obtain one by submitting a completed Form SS-4 to the IRS. Some churches have more than one EIN (for example, some churches that operate a private school have a number for both the church and the school). Be sure that the EIN listed on an employee’s Form W-2 is the one associated with the employee’s actual employer.

**Box c.** Enter your church’s name, address, and ZIP Code. This should be the same address reported on your Form 941.

**Box d.** You may use this box to identify individual Forms W-2. You are not required to use this box.

**Box e.** Enter the employee’s name.

**Box f.** Enter the employee’s address and ZIP Code.

**Box 1.** Report all federal taxable wages paid to workers who are treated as employees for federal income tax reporting purposes. This includes:

- Salary, bonuses, prizes, and awards.
- Taxable fringe benefits (including cost of employer-provided group term life insurance coverage that exceeds $50,000).
- The value of the personal use of an employer-provided car.
- Most Christmas, birthday, anniversary, retirement, and other special occasion gifts paid by the church.
- Business expense reimbursements paid under a nonaccountable plan (one that does not require substantiation of business expenses within a reasonable time, or does not require excess reimbursements to be returned to the church, or reimburses expenses out of salary reductions). Also, note that such reimbursements are subject to income tax and Social Security withholding if paid to non-minister employees.
- Generally, payments made under an accountable plan are excluded from the employee’s gross income and are not reported on Form W-2. However, if you pay a per diem or mileage allowance and the amount paid for substantiated miles or days traveled exceeds the amount treated as substantiated under IRS rules, you must report as wages on Form W-2 the amount in excess of the amount treated as substantiated. The excess amount is subject to income tax withholding and FICA (or railroad retirement taxes, if applicable). Report the amount treated as substantiated (that is, the nontaxable portion) in Box 12 using code L.
- Non-qualified moving expenses and expense reimbursements (except for reimbursements of the travel expenses of members of the U.S. Armed Forces on active duty).
• Any portion of a minister’s self-employment taxes paid by the church.

• Amounts includible in income under a nonqualified deferred compensation plan (NQDC) because of section 409A.

• Designated Roth contributions made under a section 403(b) salary reduction agreement.

• Church reimbursements of a spouse's travel expenses incurred while accompanying a minister on a business trip represent income to the minister unless the spouse's presence serves a legitimate and necessary business purpose, and the spouse's expenses are reimbursed by the church under an accountable plan.

• Churches that make a below-market loan to a minister of at least $10,000 create taxable income to the minister (some exceptions apply). A below-market loan is a loan on which no interest is charged or on which interest is charged at a rate below the applicable federal rate.

• Churches that forgive a minister's debt to the church create taxable income to the minister.

• Severance pay.

• Payment of a minister's personal expenses by the church.

• Employee contributions to a Health Savings Account (HSA) unless contributed through a section 125 cafeteria plan.

• Employer contributions to an HSA if includible in the income of the employee.

• Employee contributions toward group health insurance premiums unless they are contributed through a section 125 cafeteria plan.

• Most love gifts from a church to its pastor.

For ministers who report their income taxes as employees, do not report in Box 1 the annual fair rental value of a parsonage or any portion of a minister's compensation that was designated (in advance) as a housing allowance by the church. Also, some contributions made to certain retirement plans out of an employee's wages are not reported. If the nontaxable portion of a housing allowance (the lesser of actual expenses or the fair rental value plus utilities) is less than the church-designated allowance, it is the minister's responsibility to report the excess housing allowance as additional income on line 1 of his Form 1040 (if an employee) or on Schedule C (if self-employed).

⚠️ CAUTION: Taxable fringe benefits not reported as income in Box 1 may constitute an automatic excess benefit transaction exposing the recipient and members of the church board to intermediate sanctions in the form of substantial excise taxes.

 GK POINT: Churches should not include in Box 1 the annual fair rental value of a parsonage or a housing allowance provided to a minister as compensation for ministerial services.

Box 2. List all federal income taxes that you withheld from the employee's wages. The amounts reported in this box (for all employees) should correspond to the amount of withheld income taxes reported on your four Forms 941.

Box 3. Report an employee's wages subject to the Social Security component (the 6.2% rate for 2021) of FICA. Box 3 should not list more than the maximum wage base for the Social Security component of FICA ($142,800 for 2021, $147,000 for 2022). This box usually will be the same as Box 1, but not always. For example, certain retirement contributions are included in Box 3 that are not included in Box 1. To illustrate, contributions to a 403(b) plan by salary reduction agreement may be excludible from income and not reportable in Box 1, but they are subject to FICA and accordingly represent Social Security and Medicare wages for non-minister employees.

GK POINT: Remember that ministers (including those who report their income taxes as employees) are self-employed for Social Security with respect to their ministerial services, and so they pay SECA rather than the employee's share of FICA.

Churches that filed a timely Form 8274 exempting themselves from the employer's share of FICA do not report the wages of non-minister employees in this box since such employees are considered self-employed for Social Security purposes.

Box 4. Report the Social Security component (6.2%) of FICA that you withheld from a non-minister employee's wages. This tax is imposed on all wages up to a maximum of $142,800 for 2021 and $147,000 for 2022. Do not report the church's portion (the employer's share) of FICA. Ministers who report their income taxes as employees are still treated as self-employed for Social Security with respect to compensation from the performance of ministerial services. For ministers, this box should be left blank.

Box 5. Report a non-minister employee's current and deferred (if any) wages subject to the HI component (1.45%) of FICA. This will be an employee's entire wages regardless of amount. There is no ceiling. For persons earning less than the annual maximum earnings subject to the 6.2% Social Security tax ($142,800 for 2021 and $147,000 for 2022), Boxes 3 and 5 should show the same amount. If you pay more than $142,800 ($147,000 for 2022) to a non-minister employee in 2022, Box 3 should show $142,800 ($147,000 for 2022), and Box 5 should show the full amount of wages paid.

Box 6. Report the HI component of FICA that you withheld from the non-minister employee's wages. This tax is imposed
Box 10. Show the total dependent care benefits under a dependent care assistance program (section 129) paid or incurred by you for your employee. Include the fair market value of employer-provided daycare facilities and amounts paid or incurred for dependent care assistance in a section 125 cafeteria plan. Report all amounts paid or incurred, including those in excess of the $5,000 exclusion. Include any amounts over $5,000 in Boxes 1, 3, and 5. For more information, see IRS Publication 15-B.

Box 11. The purpose of Box 11 is for the SSA to determine if any part of the amount reported in Box 1 or Box 3 or 5 was earned in a prior year. The SSA uses this information to verify that they have properly applied the Social Security earnings test and paid the correct amount of benefits. Report distributions to an employee from a non-qualified plan in Box 11. Also, report these distributions in Box 1. Under non-qualified plans, deferred amounts that are no longer subject to a substantial risk of forfeiture are taxable even if not distributed. Report these amounts in Boxes 3 (up to the Social Security wage base) and 5. Do not report in Box 11 deferrals included in Box 3 or 5 and deferrals for current year services (such as those with no risk of forfeiture).

If you made distributions and also are reporting any deferrals in Box 3 or 5, do not complete Box 11. See IRS Publication 957.

Unlike qualified plans, non-qualified plans do not meet the qualification requirements for tax-favored status. Non-qualified plans include those arrangements traditionally viewed as deferring the receipt of current compensation, such as a rabbi trust. Welfare benefit plans and plans providing termination pay, or early retirement pay, are not generally non-qualified plans.

**KEY POINT:** Non-qualified retirement plans are subject to many difficult technical rules and substantial penalties for compliance failures. Additional information is available in IRS Publications 15 and 957, but qualified professional guidance is also recommended.

Box 12. Insert the appropriate code and dollar amount in this box. Insert the code letter followed by a space and then insert the dollar amount on the same line within the box. Do not enter more than four codes in this box. If more are needed, use another Form W-2. Use capital letters for the codes and remember not to use dollar signs or commas. For example, to report a $3,000 contribution to a section 403(b) tax-sheltered annuity, you would report "E 3000.00" in this box. The codes are as follows:

- **A** — This will not apply to church employees.
- **B** — This will not apply to church employees.
- **C** — You (the church) provided your employee with more than $50,000 of group term life insurance. Report the cost of coverage in excess of $50,000. It should also be included in Box 1 (and in Boxes 3 and 5 for non-minister employees).
- **D** — Generally not applicable to churches.
- **E** — The church made contributions to a 403(b) plan pursuant to a salary reduction agreement on behalf of the employee. Report the amount of the contributions. While this amount ordinarily is not reported in Box 1, it is included in Boxes 3 and 5 for non-minister employees since it is subject to FICA with respect to such workers.
- **F** — Generally not applicable to churches.
- **G** — Generally not applicable to churches.
- **H** — Generally not applicable to churches.
- **J** — You (the church) are reporting sick pay. Show the amount of any sick pay that is not includible in the employee's income because he or she contributed to the sick pay plan.
- **K** — Generally not applicable to churches.
- **L** — You (the church) reimbursed the employee for employee business expenses using the standard mileage rate or the per diem rates, and the amount you reimbursed exceeds the amounts allowed under these methods. Enter code L in Box 12, followed by the amount of the reimbursements that equal the allowable standard mileage or per diem rates. Any excess should be included in Box 1. For non-minister employees, report the excess in Boxes 3 (up to the Social Security wage base) and 5 as well. Do not include any per diem or mileage allowance reimbursements for employee business expenses in Box 12 if the total reimbursements are less than or equal to the amount deemed substantiated under the IRS-approved standard mileage rate or per diem rates.
- **M, N** — Generally not applicable to churches.
- **P** — Not applicable to churches.
- **Q** — Generally not applicable to churches.
- **R** — Report employer contributions to a medical savings account on behalf of the employee. Any portion that is not excluded from the employee's income also should be included in Box 1.
- **S** — Report employee salary reduction contributions to a SIMPLE retirement account. However, if the SIMPLE account is part of a 401(k) plan, use code D.
- **T** — Report amounts paid (or expenses incurred) by an employer for qualified adoption expenses furnished to an employee under an adoption assistance program.
V — Generally not applicable to churches.

W — Report employer contributions to an HSA. Include amounts the employee elected to contribute using a section 125 cafeteria plan.

Y — It is no longer necessary to report deferrals under a section 409A NQDC plan in Box 12 using code Y.

Z — Report all amounts deferred (including earnings on deferrals) under an NQDC plan that are included in income under section 409A of the tax code because the NQDC fails to satisfy the requirements of section 409A. Do not include amounts properly reported on Forms 1099-NEC or W-2 for a prior year. Also, do not include amounts considered to be subject to a substantial risk of forfeiture for purposes of section 409A. The amount reported in Box 12 using code Z is also reported in Box 1.

AA — Generally not applicable to churches.

BB — Report designated Roth contributions under a section 403(b) salary reduction agreement. Do not use this code to report elective deferrals under code E.

DD — The ACA requires employers to report the cost of coverage under an employer-sponsored group health plan. IRS Notice 2011-28 provided relief for smaller employers filing fewer than 250 Forms W-2 by making the reporting requirement optional for them until further guidance is issued by the IRS. The reporting under this provision is for information only; the amounts reported are not included in taxable wages and are not subject to new taxes.

EE — Generally not applicable to churches.

FF — Use this code to report the total amount of permitted benefits under a Qualified Small Employer Health Reimbursement Arrangement (QSEHRA). The maximum reimbursement for an eligible employee under a QSEHRA for 2021 is $5,300 ($10,700 if it also provides reimbursements for family members). Report the amount of payments and reimbursements the employee is entitled to receive under the QSEHRA for the calendar year, not the amount the employee actually receives. For example, a QSEHRA provides a permitted benefit of $3,000. If the employee receives reimbursements of $2,000, report a permitted benefit of $3,000 in Box 12 with code FF.

Box 13. Check the appropriate box.

- **Statutory employee.** Churches rarely, if ever, have statutory employees. These include certain drivers, insurance agents, and salespersons.

- **Retirement plan.** Mark this checkbox if the employee was an active participant (for any part of the year) in any of the following: (1) a qualified pension, profit-sharing, or stock bonus plan described in section 401(a) (including a 401(k) plan); (2) an annuity contract or custodial account described in section 403(b); (3) a simplified employee pension (SEP) plan; or (4) a SIMPLE retirement account.

- **Third-party sick pay.** Churches generally will not check this box.

**Box 14.** This box is optional. Use it to provide information to an employee. Some churches report a church-designated housing allowance in this box. The IRS uses Box 14 for this purpose in a comprehensive minister tax example in the current edition of its Publication 517, but this is not a requirement.

$ **TAX TIP:** The IRS has provided the following suggestions to reduce the discrepancies between amounts reported on Forms W-2, W-3, and Form 941: First, be sure the amounts on Form W-3 are the total amounts from Forms W-2. Second, reconcile Form W-3 with your four quarterly Forms 941 by comparing amounts reported for (1) income tax withholding (Box 2), (2) Social Security and Medicare wages (Boxes 3, 5, and 7), and (3) FICA (Boxes 4 and 6). Amounts reported on Forms W-2, W-3, and 941 may not match for valid reasons. If they do not match, you should determine that the reasons are valid. The SSA will issue an inquiry notice when these amounts do not match.

**Step 11. Prepare a Form 1099-NEC for every self-employed person receiving non-employee compensation of $600 or more.**

By January 31, 2022, churches must furnish Copy B of Form 1099-NEC Non-employee Compensation to any self-employed person to whom the church paid non-employee compensation of $600 or more in 2021. This form (rather than a Form W-2) should be provided to clergy who report their federal income taxes as self-employed, since the Tax Court and the IRS have both ruled that a worker who receives a Form W-2 rather than a Form 1099-NEC is presumed to be an employee rather than self-employed. Other persons to whom churches may be required to issue a Form 1099-NEC include evangelists, guest speakers, and contractors.

Churches must send Copy A of Forms 1099-NEC, along with Form 1096, to the IRS by January 31, 2022, if non-employee compensation is reported in Box 1. If you file electronically, the due date for filing Copy A with the IRS is also January 31, 2022, if you are reporting non-employee compensation Box 1.

To illustrate, if a guest speaker visited a church in 2021 and received compensation from the church in an amount of $600 or more (net of any housing allowance or travel expenses reimbursed under an accountable plan), then the church must issue the person Copy B of Form 1099-NEC by January 31, 2022.
Exceptions apply. For example, a church need not issue a Form 1099-NEC to a corporation (other than to attorneys that are incorporated) or to a person who will be receiving a Form W-2 for services rendered to the church (all income should be reported on the Form W-2). Also, travel expense reimbursements paid to a self-employed person under an accountable reimbursement plan do not count toward the $600 figure. Additionally, if supplies are purchased from a self-employed person, the amount does not count toward the $600 filing limit if the amount for the supplies has been separately stated on the invoice from the contractor.

To complete Form 1099-NEC, the church will need to obtain the recipient’s name, address, and SSN. Churches should obtain this information at the time of the person’s visit since it often can be difficult to obtain the necessary information at a later date. IRS Form W-9 can be used to obtain this information. If a self-employed person who is paid $600 or more during the course of a year by a church refuses to provide an SSN, then the church is required to withhold a percentage of the person’s total compensation as backup withholding. See Step 3 above. The backup withholding rate is 24% for 2022.

OTHER IMPORTANT REQUIREMENTS FOR CHURCHES

Reporting Group Term Life Insurance

You must include in the income of employees an imputed cost of employer-provided group term life insurance coverage (including death benefits under the benefits plan) that exceeds $50,000. You must also include the imputed cost of all employer-provided group term life insurance on the life of a spouse or dependent if the coverage provided exceeds $2,000. The imputed cost can be determined according to the following table:

<table>
<thead>
<tr>
<th>Age Brackets</th>
<th>Cost Per $1,000 of Protection for 1-month Period</th>
</tr>
</thead>
<tbody>
<tr>
<td>Under 25</td>
<td>$0.05</td>
</tr>
<tr>
<td>25–29</td>
<td>$0.06</td>
</tr>
<tr>
<td>30–34</td>
<td>$0.08</td>
</tr>
<tr>
<td>35–39</td>
<td>$0.09</td>
</tr>
<tr>
<td>40–44</td>
<td>$0.10</td>
</tr>
<tr>
<td>45–49</td>
<td>$0.15</td>
</tr>
<tr>
<td>50–54</td>
<td>$0.23</td>
</tr>
<tr>
<td>55–59</td>
<td>$0.43</td>
</tr>
<tr>
<td>60–64</td>
<td>$0.66</td>
</tr>
<tr>
<td>65–69</td>
<td>$1.27</td>
</tr>
<tr>
<td>70 and above</td>
<td>$2.06</td>
</tr>
</tbody>
</table>

Example: Church A pays the premiums on a $70,000 group term insurance policy on the life of Pastor B with B’s wife as beneficiary. Pastor B is 29 years old. Church A also pays the premium on a $5,000 group term life insurance policy, which covers Pastor B’s wife, who is 30 years old.

The church would have to report $19.20 as the imputed cost of the insurance provided to Pastor B and his wife. This amount is computed as follows: (1) For Pastor B, the table shows the cost per month for each $1,000 of group term life insurance in excess of $50,000. To compute the cost for Pastor B, take 6 cents x 12 months = 72 cents x 20 (corresponding to $2,000 of group term life insurance in excess of $50,000) = $14.40. (2) In addition, the cost of the entire $5,000 of insurance provided to Pastor B’s wife would have to be computed. Take 8 cents x 12 months = 96 cents x 5 (corresponding to $5,000 of group term life insurance) = $4.80. Combine this amount with the cost of Pastor B’s excess insurance to obtain the taxable amount of $19.20. Church A should include this amount with wages in Box 1 of Form W-2. This amount should also be reported in Box 12 and labeled code C. Any includable amount is subject to income tax as well as FICA withholding for non-minister church employees.

Form 1-9

All employers are responsible for verifying the identity and eligibility of employees to work in the United States. As employers, churches must complete an Employment Eligibility Verification form for each new employee. This form is better known as Form I-9.

Form I-9 is not an IRS form and is not filed with any government agency. However, it is important for churches to be familiar with this form because they can be assessed fines for failing to comply with the requirements summarized below.

Churches should do the following:

- Ensure that each new employee completes Section 1 of the Form I-9 on or before his or her first day of compensated work. Review the employee’s documents and fully complete Section 2 of the Form I-9 within three business days of the hire. Collect a Form I-9 for all employees, including ministers, hired after November 6, 1986, even if the church has no doubt that someone is a U.S. citizen. An employee signs part of the form, and the employer signs part of the form. The form’s instructions list documents employees may show to verify their identity and eligibility to work in the United States.

- Review the U.S. Citizenship and Immigration Services website (USCIS.gov) for instructions that will assist you in completing the Form I-9. You can also download Form I-9 from the USCIS website.

- Collect forms from new employees only, not from all applicants. When extending job offers, churches should clarify that employment is conditioned on completion of a Form I-9. Employers should remind new employees to bring their documents on the first day of work. Forms should be completed no later than the end of the employee’s third day at work.
• Accept documents that appear to be genuine and relate to the employee. If churches act reasonably when deciding that a document is genuine, they will not be held responsible for a mistake. Churches may keep photocopies of original identification and verification documents with each employee’s form. This is not required by law but may be helpful in case there is ever a question about whether a document was genuine.

• Employers must retain an employee’s completed Form I-9 for as long as the individual works for the employer. Once the individual’s employment has terminated, the employer must determine how long after termination the Form I-9 must be retained, which is either three years after the date of hire or one year after the date employment is terminated, whichever is later. Forms I-9 can be retained either on paper, microform, or electronically.

• Upon request, show completed forms to authorized officials of the Department of Homeland Security (DHS), Department of Labor (DOL), or the U.S. Department of Justice Office of Special Counsel for Immigration-Related Unfair Employment Practices (OSC). Officials will give a minimum of three days’ notice before inspection.

• Churches, like any employer, can be penalized for failing to comply with the I-9 requirement. If you fail to complete, retain, or make available for inspection a Form I-9 as required by law, you may face a civil penalty for each violation. There are additional penalties for knowingly hiring unauthorized aliens.

• Providing an employee’s SSN on Form I-9 is voluntary for all employees unless an employer participates in the USCIS E-Verify program.

Annual Certification of Racial Nondiscrimination

Churches and other religious organizations that operate, supervise, or control a private school must file a certificate of racial nondiscrimination (Form 5578) each year with the IRS. The certificate is due by the fifteenth day of the fifth month following the end of the organization’s fiscal year. This is May 15 of the following year for organizations that operate on a calendar year basis. For example, the Form 5578 for 2021 is due May 16, 2022 (May 15 is a Sunday).

A private school is defined as an educational organization that normally maintains a regular faculty and curriculum and normally has a regularly enrolled body of pupils or students in attendance at the place where its educational activities are regularly conducted. The term includes primary, secondary, preparatory, or high schools; and colleges and universities, whether operated as a separate legal entity or an activity of a church.

○ KEY POINT: The term “school” also includes preschools, and this is what makes the reporting requirement relevant for many churches. As many as 25% of all churches operate a preschool program.

○ KEY POINT: The instructions to Form 5578 state: “Every organization that claims exemption from federal income tax under section 501(c)(3) of the Internal Revenue Code and that operates, supervises, or controls a private school(s) must file a certification of racial nondiscrimination. If an organization is required to file Form 990 . . . as a separate return or as part of a group return, the certification must be made on Schedule E (Form 990 or 990-EZ) . . . rather than on this form.

Form 5578 is easy to complete. A church official simply identifies the church and the school and certifies that the school has “satisfied the applicable requirements of sections 4.01 through 4.05 of Revenue Procedure 75–50.” This reference is to the following requirements:

1. The school has a statement in its charter, bylaws, or other governing instrument, or in a resolution of its governing body, that it has a racially nondiscriminatory policy toward students.

2. The school has a statement of its racially nondiscriminatory policy toward students in all its brochures and catalogs dealing with student admissions, programs, and scholarships.

3. The school makes its racially nondiscriminatory policy known to all segments of the general community served by the school through the publication of a notice of its racially nondiscriminatory policy at least annually in a newspaper of general circulation, through utilization of the broadcast media, or by displaying a notice of its racially nondiscriminatory policy on its primary publicly accessible webpage at all times during its taxable year (excluding temporary outages due to website maintenance or technical problems) in a manner reasonably expected to be noticed by visitors to the homepage. (Allowing the notice to be placed on a school’s webpage is a new concession granted by the IRS in 2019 in IRS Revenue Procedure 2019–22.)

However, such notice is not required if one or more exceptions apply. These include the following: (1) During the preceding three years, the enrollment consists of students at least 75% of whom are members of the sponsoring church or religious denomination, and the school publicizes its nondiscriminatory policy in religious periodicals distributed in the community. (2) The school draws its students from local communities and follows a racially nondiscriminatory policy toward students and demonstrates that it follows a racially nondiscriminatory policy by showing that it currently
enrolls students of racial minority groups in meaningful numbers.

4. The school can demonstrate that all scholarships or other comparable benefits are offered on a racially nondiscriminatory basis.

Filing the certificate of racial nondiscrimination is one of the most commonly ignored federal reporting requirements. Churches that operate a private school (including a preschool), as well as independent schools, may obtain Form 5578 from the IRS website (IRS.gov) or by calling the IRS forms number: (1-800-829-3676).

Charitable Contribution Substantiation Rules

Several important rules apply to the substantiation of charitable contributions, including the following:

Cash contributions. All cash contributions, regardless of amount, must be substantiated by either a bank record (such as a cancelled check) or a written communication from the charity showing the name of the charity, the date of the contribution, and the amount of the contribution. The recordkeeping requirements may not be satisfied by maintaining other written records. In the past, donors could substantiate cash contributions of less than $250 with "other reliable written records showing the name of the charity, the date of the contribution, and the amount of the contribution" if no cancelled check or receipt was available. This is no longer allowed. As noted below, additional substantiation requirements apply to contributions (of cash or property) of $250 or more, and these must be satisfied as well.

Substantiation of contributions of $250 or more. Donors will not be allowed a tax deduction for any individual cash (or property) contribution of $250 or more unless they receive a written acknowledgment from the church containing the following information:

- Name of the church.
- Name of the donor (an SSN is not required).
- Date of the contribution.
- Amount of any cash contribution.
- For contributions of property (not including cash) valued by the donor at $250 or more, the receipt must describe the property. No value should be stated.
- The receipt must contain one of the following: (1) a statement that no goods or services were provided by the church in return for the contribution; (2) a statement that goods or services that a church provided in return for the contribution consisted entirely of intangible religious benefits; or (3) a description and good faith estimate of the value of goods or services other than intangible religious benefits that the church provided in return for the contribution.
- The church may either provide separate acknowledgments for each single contribution of $250 or more or one acknowledgment to substantiate several single contributions of $250 or more. Separate contributions are not aggregated for purposes of measuring the $250 threshold.
- The written acknowledgment must be received by the donor on or before the earlier of the following two dates: (1) the date the donor files a tax return claiming a deduction for the contribution, or (2) the due date (including extensions) for filing the return.

Gifts of property. Several additional rules apply to the substantiation of contributions of non-cash property valued by the donor at $500 or more. Donors who claim a deduction over $500 but not over $5,000 for a non-cash charitable contribution must retain certain records and complete the front side (Section A, Part I, and Part II if applicable) of IRS Form 8283 and enclose the completed form with the Form 1040 on which the charitable contribution is claimed.

Special rules apply to donations of cars, boats, and planes valued by the donor at more than $500. The church must provide the donor with a written acknowledgment and send a Form 1098-C to the IRS containing required information about the donation. Form 1098-C can be used as the written acknowledgment that must be issued to a donor. See the instructions to Form 1098-C for more information. Failure to file Form 1098-C can result in penalties assessed to the church and a loss of the donation deduction by the donor.

KEY POINT: Form 1098-C is required to be provided to the donor within a short time frame from the date of the gift. It is not provided to the donor at the end of the tax year. All Forms 1098-C issued during a tax year should be provided to the IRS with Form 1096 by February 28 of the next tax year.

For contributions of non-cash property valued at more than $5,000 ($10,000 for privately held stock), a donor must obtain a qualified appraisal of the donated property from a qualified appraiser and complete a qualified appraisal summary (Section B of Form 8283) and have the summary signed by the appraiser and a church representative. The completed Form 8283 is then enclosed with the Form 1040 on which the charitable contribution deduction is claimed. The appraisal must be enclosed for contributions of property (other than inventory and publicly traded securities) in excess of $500,000.

Affordable Care Act (ACA) Reporting

The ACA imposes the most significant reporting obligations since the introduction of Form W-2 in 1943. In fact, the new reporting obligations are similar to Form W-2 in that there are forms that must be issued to individual employees and
a transmittal form that is sent to the IRS along with copies of all the forms issued to employees. And, as with Form W-2, the IRS can assess penalties for failure to comply with the new reporting obligations. Because of the similarities of the new reporting requirements to Form W-2, some are calling them the “Health Care W-2s”. Of course, the analogy is not perfect. The Form W-2 reports compensation and tax withholding, while the new forms report health insurance information. The reporting requirements consist of the following forms:

- Providers of minimum essential coverage are required to file Forms 1094-B and 1095-B. These forms are used to report certain information to the IRS and to employees about individuals who are covered by minimum essential coverage and therefore are not liable for the individual shared responsibility payment penalty. These forms must be furnished to employees by January 31, 2022, and filed by February 28, 2022 (March 31, 2022, if filed electronically).

- Applicable large employers, generally employers with 50 or more full-time employees (including full-time equivalent employees) in the previous year, must file one or more Forms 1094-C (including a Form 1094-C designated as the Authoritative Transmittal, whether or not filing multiple Forms 1094-C) and must file a Form 1095-C for each employee who was a full-time employee of the employer for any month of the calendar year. Generally, the employer is required to furnish a copy of the Form 1095-C (or a substitute form) to the employee. These forms must be furnished to employees by January 31, 2022, and filed by February 28, 2022 (March 31, 2022, if filed electronically). The information reported on Forms 1094-C and 1095-C is used to determine whether an employer owes a payment under the employer-shared responsibility provisions of the ACA (the employer mandate or play or pay provisions).

See the instructions to these forms on the IRS website (IRS.gov) for more information.

KEY POINT: Churches with fewer than 50 full-time employees and an insured group health plan generally have no reporting obligation. They are not required to file Forms 1094-C and 1095-C since they have fewer than 50 employees and their group plan insurer files the Forms 1094-B and 1095-B.
HELPFUL NUMBERS AND RESOURCES

1-800-TAX-FORM (1-800-829-3676)
To request IRS forms

IRS.gov
To visit the IRS homepage

GuideStone.org/TaxGuide
To access GuideStone’s helpful resources about ministerial tax issues and frequently asked questions about minister’s housing allowance

ChurchLawandTax.com
To visit a Christianity Today website featuring Richard Hammar and a host of other professionals who provide information on church law, tax, finance, and risk management

ChurchLawandTaxStore.com
To visit Christianity Today’s online store with church management resources to keep your church safe, legal, and financially sound

Church & Clergy Tax Guide

Church Compensation: From Strategic Plan to Compliance
To purchase Elaine Sommerville’s reference book that guides you through every aspect of employment compensation in easy-to-understand language, visit ChurchLawandTaxStore.com.