

All references in this publication to line numbers on IRS forms are for the draft versions of the 2019 forms since the final forms had not been released by the IRS as of the date of this publication.

HOW TO USE THIS GUIDE

This book contains the basic information you need to complete your 2019 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 — *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 2019 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 active minister and spouse and for a retired minister and spouse.
- **Federal Reporting Requirements for Churches** — This resource provides assistance to churches (especially treasurers and bookkeepers) in filing federal tax forms.

TAX HIGHLIGHTS FOR 2019

1. The Tax Cuts and Jobs Act of 2017 (TCJA)

On December 22, 2017, President Donald Trump signed into law the \$1.5 trillion Tax Cuts and Jobs Act of 2017 (TCJA). In brief, the Act amends the *Internal Revenue Code* to reduce tax rates and modify credits and deductions for individuals and businesses.

With respect to individuals, the Act does the following:

- Replaces the seven existing tax brackets (10, 15, 25, 28, 33, 35, and 39.6 percent) with seven new and lower brackets (10, 12, 22, 24, 32, 35, and 37 percent)
- Substantially increases the standard deduction, thereby significantly reducing the number of taxpayers who will itemize deductions

- Repeals the deduction for personal exemptions
- Eliminates the deduction for moving expenses as well as the employer tax-free reimbursement
- Allows taxpayers to deduct an amount for charitable cash contributions up to 60 percent of adjusted gross income (AGI)
- Doubles the child tax credit and establishes a new family tax credit
- Repeals most miscellaneous itemized deductions
- Limits the mortgage interest deduction for debt incurred after November 2, 2017, to mortgages of up to \$750,000 (previously \$1 million)
- Caps the deduction for state and local income or sales taxes not paid or accrued in a trade or business at \$10,000
- Consolidates and repeals several education-related deductions and credits
- Broadened the use of section 529 plans for expenses below the college level of education
- Modifies the alternative minimum tax (AMT) to make it apply to fewer taxpayers
- Modifies the estate and generation-skipping transfer taxes to exempt most taxpayers

2. Other Tax Changes of Interest to Churches and Church Staff

There were several tax developments in prior years that affect tax reporting by both ministers and churches for 2019 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 2019 if you have investment income of \$3,600 or less AND (1) you do not have a qualifying child, you're at least age 25, and you earned less than \$15,570 (\$21,370 if married filing jointly); (2) a qualifying child lived with you and you earned less than \$41,094 (\$46,884 if married filing jointly); (3) two qualifying children lived with you and you earned less than \$46,703 (\$52,493 if married filing jointly); or (4) three or more qualifying children lived with you and you earned less than \$50,162 (\$55,952 if married filing jointly). The maximum EIC for 2019 is (1) \$529 with no qualifying child; (2) \$3,526 with one qualifying child; (3) \$5,828 with two qualifying children; and (4) \$6,557 with three or more qualifying children.
- For contributions in 2019 to a Traditional Individual Retirement Account (IRA), the deduction phaseout range for an

individual covered by a retirement plan at work begins at income of \$103,000 for joint filers and \$64,000 for a single person or head of household. These are 2019 amounts that increase to \$104,000 for joint filers and \$65,000 for a single person or head of household for 2020.

- The dollar limit on annual elective deferrals an individual may make to a 403(b) retirement plan was \$19,000 for 2019. It increases to \$19,500 for 2020.
- 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 \$6,000 for 2019. For 2020, the limit is \$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 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 excludible from the minister’s gross income as a parsonage allowance.”
- The standard business mileage rate was 58 cents per mile for business miles driven during 2019. The standard business mileage rate for 2020 is 57.5 cents per mile.
- Recent tax law changes may result in lower taxes, resulting in lower estimated tax payments, for many taxpayers. Be sure your estimated tax calculations or withholdings take into account the most recent tax law changes.
- Many churches employ retired persons who are receiving Social Security benefits. Persons younger than full retirement age may have their Social Security retirement benefits cut if they earn more than a specified amount. Full retirement age (the age at which you are entitled to full retirement benefits) for persons born 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 2020 that limit is \$18,240. 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 2020 that limit is \$48,600 (\$4,050 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.

- A federal appeals court rejected a constitutional challenge to the minister’s housing allowance. This development is addressed at the beginning of this publication.
- A provision in the comprehensive tax reform legislation enacted by Congress in 2017 (the TCJA) imposed a tax (the unrelated business income tax) of 21 percent on expenses associated with benefits provided to employees through a qualified transportation fringe benefit program as defined by IRC section 132(f). These benefits included employer-provided parking, mass transit passes and commuter vans. Churches providing these benefits were required to file *Form 990-T* to report the costs and the related tax. There was protest from nonprofit organizations, including churches, during 2019 with petitions submitted to Congress requesting repeal of the provision and several bills introduced to repeal the provision. Subsequently, on December 20, 2019, the president signed the Further Consolidated Appropriations Act, 2020, which repeals the requirement to file *Form 990-T* and the unrelated business income tax for qualified transportation fringe benefits.
- The IRS has announced that the following tax forms are obsolete and will no longer be used in 2019 and future years:
 - *Schedule 4* (merged with *Schedule 2*)
 - *Schedule 5* (merged with *Schedule 3*)
 - *Schedule 6* (merged with *Forms 1040* and *1040-SR*)
 - *Schedule C-EZ* (*Schedule C* will be used)
 - *Form 2555-EZ* (*Form 2555* will be used)
 - *Form 8965* (Health coverage exemption reporting is no longer applicable to tax years after 2018.)

Form 1040-SR U.S. Tax Return for Seniors has been introduced for 2019. You can use this form if you were born before January 2, 1955. The form generally mirrors *Form 1040* and is designed to make tax preparation and filing simpler for older taxpayers. It is only available to persons who claim the standard deduction. The form uses larger and more readable type and contains conspicuous instructions on calculating the standard deduction amount.

PRELIMINARY QUESTIONS

Below are several questions you should consider before preparing your 2019 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 2019 tax year is April 15, 2020.

Q. What if I am unable to file my tax return by the deadline?

- A. You can obtain an automatic six-month extension (from April 15 to October 15, 2020) to file your 2019 *Form 1040* if you file *Form 4868* by April 15, 2020, with the IRS service center for your area. Your *Form 1040* can be filed at any time during the six-month extension period. **An extension only relieves you from the obligation to file your return; it is not an extension of the obligation to pay your taxes.** You must make an estimate of your tax for 2019 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 2019, 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 tax professionals such as a CPA or an enrolled agent (EA) who specializes in tax law and who is familiar with the rules that apply to ministers. A CPA has completed a rigorous educational program, and 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.