

Frequent Tax Questions and Answers For Treasurers, Administrators, Bookkeepers, and Others

1. What kind of information regarding Social Security offsets is helpful to know, particularly as it relates to the Board of Pensions?

By law, clergy are considered self-employed for Social Security tax purposes and, therefore, *cannot* have any of their Self-Employment Contributions Act (SECA) tax paid for them on a tax-favored basis. If ministers receive any allowance or SECA “offset,” unfortunately it will be subject to federal income tax and added to the ministers SECA tax base.

To the extent that any such SECA allowance is $\frac{1}{2}$ or less of the estimated amount due in any given year, the employer does not need to include the allowance in calculating the minister’s effective salary reported to the Board or pay plan dues on that amount.

Amounts greater than $\frac{1}{2}$ of the estimated SECA amount are reportable and subject to plan dues. This dues adjustment is designed to treat clergy and lay church workers — who have $\frac{1}{2}$ of their Social Security tax (FICA) paid by the employer on a non-dues-bearing basis — equally.

2. How do we set up a Flexible Spending Account and to whom must it be offered?

A Flexible Spending Account (FSA) enables an employee to be reimbursed with his or her own pre-tax dollars for eligible expenses not covered by the Medical Plan. Only an employer can establish an FSA.

The Board offers an overview and sample FSA documents in the Forms & Publications section of Pensions.org. On the Forms page, look for the Flexible Spending Account link to the sample documents.

However, although these forms and documents provide most, if not all, that your employer needs to establish this type of plan, *please consult a professional benefits expert when establishing such a plan for your particular church.*

For example, most benefits, such as an FSA, must be offered to everyone in an employment classification. Employment classifications are defined by the U.S. Department of Labor and your state department of labor. How you classify employees — and the benefits they may receive — are complex issues.

One advantage of providing an FSA is that because it is a salary reduction plan and an individual may choose whether or not to participate, churches and employing organizations rarely run the risk of benefits discrimination. An idea is to offer your FSA option to all employees.

3. What documentation is required to declare clergy housing allowance?

Churches and employing organizations may designate a housing allowance in a written resolution or terms of call. The amount must be designated in advance of payment to the minister. The housing allowance may be a dollar amount or a percentage of salary.

The way to provide this documentation is to give the minister a copy of the governing body's minutes or the approved terms of call. There are no dollar or percentage limits as to how much may be declared.

It is the minister's responsibility to provide all other documentation to substantiate the amount used for qualified housing expenses. More information can be found on the IRS website ([irs.gov](https://www.irs.gov)) and by referring to two Board publications: *Federal Reporting Requirements for Churches* and *Tax Guide for Ministers*.

4. Please explain about business travel expenses, particularly for people who live a distance from the workplace.

Consult IRS Publication 463 for information on business travel. You may obtain a copy of this resource on the IRS website ([irs.gov](https://www.irs.gov)). The publication states that commuting costs are *not* reimbursed as a business expense; however, travel costs for temporary assignments may be reimbursable as such.

5. How do I set up the salary deferral on a tax-free basis needed to fund a 403(b)(9) retirement savings plan for our employees and/or ministers?

The Retirement Savings Plan offered through the Board is easy to set up for your church or employing organization.

- Obtain the enrollment packet, including instructions, by calling Fidelity at 800-343-0860 or from the Board's website, [Pensions.org](https://pensions.org).
- The church or employing organization completes and returns an application to participate, along with the individuals' applications and salary deferral agreements.
- Once the account has been established, the church will receive invoices monthly for the amounts the individual employees have elected to defer. All you have to do is pay the invoice.

There are no other forms or reports to complete. All other paperwork required by such plans is handled by the Board of Pensions and Fidelity Investments.

Note: Employers should review the amounts deferred annually to confirm that they have not exceeded the maximum amount that may be deferred by the individual.

How you report these salary deferrals at year-end for tax purposes is also simple. Directions are found in the Board's *Federal Reporting Requirements for Churches*. This publication is updated annually and available for download on [Pensions.org](https://pensions.org).

(If you have a plan using another record-keeper, please call that record-keeper directly for information.)

6. How do I report the clergy housing allowance on the W-2?

It is very important that the W-2 Forms you report to the IRS and provide to your employees and ministers at year-end are correct. To help ensure the accuracy of your returns, consult the Board's *Federal Reporting Requirements for Churches*.

In the current edition of that publication, it shows that Box 14 is set aside for “other” information on Form W-2. The guide states:

“Use it to provide information to the church employee. Some churches report a church-designated housing allowance in this box (for ministers who report their income taxes as employees). 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.”

With that in mind, enter the minister’s salary, excluding housing allowance, in Box 1. Enter the housing allowance amount in Box 14.

7. How do I report the honoraria or fees that our clergy or lay church workers receive for special events (when these are separate from their pay)?

If the honoraria are paid directly to the employee (clergy or lay), the church has no responsibility to report this. Typically, honoraria are not paid by an employer and are not reportable by the employer.

In most cases, the employee will report this income on Schedule C [Profit or Loss from Business (Sole Proprietorship)] of Form 1040. If the money is paid through the church, it should be added to its other income subject to federal income tax and reported on the employee’s W-2.

8. Our junior high class helps in the nursery. The students do not receive a paycheck, but we put money for each hour they work into a youth account to help pay for youth trips. What are the tax consequences for this?

Some questions are simply beyond the scope of the Board’s ability to answer. This is one such question.

There are many possible interpretations of this question and, thus, many possible answers. These types of questions are tax and employment law questions. For the answer to them, please check with your tax adviser *and* your state department of labor for clarification on your specific situation.

9. Do any of the new IRS reporting requirements on Form 990 — Return of Organization Exempt From Income Tax — (or other forms) apply to our church?

Churches are exempt from filing Form 990 (Return of Organization Exempt From Income Tax), unless the church in question has unrelated business taxable income. The instruction for Form 990 states the following in Section B for Organizations Not Required To File Form 990 or 990-EZ: “A church, an interchurch organization of local units of a church, a convention or association of churches, or an integrated auxiliary of a church ... (such as a men’s or women’s organization, religious school, mission society, or youth group).”

A federal form that many churches — large and small — need to file is Form 941, which is related to payment of quarterly taxes being withheld from employees. If your church has a minister as the only employee, it need not file Form 941 (Employer’s Quarterly Federal Tax Return) because a church is not required to withhold taxes from a minister’s pay.

For small churches, Form 944 (Employer’s Annual Federal Tax Return) may replace Form 941. Please refer to the Board’s *Federal Reporting Requirements for Churches*.

It may be helpful to note in response to this question, however, that **many churches forget to check whether they need to renew their tax-exempt status with state or local authorities.** Serious consequences may follow if you fail to renew your tax-exempt/non-profit status as needed. We suggest you check with your local and state authorities to see if such renewal is needed.

You may obtain copies of the Board's tax-related resources, including annual guides, at [Pensions.org](https://www.pensions.org) or by calling 800-773-7752 (800-PRESPLAN).

Disclaimer: *The Board of Pensions does not provide individual tax advice to individuals or employers. The preceding information is provided as a part of the Board's education program. For updated forms, guidance, and instructions, individuals and employers should go to the IRS website at [irs.gov](https://www.irs.gov) or consult with their individual tax or financial advisers.*