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2021 Clergy Tax Return Preparation Guide for 2020 Returns
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PART 1: INTRODUCTION

How to use this Guide

This book contains the basic information you need to complete your 2020 federal income tax return. It gives special attention to several forms and schedules and the sections of each form most relevant to ministers. A companion resource—**Federal Reporting Requirements for Churches**—helps churches comply with their federal tax reporting requirements, providing assistance to churches (especially treasurers and bookkeepers) in filing federal tax forms. **Federal Reporting Requirements for Churches** may be downloaded from the Pension Boards (PBUCC) [website](#).

This **Guide** is divided into the following sections:

Part 1: Introduction—This section reviews tax highlights for 2020 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 sample tax returns prepared for an active minister and spouse and for a retired minister and spouse.

Tax highlights

1. *The Tax Cuts and Jobs Act of 2017*

The Tax Cuts and Jobs Act of 2017 amended the Internal Revenue Code to reduce tax rates and modify credits and deductions for individuals and businesses.

With respect to individuals, the Tax Cuts and Jobs Act:

- replaces the seven previous tax brackets (10%, 15%, 25%, 28%, 33%, 35%, and 39.6%) with seven new and lower brackets (10%, 12%, 22%, 24%, 32%, 35%, and 37%);

- 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 cash charitable contributions up to 60% 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;
- broadens 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; and
- 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 2020 and future years. Here is a rundown of some key provisions:

- You may be able to claim the earned income credit (EIC) for 2020 if: 1) you do not have a qualifying child and you earned less than \$15,820 (\$21,710 if married); 2) a qualifying child lived with you and you earned less than \$41,756 (\$47,646 if married filing jointly); 3) two qualifying children lived with you and you earned

less than \$47,440 (\$53,330 if married filing jointly); or 4) three or more qualifying children lived with you and you earned less than \$50,954 (\$56,844 if married filing jointly).

The maximum earned income credit for 2020 is: 1) \$538 with no qualifying child; 2) \$3,584 with one qualifying child; 3) \$5,920 with two qualifying children; and 4) \$6,600 with three or more qualifying children.

- For contributions in 2020 to a traditional IRA, the deduction phaseout range for an individual covered by a retirement plan at work begins at income of \$104,000 for joint filers and \$65,000 for a single person or head of household. These are 2020 amounts that increase to \$105,000 for joint filers and \$66,000 for a single person or head of household in 2021.
- The dollar limit on annual elective deferrals an individual may make to a 403(b)(9) retirement plan is \$19,500 for 2020 and 2021.
- The catch-up contribution limit on elective deferrals to a 403(b)(9) retirement plan for individuals who had attained age 50 by the end of the year was \$6,500 for 2020. For 2021, 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; 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 57.5 cents per mile for business miles driven during 2020. It was reduced to 56 cents per business mile for 2021.
- 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 2021, that limit is \$18,960. 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, the limit was \$50,520 (\$4,210 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 the Seventh Circuit Court of Appeals (a Federal Appeals Court) unanimously affirmed the constitutionality of the housing allowance. *Gaylor v. Mnuchin*, 919 F. 3d 420 (7th Cir. 2019).
- In the Coronavirus Aid, Relief, and Economic Security (CARES) Act of 2020, Congress enacted a provision that allows non-itemizers an above-the-line qualified charitable deduction of up to \$300 for charitable contributions.

Preliminary questions

Here are several questions you should consider before preparing your 2020 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 self-employment tax. Different rules apply to ministers who are exempt from self-employment taxes.

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 returns for the 2020 tax year is April 15, 2021. As of the date 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 15, 2021) to file your 2020 [Form 1040](#) if you file [Form 4868](#) by April 15, 2021 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 2020 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 2020, 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 [Internal Revenue Service](#) provides a service called Taxpayer Assistance, but it is not liable in any way if its agents provide you with incorrect answers to your questions. Free taxpayer publications are available from the [IRS](#) and many of these are helpful to ministers.

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

- Ask other ministers in your community for their recommendations.
- If possible, use a CPA who specializes in tax law and who is familiar with the rules that apply to ministers. A CPA has completed a rigorous educational program and is subject to strict ethical requirements. However, the tax law is broad and complicated, so it should not be assumed that all CPAs 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, including the United Church of Christ. 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); and
- eligibility, under very limited circumstances, to exempt themselves from self-employment taxes.

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

EXAMPLE. Pastor Joaquín is an ordained minister employed by a church. In addition, she works a second job for a secular employer. Assume that Pastor Joaquín qualifies as a minister for federal tax purposes. Since her church duties constitute services performed in the exercise of this ministry, the church can designate a portion of her compensation as a housing allowance. However, the secular employer cannot designate any portion of Pastor Joaquín'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 sacerdotal 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 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 rules are summarized below:

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 Brady is a minister at First United Church of Christ. She is an employee for federal income tax reporting purposes with respect to her church salary. However, she is self-employed with respect to honoraria she

receives for speaking in other churches and for compensation church members give her for performing personal services such as weddings and funerals. The church issues Pastor Brady a [Form W-2](#) reporting her church salary. Pastor Brady reports this amount as wages on line 1 of [Form 1040](#). She reports her 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 various fringe benefits will be tax free, the risk of an IRS audit is substantially lower, and reporting as an employee avoids the additional taxes and penalties that often apply to self-employed ministers who are audited by the IRS and reclassified as employees.

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](#)).

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.

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 self-employment taxes (Social Security taxes for the self-employed) unless they have filed a timely exemption application ([Form 4361](#)) that has been approved by the IRS. As noted below, few ministers qualify for this exemption.

KEY POINT. While most ministers are employees for federal income tax reporting purposes, they are self-employed for Social Security with respect to services they perform in the exercise of their ministry. This means that ministers are not subject to the employee's share of Social Security and Medicare taxes, even though they report their income taxes as employees and receive a [Form W-2](#) from their church. A minister's [Form W-2](#) should not report any amounts in Boxes 3, 4, 5, and 6. Rather, they pay the self-employment tax (SECA) by completing [Schedule SE](#) with their [Form 1040](#).

Exemption from self-employment (Social Security) taxes.

If ministers meet several requirements, they may exempt themselves from self-employment taxes with respect to their ministerial earnings. Among other things, the exemption application ([Form 4361](#)) must be submitted to the IRS within a limited time period. The deadline is the due date of the federal tax return for the second year in which a minister has net earnings from self-employment of \$400 or more, any part of which comes from ministerial services.

Further, the exemption is available only to ministers who are opposed on the basis of religious considerations to the acceptance of benefits under the Social Security program (or any other public insurance system that provides retirement or medical benefits). A minister who files the exemption application may still purchase life insurance or participate in retirement programs administered by 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 their 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 nonreligious considerations, are not a valid basis for the exemption, nor is opposition to paying the self-employment tax.

The exemption is only effective when it is approved by the IRS. Few ministers qualify for the exemption. Many younger ministers opt out of the self-employment tax without realizing that they do not qualify for the exemption. A decision to opt out of self-

employment tax is irrevocable. However, Section 4.19.6.5.11.3 (02-15-2019) of the IRS Internal Revenue Manual explicitly recognizes that under some conditions ministers who have exempted themselves from self-employment taxes solely for economic reasons can revoke their exemption. Check with a tax attorney or CPA for additional information.

An exemption from self-employment taxes applies only to compensation for ministerial services. Ministers who have exempted themselves from self-employment taxes must pay Social Security taxes on any non-ministerial compensation they receive. And they remain eligible for Social Security benefits based on their non-ministerial employment assuming that they have worked enough quarters. Generally, 40 quarters are required. Also, the Social Security Administration has informed the author of this text that ministers who exempt themselves from self-employment taxes may qualify for Social Security benefits (including retirement and Medicare) on the basis of their spouse's coverage if the spouse had enough credits. However, the amount of these benefits will be reduced by the windfall elimination provision. Contact a [Social Security Administration](#) office for details.

KEY POINT. The amount of earnings required for a quarter of coverage in 2021 is \$1,470. 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 self-employment tax on their ministerial income and wages (unless they exempted themselves from self-employment tax 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 self-employment tax.

How do ministers pay their taxes?

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

As noted above, ministers' wages are exempt from federal income tax withholding. This means that a church 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 does not withhold the employee's share of Social Security and Medicare taxes from a minister's wages. Ministers must prepay their income taxes and self-employment taxes using the estimated tax procedure unless they 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 2021 if you expect to owe at least \$1,000 in tax for 2021 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 2021 tax return; or 2) 100% of the tax shown on your 2020 tax return (110% if adjusted gross income exceeds \$150,000, or if married filing separately, more than \$75,000). Your 2020 tax return must cover all 12 months.

The four-step procedure for reporting and prepaying estimated taxes for 2021 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 2021 before April 15, 2021. You can obtain forms by calling the IRS toll-free forms hotline at **1.800.TAXFORM (1.800.829.3676)**, or from the IRS website (www.irs.gov/). If you paid estimated taxes last year, you should receive a copy of your 2021 Form 1040-ES (not yet available at the time of publication) in the mail with payment vouchers preprinted with your name, address, and Social Security number; or
- Enroll in the Electronic Federal Tax Payment System at eftps.gov/eftps/ and establish an online account to be used to submit payments.

Step 2: Compute your estimated tax for 2021 using the Form 1040-ES worksheet. Ministers' quarterly estimated tax payments should consider both

income taxes and self-employment taxes.

Step 3: Pay one-fourth of your total estimated taxes for 2020 in each of four quarterly installments as follows:

For the Period	Due Date
January 1-March 31, 2021	April 15, 2021
April 1-May 31, 2021	June 15, 2021
June 1-August 31, 2021	Sept. 15, 2021
September 1-December 31, 2021	Jan. 18, 2021

You must send each payment to the IRS, accompanied by one of the four payment vouchers contained in Form 1040-ES. **Note:** At the time of publication of this **Guide**, Form 1040-ES for the 2021 tax year was not yet available. If enrolled in the EFTPS system, all four payments may be prescheduled for automatic payment at the schedule dates. A refund associated with an overpayment of your taxes for 2020 may be applied to your estimated tax payments due for 2021.

WARNING. If your 2020 tax return is not completed by April 15, 2021, you must go ahead and begin making your estimated tax payments to avoid potential underpayment penalties. A tax refund on your 2020 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 2020 return is completed to determine and pay your 2021 estimated tax payments.

Step 4: After the close of 2021, 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 2022 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 [W-4](#) (withholding allowance certificate) or other written authorization. Since ministers are not employees for Social Security with respect to ministerial compensation, the church does not withhold the employee's share of Social Security and Medicare taxes. However, ministers can request on [Form W-4](#) (line 4c) that an additional amount of income tax be withheld to cover their estimated self-employment tax liability for the year. The excess income tax withheld is a credit that is applied against the minister's self-employment tax liability. Many churches understandably withhold Social Security and Medicare taxes in addition to income taxes for a minister who requests voluntary withholding. Such withholding must be reported as income tax withheld.

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 of 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 adjusted gross income 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. These forms may be obtained at certain local post offices or IRS office. Or you can obtain them by calling the IRS toll-free forms hotline at **1.800.TAXFORM (1.800.829.3676)**. They also are available on the IRS website (www.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 the [Form 1040](#). If you filed a joint return for 2019 and you are filing a joint return for 2020 with the same spouse, be sure to enter your names and Social Security numbers in the same order as on your 2019 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 Social Security Administration (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 SSA file 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. While personal exemptions were repealed after 2017, it is still necessary to determine who qualifies as dependents and include them on the return. 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 earned income credit, just to name a few.

Step 4: Income. Several items of income are reported on lines 1 through 7 (including amounts carried over from [Schedule 1](#), lines 1-9). 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 or other pilgrimage site (if paid by the church)
- most Christmas and special occasion offerings
- retirement gifts paid by a church
- the portion of a minister's self-employment tax 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 nonaccountable plan
- imputed cost of group term life insurance coverage (including coverage under the [UCC Life Insurance and Disability Income \(LIDI\) Benefit Plan](#)) 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 or her 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

KEY POINT. The IRS can assess intermediate sanctions in the form of substantial excise taxes against ministers who benefit from an excess benefit transaction. Sanctions only apply 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. A rebuttable presumption arises that compensation is reasonable if it is approved by an independent board on the basis of outside "comparable data" such as independent compensation surveys, 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 their [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. 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 calculated (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 plus utilities.) [IRS Publication 517](#) states: "Include this amount in the total on Form 1040, line 1. On the dotted line next to line 1, enter 'Excess allowance' and the amount."

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 self-employment taxes. The housing allowance is an example of an exclusion that applies only to income taxes and not to self-employment taxes. Some of the more common exclusions for ministers include:

Gifts. As defined by the Internal Revenue Code and the courts, gifts are excludable 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 CPA or a tax attorney.

Life insurance and inheritances. Life insurance proceeds and inheritances are excludable 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 (including benefits under the [UCC Life Insurance and Disability Income \(LIDI\) Benefit Plan](#)), as 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, e.g., a parsonage, is excluded from income. This exclusion is not available in the computation of self-employment taxes. The value of lodging furnished to a non-minister employee on an employer's premises and for the employer's convenience may be excludable 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 excludable 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. An employer can exclude the value of benefits provided to an employee under a dependent care assistance program from the employee's wages if: (1) the care was provided so you (and your spouse, if filing jointly) could work or look for work; (2) the care must be for one or more qualifying persons; (3) the person who provided the care was not your spouse, the parent of your qualifying child, or a person whom you can claim as a dependent. If your child provided the care, they must have been age 19 or older by the end of 2020 and cannot be your dependent; and (4) you report the required information about the care provider on line 1 of [Form 2441](#).

An employee can generally exclude from gross income up to \$5,000 of benefits received under a dependent care assistance program each year. This limit is reduced to \$2,500 for married employees filing separate returns. However, the exclusion cannot be more than the smaller of the earned income of either the employee or the employee's spouse.

Dependent care assistance cannot be excluded from the wages of a "highly-compensated employee" unless the benefits provided under the program do not favor highly-compensated employees. For this exclusion, a highly compensated employee for 2020 is one who received more than \$125,000 in pay for 2019. For 2021, a highly-compensated employee is one who earned more than \$130,000 in 2020. For more information on the earned income limit, see IRS Publication 503. (**Note:** At the time of

publication, Publication 503 for 2020 returns was not yet available.)

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, qualified scholarships, and sale of a home.

Housing allowance

KEY POINT. The housing allowance was challenged in federal court as an unconstitutional preference for religion. In 2019, 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 home 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 SAVINGS 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 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 ministers are not aware of this benefit or are not taking advantage of it.

TAX SAVINGS 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 self-employment (Social Security) taxes unless they are retired. The Tax Code specifies that the self-employment tax 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 the housing allowance rules for state income taxes.

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-NEC](#)).

Housing expenses to include in computing your housing allowance exclusion

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

- down payment on a home (but note that a housing allowance is nontaxable only to the extent that it does not exceed the lesser of the amount designated by their church, the actual housing expenses or the fair rental value of a minister's home, as 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)
- 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 home, 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 their church. But note that it serves no purpose to designate a housing allowance greater than the fair rental value of a minister's home (as 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](#). [IRS Publication 517](#) states: "Include this amount in the total on [Form 1040](#), line 1. On the dotted line next to line 1, enter 'Excess allowance' and the amount."
- The housing allowance exclusion is an exclusion for federal income taxes only. Ministers must add the housing allowance as income in reporting self-employment taxes on [Schedule SE](#) (unless they are exempt from self-employment taxes).
- 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'Arcy's 2020 compensation as a housing allowance. Pastor D'Arcy's housing expenses for 2020 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'Arcy'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 her 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; 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’Arcy’s housing allowance. Pastor D’Arcy must report the difference between this amount and the housing allowance designated by her 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’Arcy’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 the Pastor D’Arcy’s actual housing expenses were more than the allowance, and so she was penalized because of the low allowance designated by her church.

EXAMPLE. Pastor Hwang owns a home and incurred housing expenses of \$12,000 in 2020. These expenses include mortgage principal and interest, property taxes, utilities, insurance and repairs. The church designated (in advance) \$12,000 of Pastor Hwang’s 2020 compensation as a housing allowance. Pastor Hwang can itemize expenses on [Schedule A](#). He can 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 2020, Pastor Hernández discovers that his church failed to designate a housing allowance for him for 2020. He asks his church to pass a resolution retroactively granting the allowance for 2020. Such a resolution is ineffective, and Pastor Hernández will not be eligible for any housing allowance exclusion in 2020.

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 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 or her 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 home 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 consider 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 2021 that it failed to designate a housing allowance for its pastor for 2021. It is not too late to act. The church should immediately designate a portion of its minister's remaining compensation for 2021 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 2019 board meeting (e.g., "for 2020 and future years"), it would not matter that the church neglected to designate a minister's 2021 allowance until March of 2021, 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 or her church or the church pension board of a denominational pension fund; 2) the retired minister has severed his or her 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, such as the [Annuity Plan for the United Church of Christ](#) 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 (plus utilities) furnished to them by their church as a part of their pay for past services.

Note: 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 the surviving spouse performs or performed.

The self-employment tax 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.

Section 403(b)(9) plans

Payments made by your church and your salary reduction contributions to a 403(b)(9) plan are not reportable income for income tax or self-employment tax 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 2020, 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 \$57,000. This rule is known as the Section 415(c) limit. 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)(9) plan or to an IRA.

NEW IN 2021. The limit on annual additions is \$58,000 for 2021.

Minister's housing allowance and contribution limits

For 2020, the Section 415(c) limit restricts 403(b)(9) contributions to the lesser of 100% of compensation or \$57,000. For 2021, this amount is \$58,000.

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)(9) 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)(9)(3) plan "means the participant's includible compensation determined under section 403(b)(9)(3)." Section 403(b)(9)(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 excludable 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.

KEY POINT. Churches that include the housing allowance as compensation when calculating the amount of the church's contribution to 403(b)(9) 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).

Taxation of distributions from a 403(b)(9) plan

Amounts you contribute through employer discretionary contributions, employee salary reduction contributions, and the earnings attributable to these contributions, generally cannot be withdrawn before you reach age 59½, separate from service, die, or become disabled. 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)(9) plan may make hardship distributions only if permitted by the plan.

KEY POINT. [The Annuity Plan for the United Church of Christ](#) does not have a provision for hardship distributions. However, provisions were made for coronavirus-related hardship withdrawals through December 31, 2020.

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 which is includable in income, unless one of the following exceptions applies:

- 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 disabled.
- The distributions are made to an alternate payee pursuant to a qualified domestic relations order.

The additional tax is computed on [Form 5329](#).

NEW IN 2020. 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 of 2020 provides that the 10% additional tax on early distributions does not apply to any coronavirus-related distribution of up to \$100,000 from a 403(b) plan and some other retirement plans. The CARES Act defines a coronavirus-related distribution as any distribution from an eligible retirement plan made to a qualified individual on or after January 1, 2020 and before December 31, 2020. Distributions generally are included in income ratably over a three-year period, starting with the year in which you receive your distribution.

KEY POINT. For instance, if you received a \$9,000 coronavirus-related distribution in 2020, you would report \$3,000 in income on your federal income tax return in each of the years 2020, 2021, and 2022. However, you also have the option of including the entire distribution in your income for 2020.

NEW IN 2020. The Setting Every Community Up for Retirement Enhancement (SECURE) Act of 2020 waives the required minimum distribution (RMD) rules for certain defined contribution plans (including 403(b) plans such as the Annuity Plan for the United Church of Christ) and IRAs for calendar year 2020. This provision provides relief to individuals who would otherwise be required to withdraw funds from such retirement accounts during the economic slowdown due to the COVID-19 pandemic.

NEW IN 2020. The SECURE Act changes the age of the required start date for RMDs, from the calendar year in which the employee attains age 70½ to the calendar year in which they reach 72. However, prior law continues to apply to employees and IRA owners who reached age 70½ prior to January 1, 2020. This provision is effective for distributions required to be made after December 31, 2019 for employees who attain age 70½ after that date. In all other respects, prior law treatment of RMDs is not affected.

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)(9) plans. Generally, you cannot defer more than an allowable amount each year for all plans covering you. For 2020, 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 2021. The dollar limit on annual elective deferrals remains at \$19,500.

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 (\$6,500 for 2020 and 2021); or 2) the participant's compensation for the year reduced by any other elective deferrals of the participant for the year.

Catch-up contributions are not subject to any other contribution limits and are not considered in applying other contribution limits.

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 nonqualified expenses (such as room and board). In addition to these requirements, the scholarship must meet the additional requirements if the recipient is an employee or a family member of an employee.

Generally, the scholarship must be noncompensatory in nature, selected using nonemployment 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.

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 Congregational Church establishes a scholarship fund for seminary students. Roberta is a church member who is pursuing a master's degree at a seminary. The church votes to award her a scholarship of \$2,500 for 2021. So long as Roberta uses the scholarship award for tuition or other course-related expenses, she need not report it as income on her 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 nonqualified expenses. As long as amounts are paid through a qualified scholarship plan, the church is not required to report the scholarship on [Form 1099-NEC](#) to the recipient.

Sale or exchange of your principal residence

A taxpayer who is an individual may exclude up to \$250,000 (\$500,000 if married filing a joint return) 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 married filing a joint return) 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.

Line 2 (Form 1040). Interest income: attach Schedule B if over \$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 interest income of more than \$1,500, complete [Schedule B](#).

Line 3 (Form 1040). 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 and enter all dividend income on line 3b. If you had dividend income of more than that \$1,500, complete [Schedule B](#).

Line 4 (Form 1040). 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](#).

Line 5 (Form 1040). Pensions and annuities. Pension and annuity payments include distributions from 401(k) and 403(b)(9) 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 includible in income.

Many denominational pension funds, including the [Annuity Plan for the United Church of Christ](#), annually designate 100% of pension and disability benefits

paid to retired ministers as a housing allowance. In such cases the [1099-R form](#) may show that the taxable amount of the pension income is “not determined” by checking the box on line 2b. 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, including utilities); and
- 3) the Pension Boards (or other denominational 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 he or she performs or performed.”

KEY POINT. Surviving spouses of deceased ministers cannot exclude any portion of the benefits received from their deceased spouse’s 403(b)(9) account as a housing allowance.

Line 6 ([Form 1040](#)). 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 must pay federal income taxes on their Social Security benefits. This usually happens only if you have other substantial income in addition to your benefits (e.g., 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 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.

If you 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 adjusted gross income (AGI) plus nontaxable interest and one-half of your Social Security benefits.

Each January, you will receive a Social Security Benefit Statement ([Form SSA-1099](#)) 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, available at www.irs.gov/.

Line 7 ([Form 1040](#)). 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 capital assets such as equipment that are used in a business.

Line 8 ([Form 1040](#)). Other Income. Income not reported on the lines 1 through 7 is reported on [Schedule 1](#) with the total reported on [Schedule 1](#), line 8.

The most important of these for ministers include:

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 marriages and funerals); and

- honoraria received for guest speaking appearances 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](#) (Form 1040).

2. *Line 8 ([Schedule 1](#)). “Other income.”* Other income is reported on line 8 of [Schedule 1](#) and carried over to line 8 ([Form 1040](#)). 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 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 self-employment tax.)

Line 9 ([Form 1040](#)). Total income. Report “total income” on this line. This is the sum of the amounts reported on lines 1-8 of [Form 1040](#), plus the additional categories of income reported on lines 1-9 of [Schedule 1](#).

Step 5: Adjustments to income

Line 10b ([Form 1040](#)). Charitable deduction. For 2020, you can take up to a \$300 deduction for cash contributions made to churches, charities, or other qualified organizations if you take the standard

deduction and do not itemize on [Schedule A](#).

You may deduct certain adjustments from total income (line 9) to compute your adjusted gross income. Report the adjustments on lines 10 through 22 of [Schedule 1](#). The total amount is subtracted from line 9 to compute adjusted gross income that is reported on line 11.

The two most relevant adjustments for ministers are the deduction for one-half of the self-employment tax, and payments to an individual retirement account (IRA). Both are summarized below.

1. *Line 14 ([Schedule 1](#)) One-half of self-employment tax.*

KEY POINT. Every minister who pays self-employment taxes 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 self-employment taxes as an adjustment on line 14 of [Schedule 1](#), whether or not they are able to itemize deductions on [Schedule A](#).

2. *Line 19 ([Schedule 1](#)). Payments to an individual retirement account (IRA).*

An individual retirement account, or IRA, is a personal savings plan that allows you to set aside money for retirement, while offering you 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 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 2020, if you were 70½ years of age 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 FOR 2020. For 2020 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.

For 2020, 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 2021.)

All IRA contributions must be made by the due date of your tax return, not including extensions. This means that your 2020 IRA contribution must be made by April 15, 2021, even if you obtain an extension for filing this return.

EXAMPLE. Primera Iglesia 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 2021, 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 2020, if you were covered by an employer-provided retirement plan, the deduction for contributions to your IRA are completely phased out

when adjusted gross income reaches \$124,000 (Married Filing Jointly, or MFJ) or \$75,000 (Single). (For 2021, the limits are \$125,000 (MFJ) and \$76,000 (Single)).

If your spouse was covered by an employer retirement plan at any time during 2020 and you made contributions to your IRA, your allowable IRA deduction is completely phased out when adjusted gross income reaches \$206,000 (MFJ). (For 2021 the limit is \$208,000 (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)(9) tax-sheltered annuities.

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 nondeductible IRA contributions, subject to the lesser of \$6,000 (for 2020 and 2021) 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 nondeductible contributions were made to the IRA.

[Form 8606](#) is used to designate a contribution as nondeductible 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.

Generally, the amounts an individual withdraws from an IRA or retirement plan before reaching age 59½ are called early or premature distributions. Individuals must pay an additional 10% early withdrawal tax unless an exception applies. However, the CARES Act temporarily waives the 10% early withdrawal penalty for coronavirus-related distributions (CRDs) made between January 1 and December 31, 2020.

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 nondeductible contributions to a Roth IRA. However, you may be limited in the amount of nondeductible contributions you may make to your Roth IRA due to your adjusted gross income (AGI). For those filing as married filing jointly, no contribution may be made to a Roth IRA in 2020 if your AGI, as modified, is \$206,000 or above. For those filing as single, no contribution may be made to a Roth IRA if your AGI, as modified, is \$139,000 or above. (For 2021, the Roth IRA contribution is phased out totally when AGI is \$208,000 for MFJ taxpayers and \$140,000 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 [IRS Publication 590-A](#) for additional information on Roth IRAs.

For information on conversions from a traditional IRA to a Roth IRA, also refer to [IRS 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 income limitations described above. For 2020 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 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 qualified charitable distribution (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 required minimum distribution (RMD).

KEY POINT. The QCD does need a qualifying receipt from the recipient charity with the mandated "no goods or services statement". However, 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 to not 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 ([Form 1040](#)). Adjusted gross income (AGI).

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.

Tax computation

Line 12 ([Form 1040](#)). 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 2020, the standard deduction amounts are as follows:

Filing Status and Standard Deduction Amount (2020)	
Single.....	\$12,400
Married Filing Jointly or Qualifying Widow(er).....	\$24,800
Married Filing Separately.....	\$12,400
Head of Household.....	\$18,650

Line 13 (Form 1040). 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 QBI less one-half of the self-employment tax directly related to the qualified business income, 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 qualified business income 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.” This, 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 [Form 1040](#)) exceed \$163,300 (\$326,600 for married filing jointly) for 2020, the deduction may be limited. If adjusted gross income exceeds \$213,300 (\$426,600 for married filing jointly) for 2020, the deduction is unavailable Attach either Form 8995 or 8995-A, and possibly Schedules A, B, and/or C (for Form 8995-A), as needed.

Line 16 (Form 1040). 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.)

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 [2020 Form 1040](#), nonrefundable credits (i.e., 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 (Form 1040). Child tax credit and additional child tax credit. The Tax Cuts and Jobs Act of 2017 temporarily increased the child tax credit to \$2,000 per qualifying child. The credit is further modified to temporarily provide for a \$500 nonrefundable credit for qualifying dependents other than qualifying children (such as aging parents). The provision generally retains the present-law definition of dependent.

If the child tax credit cannot be utilized against current taxes, a portion of the credit is refundable. This is referred to as the additional child tax credit. The maximum amount refundable may not exceed \$1,400 per qualifying child. In order to receive the child tax credit (i.e., both the refundable and nonrefundable portion) a taxpayer must include a Social Security number for each qualifying child for whom the credit is claimed on the tax return. For these purposes, a Social Security number must be issued before the due date for the filing of the return for the taxable year. This requirement does not apply to a non-child dependent for whom the \$500 nonrefundable credit is claimed.

As a qualifying child is an individual who has not attained age 17 during the taxable year. The credit is subject to the adjusted gross income phaseout thresholds. The credit begins to phase out for taxpayers with adjusted gross income in excess of \$400,000 (in the case of married taxpayers filing a joint return) and \$200,000 (for all other taxpayers). These phaseout thresholds are not indexed for inflation.

The amount of the refundable portion of the child tax credit 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 additional child tax credit (the refundable portion). Minister 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 a potential to receive a substantial additional child tax credit.

These provisions are set to expire for taxable years beginning after December 31, 2025, unless extended by Congress.

Line 20 (from [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 [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 (from [Schedule 3](#), line 4). Retirement Savings Contributions Credit (Saver's Credit). If you make eligible contributions to certain eligible retirement plans or to an individual retirement arrangement (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 [IRS 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 adjusted gross income. 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 adjusted gross income exceeds a certain amount.

The credit is available with respect to elective deferrals to a 401(k) plan, a 403(b)(9) annuity, a SIMPLE or a simplified employee pension (SEP), contributions to a traditional or Roth IRA, and voluntary after-tax employee contributions to a 403(b)(9) annuity or qualified retirement plan.

The amount of the credit for 2020 is described in the following table.

Adjusted Gross Income			
Joint Returns	Heads of Household	Single Filers	Amount of Credit
\$1-\$39,000	\$1-\$29,250	\$1-\$19,500	50% of eligible contributions up to \$2,000 (\$1,000 maximum credit)
\$39,001-\$42,500	\$29,251-\$31,875	\$19,501-\$21,250	20% of eligible contributions up to \$2,000 (\$400 maximum credit)
\$42,501-\$65,000	\$31,876-\$48,750	\$21,251-\$32,500	10% of eligible contributions up to \$2,000 (\$200 maximum credit)
over \$65,000	over \$48,750	over \$32,500	0%

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

For more information about this credit, see IRS [Form 8880](#) and [IRS Publication 590-A](#).

Other taxes ([Form 1040](#), line 23 from [Schedule 2](#), line 10 (other taxes)). On the [Form 1040](#) for 2020, "other taxes" are derived from line 10 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).

Payments

On the 2020 [Form 1040](#), amounts representing federal income tax withholding is 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 ([Form 1040](#)). Federal income tax withheld. Federal income tax may be withheld from several sources of income. For the first time, the [Form 1040](#) separately reports withholding from these different potential sources.

Line 25a ([Form 1040](#)) Federal income tax withheld from [Form 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 Social Security and Medicare taxes, 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 self-employment tax liability. These additional withholdings must be treated as income taxes withheld (on Forms [W-2](#) and [941](#)) rather than the employee's share of Social Security and Medicare taxes. They constitute a credit that can be applied to both income taxes and self-employment taxes. Ministers still must complete [Schedule SE](#) to report their self-employment tax liability.

Line 25b ([Form 1040](#)) 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 ([Form 1040](#)) 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 ([Form 1040](#)). 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 Social Security (self-employment) taxes by using the quarterly estimated tax procedure, unless they have entered into a voluntary withholding agreement 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?" (p. 9).

The total amount of estimated tax payments made to the IRS for the 2020 tax year is reported as a payment on line 26 of [Form 1040](#). Additionally, any amount of overpayment from 2019 applied to 2020 tax payments is included on this line.

Line 27 ([Form 1040](#)). Earned income credit (EIC). The earned income credit 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 earned income credit do not claim it because it is so difficult to compute. In most cases, the amount of your earned income credit 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 adjusted gross income.

You may be able to claim the earned income credit for 2020 if you have non-retirement investment income of \$3,650 or less and 1) you do not have a qualifying child, at least age 25 and you earned less than \$15,820 (\$21,710 if married filing jointly); 2) a qualifying child lived with you and you earned less than \$41,756 (\$47,646 if married filing jointly); 3) two qualifying children lived with you and you earned less than \$47,440 (\$53,330 if married filing jointly); or 4) three or more qualifying children lived with you and you earned less than \$50,954 (\$56,844 if married filing jointly).

The maximum earned income credit for 2020 is 1) \$538 with no qualifying child; 2) \$3,584 with one qualifying child; 3) \$5,920 with two qualifying

children; and 4) \$6,660 with 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 earned income credit, 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 40-page publication that explains the earned income credit. The 2019 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 self-employment taxes by filing a timely [Form 4361](#) exemption application with the IRS.

Excerpts from [IRS Publication 596](#) confirm that ministers who are employees for income tax reporting purposes and who have not exempted themselves from self-employment taxes 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 earned income credit.

What about ministers who have exempted themselves from self-employment taxes 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 earned income credit? As noted above, [IRS 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](#), [IRS 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 own tax advisor for help.

KEY POINT. The definition of “earned income” for the Earned Income Credit is not the same definition of “earned income” for the Additional Child Tax Credit 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 Earned Income Credit and the Additional Child Tax Credit.

Refund or amount you owe

After totaling your payments ([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 with your return a check in the amount you owe payable to the “United States Treasury” or by making the payment through your EFTPS account. 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 the [Form 1040-V](#). Include your daytime phone number, your Social Security number, and write “Form 1040 for 2020” 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 have overpaid your taxes, you have two options: 1) request a full refund; or 2) apply the overpayment to your 2021 estimated tax. (Refer to line 36 of the Form 1040.)

Sign here

You must sign and date your tax return at the bottom of p. 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 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.

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](#). 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 percent of your adjusted gross income. You must reduce your medical expenses by the amounts of any reimbursements you receive for those expenses before applying the 7.5 percent 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.

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 A premiums you pay if you are exempt from Social Security and voluntarily elect to pay Medicare A premiums
- Medicare B premiums you pay
- Medicare 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 (dentures, prosthetic limbs, eyeglasses, hearing aids, crutches, etc.)
- transportation for necessary medical care (20 cents per mile for medical travel in 2020; 16 cents per mile in 2021)
- 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
- smoking cessation programs
- exercise expenses (including the cost of equipment to use in the home) if required to treat an illness (including obesity) diagnosed by a physician, and the purpose of the expense is to treat a disease rather than to promote general health and the taxpayer would not have paid the expense but for this purpose

The following items **are not** deductible as medical expenses:

- the cost of diet food
- funeral services
- health club dues (except as noted above)
- household help
- life insurance
- maternity clothes
- nonprescription 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)

In the past, individuals were permitted a deduction for certain taxes paid or accrued, whether or not incurred in a taxpayer's trade or business. These taxes were:

- state and local real property taxes;
- state and local personal property taxes; and
- state and local income taxes.

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 limit 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 which secures the residence. Note the following two rules:

Limit on loans taken out on or before December 15, 2017

For qualifying debt taken out on or before December 15, 2017, you can only deduct home mortgage interest on up to \$1,000,000 (\$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.

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

Limit on loans taken out after December 15, 2017

For qualifying debt taken out after December 15, 2017, you can only deduct home mortgage interest on up to \$750,000 (\$375,000 if you are married filing separately) of that debt. If you also have qualifying debt subject to the \$1,000,000 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 \$1,000,000 limit. An exception exists for certain loans taken out after December 15, 2017, but before April 1, 2018. 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 [IRS 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.

Congress enacted legislation in 2019 that provides

for the deductibility of mortgage insurance premiums (MIP) through 2020, and retroactively for tax years 2018 and 2019. 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)

Cash contributions to churches, schools, and most other public charities, that are U.S. organizations, are deductible up to 60% of adjusted gross income. Contributions of property are subject to different limitations. See [IRS Publication 526](#).

Contributions of cash or checks are reported on line 11, while contributions of noncash property are reported on line 12. If you do not itemize deductions, a charitable contribution of up to \$300 is allowed on [Form 1040](#), line 10b.

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 you may claim the standard charitable mileage rate of 14 cents for each substantiated mile (for 2020 and 2021).

Unreimbursed travel expenses incurred while away from home (whether within the United States 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](#). (A letter acknowledging the individual's service should be obtained from the charity.) Or these individuals could provide their church or charity with a travel report substantiating all travel expenses. In such a case, the church or charity could issue the individual a charitable contribution receipt for the total amount of the substantiated travel expenses. Travel expenses that can be receipted include airfare, lodging, meals and incidental expenses.

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 60% of adjusted gross income. In some cases, contributions that exceed these limits can be carried over and claimed in future years. Some charitable contributions are limited to 20% or 30% of adjusted gross income, 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 qualifying 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 companion resource, [Federal Reporting Requirements for Churches](#), available on the PBUCC website.

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.

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 noncash 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](#).

Special rules apply to donations of cars, boats, and planes. See the Instructions to [Form 1098-C](#) for details.

KEY POINT. The Tax Court ruled that a donor who contributed property worth more than \$10,000 to a church was not eligible for a charitable contribution deduction, even though there was no dispute as to the value of the property, because he failed to attach a qualified appraisal summary ([Form 8283](#)) to the tax return on which the contribution was claimed.

KEY POINT. In the CARES Act of 2020, Congress enacted a provision in the legislation that allows non-itemizers an above-the-line qualified charitable deduction of up to \$300 for charitable contributions.

Step 5: Casualty and theft losses (line 15)

You can only deduct personal casualty and theft losses attributable to a federally declared disaster 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.

Job expenses and most other miscellaneous deductions

Employee business expenses that are either unreimbursed, or reimbursed by an employer under a nonaccountable arrangement, are no longer deductible by an employee. This provision of the Tax Cuts and Jobs Act is effective for taxable years 2018 through 2025 unless extended by Congress.

The elimination of an itemized deduction for unreimbursed employee business expenses will hit some clergy hard. Some have suggested that 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:

- Expenses must have a business connection—that is, the reimbursed expenses must represent expenses incurred by an employee while performing services for the employer.
- Employees are only reimbursed 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).
- 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).
- 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% floor under present law" (including unreimbursed employee business expenses, and employee expenses reimbursed under a nonaccountable 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 2019. Be sure the interest you report on line 1 corresponds to any [1099-INT forms](#) 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 2019. Be sure the dividends you report on line 5 correspond to any [1099-DIV forms](#) 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 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.

KEY POINT. The IRS has discontinued the simplified Schedule C-EZ for 2019 and future years. Persons who used Schedule C-EZ in the past will now use [Schedule C](#).

Step 1: Introduction

Complete the first several questions on [Schedule C](#). Ministers should list code **541990** on line B, since this is the code the IRS uses in a clergy tax illustration in [IRS 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. A perceived advantage of doing so is the ability to deduct business expenses on [Schedule C](#) (and avoid the nondeductibility of unreimbursed and

nonaccountable 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](#). Self-employed persons can deduct only 50% of business meals and meals associated with entertainment.

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 percent of an otherwise allowable business meal expense 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 nondeductible.

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 non-taxable income. (Many refer to this rule as the Deason Rule.)

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

[Schedule SE](#)

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 self-employment taxes, and not Social Security and Medicare (FICA) taxes, with respect to compensation from such services.

KEY POINT. Ministers who have received IRS approval of an application for exemption from self-employment taxes ([Form 4361](#)) do not pay self-employment taxes on compensation received for their ministerial services. These ministers should enter **Exempt-Form 4361** on [Schedule 2](#), line 4.

Step 1: Section A (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 marriages, baptisms, funerals, other services, etc.
- self-employment earnings from outside businesses
- annual rental value of a parsonage

including utilities paid by church (unless you are retired)

- a housing allowance (unless you are retired)
- business expense reimbursements (under a nonaccountable 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 self-employment tax

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
- annual fair rental value of a parsonage provided to you after you retire
- housing allowance provided to you after you retire
- salary reduction contributions (elective deferrals) to a tax-sheltered annuity 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)
- 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 percent,

which is half the Social Security and Medicare tax paid by employers and employees. To do this, multiply net earnings from self-employment by 0.9235 on line 4. Self-employment taxes are paid on the reduced amount.

Step 3: Part I (line 12)

The self-employment tax for 2020 is computed on this line. The self-employment tax rate for 2020 is 15.3 percent, which consists of the following two components: 1) a Medicare hospital insurance tax of 2.9%; and 2) an old-age, survivor and disability (Social Security) tax of 12.4%.

For 2020, the 2.9% Medicare tax applied to all net earnings from self-employment regardless of amount. For 2020, the 12.4% Social Security tax applied to only the first \$137,700 of net self-employment earnings. (For 2021, the maximum earnings subject to Social Security tax is \$142,800.)

Form 8959, Additional Medicare Tax

An additional Medicare tax is calculated on wages or self-employment income of higher income taxpayers. A Medicare (HI) tax of an additional tax of 0.9 percent 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 2021.

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 2106

KEY POINT. In the past, [Form 2106](#) was used by employees to compute employee business expenses claimed on [Schedule A](#). For most taxpayers, this form is now obsolete because of the suspension of an itemized deduction for employee business expenses on [Schedule A](#). [Form 2106](#) is now used only by Armed Forces reservists, qualified performing artists, fee-basis state or local government officials, and employees with impairment-related work expenses.

PART FOUR: COMPREHENSIVE EXAMPLES AND FORMS

Example One: Active Minister

Note: This example is based on an illustrated example contained at the end of [IRS Publication 517](#).

Rev. John Michaels is the minister of the First United Church. He is married and has one child. The child is considered a qualifying child for 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 SE tax. 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 2020 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 parsonage allowance. The home's fair rental value is \$1,380 per month (including furnishings and utilities). Additionally, Rev. Michaels made cash charitable contributions of \$6,000 to Section 501(c)(3) public charities in 2020. Rev. Michaels has chosen not to defer payment of his self-employment taxes under special 2020 coronavirus relief legislation. Rev. Michaels received a coronavirus economic impact payment (stimulus check) in the amount of \$2,900 and therefore does not qualify for a recovery rebate credit.

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 through 6. Rev. Michaels is considered a self-employed person for purposes of Social Security and Medicare tax withholding, so the church left these boxes blank.

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

TURBO TAX TIPS. Listed below are tips for ministers who use Turbo Tax 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 Turbo Tax software.

1. **Do any of these apply to this [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.** Turbo Tax 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 (including furnishings and 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 self-employment tax should be paid on wages and housing allowance. See Schedule SE Turbo Tax 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 Social Security and Medicare 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)

KEY POINT. 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 through 7. Rev. Michaels fills out these lines to report his gross income reported on line 7. Rev. Michael 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 through 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 437 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 2020 mileage rate of 57.5 cents by 437 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 parsonage allowance. He attaches the required statement, Attachment 1 (p. 52) to his return showing that 25% (or \$63) of his business 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 on 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 the required statement, Attachment 1 (p. 52) 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 parsonage allowance, (\$188 + \$65) on line 28.

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

Lines 43 through 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.

TURBO TAX TIPS. Turbo Tax does not appear to calculate the nondeductible 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, p. 52) and input the reduced figure into the software.

Schedule SE (Form 1040)

After Rev. Michaels prepares [Schedule C](#), he fills out [Schedule SE](#). Rev. Michaels is a minister, so his salary from the church is not considered church employee income. Additionally, Rev. Michaels did not apply for an exemption from SE tax 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 (see Attachment 2 (p. 52) 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, there is still some ambiguity as of the date of this writing as to whether these expenses remain deductible for self-employment tax purposes. Although not abundantly clear, language in IRS Publication 517 appears to allow a deduction of these expenses for self-employment tax purposes against wages earned by a minister as a common-law employee of a church. Based on the commentary in Chapter 9 and the underlying rulings discussed therein, the author has prepared this example assuming these expenses are deductible against self-employment earnings. Ministers should consult with their personal tax advisors regarding the deductibility of these expenses for purposes of self-employment tax on their 2020 [Form 1040](#), in light of the developing nature of guidance in this area as of the date of this writing. Rev. Michaels records show that he drove 2,465 miles. He multiplies miles driven by the mileage rate of 57.5 cents. The combined result is \$1,417. Additionally, Rev. Michaels paid for \$219 of 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 is \$1,721.

Lines 4a-6. He multiplies \$63,826 by .9235 to get his net earnings from self-employment (\$58,943). This amount is then carried through to line 6 since Rev. Michaels does not have any other adjustments.

Line 10. The amount on line 6 is less than \$137,700, so Rev. Michaels multiplies the amount on line 6 (\$58,943) by .124 to get the Social Security portion of the self-employment tax of \$7,309.

Line 11. He multiplies the amount on line 6 by .029 to calculate the Medicare portion of the self-employment tax 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 self-employment tax of \$9,018. Rev. Michaels enters that amount here and on Schedule 2, line 4 and 10.

Line 13. Rev. Michaels multiplies the amount on line 12 by .50 to get his deduction for the employer-equivalent portion of self-employment tax of \$4,509. He enters that amount here and on [Schedule 1](#), line 14.

TURBO TAX TIPS. The software asks about self-employment tax on clergy wages. The taxpayer should check the box to pay self-employment tax on wages and housing allowance (assuming, as shown in this example, that the minister has not applied for exemption from the SE tax). 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, p. 52) 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 on p. 52).

Qualified Business Income Deduction (Form 8995)

Ministers who have net profit reported on [Schedule C](#) for ministerial services and who have 2020 taxable income of less than \$163,300 (\$326,600 if married filing jointly) before the application of a qualified business income deduction may be eligible for the qualified business income deduction.

After Rev. Michaels prepares [Schedule SE](#), he fills out [Form 8995](#). (Note: At the time of publication, the final version Form 8995 had not yet been released. [A draft version of the form](#) may be viewed on the IRS website.)

Line 1i, Column (c). Rev. Michaels reports the net profit or (loss) from [Schedule C](#), line 31 (\$3,747) less the portion of the deduction for self-employment taxes allocable to this net profit ($\$3,747 \times .9235 \times .153 \times .5 = \265) which results in \$3,482 on line 1i, Column (c). Since there are no other amounts listed on lines 1ii through line 1v, he also reports the amount on line 2.

Line 4. Rev. Michaels adds the total qualified business income 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 (\$22,778) on line 11. This amount is equal to the total wages, salaries, and [Schedule C](#) income less the deductible amount of self-employment tax and standard deduction (\$48,640 + \$3,747 - \$4,509 - \$300 (the special charitable contribution deduction on [Form 1040](#), line 10b) - \$24,800, the standard deduction from line 9 of [Form 1040](#)). Since there is no other amount reported on line 12, he also reports the amount on line 13.

Line 15. Rev. Michaels multiplies line 13 by 20% (\$4,556), 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 10.

[Form 1040, Schedule 1 \(Form 1040\), Schedule 2 \(Form 1040\), and Schedule 3 \(Form 1040\)](#)

After Rev. Michaels prepares the above schedules, he fills out [Form 1040](#), along with Schedules 1 through 3 to the extent required. He files a joint return with his spouse. 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 parsonage allowance over the lesser of his actual expenses and the fair rental value of his home (including furnishings and utilities). The two salaries were reported to him in box 1 of the [Forms W-2](#) he received.

[Schedule 1](#), Line 3. He reports his net profit of \$3,747 from [Schedule C](#), line 31. Since no other amounts are reported on [Schedule 1](#), lines 1-8, he also reports this amount on Line 9, 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](#), Lines 10a and 10b. Because Rev.

Michaels has reported deductible self-employment tax on [Schedule 1](#), Line 14, he goes to [Schedule 1](#) and completes Part II of the form. Since there are no other amounts listed on lines 10-21, Rev. Michaels reports \$4,509 on Line 22 and enters this amount on [Form 1040](#), Line 10a. Additionally, in 2020, a maximum \$300 charitable contribution deduction is allowed on [Form 1040](#), line 10b for qualifying charitable contributions. Since Rev. Michaels made cash contributions of \$6,000 to a qualifying 501(c)(3) public charity, he enters the maximum contribution deduction of \$300 on line 10b. Line 10a and line 10b are added and reported on line 10c (\$4,809). Line 10c is subtracted from line 9 and the result (\$447,578) is entered on [Form 1040](#), line 11. This is his adjusted gross income.

[Form 1040](#), Line 12. He enters the standard deduction for married couples filing jointly (\$24,400) on Line 12.

[Form 1040](#), Line 13. Rev. Michaels adds the qualified business income 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 (\$25,496) on line 14.

[Form 1040](#), Line 15. Subtract line 14 from line 11. This is his taxable income.

[Form 1040](#), Page 2, Line 16. Rev. Michaels uses the tax tables in the 2020 Form 1040 Instructions to determine his applicable tax and enters the amount (\$2,254) on the space provided on line 16.

[Form 1040](#), Page 2, Line 19. The Michaels can take the child tax credit for their daughter, Jennifer. Rev. Michaels figures the credit by completing the Child Tax Credit Worksheet contained in the Form 1040 General Instructions. He enters the \$2,000 credit. Since there is no amount listed for [Schedule 3](#), line 7 Rev. Michaels enters \$2,000 on lines 19 and 21. (**Note:** The Michaels are not required to attach Schedule 8812 to claim the child tax credit since they are not eligible for the additional child tax credit and their daughter does not have an individual taxpayer identification number (ITIN). The IRS issues ITINs to foreign nationals and others who have federal tax reporting or filing requirements and do not qualify for social security numbers (SSNs). Since Jennifer has an SSN, she is not required to obtain an ITIN and therefore Schedule 8812 is not applicable.)

[Form 1040](#), Page 2, Line 23 and [Schedule 2](#). Rev. Michaels completes [Schedule 2](#). Since the only amount reported on [Schedule 2](#) is his self-employment tax from [Schedule SE](#), he reports the amount (\$9,018) on [Schedule 2](#), line 10, and on [Form 1040](#), Page 2, line 23.

[Form 1040](#), Page 2, Line 24. He adds the amount reported on line 22 and the self-employment taxes reported on line 23. This represents his total tax obligation.

[Form 1040](#), Page 2, Line 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, Line 33. He adds the amount reported on line 25d and line 26 to show the total tax payments made on line 33 (\$12,272).

[Form 1040](#), Page 2, Line 34. Rev. Michaels totals his overpayment by subtracting line 33 from line 24 (\$3,000).

a Employee's social security number 011-00-1111		Safe, accurate, FAST! Use		Visit the IRS website at www.irs.gov/efile	
b Employer identification number (EIN) 00-0246810		1 Wages, tips, other compensation 45,000.00	2 Federal income tax withheld		
c Employer's name, address, and ZIP code First United Church 1042 Main Street Hometown, Texas 77099		3 Social security wages	4 Social security tax withheld		
		5 Medicare wages and tips	6 Medicare tax withheld		
		7 Social security tips	8 Allocated tips		
d Control number		9	10 Dependent care benefits		
e Employee's first name and initial Last name Suff. John E. Michaels 1040 Main Street Hometown, Texas 77099		11 Nonqualified plans	12a See instructions for box 12		
		13 Statutory employee Retirement plan Third-party sick pay <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	12b		
		14 Other Parsonage Allowance \$16,800	12c		
			12d		
f Employee's address and ZIP code					
15 State Employer's state ID number	16 State wages, tips, etc.	17 State income tax	18 Local wages, tips, etc.	19 Local income tax	20 Locality name

Form **W-2** Wage and Tax Statement **2020** Department of the Treasury—Internal Revenue Service
 Copy B—To Be Filed With Employee's FEDERAL Tax Return.
 This information is being furnished to the Internal Revenue Service.

a Employee's social security number 011-00-1111		Safe, accurate, FAST! Use		Visit the IRS website at www.irs.gov/efile	
b Employer identification number (EIN) 00-1357913		1 Wages, tips, other compensation 3,400.00	2 Federal income tax withheld 272.00		
c Employer's name, address, and ZIP code Hometown College 40 Honor Road Hometown, Texas 77099		3 Social security wages 3,400.00	4 Social security tax withheld 210.80		
		5 Medicare wages and tips 3,400.00	6 Medicare tax withheld 49.30		
		7 Social security tips	8 Allocated tips		
d Control number		9	10 Dependent care benefits		
e Employee's first name and initial Last name Suff. John E. Michaels 1040 Main Street Hometown, Texas 77099		11 Nonqualified plans	12a See instructions for box 12		
		13 Statutory employee Retirement plan Third-party sick pay <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	12b		
		14 Other	12c		
			12d		
f Employee's address and ZIP code					
15 State Employer's state ID number	16 State wages, tips, etc.	17 State income tax	18 Local wages, tips, etc.	19 Local income tax	20 Locality name

Form **W-2** Wage and Tax Statement **2020** Department of the Treasury—Internal Revenue Service
 Copy B—To Be Filed With Employee's FEDERAL Tax Return.
 This information is being furnished to the Internal Revenue Service.

**SCHEDULE C
(Form 1040)**

**Profit or Loss From Business
(Sole Proprietorship)**

OMB No. 1545-0074

2020
Attachment
Sequence No. **09**

Department of the Treasury
Internal Revenue Service (99)

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

Name of proprietor John E. Michaels		Social security number (SSN) 011-00-1111
A Principal business or profession, including product or service (see instructions) Minister		B Enter code from instructions ► 5 4 1 9 9 0
C Business name. If no separate business name, leave blank.		D Employer ID number (EIN) (see instr.)
E Business address (including suite or room no.) ► 1042 Main Street City, town or post office, state, and ZIP code Hometown, Texas 77099		
F Accounting method: (1) <input checked="" type="checkbox"/> Cash (2) <input type="checkbox"/> Accrual (3) <input type="checkbox"/> Other (specify) ►		
G Did you "materially participate" in the operation of this business during 2020? If "No," see instructions for limit on losses		<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
H If you started or acquired this business during 2020, check here		<input type="checkbox"/>
I Did you make any payments in 2020 that would require you to file Form(s) 1099? See instructions		<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
J If "Yes," did you or will you file required Form(s) 1099?		<input type="checkbox"/> Yes <input type="checkbox"/> 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	1	4,000
2 Returns and allowances	2	
3 Subtract line 2 from line 1	3	4,000
4 Cost of goods sold (from line 42)	4	
5 Gross profit. Subtract line 4 from line 3	5	4,000
6 Other income, including federal and state gasoline or fuel tax credit or refund (see instructions)	6	
7 Gross income. Add lines 5 and 6	7	4,000

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

8 Advertising	8		18 Office expense (see instructions)	18	
9 Car and truck expenses (see instructions)	9	188	19 Pension and profit-sharing plans	19	
10 Commissions and fees	10		20 Rent or lease (see instructions):		
11 Contract labor (see instructions)	11		a Vehicles, machinery, and equipment	20a	
12 Depletion	12		b Other business property	20b	
13 Depreciation and section 179 expense deduction (not included in Part III) (see instructions)	13		21 Repairs and maintenance	21	
14 Employee benefit programs (other than on line 19)	14		22 Supplies (not included in Part III)	22	
15 Insurance (other than health)	15		23 Taxes and licenses	23	
16 Interest (see instructions):			24 Travel and meals:		
a Mortgage (paid to banks, etc.)	16a		a Travel	24a	
b Other	16b		b Deductible meals (see instructions)	24b	
17 Legal and professional services	17		25 Utilities	25	
			26 Wages (less employment credits)	26	
			27a Other expenses (from line 48)	27a	65 *
			b Reserved for future use	27b	
28 Total expenses before expenses for business use of home. Add lines 8 through 27a	28		28	28	253
29 Tentative profit or (loss). Subtract line 28 from line 7	29		29	29	3,747
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	30		30	30	0
31 Net profit or (loss). Subtract line 30 from line 29. • 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.	31		31	31	3,747
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.			32a <input type="checkbox"/> All investment is at risk. 32b <input type="checkbox"/> Some investment is not at risk.		

For Paperwork Reduction Act Notice, see the separate instructions.

Cat. No. 11334P

Schedule C (Form 1040) 2020

* See statement attached.

Part III Cost of Goods Sold (see instructions)

33 Method(s) used to value closing inventory: **a** Cost **b** Lower of cost or market **c** 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 2020, enter the number of miles you used your vehicle for:

a Business 437 **b** Commuting (see instructions) 0 **c** Other 7,478

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**

b 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.

Marriage and family booklets	65
48 Total other expenses. Enter here and on line 27a	65

SCHEDULE SE
(Form 1040)

Self-Employment Tax

OMB No. 1545-0074

Department of the Treasury
Internal Revenue Service (99)

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

2020
Attachment
Sequence No. **17**

Name of person with self-employment income (as shown on Form 1040, 1040-SR, or 1040-NR)

Social security number of person
with self-employment income ►

John E. Michaels

011-00-1111

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 **1a**

b If you received social security retirement or disability benefits, enter the amount of Conservation Reserve Program payments included on Schedule F, line 4b, or listed on Schedule K-1 (Form 1065), box 20, code AH **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 **2** 63,826 *

3 Combine lines 1a, 1b, and 2 **3** 63,826

4a If line 3 is more than zero, multiply line 3 by 92.35% (0.9235). Otherwise, enter amount from line 3 **4a** 58,943

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 **4b**

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 **4c** 58,943

5a Enter your **church employee income** from Form W-2. See instructions for definition of church employee income **5a** 0

b Multiply line 5a by 92.35% (0.9235). If less than \$100, enter -0- **5b** 0

6 Add lines 4c and 5b **6** 58,943

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 2020 **7** 137,700

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 \$137,700 or more, skip lines 8b through 10, and go to line 11 **8a**

b Unreported tips subject to social security tax from Form 4137, line 10 **8b**

c Wages subject to social security tax from Form 8919, line 10 **8c**

d Add lines 8a, 8b, and 8c **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** 137,700

10 Multiply the **smaller** of line 6 or line 9 by 12.4% (0.124) **10** 7,309

11 Multiply line 6 by 2.9% (0.029) **11** 1,709

12 **Self-employment tax.** Add lines 10 and 11. Enter here and on **Schedule 2 (Form 1040), line 4** **12** 9,018

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 14** **13** 4,509

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 \$8,460, or (b) your net farm profits² were less than \$6,107.

14 Maximum income for optional methods **14** 5,640

15 Enter the **smaller** of: two-thirds (2/3) of gross farm income¹ (not less than zero) or \$5,640. Also, include this amount on line 4b above **15**

Nonfarm Optional Method. You may use this method **only** if (a) your net nonfarm profits³ were less than \$6,107 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 **16**

17 Enter the **smaller** of: two-thirds (2/3) of gross nonfarm income⁴ (not less than zero) or the amount on line 16. Also, include this amount on line 4b above **17**

¹ From Sch. F, line 9; and Sch. K-1 (Form 1065), box 14, code B.

³ From Sch. C, line 31; and Sch. K-1 (Form 1065), box 14, code A.

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.

⁴ From Sch. C, line 7; and Sch. K-1 (Form 1065), box 14, code C.

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

Cat. No. 11358Z

Schedule SE (Form 1040) 2020

* See statement attached.

Part III Maximum Deferral of Self-Employment Tax Payments

If line 4c is zero, skip lines 18 through 20, and enter -0- on line 21.

18	Enter the portion of line 3 that can be attributed to March 27, 2020, through December 31, 2020	18	
19	If line 18 is more than zero, multiply line 18 by 92.35% (0.9235); otherwise, enter the amount from line 18	19	
20	Enter the portion of lines 15 and 17 that can be attributed to March 27, 2020, through December 31, 2020	20	
21	Combine lines 19 and 20	21	

If line 5b is zero, skip line 22 and enter -0- on line 23.

22	Enter the portion of line 5a that can be attributed to March 27, 2020, through December 31, 2020	22	
23	Multiply line 22 by 92.35% (0.9235)	23	
24	Add lines 21 and 23	24	
25	Enter the smaller of line 9 or line 24	25	
26	Multiply line 25 by 6.2% (0.062). Enter here and see the instructions for line 12e of Schedule 3 (Form 1040)	26	

Form **8995**

**Qualified Business Income Deduction
Simplified Computation**

OMB No. 1545-0123

2020

Attachment
Sequence No. **55**

Department of the Treasury
Internal Revenue Service

▶ Attach to your tax return.

▶ Go to www.irs.gov/Form8995 for instructions and the latest information.

Name(s) shown on return
John E. Michaels

Your taxpayer identification number
011-00-1111

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 \$163,300 (\$326,600 if married filing jointly), and you aren't a patron of an agricultural or horticultural cooperative.

1	(a) Trade, business, or aggregation name	(b) Taxpayer identification number	(c) Qualified business income or (loss)
i	Minister	011-00-1111	3,482
ii			
iii			
iv			
v			
2	Total qualified business income or (loss). Combine lines 1i through 1v, column (c)	2 3,482	
3	Qualified business net (loss) carryforward from the prior year	3 ()	
4	Total qualified business income. Combine lines 2 and 3. If zero or less, enter -0-	4 3,482	
5	Qualified business income component. Multiply line 4 by 20% (0.20)		5 696
6	Qualified REIT dividends and publicly traded partnership (PTP) income or (loss) (see instructions)	6	
7	Qualified REIT dividends and qualified PTP (loss) carryforward from the prior year	7 ()	
8	Total qualified REIT dividends and PTP income. Combine lines 6 and 7. If zero or less, enter -0-	8	
9	REIT and PTP component. Multiply line 8 by 20% (0.20)		9 0
10	Qualified business income deduction before the income limitation. Add lines 5 and 9		10 696
11	Taxable income before qualified business income deduction	11 22,778	
12	Net capital gain (see instructions)	12 0	
13	Subtract line 12 from line 11. If zero or less, enter -0-	13 22,778	
14	Income limitation. Multiply line 13 by 20% (0.20)		14 4,556
15	Qualified business income deduction. Enter the lesser of line 10 or line 14. Also enter this amount on the applicable line of your return ▶		15 696
16	Total qualified business (loss) carryforward. Combine lines 2 and 3. If greater than zero, enter -0-	16 (0)	
17	Total qualified REIT dividends and PTP (loss) carryforward. Combine lines 6 and 7. If greater than zero, enter -0-	17 (0)	

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

Cat. No. 37806C

Form **8995** (2020)

**SCHEDULE 1
(Form 1040)**

Department of the Treasury
Internal Revenue Service

Additional Income and Adjustments to Income

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

OMB No. 1545-0074

2020
Attachment
Sequence No. **01**

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

John E. Michaels

Your social security number

011-00-1111

Part I Additional Income

1	Taxable refunds, credits, or offsets of state and local income taxes	1	
2a	Alimony received	2a	
	b Date of original divorce or separation agreement (see instructions) ▶		
3	Business income or (loss). Attach Schedule C	3	3,747
4	Other gains or (losses). Attach Form 4797		
5	Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E	5	
6	Farm income or (loss). Attach Schedule F	6	
7	Unemployment compensation	7	
8	Other income. List type and amount ▶	8	
9	Combine lines 1 through 8. Enter here and on Form 1040, 1040-SR, or 1040-NR, line 8	9	3,747

Part II Adjustments to Income

10	Educator expenses	10	
11	Certain business expenses of reservists, performing artists, and fee-basis government officials. Attach Form 2106	11	
12	Health savings account deduction. Attach Form 8889	12	
13	Moving expenses for members of the Armed Forces. Attach Form 3903	13	
14	Deductible part of self-employment tax. Attach Schedule SE	14	4,509
15	Self-employed SEP, SIMPLE, and qualified plans	15	
16	Self-employed health insurance deduction	16	
17	Penalty on early withdrawal of savings	17	
18a	Alimony paid	18a	
	b Recipient's SSN ▶		
	c Date of original divorce or separation agreement (see instructions) ▶		
19	IRA deduction	19	
20	Student loan interest deduction	20	
21	Tuition and fees deduction. Attach Form 8917	21	
22	Add lines 10 through 21. These are your adjustments to income . Enter here and on Form 1040, 1040-SR, or 1040-NR, line 10a	22	4,509

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

Cat. No. 71479F

Schedule 1 (Form 1040) 2020

**SCHEDULE 2
(Form 1040)**

Department of the Treasury
Internal Revenue Service

Additional Taxes

▶ Attach to Form 1040, 1040-SR, or 1040-NR.

▶ Go to www.irs.gov/Form1040 for instructions and the latest information.

OMB No. 1545-0074

2020

Attachment
Sequence No. **02**

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

John E. Michaels

Your social security number

011-00-1111

Part I Tax

1	Alternative minimum tax. Attach Form 6251	1	
2	Excess advance premium tax credit repayment. Attach Form 8962	2	
3	Add lines 1 and 2. Enter here and on Form 1040, 1040-SR, or 1040-NR, line 17 . . .	3	

Part II Other Taxes

4	Self-employment tax. Attach Schedule SE		9,018
5	Unreported social security and Medicare tax from Form: a <input type="checkbox"/> 4137 b <input type="checkbox"/> 8919	5	
6	Additional tax on IRAs, other qualified retirement plans, and other tax-favored accounts. Attach Form 5329 if required	6	
7a	Household employment taxes. Attach Schedule H	7a	
b	Repayment of first-time homebuyer credit from Form 5405. Attach Form 5405 if required	7b	
8	Taxes from: a <input type="checkbox"/> Form 8959 b <input type="checkbox"/> Form 8960 c <input type="checkbox"/> Instructions; enter code(s)	8	
9	Section 965 net tax liability installment from Form 965-A	9	
10	Add lines 4 through 8. These are your total other taxes . Enter here and on Form 1040 or 1040-SR, line 23, or Form 1040-NR, line 23b	10	9,018

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

Cat. No. 71478U

Schedule 2 (Form 1040) 2020

Filing Status Single Married filing jointly Married filing separately (MFS) Head of household (HOH) Qualifying widow(er) (QW)
 Check only one box. 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 John E.	Last name Michaels	Your social security number 0 1 1 0 0 1 1 1 1
If joint return, spouse's first name and middle initial Susan R.	Last name Michaels	Spouse's social security number 0 1 1 0 0 2 2 2 2

Home address (number and street). If you have a P.O. box, see instructions.
1040 Main Street

City, town, or post office. If you have a foreign address, also complete spaces below.
Hometown State **Texas** ZIP code **77099**

Foreign country name Foreign province/state/county Foreign postal code

Presidential Election Campaign
 Check here if you, or your spouse if filing jointly, want \$3 to go to this fund. Checking a box below will not change your tax or refund.
 You Spouse

At any time during 2020, did you receive, sell, send, exchange, or otherwise acquire 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: Is blind

Dependents (see instructions):

(1) First name	Last name	(2) Social security number	(3) Relationship to you	(4) <input checked="" type="checkbox"/> Child tax credit	Credit for other dependents
Jennifer	Michaels	0 1 1 0 0 3 3 3 3	Daughter	<input checked="" type="checkbox"/>	<input type="checkbox"/>
				<input type="checkbox"/>	<input type="checkbox"/>
				<input type="checkbox"/>	<input type="checkbox"/>

Attach Sch. B if required. Standard Deduction for— • Single or Married filing separately, \$12,400 • Married filing jointly or Qualifying widow(er), \$24,800 • 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 Excess allowance \$240	1	48,640	
	2a Tax-exempt interest 2a	b Taxable interest	2b	
	3a Qualified dividends 3a	b Ordinary dividends	3b	
	4a IRA distributions 4a	b Taxable amount	4b	
	5a Pensions and annuities 5a	b Taxable amount	5b	
	6a Social security benefits 6a	b Taxable amount	6b	
	7 Capital gain or (loss). Attach Schedule D if required. If not required, check here ▶ <input type="checkbox"/>		7	
	8 Other income from Schedule 1, line 9 ▶		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:			
	a From Schedule 1, line 22 10a	4,509		
	b Charitable contributions if you take the standard deduction. See instructions 10b	300		
	c Add lines 10a and 10b. These are your total adjustments to income ▶ 10c			4,809
	11 Subtract line 10c from line 9. This is your adjusted gross income ▶ 11			47,578
	12 Standard deduction or itemized deductions (from Schedule A) 12			24,800
13 Qualified business income deduction, Attach Form 8995 or Form 8995-A 13			696	
14 Add lines 12 and 13 14			25,496	
15 Taxable income. Subtract line 14 from line 11. If zero or less, enter -0- 15			22,082	

16	Tax (see instructions). Check if any from Form(s): 1 <input type="checkbox"/> 8814 2 <input type="checkbox"/> 4972 3 <input type="checkbox"/>	16	2,254
17	Amount from Schedule 2, line 3	17	
18	Add lines 16 and 17	18	2,254
19	Child tax credit or credit for other dependents	19	2,000
20	Amount from Schedule 3, line 7	20	
21	Add lines 19 and 20	21	2,000
22	Subtract line 21 from line 18. If zero or less, enter -0-	22	254
23	Other taxes, including self-employment tax, from Schedule 2, line 10	23	9,018
24	Add lines 22 and 23. This is your total tax	24	9,272
25	Federal income tax withheld from:		
a	Form(s) W-2	25a	272
b	Form(s) 1099	25b	
c	Other forms (see instructions)	25c	
d	Add lines 25a through 25c	25d	272
	2020 estimated tax payments and amount applied from 2019 return		12,000
27	Earned income credit (EIC)	27	
28	Additional child tax credit. Attach Schedule 8812	28	
29	American opportunity credit from Form 8863, line 8	29	
30	Recovery rebate credit. See instructions	30	
31	Amount from Schedule 3, line 13	31	
32	Add lines 27 through 31. These are your total other payments and refundable credits	32	
33	Add lines 25d, 26, and 32. These are your total payments	33	12,272

• If you have a qualifying child, attach Sch. EIC.
 • If you have nontaxable combat pay, see instructions.

Refund

34	If line 33 is more than line 24, subtract line 24 from line 33. This is the amount you overpaid	34	3,000
35a	Amount of line 34 you want refunded to you . If Form 8888 is attached, check here <input type="checkbox"/>	35a	
b	Routing number	c	Type: <input type="checkbox"/> Checking <input type="checkbox"/> Savings
d	Account number		
36	Amount of line 34 you want applied to your 2021 estimated tax	36	3,000

Amount You Owe

For details on how to pay, see instructions.

37	Subtract line 33 from line 24. This is the amount you owe now	37	
38	Estimated tax penalty (see instructions)	38	

Third Party Designee

Do you want to allow another person to discuss this return with the IRS? See instructions **Yes**. Complete below. **No**

Designee's name Phone no. Personal identification number (PIN)

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? See instructions. Keep a copy for your records.

Your signature <i>John Michaels</i>	Date 3/15/21	Your occupation Minister	If the IRS sent you an Identity Protection PIN, enter it here (see inst.) <input type="text"/>
Spouse's signature. If a joint return, both must sign. <i>Susan Michaels</i>	Date 3/15/21	Spouse's occupation Homemaker	If the IRS sent your spouse an Identity Protection PIN, enter it here (see inst.) <input type="text"/>
Phone no.	Email address		

Paid Preparer Use Only

Preparer's name	Preparer's signature	Date	PTIN	Check if: <input type="checkbox"/> Self-employed
Firm's name	Phone no.			
Firm's address	Firm's EIN			

Attachment 1. Computation of expenses, allocable to tax-free ministerial income, that are nondeductible.

		Taxable	Tax-Free	Total
Salary as a minister		\$ 45,000		\$ 45,000
Parsonage allowance:				
Amount designated and paid by church (\$1,400 x 12)	\$ 16,800			
Actual expenses				
(Mortgage \$1,125 x 12, Utilities/other \$1,450, Real estate taxes \$1,750)	16,700			
Fair rental value of home (including furnishings and utilities) (\$1,380 x 12)	16,560			
Taxable portion of allowance				
(excess of amount designated & paid over lesser of actual expenses or fair rental value)	<u>\$ 240</u>	240		240
Tax-free portion of allowance (lesser of amount designated, actual expenses or fair rental value)			16,560	16,560
Gross income from weddings, baptisms, and honoraria		<u>4,000</u>		<u>4,000</u>
Ministerial Income		<u>\$ 49,240</u>	<u>\$ 16,560</u>	<u>\$ 65,800</u>
% of nondeductible expenses: \$16,560/\$65,800 = 25%				

Schedule C Deduction Computation

Marriage and family booklets	\$ 87
Minus: Nondeductible part of marriage and family booklets (25% x \$87)	<u>\$ (22)</u>
Total marriage and family booklets (Line 27a)	<u>\$ 65</u>
Business use of car:	
437 miles x 57.5¢	\$ 251
Minus: Nondeductible part of business use of car (25% x \$251)	<u>\$ (63)</u>
Total business use of car (Line 9)	<u>\$ 188</u>
Schedule C deductions (line 28)	<u>\$ 253</u>

Attachment 2. Attachment to Schedule SE (Form 1040)

Church wages	\$ 45,000
Parsonage allowance	16,800
Net profit from Schedule C	<u>3,747</u>
	65,547
Less:	
Schedule C expenses allocable to tax-free income	\$ 85
Ministerial employee unreimbursed business expenses	
Car expenses for church business:	
2,465 miles x 57.5¢	1,417
Publications and booklets	<u>219</u>
Net Self-Employment Income	<u>(1,721)</u>
Schedule SE, line 2	<u>\$ 63,826</u>

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 2020, Rev. Green received \$15,000 in annuity income, all of which was designated in advance by the Pension Boards as a housing allowance. Rev. Green had housing expenses of \$13,000. The home's fair rental value is \$1,200 per month (including furnishings and 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 (including furnishings and utilities). Retirement benefits, whether or not designated in advance as a housing allowance, are not subject to self-employment taxes.

Rev. Green received \$12,000 of Social Security benefits in 2020, and his wife received \$6,000. None of this income is taxable, however, because the Green's income is not enough to expose their Social Security benefits to tax.

In 2020, Rev. Green received \$2,000 from occasional guest preaching engagements. He incurred \$586 in expenses as a result of these activities (\$436 of travel expenses, and \$150 of meal expenses). Note that Rev. Green will pay self-employment tax 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 2020. Rev. Green has chosen not to defer payment of his self-employment taxes under special 2020 coronavirus relief legislation. Rev. Green received a coronavirus economic impact payment (stimulus check) in the amount of \$2,400 and therefore does 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 the Rev. Green will assemble the return to send it to the IRS.

Form 1099-R from the Northern Trust Company (as Paying Agent for the Pension Boards)

The Pension Boards completed Form 1099-R for Rev. Green as follows:

Box 1. The \$15,000 pension income Rev. Green receives from the Pension Boards.

Box 2b. Taxable amount not determined. The

Pension Boards designated in advance 100% of rental value of the home (including furnishings and 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 utilities).

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

Schedule C (Form 1040)

KEY POINT: 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 through 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 758 miles of business use of his car, in connection with guest preaching. He multiplied the standard mileage rate of 57.5 cents by 758 miles for a total of \$436. However, he cannot deduct the part of his expenses allocable to his tax-free parsonage allowance. He attaches the required statement, Attachment 1 (p. 65) 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 (\$150 x 50% nondeductible) in business meal expenses (i.e., non-entertainment-related) in connection with guest preaching engagements. However, he cannot deduct the part of his expenses allocable to his tax-free parsonage allowance. He attaches the required statement, Attachment 1 (p. 65) 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 parsonage allowance (\$105 + \$18) on line 28.

Line 29 through 31. He enters his tentative profit of \$1,877 on line 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](#), line 3.

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

TURBO TAX TIPS. Listed below are tips for ministers who use Turbo Tax to complete their returns. These tips should not be construed as an endorsement or recommendation of the Turbo Tax software.

Turbo Tax does not appear to calculate the nondeductible 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, p. 65) and input the reduced figure into the software.

[Schedule SE \(Form 1040\)](#)

After Rev. Green prepares [Schedule C](#) he fills out [Schedule SE](#). Ministers are not church employees under this definition. Additionally, Rev. Green did not apply for an exemption from SE tax 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 (see Attachment 2, p. 65) that calculates his net profit of \$1,489 and he enters that amount here.

Line 4a through 6. He multiplies the \$1,489 by .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 \$137,700, so Rev. Green multiplies the amount on line 6 (\$1,375) by .124 to get his self-employment tax of \$177.

Line 11. He multiplies the amount on line 6 by .029 to calculate the Medicare portion of the self-employment tax 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 self-employment tax of \$211. Rev. Green enters that

amount here and on [Schedule 2](#), line 4 and 10.

Line 13. Rev. Green multiplies the amount on line 12 by .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](#), line 14.

TURBO TAX TIPS. 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, p. 65) and input the reduced figure into the software.

Qualified Business Income Deduction (Form 8995)

Ministers who have net profit reported on [Schedule C](#) for ministerial services and who have 2020 taxable income less than \$163,300 (\$326,600 if married filing jointly) before the application of a qualified business income deduction may be eligible for such a deduction. However, since the Greens' taxable income before the application of a qualified business income deduction is \$0 (see completion of [Form 1040](#) section below), the Greens are not eligible for such a deduction in 2020.

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 through 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, 1956.

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 (p. 65) on line 5b.

Form 1040, Line 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, Line 9. He reports his net profit of \$1,877 from [Schedule C](#), line 31 on [Schedule 1](#), line 3. Since no other amounts are reported on [Schedule](#)

1, lines 1-8, he also reports this amount on Line 9, 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 [Form 1040](#), line 8, and enters the total (\$3,877) on line 9.

[Form 1040](#), lines 10a and 10b. Because Rev. Green has reported deductible self-employment tax of \$106 on [Schedule 1](#), line 14, Rev. Green goes to [Schedule 1](#) and completes the bottom section of the form. Since there are no other amounts listed on lines 10-21, Rev. Green reports \$106 on Line 22 and carries this amount to line 10a of [Form 1040](#). Additionally, in 2020, a maximum \$300 charitable contribution deduction is allowed on

[Form 1040](#), line 10b for qualifying charitable contributions. Since Rev. Green made cash contributions of \$3,500 to qualifying 501(c)(3) public charities, he enters the maximum contribution deduction of \$300 on line 10b. Line 10a and line 10b are added and reported on line 10c (\$406). Line 10c is subtracted from Line 9, and the result (\$3,471) is entered on [Form 1040](#), line 11. This is his adjusted gross income.

[Form 1040](#), Line 12. Rev. Green enters his standard deduction of \$27,400 (which takes into consideration the fact he and his wife were born before January 2, 1955) on line 12. Since there is no amount listed for qualified business income deduction on line 13, Rev Green reports \$27,400 on line 14.

[Form 1040](#), Line 15. Rev. Green has no taxable income.

[Form 1040](#), Page 2, Line 23 and [Schedule 2](#). Rev. Green completes [Schedule 2](#) (Form 1040). Since the only amount reported on [Schedule 2](#) is his self-employment tax from [Schedule SE](#), he reports the amount (\$211) on [Schedule 2](#), Line 10, 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 37. Amount Rev. Green owes to the IRS.

CORRECTED (if checked)

PAYER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and phone no.

The Northern Trust Company
50 South LaSalle St. C55
Chicago, Illinois 60603-1003
As Paying Agent for: B1600
PBUCC B1600
PBUCC Ministers

1 Gross distribution

\$ _____

2a Taxable amount

\$ _____

OMB No. 1545-0119

2020

Form **1099-R**

Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.

Copy B

Report this income on your federal tax return. If this form shows federal income tax withheld in box 4, attach this copy to your return.

This information is being furnished to the IRS.

PAYER'S TIN

36-3046063

RECIPIENT'S TIN

3 Capital gain (included in box 2a)

\$ _____

4 Federal income tax withheld

\$ _____

RECIPIENT'S name

William K. Green

Street address (including apt. no.)

787 Adams Street

City or town, state or province, country, and ZIP or foreign postal code

Anytown, NY 10002

5 Employee contributions/ Designated Roth contributions or insurance premiums

\$ _____

6 Net unrealized appreciation in employer's securities

\$ _____

7 Distribution code(s)

7

IRA/SEP/SIMPLE

8 Other

\$ _____ %

9a Your percentage of total distribution

% _____

9b Total employee contributions

\$ _____

10 Amount allocable to IRR within 5 years

\$ _____

11 1st year of desig. Roth contrib.

12 FATCA filing requirement

14 State tax withheld

\$ _____

15 State/Payer's state no.

16 State distribution

\$ _____

Account number (see instructions)

B1600 7000072

1-312-557-8700

13 Date of payment

17 Local tax withheld

\$ _____

18 Name of locality

19 Local distribution

\$ _____

Form **1099-R**

www.irs.gov/Form1099R

Department of the Treasury - Internal Revenue Service

Filing Status Single Married filing jointly Married filing separately (MFS) Head of household (HOH) Qualifying widow(er) (QW)
 Check only one box. 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.	Last name Green	Your social security number 2 0 2 2 0 2 0 0 2
If joint return, spouse's first name and middle initial Sarah J.	Last name Green	Spouse's social security number 3 0 3 3 0 3 0 0 3
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
Foreign country name		ZIP code 10002
Foreign province/state/county		Foreign postal code
Presidential Election Campaign Check here if you, or your spouse if filing jointly, want \$3 to go to this fund. Checking a box below will not change your tax or refund. <input type="checkbox"/> You <input type="checkbox"/> Spouse		

At any time during 2020, did you receive, sell, send, exchange, or otherwise acquire 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: Is blind

Dependents (see instructions):

(1) First name	Last name	(2) Social security number	(3) Relationship to you	(4) <input checked="" type="checkbox"/> if qualifies for (see instructions): Child tax credit	Credit for other dependents
				<input type="checkbox"/>	<input type="checkbox"/>
				<input type="checkbox"/>	<input type="checkbox"/>
				<input type="checkbox"/>	<input type="checkbox"/>
				<input type="checkbox"/>	<input type="checkbox"/>

1 Wages, salaries, tips, etc. Attach Form(s) W-2	1	
2a Tax-exempt interest	2a	
3a Qualified dividends	3a	
4a IRA distributions	4a	
5a Pensions and annuities	5a	15,000
6a Social security benefits	6a	18,000
7 Capital gain or (loss). Attach Schedule D if required. If not required, check here ▶ <input type="checkbox"/>	7	
8 Other income from Schedule 1, line 9	8	1,877
9 Add lines 1, 2b, 3b, 4b, 5b, 6b, 7, and 8. This is your total income ▶	9	3,877
10 Adjustments to income:		
a From Schedule 1, line 22	10a	106
b Charitable contributions if you take the standard deduction. See instructions	10b	300
c Add lines 10a and 10b. These are your total adjustments to income ▶	10c	406
11 Subtract line 10c from line 9. This is your adjusted gross income ▶	11	3,471
12 Standard deduction or itemized deductions (from Schedule A)	12	27,400
13 Qualified business income deduction. Attach Form 8995 or Form 8995-A	13	
14 Add lines 12 and 13	14	27,400
15 Taxable income. Subtract line 14 from line 11. If zero or less, enter -0-	15	0

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

Cat. No. 11320B

Form **1040** (2020)

16	Tax (see instructions). Check if any from Form(s): 1 <input type="checkbox"/> 8814 2 <input type="checkbox"/> 4972 3 <input type="checkbox"/>	16	
17	Amount from Schedule 2, line 3	17	
18	Add lines 16 and 17	18	
19	Child tax credit or credit for other dependents	19	
20	Amount from Schedule 3, line 7	20	
21	Add lines 19 and 20	21	
22	Subtract line 21 from line 18. If zero or less, enter -0-	22	
23	Other taxes, including self-employment tax, from Schedule 2, line 10	23	211
24	Add lines 22 and 23. This is your total tax	24	211
25	Federal income tax withheld from:		
a	Form(s) W-2	25a	
b	Form(s) 1099	25b	
c	Other forms (see instructions)	25c	
d	Add lines 25a through 25c	25d	0
	2020 estimated tax payments and amount applied from 2019 return		0
27	Earned income credit (EIC)	27	
28	Additional child tax credit. Attach Schedule 8812	28	
29	American opportunity credit from Form 8863, line 8	29	
30	Recovery rebate credit. See instructions	30	
31	Amount from Schedule 3, line 13	31	
32	Add lines 27 through 31. These are your total other payments and refundable credits	32	0
33	Add lines 25d, 26, and 32. These are your total payments	33	0
Refund	34 If line 33 is more than line 24, subtract line 24 from line 33. This is the amount you overpaid	34	
	35a Amount of line 34 you want refunded to you . If Form 8888 is attached, check here <input type="checkbox"/>	35a	
Direct deposit? See instructions.	b Routing number <input type="text"/> c Type: <input type="checkbox"/> Checking <input type="checkbox"/> Savings		
	d Account number <input type="text"/>		
	36 Amount of line 34 you want applied to your 2021 estimated tax	36	
Amount You Owe	37 Subtract line 33 from line 24. This is the amount you owe now	37	211
For details on how to pay, see instructions.	Note: Schedule H and Schedule SE filers, line 37 may not represent all of the taxes you owe for 2020. See Schedule 3, line 12e, and its instructions for details.		
	38 Estimated tax penalty (see instructions)	38	

• If you have a qualifying child, attach Sch. EIC.
• If you have nontaxable combat pay, see instructions.

Third Party Designee Do you want to allow another person to discuss this return with the IRS? See instructions Yes. Complete below. No

Designee's name Phone no. Personal identification number (PIN)

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 <i>William Green</i>	Date 3/15/21	Your occupation Retired Minister	If the IRS sent you an Identity Protection PIN, enter it here (see inst.) <input type="text"/>
Spouse's signature. If a joint return, both must sign. <i>Sarah Green</i>	Date 3/15/21	Spouse's occupation Retired	If the IRS sent your spouse an Identity Protection PIN, enter it here (see inst.) <input type="text"/>

Phone no. Email address

Paid Preparer Use Only

Preparer's name	Preparer's signature	Date	PTIN	Check if: <input type="checkbox"/> Self-employed
Firm's name <input type="text"/>	Firm's address <input type="text"/>			Phone no. <input type="text"/>
Firm's EIN <input type="text"/>				

**SCHEDULE 1
(Form 1040)**

Department of the Treasury
Internal Revenue Service

Additional Income and Adjustments to Income

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

OMB No. 1545-0074

2020
Attachment
Sequence No. **01**

Name(s) shown on Form 1040, 1040-SR, or 1040-NR
William K. Green

Your social security number
202-20-2002

Part I Additional Income

1	Taxable refunds, credits, or offsets of state and local income taxes	1	
2a	Alimony received	2a	
	b Date of original divorce or separation agreement (see instructions) ▶		
3	Business income or (loss). Attach Schedule C	3	1,877
4	Other gains or (losses). Attach Form 4797		
5	Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E	5	
6	Farm income or (loss). Attach Schedule F	6	
7	Unemployment compensation	7	
8	Other income. List type and amount ▶	8	
9	Combine lines 1 through 8. Enter here and on Form 1040, 1040-SR, or 1040-NR, line 8	9	1,877

Part II Adjustments to Income

10	Educator expenses	10	
11	Certain business expenses of reservists, performing artists, and fee-basis government officials. Attach Form 2106	11	
12	Health savings account deduction. Attach Form 8889	12	
13	Moving expenses for members of the Armed Forces. Attach Form 3903	13	
14	Deductible part of self-employment tax. Attach Schedule SE	14	106
15	Self-employed SEP, SIMPLE, and qualified plans	15	
16	Self-employed health insurance deduction	16	
17	Penalty on early withdrawal of savings	17	
18a	Alimony paid	18a	
	b Recipient's SSN ▶		
	c Date of original divorce or separation agreement (see instructions) ▶		
19	IRA deduction	19	
20	Student loan interest deduction	20	
21	Tuition and fees deduction. Attach Form 8917	21	
22	Add lines 10 through 21. These are your adjustments to income . Enter here and on Form 1040, 1040-SR, or 1040-NR, line 10a	22	106

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

Cat. No. 71479F

Schedule 1 (Form 1040) 2020

**SCHEDULE 2
(Form 1040)**

Department of the Treasury
Internal Revenue Service

Additional Taxes

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

OMB No. 1545-0074

2020
Attachment
Sequence No. **02**

Name(s) shown on Form 1040, 1040-SR, or 1040-NR
William K. Green

Your social security number
202-20-2002

Part I Tax

1	Alternative minimum tax. Attach Form 6251	1	
2	Excess advance premium tax credit repayment. Attach Form 8962	2	
3	Add lines 1 and 2. Enter here and on Form 1040, 1040-SR, or 1040-NR, line 17 . . .	3	

Part II Other Taxes

4	Self-employment tax. Attach Schedule SE		211
5	Unreported social security and Medicare tax from Form: a <input type="checkbox"/> 4137 b <input type="checkbox"/> 8919	5	
6	Additional tax on IRAs, other qualified retirement plans, and other tax-favored accounts. Attach Form 5329 if required	6	
7a	Household employment taxes. Attach Schedule H	7a	
7b	Repayment of first-time homebuyer credit from Form 5405. Attach Form 5405 if required	7b	
8	Taxes from: a <input type="checkbox"/> Form 8959 b <input type="checkbox"/> Form 8960 c <input type="checkbox"/> Instructions; enter code(s)	8	
9	Section 965 net tax liability installment from Form 965-A	9	
10	Add lines 4 through 8. These are your total other taxes . Enter here and on Form 1040 or 1040-SR, line 23, or Form 1040-NR, line 23b	10	211

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

Cat. No. 71478U

Schedule 2 (Form 1040) 2020

**SCHEDULE C
(Form 1040)**

Profit or Loss From Business
(Sole Proprietorship)

OMB No. 1545-0074

2020
Attachment
Sequence No. **09**

Department of the Treasury
Internal Revenue Service (99)

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

Name of proprietor William K. Green		Social security number (SSN) 202-20-2002
A Principal business or profession, including product or service (see instructions) Minister		B Enter code from instructions ▶ 5 4 1 9 9 0
C Business name. If no separate business name, leave blank.		D Employer ID number (EIN) (see instr.)
E Business address (including suite or room no.) ▶ 87 Adams Street City, town or post office, state, and ZIP code Anytown, New York 10002		
F Accounting method: (1) <input checked="" type="checkbox"/> Cash (2) <input type="checkbox"/> Accrual (3) <input type="checkbox"/> Other (specify)		
G Did you "materially participate" in the operation of this business during 2020? If "No," see instructions for limit on losses		<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
H If you started or acquired this business during 2020, check here		<input type="checkbox"/>
I Did you make any payments in 2020 that would require you to file Form(s) 1099? See instructions		<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
J If "Yes," did you or will you file required Form(s) 1099?		<input type="checkbox"/> Yes <input type="checkbox"/> 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 ▶ <input type="checkbox"/>	1	2,000
2 Returns and allowances	2	
3 Subtract line 2 from line 1	3	2,000
4 Cost of goods sold (from line 42)	4	
5 Gross profit. Subtract line 4 from line 3	5	2,000
6 Other income, including federal and state gasoline or fuel tax credit or refund (see instructions)	6	
7 Gross income. Add lines 5 and 6 ▶	7	2,000

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

8 Advertising	8		18 Office expense (see instructions)	18	
9 Car and truck expenses (see instructions)	9	105 *	19 Pension and profit-sharing plans	19	
10 Commissions and fees	10		20 Rent or lease (see instructions):		
11 Contract labor (see instructions)	11		a Vehicles, machinery, and equipment	20a	
12 Depletion	12		b Other business property	20b	
13 Depreciation and section 179 expense deduction (not included in Part III) (see instructions)	13		21 Repairs and maintenance	21	
14 Employee benefit programs (other than on line 19)	14		22 Supplies (not included in Part III)	22	
15 Insurance (other than health)	15		23 Taxes and licenses	23	
16 Interest (see instructions):			24 Travel and meals:		
a Mortgage (paid to banks, etc.)	16a		a Travel	24a	
b Other	16b		b Deductible meals (see instructions)	24b	18 *
17 Legal and professional services	17		25 Utilities	25	
28 Total expenses before expenses for business use of home. Add lines 8 through 27a ▶	28		26 Wages (less employment credits)	26	
29 Tentative profit or (loss). Subtract line 28 from line 7	29		27a Other expenses (from line 48)	27a	
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	30		b Reserved for future use	27b	
31 Net profit or (loss). Subtract line 30 from line 29. • 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.	31				1,877
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.			32a <input type="checkbox"/> All investment is at risk.		
			32b <input type="checkbox"/> Some investment is not at risk.		

For Paperwork Reduction Act Notice, see the separate instructions.

Cat. No. 11334P

Schedule C (Form 1040) 2020

* See statement attached.

**SCHEDULE SE
(Form 1040)**

Department of the Treasury
Internal Revenue Service (99)

Self-Employment Tax

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

OMB No. 1545-0074

2020
Attachment
Sequence No. **17**

Name of person with self-employment income (as shown on Form 1040, 1040-SR, or 1040-NR)

William K. Green

Social security number of person
with self-employment income ►

202-20-2002

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	1a	
b If you received social security retirement or disability benefits, enter the amount of Conservation Reserve Program payments included on Schedule F, line 4b, or listed on Schedule K-1 (Form 1065), box 20, code AH	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	2	1,489 *
3 Combine lines 1a, 1b, and 2	3	1,489
4a If line 3 is more than zero, multiply line 3 by 92.35% (0.9235). Otherwise, enter amount from line 3	4a	1,375
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	4b	
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	4c	1,375
5a Enter your church employee income from Form W-2. See instructions for definition of church employee income	5a	0
b Multiply line 5a by 92.35% (0.9235). If less than \$100, enter -0-	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 2020	7	137,700
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 \$137,700 or more, skip lines 8b through 10, and go to line 11	8a	
b Unreported tips subject to social security tax from Form 4137, line 10	8b	
c Wages subject to social security tax from Form 8919, line 10	8c	
d Add lines 8a, 8b, and 8c	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	137,700
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. Multiply line 12 by 50% (0.50). Enter here and on Schedule 1 (Form 1040), line 14	13	106

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 \$8,460, or (b) your net farm profits² were less than \$6,107.

14 Maximum income for optional methods	14	5,640
15 Enter the smaller of: two-thirds (2/3) of gross farm income ¹ (not less than zero) or \$5,640. Also, include this amount on line 4b above	15	

Nonfarm Optional Method. You may use this method **only** if (a) your net nonfarm profits² were less than \$6,107 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	16	
17 Enter the smaller of: two-thirds (2/3) of gross nonfarm income ⁴ (not less than zero) or the amount on line 16. Also, include this amount on line 4b above	17	

¹ From Sch. F, line 9; and Sch. K-1 (Form 1065), box 14, code B.

³ From Sch. C, line 31; and Sch. K-1 (Form 1065), box 14, code A.

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.

⁴ From Sch. C, line 7; and Sch. K-1 (Form 1065), box 14, code C.

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

Cat. No. 11358Z

Schedule SE (Form 1040) 2020

* See statement attached.

Part III Maximum Deferral of Self-Employment Tax Payments

If line 4c is zero, skip lines 18 through 20, and enter -0- on line 21.

18	Enter the portion of line 3 that can be attributed to March 27, 2020, through December 31, 2020	18	
19	If line 18 is more than zero, multiply line 18 by 92.35% (0.9235); otherwise, enter the amount from line 18	19	
20	Enter the portion of lines 15 and 17 that can be attributed to March 27, 2020, through December 31, 2020	20	
21	Combine lines 19 and 20	21	

If line 5b is zero, skip line 22 and enter -0- on line 23.

22	Enter the portion of line 5a that can be attributed to March 27, 2020, through December 31, 2020	22	
23	Multiply line 22 by 92.35% (0.9235)	23	
24	Add lines 21 and 23	24	
25	Enter the smaller of line 9 or line 24	25	
26	Multiply line 25 by 6.2% (0.062). Enter here and see the instructions for line 12e of Schedule 3 (Form 1040)	26	

Attachment 1. Computation of expenses, allocable to tax-free ministerial income, that are nondeductible.

% of Nondeductible Expenses				
		<u>Taxable</u>	<u>Tax-Free</u>	<u>Total</u>
Parsonage allowance:				
Ministerial retirement benefits designated as housing allowance	\$ 15,000			
Actual expenses	\$ 13,000			
Fair rental value of home (including furnishings and utilities) (\$1,200 x 12)	\$ 14,400			
Taxable portion of allowance (excess of amount designated & paid over lesser of actual expenses or fair rental value)	<u>\$ 2,000</u>	\$ 2,000		\$ 2,000
Tax-free portion of allowance (lesser of amount designated, actual expenses or fair rental value)			13,000	13,000
Gross income from occasional guest preaching engagements		2,000		2,000
Ministerial Income		<u>\$ 4,000</u>	<u>\$ 13,000</u>	<u>\$ 17,000</u>
% of nondeductible expenses: \$13,000/\$17,000 = 76%				

Schedule C Deduction Computation	
Business use of car:	
758 miles x 57.5¢	\$ 436
Minus: Nondeductible part of business use of car (76% x \$436)	\$ (331)
Total business use of car (Line)	<u>\$ 105</u>
Meal expenses (\$150 less 50% reduction)	\$ 75
Minus: Nondeductible part of meals & entertainment (76% x \$75)	\$ (57)
Total meal expenses (Line)	<u>\$ 18</u>
Schedule C deductions, line 28	<u>\$ 123</u>
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	<u>(75)</u>	<u>(511)</u>
Net Self-Employment Income		
Schedule SE, line 2		<u>\$ 1,489</u>

**RESOLUTION OF THE BOARD OF TRUSTEES OF
THE PENSION BOARDS—UNITED CHURCH OF CHRIST, INC.
DESIGNATION OF MINISTER’S HOUSING ALLOWANCE**

The Board of Trustees of The Pension Boards – United Church of Christ, Inc. designated and passed the following corporate resolution during the Board meeting held on November 8, 2019:

1. For Retired Ministers

The full amount of the pension, disability and retirement plan benefit payments received by a retired minister in 2020 from the Annuity Plan for the United Church of Christ, as amended and restated effective May 1, 2018, or from any predecessor plan or other church plan administered by the Corporation shall constitute a housing allowance paid as part of the retired minister’s compensation for past services rendered within the meaning of Section 107 of the Internal Revenue Code of 1986, as amended, provided, however, that such housing allowance is not to exceed the fair rental value of the home, including furnishings and appurtenances, such as a garage, plus the cost of utilities and any other applicable tax law limits.

2. For Disabled Minister

The full amount of the disability payments received by a minister as a benefit from the Life Insurance and Disability Income Benefit Plan in 2020 shall constitute a housing allowance paid as part of the disabled minister’s compensation for past services rendered within the meaning of Section 107 of the Internal Revenue Code of 1986, as amended, provided, however, that such housing allowance is not to exceed the fair rental value of the home, including furnishings and appurtenances, such as a garage, plus the cost of utilities and any other applicable tax law limits.

IN WITNESS WHEREOF, the undersigned has executed this certificate on behalf of the Corporation as of this 22nd day of January 2021.

The Pension Boards—United Church of Christ, Inc.



By: Rev. Richard Walters, General Counsel

TAXPAYER-PREPARED SUPPLEMENTARY SHEET #1
Tax Year 2020

Explanation of Line 5a of Form 1040 or Form 1040-SE
for a Retired Minister of the Gospel
Receiving Housing Allowance for Past Service

Taxpayer's Name	
Taxpayer's Social Security Number	

1.	Gross annuity received designated as housing allowance by The Pension Boards-United Church of Christ, Inc. in accordance with Section 107 of the Internal Revenue Code (Box 1 of Form 1099-R)	\$
2.	The lesser of actual expenses directly related to providing a home or the fair rental value of the home, furnished, including utilities	\$
3.	Subtract amount in Line 2 from amount in Line 1 (above) and enter the difference on Line 5a (<i>Pensions and annuities—Taxable amount</i>) of Form 1040 or Form 1040-SE	\$

TAXPAYER-PREPARED SUPPLEMENTARY SHEET #2
Tax Year 2020

**Explanation of Line 1 of Form 1040 or Form
1040-SE for a Minister of the Gospel
Receiving Disability Payments**

Taxpayer's Name	
Taxpayer's Social Security Number	

1.	Gross disability payments received (as shown in Box 1 of Form W-2)	\$	
2.	Allowable portion of housing allowance designated by denominational pension trustees of the Pension Boards-United Church of Christ in accordance with Section 107 of the Internal Revenue Code	\$	
3.	Taxable portion of disability payments (Box 1 minus Box 2, above)	\$	
4.	2020 wages (enter the sum of amounts in Box 1 of any other Form W-2 you may have received for 2020, such as for wages before you became disabled)	\$	
5.	Net wages (Box 3 plus Box 4) – Insert this amount on Line 1 (Wages, salaries, tips, etc.) of Form 1040 or Form 1040-SE	\$	

Partnering with those engaged in the life of the Church



The Pension Boards

United Church of Christ, Inc.

475 Riverside Drive, Room 1020
New York, NY 10115-0059