



The First Year: How to Structure a Church Pay Package and Become (Clergy) Tax Savvy



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Rev. Jerry Rich, M.Div., MBA

FCMM Vice President

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Structuring Compensation and Becoming (Clergy) Tax Savvy

1. Negotiating **Compensation** – Structuring Salary and Benefits
2. Understanding **Minister** (aka “clergy”) **Tax Status**
 - a. IRS definition
 - b. Dual tax status – Employee for income, Self-employed for Social Security
 - c. Housing allowance
 - d. Tax filing and payment
3. **Social Security** Participation – What About Opting Out?
4. **Funding post-employment years** – “Retirement” planning from the beginning

1-Negotiating Compensation – Structuring Salary and Benefits

- Except for large church, you will need to be the most knowledgeable party on clergy status and benefits.
- Most churches want to provide the most effective compensation...
 - Significance of housing allowance to the pastor
 - Other tax-free benefits (retirement plan, group health insurance)
- And most want to have a helpful discussion about putting together the best compensation package.

Structuring the compensation package

- When dealing with a lump sum budget for the pastor ...
 - Seek to move away from the lump sum idea in future years.
 - Move business expense (reimbursement) out of compensation budget to operating budget. Include mileage reimbursement, professional memberships, subscriptions, office supplies, business meals, etc. Handle this as accountable expense plan. (See Minister's Tax & Financial Guide.)
 - Separate cost of benefits from salary. Benefits may include retirement plan contributions, health insurance, long term disability insurance, life insurance
 - Remaining compensation comprises actual salary.
- 🖐️ Lack of employer-provided benefits lowers the effective compensation and often means that essential needs are not met.

What about salary comparison?

- Salary surveys available:
 - Church Law & Tax (www.churchlawandtaxstore.com)
 - *Church Compensation Handbook for Church Staff*, published bi-annually, \$34.95
 - Somewhat limited and dated; see compensation reports online at next bulletpoint.
 - Church Law & Tax service: www.churchsalary.com
 - Online and continually updated
 - \$99/year
 - The Church Network's Salary Survey (www.ministrypay.com)
 - Most comprehensive and largest data pool
 - Continually updated
 - \$185/year (\$85 discount if participating in data submission)
- 🖱️ Local source: School district salary schedules
 - Public information, accessible (often on school district website)
 - No cost
 - Reflect local pay scales
 - Compare to school principals, assistant principals

The benefit of benefits

- Employer-provided benefits represent cost of doing business, not compensation.
- Most common benefits
 1. Life insurance (Premiums for up to \$50k coverage are non-taxable .)
 2. Group health insurance
 - Nontaxable benefit when provided by church as group health plan.
 - Nontaxable benefit when church pays or reimburses premiums for pastor who is the only full-time employee.
 - Affordable Care Act requires that individual (i.e. non-group) health insurance cannot be paid or reimbursed by employer. Only method is to add taxable salary and not specify the use.
 - Download <http://www.fcmmbenefits.org/documents/healthcare-reimbursements-5-roads-summary-ecfa> for current information.
 3. Retirement plan and contributions
 4. Disability insurance
 - Employer-paid benefit vs. employee-deducted expense. (When salary-deducted premiums are paid, amount is not tax-free but later benefit claim payout is nontaxable.)

2-Understanding Clergy Tax Status

- A. How “minister” is determined for IRS purposes.
- B. Ministers have dual status regarding income tax and Social Security.
- C. The benefit of housing allowance
- D. Tax filing and tax payment

Downloadable free resource: <https://www.fcmmbenefits.org/documents/ministers-tax-and-financial-guide-2021-2020-returns>. This is a subset of Zondervan Minister’s Tax & Financial Guide

A. Definition of “minister” per IRS

IRS Publication 517 – Social Security and other Information for Members of Clergy and Religious Workers

- “Ministers are individuals who are duly ordained, commissioned, or licensed by a religious body constituting a church or church denomination. Ministers have the authority to conduct religious worship, perform sacerdotal functions, and administer ordinances or sacraments according to the prescribed tenets and practices of that church or denomination.”
- “If a church or denomination ordains some ministers and licenses or commissions others, anyone licensed or commissioned must be able to perform substantially all the religious functions of an ordained minister to be treated as a minister for social security purposes.”

Factors in the IRS determination

1. Person must be credentialed as clergy (i.e. ordained, commissioned, or licensed), and
2. Meet “balancing test” of the following factors:
 - a. Have authority to conduct religious worship.
 - b. Have authority to perform “sacerdotal” functions.
 - c. Have authority to administer ordinances/sacraments.
 - d. Have management responsibilities in the local church or denomination.
 - e. Be considered to be a religious leader by the church or denomination.

Clergy credentialing

- For ministers serving in churches that have denominational credentialing (EFCA: ordination or licensing for pastors, commissioning for missionaries), the IRS will primarily look to that authority for valid credentialing.
- If a local church of a credentialing denomination separately grants clergy credentials there is less IRS credence for the local credential.
- If a local church grants credentials, the church's bylaws should make specific provision to establish the chain of authority and should include:
 - Guidelines and procedures for granting credentials.
 - Guidelines and procedures for revoking credentials.
 - Statement of privileges and duties conveyed upon credentialed persons.
- Clergy credentials should not be granted for purpose of tax benefits.

B. Five special tax rules with respect to compensation of clergy for services performed in exercise of ministry

- Parsonage exclusion from taxable income
- Housing allowance exclusion from taxable income
- Self-employed status for Social Security tax
- Exemption from income tax mandatory withholding – still responsible for paying the tax.
- ☯ Exemption from self-employment (Social Security) taxes if properly elected only for reasons of religious objection to public insurance benefits. (I don't recommend this.)

Dual tax status of clergy

- Ministers meeting IRS definition for “minister” are
 - *Employees* for income tax reporting (receive W-2), and
 - *Self-employed* for Social Security purposes (pay self-employment tax rate and file Schedules C and SE)
- NOTE: The tax aspects of clergy status are not separable (exemption from withholding, self-employment income subject to SE tax, provision for housing allowance exclusion – ALL occur together).

Tax status comparison

	Social Security & Medicare paid by... (2021: Paid on up to \$142,800, after which SS caps out and Medicare tax, 2.9%/1.45%, continues)		Paycheck withholding required?	Housing allowance can reduce taxable income?
	Staff Person:	Employer:		
Regular employee	7.65% FICA-employee	7.65% FICA-employer	Yes	No
Clergy employee	15.3% SECA	—	No	Yes

FICA = Federal Insurance Contributions Act
SECA = Self-Employment Contributions Act

See this article for more information: <https://www.fcmmbenefits.org/news-perspectives/ministers-pay-essentials>

C. Benefit of clergy housing allowance

- What is it? Exclusion from gross income for income tax purposes (but not exclusion from SE tax) of the amount used to provide a home, limited to the smallest of
 1. The amount **actually** used to provide a home, substantiated by documented eligible expenses.
 2. The amount **officially designated** in advance by the church board.
 3. The **fair rental value** of the home, including furnishings and utilities.
- What may be included in total of actual expenses?
 - Mortgage payments, utilities, repairs, furnishings, insurance, property taxes, maintenance, improvements, homeowner association dues.
- What if I live in a church-provided parsonage?
 - The value is not included in reportable income but annual rental value must be added to taxable income for calculating SE tax. If the minister pays utilities or maintenance, that amount may be designated in advance as housing allowance.

Benefit of clergy housing allowance in retirement

- A church retirement plan (like FCMM Retirement Plan) only may designate retirement distributions as housing allowance. The same guidelines apply as when employed by a church.

D. Tax filing and payment

Ministers pay income tax and self-employment (SECA: Social Security) tax by either ...

- Quarterly Estimated Tax filing, or
- Voluntary withholding by requesting that employer withhold a certain amount per-paycheck.
 - Not calculated by tax withholding tables but determined by the minister estimating required amount.
 - Exact allocation between income tax and SE tax is sorted out when filing Form 1040.

Tax form examples

Form 1040, Schedule 1:

Line 14 – Deductible portion of SE tax from Schedule SE, Line 13.
Use Line 22 total to enter on 1040, Line 8a.

Form 1040, Schedule 2:

Line 4 – Self-employment tax from Schedule SE, Line 12. Enter on 1040, Page 2, Line 15.

Source: Zondervan Minister's Tax & Financial Guide

SCHEDULE 1 (Form 1040)		Additional Income and Adjustments to Income		OMB No. 1545-0074 2020 Attachment Sequence No. 01	
Department of the Treasury Internal Revenue Service		▶ Attach to Form 1040, 1040-SR, or 1040-NR. ▶ Go to www.irs.gov/Form1040 for instructions and the latest information.			
Name(s) shown on Form 1040, 1040-SR, or 1040-NR Milton L. Brown		Your social security number 541-16-8194			
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	1,205		
4	Other gains or (losses). Attach Form 4797	4			
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	1,205		
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	6,705		
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	1,906		
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	8,611		
For Paperwork Reduction Act Notice, see your tax return instructions. Cat. No. 71479F Schedule 1 (Form 1040) 2020					

SCHEDULE 2 (Form 1040)		Additional Taxes		OMB No. 1545-0074 2020 Attachment Sequence No. 02	
Department of the Treasury Internal Revenue Service		▶ Attach to Form 1040, 1040-SR, or 1040-NR. ▶ Go to www.irs.gov/Form1040 for instructions and the latest information.			
Name(s) shown on Form 1040, 1040-SR, or 1040-NR Milton L. Brown		Your social security number 541-16-8194			
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	4	13,409		
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	13,409		
For Paperwork Reduction Act Notice, see your tax return instructions. Cat. No. 71478U Schedule 2 (Form 1040) 2020					

Tax form examples

Schedule C or C-EZ:

Report other ministerial income, such as honoraria and expenses related to this income.

Source: Zondervan Minister's Tax & Financial Guide

SCHEDULE C (Form 1040) <small>Department of the Treasury Internal Revenue Service (99)</small>		Profit or Loss From Business <small>(Sole Proprietorship)</small> ► 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.		<small>OMB No. 1545-0074</small> 2020 <small>Attachment Sequence No. 09</small>
Name of proprietor Milton L. Brown		Social security number (SSN) 541-16-8194		
A Principal business or profession, including product or service (see instructions) Minister		B Enter code from instructions ► 8 1 3 0 0 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.) ► 418 Trenton Street City, town or post office, state, and ZIP code Springfield, OH 45504				
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	1,650	
2	Returns and allowances	2		
3	Subtract line 2 from line 1	3	1,650	
4	Cost of goods sold (from line 42)	4		
5	Gross profit. Subtract line 4 from line 3	5	1,650	
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	1,650	
Part II Expenses. Enter expenses for business use of your home only on line 30.				
8	Advertising	8		18 Office expense (see instructions)
9	Car and truck expenses (see instructions)	9	445	19 Pension and profit-sharing plans
10	Commissions and fees	10		20 Rent or lease (see instructions):
11	Contract labor (see instructions)	11		a Vehicles, machinery, and equipment
12	Depletion	12		b Other business property
13	Depreciation and section 179 expense deduction (not included in Part III) (see instructions)	13		21 Repairs and maintenance
14	Employee benefit programs (other than on line 19)	14		22 Supplies (not included in Part III)
15	Insurance (other than health)	15		23 Taxes and licenses
16	Interest (see instructions):	16		24 Travel and meals:
a	Mortgage (paid to banks, etc.)	16a		a Travel
b	Other	16b		b Deductible meals (see instructions)
17	Legal and professional services	17		25 Utilities
18	Total expenses before expenses for business use of home. Add lines 8 through 27a	18	445	26 Wages (less employment credits)
19	Tentative profit or (loss). Subtract line 28 from line 7	19	1,205	27a Other expenses (from line 48)
20	Expenses for business use of your home. Do not report these expenses elsewhere. Attach Form 8829 unless using the simplified method. See instructions.	20		b Reserved for future use
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				20
21	Net profit or (loss). Subtract line 30 from line 29.	21	1,205	21
<ul style="list-style-type: none"> • 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. 				21
<ul style="list-style-type: none"> • 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. 				21
				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

Tax form examples

Schedule SE (included in Schedule C-EZ):

Line 2 – Report total income including housing allowance for SE tax calculation

Line 12 – SE Tax result to enter in 1040, Schedule 2, Line 4, and 1040, Page 2, Line 15

Line 13 – Deduction for one-half of SE Tax to enter on 1040, Schedule 1, Line 14.

Source: Zondervan Minister's Tax & Financial Guide

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) Milton L. Brown		Social security number of person with self-employment income ▶ 541-16-8194		
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 <input type="checkbox"/>				
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		94,899	
3 Combine lines 1a, 1b, and 2	3		94,899	
4a If line 3 is more than zero, multiply line 3 by 92.35% (0.9235). Otherwise, enter amount from line 3	4a		87,639	
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		87,639	
5a Enter your church employee income from Form W-2. See instructions for definition of church employee income	5a			
b Multiply line 5a by 92.35% (0.9235). If less than \$100, enter -0-	5b			
6 Add lines 4c and 5b	6		87,639	
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			
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		10,867	
11 Multiply line 6 by 2.9% (0.029)	11		2,542	
12 Self-employment tax. Add lines 10 and 11. Enter here and on Schedule 2 (Form 1040), line 4	12		13,409	
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		6,705	
Part II Optional Methods To Figure Net Earnings (see instructions)				
Farm Optional Method. You may use this method only if (a) your gross farm income ¹ wasn't more than \$8,460, or (b) your net farm profits ² 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 profits ³ 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.
² From Sch. F, line 34; and Sch. K-1 (Form 1065), box 14, code A—minus the amount you would have entered on line 1b had you not used the optional method.
³ From Sch. C, line 31; and Sch. K-1 (Form 1065), box 14, code A.
⁴ From Sch. C, line 7; and Sch. K-1 (Form 1065), box 14, code C.

For Paperwork Reduction Act Notice, see your tax return instructions. Cat. No. 11358Z Schedule SE (Form 1040) 2020

Tax form examples

Form 1040-ES Voucher for quarterly estimated tax payment

Source: Internal Revenue Service

Form 1041-ES Department of the Treasury Internal Revenue Service		2021 Payment Voucher 3		OMB No. 1545-0971	
File only if the estate or trust is making a payment of estimated tax. Return this voucher with check or money order payable to "United States Treasury." Write the estate's or trust's EIN and "2021 Form 1041-ES" on the check or money order. Do not send cash. Enclose, but don't staple or attach, the payment with this voucher.				Calendar year — Due Sept. 15, 2021 Amount of estimated tax you are paying by check or money order.	
Fiscal year filers—enter year ending (month and year)		Type or print	Employer identification number		
			Name of estate or trust		
			Name and title of fiduciary		
			Address of fiduciary (number, street, and room or suite no.)		
			City, state, and ZIP code		
Tear off here					

Form 1041-ES Department of the Treasury Internal Revenue Service		2021 Payment Voucher 2		OMB No. 1545-0971	
File only if the estate or trust is making a payment of estimated tax. Return this voucher with check or money order payable to "United States Treasury." Write the estate's or trust's EIN and "2021 Form 1041-ES" on the check or money order. Do not send cash. Enclose, but don't staple or attach, the payment with this voucher.				Calendar year — Due June 15, 2021 Amount of estimated tax you are paying by check or money order.	
Fiscal year filers—enter year ending (month and year)		Type or print	Employer identification number		
			Name of estate or trust		
			Name and title of fiduciary		
			Address of fiduciary (number, street, and room or suite no.)		
			City, state, and ZIP code		
Tear off here					

Form 1041-ES Department of the Treasury Internal Revenue Service		2021 Payment Voucher 1		OMB No. 1545-0971	
File only if the estate or trust is making a payment of estimated tax. Return this voucher with check or money order payable to "United States Treasury." Write the estate's or trust's EIN and "2021 Form 1041-ES" on the check or money order. Do not send cash. Enclose, but don't staple or attach, the payment with this voucher.				Calendar year — Due April 15, 2021 Amount of estimated tax you are paying by check or money order.	
Fiscal year filers—enter year ending (month and year)		Type or print	Employer identification number		
			Name of estate or trust		
			Name and title of fiduciary		
			Address of fiduciary (number, street, and room or suite no.)		
			City, state, and ZIP code		
Tear off here					

Tax form examples

W-4 withholding form for voluntary amount: Complete t 1a,1b,and 5. Write "Exempt in 4. Fill in voluntary withholding \$ amount in 4c.

Federal income taxes are not required to be withheld from the salary of clergy. But under a voluntary withholding agreement, federal income tax may be withheld—even sufficient to cover the self-employment tax liability. This withholding must be identified as "federal income tax withheld" (and not social security taxes withheld).
-Reporting Procedures for Congregations by Dan Busby

Source: Internal Revenue Service

W-4
Form (Rev. December 2020)
Department of the Treasury
Internal Revenue Service

Employee's Withholding Certificate
OMB No. 1545-0074
2021

▶ Complete Form W-4 so that your employer can withhold the correct federal income tax from your pay.
▶ Give Form W-4 to your employer.
▶ Your withholding is subject to review by the IRS.

Step 1: Enter Personal Information

(a) First name and middle initial Last name
Address
City or town, state, and ZIP code

(b) Social security number

▶ Does your name match the name on your social security card? If not, to ensure you get credit for your earnings, contact SSA at 800-772-1213 or go to www.ssa.gov.

(c) ☐ Single or Married filing separately
☐ Married filing jointly or Qualifying widow(er)
☐ Head of household (Check only if you're unmarried and pay more than half the costs of keeping up a home for yourself and a qualifying individual.)

Complete Steps 2–4 ONLY if they apply to you; otherwise, skip to Step 5. See page 2 for more information on each step, who can claim exemption from withholding, when to use the estimator at www.irs.gov/W4App, and privacy.

Step 2: Multiple Jobs or Spouse Works

Complete this step if you (1) hold more than one job at a time, or (2) are married filing jointly and your spouse also works. The correct amount of withholding depends on income earned from all of these jobs.
Do **only one** of the following.
(a) Use the estimator at www.irs.gov/W4App for most accurate withholding for this step (and Steps 3–4); or
(b) Use the Multiple Jobs Worksheet on page 3 and enter the result in Step 4(c) below for roughly accurate withholding; or
(c) If there are only two jobs total, you may check this box. Do the same on Form W-4 for the other job. This option is accurate for jobs with similar pay; otherwise, more tax than necessary may be withheld ▶ ☐

TIP: To be accurate, submit a 2021 Form W-4 for all other jobs. If you (or your spouse) have self-employment income, including as an independent contractor, use the estimator.

Complete Steps 3–4(b) on Form W-4 for only ONE of these jobs. Leave those steps blank for the other jobs. (Your withholding will be most accurate if you complete Steps 3–4(b) on the Form W-4 for the highest paying job.)

Step 3: Claim Dependents

If your total income will be \$200,000 or less (\$400,000 or less if married filing jointly):
Multiply the number of qualifying children under age 17 by \$2,000 ▶ \$
Multiply the number of other dependents by \$500 ▶ \$
Add the amounts above and enter the total here **3** \$

Step 4 (optional): Other Adjustments

(a) **Other income (not from jobs).** If you want tax withheld for other income you expect this year that won't have withholding, enter the amount of other income here. This may include interest, dividends, and retirement income **4(a)** \$
(b) **Deductions.** If you expect to claim deductions other than the standard deduction and want to reduce your withholding, use the Deductions Worksheet on page 3 and enter the result here **4(b)** \$
(c) **Extra withholding.** Enter any additional tax you want withheld each pay period **4(c)** \$

EXEMPT

Step 5: Sign Here

Under penalties of perjury, I declare that this certificate, to the best of my knowledge and belief, is true, correct, and complete.
▶ **Employee's signature** (This form is not valid unless you sign it.) ▶ **Date**

Employers Only

Employer's name and address First date of employment Employer identification number (EIN)

For Privacy Act and Paperwork Reduction Act Notice, see page 3. Cat. No. 10220Q Form **W-4** (2021)

Tax form examples

W-2 Wage and Tax Statement:
No entries in Boxes 3-8

22222		VOID <input type="checkbox"/>		a Employee's social security number 541-16-8194		For Official Use Only ▶ OMB No. 1545-0008			
b Employer identification number (EIN) 38-9417217						1 Wages, tips, other compensation 67850.00		2 Federal income tax withheld 15000.00	
c Employer's name, address, and ZIP code Magnolia Springs Church 4805 Douglas Road Springfield, OH 45504						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 Milton L.			Last name Brown		Suff.	11 Nonqualified plans		12a See instructions for box 12 E 500	
f Employee's address and ZIP code 418 Trenton Street Springfield, OH 45504						13 Statutory employee <input type="checkbox"/> Retirement plan <input checked="" type="checkbox"/> Third-party sick pay <input type="checkbox"/>		12b	
						14 Other Housing Allowance 26000		12c	
								12d	
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	
OH 677803		67850.00		1600.00					
W-2 Wage and Tax Statement Form 2020 Copy A—For Social Security Administration. Send this entire page with Form W-3 to the Social Security Administration; photocopies are not acceptable.						Department of the Treasury—Internal Revenue Service For Privacy Act and Paperwork Reduction Act Notice, see the separate instructions. Cat. No. 10134D			
Do Not Cut, Fold, or Staple Forms on This Page									

Source: Zondervan Minister's Tax & Financial Guide

3-What about opting out of Social Security?

- Ministers are given the ability to opt out of the Social Security system if the procedures for obtaining exemption are followed, including filing of Form 4361.
- ☞ The only basis is conscientious and theological objection to receiving public insurance program benefits. Must be a credentialed minister.
- Procedure (Must be completed by tax return due date for second year following receiving clergy credential and receiving at least \$400 for services as a minister.):
 1. Notify credentialing authority of intent to file Form 4361.
 2. Complete and file Form 4361.
 3. Respond to IRS inquiry to confirm understanding of basis of exemption, signing additional certification under penalty of perjury that the beliefs are sincerely held.
 4. Upon IRS approval, opt-out is irrevocable.

What to consider about opting out of the Social Security system.

- Review this article: <https://www.fcmmbenefits.org/news-perspectives/considering-opting-out-social-security-critical-issues-review>.
- If you already have opted out, or are planning to opt out, read: <https://www.fcmmbenefits.org/news-perspectives/managing-financial-life-after-opting-out-social-security>.

Economic or stewardship reasons are not valid objections for opt-out.

- Not valid:
 1. My tax preparer told me I could take advantage of this tax break.
 2. I don't think Social Security will be viable in the future.
 3. I can manage the money better.
 4. I don't believe in paying the tax.
 5. I didn't know what I was doing.
- Scope of benefits from which minister would be opting out:
 1. Supplemental retirement income
 2. Survivor benefits
 3. Spousal benefits
 4. Disability coverage
 5. Medicare
 6. Any future benefits that may be added

Is clergy status a “good deal”?

- Not necessarily, from a financial perspective. Some may pay more total taxes after becoming a minister under the IRS rules.
- Benefit of housing allowance exclusion may be more than offset by the higher SECA tax rate.
- Purpose of clergy status should never be for tax benefit.
- 📌 Many churches add a “**SS offset**” or “**FICA equivalent**”, equal to employer’s FICA portion, in additional salary to clergy employees. This is simply additional salary, but many consider it to be an equitable employer expense. (The employer incurs equal expense rather than shifting the employer portion to a clergy employee’s double SECA rate)

Tax payment and withholding

	Social Security & Medicare paid by...		Paycheck withholding required?	Housing allowance can reduce taxable income?
	Staff Person:	Employer:		
Regular employee	7.65%	7.65%	Yes	No
Clergy employee	15.3%	—	No	Yes

4-Funding Later Years

Planning for “Retirement” is simply putting aside income now to fund future years.

“Retirement”?

- Numbers 8:24-26 NIV
 - *This applies to the Levites: Men twenty-five years old or more shall come to take part in the work at the Tent of Meeting, but at the age of fifty, they must retire from their regular service and work no longer. They may assist their brothers in performing their duties at the Tent of Meeting....*
- We may be called to a lifetime of ministry, but the time may come when our abilities are more limited or when a church is not ready to provide us a salary.
- Need to plan for funding of your lifetime of ministry to include your later post-employment years.

How will you support yourself as you serve the Lord in the years after employment?

Three simple rules to prepare funding for your future:

- Start to contribute **early** (to tax advantaged retirement funds)
- Contribute **regularly**
- Contribute at **increasing** rates

Best “Rule of Thumb” Planning Goal

Regular contributions ...

Over a 40-year career, contribute
15% of income annually to
retirement savings (employer and
employee contributions combined)

Source: T. Rowe Price

Note: 2/3s of middle income employees are saving < 5%.

Source: LIMRA

Other life planning issues

- Diversify investments among different types of assets (Prov 11:2 NLT: *Divide your investments among many places, for you do not know what risks might lie ahead.*)
- 🖐️ Increase your rate of contributing over your years
 - Example: 10% in 20s, 12% in 30s, 15%+ in 40s and up
- IRS “Catch-up” contribution provision for deferrals, starting at age 50
 - Retirement Plan: Up to \$6.5k over the regular \$19.5 k annual limit (2021).
 - Individual Retirement Account: Up to \$1k over the regular \$6k limit (2021).
- Inflation
- Medical care and expense, including possible long term care insurance
- Longevity: outliving retirement assets
 - Annuity provides monthly income for life

Types of Retirement Accounts

- Tax advantaged / tax-deferred
 - Employer Retirement Plan
 - 401k – “For-profit” company
 - 403b – “Non-profit” company
 - 403b(9) – Church (**FCMM Retirement Plan**)
 - Individual
 - IRA (“Individual Retirement Account”) – Traditional pre-tax or Roth after-tax
- Not tax advantaged
 - Personal savings
 - Investment/brokerage account

Sources of Contributions

- **Employer** may contribute a % or \$ amount, per the employer's Adoption Agreement with FCMM.
- **Employee** may elect to contribute a % or \$ amount per paycheck as either (or both) ...
 - **Salary Deferral** (traditional "pre-tax") – lowers taxable income. Retirement distributions are subject to income tax.
 - **Roth-designated Salary Deferral** – does not lower taxable income but grows tax-free and later provides tax-free retirement distribution
- Some employers **match** a specific % or \$ amount of **employee** salary deferral.
 - Match is determined by employer via Adoption Agreement. (Example: Match 100% up to 3% salary deferral.)

Advantages of FCMM Retirement Plan

a 403(b)(9) Church Plan

Significant to Minister/Missionary

- **MINISTERS & MISSIONARIES:**

- **Contributions** – Both income-tax-deferred and SECA (Social Security) tax-free
- **Distributions as Housing Allowance** – retirement distributions from funds contributed while eligible for housing allowance are designated by FCMM as housing allowance and therefore tax-free when used for housing expense
- **Higher Elective Contribution Limits** – much higher in 403(b)(9) plan) vs Individual Retirement Account
- **Flexibility** – local church may establish classes for contributions to recognize different staff levels
- **Simplicity** – exempt from ERISA requirements, annual “testing” – and resulting employer costs
- **Low/No cost to employer** – unlike contracting with a Third Party Administrator, FCMM operates and maintains the plan with no employer fees

Questions or feedback:

Jerry Rich
jerry.rich@fcmmbenefits.org

www.fcmmbenefits.org
(800) 995-5357 fcmm@fcmmbenefits.org