Let’s Get It Right – The Pastor’s W-2

Most Presbyterian ministers are considered employees for federal income tax purposes under the test currently used by the IRS and the courts and should receive IRS Form W-2 from their church or employer reporting their taxable income.

Churches do not have to withhold income taxes from a minister’s pay check. No FICA taxes (social security and medicare tax) can be withheld from a minister’s pay check. Pastors must pay estimated income taxes and self employment taxes.

A few ministers are self-employed, such as some traveling evangelists, tent makers and some interim pastors. A minister of a local church would be considered self-employed with regard to guest speaking appearances in other churches and services performed directly for individual members (such as weddings and funerals).

This W-2 is for a single pastor serving in a church with an effective salary of $80,000 a year. The church has correctly designated $40,000 as housing allowance. This pastor is covered with the Board of Pension under the Benefits plan.

**Box 1 – Wages, tips, other compensation**

Wages, tips, other compensation includes –

- Salary.
- Bonuses.
- The cost of sending a minister to the Holy Land (if paid for by the church).
- Most Christmas and special occasion offerings.
- Retirement gifts.
- The portion of the minister’s Social Security tax paid by the church as an offset.
- The personal use of a church-provided car.
- Purchases of church property for less than fair market value.
- Expense reimbursements paid under a “nonaccountable plan”. A nonaccountable expense reimbursement arrangement is one that does not require the substantiation of expenses, or does not require excess reimbursement to be returned to the church. Expenses include moving expenses, mileage, book allowance, medical reimbursement,
- Imputed cost of group term life insurance coverage (including death benefits under the Benefits Plan) exceeding $50,000 and cost of coverage of spouse and dependents over $2,000 which is paid by the employer. (See Box 12 below).
- Below market interest loans to a minister create income to the minister.
- Severance pay.
- Forgiveness of a minister’s debt.
- Payment of a minister’s personal expenses by the church.
Wages, tips, other compensation DOES NOT include –

The annual fair rental value of a manse or that portion of a minister’s compensation that was designated (in advance) as a housing allowance by the church.

**Box 2 - Federal income tax withheld**

A minister can request that their church withhold income tax from their wages. Ministers should complete IRS Form W-4. A minister can request on W-4 that an additional amount of income tax be withheld to cover their estimated self-employment taxes. Report the amount of taxes withheld from the minister's pay check.

**Box 4 - Social Security tax withheld**

**Box 6 - Medicare tax withheld**

These two boxes should be left blank.
Since ministers are not employees for Social Security purposes, the church must not withhold the employee’s share of Social Security and Medicare taxes.

**Box 3 – Social security wages**

**Box 5 – Medicare wages and tips**

These two boxes should be left blank.
Ministers are self-employed for ministerial wages and therefore do not have social security or medicare wages.

**Box 12 –**

Code C – imputed cost of employer provided group term life insurance benefits. This amount is also added to Box 1.
To calculate the cost go the [www.pensions.org](http://www.pensions.org) (Treasurers & Administrators/ Calculators/ Taxation of Death Benefits...)
An effective salary of $80,000 for a 40 year old single male results in an imputed cost of $132.00 annually.

**Failure to report the imputed cost of employer provided group term life insurance benefits makes the benefits FULLY TAXABLE when received.**

**Box 14 – Other**

This box is optional.
Some churches report a church designated housing allowance in this box.
Church treasurers should be sure that the designation of a housing or manse allowance for the following year is on the agenda of the church for one of the final business meetings of the current year. The designation should be an official action, and it should be duly recorded in the minutes of the meeting. The IRS also recognizes designations included in employment contracts and budget line items – assuming in each case that the church duly adopted the designation and that there is underlying specific documentation of each minister’s housing allowance computations. **Under no circumstance can a church designate housing allowance retroactively.**

Go to [www.pensions.org](http://www.pensions.org) (Forms & Publications/Brochures & Reports/Taxes Administration Dues & Rate) and download “Tax Guide for Ministers & Churches”, “Tax Guide for Ministers & Churches, Forms and Examples, Senior Minister” and “Federal Reporting Requirements for Churches”.

If you have any questions -
Please call Susan Carpenter, Financial Administrator, at the Presbytery offices 954-785-2220.