

Clergy Taxation: Housing Allowances, W-2 Reporting, Retirement, Gifts, and Social Security

MONDAY, JUNE 7, 2021, 1:00-2:50 pm Eastern

IMPORTANT INFORMATION FOR THE LIVE PROGRAM

This program is approved for 2 CPE credit hours. To earn credit you must:

- **Participate in the program on your own computer connection (no sharing)** - if you need to register additional people, please call customer service at 1-800-926-7926 ext. 1 (or 404-881-1141 ext. 1). Strafford accepts American Express, Visa, MasterCard, Discover.
- Listen on-line via your computer speakers.
- Respond to five prompts during the program plus a single verification code.
- To earn full credit, you must remain connected for the entire program.

WHO TO CONTACT DURING THE LIVE PROGRAM

For Additional Registrations:

-Call Strafford Customer Service 1-800-926-7926 x1 (or 404-881-1141 x1)

For Assistance During the Live Program:

-On the web, use the Chat function to send a message

If you get disconnected during the program, you can simply log in using your original instructions and PIN.

Worksheets

These worksheets are provided to help you figure your taxable ministerial income, your allowable deductions, and your net self-employment income.

Worksheet 1. Figuring the Percentage of Tax-Free Income

Note. For each line, enter the appropriate amount in **all** boxes that aren't shaded.

	Source of Income		(a) Taxable	(b) Tax-free	(c) Total
1	W-2 salary as a minister (from box 1 of Form W-2)	1			
2	Gross income from weddings, baptisms, writing, lecturing, etc. (from line 1 of Schedule C)	2			
<p>Note. Complete either lines 3a through 3e or lines 4a through 4i.</p> <ul style="list-style-type: none"> If your church provides you with a parsonage, complete lines 3a through 3e. If, instead of providing a parsonage, your church provides you with a rental or parsonage allowance, complete lines 4a through 4i. 					
3a	FRV* of parsonage provided by church	3a			
b	Utility allowance, if any	3b			
c	Actual expenses for utilities	3c			
d	Enter the smaller of line 3b or 3c	3d			
e	Excess utility allowance (subtract line 3d from line 3b)	3e			
4a	Parsonage or rental allowance	4a			
b	Utility allowance, if separate	4b			
c	Total allowance (add lines 4a and 4b)	4c			
d	Actual expenses for parsonage	4d			
e	Actual expenses for utilities	4e			
f	Total actual expenses for parsonage and utilities (add lines 4d and 4e)	4f			
g	FRV* of home, plus the cost of utilities	4g			
h	Enter the smaller of line 4c, 4f, or 4g	4h			
i	Excess allowance (subtract line 4h from line 4c)	4i			
5	Ministerial income (for columns (a), (b), and (c), add lines 1 through 4i)	5			
6	Percentage of tax-free income: $\frac{\text{Total tax-free income (line 5(b)) \$}}{\text{Total income (line 5(c)) \$}}$			=	% **
<p>* FRV (Fair Rental Value): As determined objectively and between unrelated parties, what it would cost to rent a comparable home (including furnishings) in a similar location.</p> <p>** This percentage of your ministerial expenses won't be deductible. Use Worksheets 2 and 3 to figure your allowable deductions.</p>					

Worksheet 2. **Figuring the Allowable Deduction for Schedule C Expenses**

1	Percentage of expenses that are nondeductible (from Worksheet 1, line 6): _____ %		
2	Business use of car for entire year: _____ miles x 57.5 cents (\$0.575)	2	
3	Meals: \$ _____ x 50% (0.50)	3	
4	Other expenses (list item and amount)		
a		4a	
b		4b	
c		4c	
d		4d	
e		4e	
f	Total other expenses (add lines 4a through 4e)	4f	
5	Total Schedule C expenses (add lines 2, 3, and 4f)	5	
6	Nondeductible part of Schedule C expenses (multiply line 5 by the percent in line 1)	6	
7	Deduction allowed. * Subtract line 6 from line 5. Enter the result here and on Schedule C, line 27a.	7	
* None of the other deductions claimed in this return are allocable to tax-free income.			

Worksheet 3. **Figuring Net Self-Employment Income for Schedule SE (Form 1040)**

1	W-2 salary as a minister (from box 1 of Form W-2)	1	
2	Net profit from Schedule C, line 31	2	
3a	Parsonage or rental allowance (from Worksheet 1, line 3a or 4a)	3a	
b	Utility allowance (from Worksheet 1, line 3b or 4b)	3b	
c	Total allowance (add lines 3a and 3b)	3c	
4	Add lines 1, 2, and 3c	4	
5	Schedule C expenses allocable to tax-free income (from Worksheet 2, line 6)	5	
6	Total unreimbursed employee business expenses	6	
7	Total business expenses not deducted in lines 1 and 2 above (add lines 5 and 6)	7	
8	Net self-employment income. Subtract line 7 from line 4. Enter here and on Schedule SE (Form 1040), line 2.	8	

Clergy Housing Allowance Exclusion Items

- ◆ Home:
 - ◆ mortgage or rent payments in full (including principal, interest, escrow, & fees)
 - ◆ home equity loans or lines of credit (if used for housing)
 - ◆ appraisals, closing costs, title insurance, points paid on mortgage or refinance
 - ◆ homeowners or renters insurance, personal umbrella insurance
 - ◆ real estate or property taxes
 - ◆ homeowners or condo association fees
 - ◆ assessments or fees

- ◆ Maintenance:
 - ◆ brooms, mops, vacuum cleaners, swiffers, steam cleaners, spot cleaners, etc.
 - ◆ cleaning supplies, floor cleaners, surface cleaners, window cleaners, etc.
 - ◆ professional cleaning service
 - ◆ dish & dishwasher detergent, sponges, scrubbers, etc.
 - ◆ paper towels, paper plates, paper napkins, plastic silverware, etc.
 - ◆ laundry supplies, hampers, baskets, detergent, dryer sheets, etc.
 - ◆ plants, seeds, gardening tools, etc.
 - ◆ professional lawn care, landscaping, gutter cleaning, winter snow removal, etc.

- ◆ Repairs:
 - ◆ tools, miscellaneous hardware
 - ◆ batteries, light bulbs
 - ◆ interior & exterior painting, painting supplies
 - ◆ replacing flooring, drywall, windows & screens, siding, roof, etc.

- ◆ Furnishings & Appliances:
 - ◆ furniture & artwork
 - ◆ carpets & rugs
 - ◆ decorative wall & shelf items
 - ◆ electronics (tv, entertainment media & players, computer, printer, supplies, etc.)
 - ◆ appliances, supplies, warranties, repairs (refrigerator, stove, microwave, slow cooker, dishwasher, washer/dryer, portable a/c, portable heaters, etc.)
 - ◆ kitchenware, pots & pans, baking sheets, cooking implements, etc.
 - ◆ dishes, glassware, table settings, silverware, etc.
 - ◆ curtains, window coverings, wall coverings, etc.
 - ◆ linens for dining room (tablecloths, table runners, place mats, etc.); bathroom (towels, hand towels, washcloths, etc.); bedroom (sheets, blankets, comforters, quilts, etc.)
 - ◆ appraisal fees

- ◆ Utilities:
 - ◆ electric, natural gas, heating oil, propane, kerosene, water, sewer, trash, pest control, firewood (including cost of delivery or hauling), etc.
 - ◆ cable or satellite tv, streaming services, internet, etc.
 - ◆ land-line phone bill, cost of purchasing or leasing land-line telephone equipment . . .
 - ◆ . . . OR personal-use percent of total cost of cell phone bill & equipment –
but only if there is NO land-line (calculation instructions follow)

- ◆ How to calculate the personal-use amount of your cell phone bill:
 - ◆ If you do not share your plan with anyone else:
 - (1) add up your voice minutes used for personal calls
 - (2) divide into the total minutes used
 - (3) multiply that percentage by the total bill
 - (4) this is the dollar value for your personal use of the cell phone & can be used as a housing allowance exclusion item.
 - ◆ If you share your plan with others:
 - (1) divide the "shared" portion of the plan that is in addition to each individual's usage by the number of people sharing the plan
 - (2) add that dollar amount to the cost attributed to your usage alone
 - (3) then add up your voice minutes used for personal calls
 - (4) divide by the total minutes you used
 - (5) multiply that percentage to the cost attributed to your usage alone PLUS your portion of the shared cost
 - (6) this is the dollar value for your personal use of the cell phone & can be used as a housing allowance exclusion item
 - (7) repeat individually for each person on your plan who resides in your household; be aware that other adults in the household may have business- or work-related calls that do not qualify as personal-use for the purposes of the housing allowance exclusion.
 - ◆ Note: the remaining amount of your cell phone bill that does not relate to personal use might be deductible as business use of your cell phone.

Income That May Be Excluded from Taxable Income

The amount of income that can be excluded from federal income taxable income (but not federal self-employment income) is the smallest of the following three amounts: (1) the amount properly designated in writing as the housing allowance amount before payments to clergy begin; (2) the amount actually spent to provide the home during the calendar year (see list above); and (3) the Fair Rental Value of the home during the calendar year.

- ◆ Fair Rental Value of the Home: The amount it would cost someone else to rent the home you live in, if you walked out the door & left everything but your clothes, food, & toiletries behind. Fully furnished, including the cost of utilities. This value cannot be calculated precisely.
- ◆ If you live in a congregation-owned Parsonage:
 - THEN this number should be on the LOW end of reasonable.
 - The Fair Rental Value of a congregation-owned Parsonage is added to your income for the purposes of Self-Employment Tax, so the lower, the better.
- ◆ If you live in a home that is not owned by the congregation:
 - THEN this number should be on the HIGH end of reasonable.
 - The Fair Rental Value of a non-congregation-owned home is one of three amounts that determine the amount of income you can exclude from income tax. It should never be the smallest of these three amounts (the amount designated ahead of time as housing; the amount actually spent on housing; or the Fair Rental Value of the home).