

TAXATION OF CLERGY & OTHER CALLED WORKERS

January 2017

**Presented by
David Mellem, EA**

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Ashwaubenon Tax Professionals
2140 Holmgren Way
Green Bay, WI 54304

920-496-1065
Fax 920-496-9111
email davidmellem@yahoo.com

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Taxation of Clergy & Other Called Workers

I. Introduction

- A. The taxation of members of the clergy has long been a controversial issue. I have attempted to write the following information accurately yet put it into English as opposed to overly technical language. I have included citations for many issues in case you like to look things up or in case you share this information with someone else who likes to look things up.
- B. Four provisions in the IRS Code treat clergy differently from other occupations. These provisions are:
 - 1. The treatment of clergy as employees for certain purposes yet self-employed for Social Security purposes. *[IRC §1402 & §3121]*
 - 2. The exclusion of housing allowance from taxable income. *[§107]*
 - 3. The possibility of exemption from FICA/SECA taxes. *[§1402]*
 - 4. The exemption of ministerial wages from income tax withholding. *[§3401]*
- C. The term “minister” in this text includes all members of the clergy, whether they are pastors, ministers, rabbis, teachers, etc. as long as they fit the requirements noted next.

II. Employment Status

- A. The proper treatment of income and expenses requires a determination of employment status. The result of this status determines where the income and expenses are reported.
- B. The first consideration is whether the individual is in fact a minister. The definition of a minister depends on the particular facts and circumstances of each specific religion. An individual is required to be a duly ordained,

commissioned, or licensed minister of a church. [Regulation §1.1402(c)-5]

1. There are specific services which are considered the duties of a minister such as the performance of sacerdotal functions, the conduct of religious worship, the administration and maintenance of religious organizations and their integral agencies, and the performance of teaching and administrative duties at theological seminaries. [Regulation §1.107-1(a)]
2. The main concern of the IRS in defining the role of a minister is to prevent self-appointed ministers from taking advantage of tax breaks.

C. The second issue is the employee v. independent contractor test.

1. There are the tests commonly used by the IRS to determine if a worker is an employee or an independent contractor. These are the same tests used in any employee v. independent contractor determination.
2. The key to these tests is the “right to control” test. It is not necessary that the church has total control, nor is it necessary that the minister has total control. It is important to determine if the church has the right to control enough of the various test areas that are used to find the proper status of the minister.
3. In a professional occupation, exercising control is less important than the right to control the worker. Normally, a professional needs less control in their work than a nonprofessional. The role of a minister normally does not require a great deal of actual control. The right to control may be shown by the church’s supervision of the minister.
4. Most individual churches allow their ministers to perform their ministerial duties in their own way. Every minister has a distinct way of preaching. However, most churches have the right to control how the minister performs his work. Control is demonstrated by the following.
 - a) The minister is required to preach the church’s basic teachings. For example, a Baptist minister who starts preaching the Jewish theology would probably have his position as a Baptist minister at that church terminated.
 - b) The minister is required to preach during specific times, although some deviation may be allowed. For example, a minister who decides that 8 am and 11 am on Sunday are

not good times to have services and chooses on his own to change the services to Tuesday nights at midnight and Fridays at 3 am will probably have to find a new position.


- c) The minister is typically required to preach at the church building. A minister who decides to move the church services to the zoo or another church's building could run into some difficulty if it is done on a regular basis without some religious purpose.
 - d) A church that has a minister leave normally will contact the higher levels in the church, such as a District office, to help find a new minister. Most churches do not advertise the position in the newspaper, but work through this higher level.
 - e) The church normally pays the minister a salary and/or provides a parsonage for him to live in.
5. The local church may not be able to terminate a minister's employment. Some churches require a higher level be involved in the decision. Although the local church may not be able to terminate the employment, it does have the control through its higher levels.
- D. A traveling evangelist is an example of a minister who could be an independent contractor. Many evangelists travel from city to city. Their compensation is from the collection plate. They commonly preach in their own style and with their own message. They are not considered to be tied into one specific religion.

III. Independent Contractors

- A. Ministers who are independent contractors will file Schedule C to report their income and expenses. The net income is carried to Form 1040.
- B. These ministers will also file Schedule SE to report their self-employment income.

IV. Employees

- A. Most ministers are employees. As such, they earn the distinction of being dual status taxpayers. They are employees for purposes of calculating income tax. They are self-employed for purposes of calculating their FICA/SECA tax. Since both taxes are shown on the same Form 1040, it leads to some confusion.
- B. Ministers who are employees should receive a Form W-2 from the church. The W-2 should include the wages paid to the minister in Box 1. This income should be reported on Form 1040, line 7 as wages. Boxes 3 and 5, Social Security wages and Medicare wages, should be left blank because a minister who is an employee is still considered a self-employed individual for FICA/SECA tax purposes. If the church fails to issue a Form W-2, the church is liable for the same penalties as other employers who fail to issue Form W-2.

a Employee's social security number		OMB No. 1545-0008		Safe, accurate, FAST! Use 		Visit the IRS website at www.irs.gov/efile	
b Employer identification number (EIN)		1 Wages, tips, other compensation		2 Federal income tax withheld			
c Employer's name, address, and ZIP code		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.		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

2016

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.

- C. A minister who is an employee should report his income on Form 1040, line 7 as wages even if he receives a Form 1099 or no statement at all. His status as an employee requires the reporting of his income as wages

- D. If both the minister and the church agree, the church **can** withhold federal and/or state income tax. This is not a requirement, but an option.
- E. **The church cannot under any circumstances withhold FICA taxes from the minister's pay**, although the minister can choose to increase his federal income tax withholding to cover the self-employment (SE) tax he will incur.
- F. Work related expenses paid by the minister are reportable on Form 2106 and claimed as a miscellaneous 2% itemized deduction. If the minister is receiving a housing allowance, adjustments related to the tax exempt income may have to be made to the expenses before they are reported on Form 2106. This is discussed later in this text.

V. Compensation

- A. A minister normally receives a regular paycheck as compensation like other employees except for the withholding mentioned above.
- B. Ministers may also receive other monies throughout the year, which **may or may not** be compensation.
 - 1. **Housing allowance** is considered compensation, but may be tax-free for income tax purposes. This will be discussed later.
 - 2. **Utility allowance** is treated in the same manner as a housing allowance.
 - 3. **Various allowances** for common business expenses such as an auto allowance and business expense allowance is:
 - a) Not income if the minister is required to show receipts or account for the mileage in order to get the money. It is also not taxable in the case of an advance payment, the minister is required to show receipts or account for the mileage in order to keep the money.
 - b) Income if the minister is given the money without having to account for it. For example a minister who is paid a flat monthly auto allowance and is not required to prove the mileage actually driven should have the allowance shown on the minister's W-2 in box 1 as additional wages.

4. **Love gifts** are gifts made by the church to the minister to show their appreciation for past and future service. Since the minister's employer pays them, they are considered additional compensation. Even gifts to the pastor's wife do not indicate that they are outside of the church relationship. Gifts sponsored, initiated, and solicited by the congregation as a whole were taxable to the minister. (Goodwin, 94-2 USTC 50,597)
5. **FICA adjustment or offset** is an additional amount paid to a minister to help cover the self-employment tax he will have to pay on these normal earnings. This is compensation to the minister.
6. **Honorariums** are amounts received for speaking, officiating at religious ceremonies, counseling, and writing. These can be reported on Schedule C if the minister is allowed to keep the monies and if they are received outside of the Minister's regular salary and they are paid by others outside of the church. (Some churches require the ministers to turn these over to the church.)
7. **Small or nominal noncash gifts** for special occasions are excluded from the income of the minister if they are noncash gifts of small monetary value. This is the same for other employer/employee gifts. [Revenue Ruling 59-58]
8. **Gifts from individual members** of the congregation are considered to be normal nontaxable gifts if they are given outside the congregation and are not solicited by the congregation as a whole. An example of this is a Christmas gift made to the minister by an individual.
9. **Cash gifts** from the church for holidays, anniversaries, or any other reason will be considered compensation if they are given through the church or solicited by the congregation as a whole. [Goodwin, 94-2 USTC ¶50,597]

VI. Housing Allowance

- A. A housing allowance is additional pay, which is provided to a minister in order for him to pay for costs related to a place to live. This is also referred to as a **parsonage allowance**. Some ministers also receive a utility allowance. This is treated the same as a housing allowance. The value of housing provided in-kind by the church, including utilities, is also treated as housing allowance.

- B. The amount of a housing allowance which is nontaxable is the smaller of:
1. The amount actually used to provide a “home” (i.e., amount spent).
It can be time consuming to keep the receipts of the amounts actually spent, but not keeping the receipts can result in paying more tax.
 2. The amount officially designated as a housing allowance.
 3. The fair rental value of the home with utilities and furniture furnished. This is probably the hardest number of these three to come up with. The best evidence of this is probably a letter from a realtor who manages rental properties for others. Often such property managers can only come up with a rental value unfurnished and maybe with or without utilities. It is not real common for rental properties to include furniture.
- C. A housing allowance must be designated **in advance** of its payment. The employing body (the church) must make this designation. It can appear in the minister’s contract, the organization’s minutes, the budget, or any other official document. Some churches make the designation “from this day forward, until changed.” This avoids having to make the designation every year.
1. Visiting or guest pastors can also have this designation made regarding their pay.
 2. Retired ministers may also use this exclusion for housing allowances provided to them as compensation for past services. (Revenue Ruling 63-156)
 - a) Ministers may exclude a portion of their pension payments that have been designated as housing allowance by the national governing body of the religious organization which has control over the funds. (Revenue Ruling 62-117)
 - b) This exclusion does not extend to the widow of a minister who continues to receive the compensation or pension payment. (Revenue Ruling 72-249)
 3. A traveling evangelist may exclude amounts received from various churches as housing allowances by having the churches designate ahead of time a portion of his honorariums as housing allowance. (Revenue Ruling 64-326)
- D. There is not a specific dollar amount or a percentage limitation on the amount that can be designated as housing allowance. Any amount received that exceeds the nontaxable amount as computed above is

taxable. This excess housing allowance should be reported as wages on the minister's Form 1040. *[Regulation §1.107(b)]*

- E. There is no requirement for a church to report the amount of housing allowance paid to a minister. Some churches report it in Box 14 of Form W-2. Other churches report it on a separate statement given to the minister. It should not be reported on a Form 1099.
- F. Qualifying expenses for amount paid include expenses directly related to providing a home. They include, but are not limited to:
 - 1. Rent or principal payments on a home, including the down payment.
 - 2. Mortgage interest on the purchase of a home.
 - 3. Real estate taxes.
 - 4. Insurance on the home and its contents.
 - 5. Repairs, maintenance, and remodeling expenses such as painting, plumbing, electrical services, light bulbs, brooms, and cleaning supplies.
 - 6. Utilities such as heat, electric, water, sewer, garbage pickup, cable TV, and nonbusiness telephone.
 - 7. Home furnishings such as furniture, draperies, curtains, personal computers, rugs, knickknacks, decorations, and linens.
 - 8. Lawn care items such as lawn mowers, fertilizers, and grass seed.
- G. Items that do not qualify include:
 - 1. Mortgage interest on refinancing of the property to the extent the refinancing is for more than the principal balance immediately before the refinancing.
 - 2. Food.
 - 3. Servants.
- H. The Internal Revenue Code disallows deductions related to tax-exempt income. Although some or all of a housing allowance is not taxable for income tax purposes, this section still permits the deduction of the Minister's real estate taxes and qualified home mortgage interest in their proper sections of Schedule A. *[§265(a)(6)]*

Example 1. Minister George and his family own their own home. The church provides a housing allowance of \$12,000 for the year. The mortgage payments total \$9,600 for the year of which \$8,000 is interest. The property taxes for the year are \$1,500. Both the \$9,600 and the \$1,500 are considered qualified housing expenses, thereby reducing the amount of housing allowance which will be taxed. At the same time Minister George's Schedule A will show \$8,000 mortgage interest expense and \$1,500 real estate taxes as itemized deductions.

VII. Social Security and Medicare Taxes

- A. FICA taxes are shared equally by the employee and the employer. SECA taxes are paid entirely by the self-employed person and are commonly referred to as SE taxes. FICA taxes are reported to the government through the Form 940 series and Forms W-3/W-2s. SE taxes are reported to the government through Schedule SE attached to the minister's Form 1040. The two are separate, yet can be considered the same for our purposes.
- B. Social Security taxes and Medicare taxes combine to make up the FICA/SE taxes. Medicare taxes are assessed on all earned income while Social Security taxes are only assessed on a limited amount of the earned income (\$118,500 for 2016, \$127,200 for 2017).
- C. Ministers are responsible for their own SE taxes. Although most ministers are employees for income tax purposes, they are always self-employed for social security/Medicare tax purposes. As such the church **cannot** withhold FICA taxes. As mention earlier, the church can pay a FICA adjustment or offset as compensation to help the minister pay SE taxes.
- D. A minister is subject to SE taxes on his net ministerial income. This is calculated as if the minister had reported all of his income (including housing allowance) and expenses on Schedule C. Using a Schedule C as a worksheet to show how the Schedule SE income is calculated may be useful. Show:
 - 1. Taxable wages as income.
 - 2. The housing allowance in full as income.
 - 3. Related expenses in full as expenses. Reimbursements must be taken out before totaling the related expenses. Since all of the ministerial income is taxable for SE purposes, the formula would

equal 100% deductible. Meals and entertainment must still be reduced by the 50%.

4. Interest paid on the business use portion of the Minister's automobile is an expense for this purpose.
- E. Any member of a religious organization that has taken a vow of poverty is automatically exempt from self-employment tax on ministerial income.
- F. A minister other than those described in the previous sentence can elect out of the SECA system for ministerial income **based on religious opposition to the acceptance of any public insurance that makes payments because of death, disability, old age, or retirement, or makes payments toward, or provides services for, medical care (including Social Security).**
 1. To elect out of SECA coverage, a minister should file Form 4361, Application for Exemption from Self-Employment Tax for Use by Ministers, Member of Religious Order, and Christian Science Practitioners.
 2. This form must be filed in triplicate by the due date (including extensions) for filing the minister's income tax return for the second year in which he has \$400 or more of net earnings from ministerial services. [Regulation §1.1402(e)-3(a)]

NOTE: Although the regulations state "the due date (including extension)", a 6-month extension is granted from the original due date without regard to extensions to make this election. This makes the due date for Form 4361 six months after the normal unextended due date for the minister's Form 1040. The filing for Form 4361 after the due date should include the statement "FILED PURSUANT TO REVENUE PROCEDURE 92-35" at the top of the form.

Example 2. Pastor Sam begins his ministry in July Year 2. His net earnings for Year 2 are \$15,000. In Year 3 his net earnings from clergy activities amount to \$25,000. Pastor Sam must make the election by April 15, Year 4, unless an extension has been filed, or he is taking advantage of the special six-month extension mentioned above. If Pastor Sam waits until Year 5, he will not be eligible to elect out of SECA coverage.

3. The minister must also inform his church that he is conscientiously opposed to, or because of religious principles is opposed to, the

acceptance of public insurance benefits based on ministerial services.

4. The IRS will mail a statement to the minister outlining the grounds for receiving the exemption. If the minister agrees to these grounds, he must sign, have certified, and return the statement to the IRS within 90 days after it is received. When the IRS receives the signed and certified statement, they will return a copy of Form 4361 marked “approved”. This should be retained by the minister **FOREVER**.
5. Once the approval is granted by the IRS it is irrevocable and is applicable to all open years and all future years. Therefore if a minister has paid SE taxes on ministerial income in any prior year which is still open by the normal statute of limitations, the minister can obtain a refund of such taxes.
6. This exemption is applicable only to ministerial income. Other services provided by the minister are not exempt such as working in a grocery store or preparing income tax returns.
7. After receiving approval, the minister will no longer have to file Schedule SE for his ministerial income. If this is the only self-employment income he has, he should write “Exempt-4361” to the left of the SE tax line on Form 1040. If he has other self-employment income, he should check box A on part 1 of Schedule SE and compute the SE tax on his other self-employment income.

NOTE: The issue of electing out of the social security system is a controversial one. It is an election based on an opposition to the acceptance of public insurance. It is not a way to avoid paying the tax. If a minister elected the exempt status and had been previously employed long enough to qualify for benefits based on that employment, should he/she apply for social security benefits?

VIII. Business Expenses

- A. Ministers are able to deduct business related expenses in the same manner as other taxpayers.
 1. A minister who is self-employed deducts the business expenses on Schedule C.

2. The minister who is an employee deducts the business expenses on Form 2106 carried to Schedule A.
 3. A minister who is an employee and also performs some self-employment ministerial services allocates his expenses between Form 2106 and Schedule C in a **reasonable manner**.
- B. If a reimbursement is available, and the minister chooses not to request it, the minister is still considered to have received the reimbursement, therefore the expense is nondeductible.
- C. Vehicle expenses are common for ministers. Most ministers are involved in visitation of congregational members and others in the community. This commonly normally involves driving their own vehicles or taking public transportation.
1. Expenses for business use of a vehicle can be calculated in either of the normal ways: Standard mileage rate or Actual expenses. The business standard mileage rate for 2016 is 54 cents per mile and for 2017 is 53.5 cents per mile.
 2. For income tax purposes, interest on the vehicle is not deductible if the minister is an employee, but it is deductible if the minister is self-employed.
- D. Other expenses paid by the minister should also be reported the same as other employees' expenses.
1. Meals and entertainment expenses are subject to the normal 50% reduction.
 2. Travel expenses (taxi, hotel, airfare, etc.) for attending church conventions, speaking engagements, performance of religious ceremonies, mission work, and youth functions are deductible.
 3. Educational expenses are deductible including tuition, books, fees, and travel expenses. Travel as a form of education is not deductible, such as trips to Israel.
 4. Newspapers, magazines, videotapes, etc., may be business deductions if they are used primarily for business. Just as for other taxpayers, the IRS tends to deny the deduction for the local newspaper since most taxpayers would receive this for personal purposes.
 5. Vestments, robes, collars, and other special clothing which is not suited for general wear, are deductible including the cost of cleaning. Ministers, like other taxpayers, often try to deduct their

everyday clothing when only the special clothing is deductible. For example shirts made specifically for clerical collars are deductible, but the slacks are normally suitable for everyday usage. When more taxpayers decide the clerical collar type shirts are the new fad, the clerical collar type shirts will be suitable for everyday use and no longer deductible. Just because an article of clothing is used for business doesn't mean it is deductible. It also has to be not suitable for general wear. Can't you just wait until the clerical robes become the new fashion?

6. Long distance business related telephone calls are deductible. The local line costs are generally considered to be personal for all taxpayers. Cell phone costs appear to be deductible based on the business/personal ratio. A print out of the phone calls should be obtained and the business related calls should be noted along with the calculation.
7. Moving expenses paid by the minister would be an adjustment to income similar to all other taxpayers. Many times the congregation will pay the cost directly. However, if the congregation pays any nonqualifying expenses, the minister may have additional compensation.
8. Gifts that the minister makes may be deductible if they are in relation to the ministry. Examples include music for the choir, church, or school, tracts, baptismal and wedding remembrances, and teaching aids.
9. Contributions that the minister makes to the church are deductible on Schedule A and are very rarely business expenses.
10. The cost of purchasing a computer is a depreciable item if the church requires the minister to purchase a computer for the work performed. Typically this is a depreciable item and requires more discussion than we will spend in this text.

E. Ministerial expenses must be allocated to taxable and tax-exempt ministerial income. The portion of expenses allocated to taxable income is deductible and the portion allocated to tax-exempt ministerial income is nondeductible.

1. This allocation is required whenever a minister receives tax-exempt income as part of his ministerial income.
2. Most ministers receive a wage package from the church which includes some wages which are taxable and some which may be tax-exempt. The potential tax-exempt portion is the housing

allowance some of which may be tax-free as discussed earlier.
[Melvin Dalan, TC Memo 1988-106, Deason 41 TC 465, McFarland, TC Memo 1992-440]

Example 3. Minister Henry has professional expenses of \$5,000 related to his work for the church. His W-2 from the church shows taxable wages of \$24,000. His housing allowance is \$8,000. The amount he reports on Form 2106 is \$3,750 [$\$5,000 \text{ (expenses)} \times \$24,000 \text{ (taxable earnings)} \div \$32,000 \text{ (total earnings)}$].

Clergy Worksheet

Income from the church

1.	Taxable income	1.	24,000
2.	Nontaxable income	2.	+ <u>8,000</u>
3.	Total income from clergy work from church (add lines 1 & 2)	3.	<u>32,000</u>

Taxable percentage of income from church

4.	Taxable income (from line 1)	4.	24,000
5.	Total income (from line 3)	5.	<u>32,000</u>
6.	Taxable percentage (divide 4 by line 5)	6.	75 %

Expenses

7.	Clerical expenses	7.	5,000
8.	Reimbursements, if any	8.	<u>0</u>
9.	Deductible expenses for Schedule SE (subtract line 8 from line 7)	9.	5,000
10.	Taxable % from above	10.	<u>75</u> %
11.	Deductible expenses for Form 2106 (multiply line 9 by line 10)	11.	<u>3,750</u>

IX. Retirement

A. Saving for retirement is just as important for a minister.

1. A minister who is an employee is eligible to participate in a qualified pension plan through the church. *[Revenue Rulings 73-258 & 73-381]*

2. Many churches have §403(b) plans set up through the national office of the denomination.
 3. All ministers are eligible to make contributions to a traditional or a Roth IRA if they have earnings. The deductibility of a traditional IRA contributions may be limited if the minister is covered by a qualified plan through the church, such as a §403(b) plan.
 4. A minister who is self-employed for income tax purposes may set up his own retirement plan such as a SEP, Keogh, or SIMPLE. (These are covered plans for purposes of limiting the deductibility of IRA contributions.)
- B. The taxability of pension income is generally the same for a minister as for other employees.
1. One common difference can exist. Pension distributions that are designated as “housing allowance” are considered to be housing allowances and tax-exempt as described earlier. The taxable portion is reportable as pension income. The gross pension is included on Form 1040, line 16a, while the taxable portion after the reduction for the housing allowance is shown on line 16b.
 2. This designation must come from the former employing church or denomination (whichever is paying out the retirement) prior to the payment to the minister. It is not something that the minister can choose on his own. *[Revenue Rulings 63-156 & 62-117]*
 3. Even if a pension is designated as a housing allowance, the pension is not subject to SE taxes.

SITUATION - tax return

Pastor John received \$45,000 for his clergy work. \$15,000 of this has been designated in advance as housing allowance and \$30,000 is reported on his Form W-2.

Pastor John has documents that show he spent \$18,597 for qualified housing expenses including the following:

Real estate taxes on his principal residence	\$2,000
Mortgage interest on his principal residence	7,000

Pastor John has the following business expenses:

Business mileage deduction (at the standard mileage rate)	4,875
Professional expenses	3,000

He also made \$4,500 of charitable contributions for the year. He paid \$6,000 (\$1,500 per quarter) as Federal estimated tax payments. He did not pay any amount in state or local income taxes during the year.

a Control number		Safe, accurate, FAST! Use IRS e-file		Visit the IRS website at www.irs.gov .	
b Employer identification number —		1 Wages, tips, other compensation 30,000		2 Federal income tax withheld	
c Employer's name, address, and ZIP code SEMINAR EXAMPLES		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 Employee's social security number 123-45-6789		9 Advance EIC payment		10 Dependent care benefits	
e Employee's first name and initial Last name JOHN PASTOR 100 MAIN ST ALBEMARLE NC 28001		11 Nonqualified plans		12a See instructions for box 12	
		13 Statutory employee Retmnt. Third-party sick pay [] [] []		12b []	
		14 Other		12c []	
				12d []	
f Employee's address and ZIP code					
15 State Employer's state I.D. no.	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
Copy B - To Be Filed With Employee's FEDERAL Tax Return.
This information is being furnished to the Internal Revenue Service.



Department of the Treasury-Internal Revenue Service

Taxation of Clergy & Other Called Worker

January 2017

Form 1040 Department of the Treasury - Internal Revenue Service (99) 		OMB No. 1545-0074	IRS Use Only-Do not write or staple in this space.
For the year Jan. 1-Dec. 31, 2014, or other tax year beginning _____, 20			
Your first name and initial JOHN		Last name PASTOR	
If a joint return, spouse's first name and initial		Last name	
Home address (number and street). 100 MAIN ST		Apt. no.	
City, town or post office, state, and ZIP code. If you have a foreign address, also complete spaces below (see instructions). GREEN BAY WI 54301		See separate instructions. Your social security number 123-45-6789 Spouse's social security number	
Foreign country name		Foreign province/state/country Foreign postal code	
Filing Status Check only one box. 1 <input checked="" type="checkbox"/> Single 2 <input type="checkbox"/> Married filing jointly (even if only one had income) 3 <input type="checkbox"/> Married filing separately. Enter spouse's SSN above and full name here.		4 <input type="checkbox"/> Head of household (with qualifying person). (See instructions.) If the qualifying person is a child but not your dependent, enter this child's name here. 5 <input type="checkbox"/> Qualifying widow(er) with dependent child	
Exemptions 6a <input checked="" type="checkbox"/> Yourself. If someone can claim you as a dependent, do not check box 6a b <input type="checkbox"/> Spouse		Boxes checked on 6a and 6b: No. of children on 6c who: • lived with you _____ • did not live with you due to divorce or separation (see instructions) _____ Dependents on 6c not entered above _____ Add numbers on lines above 1	
c Dependents: (1) First name Last name (2) Dependent's social security number (3) Dependent's relationship to you (4) Chk if child under age 17 qualifying for child tax credit (see instructions)			
If more than four dependents, see instructions and check here <input type="checkbox"/>			
d Total number of exemptions claimed		1	
Income			
7 Wages, salaries, tips, etc. Attach Form(s) W-2		7 30,000	
8a Taxable interest. Attach Schedule B if required		8a	
b Tax-exempt interest. Do not include on line 8a		8b	
9a Ordinary dividends. Attach Schedule B if required		9a	
b Qualified dividends		9b	
10 Taxable refunds, credits, or offsets of state and local income taxes		10	
11 Alimony received		11	
12 Business income or (loss). Attach Schedule C or C-EZ		12	
13 Capital gain or (loss). Attach Schedule D if required. If not required, check here <input type="checkbox"/>		13	
14 Other gains or (losses). Attach Form 4797		14	
15a IRA distributions		15a	
b Taxable amount		15b	
16a Pensions and annuities		16a	
b Taxable amount		16b	
17 Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E		17	
18 Farm income or (loss). Attach Schedule F		18	
19 Unemployment compensation		19	
20a Social security benefits		20a	
b Taxable amount		20b	
21 Other income		21	
22 Combine the amounts in the far right column for lines 7 through 21. This is your total income		22 30,000	
Adjusted Gross Income			
23 Educator expenses		23	
24 Certain business expenses of reservists, performing artists, and fee-basis government officials. Attach Form 2106 or 2106-EZ		24	
25 Health savings account deduction. Attach Form 8889		25	
26 Moving expenses. Attach Form 3903		26	
27 Deductible part of self-employment tax. Attach Schedule SE		27 2,623	
28 Self-employed SEP, SIMPLE, and qualified plans		28	
29 Self-employed health insurance deduction		29	
30 Penalty on early withdrawal of savings		30	
31a Alimony paid b Recipient's SSN		31a	
32 IRA deduction		32	
33 Student loan interest deduction		33	
34 Tuition and fees. Attach Form 8917		34	
35 Domestic production activities deduction. Attach Form 8903		35	
36 Add lines 23 through 35		36 2,623	
37 Subtract line 36 from line 22. This is your adjusted gross income		37 27,377	

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

Form 1040 (2014)

Form 1040		JOHN PASTOR	123-45-6789 Page 2
Tax and Credits	38	Amount from line 37 (adjusted gross income)	27,377
	39a	Check if: <input type="checkbox"/> You were born before January 2, 1950, if: <input checked="" type="checkbox"/> Spouse was born before January 2, 1950,	Total boxes Blind } Blind } checked ▶ 39a
	b	If your spouse itemizes on a separate return or you were a dual-status alien, check here . . . ▶ 39b	
	40	Itemized deductions (from Schedule A) or your standard deduction (see left margin)	18,549
	41	Subtract line 40 from line 38	8,828
	42	Exemptions. If line 38 is \$152,525 or less, multiply \$3,950 by the number on line 4d. Otherwise, see instructions	3,950
	43	Taxable income. Subtract line 42 from line 41. If line 42 is more than line 41, enter -0-	4,878
	44	Tax (see instructions). Check if any from: a Form(s) 8814 b Form 4972 C	488
	45	Alternative minimum tax (see instructions). Attach Form 6251	
	46	Excess advance premium tax credit repayment. Attach Form 8962	
Standard Deduction for - • People who check any box on line 39a or 39b or who can be claimed as a dependent, see instructions. • All others: Single or Married filing separately, \$6,200 Married filing jointly or Qualifying widow(er), \$12,400 Head of household, \$9,100	47	Add lines 44, 45, and 46	488
	48	Foreign tax credit. Attach Form 1116 if required	48
	49	Credit for child and dependent care expenses. Attach Form 2441	49
	50	Education credits from Form 8863, line 19	50
	51	Retirement savings contributions credit. Attach Form 8880	51
	52	Child tax credit. Attach Schedule 8812, if required	52
	53	Residential energy credit. Attach Form 5695	53
	54	Other credits from Form: a 3800 b 8801 c	54
	55	Add lines 48 through 54. These are your total credits	
	56	Subtract line 55 from line 47. If line 55 is more than line 47, enter -0-	488
Other Taxes	57	Self-employment tax. Attach Schedule SE	5,246
	58	Unreported social security and Medicare tax from Form:	a 4137 b 8919
	59	Additional tax on IRAs, other qualified retirement plans, etc. Attach Form 5329 if required	
	60a	Household employment taxes from Schedule H	
	60b	First-time homebuyer credit repayment. Attach Form 5405 if required	
	61	Health care: individual responsibility (see instructions) Full-year coverage	
	62	Taxes from: a Form 8959 b Form 8960 c Instructions; enter code(s)	
63	Add lines 56 through 62. This is your total tax	5,734	
Payments	64	Federal income tax withheld from Forms W-2 and 1099	
	65	2014 estimated tax payments and amount applied from 2013 return	6,000
	66a	Earned income credit (EIC)	
	b	Nontaxable combat pay election	66b
	67	Additional child tax credit. Attach Schedule 8812	67
	68	American opportunity credit from Form 8863, line 8	68
	69	Net premium tax credit. Attach Form 8962	69
	70	Amount paid with request for extension to file	70
	71	Excess social security and tier 1 RRTA tax withheld	71
	72	Credit for federal tax on fuels. Attach Form 4136	72
73	Credits from Form: a 2439 b Reserved c Reserved d	73	
74	Add lines 64, 65, 66a, and 67 through 73. These are your total payments	6,000	
Refund	75	If line 74 is more than line 63, subtract line 63 from line 74. This is the amount you overpaid	266
	76a	Amount of line 75 you want refunded to you. If Form 8888 is attached, check here . . . ▶ <input type="checkbox"/>	266
	b Routing number [X X X X X X X X] ▶ c Type: <input type="checkbox"/> Checking <input type="checkbox"/> Savings	d Account number [X X X X X X X X] ▶	
77	Amount of line 75 you want applied to your 2015 estimated tax . . . ▶	77	
Amount You Owe	78	Amount you owe. Subtract line 74 from line 63. For details on how to pay, see instructions ▶	
	79	Estimated tax penalty (see instructions)	79
Third Party Designee	Do you want to allow another person to discuss this return with the IRS (see instructions)? <input checked="" type="checkbox"/> Yes. Complete below.		
	Designee's name DAVID L MELLEM EA Phone no. 920-496-1065 Personal identification number (PIN) 5 4 3 0 4		
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 _____ Date _____ Your occupation _____ Daytime phone number _____		
Joint return? See instructions. Keep a copy for your records.	Spouse's signature. If a joint return, both must sign. _____ Date _____ Spouse's occupation _____ Identity Protection PIN (see inst.) _____		
Preparer's signature _____ Date _____	Check self-employed <input type="checkbox"/> PTIN P00009564		
Paid Preparer Use Only	Print/Type preparer's name DAVID L MELLEM EA		
	Firm's name ASHWAUBENON TAX PROFESSIONALS Firm's EIN 04-3736822		
	Firm's address GREEN BAY, WI 54304		
	Phone no. 920-496-1065		

EEA Form 1040 (2014)

January 2017

**SCHEDULE A
(Form 1040)****Itemized Deductions**

OMB No. 1545-0074

Department of the Treasury
Internal Revenue Service (99)► Information about Schedule A and its separate instructions is at www.irs.gov/schedulea.

► Attach to Form 1040.

Attachment
Sequence No. **07**

Name(s) shown on Form 1040

JOHN PASTOR

Your social security number

123-45-6789

Medical and Dental Expenses		Caution. Do not include expenses reimbursed or paid by others.			
1	Medical and dental expenses (see instructions)	1			
2	Enter amount from Form 1040, line 38	2			
3	Multiply line 2 by 10% (.10). But if either you or your spouse was born before January 2, 1950, multiply line 2 by 7.5% (.075) instead	3			
4	Subtract line 3 from line 1. If line 3 is more than line 1, enter -0-	4			
Taxes You Paid		5 State and local (check only one box):			
	a <input type="checkbox"/> Income taxes, or	5	347		
	b <input checked="" type="checkbox"/> General sales taxes				
6	Real estate taxes (see instructions)	6	2,000		
7	Personal property taxes	7			
8	Other taxes. List type and amount	8			
9	Add lines 5 through 8	9		2,347	
Interest You Paid		10 Home mortgage interest and points reported to you on Form 1098		10	7,000
Note. Your mortgage interest deduction may be limited (see instructions).		11 Home mortgage interest not reported to you on Form 1098. If paid to the person from whom you bought the home, see instructions and show that person's name, identifying no., and address		11	
		12 Points not reported to you on Form 1098. See instructions for special rules		12	
		13 Mortgage insurance premiums (see instructions)		13	
		14 Investment interest. Attach Form 4952 if required. (See instructions.)		14	
		15 Add lines 10 through 14		15	7,000
Gifts to Charity		16 Gifts by cash or check. If you made any gift of \$250 or more, see instructions		16	4,500
If you made a gift and got a benefit for it, see instructions.		17 Other than by cash or check. If any gift of \$250 or more, see instructions. You must attach Form 8283 if over \$500		17	
		18 Carryover from prior year		18	
		19 Add lines 16 through 18		19	4,500
Casualty and Theft Losses		20 Casualty or theft loss(es). Attach Form 4684. (See instructions.)		20	
Job Expenses and Certain Miscellaneous Deductions		21 Unreimbursed employee expenses - job travel, union dues, job education, etc. Attach Form 2106 or 2106-EZ if required. (See instr.)		21	5,250
		FORM 2106-EZ		22	
		22 Tax preparation fees		23	
		23 Other expenses - investment, safe deposit box, etc. List type and amount		24	5,250
		24 Add lines 21 through 23		25	27,377
		25 Enter amount from Form 1040, line 38		26	548
		26 Multiply line 25 by 2% (.02)		27	4,702
		27 Subtract line 26 from line 24. If line 26 is more than line 24, enter -0-		28	
Other Miscellaneous Deductions		28 Other - from list in instructions. List type and amount		29	18,549
Total Itemized Deductions		29 Is Form 1040, line 38, over \$152,525?		30	
		<input checked="" type="checkbox"/> No. Your deduction is not limited. Add the amounts in the far right column for lines 4 through 28. Also, enter this amount on Form 1040, line 40.			
		<input type="checkbox"/> Yes. Your deduction may be limited. See the Itemized Deductions Worksheet in the instructions to figure the amount to enter.			
		30 If you elect to itemize deductions even though they are less than your standard deduction, check here			

For Paperwork Reduction Act Notice, see Form 1040 instructions.

Schedule A (Form 1040) 2014

Form 2106-EZ Department of the Treasury Internal Revenue Service (99)	Unreimbursed Employee Business Expenses ▶ Attach to Form 1040 or Form 1040NR. ▶ Information about Form 2106 and its separate instructions is available at www.irs.gov/form2106 .	OMB No. 1545-0074 <div style="border: 1px solid black; width: 40px; height: 15px; margin: 0 auto;"></div> Attachment Sequence No. 129A
Your name JOHN PASTOR	Occupation in which you incurred expenses	Social security number 123-45-6789

You Can Use This Form Only if All of the Following Apply.

- You are an employee deducting ordinary and necessary expenses attributable to your job. An ordinary expense is one that is common and accepted in your field of trade, business, or profession. A necessary expense is one that is helpful and appropriate for your business. An expense does not have to be required to be considered necessary.
- You do not get reimbursed by your employer for any expenses (amounts your employer included in box 1 of your Form W-2 are not considered reimbursements for this purpose).
- If you are claiming vehicle expense, you are using the standard mileage rate for 2014.

Caution: You can use the standard mileage rate for 2014 only if: (a) you owned the vehicle and used the standard mileage rate for the first year you placed the vehicle in service, or (b) you leased the vehicle and used the standard mileage rate for the portion of the lease period after 1997.

Part I Figure Your Expenses

1 Complete Part II. Multiply line 8a by 56 cents (.56). Enter the result here	1	4,875
2 Parking fees, tolls, and transportation, including train, bus, etc., that did not involve overnight travel or commuting to and from work	2	
3 Travel expense while away from home overnight, including lodging, airplane, car rental, etc. Do not include meals and entertainment	3	
4 Business expenses not included on lines 1 through 3. Do not include meals and entertainment	4	3,000
5 Meals and entertainment expenses: \$ _____ x 50% (.50). (Employees subject to Department of Transportation (DOT) hours of service limits: Multiply meal expenses incurred while away from home on business by 80% (.80) instead of 50%. For details, see instructions.)	5	
6 Total expenses. Add lines 1 through 5. Enter here and on Schedule A (Form 1040), line 21 (or on Schedule A (Form 1040NR), line 7). (Armed Forces reservists, fee-basis state or local government officials, qualified performing artists, and individuals with disabilities: See the instructions for special rules on where to enter this amount.)	6	5,250

Part II Information on Your Vehicle. Complete this part **only** if you are claiming vehicle expense on line 1.

7 When did you place your vehicle in service for business use? (month, day, year) ▶ 01-01-2014

8 Of the total number of miles you drove your vehicle during 2014, enter the number of miles you used your vehicle for:

a Business 8,705 b Commuting (see instructions) _____ c Other 5,564

9 Was your vehicle available for personal use during off-duty hours? ☒ Yes ☐ No

10 Do you (or your spouse) have another vehicle available for personal use? ☒ Yes ☐ No

11a Do you have evidence to support your deduction? ☒ Yes ☐ No

b If "Yes," is the evidence written? ☒ Yes ☐ No

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

Form 2106-EZ (2014)

EEA

January 2017

SCHEDULE SE
(Form 1040)Department of the Treasury
Internal Revenue Service (99)**Self-Employment Tax**Information about Schedule SE and its separate instructions is at www.irs.gov/schedulese.

Attach to Form 1040 or

OMB No. 1545-0074

Attachment
Sequence No. **17**

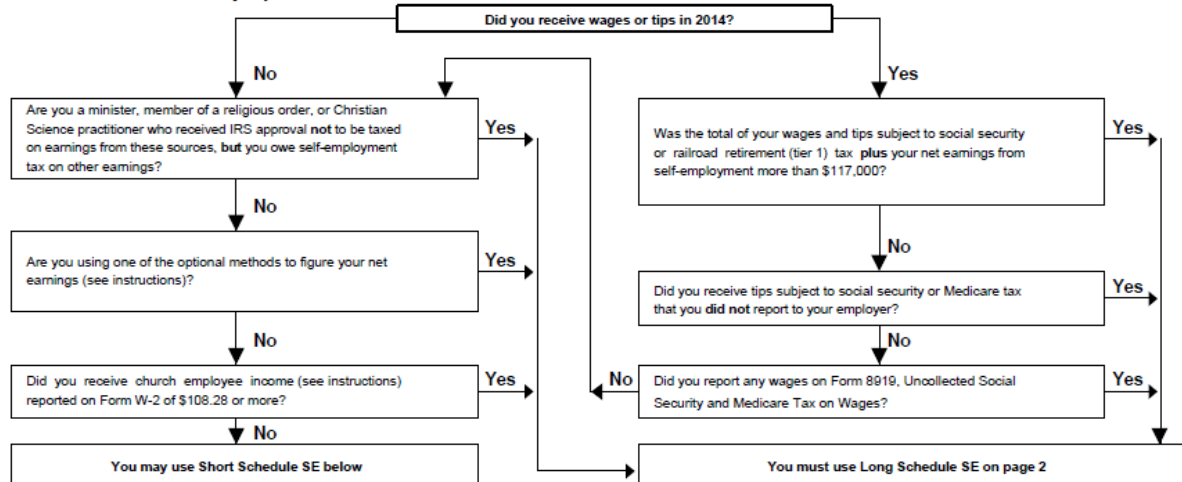
Name of person with self-employment income (as shown on Form 1040 or Form 1040NR)

JOHN PASTORSocial security number of person
with self-employment income ▶123-45-6789

Before you begin: To determine if you must file Schedule SE, see the instructions.

May I Use Short Schedule SE or Must I Use Long Schedule SE?

Note. Use this flowchart only if you must file Schedule SE. If unsure, see Who Must File Schedule SE in the instructions.

**Section A - Short Schedule SE. Caution.** Read above to see if you can use Short Schedule SE.

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 Z	1b	()
2 Net profit or (loss) from Schedule C, line 31; Schedule C-EZ, line 3; Schedule K-1 (Form 1065), box 14, code A (other than farming); and Schedule K-1 (Form 1065-B), box 9, code J1. Ministers and members of religious orders, see instructions for types of income to report on this line. See instructions for other income to report	2	37,125
3 Combine lines 1a, 1b, and 2	3	37,125
4 Multiply line 3 by 92.35% (.9235). If less than \$400, you do not owe self-employment tax; do not file this schedule unless you have an amount on line 1b ▶	4	34,285
Note. If line 4 is less than \$400 due to Conservation Reserve Program payments on line 1b, see instructions.		
5 Self-employment tax. If the amount on line 4 is: • \$117,000 or less, multiply line 4 by 15.3% (.153). Enter the result here and on Form 1040, line 57, or Form 1040NR, line 55 • More than \$117,000, multiply line 4 by 2.9% (.029). Then, add \$14,508 to the result. Enter the total here and on Form 1040, line 57, or Form 1040NR, line 55	5	5,246
6 Deduction for one-half of self-employment tax. Multiply line 5 by 50% (.50). Enter the result here and on Form 1040, line 27, or Form 1040NR, line 27	6	2,623

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

Schedule SE (Form 1040) 2014

EEA

Clergy Worksheet

Income from the church

1.	Taxable income	1.	30,000
2.	Nontaxable income	2.	+ <u>15,000</u>
3.	Total income from clergy work from church (add lines 1 & 2)	3.	<u>45,000</u>

Taxable percentage of income from church

4.	Taxable income (from line 1)	4.	30,000
5.	Total income (from line 3)	5.	÷ <u>45,000</u>
6.	Taxable percentage (divide 4 by line 5)	6.	<u>66.67</u> %

Expenses

7.	Clerical expenses	7.	7,875
8.	Reimbursements, if any	8.	- <u>0</u>
9.	Deductible expenses for Schedule SE (subtract line 8 from line 7)	9.	7,875
10.	Taxable % from above	10.	x <u>66.67</u> %
11.	Deductible expenses for Form 2106 (multiply line 9 by line 10)	11.	<u>5,250</u>

Self-employment income from W2 earnings

12.	Salary from W2	12.	30,000
13.	Parsonage/housing allowance in full	13.	15,000
14.	Utility allowance	14.	<u>0</u>
15.	Total income (add lines 12, 13, & 14)	15.	45,000
16.	Expenses from line 9	16.	- <u>7,875</u>
17.	SE income from W2 earnings (subtract line 16 from line 15)	17.	<u>37,125</u>

(Self employment income from Schedule C, F, etc. also needs to be included on Schedule SE.)

Taxation of Clergy & Other Called Worker

Worksheet 1	Figuring the Percentage of Tax-Free Income Note. For each line, enter the appropriate amount in all boxes that are not shaded. (Keep for your records)	<div style="border: 1px solid black; width: 40px; height: 20px; margin: 0 auto;"></div>
Name(s) as shown on return JOHN PASTOR	Your social security number 123-45-6789	

	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	30,000		30,000
2	Gross income from weddings, baptisms, writing, lecturing, etc. (from line 1 of Schedule C or C-EZ)	2			
Note. Complete either lines 3a-3e or lines 4a-4i. • If your church provides you with a parsonage, complete lines 3a-3e. • If, instead of providing a parsonage, your church provides you with a rental or parsonage allowance, complete lines 4a-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	15,000		
b	Utility allowance, if separate	4b			
c	Total allowance (add lines 4a and 4b)	4c	15,000		
d	Actual expenses for parsonage	4d	18,597		
e	Actual expenses for utilities	4e			
f	Total actual expenses for parsonage and utilities (add lines 4d and 4e)	4f	18,597		
g	FRV* of home, plus the cost of utilities	4g	24,000		
h	Enter the smaller of line 4c, 4f, or 4g	4h		15,000	15,000
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	30,000	15,000	45,000
6	Percentage of tax-free income: $\frac{\text{Total tax-free income (line 5(b))}}{\text{Total income (line 5(c))}}$ = $\frac{15,000}{45,000}$ = 0.3333 %**				

* 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.

** This percentage of your ministerial expenses will not be deductible. Use Worksheets 2 and 3 to figure your allowable deductions.

January 2017

Worksheet 3	Figuring the Allowable Deduction for Form 2106 or 2106-EZ Expenses (Keep for your records)	<div style="border: 1px solid black; width: 40px; height: 20px; margin: 0 auto;"></div>
Name(s) as shown on return JOHN PASTOR		Your social security number 123-45-6789

			Column A	Column B
1	Percentage of expenses that are nondeductible (from Worksheet 1, line 6):	0.3333	%	
2	Use of car for church business for entire year: 8,705 miles x 56 cents (\$0.56).	2	4,875	
3	Meals and entertainment	3		
4	Other expenses (list item and amount)			
a	Business Expenses Not Included Above	4a	3,000	
b		4b		
c		4c		
d		4d		
e		4e		
5	Total expenses. In column A, add lines 2 and 4a through 4e and enter the result. In column B, enter the amount from line 3.	5	7,875	
6	Enter reimbursements received for other expenses (Column A) and meals and entertainment (Column B) that were not included in box 1 of Form W-2	6		
7	Total Form 2106 or 2106-EZ unreimbursed expenses (subtract line 6 from line 5)	7	7,875	
8	In Column A, enter the amount from line 7. In Column B, multiply line 7 by 50% (.50)	8	7,875	
9	Add the amounts on line 8 of both columns and enter the total here	9	7,875	
10	Nondeductible part of Form 2106 or 2106-EZ expenses (multiply line 9 by the percent in line 1)	10	2,625	
11	Ministerial employee business expense deduction allowed.* Subtract line 10 from line 9. Enter the result here and on Form 2106, line 10, or Form 2106-EZ, line 6.	11		5,250

* None of the other deductions claimed in this return are allocable to tax-free income.

Worksheet 4	Figuring Net Self-Employment Income for Schedule SE (Form 1040) (Keep for your records)	<div style="border: 1px solid black; width: 40px; height: 20px; margin: 0 auto;"></div>
Name(s) as shown on return JOHN PASTOR		Your social security number 123-45-6789

1	W-2 salary as a minister (from box 1 of Form W-2)	1		30,000
2	Net profit from Schedule C, line 31, or Schedule C-EZ, line 3	2		
3a	Parsonage or rental allowance (from Worksheet 1, line 3a or 4a)	3a	15,000	
b	Utility allowance (from Worksheet 1, line 3b or 4b)	3b		
c	Total allowance (add lines 3a and 3b)	3c		15,000
4	Add lines 1, 2, and 3c	4		45,000
5	Schedule C or C-EZ expenses allocable to tax-free income (from Worksheet 2, line 6)	5		
6	Total unreimbursed employee business expenses after the 50% reduction for meals and entertainment (from Worksheet 3, line 9)	6	7,875	
7	Total business expenses not deducted in lines 1 and 2 above (add lines 5 and 6)	7		7,875
8	Net self-employment income. Subtract line 7 from line 4. Enter here and on Schedule SE, Section A, line 2, or Section B, line 2.	8		37,125

Clergy Worksheet

Income from the church

- | | | | |
|----|---|----|---------|
| 1. | Taxable income | 1. | _____ |
| 2. | Nontaxable income | 2. | + _____ |
| 3. | Total income from clergy work from church (add lines 1 & 2) | 3. | _____ |

Taxable percentage of income from church

- | | | | |
|----|---|----|---------|
| 4. | Taxable income (from line 1) | 4. | _____ |
| 5. | Total income (from line 3) | 5. | ÷ _____ |
| 6. | Taxable percentage (divide 4 by line 5) | 6. | _____ % |

Expenses

- | | | | |
|-----|---|-----|-----------|
| 7. | Clerical expenses | 7. | _____ |
| 8. | Reimbursements, if any | 8. | - _____ |
| 9. | Deductible expenses for Schedule SE (subtract line 8 from line 7) | 9. | _____ |
| 10. | Taxable % from above | 10. | x _____ % |
| 11. | Deductible expenses for Form 2106 (multiply line 9 by line 10) | 11. | _____ |

Self-employment income from W2 earnings

- | | | | |
|-----|--|-----|---------|
| 12. | Salary from W2 | 12. | _____ |
| 13. | Parsonage/housing allowance in full | 13. | _____ |
| 14. | Utility allowance | 14. | _____ |
| 15. | Total income (add lines 12, 13, & 14) | 15. | _____ |
| 16. | Expenses from line 9 | 16. | - _____ |
| 17. | SE income from W2 earnings (subtract line 16 from line 15) | 17. | _____ |
- (Self employment income from Schedule C, F, etc. also needs to be included on Schedule SE.)

Form 4361 (Rev. January 2011) Department of the Treasury Internal Revenue Service	Application for Exemption From Self-Employment Tax for Use by Ministers, Members of Religious Orders and Christian Science Practitioners	OMB No. 1545-0074 File Original and Two Copies
File original and two copies and attach supporting documents. This exemption is granted only if the IRS returns a copy to you marked "approved."		
Please type or print	1 Name of taxpayer applying for exemption (as shown on Form 1040)	Social security number
	Number and street (including apt. no.)	Telephone number (optional)
	City or town, state, and ZIP code	
	2 Check one box: <input type="checkbox"/> Christian Science practitioner <input type="checkbox"/> Ordained minister, priest, rabbi <input type="checkbox"/> Member of religious order not under a vow of poverty <input type="checkbox"/> Commissioned or licensed minister (see line 6)	
	3 Date ordained, licensed, etc. (Attach supporting document. See instructions.)	
	4 Legal name of ordaining, licensing, or commissioning body or religious order	
	Number, street, and room or suite no.	Employer identification number
	City or town, state, and ZIP code	
	5 Enter the first 2 years after the date shown on line 3 that you had net self-employment earnings of \$400 or more, any of which came from services as a minister, priest, rabbi, etc.; member of a religious order; or Christian Science practitioner ▶	
	6 If you apply for the exemption as a licensed or commissioned minister and your denomination also ordains ministers, please indicate how your ecclesiastical powers differ from those of an ordained minister of your denomination. Attach a copy of your denomination's bylaws relating to the powers of ordained, commissioned, and licensed ministers.	
	7 I certify that I am conscientiously opposed to, or because of my religious principles I am opposed to, the acceptance (for services I perform as a minister, member of a religious order not under a vow of poverty, or Christian Science practitioner) of any public insurance that makes payments in the event of death, disability, old age, or retirement; or that makes payments toward the cost of, or provides services for, medical care. (Public insurance includes insurance systems established by the Social Security Act.) I certify that as a duly ordained, commissioned, or licensed minister of a church or a member of a religious order not under a vow of poverty, I have informed the ordaining, commissioning, or licensing body of my church or order that I am conscientiously opposed to, or because of religious principles I am opposed to, the acceptance (for services I perform as a minister or as a member of a religious order) of any public insurance that makes payments in the event of death, disability, old age, or retirement; or that makes payments toward the cost of, or provides services for, medical care, including the benefits of any insurance system established by the Social Security Act. I certify that I have never filed Form 2031 to revoke a previous exemption from social security coverage on earnings as a minister, member of a religious order not under a vow of poverty, or Christian Science practitioner. I request to be exempted from paying self-employment tax on my earnings from services as a minister, member of a religious order not under a vow of poverty, or Christian Science practitioner, under section 1402(e) of the Internal Revenue Code. I understand that the exemption, if granted, will apply only to these earnings. Under penalties of perjury, I declare that I have examined this application and to the best of my knowledge and belief, it is true and correct.	
Signature ▶		Date ▶
Caution: Form 4361 is not proof of the right to an exemption from federal income tax withholding or social security tax, the right to a parsonage allowance exclusion (section 107 of the Internal Revenue Code), assignment by your religious superiors to a particular job, or the exemption or church status of the ordaining, licensing, or commissioning body, or religious order.		
For Internal Revenue Service Use		
<input type="checkbox"/> Approved for exemption from self-employment tax on ministerial earnings <input type="checkbox"/> Disapproved for exemption from self-employment tax on ministerial earnings		
By _____ (Director's signature) _____ (Date)		
General Instructions Section references are to the Internal Revenue Code unless otherwise noted. Purpose of form. File Form 4361 to apply for an exemption from self-employment tax if you have ministerial earnings (defined later) and are: • An ordained, commissioned, or licensed minister of a church; • A member of a religious order who has not taken a vow of poverty; or • A Christian Science practitioner.		
Note. If you are a commissioned or licensed minister of a religious denomination or church that ordains its ministers, you may be treated in the same manner as an ordained minister if you perform substantially all the religious functions within the scope of the tenets and practices of your religious denomination or church. This application must be based on your religious or conscientious opposition to the acceptance (for services performed as a minister, member of a religious order not under a vow of poverty, or Christian Science practitioner) of any public insurance that makes payments for death, disability, old age, or retirement; or that makes payments for the cost of, or provides services for, medical care, including any insurance benefits established by the Social Security Act. If you are a duly ordained, commissioned, or licensed minister of a church or a member of a religious order not under a vow of poverty, prior to filing this form you must inform the ordaining, commissioning, or licensing body of your church or order that, on religious or conscientious grounds, you are opposed to the acceptance of public insurance benefits based on ministerial service.		

Ministerial service, in general, is the service you perform in the exercise of your ministry, in the exercise of the duties required by your religious order, or in the exercise of your profession as a Christian Science practitioner. Ministerial earnings are the self-employment earnings that result from such service. See Pub. 517 for details.

Do not file Form 4361 if:

- You ever filed Form 2031, Revocation of Exemption From Self-Employment Tax for Use by Ministers, Members of Religious Orders, and Christian Science Practitioners; or
- You belong to a religious order and took a vow of poverty. You are automatically exempt from self-employment tax on earnings for services you perform for your church or its agencies. No tax exemption applies to earnings for services you perform for any other organization.

Additional information. See Pub. 517, Social Security and Other Information for Members of the Clergy and Religious Workers.

When to file. File Form 4361 by the due date, including extensions, of your tax return for the second tax year in which you had at least \$400 of net earnings from self-employment, any of which came from ministerial services.

Effective date of exemption. An exemption from self-employment tax is effective for all tax years ending after 1967 in which you have net self-employment earnings of \$400 or more if you receive any of it from ministerial services. For example, if you had qualified net earnings of \$400 or more in 2008 and not again until 2010, a valid Form 4361 filed by April 15, 2011, would apply to 2008 and all later years. See Pub. 517 to find out if you are entitled to a refund of self-employment tax paid in earlier years.

Where to file. Mail the original and two copies of this form to: Department of the Treasury, Internal Revenue Service Center, Philadelphia, PA 19255-0733.

Approval of application. Before your application can be approved, the IRS must verify that you are aware of the grounds for exemption and that you want the exemption on that basis. When your completed Form 4361 is received, the IRS will mail you a statement that describes the grounds for receiving an exemption under section 1402(e). You must certify that you have read the statement and seek exemption on the grounds listed on the statement. The certification must be made by signing a copy of the statement under penalties of perjury and mailing it to the IRS not later than 90 days after the date the statement was mailed to you. If it is not mailed by that time, your exemption will not be effective until the date the signed copy is received by the IRS.

If your application is approved, a copy of Form 4361 will be returned to you marked "approved." Keep this copy of Form 4361 for your permanent records. Once the exemption is approved, you cannot revoke it.

Exempt earnings. Only earnings from ministerial services (ministerial earnings) are exempt from self-employment tax.

Conducting religious worship services or ministering sacerdotal functions are ministerial services whether or not performed for a religious organization.

Ministerial services also include controlling, conducting, and maintaining religious organizations (including religious boards,

societies, and other agencies integral to these organizations) under the authority of a church or church denomination.

If your church assigns or designates you to perform services for an organization that is neither a religious organization nor an integral agency of a religious organization, you are performing ministerial services even though they may not involve conducting religious worship or ministering sacerdotal functions. Your services are ordinarily not considered assigned or designated by your church if any of the following is true.

- The organization for which you perform the services did not arrange with your church for your services.
- You perform the same services for the organization as other employees not designated as you were.
- You perform the same services before and after the designation.

Nonexempt earnings. Exemption from self-employment tax does not apply to earnings from services that are not ministerial.

Earnings from the following entities are not exempt even if religious services are conducted or sacerdotal functions are ministered: the United States; a state, territory, or possession of the United States; the District of Columbia; a foreign government; or a subdivision of any of these bodies. For example, chaplains in the U.S. Armed Forces are considered commissioned officers, not ministers. Similarly, chaplains in state prisons or universities are considered civil servants.

Indicating exemption on Form 1040. If the IRS returns your application marked "approved" and your only self-employment income was from ministerial services, enter "Exempt—Form 4361" on the self-employment tax line in the *Other Taxes* section of Form 1040. If you had other self-employment income, see Schedule SE (Form 1040).

Specific Instructions

Line 3. Enter the date you were ordained, commissioned, or licensed as a minister of a church; became a member of a religious order; or began practice as a Christian Science practitioner. Do not file Form 4361 before this date. Attach a copy of the certificate (or, if you did not receive one, a letter from the governing body of your church) that establishes your status as an ordained, commissioned, or licensed minister; a member of a religious order; or a Christian Science practitioner.

Line 4. If you are a minister or belong to a religious order, enter the legal name, address, and employer identification number of the denomination that ordained, commissioned, or licensed you, or the order to which you belong. Get the employer identification number from your church or order.

You must be able to show that the body that ordained, commissioned, or licensed you, or your religious order, is exempt from federal income tax under section 501(a) as a religious organization described in section 501(c)(3). You must also be able to show that the body is a church (or convention or association of churches) described in section 170(b)(1)(A)(i). To assist the IRS in processing your application, you can attach a copy of the exemption letter issued to the organization by the IRS. If that is not

available, you can attach a letter signed by an individual authorized to act for the organization stating that the organization meets both of the above requirements.

Privacy Act and Paperwork Reduction Act Notice. We ask for the information on this form to carry out the Internal Revenue laws of the United States. We need this information to ensure that you are complying with these laws and to allow us to figure and collect the right amount of tax. Applying for an exemption from self-employment tax is voluntary. However, providing the requested information is mandatory if you apply for the exemption. Our legal right to ask for the information requested on this form is Internal Revenue Code sections 1402(e), 6001, 6011, 6012(a), and 6109 and their regulations. Code section 6109 requires that you provide your social security number on what you file. If you fail to provide all or part of the information requested on Form 4361, your application may be denied. If you provide false or fraudulent information, you may be subject to penalties.

You are not required to provide the information requested on a form that is subject to the Paperwork Reduction Act unless the form displays a valid OMB control number. Books or records relating to a form or its instructions must be retained as long as their contents may become material in the administration of any Internal Revenue law.

Generally, tax returns and return information are confidential, as stated in section 6103. However, section 6103 allows or requires the Internal Revenue Service to disclose or give the information shown on your tax return to others as described in the Code. We may disclose this information to the Social Security Administration for administration of the exemption, to the Department of Justice to enforce civil and criminal tax laws, and to cities, states, the District of Columbia, and U.S. commonwealths or possessions to administer their tax laws. We may also disclose this information to other countries under a tax treaty, to federal and state agencies to enforce federal nontax criminal laws, and to federal law enforcement and intelligence agencies to combat terrorism.

Please keep this notice with your records. It may help you if we ask you for other information. If you have any questions about the rules for filing and giving information, please call or visit any Internal Revenue Service office.

The average time and expenses required to complete and file this form will vary depending on individual circumstances. For the estimated averages, see the instructions for your income tax return.

If you have suggestions for making this form simpler, we would be happy to hear from you. You can write to the Internal Revenue Service, Tax Products Coordinating Committee, SE:W:CAR:MP:T:T:SP, 1111 Constitution Avenue, NW, IR-6526, Washington, DC 20224. Do not send the form to this address. Instead, see *Where to file* on this page.

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