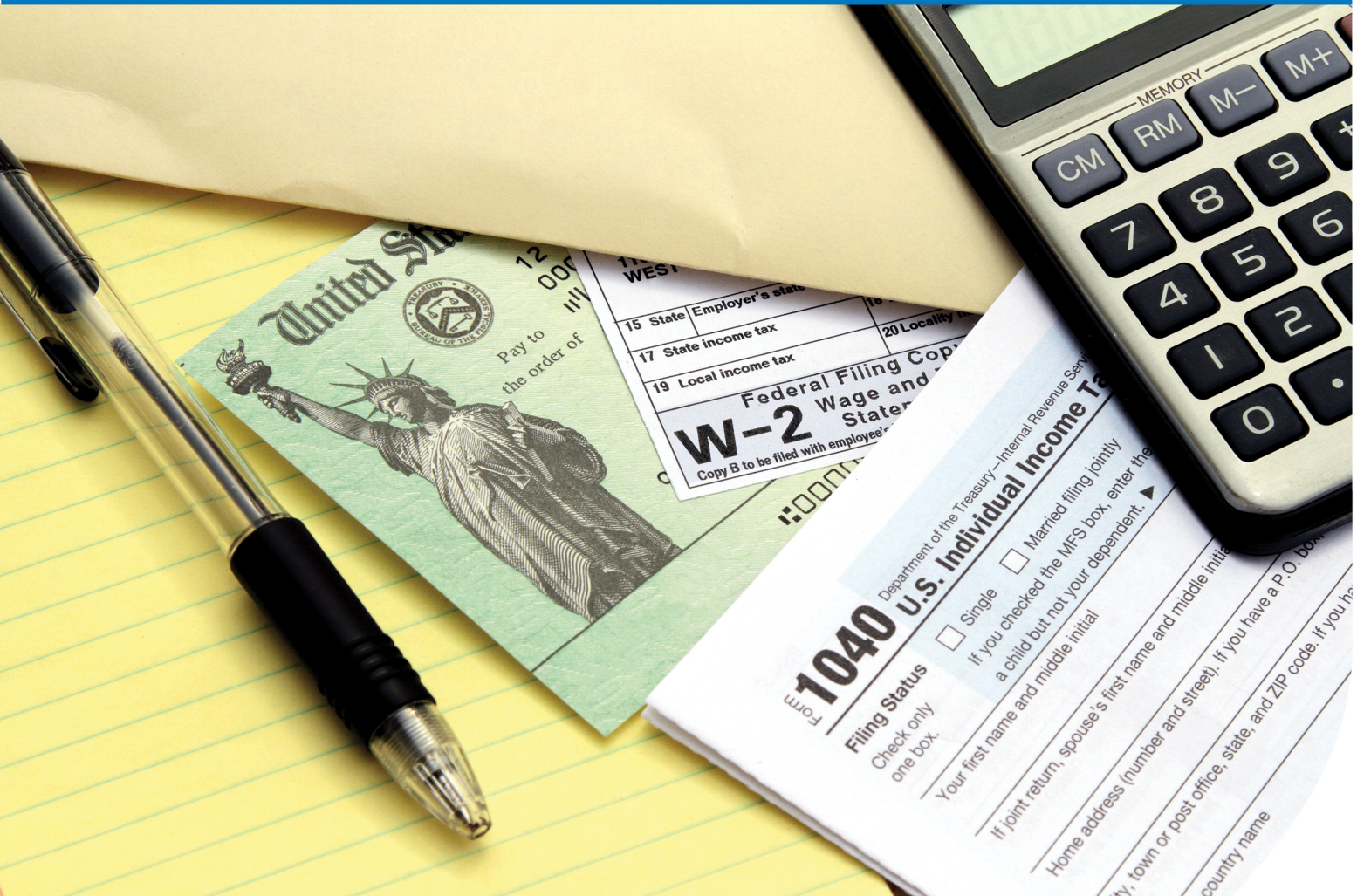


2025 Clergy Tax Return Preparation Guide for 2024 Tax Returns



A Supplement to the 2025 Clergy Tax Return Preparation Guide for 2024 Returns

For the 2024 tax year, the Church Pension Group (CPG) is providing the 2025 Clergy Tax Return Preparation Guide for 2024 Returns (Tax Guide) and the Federal Reporting Requirements guide (FRR) as references to help clergy, treasurers and bookkeepers, and tax preparers better understand clergy taxes. These guides are available on CPG's [Tax Publications](#) webpage.

The supplement complements the guides and appears below. The supplement is presented in two sections. First, a section on tax highlights addresses recent tax changes. Second, a section in question-and-answer format covers key tax issues and how certain information in the guides applies specifically to clergy of The Episcopal Church.

Note: If you have questions about clergy federal income taxes that are not covered here, please call CPG's tax hotline:

Dolly Rios,* CPA

(833) 363-5751

**Fluent in English and Spanish*

Please note that the service provided by CPG's tax hotline is of an informational nature. It should not be viewed as tax, legal, financial, or other advice. You must contact your tax advisor for assistance in preparing your tax returns or for other tax advice.

Tax Highlights



- For 2024, the mileage rate was 67 cents per mile. See [IRS Notice IR-2023-239](#). For 2025, the mileage rate is 70 cents per mile. See [IRS Notice IR-2024-312](#).
- Please be aware that the defined contribution plans sponsored by The Church Pension Fund (“CPF”) offer a Roth account option as of January 12, 2024.
- The Inflation Reduction Act of 2022 enacted a range of tax provisions that will affect both individuals and businesses and will take effect over the next 10 years. For information on changes that will affect the 2024 tax year, see [IRS Notice IR-2023-208](#). For changes that will affect the 2025 tax year, see [IRS Notice IR-2024-273](#).
- Withdrawals of up to \$10,000 from Code Section 529 plans (tax-advantaged higher education savings accounts) to repay student loans are now permitted. This change is retroactive to distributions made after December 31, 2018.
- Parents can withdraw up to \$5,000 per child for qualified birth or adoption expenses from their 403(b) or similar workplace savings plan without paying the early penalty tax for taking a distribution before age 59½.
- After 15 years, 529 plan assets can be [rolled over to a Roth IRA](#) for the beneficiary, subject to annual Roth contribution limits and an aggregate lifetime limit of \$35,000. The rollover is treated as a contribution toward the annual Roth IRA contribution limit. Note that rollovers in the five-year period before distributions start, including associated earnings, are not eligible for a tax-free rollover.
- In 2024, people who are age 70½ and older may elect as part of their qualified charitable distribution (QCD) limit a one-time gift up to \$53,000, adjusted annually for inflation, to a charitable remainder unitrust, a charitable remainder annuity trust, or a charitable gift annuity. This is an expansion of the type of charity, or charities, that can receive a QCD.

Questions & Answers

Eligibility



- Q1.** *For tax purposes, who is considered a minister in The Episcopal Church?*
- A1.** The IRS has its own criteria for determining who is a minister for tax purposes. See [IRS Publication 517](#). In The Episcopal Church, only bishops, priests, and deacons (ordained ministers, as opposed to lay ministers) meet the criteria for the IRS designation of “minister.” See the [Federal Reporting Requirements for Episcopal Institutions](#) for an explanation of the importance of understanding whether you qualify as a minister for tax purposes.
- Q2.** *What types of organizations qualify as Church organizations?*
- A2.** Church organizations include Episcopal parishes and missions, dioceses, schools, and institutions associated with The Episcopal Church.
- The approval of an Extension of Ministry under The Church Pension Fund Clergy Pension Plan (Clergy Pension Plan) does not necessarily qualify a clergyperson for clergy tax treatment because the Clergy Pension Plan uses a different standard than the IRS criteria. Also, pay received for work performed for organizations not associated with the Church may not qualify as the “exercise of ministry.” Work performed directly for the Church is considered “exercise of ministry,” no matter the nature of the work.
 - Generally, work for nonchurch organizations does not qualify for the housing allowance, unless that work is primarily sacerdotal.
 - Compensation paid to a clergyperson from nonchurch organizations is usually subject to income tax and employment (Federal Insurance Contributions Act, or FICA) tax withholding.

Basics of Clergy Taxation



- Q3.** *What are the key federal tax provisions that apply to clergy compensation?*
- A3.** The key provisions include the following:
- **Self-employed status for Social Security and Medicare tax purposes**—Clergy are not eligible to have Federal Insurance Contributions Act (FICA) taxes withheld from their church compensation. In lieu of FICA taxes, clergy pay self-employment tax, also known as Self-Employment Contributions Act tax (SECA tax).
 - Reimbursements from an employer of SECA tax are taxable as wages and are assessable under The Church Pension Fund Clergy Pension Plan. Note, however, that even though clergy pay SECA tax, most ministers are considered employees and should receive a federal Form W-2 from their employer.
 - **Exemption of federal and state wages from income tax withholding**—Clergy must pay quarterly estimated taxes or request that their employer voluntarily withhold income taxes. Clergy can request that an additional amount of income tax be withheld to cover their self-employment tax by using Form W-4. The additional amount will be reported as federal income tax.
 - **Eligibility for the housing allowance exclusion from federal income tax**—A clergyperson can have a portion of their salary declared as a housing allowance and thereby exempt the eligible amount from federal income tax.

- Q4.** *How does the self-employment tax (SECA tax) differ from federal and state income tax?*
- A4.** Three federal taxes are paid on wages and self-employment income: income tax, Social Security tax, and Medicare tax. Social Security and Medicare taxes are collected under one of two systems:
- Under the Self-Employment Contributions Act (SECA), the self-employed person—the clergyperson, in our case—pays all the taxes.
 - Under the Federal Insurance Contributions Act (FICA), the employee and the employer each pay half of the Social Security and Medicare taxes.

Each state has its own local and state tax income tax requirements.

- Q5.** *Should I prepare my own taxes?*

A5. Clergy tax issues are highly complex, and not all tax software is capable of producing accurate results. We recommend you consider consulting with your personal tax advisor.

Clergy Housing Allowance



- Q6.** *How can I determine my housing allowance under Internal Revenue Code Section 107?*

A6. To establish a Code Section 107 housing allowance, your vestry or other Church governing body must adopt a housing allowance resolution at the end of each calendar year for the following year. A church cannot designate a housing allowance retroactively. Please refer to the *Federal Reporting Requirements* at cpg.org/taxpubs for additional information.

The amount of the housing allowance exclusion is limited to the lowest of:

1. the amount designated by the governing body,
2. the actual amount spent on housing, or
3. the fair rental value of the home, furnished, plus the cost of actual utilities. A clergyperson can consult with a realtor to obtain a written appraisal of the fair rental value of their furnished home.

Clergy should request that their housing allowance be the lower of items 2. or 3. above, not to exceed their total compensation.

Only expenses incurred for the minister's primary residence are eligible for the housing allowance exclusion. Please be sure to consult your tax preparer regarding your housing allowance.

- Q7.** *How can I ensure that my expenses at a long-term care facility are eligible for the housing allowance exclusion?*

A7. If you are considering moving to a long-term care facility, make sure that it will give you a breakdown each year of the portions of your payments that represent the cost of housing, medical expenses, and other items. It is necessary to have such information to take proper advantage of your housing allowance and medical expense deductions on your income tax returns.

Note: The IRS has ruled that the lump-sum entrance fee paid by a retired minister to gain admission to a long-term care facility can be treated as a housing expense only in the year it is actually paid and cannot be prorated over several years.

Q8. *How do I report my housing allowance when I live “rent-free” in church-provided housing?*

A8. Clergy who live “rent-free” in church-provided housing should have a portion of their cash compensation designated by the vestry or other church governing body as a parsonage or rectory allowance for expenses they pay, such as utilities, repairs, and furnishings. This exclusion works like the housing allowance for clergy who own or rent their homes. The portion of the fair rental value test that applies is the portion not provided by the church. Therefore, if the church provides the house and pays the utilities, the value added for furnishings is the only relevant amount to be used in determining the amount eligible for this allowance.

Note: Clergy who live “rent-free” in church-provided housing that is provided as compensation for ministerial services do not include the annual fair rental value of church-provided housing as income in computing federal income taxes and therefore do not pay federal income tax on that value. The annual fair rental value is not “deducted” from the clergy’s income as housing allowance, nor is it reported as additional taxable compensation on Form W-2. However, clergy do pay the Self-Employment Contributions Act (SECA) tax on the fair rental value of the housing provided.

Note: Clergy who live “rent-free” in church-provided housing will not be allowed to claim a housing allowance for any other real property that they own or rent while living “rent-free” in church-provided housing. This is because the “rent-free” church-provided housing will be considered their primary residence for tax purposes.

Q9. *How does the housing allowance exclusion work in retirement?*

A9. Under Section 107 of the Internal Revenue Code, clergy pension distributions can also be declared as a housing allowance. (This provision does not apply to the clergyperson’s surviving spouse.) CPF Form B immediately follows this supplement. It explains how The Church Pension Fund (CPF) declares the full amount of all benefits paid from retirement and disability plans sponsored by CPF to retired and disabled clergy as a housing allowance, and how to apply it for tax purposes. We recommend that you place a copy of CPF Form B in your current tax file and provide it to your tax preparer.

Q10. *Who designates the housing allowance in nonstandard work situations?*

A10. The governing authority of the employing entity should designate the housing allowance. Remember that work performed for a non-Episcopal entity may not qualify for the housing allowance exclusion. Please speak with your tax advisor.

Q11. *How does the housing allowance exclusion work when changing jobs during the calendar year?*

A11. The clergyperson should request a new housing allowance designation from the new employer, based on the housing cost factors that will apply during the remaining part of the year. The designation must be made before the start of new employment, as it will be effective only prospectively.

Q12. *What expenses qualify for the housing allowance exclusion?*

A12. The IRS has not issued a definitive list of items that qualify for the housing allowance exclusion. You and your tax preparer can refer to [IRS Publication 517](#) for information. In addition, CPF Form B (attached at the end of this document) may assist in determining the total actual expenses that relate to renting or providing your primary home.

How can I...?



Q13. *How can I find a tax preparer?*

A13. Here are some tips to help you find a competent professional:

- Ask your diocesan finance officer for recommendations.
- Ask your clergy colleagues (not just Episcopal).
- Use a tax preparer who is familiar with the rules that apply to clergy.
- Ask local tax professionals whether they have worked with ministers and, if so, how many.
- Ask local tax professionals a few questions to test their familiarity with ministers' tax issues. For example, ask whether ministers are employees or self-employed for Social Security and Medicare tax purposes. Anyone familiar with ministers' taxes will know that ministers always are self-employed for Social Security and Medicare tax purposes with respect to their ministerial duties. Or ask a tax professional if a minister's church salary is subject to required income tax withholding.
- Often, tax preparers can readily familiarize themselves with clergy tax treatment by reviewing the Tax Guide and/or referring to CPF Form B.

Q14. *How can I change my withholding amount when receiving my pension benefit in retirement?*

A14. Your monthly earnings statement provided by Northern Trust includes a section where you can enter an adjustment to your federal income tax withholding. You can also submit federal Form W-4P, Withholding Certificate for Periodic Pension or Annuity Payments and state tax withholding forms, available on CPG's [Tax Resources](#) webpage. See A17 below for information on how to complete the Form W-4P.

Q15. *Where is the Substitute Form W-4P, and why does the new Form W-4P look different from what I am used to?*

A15. The IRS created a new Form W-4P for use beginning in 2022. CPF continued to use the Substitute Form W-4P in 2022 but beginning January 1, 2023, required the Form W-4P for clergy who retire or who wish to change the withholding amounts from their pension payments after that date.

Q16. *Do I have to fill out a new Form W-4P if I'm not changing my federal withholding elections from my pension payments?*

A16. No. The Form W-4P that CPF currently has on file for you will remain in effect unless and until you wish to change your withholding amount.

Q17. *How do I complete the Forms W-4 (active), or W-4P and W-4R (retired)?*

A17. Active clergy should complete an Employee's Withholding Certificate, federal Form W-4, to request withholding. To have enough tax withheld to cover the Self-Employment Contributions Act (SECA) tax, clergy should add the amount they want withheld per pay period on Line 4(c)

of the form. See A18 below for information on how to calculate the SECA tax.

- Federal income tax withholding is optional on periodic pension distributions from The Church Pension Fund Clergy Pension Plan and the International Clergy Pension Plan (ICPP).
- Clergy who are receiving pension payments from The Church Pension Fund must complete a Form W-4P, Withholding Certificate for Periodic Pension and Annuity Payments.
- If you do not want federal income taxes withheld from your periodic pension distributions, follow the IRS instructions for Form W-4P by writing “no withholding” on Form W-4P in the space below Step 4(c). Please be aware that this may result in an insufficient payment of your federal income tax liability, and the IRS may impose interest and penalties for the underpayment of income tax.
 - ~ To elect voluntary withholding, complete Form W-4P by completing Steps 2, 3, and 4, where applicable.
 - ~ Alternatively, if you wish to have a fixed amount withheld from each pension payment, enter the amount to withhold on Step 4(c) and write “**Fixed Amount to Be Withheld**” in the space below Step 4(c). If you do not write “**Fixed Amount to Be Withheld**,” the amount entered on Step 4(c) will be treated as an **addition** to the withholding calculated in Steps 2, 3, and 4.
 - ~ Please refer to The Church Pension Fund *instructions* for Form W-4P for additional information.
- Federal income tax withholding is **optional** on nonperiodic pension distributions and eligible rollover distributions.
 - ~ If a clergy member **does not complete a Form W-4R, Withholding Certificate for Nonperiodic Payments and Eligible Rollover Distributions**, **no federal income taxes** will be withheld from nonperiodic pension distributions/eligible rollover distributions. View the *instructions*.
 - ~ If a clergy member **voluntarily chooses to elect federal income tax withholding** on nonperiodic pension distributions, including required minimum distributions (RMD) and eligible rollover distributions, then a Form W-4R must be completed, and **a percentage of income tax to be withheld must be entered on Line 2**.
 - **Nonperiodic payments—can be anything between 0% and 100%**
 - **Eligible rollover distributions—must be 20% or more**

Q18. *How do I calculate the Self-Employment Contributions Act (SECA) tax when living in a rectory or when living in clergy-provided housing with a designated housing allowance?*

A18. Determining your SECA tax liability can be complicated, and we recommend that you use the services of a qualified tax professional who understands clergy tax issues. In general, all income earned from ministerial services is subject to SECA tax. The tax is computed on Schedule SE (Form 1040).

Net earnings from ministerial services are reported on Line 2 of Schedule SE and include the following:

- earnings reported in Box 1, Form W-2, plus

- any designated housing allowance (referred to in IRS literature as a Rental Allowance), plus
- the fair rental value of a rectory or other church-provided housing, including the cost of utilities if paid by the employer, plus
- net ministerial income reported on Schedule C, if any, less
- allowable business deductions not already deducted on Schedule C. See *IRS Publication 517* for details.

Special Tax-Reporting Issues



Q19. *Why should I set up an accountable expense reimbursement plan?*

A19. Unreimbursed business expenses are no longer deductible. Therefore, clergy should ensure that their employer has established an accountable expense reimbursement plan. See *IRS Publication 463*.

Q20. *How should I report business expenses and/or declare a housing allowance for interim cures in out-of-town locations?*

A20. This situation presents unique issues, especially for retirees who are receiving a pension. The differences in tax treatment depend on the length of the cure, and taxpayers are advised to consider them carefully:

Cures of one year or less—If the interim job is for a set duration of one year or less, the housing at the temporary location is generally treated as a business expense that can be provided by or reimbursed by the employing church tax-free to the clergyperson. Also, the clergyperson can continue to apply their pension income toward the housing allowance for the permanent residence's expenses. Travel expenses to and from the permanent residence and the interim job location may also be treated as business expenses.

Cures of longer than one year (or uncertain period of time)—If the interim job is projected to last for more than a year or its term is uncertain (whether or not it turns out to be for less than a year is irrelevant), the clergyperson has generally been deemed to have moved the principal residence to the interim location. Therefore, the reimbursement of expenses relating to the temporary housing at the interim location is taxable for Self-Employed Contributions Act/Self Employment Tax (SECA/SET) purposes, and the clergyperson will not be able to claim a housing allowance as it relates to the housing expenses associated with their permanent residence.

Q21. *What should I understand about taxation of moving expenses?*

A21. Under the Tax Cuts and Jobs Act, for 2018 through 2025, qualified moving expenses can no longer be reimbursed tax-free or deducted on personal tax returns.

- Any direct payment of moving expenses or reimbursement to the clergyperson must be treated as taxable compensation and included as salary on Form W-2.
- In addition, these amounts are assessable under The Church Pension Fund Clergy Pension Plan.
- Costs associated with moving your home furnishings can be included as part of your actual expenses incurred when calculating your housing allowance exclusion.

Q22. *What rules apply to contributions to and withdrawals from The Episcopal Church Retirement Savings Plan (RSVP)?*

A22. The RSVP is a Code Section 403(b) defined contribution plan that may be funded by an individual through payroll deductions from remuneration

received for services provided to the Church and/or employer contributions. Contributions by the clergyperson can be made only from remuneration that is reported as taxable compensation (i.e., earnings that have not been applied toward the housing allowance).

- Any Roth or after-tax contributions made to the RSVP should be reported as taxable compensation in Box 1 of Form W-2, are ineligible to be applied toward clergy housing, and may be subject to SECA tax.
- Withdrawals from the RSVP, if from past ministerial services and not from rollovers from accounts funded by payments from secular services, may be eligible to be excluded from taxable income as housing allowance. **Please work with your tax preparer to calculate and determine how much of your distribution is eligible.**

Please see the [RSVP & Lay DC Plan Employee Guide](#) for more information about contributions, withdrawals, and the clergy housing allowance.

Q23. *Is the Resettlement Benefit payable to eligible clergy under The Church Pension Fund Clergy Pension Plan taxable?*

A23. If the Resettlement Benefit is distributed to the clergyperson, it is a taxable benefit. However, the distributions may be eligible to be designated as housing allowance. Please review [IRS Publication 517](#).

- To delay paying tax on the Resettlement Benefit, you can make a tax-free rollover of the Resettlement Benefit to The Episcopal Church Retirement Savings Plan (RSVP) or another tax-deferred savings vehicle. See A22 above for distribution from the RSVP as a declared housing allowance.
- If a clergy rolls over the resettlement benefit to a Section 403(b) plan, the rollover does not count toward the IRS annual contribution limits.

Q24. *I received a gift from my parish at retirement. Is it taxable?*

A24. Many clergy receive retirement gifts. The tax treatment generally works as follows:

- Gifts provided by the employer are taxable to the clergyperson and must be reported on Form W-2 as wages and are assessable wages for The Church Pension Fund Clergy Pension Plan (if paid to the clergyperson prior to their retirement date under the plan).
- Gifts funded by individuals directly to the clergyperson or collected by the church are nondeductible personal gifts. These types of gifts are not taxable to the clergyperson, are not reported on Form W-2 as wages, cannot be treated as tax-deductible by the giver, and are not assessable for pension purposes.

Q25. *I am Medicare-eligible and recently returned to work after retirement. As a result, am I entitled to medical coverage as an active employee?*

A25. When a clergyperson is Medicare-eligible and working, they may legally be required to be on the employer's active health plan. For more information, you may want to contact your diocese or The Episcopal Church Medical Trust.

Q26. *Due to my conscientious objection to public insurance programs, I would like to opt out of Social Security. For the self-employment tax, is it permissible for me to take such an exemption?*

A26. Some denominations allow their clergy to opt out of Social Security as a conscientious objection to the receipt of social insurance. The

Episcopal Church does not support this option on theological grounds. As a result, some Episcopal ministers have opted out of Social Security without realizing that they do not qualify for the exemption. It should be noted that, when signing federal Form 4361, a minister must attest to its accuracy under penalty of perjury.

A minister's opposition must be to accepting benefits under Social Security (or any other public insurance program). Economic considerations, or any other nonreligious considerations, are not a valid basis for the exemption, nor is opposition to paying the self-employment tax. A decision to opt out of Social Security is irrevocable.

Q27. *Why is my compensation reported to the Social Security Administration (SSA) different from the amount reported as compensation for pension assessment?*

A27. Compensation reported to SSA comes from Schedule SE filed with your annual tax return, Form 1040. Compensation reported for pension assessments comes from the Change in Compensation Form from CPF. Assessable compensation includes contributions to the RSVP, but compensation reported to SSA does not. Other adjustments are made to the amount you report on Schedule SE. We advise you to check your SSA record and compare it to what is reported on your tax return, Schedule SE.

Q28. *For how long must I retain my tax return and supporting records?*

A28. You should retain copies of your tax returns for your lifetime. Supporting documents can be destroyed after seven years.

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Clergy Housing Allowance and Federal Income Tax Status of The Church Pension Fund Benefits

In accordance with Section 107 of the Internal Revenue Code, ministers who receive an amount, as part of their salary for their services, that has been officially designated (in advance of payment) as a housing allowance may be able to exclude that amount from their gross income for federal income tax purposes.

Resolution

The Church Pension Fund (CPF) has passed a resolution that all benefits paid from retirement and disability plans sponsored by CPF to retired and disabled clergy have been designated as a housing allowance in 2025. (CPF passed a similar resolution for 2024.)

Exclusion

The amount of housing allowance that you may exclude from gross income for federal income tax purposes cannot exceed the lowest amount of the following:

- actual housing expenses (the total amount you actually spend in a calendar year for items that directly relate to renting or providing for your primary home),
- the fair rental value of your primary home (including furnishings) plus the cost of the utilities,
- your retirement and disability income provided by CPF plus any other compensation earned from an Episcopal employer that has been properly designated as a housing allowance.

For Surviving Spouses and Children

The housing allowance exclusion is applicable to CPF benefits paid to the clergy who earned them. **Tax law does not allow a housing allowance for surviving spouses or dependents.**

How to Calculate

While further details are available in *IRS Publication 517* and the *2025 Clergy Tax Return Preparation Guide for 2024 Returns*, the following list may assist you in determining the total actual expenses that relate to renting or providing your primary home:

- Mortgage payments, both principal and interest*
- Real estate taxes and special assessments*
- Fees paid for acquiring home titles, mortgages, etc.
- Home improvements and repairs
- Cost of moving your home furnishings
- Home furnishings that are primary and essential
- Fire and home liability insurance premiums
- Maintenance and upkeep of property, including landscaping
- Utilities: electric, gas, oil, water, basic telephone, trash, cable television base rate (not including premium channels)
- Rental payments for home, garage, storage for household items, furnishings, etc.

Importance of Records

We strongly recommend that you carefully track your expenses and keep good records, including this form and all of your calculations and documents related to renting or providing your primary home. You may need them if there are questions or challenges to your housing allowance.

How to Report

The amount you decide to exclude from your gross income is not shown on your federal tax return because it is an “exclusion,” not a “deduction.” The total of all pension benefits received during the year (shown on Box 1 of your Form 1099-R) should be copied to Line 5a of your federal Form 1040. The taxable portion of these benefits, determined by subtracting the amount you are excluding for housing purposes from the total, should be shown on Line 5b of your federal Form 1040. Line 5b should not be left blank; if all amounts received are used for housing purposes, you should enter zero (0) on Line 5b.

Please note that you may receive Form 1099-R and/or Form W-2 from Northern Trust and/or Aflac, as they are the paying agents for the retirement benefit and disability plans sponsored by CPF.

If you receive distributions from The Episcopal Church Retirement Savings Plan (RSVP), you may receive Form 1099-R from Fidelity Investments and/or Forrest T. Jones, as they are the paying agents for that plan.

For distributions from the RSVP processed by Fidelity Investments, please contact Fidelity to initiate the distribution and notify Fidelity that your distribution is eligible for the housing allowance.

SECA Tax

Distributions from a CPF sponsored plan received by clergy on account of retirement may be exempt from Self-Employed Contributions Act tax (also called SECA tax). What counts as “retirement” depends on a cleric’s individual circumstances. Please consult your tax advisor to discuss your specific situation. However, if you have other earnings from self-employment after retirement (from The Episcopal Church or other sources), you may be required to pay SECA tax on those earnings and also on the fair rental value of housing provided by a church or other employer.

Questions?

If you have questions about specific retirement and disability benefits that you receive from plans sponsored by CPF, please contact Client Services at (866) 802-6333, Monday to Friday, 8:30 AM to 8:00 PM ET.

Please note that we cannot advise on personal tax matters. If you require legal, accounting, or other expert assistance in connection with your tax returns, you should seek the services of a professional. For general questions concerning clergy taxes, please call Dolly Rios at (833) 363-5751.

**Please note that in addition to being treated as housing expenses for the purpose of calculating the housing allowance exclusion, mortgage loan interest and real estate tax payments (up to \$10,000) are allowable as itemized deductions from gross income on Schedule A of Form 1040.*

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2025 Clergy Tax Return Preparation Guide for 2024 Returns

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PART 1

INTRODUCTION

All references in this publication to line numbers on Internal Revenue Service (IRS) forms are for the “draft” versions of the 2024 forms, since the final forms had not been released by the IRS as of the date of publication.

How to use this guide

This book contains the basic information you need to complete your 2024 federal income tax return. It gives special attention to several forms and schedules and the sections of each form most relevant to ministers. The companion resource—the *2025 Federal Reporting Requirements for Churches*—helps churches comply with *their federal tax*

reporting requirements throughout 2025. The annual [Church & Clergy Tax Guide](#) provides churches and clergy with comprehensive, detailed information for year-round tax questions and compliance.

This guide is divided into the following sections:

Part 1: Introduction—This section reviews tax highlights for 2024 and presents several preliminary questions you should consider before preparing your tax return.

Part 2: Special Rules for Ministers—In this section, you learn if you are a minister for tax purposes, whether you are an employee or self-employed for both income tax and Social Security purposes, and how you pay your taxes.

Part 3: Tax Return Preparation—This section explains how to complete the most common tax forms and schedules for ministers.

Part 4: Comprehensive Examples and Sample Forms—This section shows a sample tax return prepared for an ordained minister and spouse and for a retired minister and spouse.

The 2025 Federal Reporting Requirements for Episcopal Institutions—This separate resource assists churches, schools, and other Episcopal institutions (especially treasurers and bookkeepers) in filing federal tax forms and meeting other requirements throughout the year. You can find this resource on cpg.org.

Tax Highlights for 2024

In December 2022, Congress enacted the Setting Every Community Up for Retirement Enhancement Act (SECURE 2.0 Act) as part of the 4,100-page Consolidated Appropriations Act of 2023. President Biden signed the measure into law a few days later.

This legislation is designed to increase retirement savings, simplify and clarify retirement plan rules, and encourage employees to contribute more to their retirement accounts. The provisions of most interest to church leaders are summarized below and throughout this text.

1. The Act repeals and replaces the Saver's Credit after December 31, 2026, changing it from a credit paid in cash as part of a tax refund into a federal matching contribution that must be deposited into a taxpayer's retirement plan. The new program is referred to as the Saver's Match. The IRS is currently determining how to implement the new program. The match will

be 50 percent of retirement plan contributions, up to \$2,000 of contributions per individual. The match will phase out at \$71,000 in the case of taxpayers filing a joint return, and \$35,500 for single taxpayers and married filing separately. For more information on the current Saver's Credit see the section of this publication for Line 20 Schedule 3 Form 1040.

2. Under prior law, participants were generally required to begin taking distributions from their retirement plans at age 70½. The policy behind this rule was to ensure that individuals spend their retirement savings during their lifetime and do not use their retirement plans for estate planning purposes to transfer wealth to beneficiaries. The SECURE Act of 2019 increased the required minimum distribution age to 72. The SECURE Act 2.0 further increased the required minimum distribution age to 73 starting on January 1, 2024, for individuals who turned age 72 on or after January 1, 2023, and increases the age to 75 starting on January 1, 2033.
3. Under prior law, employees who had attained age 50 before the end of the year were permitted to make catch-up contributions under a retirement plan in excess of the otherwise applicable limits. The Act increases these limits to the greater of \$10,000 or 50 percent more than the regular catch-up beginning in 2025 for individuals who have attained ages 60, 61, 62, and 63.
*Beginning with 2026, this amount will be adjusted for inflation.
4. For high-income individuals, employees with wages (as defined for purposes of FICA/Medicare tax withholding) of more than \$145,000 paid in the prior calendar year, catch up contributions to retirement plans must be contributed to a Roth account within the plans. Originally effective for plan years beginning after December 31, 2023, the effective date has been delayed to plan years beginning after December 31, 2025.
5. Treatment of student loan payments as elective deferrals for purposes of matching contributions.

Other tax changes of interest to ministers and other church staff

There were several tax developments in prior years that affect tax reporting by both ministers and churches for 2024 and future years. Here is a rundown of some of the key provisions:

Some tax benefits were adjusted for inflation for 2024. Key changes affecting 2024 returns include the following:

- The mileage rate for miles driven for business increased to 67 cents per mile on January 1, 2024, an increase of 1.5 cents per mile and was available for the entire 2024 tax year. The business mileage rate for 2025 is 70 cents per mile.

- The mileage rate for miles driven for medical purposes, and for moving expenses for members of the armed forces, is 21 cents per mile for all of 2024, a decrease of 1 cent from 2023.
- The charitable mileage rate remains at 14 cents per mile for all of 2024.
- The Alternative Minimum Tax exemption amount for tax year 2024 increases to \$85,700 for single taxpayers and \$133,300 for married persons filing jointly. The exemption amount for single persons (and heads of household and married persons filing separately) begins to phase out at \$609,350, and the exemption amount for married couples filing jointly begins to phase out at \$1,218,700.
- For estates of any decedent passing away in calendar year 2024, the basic exclusion amount is \$13,610,000.
- For 2024, the foreign earned income exclusion will be \$126,500.
- The maximum earned income credit amount will be \$7,830 for taxpayers with three or more qualifying children for 2024.
- You may be able to claim the earned income credit for 2024 (taxes filed in 2025) if (1) you do not have a qualifying child and you earned less than \$18,591 (\$25,511 if married filing jointly); (2) a qualifying child lived with you and you earned less than \$49,084 (\$56,004 if married filing jointly); (3) two qualifying children lived with you and you earned less than \$55,768 (\$62,688 if married filing jointly); or (4) three or more qualifying children lived with you and you earned less than \$59,899 (\$66,819 if married filing jointly). The maximum earned income credit for 2024 is (1) \$632 with no qualifying children; (2) \$4,213 with one qualifying child; (3) \$6,960 with two qualifying children; and (4) \$7,830 with three or more qualifying children.
- For contributions in 2024 to a traditional IRA, the deduction phaseout income range for an individual covered by a retirement plan at work runs between \$123,000 and \$143,000 for joint filers and \$77,000 and \$87,000 for a single person or head of household. These ranges increase in 2025. The range for joint filers will run between \$126,000 and \$146,000. The range for a single person or head of household will run between \$79,000 and \$89,000.
- The dollar limit on annual elective deferrals an individual could make to a 401(k) or 403(b) retirement plan is \$23,000 for 2024. It increases to \$23,500 for 2025.
- The catch-up contribution limit on elective deferrals to a 401(k) or 403(b) retirement plan for individuals who had attained age 50 by the end of the year was \$7,500 for 2024 and remains \$7,500 for 2025. For 2025, the new

additional catchup contribution is available for participants aged 60, 61, 62 or 63, raising their limit to \$11,250.

- The IRS has announced that it will not issue private letter rulings addressing the following questions: (1) Whether an individual is a minister of the gospel for federal tax purposes; (2) eligibility for a parsonage exclusion or housing allowance; (3) eligibility for exemption from self-employment taxes; (4) self-employed status for Social Security; or (5) exemption of wages from income tax withholding; and (6) whether amounts distributed to a retired minister from a pension or annuity plan are excludible from the minister's gross income as a parsonage allowance.
- Many churches employ retired persons who are receiving Social Security benefits. Persons younger than full retirement age may have their Social Security retirement benefits cut if they earn more than a specified amount. Full retirement age (the age at which you are entitled to full retirement benefits) for persons born in 1943–1954 is 66 years and for persons born in 1960 or later it is 67. If you are under full retirement age for the entire year, \$1 is deducted from your benefit payments for every \$2 you earn above the annual limit. That limit is \$22,320 for 2024 and \$23,400 for 2025.
- In the year you reach full retirement age, your monthly benefit payments are reduced by \$1 for every \$3 you earn above a different limit. For 2024 that limit was \$59,520 (\$4,960 per month) and in 2025 \$62,160 (\$5,180 per month) but only earnings before the month you reach full retirement age are considered for the benefit reduction. Starting in the month you reach full retirement age, earnings no longer create a reduction in your Social Security benefits. However, the determination of the reduction in benefits due to earnings most likely affects the amount of benefits paid in a following year. Since there is no ability for the determination of the reduction amount to be made at the point of earnings, it is determined on a lookback method with a reduction in future benefits applied.
- In March 2019 a three-judge panel of a federal appeals court (the Seventh Circuit Court of Appeals) unanimously affirmed the constitutionality of the ministers' housing allowance. *Gaylor v. Mnuchin*, 919 F.3d 420 (7th Cir. 2019). No further legal challenges to the housing allowance occurred in 2024.

Preliminary Questions

Below are several questions you should consider before preparing your 2024 federal tax return.

Q. Must ministers pay federal income taxes?

A. Yes. Ministers are not exempt from paying federal income taxes.

Q. How much income must I earn to be required to file a tax return?

A. Generally, ministers are required to file a federal income tax return if they have earnings of \$400 or more to report their self-employment tax. Different rules apply to ministers who are exempt from self-employment taxes.

Q. What records should I keep?

A. You should keep all receipts, canceled checks, and other evidence to prove amounts you claim as deductions, exclusions, or credits. Documentation should be maintained for six years from the time you file your tax return. Since much of this documentation is now provided in an electronic format, remember to save PDF copies of bills, receipts, and other documentation supporting your tax return.

Q. What is the deadline for filing my federal income tax return?

A. File a 2024 Form 1040 (or Form 1040–SR, U.S. Tax Return for Seniors) and pay any tax due by April 15, 2025. If you live in Maine or Massachusetts, you may file by April 17, 2025, because of the Patriots’ Day and Emancipation Day holidays. If you file after this date, you may have to pay interest and penalties. If you want an automatic six-month extension of time to file the return, file Form 4868 and pay what you estimate you owe in tax to avoid penalties and interest.

Your return is filed on time if it is properly addressed and postmarked no later than the due date or submitted electronically by midnight on the filing due date. The return must have sufficient postage to be considered timely mailed.

TIP Many post offices will have extended hours of operation on April 15, 2025, to accommodate filers. However, to avoid complications with mailing and any issues with the IRS processing paper returns, explore ways to electronically file your tax return and avoid the post office altogether.

TIP If you reside in an area that has experienced a natural disaster, be sure to confirm any applicable filing deadlines. The occurrence of a federally declared disaster will many times initiate automatic extensions of due dates to affected taxpayers. The IRS provides information by year and by

state at <https://www.irs.gov/newsroom/tax-relief-in-disaster-situations>. For example, due to Hurricanes Helene and Milton, the due date for filing Form 1040 for taxpayers in designated areas is May 1, 2025. These extensions will also apply to due dates for tax payments.

Q. What if I am unable to file my tax return by the deadline?

- A. You can obtain an automatic six-month extension (to October 15, 2025) to file your 2024 Form 1040 if you file Form 4868 by April 15, 2025, with the IRS service center for your area. Your Form 1040 can be filed at any time during the six-month extension period. An extension only relieves you from the obligation to *file your return*; it is not an extension of the obligation to pay your taxes. You must make an estimate of your tax for 2024 and pay the estimated tax either with your Form 4868 or through one of the electronic payment methods.

Q. Should I prepare my own tax return?

- A. The answer depends on your ability and experience in working with financial information and in preparing tax returns. Keep in mind: Ministers' taxes present several unique rules, but these rules are not complex. Many ministers will be able to prepare their own tax returns if they understand the unique rules that apply. These rules are summarized in this document. Easily accessible tax software will also accommodate the unique rules applicable to ministers, but it does not relieve a minister from understanding the rules to accurately utilize the software. On the other hand, if you experienced unusual events in 2024, such as the sale or purchase of a home or the sale of other capital assets, it may be prudent to obtain professional tax assistance. The IRS provides a service called [Taxpayer Assistance](#), but the IRS is not liable in any way if its agents provide you with incorrect answers to your questions. Free taxpayer publications are available from the IRS and many of these are helpful to ministers.

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

- Ask other ministers in your community for their recommendations.
- If possible, use a CPA who specializes in tax law and who is familiar with the rules that apply to ministers. A CPA has completed a rigorous educational program and is subject to strict ethical requirements. However, the tax law is complex and so it should not be assumed that all CPAs are familiar with the unique rules applicable to ministers.

- Ask local tax professionals if they work with ministers and, if so, with how many.
- Ask local tax professionals a few questions to test their familiarity with ministers' tax issues. For example, ask whether ministers are employees or self-employed for Social Security. Anyone familiar with ministers' taxes will know that ministers are self-employed for Social Security with respect to their ministerial duties. Or ask a tax professional if a minister's church salary is subject to income tax withholding. The answer is no, and anyone familiar with ministers' taxes should be able to answer this question.

PART 2

SPECIAL RULES FOR MINISTERS

Who is a minister for federal tax purposes?

KEY POINT The IRS has its own criteria for determining who is a minister for tax purposes. The criteria the IRS uses to determine who is a minister are not necessarily the same as those used by churches and denominations. Whether or not one qualifies as a minister for tax purposes is an important question since special tax and reporting rules apply to ministers under federal tax law. These rules include:

- eligibility for housing allowances and the parsonage exclusion;
- self-employed status for Social Security;
- exemption of wages from income tax withholding (ministers use the quarterly estimated tax procedure to prepay their taxes, unless they elect voluntary withholding); and
- eligibility, under very limited circumstances, to exempt themselves from self-employment taxes.

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

EXAMPLE Pastor J is an ordained minister employed by a church. In addition, he works a second job for a secular employer. Assume that Pastor J qualifies as a minister for federal tax purposes. Since his church duties constitute services performed in the exercise of ministry, the church can designate a portion of his compensation as a housing allowance. However, the secular employer cannot designate any portion of Pastor J's compensation as a housing allowance since this work would not be the exercise of ministry.

According to the IRS, ministers are individuals who are duly ordained, commissioned, or licensed by a religious body constituting a church or church denomination. They are given the authority to conduct religious worship, perform sacerdotal functions, and administer ordinances or sacraments according to the tenets and practices of that church or denomination. If a church or denomination ordains some ministers and licenses or commissions others, anyone licensed or commissioned must be able to perform substantially all the religious functions of an ordained minister to be treated as a minister for tax purposes. See *IRS Publication 517*.

Are ministers employees or self-employed for federal tax purposes?

KEY POINT Most ministers are employees for federal income tax purposes under the tests currently used by the IRS and the courts and should receive a Form W-2 from their church reporting their taxable income. However, ministers are self-employed for Social Security with respect to services they perform in the exercise of their ministry (except for some chaplains).

Ministers have a *dual* tax status. For federal income taxes they ordinarily are employees, but for Social Security they are self-employed with regard to services performed in the exercise of their ministry. These two rules are summarized below:

Income taxes

For federal income tax reporting, most ministers are employees under the tests currently used by the IRS and the courts. This means that they should receive a Form W-2 from their church at the end of each year (rather than a Form 1099-NEC). Formerly, it meant that they reported their employee business expenses on Schedule A rather than on Schedule C. (The deduction for employee business expenses as a miscellaneous itemized deduction on Schedule A is suspended through 2025, so unreimbursed employee business expenses are not deductible at this time.)

A few ministers are self-employed, such as some traveling evangelists and some interim pastors. Also, many ministers who are employees of a local church are self-employed for other purposes. For example, the minister of a local church almost always will be an employee but will be self-employed regarding guest-speaking appearances in other churches and services performed directly for individual members (such as weddings and funerals).

EXAMPLE Pastor B is a minister at First Church. She is an employee for federal income tax reporting purposes with respect to her church salary. However, she is self-employed with respect to honoraria she receives for speaking in other churches and for compensation church members give her for performing personal services such as weddings and funerals. The church issues Pastor B a Form W-2 reporting her church salary. Pastor B reports this amount as wages on line 1 of Form 1040. She reports her compensation and expenses from the outside self-employment activities on Schedule C.

KEY POINT Most ministers will be better off financially being treated as employees, since the value of some fringe benefits will be tax-free, the risk of an IRS audit is substantially lower, and reporting as an employee avoids the additional taxes and penalties that often apply to self-employed ministers who are audited by the IRS and reclassified as employees.

KEY POINT Ministers and other church staff members should carefully review their Form W-2 to be sure it does not report more income than was actually received or fails to report taxable benefits provided by the church. If an error was made, the church should issue a corrected tax form (Form W-2c). If the church refuses to correct the income reported on the original Form W-2, the minister should still include the additional income on the Form 1040.

The Tax Court Test. The United States Tax Court has created a seven-factor test for determining whether a minister is an employee or self-employed for federal income tax reporting purposes. The test requires consideration of the following seven factors: (1) the degree of control exercised by the employer over the details of the work; (2) which party invests in the facilities used in the work; (3) the opportunity of the individual for profit or loss; (4) whether or not the employer has the right to discharge the individual; (5) whether the work is part of the employer's regular business; (6) the permanency of the relationship; and (7) the relationship the parties believe they are creating. Most ministers will be employees under this test.

Social Security

The federal tax code treats ministers as self-employed for Social Security with respect to services performed in the exercise of their ministry—even if they report their income taxes as an employee. This means that ministers must pay self-employment taxes (Social Security taxes for the self-employed) unless they have timely filed an exemption

application (Form 4361) that has been approved by the IRS. As noted below, few ministers qualify for this exemption.

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

Exemption from self-employment (Social Security) taxes

If ministers meet several requirements, they may exempt themselves from self-employment taxes with respect to their ministerial earnings. Among other things, the exemption application (Form 4361) must be submitted to the IRS within a limited time period. The deadline is the due date of the federal tax return for the second year in which a minister has net earnings from self-employment of \$400 or more, any part of which comes from ministerial services. Further, the exemption is available only to ministers who are opposed based on religious considerations to the acceptance of benefits under the Social Security program (or any other public insurance system that provides retirement or medical benefits). A minister who files the exemption application may still purchase life insurance or participate in retirement programs administered by nongovernmental institutions (such as a life insurance company). Additionally, the exemption does not require ministers to revoke all rights to Social Security benefits earned through their participation in the system through secular employment.

A minister's opposition must be to accepting benefits under Social Security (or any other public insurance program) which are related to services performed as a minister. Economic, or any other nonreligious considerations, are not a valid basis for the exemption, nor is opposition to paying the self-employment tax.

The exemption is only effective when approved by the IRS. Few ministers qualify for the exemption. Many younger ministers opt out of the self-employment tax without realizing that they do not qualify for the exemption. A decision to opt out of self-employment tax is irrevocable. But section 4.19.6.4.11.3 (02-13-2020) of the IRS's *Internal Revenue*

Manual explicitly recognizes that, under some conditions, ministers who have exempted themselves from self-employment taxes solely for economic reasons can revoke their exemption. The IRS does have the authority to revoke a minister's decision to opt out of self-employment tax, if it is determined the decision is based on economic reasons rather than theological reasons. Check with a tax attorney or CPA for additional information.

An exemption from self-employment taxes applies only to compensation for ministerial services. Ministers who have exempted themselves from self-employment taxes must pay Social Security taxes on any nonministerial compensation they receive. And they remain eligible for Social Security benefits based on their nonministerial employment, assuming they have worked enough quarters. Generally, 40 quarters are required. Ministers who exempt themselves from self-employment taxes may qualify for Social Security benefits (including retirement and Medicare) based on their spouse's coverage, if the spouse had enough credits.

KEY POINT The amount of earnings required for a quarter of coverage in 2024 is \$1,730. In 2025, it increases to \$1,810. A quarter of coverage is the basic unit for determining whether a worker is insured under the Social Security program.

KEY POINT Ministers who work after they retire must continue to pay self-employment tax on their ministerial income and wages (unless they exempted themselves from self-employment tax as a minister and they are employed in a ministerial capacity). However, amounts received from retirement plans related to ministerial services are not subject to self-employment tax, including amounts paid from retirement plans designated as housing allowance.

How do ministers pay their taxes?

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

As noted above, ministers' wages are exempt from federal income tax withholding. This means that a church may not withhold income taxes from a minister's paycheck without specific written permission. And, since ministers are self-employed for Social Security with respect to their ministerial services, a church does not withhold the employee's share of Social Security and Medicare taxes from a minister's wages. Ministers must prepay

their income taxes and self-employment taxes using the estimated tax procedure unless they enter into a voluntary withholding arrangement with their church.

Estimated taxes must be paid in quarterly installments. If your estimated tax paid for the current year is less than your actual tax, you may have to pay an underpayment penalty. You can amend your estimated tax payments during the year if your circumstances change. For example, if your income or deductions increase unexpectedly, you should refigure your estimated tax liability for the year and amend your remaining quarterly payments accordingly.

You will need to make estimated tax payments for 2025 if (1) you expect to owe at least \$1,000 in tax for 2025 after subtracting your withholding and refundable credits, and (2) you expect your withholding and refundable credits to be less than the smaller of (i) 90 percent of the tax to be shown on your 2025 tax return, or (ii) 100 percent of the tax shown on your 2024 tax return (110 percent if adjusted gross income exceeds \$150,000, or if married filing separately, more than \$75,000). Your 2024 tax return must cover all 12 months.

The four-step procedure for reporting and paying estimated taxes for 2025 is summarized below.

Step 1

Compute your estimated tax for 2025 using the Form 1040-ES worksheet. Ministers' quarterly estimated tax payments should take into account both income taxes and self-employment taxes. A refund associated with an overpayment of your taxes for 2024 may be applied to your estimated tax payments due for 2025.

Step 2

For estimated tax purposes, the year is divided into four payment periods. Each period has a specific payment due date. If you don't pay enough tax by the due date of each of the payment periods, you may be charged a penalty even if you are due a refund when you file your income tax return. Pay one-fourth of your total estimated taxes for 2025 in each of four quarterly installments as follows:

FOR THE PERIOD	DUE DATE
January 1–March 31	April 15, 2025
April 1–May 31	June 16, 2025
June 1–August 31	September 15, 2025
September 1–December 31	January 15, 2026

If the due date for making an estimated tax payment falls on a Saturday, Sunday, or legal holiday, the IRS says the payment will be on time if it is made on the next day that’s not a Saturday, Sunday, or legal holiday. If you reside in an area affected by a federally declared disaster, then these dates may be affected by any special extensions granted as a result of the declaration. See more information in Part 1.

Step 3

There are several ways to make your quarterly payment, including:

IRS Direct Pay. For online transfers directly from your checking or savings account at no cost to you, go to [IRS.gov/Payments](https://www.irs.gov/Payments).

Pay by Card. To pay by debit or credit card, go to [IRS.gov/Payments](https://www.irs.gov/Payments). A convenience fee is charged by these service providers.

Electronic Fund Withdrawal (EFW). EFW is an integrated e–file/e–pay option offered when filing your federal taxes electronically using tax preparation software, through a tax professional, or the IRS at [IRS.gov/Payments](https://www.irs.gov/Payments).

EFTPS. Enroll in the Electronic Federal Tax Payment System at www.eftps.gov and establish an online account to be used to submit payments. If enrolled in the EFTPS system, all four payments may be prescheduled for automatic payment at the scheduled dates.

Pay by check using an estimated tax payment voucher. If you choose this method, note that there is a separate estimated tax payment voucher for each quarterly due date. The due date is shown in the upper right corner. Complete and send in the voucher only if you are making a payment by check or money order. If you and your spouse plan to file separate returns, file separate vouchers instead of a joint voucher. If you paid estimated

taxes last year, you should receive a copy of your 2025 Form 1040–ES in the mail with payment vouchers preprinted with your name, address, and Social Security number. These payments should be mailed to the IRS with certified return receipt to provide for proof of timely filing.

CAUTION If your 2024 tax return is not completed by April 15, 2025, you must begin making your estimated tax payments to avoid potential underpayment penalties. A tax refund on your 2024 tax return can be used to adjust any estimated tax payment not made at the time of the filing of the return. Do not wait until your 2024 return is completed to determine and pay your 2025 estimated tax payments.

Step 4

After the close of 2025, compute your actual tax liability on Form 1040. Only then will you know your actual income, deductions, exclusions, and credits. If you overpaid your estimated taxes (that is, actual taxes computed on Form 1040 are less than your estimated tax payments plus any withholding), you can elect to have the overpayment credited against your first 2026 quarterly estimated tax payment or spread it out in any way you choose among any or all of your next four quarterly installments. Alternatively, you can request a refund of the overpayment. If you underpaid your estimated taxes (that is, your actual tax liability exceeds the total of your estimated tax payments plus any withholding), you may have to pay a penalty.

KEY POINT Ministers who report their income taxes as employees can request that their employing church voluntarily withhold income taxes from their wages. Simply furnish the church with a completed W–4 (withholding allowance certificate) or other written authorization. Since ministers are not employees for Social Security with respect to ministerial compensation, the church may not withhold the employee’s share of Social Security and Medicare taxes. However, ministers can request on Form W–4 (line 4c) that an additional amount of income tax be withheld to cover their estimated self–employment tax liability for the year. The excess income tax withheld is a credit that is applied against the minister’s self–employment tax liability. Many churches unintentionally withhold Social Security and Medicare taxes in addition to income taxes for a minister who requests voluntary withholding. Such withholding must be reported as income tax withheld. Withholding income tax is a preferential method of paying taxes, since it is considered to have been equally paid throughout the year, no matter the date it is actually withheld. This means withholding can be adjusted later in the year, and it is treated as if it was paid evenly throughout the year, thus avoiding potential underpayment penalties.

PART 3

STEP-BY-STEP TAX RETURN PREPARATION

Tax forms and schedules

This step-by-step analysis covers these forms and schedules:

Form 1040 is the basic document you will use. It summarizes all your tax information. Details are reported on supplementary schedules and forms.

Schedule A is for itemized deductions for medical and dental expenses, taxes, interest, certain disaster-related casualty losses and charitable contributions.

Schedule B is for reporting dividend and interest income.

Schedule C is for reporting your income and expenses from business activities you conduct other than in your capacity as an employee. Examples would be fees received for guest speaking appearances in other churches or fees received directly from members for performing personal services, such as weddings and funerals.

Schedule SE is for reporting Social Security taxes due on your self-employment income. Ministers use this schedule since they are deemed self-employed for Social Security with respect to ministerial services (unless they have obtained an approved Form 4361 from the IRS).

These forms and schedules, along with others, are included in the illustrated example in Part 4 of this guide. These forms and schedules are the ones most commonly used by ministers. You can order them at <https://www.irs.gov/forms-pubs/forms-and-publications-by-us-mail> or obtain them by calling the IRS at 800-TAX-FORM (800-829-3676). They also are available on the IRS website ([irs.gov](https://www.irs.gov)).

Form 1040

SPECIAL NOTE The US Treasury is seeking various new laws and reporting requirements related to digital assets, such as cryptocurrencies. As a part of this effort, every taxpayer is required to answer a question on page 1 of the Form 1040 regarding transactions involving digital assets. A “yes” response is required if a taxpayer has received payment for property or services utilizing a digital asset or disposed of digital assets in any manner.

Step 1: Filing status

Select the appropriate filing status from the five options listed in this section of Form 1040.

Step 2: Name and address

Print or type the information in the spaces provided. If you are married filing a separate return, enter your spouse’s name in the space provided in the “Filing Status” section at the top of the Form 1040. If you filed a joint return for 2023 and you are filing a joint return for 2024 with the same spouse, be sure to enter your names and Social Security numbers in the same order as on your 2023 return.

If you plan to move after filing your return, use Form 8822 to notify the IRS of your new address.

If you (or your spouse) changed your name because of marriage, divorce, etc., be sure to report the change to the Social Security Administration (SSA) before filing your return. This prevents delays in processing your return and issuing refunds. It also safeguards your future Social Security benefits. If a name change with the SSA has not been completed, the name on SSA file must be used in filing your tax return.

Enter your P.O. Box number only if your post office does not deliver mail to your home.

For taxpayers with foreign mailing addresses, spaces have been added to include the name of the foreign country/province/state and a foreign postal code.

If you want \$3 to go to the presidential election campaign fund, check the box labeled “you.” If you are filing a joint return, your spouse can also have \$3 go to the fund (check “spouse”). If you check a box, your tax or refund will not change.

Step 3: Dependents

In the past, taxpayers were allowed a deduction for personal exemptions. An exemption is a dollar amount that can be deducted from an individual's total income, thereby reducing taxable income. This deduction was suspended by Congress for tax years 2018 through 2025. Although the exemption amount is zero, the ability to claim a dependent may make taxpayers eligible for other tax benefits, including the Child Tax Credit, educational credits, medical expenses, the Child and Dependent Care Credit, and the Earned Income Credit (EIC), to name a few.

Step 4: Income

Several items of income are reported on Lines 1 through 8 of Form 1040, including amounts carried over from Schedule 1, Lines 1–10. The most important of these (for ministers) are discussed below.

KEY POINT Some items, such as the housing allowance, are not reported as income. They are called *exclusions* and are explained below.

Line 1a. Wages, salaries, tips, etc.

As an employee, you should receive a Form W–2 from your church reporting your wages at the end of each year. Report this amount on Line 1a.

Determining church wages or salary. Besides a salary, ministers' wages reported on Form W–2 may include several other items, including the following:

- Bonuses
- The cost of sending a minister to the Holy Land (if paid by the church)
- Most Christmas and special occasion offerings
- The portion of a minister's self-employment tax paid by a church
- Personal use of a church-owned vehicle
- Purchases of church property for less than fair market value
- Business expense reimbursements under a nonaccountable plan
- Imputed cost of group term life insurance coverage exceeding \$50,000.

- The cost of life insurance provided outside of a group plan if not considered as “key man” life insurance
- Church reimbursements of a spouse’s travel expenses incurred while accompanying a minister on a business trip (unless the spouse’s presence serves a legitimate business purpose and the spouse’s expenses are reimbursed under an accountable arrangement)
- “Discretionary funds” established by a church for a minister to spend on current needs—if the minister is allowed to distribute funds for his or her personal benefit or does not have to account for the funds in an arrangement similar to an accountable expense reimbursement plan
- “Imputed interest” from “below-market interest loans” of at least \$10,000 made by a church to a minister (some exceptions apply)
- Cancellation of a minister’s debt to a church
- Severance pay
- Payment of a minister’s personal expenses by the church
- “Love gifts” or other special occasion gifts (i.e., most “gifts” from a church to a pastor commemorating a holiday, birthday, anniversary, or retirement).

If some of these items were not reported on your Form W-2, they still must be reported as income. Your church should issue a “corrected” Form W-2 (Form W-2c) for the year in which one or more items of taxable income were not reported on your original Form W-2. If you receive a Form W-2c and have filed an income tax return for the year shown, you may have to file an amended return. Compare amounts on Form W-2c with those reported on your income tax return. If the corrected amounts change your US income tax, file Form 1040X, Amended US Individual Income Tax Return, with Copy B of Form W-2c to amend the return you previously filed. Even if the church does not issue Form W-2c, the additional items of income should be included on the original or an amended Form 1040. You, the taxpayer, have the ultimate responsibility to report all taxable income, even if your church does not properly report the income.

In addition to what is reported on Form W-2 (or Form W-2c), Line 1h will report the amount of excess housing allowance (the amount by which the housing allowance exceeds the lesser of the minister’s housing expenses or the fair rental value of the minister’s home plus utilities).

KEY POINT The IRS can assess *intermediate sanctions* in the form of substantial excise taxes (i.e., monetary penalties) against ministers who benefit from an excess benefit transaction. Sanctions only apply to a minister who is a “disqualified person” (meaning an officer, director, or other control party as well as relatives of such persons). In some cases, the IRS can assess additional penalties against members of a church board that approved an excess benefit transaction.

Excess benefit transactions may occur if a church pays a minister an excessive salary, makes a large retirement or other special occasion “gift” to a minister, gives church property (such as a parsonage) to the minister, loans money to the minister, or sells church property to the minister at an unreasonably low price. Sanctions may be avoided if a transaction or an item of compensation is approved by an independent board on the basis of outside “comparable data” such as independent compensation surveys or fair market evaluations, and the basis for the board’s decision is documented.

KEY POINT The IRS has ruled that disqualified persons receive “automatic” excess benefits resulting in intermediate sanctions, regardless of amount, if they use church assets (vehicles, homes, credit cards, computers, etc.) for personal purposes, or receive nonaccountable expense reimbursements (not supported by adequate documentation of business purpose), unless such benefits are reported as taxable income by the church on the disqualified person’s Form W-2, or by the disqualified person on his or her Form 1040 for the year in which the benefits are provided. The concept of automatic excess benefits directly affects the compensation practices of most churches and exposes some ministers and church board members to intermediate sanctions.

Excess benefits are required to be repaid to the church. Ministers also face a “first-tier” penalty of 25 percent of the amount of the excess benefit from the IRS, plus an additional “second-tier” tax of 200 percent of the excess benefit from the IRS if it was not timely returned to the church.

Items not reported on line 1. Some kinds of income are not taxable. These items are called *exclusions*. Most exclusions apply in computing both income taxes and self-employment taxes. The housing allowance is an example of an exclusion that applies only to income taxes and not to self-employment taxes. Some of the more common exclusions for ministers include:

Gifts. Gifts, as defined by the Internal Revenue Code and the courts, are excludable from taxable income so long as they are not compensation for services. However, employers are not permitted to give tax-free gifts to employees. Likewise, the IRS and the courts have ruled that gifts ministers receive directly from members of their congregations may not always be excluded as gifts from taxable income. Before excluding gifts from taxable income, the minister should consult with a tax professional.

Life insurance and inheritances. Life insurance proceeds and inheritances are excludable from taxable income. Income earned before distributions of proceeds is generally taxable as income.

Employer-paid group life insurance. Employees may exclude the cost of employer-provided group term life insurance so long as the amount of coverage does not exceed \$50,000. (This exclusion does not apply to individual life insurance policies provided outside of a “group” arrangement.)

Tuition reductions. School employees may exclude from their taxable income a “qualified tuition reduction” provided by their employer. A qualified tuition reduction is a reduction in tuition charged to employees or their spouses or dependent children by an employer that is an educational institution.

- Highly compensated employees cannot exclude qualified tuition reductions from their gross income unless the same benefit “is available on substantially similar terms” to non-highly compensated employees. For 2024, the term *highly compensated employee* refers to any employee whose annual compensation for the “look-back” year of 2023 exceeded \$150,000. The fact that a highly compensated employee must report the value of a tuition reduction in his or her income for tax reporting purposes does not affect the right of employees who are not highly compensated to exclude the value of tuition reductions from their income.
- **NEW IN 2025** For 2025, a highly compensated employee is an employee who received \$155,000 or more in compensation during the “look-back” year of 2024.

Lodging. The value of lodging furnished to a minister (i.e., a parsonage) is excluded from income. This exclusion is not available in the computation of self-employment taxes. The value of lodging furnished to a nonminister employee on an employer’s premises and for the employer’s convenience may be excludable from taxable income if the employee is required to accept the lodging as a condition of employment.

Educational assistance. Amounts paid by an employer for an employee’s tuition, fees, and books may be excludable from the employee’s taxable income if the church has

adopted a written educational assistance plan. The exclusion may not exceed \$5,250 per year.

Employer–provided childcare. Churches may provide childcare to employees through free or reduced fees at a church’s childcare facility or may reimburse employees for out–of–pocket costs for dependent care if the church has adopted a dependent care plan. The exclusion may not exceed \$5,000 per year. The amount of employer provided childcare must be considered in calculating the Child and Dependent Care Credit available on an employee’s Form 1040. The total benefits, both tax free and taxable, provided through the plan are reported on the employee’s Form W–2 in Box 10.

KEY POINT Some exclusions are available only to taxpayers who report their income taxes as employees and not as self–employed persons. Many, however, apply to both employees and self–employed persons.

There are four other exclusions that are explained below—the housing allowance, tax–sheltered annuities, qualified scholarships, and sale of a home.

Housing Allowance

KEY POINT The housing allowance was challenged in federal court as an unconstitutional preference for religion. In 2019, a federal appeals court rejected the challenge and affirmed the constitutionality of the housing allowance. No further legal challenges have been brought as of when this publication went to print.

The most important tax benefit available to ministers who own or rent their homes is the housing allowance exclusion. Ministers who own or rent their home do not pay federal income taxes on the amount of their compensation that their employing church designates in advance as a housing allowance, to the extent that (1) the allowance represents compensation for ministerial services, (2) it is used to pay housing expenses (see below), and (3) it does not exceed the fair rental value of the home (furnished, plus utilities).

A church cannot designate a housing allowance retroactively. Some churches fail to designate housing allowances prospectively and thereby deprive ministers of an important tax benefit.

Ministers who live in a church–owned parsonage do not pay federal income taxes on the fair rental value of the parsonage.

TAX SAVINGS TIP Ministers who live in a church parsonage and incur any out-of-pocket expenses in maintaining the parsonage (such as utilities, property taxes, insurance, furnishings, or lawn care) should be sure that their employing church designates, in advance, a portion of their annual church compensation as a parsonage allowance. The amount so designated is not reported as wages on the minister's Form W-2 at the end of the year (if the allowance exceeds the actual expenses, the difference must be reported as income by the minister). This is an important tax benefit for ministers living in a church-provided parsonage. Unfortunately, many of these ministers are not aware of this benefit or are not taking advantage of it.

TAX SAVINGS TIP Ministers who own their homes lose the largest component of their housing allowance exclusion when they pay off their home mortgage loan. Many ministers in this position have obtained home equity loans, or a conventional loan secured by a mortgage on their otherwise debt-free home and have claimed their payments under these kinds of loans as a housing expense in computing their housing allowance exclusion. The Tax Court has ruled that this is permissible only if the loan proceeds were spent on housing-related expenses.

TAX SAVINGS TIP Ministers should be sure that the designation of a housing or parsonage allowance for the next year is on the agenda of the church membership (or church board) for one of its final meetings during the current year. The designation should be an official action, and it should be duly recorded in the minutes of the meeting. The IRS also recognizes designations included in employment contracts and budget line items—assuming in each case that the designation was appropriately adopted in advance by the church.

If a designation is made after the start of a new calendar year, remember that it can only operate prospectively.

The rental value of a parsonage, and a housing allowance, are exclusions only for federal income tax reporting purposes. Ministers cannot exclude a housing allowance or the fair rental value of a parsonage when computing self-employment (Social Security) taxes *unless they are retired*. The tax code specifies that the self-employment tax does *not* apply to “the rental value of any parsonage or any parsonage allowance provided after the [minister] retires.”

The tax treatment of a housing allowance varies by state, so ministers should check their state income tax rules to determine eligibility for a housing allowance or parsonage exclusion.

The housing allowance is available to ministers whether they report their income taxes as employees or as self-employed (whether the church issues them a Form W-2 or a Form 1099-NEC).

Housing expenses to include in computing your housing allowance exclusion

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

- Down payment on a home (since a housing allowance is nontaxable only to the extent that it does not exceed the lesser of the housing allowance designated by the church, actual housing expenses, or the fair rental value of a minister's home, as furnished, plus utilities, it is often difficult to exclude the full amount of a down payment for a new home.)
- Mortgage payments on a loan to purchase or improve your home (include both interest and principal)
- Rent
- Real estate taxes
- Property insurance
- Utilities (electricity, gas, water, trash pickup, land-line telephone charges)
- Furnishings and appliances (purchase and repair)
- Structural repairs and remodeling
- Yard maintenance and improvements
- Maintenance items (pest control, etc.)
- Homeowners association dues

KEY POINT In 2007 the Tax Court characterized internet expenses as utility expenses. This suggests that a housing allowance may be used to pay for internet expenses (i.e., internet access, cable television). Neither the IRS nor the Tax Court has addressed this issue directly, so be sure to check with a tax professional about the application of a housing allowance to these expenses.

Please note the following:

- A housing allowance must be designated in advance. Retroactive designations of housing allowances are not effective.
- The housing allowance designated by the church is not necessarily nontaxable. It is nontaxable (for income taxes) only to the extent that it is used to pay for housing expenses, and, for ministers who own or rent their home, does not exceed the fair rental value of their home (as furnished, plus utilities).
- A housing allowance can be amended during the year if a minister's housing expenses are more than expected. However, an amendment is only effective prospectively. Ministers should notify their church if their actual housing expenses are significantly more than the housing allowance designated by the church. But note that it serves no purpose to designate a housing allowance greater than the fair rental value of a minister's home (as furnished, plus utilities).
- If the housing allowance designated by the church exceeds housing expenses or the fair rental value of a minister's home, the excess housing allowance should be reported on Line 1a of Form 1040.
- The housing allowance exclusion is an exclusion for federal income taxes only. Ministers must add the housing allowance as income in reporting self-employment taxes on Schedule SE (unless they are exempt from self-employment taxes).
- The fair rental value of a church-owned home provided to a minister as compensation for ministerial services is not subject to federal income tax.

EXAMPLE A church designated \$25,000 of Pastor D's 2024 compensation as a housing allowance. Pastor D's housing expenses for 2024 were utilities of \$4,000, mortgage payments of \$18,000, property taxes of \$4,000, insurance payments of \$1,000, repairs of \$1,000, and furnishings of \$1,000. The fair rental value of the home (including furnishings, but not including utilities) is \$19,000. Pastor D's housing

allowance is nontaxable in computing income taxes only to the extent that it is used to pay housing expenses and does not exceed the fair rental value of her home (furnished, plus utilities). Stated differently, the nontaxable portion of a housing allowance is the least of the following three amounts: (1) the housing allowance designated by the church; (2) actual housing expenses; or (3) the fair rental value of the home (furnished, plus utilities). In this case, the lowest of these three amounts is the fair rental value of the home, furnished plus utilities (the \$19,000 for the fair rental value of the home, including furnishings, plus the \$4,000 for utilities, for a total of \$23,000), and so this represents the nontaxable portion of Pastor D's housing allowance. Pastor D must report the difference between this amount and the housing allowance designated by her church (\$2,000) as additional income on Line 1a of Form 1040.

EXAMPLE Same facts as the previous example, except the church designated \$12,000 of Pastor D's salary as a housing allowance. The lowest of the three amounts in this case would be \$12,000 (the church designated housing allowance) and so this represents the nontaxable amount. Note that Pastor D's actual housing expenses were more than the allowance, and so she was penalized because of the low allowance designated by her church.

EXAMPLE Pastor Y owns a home and incurred housing expenses of \$12,000 in 2024. These expenses include mortgage (principal and interest), property taxes, utilities, insurance, and repairs. The church designated (in advance) \$12,000 of Pastor Y's 2024 compensation as a housing allowance. Pastor Y is able to itemize expenses on Schedule A (Form 1040). He is able to claim itemized deductions on Schedule A for both his mortgage interest and his property taxes (up to \$10,000), even though his taxable income was already reduced by these items because of their inclusion in the housing allowance. This is often referred to as the "double deduction." In fact, it represents an exclusion and a deduction.

EXAMPLE In preparing his income tax return for 2024, Pastor H discovers that his church failed to designate a housing allowance for him for 2024. He asks his church to pass a resolution retroactively granting the allowance for 2024. Such a resolution is ineffective, and Pastor H will not be eligible for any housing allowance exclusion in 2024.

KEY POINT Federal law makes it a crime to knowingly falsify any document with the intent to influence "the investigation or proper

administration of any matter within the jurisdiction of any department or agency of the United States . . . or in relation to or contemplation of any such matter or case,” and this provision contains no exemption for churches or pastors. It is possible that a pastor’s backdating of a board resolution to qualify for a housing allowance for the entire year is fraud and violates federal law, exposing the pastor to a fine or imprisonment. Even if the pastor’s action does not violate federal law under this provision, it may result in civil or criminal penalties under the tax code.

TAX SAVINGS TIP Ministers should be sure that the designation of a housing or parsonage allowance for the next year is on the agenda of the church board, membership, or appropriate committee for one of its final meetings during the current year. The designation should be an official action, and it should be duly recorded in the minutes of the meeting. The IRS also recognizes designations included in employment contracts and budget line items—assuming in each case that the designation was duly adopted in advance by the church.

How much should a church designate as a housing allowance?

KEY POINT The housing allowance is available only if three conditions are met: (1) the recipient is a minister for tax purposes (as defined above), (2) the allowance is compensation for services performed in the exercise of ministry, and (3) the allowance is properly designated by the church.

The IRS has stated that there are no limitations on how much of a minister’s compensation can be designated by his or her employing church as a housing allowance. However, as noted above, this means little, since the nontaxable portion of a church–designated housing allowance for ministers who own or rent their home cannot exceed the lesser of (1) actual housing expenses, or (2) the fair rental value of the home (furnished, plus utilities).

Many churches base the housing allowance on their minister’s estimate of actual housing expenses for the new year. The church provides the minister with a form on which anticipated housing expenses for the new year are reported. For ministers who own their homes, the form asks for projected expenses in the following categories: down payment, mortgage payments, property taxes, property insurance, utilities, furnishings and appliances, repairs and improvements, maintenance, and miscellaneous. Many churches designate an allowance in excess of the anticipated expenses itemized by the minister. Basing the allowance solely on a minister’s anticipated expenses penalizes the minister if

actual housing expenses turn out to be higher than expected. In other words, the allowance should consider unexpected housing costs or inaccurate projections of expenses.

Churches sometimes neglect to designate a housing allowance in advance of a new calendar year. For example, a church board may discover in March of 2025 that it failed to designate a housing allowance for its pastor for 2025. It is not too late to act. The church should immediately designate a portion of its minister's remaining compensation for 2025 as a housing allowance. This problem can be avoided by stipulating in each annual housing allowance designation that the allowance is for the current year *and all future years unless otherwise provided*. If such a resolution had been adopted in the December 2023 board meeting (i.e., "for 2024 and future years") it would not matter that the church neglected to designate a minister's 2025 allowance until March of 2025, since the previous designation would have "carried over." Such "safety net" designations are not a substitute for annual housing allowances (they have never been addressed or endorsed by the IRS or Tax Court). Rather, they provide a basis for claiming a housing allowance if a church neglects to designate one.

KEY POINT Churches cannot designate a housing allowance retroactively but only prospectively.

The IRS has ruled that a *retired minister* is eligible for a housing allowance exclusion if the following conditions are satisfied: (1) a portion of the retired minister's pension income is designated as a housing allowance by his or her church or the church pension board of a denominational pension fund; (2) the retired minister has severed his or her relationship with the local church and relies on the fund for a pension; (3) the pensions paid to retired ministers "compensate them for past services to the local churches of the denomination or to the denomination." Retired ministers who receive benefits from a denominational pension fund will be eligible in most cases to have some or all of their benefits designated in advance as a housing allowance. This is an attractive benefit for retired ministers that is not available with some other kinds of retirement plans. Retired ministers also can exclude from their gross income the rental value of a home (plus utilities) furnished to them by their church as a part of their pay for past services. A deceased minister's surviving spouse cannot exclude a housing allowance or rental value of a parsonage unless the allowance or parsonage is for ministerial services he or she performs or performed and they are a minister eligible to receive the benefit. Retired ministers who give up their ministerial credentials may also be challenged as to their ability to receive a housing allowance from retirement funds.

The self-employment tax does not apply to the rental value of a parsonage, or a housing allowance provided after a minister retires.

Section 403(b) plans

Payments made by your church and your salary reduction contributions to a 403(b) plan are not reportable income for income tax or self-employment tax purposes as long as the total amount credited to your retirement account does not exceed contribution limits under Sections 415(c) and 402(g) of the tax code.

Contribution limits

For 2024, total annual additions (employer contributions, salary reduction and after-tax paid contributions) could not exceed the lesser of 100 percent of your compensation (excluding a minister's housing allowance) or \$69,000. This rule is known as the "section 415(c) limit." The limit does not include the additional catch-up contributions of \$7,500 that may be contributed through elective deferrals by persons over 50. Excess contributions can result in income tax, additional taxes, and penalties. The effect of excess contributions depends on the type of excess contribution. The distributed excess amount may not be rolled over to another 403(b) plan or to an IRA.

NEW IN 2025 The limit on annual additions increases to \$70,000 for 2025 and the additional catch-up contributions for persons over 50 is \$7,500 and for those who are 60, 61, 62 or 63 the amount of catch-up contributions is \$11,250.

KEY POINT Catch-up contributions are not considered "annual additions" to a 403(b) plan and can be made in addition to the annual addition limitation. However, catch-up contributions must be designated and must be made to a plan allowing for catch-up contributions.

Minister's housing allowance and contribution limits

For 2025 the Section 415(c) limit restricts 403(b) contributions to the lesser of 100 percent of compensation or \$70,000. Does the term "compensation" include a minister's housing allowance? This is an important question for ministers, since the answer will determine how much can be contributed to a 403(b) plan.

If the housing allowance is treated as compensation, then ministers will be able to contribute larger amounts. The tax code specifies that the term "compensation" for purposes of applying the section 415(c) limit to a 403(b)(3) plan "means the participant's

includible compensation determined under section 403(b)(3).” Section 403(b)(3) defines compensation to include “the amount of compensation which is received from the employer . . . and which is includible in gross income.” Section 107 of the tax code specifies that a minister’s housing allowance (or the annual rental value of a parsonage) is *not* included in the minister’s gross income for income tax reporting purposes. Therefore, it would appear that the definition of compensation for purposes of computing the Section 415(c) limit would *not* include the portion of a minister’s housing allowance that is excludable from gross income, or the annual rental value of a parsonage. For many years the IRS website included the following question and answer addressing this issue:

Question. I am an employee minister in a local church. Each year, my church permits \$25,000 as a yearly tax-free housing allowance. I would like to use my yearly housing allowance as compensation to determine my annual contribution limits (to a TSA) under section 415(c) of the Internal Revenue Code. May I do so?

Answer. No. For purposes of determining the limits on contributions under section 415(c) of the Internal Revenue Code, amounts paid to an employee minister, as a tax-free housing allowance, may not be treated as compensation pursuant to the definitions of compensation under section 1.415-2(d) of the income tax regulations.

KEY POINT Churches that include the housing allowance as compensation when calculating the amount of the church’s contribution to 403(b) plans must perform an additional calculation to ensure the total contributions to the plan do not exceed the maximum contribution allowed under section 415(c). This is especially important for ministers who designate a significant portion of their income as housing allowance. It is possible that the amount of contribution required under a denomination plan is greater than the amount legally allowed under the law. In these instances, a church should contact its denominational offices for clarification on the correct amount to contribute to the plan.

KEY POINT Church employees can make a special election that allows their employer to contribute up to \$10,000 for the year, even if this is more than 100 percent of your compensation. The total contributions over your lifetime under this election cannot be more than \$40,000.

Taxation of distributions from a 403(b) plan

Amounts you contribute through employer discretionary contributions, employee salary reduction contributions, and the earnings attributable to these contributions, generally cannot be withdrawn until an employee:

- reaches age 59½
- has a severance from employment
- dies
- becomes disabled
- encounters financial hardship (see *IRS Publication 571*)

KEY POINT In the past, the distribution rules for 401(k) and 403(b) accounts were different in certain ways that are historical anomalies for varied reasons. For example, for 401(k) plans, all amounts were available for a hardship distribution. For 403(b) plans, in some cases, only employee contributions (without earnings) were available for hardship distributions. The SECURE 2.0 Act of 2022 conforms the 403(b) rules to the 401(k) rules, effective for plan years beginning after December 31, 2023.

Hardship distributions may be made from salary reduction contributions, including earnings, qualified nonelective employer contributions, and qualified and/or employer matching contributions. However, a 403(b) plan may make hardship distributions only if permitted by the plan and these new changes may require a church to amend its 403(b) plan prior to permitting hardship distributions from these additional resources.

Once amounts are distributed, they are generally taxable as ordinary income unless designated in advance as a minister's housing allowance. In addition, if amounts are distributed prior to your reaching age 59½, you will be assessed an additional tax of 10 percent of the amount which is includable in income unless one of several exceptions applies, including the following:

- The distributions are part of a series of substantially equal periodic payments made over your life or the lives of your beneficiaries and after you separate from service.
- The distributions are made after you separate from service in or after the year in which you reach age 55.
- The distributions do not exceed the amount of unreimbursed medical expenses that you could deduct for the current year.

- The distributions are made after your death, or after you become totally and permanently disabled.
- The distributions are made to an alternate payee pursuant to a qualified domestic relations order.
- The distribution is related to the birth or adoption of a child (limited)
- The distributions in connection with a federally declared disaster (limited)
- The distribution is made to someone who is terminally ill
- The distribution is related to a qualified disaster (limited)
- The distribution is related to an unforeseen emergency (limited)
- The distribution is related to a victim of domestic abuse (limited)

For certain taxpayers, a “required minimum distribution” (RMD) is the minimum amount you must withdraw from your account each year. Calculating your RMD can be difficult. Basically, it is the account balance as of the end of the immediately preceding calendar year, divided by a distribution period from the IRS’s “Uniform Lifetime Table.”

The beginning date for your first RMD for a 403(b) plan is April 1 of the year following the calendar year in which you obtain the applicable age. This age is determined based on a person’s year of birth. For those born between January 1, 1951, and January 1, 1960, the applicable age is 73 and for those born on or after January 1, 1960, the applicable age is 75. The IRS website contains helpful resources for computing your required distribution amounts and payouts and plan administrators maintain software to assist in determining the correct amount of the distribution based on the current law’s application to a person’s individual situation.

KEY POINT Many denominational pension plans assist with calculating RMDs.

KEY POINT Funds held in Roth accounts of 403(b) plans are not subject to the RMD rules during the lifetime of the employee.

CAUTION If you do not take any required distributions, or if the distributions are not large enough, you may have to pay a 50–percent excise tax on the amount not distributed as required. However, the excise tax drops to 25 percent, and possibly 10 percent, if the RMD is timely corrected within two years. Form 5329 should be filed for any year in which the full amount of the RMD was required, but not taken.

Salary reduction contributions (Section 402(g))

In addition to the section 415(c) limit there is an annual limit on elective deferral contributions also known as salary reduction contributions. The limit applies to the total of all elective deferrals contributed (even if contributed through different employers) for the year on your behalf to a variety of retirement plans, including 403(b) plans.

Generally, you cannot defer more than an allowable amount each year for all plans covering you. For 2025 the allowable limit increases to \$23,500. If you defer more than the allowable amount for a tax year, you must include the excess in your taxable income for that year.

The limit on elective deferrals increases for individuals who have attained age 50 by the end of the year. The additional amount that may be made is the lesser of (1) the “applicable dollar amount,” or (2) the participant’s compensation for the year reduced by any other elective deferrals of the participant for the year. The applicable dollar amount is \$7,500 for 2025. For those who are 60, 61, 62 or 63 the applicable dollar amount is \$11,250. Catch-up contributions are not subject to any other contribution limits and are not taken into account in applying other contribution limits.

The elective deferral limit may also be increased by as much as \$3,000 if the 403(b) plan allows for a 15-year catch-up contribution. This catch-up contribution is in addition to the age-50 catch-up contribution. The eligible amount is subject to an intricate calculation. See *IRS Publication 571* for more information.

Qualified scholarships

Amounts received as a qualified scholarship by a candidate for a degree may be excluded from gross income. A qualified scholarship is any grant amount that, in accordance with the conditions of the grant, is used for tuition and course-related expenses. Qualified tuition and related expenses are those used for (1) tuition and fees required for the enrollment or attendance at an educational institution or (2) fees, books, supplies, and equipment required for courses of instruction at the educational institution.

The scholarship need not specify that it is to be used only for qualified tuition and related expenses. All that is required is that the recipient uses the scholarship for such expenses and that the scholarship does not specify that it is to be used for nonqualified expenses (such as room and board).

In addition to these requirements, the scholarship must meet additional requirements if

the recipient is an employee or a family member of an employee. Generally, the scholarship must be noncompensatory in nature, selected using nonemployment related criteria, and an independent committee must make the selection of the recipient. Additional requirements may also apply. The church should seek the advice of a CPA or tax attorney to determine the proper treatment of scholarships to employees and their children.

KEY POINT Amounts paid by a church for the education of a pastor or other church employee cannot be treated as a nontaxable scholarship if paid “as compensation for services.” It is very difficult for an employee to qualify for a scholarship plan operated by a church due to testing requirements. Therefore, any amounts received by an employee as a “scholarship” should be considered as taxable income without contrary tax advice from a professional.

Any amount received in excess of the qualified tuition and related expenses, such as amounts received for room and board, is not eligible for this exclusion and must be included on the recipient’s Form 1040 on Schedule 1, Line 8r.

Any amount received that represents payment for teaching, research, or other services required as a condition for receiving a qualified scholarship cannot be excluded from gross income.

EXAMPLE First Church establishes a scholarship fund for seminary students. Robert is a church member who is pursuing a master’s degree at a seminary. Robert applies to the church’s scholarship plan and is awarded a scholarship of \$2,500 for 2025. So long as Robert uses the scholarship award for tuition or other course–related expenses, he need not report it as income on his federal tax return. The better practice would be for the church to stipulate that the scholarship is to be used for tuition or other course–related expenses (for example, fees, books, supplies), or for the church to pay the expenses directly to the educational institution. This will ensure that the scholarship does not inadvertently become taxable income because its specific use was not designated, and the recipient used it for nonqualified expenses. As long as amounts are paid through a qualified scholarship plan, the church is not required to report the scholarship on Form 1099MISC or 1099–NEC to the recipient.

KEY POINT A church may not establish a scholarship plan that is solely directed at a small group of potential candidates. For example, a church cannot set up a scholarship plan for its ministers or the children of its

ministers. A smaller church may even be limited in establishing a plan

solely for its members. To navigate these essential rules, qualified counsel should be sought in developing any scholarship plan for the church.

Sale or exchange of your principal residence

A taxpayer who is an individual may exclude up to \$250,000 (\$500,000 if married filing a joint return) of gain realized on the sale or exchange of a principal residence. To be eligible for the exclusion, the taxpayer must have owned and used the residence as a principal residence for at least two of the five years ending on the date of the sale or exchange.

A taxpayer who fails to meet these requirements by reason of a change of place of employment, health, or (to the extent provided under regulations) unforeseen circumstances, is able to exclude an amount equal to the fraction of the \$250,000 (\$500,000 if married filing a joint return) that is equal to the fraction of the two years that the ownership and use requirements are met. The exclusion under this provision may not be claimed for more than one sale or exchange during any two-year period unless the special provisions for unforeseen circumstances apply. See *IRS Publication 523* for details.

Line 2 (Form 1040). Interest income; attach Schedule B if more than \$1,500

Complete this line if you had interest income. Tax-exempt interest income is reported on Line 2a with taxable interest income reported on Line 2b. If you had taxable dividend and interest income of more than \$1,500, complete Schedule B.

Line 3 (Form 1040). Dividend income; attach Schedule B if more than \$1,500.

Complete this line only if you had dividend income. Qualified dividend income is reported on Line 3a and enter all dividend income on Line 3b. If you had dividend and interest income of more than \$1,500, complete Schedule B.

Line 4a (Form 1040). IRA distributions

You should receive a Form 1099-R showing the total amount of distributions from your Individual Retirement Accounts (IRAs) before income tax or other deductions were

withheld. This amount should be shown in Box 1 of Form 1099-R and should always be reported on Line 4a with any taxable amount reported on Line 4b. The distribution code found in Box 7 also provides direction on the taxation of the distribution and should be considered in completed Line 4b.

If you have instituted a qualified charitable distribution (QCD), there is no code to indicate this type of distribution to the IRS. The amount is not taxable on your 1040 as long as you have obtained a qualifying receipt from the charity receiving the distribution. The amount is reported on Line 4a with “QCD” printed on the line and -0- on Line 4b.

Lines 5a and 5b (Form 1040). Pensions and annuities

Pension and annuity payments include distributions from 401(k) and 403(b) plans. Do not include the following payments on Lines 5a and 5b. Instead report them on Line 1:

- Disability pensions received before you reach the minimum retirement age set by your employer.
- Corrective distributions (including any earnings) of excess salary deferrals or excess contributions to retirement plans. The plan must advise you of the year(s) the distributions are includible in income.

Many denominational pension funds annually designate 100 percent of pension and disability benefits paid to retired ministers as a housing allowance. In such cases, the 1099-R form may show that the taxable amount of the pension income is “not determined” by checking the box on Line 2b.

If you are a retired minister, you may exclude all or a portion of your pension or disability income from your gross income reported on Form 1040 if (1) you can document that the monies were actually spent on housing-related expenses during the tax year, (2) the amount excluded does not exceed the fair rental value of the home (furnished, including utilities) and (3) the applicable pension board designated the retirement payments as housing allowance.

See the instructions to Form 1040, Lines 5a and 5b, for more information.

IRS Publication 517 states: “If you are a retired minister, you can exclude from your gross income the rental value of a home (plus utilities) furnished to you by your church as a part of your pay for past services, or the part of your pension that was designated as a rental allowance. However, a minister’s surviving spouse cannot exclude the rental value unless the rental value is for ministerial services he or she performs or performed.”

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

Lines 6a and Line 6b (Form 1040). Social Security benefits

KEY POINT Individuals who receive Social Security retirement, disability, or survivor benefits may have to pay taxes on a portion of their benefits.

If the only income you received during 2024 was your Social Security benefits, your benefits generally aren't taxable. But some taxpayers must pay federal income taxes on their Social Security benefits (retirement, survivor, and disability). This usually happens only if you have other substantial income in addition to your benefits (such as wages, self-employment income, interest, dividends and other taxable income that must be reported on your tax return).

If you:

- **file a federal tax return as an individual or married filing separately** and your *combined income* is
 - between \$25,000 and \$34,000, you may have to pay income tax on up to 50 percent of your benefits.
 - more than \$34,000, up to 85 percent of your benefits may be taxable.
- **file a joint return**, and you and your spouse have a *combined income* that is
 - between \$32,000 and \$44,000, you may have to pay income tax on up to 50 percent of your benefits.
 - more than \$44,000, up to 85 percent of your benefits may be taxable.

Your combined income is your adjusted gross income plus non-taxable interest and one-half of your Social Security benefits.

Each January, you will receive a *Social Security Benefit Statement* (Form SSA-1099) showing the amount of benefits you received in the previous year. You can use this *Benefit Statement* when you complete your federal income tax return to find out if your benefits are subject to tax.

For additional information on the taxability of Social Security benefits, see *IRS Publication 915* (Social Security and Equivalent Railroad Retirement Benefits). *IRS Publication 915* is available at [IRS.gov](https://www.irs.gov).

Line 7 (Form 1040). Capital gain or (loss)

Report on Line 7 capital gains or losses (attach Schedule D) from the sale of capital assets. These include stocks, bonds, and property. Gain or loss is reported on Schedule D. You also may have to file Form 8949 (see the instructions to both forms for details).

KEY POINT Schedule D is for reporting capital gains and losses from investments. Schedule 1, Line 4 (“other gains or losses”) is for reporting sales of other assets such as equipment used in a business.

Line 8 (Form 1040). Additional income

Income not reported on Lines 1 through 7 is reported on Schedule 1 with the total reported on Schedule 1 reported on Line 8 of Form 1040. The most important of these for ministers include:

(1) Line 3 (Schedule 1). Business income

Report self–employment earnings (from Schedule C). Self–employment earnings include:

- Compensation reported to you on a Form 1099–NEC
- Fees received directly from church members for performing personal services (such as marriages and funerals)
- Honoraria you received for guest speaking in other churches

If you received income from any of these kinds of activities, compute your net earnings on Schedule C and transfer this amount to Line 3 of Schedule 1 (Form 1040).

(2) Line 8 (Schedule 1). “Other income”

“Other income” is reported on Line 8 of Schedule 1 (Form 1040). Other income includes the following items:

- A canceled debt or a debt paid for you by another person (unless the person who canceled or paid your debt intended it to be a gift)
- The fair market value of a free tour you receive from a travel agency for organizing a group of tourists (in some cases this may be reported on Schedule C)
- Most prizes and awards
- Some taxable distributions from a health savings account (HSA) or Archer MSA (see *IRS Publication 969*)
- Jury duty pay
- Recapture of a charitable contribution deduction if the charitable organization disposes of the donated property within three years of the contribution.
- Taxable portion of scholarships received.
- Taxable benefits provided by the church but not included on Form W–2 or Form W–2c. (Also remember to include these benefits on Schedule SE for the calculation of self–employment tax.)

Line 9 (Form 1040). Total income

Report “total income” on this line. This is the sum of the amounts reported on Lines 1–8 of Form 1040, plus the additional categories of income reported on Lines 1–9 of Schedule 1 (Form 1040) included on Line 8 of Form 1040.

Line 10 (Form 1040). Adjustments to income

You may deduct certain adjustments from total income (Line 9) to compute your adjusted gross income. Report the adjustments on Lines 11 through 25 of Form 1040 (Schedule 1) and on Line 10 (Form 1040). The total amount on Line 26 is subtracted from Line 9 (Form 1040) to compute adjusted gross income that is reported on Line 11.

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

(1) Line 15 (Schedule 1) Deductible part of self-employment tax

KEY POINT Every minister who pays self-employment taxes on ministerial income qualifies for this deduction. Some are not claiming it.

All ministers are self-employed for Social Security with respect to their ministerial income. They can deduct one-half of their actual self-employment taxes as an adjustment on Line 15 (Schedule 1) of Form 1040, whether they are able to itemize deductions on Schedule A or not.

(2) Line 20 (Schedule 1). IRA deduction

An individual retirement arrangement, or IRA, is a personal savings plan which allows you to set aside money for retirement, while offering you tax advantages. You can set up different kinds of IRAs with a variety of organizations, such as a bank or other financial institution, a mutual fund, or a life insurance company.

The original IRA is referred to as a “traditional IRA.” A traditional IRA is any IRA that is not a Roth IRA or a SIMPLE IRA. You may be able to deduct some or all of your contributions to a traditional IRA. You may also be eligible for a tax credit equal to a percentage of your contribution. Amounts in your traditional IRA, including earnings, generally are not taxed until distributed to you. IRAs cannot be owned jointly. However, any amounts remaining in your IRA upon your death can be paid to your beneficiary or beneficiaries.

To contribute to a traditional IRA, you or your spouse (if you file a joint return) must have taxable compensation, such as wages, salaries, commissions, tips, bonuses, or net income from self-employment. Compensation does not include earnings and profits from property, such as rental income, interest and dividend income, or any amount received as pension or annuity income, or as deferred compensation.

If you file a joint return, you may be able to contribute to an IRA even if you did not have taxable compensation as long as your spouse did. Each spouse can contribute up to the current limit; however, the total of your combined contributions cannot be more than the taxable compensation reported on your joint return.

For 2024 returns (filed in 2025), if you file a joint return and your taxable compensation is less than that of your spouse, the most that can be contributed for the year to your IRA is the smaller of the following two amounts: (1) \$7,000 (\$8,000 if you are age 50 or older), or (2) the total compensation includible in the gross income of both you and your spouse for the year, reduced by your spouse’s IRA contribution for the year to a

traditional IRA and any contributions for the year to a Roth IRA on behalf of your spouse. (The contribution limit does not change for 2025.)

All IRA contributions must be made by the due date of your tax return, not including extensions. This means that your 2024 IRA contribution must be made by April 15, 2025, even if you obtain an extension for filing this return.

EXAMPLE A church has a senior pastor who is 52 years old, and a youth pastor who is 30 years old. The church does not participate in a retirement program for its staff. In 2025, the senior pastor can contribute \$8,000 to an IRA (maximum annual contribution of \$7,000 plus a “catch-up” contribution of \$1,000), and the youth pastor can contribute \$7,000.

Your allowable deduction may be reduced or eliminated, depending on your filing status, the amount of your income, and if you or your spouse are covered by an employer provided retirement plan. The deduction begins to decrease (phase out) when your income rises above a certain amount and is eliminated altogether when it reaches a higher amount. The amounts vary depending on your filing status. For 2024, if you were covered by an employer-provided retirement plan, then the deduction for contributions to your IRA was completely phased out when adjusted gross income reached \$143,000 (married filing jointly) or \$87,000 (single). For 2025 the limits are \$146,000 (married filing jointly) and \$89,000 (single).

If your spouse was covered by an employer retirement plan at any time during 2024 and you made contributions to your IRA, your allowable IRA deduction is completely phased out when adjusted gross income reaches \$240,000 (married filing jointly). For 2025 the deduction is phased out when adjusted gross income reaches \$246,000. See *IRS Publication 590-A*. The Form W-2 you receive from your church or other employer has a box used to show whether you were covered by a retirement plan during the year. The “Retirement Plan” box should have a mark in it if you were covered. Employer retirement plans include 403(b) tax-sheltered annuities.

Figure your deduction using the worksheets in the instructions to Form 1040 or in *IRS Publication 590-A*.

Individuals who cannot claim a deduction for an IRA contribution still can make nondeductible IRA contributions, subject to the lesser of \$7,000 (\$8,000 if you are age 50 or older) for 2024 or earned income limits. Earnings on these amounts continue to accumulate on a tax-deferred basis. When distributions are made from the IRA, special rules apply in figuring the tax on the distributions when both deductible and nondeductible contributions were made to the IRA. Form 8606 is used to designate a

contribution as nondeductible and must be filed or the full amount of future withdrawals may be taxed. Withdrawals before age 59½ are subject to a 10-percent penalty tax that also applies to deductible IRA contributions.

Distributions from a traditional IRA are fully or partially taxable in the year of distribution. Use Form 8606 to figure the taxable portion of withdrawals. If you made only deductible contributions, distributions are fully taxable.

A Roth IRA differs from a traditional IRA in several respects. A Roth IRA does not permit a deduction at the time of contribution. Regardless of your age, you may be able to establish and make nondeductible contributions to a Roth IRA. However, you may be limited in the amount of nondeductible contributions you may make to your Roth IRA due to your adjusted gross income (AGI). For those filing as married filing jointly, no contribution may be made to a Roth IRA in 2024 if your AGI, as modified, is \$240,000 or above. For those filing as single, no contribution may be made to a Roth IRA if your AGI, as modified, is \$161,000 or more. For those filing as married filing jointly, no contribution may be made to a Roth IRA in 2025 if your AGI, as modified, is \$246,000 or above. For those filing as single, no contribution may be made to a Roth IRA if your AGI, as modified, is \$165,000 or above.

You do not report Roth contributions on your tax return. To be a Roth IRA, the account or annuity must be designated as a Roth IRA when it is set up. Like a traditional IRA, a Roth IRA can be set up but there are limitations on the amount that can be contributed and the time of year that contributions can be made. You do not include in your gross income qualified distributions or distributions that are a return of your regular contributions from your Roth IRA. Refer to *IRS Publication 590-A* for additional information on Roth IRA(s).

For information on conversions from a traditional IRA to a Roth IRA, refer to *IRS Publication 590-A*.

In the past, if you were 70½ or older, you could not make a regular contribution to a traditional IRA. However, you could still contribute to a Roth IRA and make rollover contributions to a Roth or traditional IRA regardless of your age, subject to the above-described income limitations. For 2020 and later, there is no age limit on making regular contributions to traditional or Roth IRAs.

Charitable contributions. A qualified charitable distribution (529 P) is a distribution made directly by the trustee of your individual retirement arrangement (IRA), other than an SEP or SIMPLE IRA, to certain qualified organizations. You must have been at least age 70½ when the distribution was made. The total QCDs for an individual for the year can't be more than \$105,000. (For 2025, this limit is raised to \$108,000.) Therefore, a

couple filing as married filing jointly may each claim up to \$105,000 for a QCD for a total of \$210,000 for the year. If all the requirements are met, a QCD may be nontaxable, but you can't claim a charitable contribution deduction for a QCD. For more information, see *IRS Publication 526 (Charitable Contributions)* and *IRS Publication 590-B (Distributions from Individual Retirement Arrangements)*, or contact a tax professional.

Not all charities are eligible. For example, donor-advised funds and supporting organizations are not eligible recipients. Amounts transferred to a charity from an IRA are counted in determining whether the owner has met the IRA's required minimum distribution (RMD).

Charitable distributions are reported on Form 1099-R for the calendar year the distribution is made. To report a qualified charitable distribution on your Form 1040, you generally report the full amount of the charitable distribution on the line for IRA distributions. On the line for the taxable amount, enter zero if the full amount was a qualified charitable distribution. Enter "QCD" next to this line. See the Form 1040 instructions for additional information. This is the only method of informing the IRS that the distribution is a QCD, so it is important to follow the reporting procedure. Otherwise, the IRS will believe you have additional taxable income from the IRA distribution.

You must also file Form 8606, Nondeductible IRAs, if:

- you made the qualified charitable distribution from a traditional IRA in which you had basis and received a distribution from the IRA during the same year, other than the qualified charitable distribution; or,
- the qualified charitable distribution was made from a Roth IRA.

KEY POINT The QCD needs a qualifying receipt from the recipient charity with the mandated "no goods or services" statement. A church may include the gift on the IRA owner's regular giving statement in an attempt to fulfill this requirement, but care should be taken to not take a deduction for the QCD if it is included on the regular giving statement. Best practice is for the recipient charity or church to issue a separate statement for the gift.

Line 11 (Form 1040). Adjusted Gross Income

Adjusted Gross Income (AGI) is gross income minus adjustments to income. Gross income includes your wages, dividends, capital gains, business income, retirement distributions as well as other income. Adjustments to income include such items as educator expenses, student loan interest, alimony payments, or contributions to a retirement account. Your AGI will never be more than your Gross Total Income on your

return and, in some cases, may be lower. AGI is an important number since it is used to determine the amount of various deductions and credits.

Tax computation

Line 12 (Form 1040). Standard deductions or itemized deductions

KEY POINT Itemize your deductions on Schedule A only if they exceed the standard deduction for your filing status.

On Line 12 you enter either your itemized deductions from Schedule A or a standard deduction amount. Itemized deductions are discussed under Schedule A in this guide. For 2024, the standard deduction amounts are as follows:

FILING STATUS AND STANDARD DEDUCTION AMOUNT (2024)

single.....	\$14,600
married filing jointly or qualifying widow(er).....	\$29,200
married filing separately.....	\$14,600
head of household.....	\$21,900

Additional standard deductions are available for each taxpayer who is over 65 and/or blind, depending on their filing status.

Line 13 (Form 1040). Qualified business income deduction

Ministers who have income from business activities (conducted other than in their capacity as an employee of the church) and report their income on Schedule C, may be entitled to a federal tax deduction of up to 20 percent of their qualified business income (QBI). This deduction is also referred to as the IRC Section 199A deduction. Section 199A limits the deduction to the lesser of 1) 20 percent of the qualified business income (QBI) less one-half of the self-employment tax directly related to the qualified business income, the self-employed health insurance deduction and the self-employed qualified

plan contribution deduction related to the qualified business, or 2) 20 percent of taxable income before the qualified business income deduction less net capital gains. The qualified business trade or business activities of ministers who report their federal income taxes as self-employed is considered a “specified service trade or business.” Thus, there may be an exception to the deductibility of the QBI deduction. If a minister’s taxable income (reported on Line 15 of the Form 1040) before this deduction exceeds \$191,950 (\$383,900 if married filing jointly) for 2024, then the deduction may be limited; if taxable income exceeds \$241,950 (\$483,900 if married filing jointly) for 2024, then the deduction is unavailable. Attach either the Form 8995 or 8995–A and possibly Schedules A, B, and C (Form 8995–A), as needed.

Line 16 (Form 1040). Compute tax

Most ministers can use the tax tables to determine their income taxes. Some higher income ministers must use the tax rate schedules (a spouse’s income is considered in deciding whether or not to use the tax rate schedules).

Credits

A credit is a direct dollar-for-dollar reduction in your tax liability. It is more valuable than deductions or exclusions which merely reduce taxable income. There are two types of credits. Nonrefundable credits can only offset total taxes and can never create a refund. These credits are reported on Lines 19 and 20 of Form 1040.

Refundable tax credits are reported on Form 1040 as a “payment” along with other tax payments and may create a refund, if total “payments” exceed total tax calculated on Line 24 of Form 1040. These credits are reported on Lines 27 through 31 of Form 1040.

Lines 19 and 28 (Form 1040). Child Tax Credit.

The Child Tax Credit for 2024 is \$2,000 per qualifying child under the age of 17 and \$500 per qualifying dependent that does not meet the definition of a qualifying child. The \$500 per qualifying dependent is a nonrefundable credit and reported on Line 19. A portion of the credit associated with a qualifying child may be nonrefundable, reported on Line 19, and a portion of the credit is refundable and reported on Line 28. This is referred to as the “Additional Child Tax Credit” and the maximum amount of the refundable portion of the credit is \$1,700 per qualifying child. The credit is reduced based on a

taxpayer's Modified Adjusted Gross Income (MAGI) starting at \$400,000 MAGI for jointly filed returns and \$200,000 MAGI for all other filers. It is completely phased out at \$440,000 MAGI for jointly filed returns and \$240,000 MAGI for all other filers. The credit is calculated on Form 8812.

Line 20, Schedule 3 (Form 1040). Credit for child, dependent care, and education expenses as well as the

Retirement Savings Credit

On your 2024 Form 1040, nonrefundable credits are reported on Lines 1–7 of Schedule 3, and the total amount for all credits is carried over to Line 20 of Form 1040.

The more common and important nonrefundable credits for ministers reported on Schedule 3 are listed below along with the IRS Form and Publication that addresses them:

- **the credit for child and dependent care expenses (Form 2441, *IRS Publication 503*)** The Child and Dependent Care Credit is a tax credit that may help you pay for the care of eligible children and other dependents (qualifying persons). The credit is calculated based on your income and a percentage of expenses that you incur for the care of qualifying persons to enable you to go to work, look for work, or attend school.

Depending on income, taxpayers can get a credit up to 35 percent of their qualifying childcare expenses. At minimum, the credit is 20 percent of those expenses. For 2024, the maximum eligible expense for the credit is \$3,000 for one qualifying person and \$6,000 for two or more.

- **the credit for education expenses (see Form 8863 and *IRS Publication 970*)** Credits for higher education include the American Opportunity Tax Credit (partially refundable, reported on Line 29) and the Lifetime Learning Credit (nonrefundable). Credits are fully phased out at \$180,000 for those married filing jointly and \$90,000 for all other filers.
- **the retirement savings credit (Form 8880, *IRS Publication 590–A*)** If you make eligible contributions to certain eligible retirement plans or to an individual retirement arrangement (IRA), you may be able to take a tax credit up to \$1,000. The amount of the saver's credit you can get is generally based on the contributions you make and your credit rate. Refer to *IRS Publication 590–A*

or the instructions for Form 8880 for more information. The credit is phased out at \$76,500 of AGI for those married filing jointly, at \$57,375 for those filing head of household, and at \$38,250 for those filing single or married filing separately. For changes coming to this credit in 2027 see the Tax Highlights section of this guide.

NOTE There are other credits available that are considered “refundable” credits. These are credits that are not limited to the amount of federal income tax calculated. The credits are reported on Lines 27, 28, and 29 of the Form 1040 (see below for more about Line 27 Earned Income Credit).

Other taxes (Form 1040 Line 23, from Schedule 2, Line 21 (“other taxes”))

On the Form 1040 for 2024, “other taxes” are derived from Line 21 of Schedule 2 and the total of all taxes from Schedule 2 is carried over to Line 23 of Form 1040. These include

self-employment taxes which ministers must pay on ministerial income (unless exempt). Total taxes are reported on Line 24 of Form 1040.

Payments

On the 2024 Form 1040, amounts representing federal income tax withholding are reported on Line 25 and estimated tax payments are reported on Line 26 as well as tax overpayments from the prior year applied to current year taxes. Other tax payments are reported on Schedule 3 and reported on Line 31 of Form 1040. The two most important categories of tax “payments” are withheld taxes and estimated tax payments, as noted below.

Line 25 (Form 1040). Federal income tax withheld

Federal income tax may be withheld from several sources of income. Form 1040 separately reports withholding from some of these different potential sources.

Line 25a – Federal income tax withheld from Forms W-2

Ministers’ wages based on the performance of ministerial services are exempt from federal income tax withholding. As a result, only those ministers who have entered into a

voluntary withholding arrangement with their church will have income taxes withheld. The church should report the amount of voluntarily withheld taxes on the minister's Form W-2.

KEY POINT Ministers who enter into voluntary withholding arrangements will have federal and state income taxes withheld from their wages. However, a church does not withhold the employee's share of *Social Security and Medicare taxes*, since ministers are self-employed for Social Security with respect to ministerial compensation. Ministers can request (on Form W-4 or through other written instructions) that their church withhold an additional amount of income taxes to cover their expected self-employment tax liability. These additional withholdings must be treated as income taxes withheld (on Forms W-2 and 941) rather than the employee's share of Social Security and Medicare taxes. They constitute a payment that can be applied to both income taxes and self-employment taxes. Ministers still must complete Schedule SE to report their self-employment tax liability.

Line 25b – Federal income tax withheld from Forms 1099

Federal income tax may be withheld from pension payments or distributions reported on Form 1099-R or from Social Security payments reported on Form SSA-1099 or from other income reported on Form 1099-NEC. Other potential sources may be from interest and dividends reported on Form 1099-B.

Line 25c – Federal income tax withheld from other forms

Income tax withheld from gambling winnings reported on Form W-2G or Additional Medicare Tax as calculated on Form 8959 is included on this line.

Line 26 (Form 1040). Estimated tax payments

Compensation paid to ministers for ministerial duties is not subject to mandatory tax withholding. As a result, ministers must prepay their income tax and Social Security (self-employment) taxes by using the quarterly estimated tax procedure, unless they have entered into a voluntary withholding agreement with their employing church. The

estimated tax procedure is summarized in Part 2 of this guide in the section “How do ministers pay their taxes?”

The total amount of estimated tax payments made to the IRS for the 2024 tax year is reported as a payment of taxes on Line 26 of Form 1040. Additionally, any amount of an overpayment from 2023 applied to the 2024 estimated tax payments is included on this line.

Lines 27, 28, and 29 (Form 1040)

There are other credits available that are considered “refundable” credits. These are credits that are not limited to the amount of federal income tax calculated. The credits are reported on Lines 27, 28, and 29 of the Form 1040.

The most common refundable credits for ministers are listed below, along with the IRS Form and Publication that addresses them:

- the Earned Income Credit (EIC) reported on Form 1040 Line 27 (addressed below).
- Child Tax Credit calculated on Form 8812 reported on Line 28 of the Form 1040 (see previous discussion in this guide).
- American Opportunity Tax Credit calculated on Form 8863 and reported on Line 29 of Form 1040.

Line 27 (Form 1040). Earned Income Credit (EIC)

The Earned Income Credit (EIC) reduces tax you owe and may give you a refund even if you do not owe any tax. Several technical requirements must be met in order to qualify for this credit. Unfortunately, many taxpayers who qualify for the credit do not claim it because it is so difficult to compute. In most cases, the amount of your EIC depends on: (1) whether you have no qualifying child, one qualifying child, two qualifying children, or three or more qualifying children; and (2) the amount of your earned income and Modified Adjusted Gross Income (MAGI).

You may be able to claim the EIC for tax year 2024 if you have non-retirement investment income of \$11,600 or less. The maximum EIC for 2024 is (1) \$632 with no qualifying child, (2) \$4,213 with one qualifying child, (3) \$6,960 with two qualifying children, and (4) \$7,830 with three or more qualifying children.

If you qualify for it, the EIC reduces the tax you owe. Even if you do not owe tax, you can get a refund of the credit. Depending on your situation, the credit can be as high as \$7,830 for 2024.

You cannot take the credit for 2024 if your earned income (or AGI, if greater) is more than

- \$18,591 (\$25,511 if married filing jointly) if you do not have a qualifying child,
- \$49,084 (\$56,004 if married filing jointly) if you have one qualifying child,
- \$55,768 (\$62,688 if married filing jointly) if you have two qualifying children, or
- \$59,899 (\$66,819 if married filing jointly) if you have three or more qualifying children.

You can compute the credit yourself or the IRS will compute it for you. To figure the amount of your credit, you must use the EIC Worksheet and EIC Table in the instructions for Form 1040, Line 27. Ministers may want to consider having the IRS compute the credit for them, especially due to confusion about how the housing allowance affects the credit.

The credit is reported on Line 27 of Form 1040.

IRS Publication 596 is a 39–page publication that explains the EIC. The 2023 edition (the most recent available at the time of publication of this text) states, in general: “The rental value of a home or a housing allowance provided to a minister as part of the minister’s pay generally isn’t subject to income tax but is included in net earnings from self–employment. For that reason, it is included in earned income for the [EIC]” except for ministers who have opted out of self–employment taxes by filing a timely Form 4361 exemption application with the IRS.

Excerpts from *IRS Publication 596* confirm that ministers who are employees for income tax reporting purposes and who have *not* exempted themselves from self–employment taxes by filing a timely Form 4361 with the IRS *include* their housing allowance or the fair rental value of a parsonage in computing earned income for purposes of the EIC.

But what about ministers who have exempted themselves from self–employment taxes by filing a timely Form 4361 with the IRS? Do they include a housing allowance or the rental value of a parsonage in computing their earned income for purposes of the EIC? As noted above, *IRS Publication 596* explicitly states, with regard to ministers who have

filed Form 4361, that “a nontaxable housing allowance or the nontaxable rental value of a home is not earned income.”

With respect to ministers who have filed a timely Form 4361, *IRS Publication 596* states:

Whether or not you have an approved Form 4361, amounts you received for performing ministerial duties as an employee count as earned income. This includes wages, salaries, tips, and other taxable employee compensation.

If you have an approved Form 4361, a nontaxable housing allowance or the nontaxable rental value of a home isn't earned income. Also, amounts you received for performing ministerial duties, but not as an employee, don't count as earned income. Examples include fees for performing marriages and honoraria for delivering speeches.

Ministers who are affected by this issue should consult their tax professional for help.

KEY POINT The definition of “earned income” for the EIC is not the same definition of “earned income” utilized in calculating the Additional Child Tax Credit.

KEY POINT Once again, tax benefits may be affected by the housing allowance. Ministers should consider these various provisions and determine if the housing allowance is beneficial for them in light of how it affects the EIC and the Additional Child Tax Credit.

Lines 36, 38 Refund or amount you owe

After totaling your payments on Form 1040, Line 33, you can calculate whether you owe the government, or a refund is due to you. If you owe a tax, be certain to enclose with your return a check in the amount you owe payable to the “United States Treasury” or by making the payment through your EFTPS account. There are also payment methods directly through the IRS available at <https://www.irs.gov/payments> or tax practitioners can assist you in making a payment as a part of electronically filing your tax return.

Do not attach a check to your return, but include it with a Form 1040–V. If you file your return electronically, the payment must be sent in separately using Form 1040–V since it

may be mailed to an address different from the return’s filing address. Include your daytime phone number, your Social Security number, and write “Form 1040 for 2024” on the check. If you owe taxes, you also may have to pay an underpayment penalty (refer to Line 38 of Form 1040). If you are paying taxes after April 15, 2025, you may also owe late payment penalties and interest.

If you have overpaid your taxes, you have two options: (1) request a full refund, or (2) apply the overpayment to your 2025 estimated tax (refer to Line 36 of the Form 1040).

Sign here

You must sign and date the return at the bottom of page 2. If you are filing a joint return, your spouse must also sign the return. In the “your occupation” space, enter your

occupation—*minister*. If you have your return prepared by a paid preparer, you will sign Form 8879, IRS *e-file* Signature Authorization instead of signing Form 1040, page 2.

If you or your spouse has been the victim of identity theft, the IRS will issue you an Identity Protection PIN that must also be entered in this section of the return. This PIN is issued to you each year. (The PIN must also be provided to your paid tax preparer in order for the return to be electronically filed.)

Other forms and schedules

Schedule A

KEY POINT If your itemized deductions exceed your standard deduction, you should report your itemized deductions on Schedule A (Form 1040). This section will summarize the itemized deductions.

Step 1: Medical and dental expenses (Lines 1–4)

You may deduct certain medical and dental expenses (for yourself, your spouse, and your dependents) if you itemize your deductions on Schedule A, but only to the extent that your expenses exceed 7.5 percent of your Adjusted Gross Income. You must reduce your medical expenses by the amounts of any reimbursements you receive for those expenses before applying the 7.5-percent test. Reimbursements include amounts you receive from

insurance or other sources for your medical expenses (including Medicare). It does not matter if the reimbursement is paid to the patient, the doctor, or the hospital.

The following expenses ARE deductible as medical expenses:

- Fees for medical services
- Fees for hospital services
- Lodging at a hospital during medical treatment (subject to some limits)
- Medical and hospital insurance premiums that you pay (do not include amounts paid to health sharing arrangements)
- Special equipment
- Medicare A premiums you pay if you are exempt from Social Security and voluntarily elect to pay Medicare A premiums
- The supplemental part of Medicare insurance (Medicare Part B)
- Medicare D premiums you pay
- Medicare Supplement premiums you pay (or are deducted from your pension)
- Long-term care insurance premiums, subject to certain limitations on the amount that may be deducted
- Special items (false teeth, artificial limbs, eyeglasses, hearing aids, crutches, etc.)
- Transportation for necessary medical care. For 2024, the standard mileage rate for medical travel was 21 cents per mile. The 2025 rate was not available at the time of publication. It can be found on [ChurchLawAndTax.com](https://www.churchlawandtax.com) once the IRS makes it available.
- Medicines and drugs requiring a prescription, and insulin
- The portion of a life-care fee or founder's fee paid either monthly or in a lump sum under an agreement with a retirement home that is allocable to medical care
- Wages of an attendant who provides medical care

- The cost of home improvements if the main reason is for medical care
- Program to stop smoking
- Exercise expenses (including the cost of equipment to use in the home) if required to treat an illness (including obesity) diagnosed by a physician, and the purpose of the expense is to treat a disease rather than to promote general health and the taxpayer would not have paid the expense but for this purpose

The following items are NOT deductible as medical expenses:

- The cost of diet food
- Funeral services
- Health club dues (except as noted above)
- Household help
- Life insurance
- Maternity clothes
- Nonprescription medicines and drugs
- Nursing care for a healthy baby
- Toothpaste, cosmetics, toiletries
- Trips for general improvement of health
- Most cosmetic surgery

Step 2: Taxes you paid (Lines 5–7)

At the election of the taxpayer, an itemized deduction may be taken for state and local general sales taxes in lieu of the itemized deduction for state and local income taxes. This provision was added to address the unequal treatment of taxpayers in the seven states that do not have an income tax. Taxpayers in these states cannot take advantage of the itemized deduction for state income taxes. Allowing them to deduct sales taxes helps offset this disadvantage.

Taxpayers may claim an itemized deduction of up to \$10,000 (\$5,000 for a married taxpayer filing a separate return) for the aggregate of:

- State and local property taxes, and
- State and local income taxes (or sales taxes in lieu of income taxes) paid or accrued in the taxable year.

The \$10,000 limitation applies through December 31, 2025.

Some states attempted to assist taxpayers in avoiding the above limitations by creating state-run charities that would grant “tax credits” in exchange for charitable contributions that would qualify for a tax deduction. The IRS issued regulations stating that to the extent a tax credit was granted, the charitable contribution would not be deductible.

Step 3: Interest you paid (Lines 8–10)

As a general matter, personal interest is not deductible. Qualified residence interest is not treated as personal interest and is allowed as an itemized deduction, subject to limitations. Qualified residence interest means interest paid or accrued during the taxable year on either acquisition indebtedness or home equity indebtedness. A qualified residence means the taxpayer’s principal residence and one other residence of the taxpayer selected to be a qualified residence. A qualified residence can be a house, condominium, cooperative, mobile home, house trailer, or boat.

Acquisition indebtedness is indebtedness that is incurred in acquiring, constructing, or substantially improving a qualified residence of the taxpayer and which secures the residence. Note the following two rules:

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

For qualifying debt taken out on or before December 15, 2017, you can only deduct home mortgage interest on up to \$1,000,000 (\$500,000 if you are married filing separately) of that debt. The only exception is for loans taken out on or before October 13, 1987 (see *IRS Publication 936* for more information about loans taken out on or before October 13, 1987.)

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

Limit on loans taken out after December 15, 2017

For qualifying debt taken out after December 15, 2017, you can only deduct home mortgage interest on up to \$750,000 (\$375,000 if you are married filing separately) of that debt. If you also have qualifying debt subject to the \$1,000,000 limitation discussed above, the \$750,000 limit for debt taken out after December 15, 2017, is reduced by the amount of your qualifying debt subject to the \$1,000,000 limit. An exception exists for certain loans taken out after December 15, 2017. See *IRS Publication 936* for details.

The term “points” is sometimes used to describe certain charges paid by a borrower. They are also called loan origination fees, maximum loan charges, or premium charges. If the payment of any of these charges is *only* for the use of money, it ordinarily is interest paid in advance and must be deducted in installments over the life of the mortgage (not deducted in full in the year of payment). However, points are deductible in the year paid if the following requirements are satisfied:

- (1) Your loan is secured by your main home. (Your main home is the one you ordinarily live in most of the time.)
- (2) Paying points is an established business practice in the area where the loan was made.
- (3) The points paid were not more than the points generally charged in that area.
- (4) You use the cash method of accounting. This means you report income in the year you receive it and deduct expenses in the year you pay them. Most individuals use this method.
- (5) The points were not paid in place of amounts that ordinarily are stated separately on the settlement statement, such as appraisal fees, inspection fees, title fees, attorney fees, and property taxes.
- (6) The funds you provided at or before closing, plus any points the seller paid, were at least as much as the points charged. The funds you provided are not required to have been applied to the points. They can include a down payment, an escrow deposit, earnest money, and other funds you paid at or before closing for any purpose. You cannot have borrowed these funds from your lender or mortgage broker.
- (7) You use your loan to buy or build your main home.
- (8) The points were computed as a percentage of the principal amount of the mortgage.
- (9) The amount is clearly shown on the settlement statement (such as the Settlement Statement, Form HUD-1) as points charged for the mortgage. The points may be

shown as paid from either your funds or the seller's.

KEY POINT Points are not currently deductible when paid in association with the refinancing of the home. These points must be amortized over the life of the new mortgage.

Refinancing a home mortgage may also create tax considerations. The amount of the new debt eligible as home acquisition debt is limited to the amount of the balance of the original old mortgage principal just before the refinancing unless additional proceeds are used to buy, build, or substantially improve a qualified home. If refinancing costs are rolled into the new debt, there automatically will be a portion of the interest paid on the new mortgage that is not deductible.

KEY POINT The itemized deduction for mortgage insurance premiums has expired. You can no longer claim this deduction unless extended by Congress.

Step 4: Gifts to charity (Lines 11–14)

For 2024, cash contributions to churches, schools, and most other public charities, that are US organizations, are deductible up to 60 percent of AGI. Contributions of property or cash contributions to supporting organizations, donor–advised funds, or to private foundations are subject to different limitations. See *IRS Publication 526*. Contributions made via cash, checks, credit cards or other electronic transfer options are reported on Line 11, while contributions of noncash property are reported on Line 12.

The value of personal services is never deductible as a charitable contribution, but unreimbursed expenses incurred in performing services on behalf of a church or other charity may be. For example, if you drive to and from volunteer work on behalf of a charity, you may deduct the actual cost of gas and oil or you may claim the standard charitable mileage rate of 14 cents for each substantiated mile.

Unreimbursed travel expenses incurred while away from home (whether within the United States or abroad) in the course of donated services to a tax–exempt religious or charitable organization are deductible as a charitable contribution. Individuals performing the charitable travel can keep track of their own travel expenses and then claim a charitable contribution for the total on Schedule A.

Whether it is for travel expenses or other substantial out–of–pocket expenses related to performing services for a church or other nonprofit charity, a letter acknowledging the individual's service and containing the “no goods or services” statement (if this is the

case) should be obtained from the church or charity.

No charitable deduction is allowed for travel expenses incurred while away from home in performing services for a religious or charitable organization unless there is no significant element of personal pleasure, recreation, or vacation involved in the travel. Therefore, it is important to maintain an itinerary of the trip to prove the charitable nature of the trip.

Charitable contributions must be claimed in the year they are delivered. One exception is a check that is mailed to a charity—it is deductible in the year the check is mailed and postmarked, even if it is received early in the next year.

Charitable contributions generally are deductible only to the extent they exceed the value of any premium or benefit received by the donor in return for the contribution.

There are limits on the amount of a contribution that can be deducted. Generally, cash contributions to churches, schools, and other public charities are deductible up to a maximum of 60 percent of AGI (2024). In some cases, contributions that exceed this limit can be carried over and claimed on future returns for up to five years. Some charitable contributions are limited to 20 percent or 30 percent of AGI, depending on the recipient and the form of the contribution.

Restricted contributions are those that are made to a church with the stipulation that they be used for a specified purpose. If the purpose is an approved project or program of the church, the designation will not affect the deductibility of the contribution. An example is a contribution to a church building fund. However, if a donor stipulates that a contribution be spent on a designated individual, no deduction is allowed unless the church exercises full administrative control over the donated funds to ensure that they are being spent in furtherance of the church's exempt purposes. Restricted contributions that ordinarily are not deductible include contributions to church benevolence or scholarship funds that designate a specific recipient. Contributions to benevolence or scholarship funds ordinarily are deductible if the donor does not earmark a specific recipient.

Contributions to a church or missions board that specify a particular missionary may be tax-deductible if the church or missions board exercises full administrative and accounting control over the contributions and ensures that they are spent in furtherance of the church's mission. Direct contributions to missionaries, or any other individual, are not tax-deductible, even if they are used for religious or charitable purposes.

Charitable contributions must be properly substantiated. Individual cash contributions of less than \$250 may be substantiated by a canceled check, other bank record, or a receipt from the charity. Special rules govern the substantiation of individual contributions of

cash or property of \$250 or more. The donor must substantiate these contributions with a qualifying receipt from the charity that includes a listing of the contributions and a statement that there were no goods or services provided in exchange for the contributions. These rules are further explained in the supplement to this guide, the *2025 Federal Reporting Requirements for Churches*.

KEY POINT It is the responsibility of the donor to confirm that all donations claimed are supported by qualifying receipts. The consequence of failure is a loss of any contribution not supported by a qualifying receipt. This error cannot be corrected if discovered after the tax return is filed. Some churches and charities fail to issue qualifying receipts, so donors must be vigilant in meeting this requirement, since this is not an error that can be corrected after your tax return is filed.

If you contribute property that you value at \$500 or more, you must include a completed Form 8283 with your Form 1040. Complete only section A if the value claimed is \$500 or more but less than \$5,000. If you claim a deduction of more than \$5,000 for a contribution of noncash property (other than publicly traded securities), then you must obtain a qualified appraisal of the property by a qualified appraiser and include a qualified appraisal summary (Section B of Form 8283) with your Form 1040. If several related items are given, each with a value of less than \$5,000, an appraisal may still be required since the group of items would be treated as one rather than on an individual basis. In addition to the above rules, the donor must also obtain a qualifying acknowledgement from the charity that includes a description of the property and a statement that there were no goods or services provided in exchange for the donation.

TAX TIP There are both timing and form requirements for the qualifying appraisal, so a donor must plan accordingly to be able to meet these requirements. Failure to meet any of the requirements can nullify the entire contribution.

Special rules apply to donations of cars, boats, and planes. A donation is not allowed if the value of the item is \$500 or more unless the donor has received Form 1098-C. See the instructions to IRS Form 1098-C for details.

KEY POINT The Tax Court has ruled in several cases that a donor who contributed property worth more than \$5,000 to a church was not eligible for a charitable contribution deduction, even though there was no dispute that the gift was given, or its value, because the donor failed to obtain a qualified appraisal or attach a qualified appraisal summary (Form 8283) to the tax return on which the contribution was claimed or obtain a qualifying

receipt.

See *IRS Publication 526* for an explanation of all the substantiation rules that apply to charitable contributions.

Step 5: Casualty and theft losses (Line 15)

You can only deduct personal casualty and theft losses attributable to a federally declared disaster to the extent that:

- (1) The amount of each separate casualty or theft loss is more than \$100, and
- (2) The total amount of all losses during the year (reduced by \$100) is more than 10 percent of the amount on Form 1040 or 1040–SR, Line 11. See the Instructions for Form 4684 and *IRS Publication 547* for more information.

It doesn't matter how many pieces of property are involved in an event. Only a single \$100 reduction applies.

IMPORTANT NOTE: Job expenses and most other miscellaneous deductions

Employee business expenses that are either unreimbursed, or reimbursed by an employer under a nonaccountable arrangement, are not deductible as an itemized deduction by an employee through 2025.

The elimination of an itemized deduction for unreimbursed employee business expenses hit some clergy hard. But this impact can be minimized if a church reimburses employees' business expenses under an accountable expense reimbursement arrangement. To be accountable, a church's reimbursement arrangement must comply with all four of the following rules:

- Expenses must have a business connection—that is, the reimbursed expenses must represent expenses incurred by an employee while performing services for the employer.
- Employees are only reimbursed for expenses for which they provide an adequate accounting within a reasonable period of time (not more than 60 days after an expense is incurred).

- Employees must return any excess reimbursement or allowance within a reasonable period of time (not more than 120 days after an excess reimbursement is paid).
- The income tax regulations caution that in order for an employer's reimbursement arrangement to be accountable, it must meet a "reimbursement requirement" in addition to the three requirements summarized above. The reimbursement requirement means that an employer's reimbursements of an employee's business expenses come out of the employer's funds and not by reducing the employee's salary.

The elimination of "all miscellaneous itemized deductions that are subject to the 2 percent floor under [prior] law" (including unreimbursed employee business expenses, and employee expenses reimbursed under a nonaccountable plan) has encouraged many churches to move to an accountable expense reimbursement plan, since section 62(a)(2)(A) of the tax code, which excludes from tax employer reimbursements of employee business expenses under an accountable plan (defined above) has not been modified.

KEY POINT While unreimbursed employee business expenses are not deductible for federal income tax purposes, they are deductible in the calculation of self-employment income for purposes of calculating self-employment tax on Schedule SE.

Schedule B

Schedule B is used to report taxable interest income and dividend income from certain transactions and to indicate if you have an interest in, or signature authority over, a financial account in a foreign country or involved with a foreign trust. For most taxpayers, the schedule is triggered by the reporting of taxable interest or dividends of more than \$1,500.

Step 1: Interest income (Lines 1–4)

List (on Line 1) the name of each institution or individual that paid you taxable interest if you received more than \$1,500 of taxable interest in 2024. Be sure the interest you report on Line 1 corresponds to any 1099-INT forms you received from such institutions. Do not include tax-exempt interest. Taxable interest income is carried over to Line 2b of Form 1040. Also utilize Schedule B to report any amount of interest you received from a seller-finance mortgage, interest accrued from a bond, original issue discount amounts reported on Form 1099-OID, interest subject to the exclusion for series EE or I U.S. savings bonds or received as a nominee.

Step 2: Dividend income (Lines 5–6)

List (on Line 5) the name of each institution that paid you dividends if you received more than \$1,500 in dividends in 2024. Be sure the dividends you report on Line 5 correspond to any 1099–DIV forms you received from such institutions. Ordinary dividend income is carried over to Line 3b of Form 1040.

Step 3: Foreign accounts and foreign trusts (Lines 7–8)

Be sure to complete this part of the schedule if you had a financial interest in, or signature authority over, a financial account in a foreign country or you received a distribution from, or were a grantor of, or transferor to, a foreign trust.

KEY POINT If you have foreign bank accounts, you may be subject to additional filings, including FinCEN 114 or Form 8938. This can also occur if your church has foreign bank accounts, and you have signature authority on the accounts. Many times, the foreign bank account reporting is overlooked by taxpayers especially when they are not naturally filing Schedule B to report interest and dividends. Failure to comply can create substantial penalties.

Schedule C

KEY POINT Most ministers who serve local churches or church agencies are employees for federal income tax purposes with respect to their church salary. They report their church salary on Line 1 of Form 1040 and receive a Form W–2 from the church. They do not report their salary as self–employment earnings on Schedule C.

KEY POINT Use Schedule C to report income and expenses from ministerial activities you conduct other than in your capacity as a church employee. Examples would be fees for guest speaking in other churches, and fees received directly from church members for performing personal services, such as weddings and funerals.

Step 1: Introduction

Complete the first several questions on Schedule C. Ministers should list code 541990 on Line B, since for many years this was the code the IRS used in a clergy tax illustration in *IRS Publication 517*. Some ministers who report their church compensation as self–

employed point to this code as proof that ministers serving local churches can report as self-employed. This is not so. This code applies to the incidental self-employment activities of ministers who report their church salaries as employees. It also applies to those few ministers who are self-employed, such as some traveling evangelists.

Step 2: Income (Lines 1–7)

Report on Line 1 your gross income from your self-employment activity. Include all amounts reported to you on Form 1099-NEC. If you received income through a third-party payment processor, such as a credit card processor, PayPal, or Venmo, you may receive Form 1099-K reporting this income to you. For 2024, these payment processors are required to issue Form 1099-K if \$5,000 or more was paid to a person through their platforms.

Step 3: Expenses (Lines 8–27)

CAUTION Many ministers continue to report their income taxes as self-employed. One perceived advantage of doing so is the ability to deduct business expenses on Schedule C (and avoid the nondeductibility of unreimbursed and nonaccountable reimbursed employee business expenses as itemized deductions on Schedule A). This advantage is often illusory. Most “self-employed” ministers, if audited by the IRS, would be reclassified as employees and their Schedule C deductions disallowed. This could result in substantial additional taxes, penalties, and interest. The best way for ministers to handle their business expenses is through an accountable expense reimbursement arrangement (see above).

Report any business expenses associated with your self-employment earnings on Lines 8 through 27. For example, if you incur transportation, travel, or other expenses in the course of performing self-employment activities, you deduct these expenses on Lines 8 through 27 of Schedule C. Entertainment expenses are generally nondeductible. However, you may deduct 50 percent of the cost of business meals if you are present and the food or beverages are not considered lavish or extravagant.

Ministers may be required to reduce the expenses deducted on Schedule C, if a portion of the income is excluded from income as a housing allowance. The rules under IRC Section 265 state that expenses associated with tax-free income may not be deducted. Therefore, expenses on Schedule C may have to be allocated between taxable and non-taxable income. (Many refer to this rule as the “Deason Rule.”) See *IRS Publication 517*.

Report net self-employment income from Schedule C on Schedule 1, Line 3

(Form 1040) and carry over this and other items of additional income reported on Schedule 1 to Line 8 of Form 1040.

Schedule SE

KEY POINT Use Schedule SE to report Social Security taxes on any income you earned as a minister if you have not applied for and received IRS approval of an exemption application (Form 4361). Remember, ministers (except for some chaplains) are self-employed for Social Security with respect to their ministerial services. They pay self-employment taxes, and not Social Security (“FICA”) and Medicare taxes, with respect to compensation from such services.

KEY POINT Ministers who have received IRS approval of an application for exemption from self-employment taxes (Form 4361) do not pay self-employment taxes on compensation received for their ministerial services. These ministers should enter “Exempt – Form 4361” on Form 1040, Schedule 2, Line 4.

Step 1: Part I (Line 2)

Ministers complete Part I “Self-Employment Tax” of the schedule. Ministers report their net self-employment earnings on Line 2 of Part I. This amount is computed as follows: Add the following to your church salary reported on Form W-2 in Box 1:

- other items of church income (including taxable fringe benefits omitted from your W-2)
- fees you receive for marriages, baptisms, funerals, masses, etc.
- self-employment earnings from outside businesses
- annual rental value of a parsonage, including utilities paid by the church (unless you are retired)
- a housing allowance (unless you are retired)
- business expense reimbursements paid under a nonaccountable plan
- the value of meals served on the church’s premises for the convenience of the employer

- any amount a church pays toward your income tax or self-employment tax

And then deduct the following:

- most income tax exclusions other than housing allowance, parsonage value, meals or lodging furnished for the employer's convenience, and the foreign earned income exclusion
- salary reduction contributions (elective deferrals) to a tax-sheltered annuity plan (403(b) plan) if included in your gross income above
- pension payments or retirement allowances you receive for your past ministerial services if included in your gross income above
- unreimbursed employee business expenses
- business expenses that were not deducted on Schedule C due to the allocation of a portion of the business expenses to the tax-free housing allowance pursuant to the requirements of IRC Section 265(a)(1), better known as the "Deason Rule"

Step 2: Part I (Line 4)

Ministers (and other taxpayers who are self-employed for Social Security) can reduce their taxable earnings by 7.65 percent, which is half the Social Security and Medicare tax paid by employers and employees. To do this, multiply net earnings from self-employment times 0.9235 on Line 4. Self-employment taxes are paid on the reduced amount.

Step 3: Part I (Line 12)

The self-employment tax for 2024 is totaled on this line. The self-employment tax rate for 2024 is 15.3 percent, which consists of the following two components:

1. an old-age, survivor and disability (Social Security) tax of 12.4 percent calculated on Line 10, and
2. a Medicare hospital insurance tax of 2.9 percent calculated on Line 11.

For 2024, the 2.9 percent Medicare tax applies to all net earnings from self-employment regardless of amount. For 2024, the 12.4 percent Social Security tax applies to only the

first \$168,600 of net self-employment earnings. (For 2025, the maximum earnings subject to Social Security tax is \$176,100.)

Form 8959, Additional Medicare Tax

An additional Medicare tax is calculated on wages or self-employment income of higher income taxpayers. A Medicare (HI) tax of an additional 0.9 percent on wages received in excess of certain amounts must be calculated. This additional tax applies to ministers subject to self-employment tax. Unlike other Social Security and Medicare taxes, this additional tax is on the combined wages of a taxpayer and the taxpayer's spouse, in the case of a joint return. The threshold amount is \$250,000 in the case of a joint return or surviving spouse, and \$200,000 for single persons. The \$250,000 and \$200,000 amounts are not adjusted for inflation and remain the same for 2025.

Ministers who are a part of a two-earner family may be subject to this additional tax and should plan accordingly. Each working spouse may have wages and self-employment income of less than \$250,000, but when added together, the total exceeds the threshold. This additional tax should be considered in preparing estimated tax payments or withholding instructions.

Part 4

Comprehensive example and forms

Example One: Active Minister

Rev. John Michaels is the minister of the First United Church. He is married and has one child. The child is considered a qualifying child for the child tax credit. Mrs. Michaels is not employed outside the home. Rev. Michaels is a common-law employee of the church, and he has not applied for an exemption from SE tax. The church paid Rev. Michaels a salary of \$45,000. In addition, as a self-employed person, he earned \$4,000 during the year for weddings, baptisms, and honoraria. He made estimated tax payments during the year totaling \$12,000. He taught a course at the local community college, for which he was paid \$5,500. Rev. Michaels owns a home next to the church. He makes a \$1,125 per month mortgage payment of principal and interest only. His utility bills and other housing-related expenses for the year totaled \$1,450, and the real estate taxes on his home amounted to \$1,750 for the year. The church paid him \$1,400 per month as his parsonage allowance. The home's fair rental value is \$1,380 per month (including furnishings and utilities). Additionally, Rev. Michaels made cash charitable contributions of \$6,000 to Section 501(c)(3) public charities in 2024.

The parts of Rev. and Mrs. Michaels' income tax return are explained in the order they are completed. They are illustrated in the order that Rev. Michaels will assemble the return to send it to the IRS.

Form W-2 from Church

The church completed Form W-2 for Rev. Michaels as follows:

Box 1. The church entered Rev. Michaels' \$45,000 salary.

Box 2. The church left this box blank because Rev. Michaels did not request federal income tax withholding.

Boxes 3 through 6. Rev. Michaels is considered a self-employed person for purposes of Social Security and Medicare tax withholding, so the church left these boxes blank.

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

Turbo Tax tips: Listed below are tips for ministers who use Turbo Tax to complete their returns. We have listed our recommended responses to some of the questions asked by the software when entering your W-2 from your church. These tips should not be construed as an endorsement or recommendation of the Turbo Tax software.

1. “Let’s check for uncommon situations.”

Be sure to check the box that says, “**Religious employment.**”

2. “Let’s dig in to your religious employment.”

Please note that ministers fall under the category of clergy employment.

3. “OK, tell us about your clergy housing.” Turbo Tax then asks for the Parsonage or Housing Allowance, as well as the amount of qualifying expenses.

The amount you should enter for qualifying expenses is the lesser of your actual housing expenses, the annual fair rental value of your home (including furnishings and utilities), or the amount of your pay that was designated as ministerial housing allowance by your church.

4. “Now tell us about your clergy self-employment taxes.”

Please note that self-employment tax should be paid on wages and housing allowance. See Schedule SE Turbo Tax Tip for additional information.

Form W-2 from College

The community college gave Rev. Michaels a Form W-2 that showed the following.

Box 1. The college entered Rev. Michaels’ \$5,500 salary.

Box 2. The college withheld \$440 in federal income tax on Rev. Michaels’ behalf.

Boxes 3 and 5. As an employee of the college, Rev. Michaels is subject to Social Security and Medicare withholding on his full salary from the college.

Box 4. The college withheld \$341.00 in Social Security taxes.

Box 6. The college withheld \$79.75 in Medicare taxes.

Schedule C (Form 1040)

Some of Rev. Michaels’ entries on Schedule C are explained here.

Line 1. Rev. Michaels reports the \$4,000 from weddings, baptisms, and honoraria.

Lines 2 through 7. Rev. Michaels fills out these lines to report his gross income reported on line 7. Rev. Michaels did not have any returns or allowances, cost of goods sold, or other income for the year. Therefore, the amount reported on line 7 is \$4,000.

Lines 8 through 27a. Rev. Michaels reports his expenses related to the line 1 amount. The total consisted of \$87 for marriage and family booklets and \$251 for 375 miles of business use of his car, mainly in connection with honoraria. Rev. Michaels used the standard mileage rate to figure his car expense. He multiplied the 2024 standard mileage rate of 67 cents by the 375 miles driven during the year. He calculated total mileage expenses of \$251. These expenses total \$338 (\$251 + \$87).

Line 9. Rev. Michaels reports his car expenses on this line. However, he cannot deduct part of his expenses allocable to his tax-free parsonage allowance. He attaches Attachment 1 (shown later) to his return, showing that 25% (or \$63) of his car expenses are not deductible because they are allocable to that tax-free allowance. He subtracts the \$63 from the \$251 and enters the \$188 difference on line 9. Rev. Michaels also reports information regarding his vehicle in Part IV.

Line 27a. Rev. Michaels reports \$87 for marriage and family booklets. However, he cannot deduct part of his expenses allocable to his tax-free parsonage allowance. He attaches a statement, Attachment 1 (shown later), to his return showing that 25% (or \$22) of his expenses are not deductible because they are allocable to that tax-free allowance. He subtracts the \$22 from the \$87 and enters the \$65 difference on line 27a. He also reports a description of the expense in Part V.

Line 28. Rev. Michaels enters his total expenses, less the 25% allocable to his tax-free parsonage allowance ($\$188 + \65) on line 28.

Lines 29 through 31. He enters his tentative profit of \$3,747 reported on line 29, less any expenses for the business use of his home on line 31. Rev. Michaels did not have any expenses for business use of his home; therefore, his net profit is \$3,747. Net profit on Schedule C is also reported on Schedule 1 (Form 1040), line 3.

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

Line 48. Rev. Michaels reports the total other expenses included on line 27a.

Turbo Tax tips: Turbo Tax does not appear to calculate the nondeductible portion of the expenses which should be allocated to the tax-free portion of the housing allowance. The taxpayer will need to adjust the other expenses and input the nondeductible figure as a negative into the software.

Schedule SE (Form 1040)

After Rev. Michaels prepares Schedule C, he fills out Schedule SE (Form 1040). Rev. Michaels is a minister, so his salary from the church is not considered church employee income. Additionally, Rev. Michaels did not apply for an exemption from SE tax by filing Form 4361 and, therefore, leaves the first box on Schedule SE unchecked. He fills out the following lines in Part I.

Line 2. Rev. Michaels attaches a statement (see Attachment 2, later) that explains how he figures the amount (\$63,826) he enters here. The calculation in Attachment 2 includes unreimbursed business expenses from his work for the church. Although unreimbursed business expenses are clearly no longer deductible on Schedule A as itemized deductions for federal income tax purposes, these expenses are still deductible by ministers for self-employment tax purposes. Rev. Michaels' records show that he drove 2,115 miles during the year. He multiplies the miles driven by the mileage rate of 67 cents per mile. The result is \$1,417. Additionally, Rev. Michaels paid for \$219 of professional publications and booklets in connection with his work for the church.

The total unreimbursed business expenses were \$1,636. After including the \$85 of Schedule C expenses allocable to tax-free income, the total deductions against self-employment income is \$1,721.

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

Lines 8a through 8d. Rev. Michaels enters the amount from Box 3 on his Form W-2 issued by the college on line 8a and line 8d since he had no amounts to be reported on lines 8b or 8c.

Line 10. The amount on line 6 is less than \$168,600, so Rev. Michaels multiplies the amount on line 6 (\$58,943) by .124 to get the Social Security portion of the self-employment tax of \$7,309.

Line 11. He multiplies the amount on line 6 by .029 to calculate the Medicare portion of the self-employment tax of \$1,709.

Line 12. He adds the Social Security tax from line 10 and the Medicare tax on line 11 to determine his total self-employment tax of \$9,018. Rev. Michaels enters that amount here and on Schedule 2 (Form 1040), lines 4 and 21.

Line 13. Rev. Michaels multiplies the amount on line 12 by .50 to get his deduction for the employer-equivalent portion of self-employment tax of \$4,509. He enters that amount here and on Schedule 1 (Form 1040), lines 15 and 26.

Turbo Tax tips: The software asks about self-employment tax on clergy wages. The taxpayer should check the box to pay self-employment tax on wages and housing allowance (assuming, as shown in this example, that the minister has not applied for exemption from the SE tax). Please note that the software does not appear to automatically reduce self-employment wages by the business expenses allocated to tax-free income. The taxpayer will need to adjust net self-employment income (as shown in Attachment 2) and input the reduced figure into the software. This can be done by going into the “Business Taxes” section and selecting “Self-Employment Tax.” Choose “Make Adjustments” and enter in the “Ministerial Business Expenses” item the additional expenses that were not deducted elsewhere on the return (\$1,721 in this example – see Attachment 2). If the “Ministerial Business Expenses” adjustment does not automatically populate in the software, the taxpayer can use the Schedule SE Adjustment Worksheet by navigating to the Forms mode within the Turbo Tax Desktop version to input the clergy business deductions and related explanation.

Form 1040, Lines 1a through 18, and Schedule 1 (Form 1040)

Before Rev. Michaels can prepare Form 8995 to compute the Qualified Business Income Deduction for 2024 and Schedule 8812 to compute the Child Tax Credit for 2024, Rev. Michaels must complete certain parts of the Form 1040.

He fills out Form 1040, along with Schedules 1 through 3, to the extent required. He files a joint return with his wife. First, he fills out Form 1040, Page 1 and completes

the appropriate lines for his filing status and exemptions. Then, he fills out the rest of the forms as follows:

Form 1040, Line 1a. Rev. Michaels reports \$50,500. This amount is the total of the amounts reported in Box 1 of his Forms W-2 (\$45,000 from the church and \$5,500 from the college).

Form 1040, Line 1h. The \$240 excess housing allowance (the excess of the amount designated and paid to Rev. Michaels as a parsonage allowance over the lesser of his actual expenses or the fair rental value of his home, including furnishings and utilities) should be reported at line 1h, Other earned income.

Form 1040, Line 1z. Rev. Michaels adds the amounts reported on line 1a and line 1h and enters \$50,740 on line 1z.

Schedule 1 (Form 1040), Line 3. He reports his net profit of \$3,747 from Schedule C, line 31. Since no other amounts are reported on Schedule 1 (Form 1040), lines 1-8, he also reports this amount on line 10 and carries the figure to Form 1040, line 8.

Form 1040, Line 9. Rev. Michaels adds Form 1040, line 1z, and the amount reported on Form 1040, line 8, and enters the total (\$54,487) on line 9.

Form 1040, Line 10. Because Rev. Michaels has reported deductible self-employment tax on Schedule 1, (Form 1040) line 15, Rev. Michaels completes the remainder of Part II of Schedule 1. Since there are no other amounts listed on lines 11-25, Rev. Michaels reports \$4,509 on line 26 and enters this amount on Form 1040, line 10.

Form 1040, Line 11. Rev. Michaels subtracts the amount reported on Form 1040, line 10 from the amount reported on Form 1040, line 9 and enters the total (\$49,978) on Form 1040, line 11.

Form 1040, Line 12. He enters the standard deduction for married couples filing jointly (\$29,200) since this is greater than Rev. Michaels' potential 2024 itemized deductions.

Form 1040, Line 13. Rev. Michaels adds the qualified business income deduction on Form 8995, line 15 (Form 8995 is prepared below), and enters the total (\$696) on line 13.

Form 1040, Line 14. Rev. Michaels adds the amounts on Form 1040, line 12 and line 13, and enters the total (\$29,896) on line 14.

Form 1040, Line 15. Subtract line 14 from line 11. This amount is taxable income.

Form 1040, Page 2, Lines 16 and 18. Rev. Michaels uses the tax tables in the 2024 Form 1040 instructions to determine his applicable tax and enters the amount (\$2,008) on the space provided on line 16 and line 18.

Rev. Michaels now completes Form 8995 and Schedule 8812 before completing the remainder of the Form 1040.

Qualified Business Income Deduction (Form 8995)

Ministers who have net profit reported on Schedule C for ministerial services and who have 2024 taxable income of less than \$191,950 (\$383,900 if married filing jointly) before the application of a qualified business income deduction may be eligible for the qualified business income deduction.

After Rev. Michaels prepares Schedule SE and portions of Form 1040, he fills out Form 8995.

Line 1i. In Columns (a) and (b), Rev. Michaels enters the information regarding his ministerial income. In Column (c), Rev. Michaels reports the net profit or (loss) from Schedule C, line 31 (\$3,747) less the portion of the deduction for self-employment taxes allocable to this net profit ($\$3,747 * .9235 * .153 * .5 = \265) which results in \$3,482 on line 1i, Column (c). Since there are no other amounts listed on lines 1ii through 1v, he also reports the amount on line 2.

Line 4. Rev. Michaels adds the total qualified business income or (loss) reported on line 2 (\$3,482) to any qualified business net losses carried forward from the prior year. Since there are no qualified business net losses carried forward from the prior year, he enters the amount on line 4.

Line 5. Rev. Michaels multiplies line 4 by 20% and enters the resulting amount (\$696) on line 5. Since there are no other amounts reported on lines 6–9, he also reports this amount on line 10.

Line 11. Rev. Michaels adds the total taxable income before the qualified business income deduction (\$20,778) on line 11. This amount is equal to Form 1040, line 11 (\$49,978) less Form 1040, line 12 (\$29,200). Since there is no amount reported on line 12, he also reports this amount on line 13.

Line 15. Rev. Michaels multiplies line 13 by 20% (\$4,156), which he reports on line 14. He then reports the lesser of line 10 or line 14 on line 15 (\$696). Rev. Michaels also enters this amount on Form 1040, line 13.

Line 16 and Line 17. Rev. Michaels enters \$0 on line 16 since line 2 plus line 3 is greater than zero, and enters \$0 on line 17 since lines 6 and 7 were \$0.

Credits for Qualifying Children and Other Dependents (Schedule 8812)

Rev. Michaels prepares Schedule 8812 to calculate the amount of the child tax credit for 2024.

Lines 1 through 3. Rev. Michaels enters the amount from Form 1040, line 11 on line 1 and line 3, since he does not have any amounts to report on lines 2a through 2d.

Line 4. Rev. Michaels enters “1” at line 4 since the Michaels had one qualifying child under the age of 17 at the end of 2024. Line 4 is multiplied by \$2,000, and \$2,000 is entered on line 5 and line 8 (since the Michaels did not have any other dependents to enter on line 6).

Line 9. Rev. Michaels enters \$400,000 since his filing status is married filing jointly.

Lines 10 and 11. Rev. Michaels enters \$0 because line 3 (\$49,978) less line 9 (\$400,000) is less than \$0.

Line 12. Rev. Michaels enters \$2,000 (line 8 less line 11).

Line 13. Rev. Michaels refers to the Credit Limit Worksheet A in the Schedule 8812 instructions and enters \$2,008 on line 13.

Line 14. Rev. Michaels enters \$2,000, the smaller of line 12 or line 13. Rev. Michaels also enters \$2,000 on Form 1040, line 19.

Line 16a. Rev. Michaels enters \$0 on line 16a because line 12 less line 14 is \$0. As directed by line 16a, Rev. Michaels skips the remainder of the form and enters \$0 on line 27.

Form 1040, Lines 19 through 28, and Schedule 2 (Form 1040)

After Rev. Michaels prepares the above schedules, he completes the remainder of Form 1040.

Form 1040, Page 2, Line 19. The Michaels can take the child tax credit for their daughter, Jennifer. Jennifer is under the age of 17 at the end of 2024. Rev. Michaels figured the credit by completing Schedule 8812.

Form 1040, Page 2, Line 23 and Schedule 2 (Form 1040). Rev. Michaels completes Schedule 2 (Form 1040). Since the only amount reported on Schedule 2 (Form 1040) is his self-employment tax from Schedule SE, he reports the amount (\$9,018) on Schedule 2 (Form 1040) line 4 and line 21, and on Form 1040, Page 2, line 23.

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


Form 1040, Page 2, Lines 25a and 25d. He enters the federal income tax shown in box 2 of his Form W-2 from the college (no amount was reported in box 2 of his Form W-2 from the church).

Form 1040, Page 2, Line 26. Rev. Michaels enters the \$12,000 estimated tax payments he made for the year on line 26.

Form 1040, Page 2, Lines 27 through 32. Rev. Michaels completes the earned income credit worksheet in the Form 1040 instructions and determines that he does not qualify for the earned income credit. Accordingly, Rev. Michaels does not enter any amount on line 27. Instead, he writes "No" on the dotted line next to line 27. He also does not enter any amounts on lines 28 through 32.

Form 1040, Page 2, Line 33. Rev. Michaels adds the amount reported on line 25d and line 26 to show the total tax payments made on line 33 (\$12,440).

Form 1040, Page 2, Lines 34 and 36. Rev. Michaels totals his overpayment by subtracting line 24 from line 33 (\$3,414). Rev. Michaels enters \$3,414 on line 36 because he has chosen to apply the refund to his 2025 estimated tax payments.


a Employee's social security number 011-00-1111		OMB No. 1545-0008		Safe, accurate, FAST! Use 		Visit the IRS website at www.irs.gov/efile .					
b Employer identification number (EIN) 00-0246810			1 Wages, tips, other compensation 45000.00		2 Federal income tax withheld						
c Employer's name, address, and ZIP code First United Church 1042 Main Street Hometown, Texas 77099			3 Social security wages		4 Social security tax withheld						
			5 Medicare wages and tips		6 Medicare tax withheld						
			7 Social security tips		8 Allocated tips						
d Control number			9		10 Dependent care benefits						
e Employee's first name and initial Last name Suff. John E. Michaels 1040 Main Street Hometown, Texas 77099			11 Nonqualified plans		12a See instructions for box 12						
			13 Statutory employee Retirement plan Third-party sick pay <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>		12b						
			14 Other Parsonage Allowance 16800.00		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

2024

Department of the Treasury—Internal Revenue Service

Copy B—To Be Filed With Employee's FEDERAL Tax Return.
This information is being furnished to the Internal Revenue Service.

		a Employee's social security number 011-00-1111		OMB No. 1545-0008		Safe, accurate, FAST! Use				Visit the IRS website at www.irs.gov/efile.	
b Employer identification number (EIN) 00-1357913				1 Wages, tips, other compensation 5500.00		2 Federal income tax withheld 440.00					
c Employer's name, address, and ZIP code Hometown College 40 Honor Road Hometown, Texas 77099				3 Social security wages 5500.00		4 Social security tax withheld 341.00					
				5 Medicare wages and tips 5500.00		6 Medicare tax withheld 79.75					
				7 Social security tips		8 Allocated tips					
d Control number				9		10 Dependent care benefits					
e Employee's first name and initial John E. Michaels		Last name 1040 Main Street		Suff. Hometown, Texas 77099		11 Nonqualified plans		12a See instructions for box 12			
						13 Statutory employee <input type="checkbox"/> Retirement plan <input type="checkbox"/> Third-party sick pay <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

2024

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.

For the year Jan. 1–Dec. 31, 2024, or other tax year beginning _____, 2024, ending _____, 20 _____ See separate instructions.

Personal information section including names (John E Michaels, Susan R Michaels), social security numbers (011001111, 011002222), home address (1040 Main Street, Hometown, TX, 77099), and filing status options (Married filing jointly selected).

Filing Status section with checkboxes for Single, Married filing jointly (selected), Married filing separately, Head of household, and Qualifying surviving spouse.

Digital Assets section: At any time during 2024, did you: (a) receive (as a reward, award, or payment for property or services); or (b) sell, exchange, or otherwise dispose of a digital asset? (See instructions.) Yes No (No selected)

Standard Deduction section: Someone can claim: You as a dependent Your spouse as a dependent Spouse itemizes on a separate return or you were a dual-status alien

Age/Blindness section: You: Were born before January 2, 1960 Are blind Spouse: Was born before January 2, 1960 Is blind

Dependents table with columns for (1) First name, Last name, (2) Social security number, (3) Relationship to you, (4) Child tax credit, and Credit for other dependents. Jennifer Michaels is listed as a Daughter with a child tax credit.

Income section table with rows 1a through 1z. Total amount from Form(s) W-2, box 1 is 50,500. Other earned income is 240. Total income is 50,740.

Table for lines 2a through 15. Includes tax-exempt interest, qualified dividends, IRA distributions, pensions, social security benefits, capital gain, and total taxable income of 20,082.

Attach Sch. B if required.

Standard Deduction for— Single or Married filing separately, \$14,600; Married filing jointly or Qualifying surviving spouse, \$29,200; Head of household, \$21,900.

Tax and Credits	16	Tax (see instructions). Check if any from Form(s): 1 <input type="checkbox"/> 8814 2 <input type="checkbox"/> 4972 3 <input type="checkbox"/> _____	16	2,008
	17	Amount from Schedule 2, line 3	17	
	18	Add lines 16 and 17	18	2,008
	19	Child tax credit or credit for other dependents from Schedule 8812	19	2,000
	20	Amount from Schedule 3, line 8	20	
	21	Add lines 19 and 20	21	2,000
	22	Subtract line 21 from line 18. If zero or less, enter -0-	22	8
	23	Other taxes, including self-employment tax, from Schedule 2, line 21	23	9,018
	24	Add lines 22 and 23. This is your total tax	24	9,026

Payments	25	Federal income tax withheld from:		
	a	Form(s) W-2	25a	440
	b	Form(s) 1099	25b	
	c	Other forms (see instructions)	25c	
	d	Add lines 25a through 25c	25d	440
	26	2024 estimated tax payments and amount applied from 2023 return	26	12,000
	27	Earned income credit (EIC) No	27	
	28	Additional child tax credit from Schedule 8812	28	
	29	American opportunity credit from Form 8863, line 8	29	
	30	Reserved for future use	30	
	31	Amount from Schedule 3, line 15	31	
	32	Add lines 27, 28, 29, and 31. These are your total other payments and refundable credits	32	
	33	Add lines 25d, 26, and 32. These are your total payments	33	12,440

Refund	34	If line 33 is more than line 24, subtract line 24 from line 33. This is the amount you overpaid	34	3,414
	35a	Amount of line 34 you want refunded to you . If Form 8888 is attached, check here <input type="checkbox"/>	35a	
	b	Routing number: _____ c Type: <input type="checkbox"/> Checking <input type="checkbox"/> Savings		
Direct deposit? See instructions.	d	Account number: _____		
	36	Amount of line 34 you want applied to your 2025 estimated tax	36	3,414

Amount You Owe	37	Subtract line 33 from line 24. This is the amount you owe . For details on how to pay, go to www.irs.gov/Payments or see instructions	37	
	38	Estimated tax penalty (see instructions)	38	

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

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

Sign Here Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.

Joint return? See instructions. Keep a copy for your records.	Your signature <i>John Michaels</i>	Date 3/15/25	Your occupation Minister	If the IRS sent you an Identity Protection PIN, enter it here (see inst.) _____
	Spouse's signature. If a joint return, both must sign. <i>Susan Michaels</i>	Date 3/15/25	Spouse's occupation Homemaker	If the IRS sent your spouse an Identity Protection PIN, enter it here (see inst.) _____
	Phone no. _____	Email address _____		

Paid Preparer Use Only

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

**SCHEDULE 1
(Form 1040)**

Department of the Treasury
Internal Revenue Service

Additional Income and Adjustments to Income

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

OMB No. 1545-0074

2024
Attachment
Sequence No. **01**

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

John E & Susan R Michaels

Your social security number

011-00-1111

For 2024, enter the amount reported to you on Form(s) 1099-K that was included in error or for personal items sold at a loss

Note: The remaining amounts reported to you on Form(s) 1099-K should be reported elsewhere on your return depending on the nature of the transaction. See www.irs.gov/1099k.

Part I Additional Income

1	Taxable refunds, credits, or offsets of state and local income taxes	1	
2a	Alimony received	2a	
b	Date of original divorce or separation agreement (see instructions):		
3	Business income or (loss). Attach Schedule C	3	3,747
4	Other gains or (losses). Attach Form 4797	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:		
a	Net operating loss	8a	()
b	Gambling	8b	
c	Cancellation of debt	8c	
d	Foreign earned income exclusion from Form 2555	8d	()
e	Income from Form 8853	8e	
f	Income from Form 8889	8f	
g	Alaska Permanent Fund dividends	8g	
h	Jury duty pay	8h	
i	Prizes and awards	8i	
j	Activity not engaged in for profit income	8j	
k	Stock options	8k	
l	Income from the rental of personal property if you engaged in the rental for profit but were not in the business of renting such property	8l	
m	Olympic and Paralympic medals and USOC prize money (see instructions)	8m	
n	Section 951(a) inclusion (see instructions)	8n	
o	Section 951A(a) inclusion (see instructions)	8o	
p	Section 461(l) excess business loss adjustment	8p	
q	Taxable distributions from an ABL account (see instructions)	8q	
r	Scholarship and fellowship grants not reported on Form W-2	8r	
s	Nontaxable amount of Medicaid waiver payments included on Form 1040, line 1a or 1d	8s	()
t	Pension or annuity from a nonqualified deferred compensation plan or a nongovernmental section 457 plan	8t	
u	Wages earned while incarcerated	8u	
v	Digital assets received as ordinary income not reported elsewhere. See instructions	8v	
z	Other income. List type and amount: _____	8z	
9	Total other income. Add lines 8a through 8z	9	
10	Combine lines 1 through 7 and 9. This is your additional income . Enter here and on Form 1040, 1040-SR, or 1040-NR, line 8	10	3,747

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

Cat. No. 71479F

Schedule 1 (Form 1040) 2024

Part II Adjustments to Income

11	Educator expenses		11	
12	Certain business expenses of reservists, performing artists, and fee-basis government officials. Attach Form 2106		12	
13	Health savings account deduction. Attach Form 8889		13	
14	Moving expenses for members of the Armed Forces. Attach Form 3903		14	
15	Deductible part of self-employment tax. Attach Schedule SE		15	4,509
16	Self-employed SEP, SIMPLE, and qualified plans		16	
17	Self-employed health insurance deduction		17	
18	Penalty on early withdrawal of savings		18	
19a	Alimony paid		19a	
b	Recipient's SSN			
c	Date of original divorce or separation agreement (see instructions): _____			
20	IRA deduction		20	
21	Student loan interest deduction		21	
22	Reserved for future use		22	
23	Archer MSA deduction		23	
24	Other adjustments:			
a	Jury duty pay (see instructions)	24a		
b	Deductible expenses related to income reported on line 8I from the rental of personal property engaged in for profit	24b		
c	Nontaxable amount of the value of Olympic and Paralympic medals and USOC prize money reported on line 8m	24c		
d	Reforestation amortization and expenses	24d		
e	Repayment of supplemental unemployment benefits under the Trade Act of 1974	24e		
f	Contributions to section 501(c)(18)(D) pension plans	24f		
g	Contributions by certain chaplains to section 403(b) plans	24g		
h	Attorney fees and court costs for actions involving certain unlawful discrimination claims (see instructions)	24h		
i	Attorney fees and court costs you paid in connection with an award from the IRS for information you provided that helped the IRS detect tax law violations	24i		
j	Housing deduction from Form 2555	24j		
k	Excess deductions of section 67(e) expenses from Schedule K-1 (Form 1041)	24k		
z	Other adjustments. List type and amount: _____	24z		
25	Total other adjustments. Add lines 24a through 24z		25	
26	Add lines 11 through 23 and 25. These are your adjustments to income . Enter here and on Form 1040, 1040-SR, or 1040-NR, line 10		26	4,509

**SCHEDULE 2
(Form 1040)**

Department of the Treasury
Internal Revenue Service

Additional Taxes

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

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

OMB No. 1545-0074

2024
Attachment
Sequence No. **02**

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

John E & Susan R Michaels

Your social security number

011-00-1111

Part I Tax			
1	Additions to tax:		
a	Excess advance premium tax credit repayment. Attach Form 8962	1a	
b	Repayment of new clean vehicle credit(s) transferred to a registered dealer from Schedule A (Form 8936), Part II. Attach Form 8936 and Schedule A (Form 8936)	1b	
c	Repayment of previously owned clean vehicle credit(s) transferred to a registered dealer from Schedule A (Form 8936), Part IV. Attach Form 8936 and Schedule A (Form 8936)	1c	
d	Recapture of net EPE from Form 4255, line 2a, column (l)	1d	
e	Excessive payments (EP) from Form 4255. Check applicable box and enter amount. (i) <input type="checkbox"/> Line 1a, column (n) (ii) <input type="checkbox"/> Line 1c, column (n) (iii) <input type="checkbox"/> Line 1d, column (n) (iv) <input type="checkbox"/> Line 2a, column (n)	1e	
f	20% EP from Form 4255. Check applicable box and enter amount. See instructions. (i) <input type="checkbox"/> Line 1a, column (o) (ii) <input type="checkbox"/> Line 1c, column (o) (iii) <input type="checkbox"/> Line 1d, column (o) (iv) <input type="checkbox"/> Line 2a, column (o)	1f	
y	Other additions to tax (see instructions): _____	1y	
z	Add lines 1a through 1y		1z
2	Alternative minimum tax. Attach Form 6251		2
3	Add lines 1z 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	9,018
5	Social security and Medicare tax on unreported tip income. Attach Form 4137	5	
6	Uncollected social security and Medicare tax on wages. Attach Form 8919	6	
7	Total additional social security and Medicare tax. Add lines 5 and 6	7	
8	Additional tax on IRAs or other tax-favored accounts. Attach Form 5329 if required. If not required, check here <input type="checkbox"/>	8	
9	Household employment taxes. Attach Schedule H	9	
10	Repayment of first-time homebuyer credit. Attach Form 5405 if required	10	
11	Additional Medicare Tax. Attach Form 8959	11	
12	Net investment income tax. Attach Form 8960	12	
13	Uncollected social security and Medicare or RRTA tax on tips or group-term life insurance from Form W-2, box 12	13	
14	Interest on tax due on installment income from the sale of certain residential lots and timeshares	14	
15	Interest on the deferred tax on gain from certain installment sales with a sales price over \$150,000	15	
16	Recapture of low-income housing credit. Attach Form 8611	16	

(continued on page 2)

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

Cat. No. 71478U

Schedule 2 (Form 1040) 2024

Part II Other Taxes (continued)

17	Other additional taxes:		
a	Recapture of other credits. List type, form number, and amount:	17a	
b	Recapture of federal mortgage subsidy, if you sold your home see instructions	17b	
c	Additional tax on HSA distributions. Attach Form 8889	17c	
d	Additional tax on an HSA because you didn't remain an eligible individual. Attach Form 8889	17d	
e	Additional tax on Archer MSA distributions. Attach Form 8853	17e	
f	Additional tax on Medicare Advantage MSA distributions. Attach Form 8853	17f	
g	Recapture of a charitable contribution deduction related to a fractional interest in tangible personal property	17g	
h	Income you received from a nonqualified deferred compensation plan that fails to meet the requirements of section 409A	17h	
i	Compensation you received from a nonqualified deferred compensation plan described in section 457A	17i	
j	Section 72(m)(5) excess benefits tax	17j	
k	Golden parachute payments	17k	
l	Tax on accumulation distribution of trusts	17l	
m	Excise tax on insider stock compensation from an expatriated corporation	17m	
n	Look-back interest under section 167(g) or 460(b) from Form 8697 or 8866	17n	
o	Tax on non-effectively connected income for any part of the year you were a nonresident alien from Form 1040-NR	17o	
p	Any interest from Form 8621, line 16f, relating to distributions from, and dispositions of, stock of a section 1291 fund	17p	
q	Any interest from Form 8621, line 24	17q	
z	Any other taxes. List type and amount: _____	17z	
18	Total additional taxes. Add lines 17a through 17z		18
19	Recapture of net EPE from Form 4255, line 1d, column (l)		19
20	Section 965 net tax liability installment from Form 965-A	20	
21	Add lines 4, 7 through 16, and 18. These are your total other taxes . Enter here and on Form 1040 or 1040-SR, line 23, or Form 1040-NR, line 23b		21
			9,018

**SCHEDULE C
(Form 1040)**

Department of the Treasury
Internal Revenue Service

Profit or Loss From Business
(Sole Proprietorship)

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

OMB No. 1545-0074

2024
Attachment
Sequence No. **09**

Name of proprietor John E Michaels		Social security number (SSN) 011-00-1111
A Principal business or profession, including product or service (see instructions) Minister	B Enter code from instructions 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.) 1040 Main Street City, town or post office, state, and ZIP code Hometown, TX 77099		
F Accounting method: (1) <input checked="" type="checkbox"/> Cash (2) <input type="checkbox"/> Accrual (3) <input type="checkbox"/> Other (specify) _____		
G Did you "materially participate" in the operation of this business during 2024? 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 2024, check here <input type="checkbox"/>		
I Did you make any payments in 2024 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 4,000
2 Returns and allowances	2
3 Subtract line 2 from line 1	3 4,000
4 Cost of goods sold (from line 42)	4
5 Gross profit. Subtract line 4 from line 3	5 4,000
6 Other income, including federal and state gasoline or fuel tax credit or refund (see instructions)	6
7 Gross income. Add lines 5 and 6	7 4,000

Part II Expenses. Enter expenses for business use of your home only on line 30.			
8 Advertising	8	18 Office expense (see instructions)	18
9 Car and truck expenses (see instructions)	9 188*	19 Pension and profit-sharing plans	19
10 Commissions and fees	10	20 Rent or lease (see instructions):	
11 Contract labor (see instructions)	11	a Vehicles, machinery, and equipment	20a
12 Depletion	12	b Other business property	20b
13 Depreciation and section 179 expense deduction (not included in Part III) (see instructions)	13	21 Repairs and maintenance	21
14 Employee benefit programs (other than on line 19)	14	22 Supplies (not included in Part III)	22
15 Insurance (other than health)	15	23 Taxes and licenses	23
16 Interest (see instructions):		24 Travel and meals:	
a Mortgage (paid to banks, etc.)	16a	a Travel	24a
b Other	16b	b Deductible meals (see instructions)	24b
17 Legal and professional services	17	25 Utilities	25
		26 Wages (less employment credits)	26
		27a Other expenses (from line 48)	27a 65*
		b Energy efficient commercial bldgs deduction (attach Form 7205)	27b
28 Total expenses before expenses for business use of home. Add lines 8 through 27b	28		253
29 Tentative profit or (loss). Subtract line 28 from line 7	29		3,747
30 Expenses for business use of your home. Do not report these expenses elsewhere. Attach Form 8829 unless using the simplified method. See instructions. Simplified method filers only: Enter the total square footage of (a) your home: _____ and (b) the part of your home used for business: _____. Use the Simplified Method Worksheet in the instructions to figure the amount to enter on line 30	30		
31 Net profit or (loss). Subtract line 30 from line 29. • If a profit, enter on both Schedule 1 (Form 1040), line 3 , and on Schedule SE, line 2 . (If you checked the box on line 1, see instructions.) Estates and trusts, enter on Form 1041, line 3 . • If a loss, you must go to line 32.	31		3,747
32 If you have a loss, check the box that describes your investment in this activity. See instructions. • If you checked 32a, enter the loss on both Schedule 1 (Form 1040), line 3 , and on Schedule SE, line 2 . (If you checked the box on line 1, see the line 31 instructions.) Estates and trusts, enter on Form 1041, line 3 . • If you checked 32b, you must attach Form 6198 . Your loss may be limited.			

32a All investment is at risk.
32b Some investment is not at risk.

**SCHEDULE SE
(Form 1040)**

Self-Employment Tax

OMB No. 1545-0074

Department of the Treasury
Internal Revenue Service

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

2024
Attachment
Sequence No. **17**

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

Social security number of person
with self-employment income

John E Michaels

011-00-1111

Part I Self-Employment Tax

Note: If your only income subject to self-employment tax is **church employee income**, see instructions for how to report your income and the definition of church employee income.

A If you are a minister, member of a religious order, or Christian Science practitioner **and** you filed Form 4361, but you had \$400 or more of **other** net earnings from self-employment, check here and continue with Part I

Skip lines 1a and 1b if you use the farm optional method in Part II. See instructions.

1a Net farm profit or (loss) from Schedule F, line 34, and farm partnerships, Schedule K-1 (Form 1065), box 14, code A

1a

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

1b ()

Skip line 2 if you use the nonfarm optional method in Part II. See instructions.

2 Net profit or (loss) from Schedule C, line 31; and Schedule K-1 (Form 1065), box 14, code A (other than farming). See instructions for other income to report or if you are a minister or member of a religious order

2 63,826*

3 Combine lines 1a, 1b, and 2

3 63,826

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

4a 58,943

Note: If line 4a is less than \$400 due to Conservation Reserve Program payments on line 1b, see instructions.

b If you elect one or both of the optional methods, enter the total of lines 15 and 17 here

4b

c Combine lines 4a and 4b. If less than \$400, **stop**; you don't owe self-employment tax. **Exception:** If less than \$400 and you had **church employee income**, enter -0- and continue

4c 58,943

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

5a

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

5b 0

6 Add lines 4c and 5b

6 58,943

7 Maximum amount of combined wages and self-employment earnings subject to social security tax or the 6.2% portion of the 7.65% railroad retirement (tier 1) tax for 2024

7 168,600

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 \$168,600 or more, skip lines 8b through 10, and go to line 11

8a 5,500

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 5,500

9 Subtract line 8d from line 7. If zero or less, enter -0- here and on line 10 and go to line 11

9 163,100

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

10 7,309

11 Multiply line 6 by 2.9% (0.029)

11 1,709

12 Self-employment tax. Add lines 10 and 11. Enter here and on **Schedule 2 (Form 1040), line 4**, or **Form 1040-SS, Part I, line 3**

12 9,018

13 Deduction for one-half of self-employment tax.

Multiply line 12 by 50% (0.50). Enter here and on **Schedule 1 (Form 1040), line 15**

13 4,509

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

Cat. No. 11358Z

Schedule SE (Form 1040) 2024

*See statement attached.

Part II Optional Methods To Figure Net Earnings (see instructions)

Farm Optional Method. You may use this method **only** if **(a)** your gross farm income¹ wasn't more than \$10,380, **or (b)** your net farm profits² were less than \$7,493.

14	Maximum income for optional methods	6,920
15	Enter the smaller of: two-thirds ($\frac{2}{3}$) of gross farm income ¹ (not less than zero) or \$6,920. Also, include this amount on line 4b above	

Nonfarm Optional Method. You may use this method **only** if **(a)** your net nonfarm profits³ were less than \$7,493 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	
17	Enter the smaller of: two-thirds ($\frac{2}{3}$) of gross nonfarm income ⁴ (not less than zero) or the amount on line 16. Also, include this amount on line 4b above	

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

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

² From Sch. F, line 34; and Sch. K-1 (Form 1065), box 14, code A—minus the amount you would have entered on line 1b had you not used the optional method.

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

**SCHEDULE 8812
(Form 1040)**

**Credits for Qualifying Children
and Other Dependents**

OMB No. 1545-0074

2024

Department of the Treasury
Internal Revenue Service

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

Attachment
Sequence No. **47**

Go to www.irs.gov/Schedule8812 for instructions and the latest information.

Name(s) shown on return

Your social security number

John E & Susan R Michaels

011-00-1111

Part I Child Tax Credit and Credit for Other Dependents

1	Enter the amount from line 11 of your Form 1040, 1040-SR, or 1040-NR		1	49,978
2a	Enter income from Puerto Rico that you excluded	2a		
b	Enter the amounts from lines 45 and 50 of your Form 2555	2b		
c	Enter the amount from line 15 of your Form 4563	2c		
d	Add lines 2a through 2c	2d		0
3	Add lines 1 and 2d	3		49,978
4	Number of qualifying children under age 17 with the required social security number	4	1	
5	Multiply line 4 by \$2,000	5		2,000
6	Number of other dependents, including any qualifying children who are not under age 17 or who do not have the required social security number	6	0	
Caution: Do not include yourself, your spouse, or anyone who is not a U.S. citizen, U.S. national, or U.S. resident alien. Also, do not include anyone you included on line 4.				
7	Multiply line 6 by \$500	7		
8	Add lines 5 and 7	8		2,000
9	Enter the amount shown below for your filing status. • Married filing jointly—\$400,000 } • All other filing statuses—\$200,000 }	9		400,000
10	Subtract line 9 from line 3. • If zero or less, enter -0-. • If more than zero and not a multiple of \$1,000, enter the next multiple of \$1,000. For example, if the result is \$425, enter \$1,000; if the result is \$1,025, enter \$2,000, etc. }	10		0
11	Multiply line 10 by 5% (0.05)	11		0
12	Is the amount on line 8 more than the amount on line 11? <input type="checkbox"/> No. STOP. You cannot take the child tax credit, credit for other dependents, or additional child tax credit. Skip Parts II-A and II-B. Enter -0- on lines 14 and 27. <input checked="" type="checkbox"/> Yes. Subtract line 11 from line 8. Enter the result.	12		2,000
13	Enter the amount from Credit Limit Worksheet A	13		2,008
14	Enter the smaller of line 12 or line 13. This is your child tax credit and credit for other dependents	14		2,000

Enter this amount on Form 1040, 1040-SR, or 1040-NR, line 19.

If the amount on line 12 is more than the amount on line 14, you may be able to take the **additional child tax credit** on Form 1040, 1040-SR, or 1040-NR, line 28. Complete your Form 1040, 1040-SR, or 1040-NR through line 27 (also complete Schedule 3, line 11) before completing Part II-A.

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

Cat. No. 59761M

Schedule 8812 (Form 1040) 2024

Part II-A Additional Child Tax Credit for All Filers

Caution: If you file Form 2555, you cannot claim the additional child tax credit.

15	Check this box if you do not want to claim the additional child tax credit. Skip Parts II-A and II-B. Enter -0- on line 27	<input type="checkbox"/>		
16a	Subtract line 14 from line 12. If zero, stop here ; you cannot take the additional child tax credit. Skip Parts II-A and II-B. Enter -0- on line 27		16a	0
b	Number of qualifying children under age 17 with the required social security number: _____ x \$1,700. Enter the result. If zero, stop here ; you cannot claim the additional child tax credit. Skip Parts II-A and II-B. Enter -0- on line 27		16b	
	TIP: The number of children you use for this line is the same as the number of children you used for line 4.			
17	Enter the smaller of line 16a or line 16b		17	
18a	Earned income (see instructions)		18a	
b	Nontaxable combat pay (see instructions)		18b	
19	Is the amount on line 18a more than \$2,500? <input type="checkbox"/> No. Leave line 19 blank and enter -0- on line 20. <input type="checkbox"/> Yes. Subtract \$2,500 from the amount on line 18a. Enter the result		19	
20	Multiply the amount on line 19 by 15% (0.15) and enter the result Next. On line 16b, is the amount \$5,100 or more? <input type="checkbox"/> No. If you are a bona fide resident of Puerto Rico, go to line 21. Otherwise, skip Part II-B and enter the smaller of line 17 or line 20 on line 27. <input type="checkbox"/> Yes. If line 20 is equal to or more than line 17, skip Part II-B and enter the amount from line 17 on line 27. Otherwise, go to line 21.		20	

Part II-B Certain Filers Who Have Three or More Qualifying Children and Bona Fide Residents of Puerto Rico

21	Withheld social security, Medicare, and Additional Medicare taxes from Form(s) W-2, boxes 4 and 6. If married filing jointly, include your spouse's amounts with yours. If your employer withheld or you paid Additional Medicare Tax or tier 1 RRTA taxes, or if you are a bona fide resident of Puerto Rico, see instructions.		21	
22	Enter the total of the amounts from Schedule 1 (Form 1040), line 15; Schedule 2 (Form 1040), line 5; Schedule 2 (Form 1040), line 6; and Schedule 2 (Form 1040), line 13		22	
23	Add lines 21 and 22		23	
24	1040 and 1040-SR filers: Enter the total of the amounts from Form 1040 or 1040-SR, line 27, and Schedule 3 (Form 1040), line 11. 1040-NR filers: Enter the amount from Schedule 3 (Form 1040), line 11. }		24	
25	Subtract line 24 from line 23. If zero or less, enter -0-		25	
26	Enter the larger of line 20 or line 25 Next, enter the smaller of line 17 or line 26 on line 27.		26	

Part II-C Additional Child Tax Credit

27	This is your additional child tax credit. Enter this amount on Form 1040, 1040-SR, or 1040-NR, line 28	27	0
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Credit Limit Worksheet A

1.	Enter the amount from line 18 of your Form 1040, 1040–SR, or 1040–NR.	1.	2,008
2.	Add the following amounts (if applicable) from:		
	Schedule 3, line 1 +		
	Schedule 3, line 2 +		
	Schedule 3, line 3 +		
	Schedule 3, line 4 +		
	Schedule 3, line 5b +		
	Schedule 3, line 6d +		
	Schedule 3, line 6f +		
	Schedule 3, line 6i +		
	Schedule 3, line 6m +		
	Enter the total.	2.	
3.	Subtract line 2 from line 1.	3.	2,008
	Complete Credit Limit Worksheet B only if you meet all the following.		
	1. You are claiming one or more of the following credits.		
	a. Mortgage interest credit, Form 8396.		
	b. Adoption credit, Form 8839.		
	c. Residential clean energy credit, Form 5695, Part I.		
	d. District of Columbia first-time homebuyer credit, Form 8859.		
	2. You are not filing Form 2555.		
	3. Line 4 of Schedule 8812 is more than zero.		
4.	If you are not completing Credit Limit Worksheet B, enter -0-; otherwise, enter the amount from Credit Limit Worksheet B.	4.	0
5.	Subtract line 4 from line 3. Enter here and on Schedule 8812, line 13.	5.	2,008

**Qualified Business Income Deduction
Simplified Computation**

Department of the Treasury
Internal Revenue Service

Attach to your tax return.

Attachment
Sequence No. **55**

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

Name(s) shown on return

John E & Susan R Michaels

Your taxpayer identification number

011-00-1111

Note: You can claim the qualified business income deduction **only** if you have qualified business income from a qualified trade or business, real estate investment trust dividends, publicly traded partnership income, or a domestic production activities deduction passed through from an agricultural or horticultural cooperative. See instructions.

Use this form if your taxable income, before your qualified business income deduction, is at or below \$191,950 (\$383,900 if married filing jointly), and you aren't a patron of an agricultural or horticultural cooperative.

1	(a) Trade, business, or aggregation name	(b) Taxpayer identification number	(c) Qualified business income or (loss)
i	John E Michaels	011-00-1111	3,482
ii			
iii			
iv			
v			
2	Total qualified business income or (loss). Combine lines 1i through 1v, column (c)	2 3,482	
3	Qualified business net (loss) carryforward from the prior year	3 ()	
4	Total qualified business income. Combine lines 2 and 3. If zero or less, enter -0-	4 3,482	
5	Qualified business income component. Multiply line 4 by 20% (0.20)		5 696
6	Qualified REIT dividends and publicly traded partnership (PTP) income or (loss) (see instructions)	6	
7	Qualified REIT dividends and qualified PTP (loss) carryforward from the prior year	7 ()	
8	Total qualified REIT dividends and PTP income. Combine lines 6 and 7. If zero or less, enter -0-	8	
9	REIT and PTP component. Multiply line 8 by 20% (0.20)		9
10	Qualified business income deduction before the income limitation. Add lines 5 and 9		10 696
11	Taxable income before qualified business income deduction (see instructions)	11 20,778	
12	Enter your net capital gain, if any, increased by any qualified dividends (see instructions)	12	
13	Subtract line 12 from line 11. If zero or less, enter -0-	13 20,778	
14	Income limitation. Multiply line 13 by 20% (0.20)		14 4,156
15	Qualified business income deduction. Enter the smaller of line 10 or line 14. Also enter this amount on the applicable line of your return (see instructions)		15 696
16	Total qualified business (loss) carryforward. Combine lines 2 and 3. If greater than zero, enter -0-	16 (0)	
17	Total qualified REIT dividends and PTP (loss) carryforward. Combine lines 6 and 7. If greater than zero, enter -0-	17 (0)	

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

Cat. No. 37806C

Form **8995** (2024)

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

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

Schedule C Deduction Computation		
Business use of car:		
375 miles x 67¢		\$ 251
Minus: Nondeductible part of business use of car (25% x \$251)		<u>\$ (63)</u>
Total business use of car (Line 9)		<u>\$ 188</u>
Marriage and family booklets		\$ 87
Minus: Nondeductible part of marriage and family booklets (25% x \$87)		<u>\$ (22)</u>
Total marriage and family booklets (Line 27a)		<u>\$ 65</u>
Schedule C deductions (Line 28)		<u>\$ 253</u>

Attachment 2. Attachment to Schedule SE (Form 1040)

Church wages		\$ 45,000
Parsonage allowance		16,800
Net profit from Schedule C		<u>3,747</u>
		65,547
Less:		
Schedule C expenses allocable to tax-free income (\$63 + \$22)		\$ 85
Ministerial employee unreimbursed business expenses		
Car expenses for church business:		
2,115 miles x 67¢		1,417
Publications and booklets		<u>219</u>
Net Self-Employment Income		<u>(1,721)</u>
Schedule SE, line 2		<u>\$ 63,826</u>

Example Two: Retired Minister

Rev. William K. Green is a retired minister. He is 69 years old. He is married to Sarah J. Green. She is 65 years old and is also retired. For 2024, Rev. Green received \$15,000 in annuity income, all of which was designated in advance by the Board of Pensions as a housing allowance. Rev. Green had housing expenses of \$13,000. The home's fair rental value is \$1,200 per month (including furnishings and utilities). Housing allowances for retired ministers are not taxable in computing federal income tax to the extent that they do not exceed the lesser of actual housing expenses or the annual fair rental value of the home (including furnishings and utilities). Retirement benefits, whether or not designated in advance as a housing allowance, are not subject to self-employment taxes.

Rev. Green received \$12,000 of Social Security benefits in 2024, and his wife received \$6,000. None of this income is taxable, however, because the Green's income is not enough to expose their Social Security benefits to tax.

In 2024, Rev. Green received \$2,000 from occasional guest preaching engagements. He incurred \$586 in expenses as a result of these activities (\$436 of travel expenses and \$150 of meal expenses). Note that Rev. Green will pay self-employment tax on this income (see Schedule SE) since it represents compensation from active ministry. Rev. Green made cash contributions of \$3,500 to qualifying 501(c)(3) public charities during 2024.

The parts of Rev. and Mrs. Green's income tax return are explained in the order they are completed. They are illustrated in the order that the Rev. Green will assemble the return to send it to the IRS.

Form 1099-R from the Board of Pensions

The Board of Pensions completed Form 1099-R for Rev. Green as follows:

Box 1. The \$15,000 pension income Rev. Green receives from the Board of Pensions.

Box 2b. Taxable amount not determined. The Board of Pensions designated in advance 100% of pension income as a housing allowance. It is not taxable to the extent that it does not exceed the lesser of actual housing expenses or the annual fair rental value of the home (including furnishings and utilities).

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

Schedule C (Form 1040)

Some of Rev. Green's entries on Schedule C are explained here.

Line 1. Rev. Green reports the \$2,000 from occasional guest preaching engagements.

Lines 2 through 7. Rev. Green fills out these lines to report his gross income reported on line 7. Rev. Green did not have any returns or allowances, cost of goods sold, or other income for the year. Therefore, the amount reported on line 7 is \$2,000.

Line 9. Rev. Green reports his car expenses on this line. Rev. Green incurred 651 miles of business use of his car in connection with guest preaching. Rev. Green used the standard mileage rate to figure his car expense. He multiplied the 2024 standard mileage rate of 67 cents by the 651 miles driven during the year. He calculated total mileage expenses of \$436. However, he cannot deduct the part of his expenses allocable to his tax-free parsonage allowance. He attaches a statement, Attachment 1 (shown later), to his return showing that 76% (or \$331) of his expenses are not deductible because they are allocable to that tax-free allowance. He subtracts the \$331 from the \$436 and enters the \$105 difference on line 9.

Line 24b. Rev. Green also incurred \$150 in business meal expenses in connection with guest preaching engagements. Only a 50% deduction is allowed for business meals, so Rev. Green calculates his otherwise deductible business meals expense to be \$75 (\$150 x 50%). However, he cannot deduct part of his expenses allocable to his tax-free parsonage allowance. He attaches a statement, Attachment 1 (shown later), to his return showing that 76% (or \$57) of his business meal expenses are not deductible because they are allocable to that tax-free allowance. He subtracts the \$57 from the \$75 and enters the \$18 difference on line 24b.

Line 28. Rev. Green enters his total expenses, less the 76% allocable to his tax-free parsonage allowance (\$105 + \$18) on line 28.

Lines 29 through 31. He enters his tentative profit of \$1,877 on lines 29 and 31 (since Rev. Green did not have any expenses for the business use of his home). The net income from Schedule C is also reported on Schedule 1 (Form 1040), line 3.

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

Turbo Tax tips:

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

Turbo Tax does not appear to calculate the nondeductible portion of the expenses which should be allocated to the tax-free portion of the housing allowance. The taxpayer will need to input the total amount of otherwise deductible expenses in lines 8 through 27b and input the nondeductible figure as a negative adjustment on line 27a (“Other Expenses”). When inputting meals, the taxpayer should note that Turbo Tax automatically calculates the 50% deduction for business meal expenses. Therefore, the taxpayer should input the total amount of business meal expenses (\$150) in the “Meals while traveling for business” section. Turbo Tax will calculate the deduction on line 24b as 50% (\$75) of the total business meal expenses.

If the total “Other Expenses” are negative after making the adjustment on line 27a for the nondeductible portion of the expenses allocated to the tax-free portion of the housing allowance, the taxpayer will instead need to calculate the deductible amount

of the expenses (as shown in Attachment 1) and input the reduced figures into lines 8 through 27b of Schedule C.

Schedule SE (Form 1040)

After Rev. Green prepares Schedule C, he fills out Schedule SE (Form 1040). Ministers are not church employees under this definition. Additionally, Rev. Green did not apply for an exemption from SE tax by filing Form 4361 and, therefore, leaves the first box on Schedule SE unchecked. He fills out the following lines in Part I.

Line 2. Rev. Green attaches a statement (see Attachment 2, later) that calculates his net profit of \$1,489, and he enters that amount here.

Lines 4a through 6. He multiplies the \$1,489 by .9235 to get his net earnings from self-employment (\$1,375). This amount is then carried through to line 6.

Line 10. The amount on line 6 is less than \$168,600, so Rev. Green multiplies the amount on line 6 (\$1,375) by .124 to get his self-employment Social Security tax of \$171.

Line 11. He multiplies the amount on line 6 by .029 to calculate the Medicare portion of the self-employment tax to be \$40.

Line 12. He adds the Social Security tax from line 10 and the Medicare tax on line 11 to determine his total self-employment tax of \$211. Rev. Green enters that amount here and on Schedule 2 (Form 1040), line 4.

Line 13. Rev. Green multiplies the amount on line 12 by .50 to get his deduction for the employer-equivalent portion of self-employment tax of \$106. He enters that amount here and on Schedule 1 (Form 1040), line 15.

Turbo Tax tips:

The software does not appear to reduce self-employment wages by the business expenses allocated to tax-free income. The taxpayer will need to adjust net self-employment income (as shown in Attachment 2) and input the reduced figure into the software. This can be done by going into the “Business Taxes” section and selecting “Self-Employment Tax.” Choose “Make Adjustments” and enter in the “Ministerial Business Expenses” item the additional expenses that were not deducted elsewhere on the return (\$388 in this example – see Attachment 2). If the “Ministerial Business Expenses” adjustment does not automatically populate in the software, the taxpayer can use the Schedule SE Adjustment Worksheet by navigating to the Forms mode within the Turbo Tax Desktop version to input the clergy business deductions and related explanation.

Qualified Business Income Deduction (Form 8995)

Ministers who have net profit reported on Schedule C for ministerial services and who have 2024 taxable income less than \$191,950 (\$383,900 if married filing jointly) before

the application of a qualified business income deduction may be eligible for such a deduction. However, since the Greens' taxable income before the application of a qualified business income deduction is \$0 (see completion of Form 1040 section below), the Greens are not eligible for such a deduction in 2024.

Form 1040, Schedule 1 (Form 1040), and Schedule 2 (Form 1040)

After Rev. Green prepares Schedule C and Schedule SE, he fills out Form 1040, along with Schedules 1 through 3 to the extent required.

For 2024, individuals born before January 2, 1960, have the option to complete Form 1040–SR instead of Form 1040. Although Rev. Green completes Form 1040, the line references below would also apply if Form 1040–SR was used.

Rev. Green files a joint return with his wife. First, he fills out Form 1040, Page 1, and completes the appropriate lines for his filing status, including checking the appropriate boxes indicating that he and his wife were born before January 2, 1960. Then, he fills out the rest of the form as follows:

Form 1040, Lines 5a and 5b. Rev. Green reports his total annuity income of \$15,000 on line 5a. He reports the taxable amount of \$2,000 (the excess of the amount designated and paid to him as a housing allowance over the lesser of his actual expenses or the fair rental value of his home, including furniture and utilities) as computed on Attachment 1 (shown later) on line 5b.

Form 1040, Lines 6a and 6b. Since none of Rev. Green's Social Security benefits are taxable, he does not report any amount on line 6b.

Schedule 1 (Form 1040), Line 10. He reports his net profit of \$1,877 from Schedule C, line 31 on Schedule 1, line 3. Since no other amounts are reported on Schedule 1 (Form 1040), lines 1–8, he also reports this amount on Schedule 1, line 10, and carries the figure to Form 1040, line 8.

Form 1040, Line 9. Rev. Green adds Form 1040, line 5b, and the amount reported on Form 1040, line 8, and enters the total (\$3,877) on line 9.

Form 1040, Lines 10 and 11. Because Rev. Green has reported deductible self-employment taxes of \$106 on Schedule 1 (Form 1040), line 15, Rev. Green goes to Schedule 1 (Form 1040) and completes the bottom section of the form. Since there are no other amounts listed on lines 11–25, Rev. Green reports \$106 on line 26 and carries this amount to line 10 of Form 1040. Rev. Green then subtracts line 10 from line 9 and enters his adjusted gross income of \$3,771 on line 11.

Form 1040, Line 12. Rev. Green enters his standard deduction of \$32,300 (which takes into consideration the fact he and his wife were born before January 2, 1960) on line 12.

Form 1040, Line 14. Since there is no amount listed for qualified business income deduction on line 13, Rev. Green reports \$32,300 on line 14.

Form 1040, Line 15. Rev. Green has no taxable income.

Form 1040, Page 2, Line 23, and Schedule 2 (Form 1040). Rev. Green completes Schedule 2 (Form 1040). Since the only amount reported on Schedule 2 (Form 1040) is his self-employment tax from Schedule SE, he reports the amount (\$211) on Schedule 2 (Form 1040), line 4 with the total of all other taxes on Line 21, and on Form 1040, line 23.

Form 1040, Lines 25a through 26. Rev. Green did not have any income tax withheld from his pension and did not have any other amounts to report on lines 25a through 26.

Form 1040, Page 2, Lines 27 through 32. Rev. Green completes the earned income credit worksheet in the Form 1040 instructions and determines that he does not qualify for the earned income credit. Accordingly, Rev. Green does not enter any amount on line 27. Instead, he writes “No” on the dotted line next to line 27. He also does not enter any amounts on lines 28 through 32.

Form 1040, Line 37. Rev. Green subtracts line 33 (\$0) from line 24 and enters \$211, the amount he owes to the IRS.

Turbo Tax tips:

As of the date of this writing, when entering the information on Form 1099-R, the software does not appear to provide a method for entering the taxable portion of the distributions as computed at Attachment 1 since certain of the distributions were excludable as a ministerial housing allowance. In prior years, the taxpayer could manually enter the taxable amount by choosing the “General Rule” and entering the amount determined at Attachment 1 in the field. This adjustment may be available when the 2024 software is fully released.

CORRECTED (if checked)

PAYER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone no. The Board of Pensions of the Presbyterian Church (USA) 2000 Market Street Philadelphia, PA 19103-3298 1-800-773-7752			1 Gross distribution \$ 15000.00		OMB No. 1545-0119 2024 Form 1099-R				
			2a Taxable amount \$		2b Taxable amount not determined <input checked="" type="checkbox"/> Total distribution <input type="checkbox"/>		Copy B Report this income on your federal tax return. If this form shows federal income tax withheld in box 4, attach this copy to your return. This information is being furnished to the IRS.		
PAYER'S TIN 23-1352010	RECIPIENT'S TIN 202-20-2002		3 Capital gain (included in box 2a) \$		4 Federal income tax withheld \$				
RECIPIENT'S name William K. Green Street address (including apt. no.) 787 Adams Street City or town, state or province, country, and ZIP or foreign postal code Anytown, NY 10002			5 Employee contributions/ Designated Roth contributions or insurance premiums \$		6 Net unrealized appreciation in employer's securities \$				
			7 Distribution code(s) 7	IRA/SEP/SIMPLE <input type="checkbox"/>	8 Other \$ %				
			9a Your percentage of total distribution %		9b Total employee contributions \$				
10 Amount allocable to IRR within 5 years \$	11 1st year of desig. Roth contrib.	12 FATCA filing requirement <input type="checkbox"/>	14 State tax withheld \$		15 State/Payer's state no.				
Account number (see instructions)		13 Date of payment	17 Local tax withheld \$		18 Name of locality				
			\$		19 Local distribution \$				

Form **1099-R**

www.irs.gov/Form1099R

Department of the Treasury - Internal Revenue Service

For the year Jan. 1–Dec. 31, 2024, or other tax year beginning _____, 2024, ending _____, 20 _____ See separate instructions.

Your first name and middle initial: William K; Last name: Green; Your social security number: 2 0 2 2 0 2 0 0 2

If joint return, spouse's first name and middle initial: Sarah J; Last name: Green; Spouse's social security number: 3 0 3 3 0 3 0 0 3

Home address (number and street): 787 Adams Street; Apt. no. _____; Presidential Election Campaign: Check here if you, or your spouse if filing jointly, want \$3 to go to this fund.

City, town, or post office: Anytown; State: NY; ZIP code: 10002

Foreign country name: _____; Foreign province/state/county: _____; Foreign postal code: _____; You [] Spouse []

Filing Status: [] Single; [x] Married filing jointly (even if only one had income); [] Married filing separately (MFS); [] Head of household (HOH); [] Qualifying surviving spouse (QSS); [] If treating a nonresident alien or dual-status alien spouse as a U.S. resident for the entire tax year, check the box and enter their name (see instructions and attach statement if required): _____

Digital Assets: At any time during 2024, did you: (a) receive (as a reward, award, or payment for property or services); or (b) sell, exchange, or otherwise dispose of a digital asset (or a financial interest in a digital asset)? [] Yes [x] No

Standard Deduction: Someone can claim: [] You as a dependent [] Your spouse as a dependent [] Spouse itemizes on a separate return or you were a dual-status alien

Age/Blindness: You: [x] Were born before January 2, 1960 [] Are blind; Spouse: [x] Was born before January 2, 1960 [] Is blind

Table with 5 columns: (1) First name, Last name, (2) Social security number, (3) Relationship to you, (4) Check the box if qualifies for (see instructions): Child tax credit, Credit for other dependents. Includes a note: If more than four dependents, see instructions and check here []

Income section table with columns 1a through 1z. Includes instructions: Attach Form(s) W-2 here. Also attach Forms W-2G and 1099-R if tax was withheld. If you did not get a Form W-2, see instructions.

Table with columns 2a through 6b. Includes instructions: Attach Sch. B if required.

Table with columns 7 through 15. Includes instructions: Standard Deduction for—• Single or Married filing separately, \$14,600 • Married filing jointly or Qualifying surviving spouse, \$29,200 • Head of household, \$21,900 • If you checked any box under Standard Deduction, see instructions.

Tax and Credits	16	Tax (see instructions). Check if any from Form(s): 1 <input type="checkbox"/> 8814 2 <input type="checkbox"/> 4972 3 <input type="checkbox"/>	16	0
	17	Amount from Schedule 2, line 3	17	
	18	Add lines 16 and 17	18	0
	19	Child tax credit or credit for other dependents from Schedule 8812	19	
	20	Amount from Schedule 3, line 8	20	
	21	Add lines 19 and 20	21	
	22	Subtract line 21 from line 18. If zero or less, enter -0-	22	0
	23	Other taxes, including self-employment tax, from Schedule 2, line 21	23	211
	24	Add lines 22 and 23. This is your total tax	24	211

Payments	25	Federal income tax withheld from:		
	a	Form(s) W-2	25a	
	b	Form(s) 1099	25b	
	c	Other forms (see instructions)	25c	
	d	Add lines 25a through 25c	25d	
	26	2024 estimated tax payments and amount applied from 2023 return	26	
	27	Earned income credit (EIC) No	27	
	28	Additional child tax credit from Schedule 8812	28	
	29	American opportunity credit from Form 8863, line 8	29	
	30	Reserved for future use	30	
	31	Amount from Schedule 3, line 15	31	
	32	Add lines 27, 28, 29, and 31. These are your total other payments and refundable credits	32	
	33	Add lines 25d, 26, and 32. These are your total payments	33	

If you have a qualifying child, attach Sch. EIC.

Refund	34	If line 33 is more than line 24, subtract line 24 from line 33. This is the amount you overpaid	34	
	35a	Amount of line 34 you want refunded to you . If Form 8888 is attached, check here <input type="checkbox"/>	35a	
	b	Routing number	c Type: <input type="checkbox"/> Checking <input type="checkbox"/> Savings	
	d	Account number		
Direct deposit? See instructions.	36	Amount of line 34 you want applied to your 2025 estimated tax	36	

Amount You Owe	37	Subtract line 33 from line 24. This is the amount you owe . For details on how to pay, go to www.irs.gov/Payments or see instructions.	37	211
	38	Estimated tax penalty (see instructions)	38	

Third Party Designee

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

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

Sign Here

Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.

Your signature <i>William Green</i>	Date 3/15/25	Your occupation Retired Minister	If the IRS sent you an Identity Protection PIN, enter it here (see inst.)
Spouse's signature. If a joint return, both must sign. <i>Sarah Green</i>	Date 3/15/25	Spouse's occupation Retired	If the IRS sent your spouse an Identity Protection PIN, enter it here (see inst.)
Phone no.	Email address		

Paid Preparer Use Only

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

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

**SCHEDULE 1
(Form 1040)**

Department of the Treasury
Internal Revenue Service

Additional Income and Adjustments to Income

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

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

OMB No. 1545-0074

2024

Attachment
Sequence No. **01**

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

Your social security number

William K & Sarah J Green

202-20-2002

For 2024, enter the amount reported to you on Form(s) 1099-K that was included in error or for personal items sold at a loss

Note: The remaining amounts reported to you on Form(s) 1099-K should be reported elsewhere on your return depending on the nature of the transaction. See www.irs.gov/1099k.

Part I Additional Income

1	Taxable refunds, credits, or offsets of state and local income taxes	1	
2a	Alimony received	2a	
b	Date of divorce or separation agreement (see instructions):		
3	Business income or (loss). Attach Schedule C	3	1,877
4	Other gains or (losses). Attach Form 4797	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:		
a	Net operating loss	8a	()
b	Gambling	8b	
c	Cancellation of debt	8c	
d	Foreign earned income exclusion from Form 2555	8d	()
e	Income from Form 8853	8e	
f	Income from Form 8889	8f	
g	Alaska Permanent Fund dividends	8g	
h	Jury duty pay	8h	
i	Prizes and awards	8i	
j	Activity not engaged in for profit income	8j	
k	Stock options	8k	
l	Income from the rental of personal property if you engaged in the rental for profit but were not in the business of renting such property	8l	
m	Olympic and Paralympic medals and USOC prize money (see instructions)	8m	
n	Section 951(a) inclusion (see instructions)	8n	
o	Section 951A(a) inclusion (see instructions)	8o	
p	Section 461(l) excess business loss adjustment	8p	
q	Taxable distributions from an ABL account (see instructions)	8q	
r	Scholarship and fellowship grants not reported on Form W-2	8r	
s	Nontaxable amount of Medicaid waiver payments included on Form 1040, line 1a or 1d	8s	()
t	Pension or annuity from a nonqualified deferred compensation plan or a nongovernmental section 457 plan	8t	
u	Wages earned while incarcerated	8u	
v	Digital assets received as ordinary income not reported elsewhere. See instructions	8v	
z	Other income. List type and amount:	8z	
9	Total other income. Add lines 8a through 8z	9	
10	Combine lines 1 through 7 and 9. This is your additional income . Enter here and on Form 1040, 1040-SR, or 1040-NR, line 8	10	1,877

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

Cat. No. 71479F

Schedule 1 (Form 1040) 2024

Part II Adjustments to Income			
11	Educator expenses	11	
12	Certain business expenses of reservists, performing artists, and fee-basis government officials. Attach Form 2106	12	
13	Health savings account deduction. Attach Form 8889	13	
14	Moving expenses for members of the Armed Forces. Attach Form 3903	14	
15	Deductible part of self-employment tax. Attach Schedule SE	15	106
16	Self-employed SEP, SIMPLE, and qualified plans	16	
17	Self-employed health insurance deduction	17	
18	Penalty on early withdrawal of savings	18	
19a	Alimony paid	19a	
b	Recipient's SSN		
c	Date of original divorce or separation agreement (see instructions):		
20	IRA deduction	20	
21	Student loan interest deduction	21	
22	Reserved for future use	22	
23	Archer MSA deduction	23	
24	Other adjustments:		
a	Jury duty pay (see instructions)	24a	
b	Deductible expenses related to income reported on line 8l from the rental of personal property engaged in for profit	24b	
c	Nontaxable amount of the value of Olympic and Paralympic medals and USOC prize money reported on line 8m	24c	
d	Reforestation amortization and expenses	24d	
e	Repayment of supplemental unemployment benefits under the Trade Act of 1974	24e	
f	Contributions to section 501(c)(18)(D) pension plans	24f	
g	Contributions by certain chaplains to section 403(b) plans	24g	
h	Attorney fees and court costs for actions involving certain unlawful discrimination claims (see instructions)	24h	
i	Attorney fees and court costs you paid in connection with an award from the IRS for information you provided that helped the IRS detect tax law violations	24i	
j	Housing deduction from Form 2555	24j	
k	Excess deductions of section 67(e) expenses from Schedule K-1 (Form 1041)	24k	
z	Other adjustments. List type and amount:	24z	
25	Total other adjustments. Add lines 24a through 24z	25	
26	Add lines 11 through 23 and 25. These are your adjustments to income . Enter here and on Form 1040, 1040-SR, or 1040-NR, line 10	26	106

**SCHEDULE 2
(Form 1040)**

Department of the Treasury
Internal Revenue Service

Additional Taxes

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

OMB No. 1545-0074

2024
Attachment
Sequence No. **02**

Name(s) shown on Form 1040, 1040-SR, or 1040-NR William K & Sarah J Green	Your social security number 202-20-2002
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Part I Tax			
1	Additions to tax:		
a	Excess advance premium tax credit repayment. Attach Form 8962	1a	
b	Repayment of new clean vehicle credit(s) transferred to a registered dealer from Schedule A (Form 8936), Part II. Attach Form 8936 and Schedule A (Form 8936)	1b	
c	Repayment of previously owned clean vehicle credit(s) transferred to a registered dealer from Schedule A (Form 8936), Part IV. Attach Form 8936 and Schedule A (Form 8936)	1c	
d	Recapture of net EPE from Form 4255, line 2a, column (l)	1d	
e	Excessive payments (EP) from Form 4255. Check applicable box and enter amount. (i) <input type="checkbox"/> Line 1a, column (n) (ii) <input type="checkbox"/> Line 1c, column (n) (iii) <input type="checkbox"/> Line 1d, column (n) (iv) <input type="checkbox"/> Line 2a, column (n)	1e	
f	20% EP from Form 4255. Check applicable box and enter amount. See instructions. (i) <input type="checkbox"/> Line 1a, column (o) (ii) <input type="checkbox"/> Line 1c, column (o) (iii) <input type="checkbox"/> Line 1d, column (o) (iv) <input type="checkbox"/> Line 2a, column (o)	1f	
y	Other additions to tax (see instructions):	1y	
z	Add lines 1a through 1y	1z	
2	Alternative minimum tax. Attach Form 6251	2	
3	Add lines 1z 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	211
5	Social security and Medicare tax on unreported tip income. Attach Form 4137	5	
6	Uncollected social security and Medicare tax on wages. Attach Form 8919	6	
7	Total additional social security and Medicare tax. Add lines 5 and 6	7	
8	Additional tax on IRAs or other tax-favored accounts. Attach Form 5329 if required. If not required, check here <input type="checkbox"/>	8	
9	Household employment taxes. Attach Schedule H	9	
10	Repayment of first-time homebuyer credit. Attach Form 5405 if required	10	
11	Additional Medicare Tax. Attach Form 8959	11	
12	Net investment income tax. Attach Form 8960	12	
13	Uncollected social security and Medicare or RRTA tax on tips or group-term life insurance from Form W-2, box 12	13	
14	Interest on tax due on installment income from the sale of certain residential lots and timeshares	14	
15	Interest on the deferred tax on gain from certain installment sales with a sales price over \$150,000	15	
16	Recapture of low-income housing credit. Attach Form 8611	16	

(continued on page 2)

Part II Other Taxes (continued)

17	Other additional taxes:		
a	Recapture of other credits. List type, form number, and amount:		
		17a	
b	Recapture of federal mortgage subsidy, if you sold your home see instructions	17b	
c	Additional tax on HSA distributions. Attach Form 8889	17c	
d	Additional tax on an HSA because you didn't remain an eligible individual. Attach Form 8889	17d	
e	Additional tax on Archer MSA distributions. Attach Form 8853	17e	
f	Additional tax on Medicare Advantage MSA distributions. Attach Form 8853	17f	
g	Recapture of a charitable contribution deduction related to a fractional interest in tangible personal property	17g	
h	Income you received from a nonqualified deferred compensation plan that fails to meet the requirements of section 409A	17h	
i	Compensation you received from a nonqualified deferred compensation plan described in section 457A	17i	
j	Section 72(m)(5) excess benefits tax	17j	
k	Golden parachute payments	17k	
l	Tax on accumulation distribution of trusts	17l	
m	Excise tax on insider stock compensation from an expatriated corporation	17m	
n	Look-back interest under section 167(g) or 460(b) from Form 8697 or 8866	17n	
o	Tax on non-effectively connected income for any part of the year you were a nonresident alien from Form 1040-NR	17o	
p	Any interest from Form 8621, line 16f, relating to distributions from, and dispositions of, stock of a section 1291 fund	17p	
q	Any interest from Form 8621, line 24	17q	
z	Any other taxes. List type and amount:		
		17z	
18	Total additional taxes. Add lines 17a through 17z		18
19	Recapture of net EPE from Form 4255, line 1d, column (l)		19
20	Section 965 net tax liability installment from Form 965-A	20	
21	Add lines 4, 7 through 16, and 18. These are your total other taxes . Enter here and on Form 1040 or 1040-SR, line 23, or Form 1040-NR, line 23b		21 211

**SCHEDULE C
(Form 1040)**

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

OMB No. 1545-0074

Department of the Treasury
Internal Revenue Service

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

2024
Attachment
Sequence No. **09**

Name of proprietor William K Green		Social security number (SSN) 202-20-2002
A Principal business or profession, including product or service (see instructions) Minister		B Enter code from instructions 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.) 787 Adams Street City, town or post office, state, and ZIP code Anytown, NY 10002		
F Accounting method: (1) <input checked="" type="checkbox"/> Cash (2) <input type="checkbox"/> Accrual (3) <input type="checkbox"/> Other (specify) _____		
G Did you "materially participate" in the operation of this business during 2024? 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 2024, check here		<input type="checkbox"/>
I Did you make any payments in 2024 that would require you to file Form(s) 1099? See instructions		<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
J If "Yes," did you or will you file required Form(s) 1099?		<input type="checkbox"/> Yes <input type="checkbox"/> No

Part I Income

1 Gross receipts or sales. See instructions for line 1 and check the box if this income was reported to you on Form W-2 and the "Statutory employee" box on that form was checked	<input type="checkbox"/>	1	2,000
2 Returns and allowances		2	
3 Subtract line 2 from line 1		3	2,000
4 Cost of goods sold (from line 42)		4	
5 Gross profit. Subtract line 4 from line 3		5	2,000
6 Other income, including federal and state gasoline or fuel tax credit or refund (see instructions)		6	
7 Gross income. Add lines 5 and 6		7	2,000

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

8 Advertising	8		18 Office expense (see instructions)	18	
9 Car and truck expenses (see instructions)	9	105*	19 Pension and profit-sharing plans	19	
10 Commissions and fees	10		20 Rent or lease (see instructions):		
11 Contract labor (see instructions)	11		a Vehicles, machinery, and equipment	20a	
12 Depletion	12		b Other business property	20b	
13 Depreciation and section 179 expense deduction (not included in Part III) (see instructions)	13		21 Repairs and maintenance	21	
14 Employee benefit programs (other than on line 19)	14		22 Supplies (not included in Part III)	22	
15 Insurance (other than health)	15		23 Taxes and licenses	23	
16 Interest (see instructions):			24 Travel and meals:		
a Mortgage (paid to banks, etc.)	16a		a Travel	24a	
b Other	16b		b Deductible meals (see instructions)	24b	18*
17 Legal and professional services	17		25 Utilities	25	
28 Total expenses before expenses for business use of home. Add lines 8 through 27b			26 Wages (less employment credits)	26	
29 Tentative profit or (loss). Subtract line 28 from line 7			27a Other expenses (from line 48)	27a	
30 Expenses for business use of your home. Do not report these expenses elsewhere. Attach Form 8829 unless using the simplified method. See instructions. Simplified method filers only: Enter the total square footage of (a) your home: _____ and (b) the part of your home used for business: _____. Use the Simplified Method Worksheet in the instructions to figure the amount to enter on line 30			b Energy efficient commercial bldgs deduction (attach Form 7205)	27b	
31 Net profit or (loss). Subtract line 30 from line 29. • If a profit, enter on both Schedule 1 (Form 1040), line 3 , and on Schedule SE, line 2 . (If you checked the box on line 1, see instructions.) Estates and trusts, enter on Form 1041, line 3 . • If a loss, you must go to line 32.			28 Total expenses before expenses for business use of home. Add lines 8 through 27b	28	123
32 If you have a loss, check the box that describes your investment in this activity. See instructions. • If you checked 32a, enter the loss on both Schedule 1 (Form 1040), line 3 , and on Schedule SE, line 2 . (If you checked the box on line 1, see the line 31 instructions.) Estates and trusts, enter on Form 1041, line 3 . • If you checked 32b, you must attach Form 6198 . Your loss may be limited.			29 Tentative profit or (loss). Subtract line 28 from line 7	29	1,877
			30 Expenses for business use of your home. Do not report these expenses elsewhere. Attach Form 8829 unless using the simplified method. See instructions. Simplified method filers only: Enter the total square footage of (a) your home: _____ and (b) the part of your home used for business: _____. Use the Simplified Method Worksheet in the instructions to figure the amount to enter on line 30	30	
			31 Net profit or (loss). Subtract line 30 from line 29. • If a profit, enter on both Schedule 1 (Form 1040), line 3 , and on Schedule SE, line 2 . (If you checked the box on line 1, see instructions.) Estates and trusts, enter on Form 1041, line 3 . • If a loss, you must go to line 32.	31	1,877

32a All investment is at risk.
32b Some investment is not at risk.

For Paperwork Reduction Act Notice, see the separate instructions.

Cat. No. 11334P

Schedule C (Form 1040) 2024

*See statement attached.

**SCHEDULE SE
(Form 1040)**

Department of the Treasury
Internal Revenue Service

Self-Employment Tax

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

OMB No. 1545-0074

2024
Attachment
Sequence No. **17**

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

Social security number of person
with self-employment income

William K Green

202-20-2002

Part I Self-Employment Tax

Note: If your only income subject to self-employment tax is **church employee income**, see instructions for how to report your income and the definition of church employee income.

A If you are a minister, member of a religious order, or Christian Science practitioner and you filed Form 4361, but you had \$400 or more of **other** net earnings from self-employment, check here and continue with Part I

Skip lines 1a and 1b if you use the farm optional method in Part II. See instructions.

1a Net farm profit or (loss) from Schedule F, line 34, and farm partnerships, Schedule K-1 (Form 1065), box 14, code A	1a	
b If you received social security retirement or disability benefits, enter the amount of Conservation Reserve Program payments included on Schedule F, line 4b, or listed on Schedule K-1 (Form 1065), box 20, code AQ	1b	()

Skip line 2 if you use the nonfarm optional method in Part II. See instructions.

2 Net profit or (loss) from Schedule C, line 31; and Schedule K-1 (Form 1065), box 14, code A (other than farming). See instructions for other income to report or if you are a minister or member of a religious order	2	1,489*
3 Combine lines 1a, 1b, and 2	3	1,489
4a If line 3 is more than zero, multiply line 3 by 92.35% (0.9235). Otherwise, enter amount from line 3	4a	1,375
Note: If line 4a is less than \$400 due to Conservation Reserve Program payments on line 1b, see instructions.		
b If you elect one or both of the optional methods, enter the total of lines 15 and 17 here	4b	
c Combine lines 4a and 4b. If less than \$400, stop ; you don't owe self-employment tax. Exception: If less than \$400 and you had church employee income , enter -0- and continue	4c	1,375
5a Enter your church employee income from Form W-2. See instructions for definition of church employee income	5a	
b Multiply line 5a by 92.35% (0.9235). If less than \$100, enter -0-	5b	0
6 Add lines 4c and 5b	6	1,375
7 Maximum amount of combined wages and self-employment earnings subject to social security tax or the 6.2% portion of the 7.65% railroad retirement (tier 1) tax for 2024	7	168,600

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 \$168,600 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	168,600
10 Multiply the smaller of line 6 or line 9 by 12.4% (0.124)	10	171
11 Multiply line 6 by 2.9% (0.029)	11	40
12 Self-employment tax. Add lines 10 and 11. Enter here and on Schedule 2 (Form 1040), line 4, or Form 1040-SS, Part I, line 3	12	211
13 Deduction for one-half of self-employment tax. Multiply line 12 by 50% (0.50). Enter here and on Schedule 1 (Form 1040), line 15	13	106

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

Cat. No. 11358Z

Schedule SE (Form 1040) 2024

*See statement attached.

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 \$10,380, or (b) your net farm profits ² were less than \$7,493.		
14	Maximum income for optional methods	6,920
15	Enter the smaller of: two-thirds (² / ₃) of gross farm income ¹ (not less than zero) or \$6,920. Also, include this amount on line 4b above	
Nonfarm Optional Method. You may use this method only if (a) your net nonfarm profits ³ were less than \$7,493 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	
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	

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.

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

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

Schedule C Deduction Computation	
Business use of car:	
651 x 67¢	\$ 436
Minus: Nondeductible part of business use of car (76% x \$436)	\$ (331)
Total business use of car (Line 9)	<u>\$ 105</u>
Meal expenses (\$150 less 50% reduction)	\$ 75
Minus: Nondeductible part of meals & entertainment (76% x \$75)	\$ (57)
Total meal expenses (Line 24b)	<u>\$ 18</u>
Schedule C deductions, Line 28	<u>\$ 123</u>
None of the other deductions claimed on the return are allocable to tax-free income.	

Attachment 2. Computation of Net Earnings from Self-Employment

Computation for Schedule SE (Form 1040)	
Net profit from Schedule C	\$ 1,877
Less:	
Schedule C expenses allocable to tax-free income (\$331 + \$57)	(388)
Net Self-Employment Income	<u>\$ 1,489</u>
Schedule SE, line 2	<u>\$ 1,489</u>

HELPFUL NUMBERS AND RESOURCES

To request IRS forms: 800-TAX-FORM or 800-829-3676

IRS home page—[irs.gov](https://www.irs.gov)

[ChurchLawAndTax.com](https://www.churchlawandtax.com)—A Church Law & Tax website featuring Richard Hammar and a host of other professionals who provide information on church law, tax, finance, and risk management.

[ChurchLawAndTaxStore.com](https://www.churchlawandtaxstore.com)—Church Law & Tax's online store with church management resources to keep your church safe, legal, and financially sound.

The [*2025 Church & Clergy Tax Guide*](#)—Richard Hammar's comprehensive, year-round tax reference published annually by Church Law & Tax.

[*Church Compensation, Second Edition \(with 2023 Updates\)*](#)—CPA Elaine Sommerville guides you through every aspect of employment compensation in easy-to-understand language.