

2018

Tax & Money
SERIES

EDITION

MINISTERS' TAXES MADE EASY

Federal, state, and other reporting made easy.



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This publication is designed to provide accurate and authoritative information regarding the subject matter covered. The text has been significantly excerpted from the *Zondervan Minister's Tax & Financial Guide*, 2018 edition. It is distributed with the understanding that neither the publisher nor the authors are engaged in rendering legal, accounting, or other professional services. If legal advice or other expert assistance is required, the services of a competent professional person should be sought.

Every effort has been made to make the materials in this text current as of the date of publication. Federal tax law, however, is subject to change. Congress can modify the law as it has on numerous occasions over the years. Also, court decisions and IRS rulings can significantly affect the application of federal tax laws. Such changes may affect the accuracy of this publication.

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Recent Developments

Ministers continue to be faced with a plethora of tax and finance developments. A summary of some of the more significant developments follows (see the “In the News” link at ECFA.Church for current updates on these issues and much more):

District Court calls minister's housing allowance unconstitutional. A Wisconsin federal district court issued a ruling in the fall of 2017 declaring the minister's housing allowance unconstitutional.

This decision does not come as a surprise as the same judge issued a similar ruling back in 2013 before the case was dismissed by a higher appeals court on the technical grounds of standing. Judge Barbara Crabb writes in her latest ruling, “I adhere to my earlier conclusion that [the minister's housing exclusion] violates the establishment clause because it does not have a secular purpose or effect and because a reasonable observer would view the statute as an endorsement of religion.”

Fast forward several years, and the parties and issues are very similar except that the plaintiff bringing the case (Freedom From Religion Foundation) has tried adjusting its approach to overcome the standing hurdle.

What is the immediate impact for ministers with housing allowances?

As of this publication, there is no immediate impact on ministers receiving a housing allowance from their church or other employer. The longer-term impact hinges on whether appeals are filed in the case.

If No Appeals Filed

It's possible there will be no appeals filed in the case by the government or other parties impacted (“intervenor defendants”), meaning the district court's decision will begin to apply immediately after the deadline expires for them to file an appeal.

If Appeals Filed

However, there is a good chance the government or other parties impacted will appeal the decision at least to the Seventh Circuit Court of Appeals and possibly even the U.S. Supreme Court.

An appeals court could disagree with the lower court and find the housing allowance constitutional. In the alternative, if the lower court ruling is upheld on appeal, the district court's ruling states it will not go into effect until 180 days after the appeals process concludes.

What about ministers living in parsonages?

The district court further clarified in its follow up ruling that this decision does not apply to Section 107(1) of the tax code. In other words, the ruling has no impact whatsoever on ministers living in church-provided housing (“parsonages”).

Watch for the latest developments as they unfold at “In the News” at ECFA.church.

Tax reform signed into law—how will ministers and churches be impacted? Massive new tax legislation was enacted in December 2017 at warp speed. Most changes will not affect 2017 returns filed in 2018.

Most individual tax provision are temporary. They expire after 2025. Unless the provisions are extended by another Congress, the provisions will revert automatically to the rules in effect for 2017.

The most significant issues for ministers are:

- The standard deduction nearly doubles to \$24,000 for couples, \$12,000 for singles, and \$18,000 for household heads. Folks age 65 or up and blind people get \$1,250 more per person. Given these much higher amounts, it is a sure thing that fewer ministers will itemize their deductions.

- Personal exemptions for individual filers and their dependents are repealed.
- The new law pares back or axes many deductions claimed by ministers:
 - The popular deduction for state and local taxes is squeezed. You can now deduct any combination of residential property taxes and income or sales taxes up to a \$10,000 cap.
 - Deductions for job-related moves are gone. If moving expenses are reimbursed by an employer, the amount is taxable income.
 - All miscellaneous write-offs on Schedule A subject to the 2%-of-adjusted gross income threshold are eliminated. This includes unreimbursed employee business expenses, tax return preparation costs, theft losses, and more. *Note:* Ministers should be sure their church-related expenses are reimbursed under an accountable plan beginning in 2018. Unreimbursed expenses will have absolutely no value for 2018 and later years.
 - Medical expense deductions are enhanced. The new law temporarily lowers the adjusted gross income threshold for deducting 2017 and 2018 medical expense on Schedule A from 10% to 7.5%.
- The law keeps seven tax brackets, but with different rates and break points.
- The penalty for the individual mandate under the Affordable Care Act has been eliminated.
- The child tax credit is doubled to \$2,000 for each dependent under age 17, with up to \$1,400 of the credit refundable to lower-income taxpayers, and it is available to many more taxpayers.



Key Federal Tax Limits, Rates, and Other Data			
	2016	2017	2018
Standard deductions, exemptions, and exclusions:			
Standard Deductions	Married-Joint Return \$12,600 Head of Household 9,300 Single 6,300 Married-Separate Returns 6,300	Married-Joint Return \$12,700 Head of Household 9,350 Single 6,350 Married-Separate Returns 6,350	Married-Joint Return \$24,000 Head of Household 18,000 Single 12,000 Married-Separate Returns 12,000
Personal & dependent exemption amount	\$4,050	\$4,050	0
Foreign earned income exclusion	\$100,800	\$102,100	\$104,100
Social security:			
SECA (OASDI & Medicare) rate	15.3% on wages up to \$250,000 married-joint, \$125,000 married-separate, and \$200,000 all others	15.3% on wages up to \$250,000 married-joint, \$125,000 married-separate, and \$200,000 all others	15.3% on wages up to \$250,000 married-joint, \$125,000 married-separate, and \$200,000 all others
OASDI maximum compensation base	\$118,500	\$127,200	\$128,400
Social security cost of living benefit increase	0.0%	0.3%	2%
Social security Full Retirement Age (FRA)	66 years	66 years	66 years
Medicare Part B premiums - Basic	\$104.90	\$108.50	\$134.00
Earnings ceiling for social security (for employment before FRA; special formula in FRA year)	Below FRA: \$15,720 Over FRA: None	Below FRA: \$16,920 Over FRA: None	Over FRA: None
Earnings limit in year FRA attained	\$41,880	\$44,880	\$45,360
Benefits and contributions:			
Maximum annual contribution to defined contribution plan	\$53,000	\$54,000	\$55,000
Maximum salary deduction for 401(k)/403(b)	\$18,000	\$18,000	\$18,500
401(k) & 403(b) over 50 "catch up" limit	\$6,000	\$6,000	\$6,000
Maximum income exclusion for nonqualified plans in 501(c)(3) organizations (IRC 457)	\$18,000	\$18,000	\$18,500
IRA contribution limit — age 49 and below	\$5,500	\$5,500	\$5,500
— age 50 and above	\$6,500	\$6,500	\$6,500
Highly compensated employee limit	\$120,000	\$120,000	\$120,000
Maximum annual contribution to health flexible spending arrangements	\$2,550	\$2,600	\$2,650
Per diem and mileage rates and other transportation:			
Standard per diem: Lowest rates in continental USA	Lodging \$89 Meals & Incidentals \$51	Lodging \$91 Meals & Incidentals \$51	Lodging \$93 Meals & Incidentals \$51
Business auto mileage rate	54¢ per mile	53.5¢ per mile	54.5¢ per mile
Moving & medical auto mileage rate	19¢ per mile	17¢ per mile	18¢ per mile
Charitable auto mileage rate	14¢ per mile	14¢ per mile	14¢ per mile
Airplane mileage rate ⁽¹⁾	\$1.31 per mile	\$1.29 per mile	\$1.21 per mile
Motorcycle mileage rate ⁽¹⁾	54.5¢ per mile	50.5¢ per mile	51.5¢ per mile
Bicycle commuting rate	\$20 per month	\$20 per month	N/A
Maximum value of reimbursement of business expenses (other than lodging) without receipt	\$75	\$75	\$75
Luxury automobile value (limit on use of cents-per-mile valuation of company automobile)	\$16,000	\$15,900	
Monthly limit on free parking	\$255	\$255	N/A ⁽²⁾
Transit passes/token — monthly tax-free limit	\$255	\$255	N/A ⁽²⁾
Other:			
Gift tax annual exclusion	\$14,000	\$14,000	\$15,000
⁽¹⁾ Privately owned vehicle mileage rates set by the U.S. General Services Administration ⁽²⁾ Disallowed except as necessary for the safety of employees.			

Get the Big Picture

Six special tax provisions are available only to individuals who qualify as “ministers” under federal tax rules and who perform services that qualify in the exercise of ministry under federal tax rules.

Special Tax Provisions for Ministers

1. Exclusion of the housing allowance for income tax purposes and the fair rental value of a church-owned parsonage provided rent-free to ministers.
2. Exemption of ministers from self-employment social security tax under very limited circumstances.
3. For social security tax purposes, treatment of ministers as self-employed as it relates to income from ministerial services.
4. Exemption of ministers’ compensation from mandatory income tax withholding.
5. Eligibility for a voluntary income tax withholding arrangement between minister-employees and the church.
6. Potential “double deduction” of mortgage interest and real estate taxes as itemized deductions and as excludable housing expenses for housing allowance purposes for ministers living in minister-provided housing.



Remember

The major tax benefit for most ministers is the special housing allowance treatment.



Remember

There is some flexibility in applying certain ministerial tax provisions. For example, ministers are exempt from mandatory income tax withholding but can enter into a voluntary income tax withholding arrangement. However, if ministers qualify for the housing allowance, self-employment social security tax (using Schedule SE) applies, not FICA—this is not optional.

When it comes to who should be considered a minister for tax purposes, the opinion of the IRS (based on tax law) is the only one that counts. The opinion of the worker or employer is not important. But unfortunately even the IRS does not seem to consistently apply the same rules in determining who is a minister.

Classification as a minister for tax purposes is very important. It determines how a minister prepares the tax return for income and social security tax purposes. For example, a qualified minister is eligible for the housing allowance. This alone can exclude thousands of dollars from income taxation. Also, ministers calculate self-employment social security tax on Schedule SE and pay the tax with Form 1040. Nonministers have one-half of their social security (FICA) tax withheld from salary payments, and the employer pays the other half.

According to tax law, there is a two-step process for determining whether the special tax provisions available to ministers apply to a particular worker. The first is whether the individual qualifies as a minister. The second is whether the minister is performing ministerial services.



Caution

Determination of ministerial status is far from a precise matter. Only a review of all the pertinent facts and circumstances for a particular minister will assist in determining whether an individual will qualify for ministerial tax status.

● Ministers Serving Local Churches

If you are employed by a church and are ordained, commissioned, or licensed and meet the following four tests, the IRS will generally consider you a minister. You

- ☐ administer the sacraments,
- ☐ are considered to be a religious leader by your church,
- ☐ conduct worship services, and
- ☐ have management responsibility in the control, conduct, or maintenance of your church.

Based on guidelines issued by the IRS, some of the four tests, but not necessarily all, must be met in determining ministerial status. This flexible approach is beneficial to many ministers because some positions relating to music, education, youth, or administration will not meet all four tests.

There is no requirement that you must be qualified to perform and actually perform every sacrament. If you are qualified to perform certain sacraments and actually perform or could perform some of the sacraments on occasion, you will generally meet this test. A similar test applies to conducting religious worship and providing management services. If you currently conduct religious worship and provide management services, have done it in the past, or could do it in the future, the test will generally be met.

Job titles have little significance for tax purposes. A licensed, commissioned, or ordained minister may have a job title that implies a ministry function. However, the actual responsibilities of the position will determine if the four-factor test above is met (see above). Ministers performing services of a routine nature, such as those performed by secretaries, clerks, and janitors, generally do not qualify as a minister for tax purposes.

Because of the inconsistency of these rulings, ministers serving in a local church who do not clearly meet all four factors should review these matters with a qualified professional adviser before filing income tax returns.

● Ministers in Denominational, Administrative, and Teaching Positions

Ordained, commissioned, or licensed ministers not serving local churches may qualify as “ministers” for federal tax purposes in the following situations:

Denominational service

This category encompasses the administration of religious denominations and their integral agencies, including teaching or administration in parochial schools, colleges, or universities that are under the authority of a church or denomination.

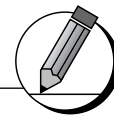
The IRS uses the following criteria to determine if an institution is an integral agency of a church:

- Did the church incorporate the institution?
- Does the corporate name of the institution suggest a church relationship?



Warning

Individuals serving local churches must meet certain tests to qualify as a minister in the eyes of the IRS. The individual should generally be ordained, licensed, or commissioned.



Tip

Ministers employed by institutions that are an “integral agency” of a religious denomination are subject to special tax treatment if their position is in a teaching or administrative area.

- Does the church continuously control, manage, and maintain the institution?
- If dissolved, will the assets be turned over to the church?
- Are the trustees or directors of the institution appointed by, or must they be approved by, the church and may they be removed by the church?
- Does the church require annual reports of finances and general operations?
- Does the church contribute to the support of the institution?

Assignment by a church to another parachurch ministry

Services performed by a minister for a parachurch organization based upon a substantive assignment or designation by a church may provide the basis for ministerial tax treatment. The housing allowance should be designated by the employing organization, not the assigning church.

The following characteristics must be present for an effective assignment:

- A sufficient relationship must exist between the minister and the assigning church to justify the assignment of the minister.
- An adequate relationship must exist between the assigning church and the parachurch organization to which the minister is assigned to justify the assignment.

To substantiate the relationship between the minister and the church, the church must determine “if there is sufficient authority, power, or legitimacy for the church to assign this particular minister.” Such matters as being the ordaining church, providing ongoing supervision, denominational affiliation, contributing significant financial support, or being the long-term “home church” would all appear to support this relationship.

In addressing the relationship between the church and the parachurch organization, the church must answer the question “why the church should assign a minister to this particular ministry.” Essentially, the assignment of the minister must accomplish the ministry purposes of the church.

In considering an assignment, it is important to distinguish between the process of assigning and the documentation of the assignment. The process of assigning expresses the church’s theology, philosophy, and policy of operation—its way of doing ministry. The documentation of the assignment provides evidence that the church is providing ministry through the particular individual assigned.

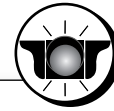
The following are keys to a proper assignment:

- A written policy describing the specific requirements for the relationship of the church both to the minister being assigned and to the parachurch organization to which the minister is assigned. This would include the church’s theological and policy goals for the assignment.
 - A formal review to confirm the qualifications of the minister and the proposed ministry with a parachurch organization.
 - A written assignment coupled with guidelines explaining how the church should supervise the minister and how the parachurch organization should report to the church.
 - A periodic (at least annual) formal review of the minister’s activities to confirm that the assignment continues to comply with the policy.
-

● Social Security Status of Ministers

Ministers engaged in the exercise of ministry are always treated as self-employed for social security tax purposes. Ministers pay social security under the Self-Employment Contributions Act (SECA) instead of the Federal Insurance Contributions Act (FICA). It is possible to become exempt from SECA only if a minister meets strict exemption requirements. The request for exemption must be filed using Form 4361 within a specified time from the beginning of ministry. The request for exemption must be approved by the IRS (see page 31).

Earnings that are not from the exercise of ministry are generally subject to social security tax under FICA or SECA as applied to all workers.



Caution

Social security is one of the most confusing issues for many ministers. FICA-type social security never applies to an individual who qualifies as a minister for tax purposes. Stated another way, if a housing allowance has been designated for a minister, FICA tax should not be deducted from pay—the minister is responsible to determine social security tax by completing Schedule SE each year.

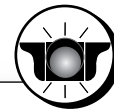
● Income Tax Status of Ministers

Are ministers employees or self-employed (independent contractors) for income tax purposes? The IRS considers virtually all ministers to be employees for income tax purposes. The income tax filing status has many ramifications for what and how churches and ministers report to the IRS.

The IRS often applies a common-law test to decide whether ministers are employees or self-employed for income tax purposes. Generally, a minister is an employee if the employer has the legal right to control both what the minister does and how it is done, even if the minister has considerable discretion and freedom of action. However, ministers who are employees of a church for income tax purposes may also be self-employed for income tax purposes with respect to certain services (baptisms, marriages, and funerals).

Determining if you are an employee or self-employed for income tax purposes will determine several other tax-related issues:

- ☐ Minister-employees must be given Form W-2 and report their compensation on page 1 of Form 1040. They are eligible to claim unreimbursed business expenses and expenses reimbursed under a nonaccountable plan on Schedule A (nonaccountable plan reimbursements must be included in compensation on Form W-2). If the minister itemizes deductions, business and professional expenses are deductible only to the extent that such expenses exceed 2% of adjusted gross income (AGI). Deductible business meals and entertainment expenses are limited to 50%. *Note:* This deduction on Schedule A is not available for 2018 tax returns filed in 2019.
- ☐ Accident, long-term care insurance, and qualified group health insurance premiums paid directly by a church or reimbursed by a church, after the minister provides substantiation, are not reportable as income to the minister-employee but must be reported as taxable income to the self-employed minister.



Caution

The IRS considers virtually all ministers as employees for income tax purposes. Employee income tax status actually is very beneficial to most ministers. Many fringe benefits are tax-free only to employees.



Key Issue

The defining court case on the topic of income tax status for ministers was a 1994 case in which a Methodist cleric took the position he was self-employed for income tax purposes. The Tax Court held that he was an employee for income tax purposes. A federal appeals court upheld the decision.

Minister-employees may deduct health, accident, and long-term care insurance premiums paid personally, and not reimbursed by the church, on Schedule A as a medical and dental expense, subject to a 10% limitation of adjusted gross income.

The impact of a minister being considered self-employed for income tax purposes is generally very significant even if only health insurance is considered. Reporting these premiums as taxable (minister-employee) versus tax-free (self-employed minister for income purposes) can impact the minister's tax bill by thousands of dollars. If health insurance premiums are included in taxable income, a low-income minister might also have his or her earned income tax credit reduced or eliminated.

- ☐ Health savings accounts, health reimbursement arrangements, or flexible spending accounts are only available to ministers who are employees for income tax purposes.
- ☐ Group-term life insurance of \$50,000 or less provided by a church is tax-free to minister-employees but represents taxable income for self-employed ministers.
- ☐ A voluntary arrangement to withhold income tax may be used by minister-employees but may not be used by the self-employed.

● Recommended Filing Status

Virtually all ministers serving local churches qualify as employees for income tax purposes. It is wise to file as an employee for income tax purposes, unless the minister can clearly demonstrate that self-employed status is appropriate. Few ministers can substantiate filing as self-employed for income tax purposes.

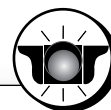
Even though ministers may take exception to the reporting of the church, the church has a responsibility under the law to determine the proper filing method and to proceed accordingly.

● Evangelists and Missionaries

The qualifications of itinerant evangelists for the special ministerial tax provisions are generally the same as for ministers serving local churches.

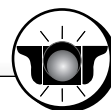
Most evangelists are self-employed both for income tax and self-employment social security tax purposes. The only exception is the evangelist who has formed a corporation and is an employee of the corporation. In this instance, the evangelist is an employee for income tax purposes, but remains self-employed for social security tax purposes.

Missionaries are also subject to the same rules to qualify for ministerial status for tax purposes. Qualifying for benefits such as a housing allowance is often not so important for minister-missionaries because of the foreign earned income exclusion. However, the question of ministerial tax status is vitally important to determine if ministers are subject to social security as employees or as self-employed persons. The foreign-earned income exclusion affects income tax but not social security tax.



Caution

With rare exceptions, ministers should receive Form W-2 from their church or other employer. Few ministers qualify as independent contractors for income tax purposes (even though considered self-employed for social security tax purposes). A church or other employer generally has sufficient control over the minister to qualify for W-2 treatment.



Caution

If a church directly pays or reimburses health insurance premiums for a minister considered to be self-employed for income tax purposes, the payments are fully taxable.



Key Issue

It is vital for churches to treat ministers as employees (Form W-2) for income tax purposes in nearly every instance. If ministers are not considered employees for income tax purposes, it jeopardizes the tax-free treatment of fringe benefits like health, accident, and long-term care insurance premiums, group-term life premiums, and certain other fringe benefits.

The Best Friend of Ministers

Nearly all ministers should have a portion of salary designated as a housing allowance. Maximizing housing benefits requires careful planning. For ministers living in church-owned housing, a housing allowance that covers expenses such as furnishings, personal property insurance on contents, utilities, and so on could save several hundred dollars of income taxes annually. A properly designated housing allowance may be worth thousands of dollars in tax savings for ministers living in their own homes or rented quarters. For ministers without a housing allowance, every dollar of compensation is taxable for federal income tax purposes.

The housing allowance provides an opportunity to exclude dollars from gross income. The designated housing allowance should be subtracted from compensation before the church completes the data on Form W-2. The housing allowance designation is not entered on Form 1040 or related schedules, except Schedule SE, since it is not a deduction for income tax purposes. However, any unused portion of the housing designation must be reported as income on page 1, Form 1040.

If the church properly designates a portion of a minister's cash salary for expenses of a home provided by the minister, the exclusion is commonly referred to as a housing allowance. If the church properly designates a portion of the cash salary for expenses incurred in relation to church-provided housing, the exclusion is often called a parsonage allowance. In either instance, it is an exclusion from income tax, not self-employment tax.

Ministers are eligible to exclude the fair rental value of church-provided housing for income tax purposes without any official action by the church. However, a cash housing allowance related to church-provided or minister-provided housing is only excludable under the following rules:

- **The allowance must be officially designated by the church.** The designation should be stated in writing, preferably by resolution of the top governing body, in an employment contract, or—at a minimum—in the church budget and payroll records. If the only reference to the housing allowance is in the church budget, the budget should be formally approved by the top governing body of the church.

Tax law does not specifically say an oral designation of the housing allowance is unacceptable. In certain instances, the IRS has accepted an oral housing designation. Still, the use of a written designation is preferable and highly recommended. The lack of a written designation significantly weakens the defense for the housing exclusion upon audit.

- **The housing allowance must be designated prospectively by the church.** Cash housing allowance payments made prior to a designation of the housing allowance are fully taxable for income tax purposes. Carefully word the resolution so that it will remain in effect until a subsequent resolution is adopted (see the examples on page 15).
- **Only actual expenses can be excluded from income.** The source of the funds used to pay the minister's housing expenses must be compensation earned by the minister in the exercise of ministry in the current year.
- **Only an annual comparison by ministers of housing expenses to the housing allowance is required.** For example, if the housing allowance designation is stated in terms of a weekly or monthly amount, only a comparison of actual housing expenses to the annualized housing allowance is required.
- **The housing allowance exclusion cannot exceed the fair rental value of the housing, plus utilities.**

● Types of Housing Arrangements

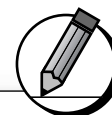
Ministers Living in a Parsonage Owned by or Rented by a Church

If a minister lives in a church-owned parsonage or housing rented by the church, the fair rental value of the housing is not reported for income tax purposes. The fair rental value is subject only to self-employment tax.

A minister may request a housing allowance to cover expenses incurred in maintaining the church-owned or rented housing. Examples of allowable expenses are utilities, repairs, furnishings, and appliances. If the actual expenses exceed the housing allowance designated by the church, the excess amount cannot be excluded from income.

It is appropriate for minister's out-of-pocket expenses for the maintenance of a church-owned parsonage to be reimbursed by the church if a full accounting is made. Such reimbursements do not relate to a housing allowance. If such expenses are not reimbursed, they could be excludable from income under a housing allowance.

If the church owns the parsonage, the church may wish to provide an equity allowance to help compensate ministers for equity not accumulated through home ownership. An equity allowance is taxable both for income and social security tax purposes, unless directed to a 403(b) tax-sheltered annuity or certain other retirement programs.



Tip

The designation of a housing allowance for ministers living in church-provided housing is often overlooked. While the largest housing allowance benefits go to ministers with mortgage payments on their own homes, a housing allowance of a few thousand dollars is often beneficial to ministers in a church-provided home.

Ministers Owning or Renting Their Own Home

If a minister owns or rents a home, the minister may exclude, for income tax purposes, a cash housing allowance that is not more than reasonable pay for services and is the *lowest* of (1) the amount used to provide a home from current church income, (2) the amount prospectively and officially designated, or (3) the fair rental value of the furnished home, plus utilities.

Many ministers make the mistake of automatically excluding from income, for income tax purposes, the total designated housing allowance, even though the fair rental value of the furnished home or actual housing expenses are less than the designation. This practice may cause a significant underpayment of income taxes.

Example: A minister lives in a personally owned home. The church prospectively designated \$28,000 of the salary as housing allowance. The minister spends \$27,000 for housing-related items. The fair rental value of the home is \$29,000. Since the amount spent is lower than the designated housing allowance or the fair rental value, the excludable housing is \$27,000. Therefore, \$1,000 (\$28,000 less \$27,000) must be added to taxable income on Form 1040, page 1, line 7. Unless the minister has opted out of social security, the entire \$28,000 is reportable for social security purposes on Schedule SE.

● Designating the Housing Allowance

The following steps are often followed in designating and excluding the housing allowance:

1. A minister estimates the housing-related expenses to be spent in the coming year and presents this information to the church.

2. The church then adopts a written housing allowance designation based on the estimate.
3. At the close of the tax year, the minister who provides his or her own housing compares the amount designated for housing, the housing expenses substantiated, and the fair rental value of the home including furnishings and utilities. The *lower* of these amounts is excluded for income tax purposes. Ministers living in church-provided housing must compare the amount designated and actual housing expenses and exclude the lower of the two amounts.

**Remember**

The housing allowance designation may be prospectively amended at any time during the year, regardless of whether the church uses a calendar or fiscal year. Changing the designation to cover expenses that have already been paid (almost all ministers use the cash basis for tax purposes) is not acceptable.

Designation Limits

The IRS does not place a limit on how much of ministerial compensation may be designated as a housing allowance by the employing church. But practical and reasonable limits usually apply.

Unless the amount is justified based on anticipated expenses and is within the fair rental value limit, it is generally inadvisable for the church to exclude 100% of compensation.

It is often best for the church to overdesignate your parsonage allowance by a reasonable amount, subject to the fair rental value test, to allow for unexpected expenses and increases in utility costs. Any excess housing allowance designated should be shown as income on line 7 of Form 1040.

● Reporting the Housing Allowance to Ministers

The designated housing allowance may be reflected for minister-employees on Form W-2 in Box 14 with the notation, "Housing Allowance." Though not required, this reporting method is suggested by Publication 517. Or, churches can report the designated housing allowance to ministers by providing a statement separate from Form W-2. This may be in a memo or letter. The statement should not be attached to your income tax returns.

Your church may erroneously include the housing allowance on Form W-2, Box 1. If this happens, the church should prepare a corrected Form W-2.

● Accounting for the Housing Allowance**Determining Fair Rental Value**

The determination of the fair rental value of church-provided housing for self-employment social security purposes is solely the responsibility of ministers. The church is not responsible to set the value. The fair rental value should be based on comparable rental values of other similar residences in the immediate neighborhood or community, comparably furnished.

One of the best methods to use in establishing fair rental value of your housing is to request a local realtor to estimate the value in writing. Place the estimate in your tax file and annually adjust the value for inflation and other local real estate valuation factors.

Housing Allowance in Excess of Actual Expenses or Fair Rental Value

Some ministers erroneously believe that they may exclude every dollar of the housing *designation* adopted by the church without limitation. The housing designation is merely the starting point. If reasonable compensation, actual expenses, or the fair rental value is lower, the lowest amount is eligible for exclusion from income.

Example: A minister living in a personally owned home receives cash compensation of \$60,000 from the church. The church prospectively designates \$20,000 as a housing allowance. The fair rental value is \$24,000. Actual housing expenses for the year are \$18,000. The amount excludable from income is limited to the actual housing expenses of \$18,000.

Actual Expenses in Excess of the Designated Housing Allowance or Fair Rental Value

Actual housing expenses that exceed the designated housing allowance are not excludable from income. There are no provisions to carry over “unused” housing expenses to the next year.

Example: A minister living in a personally owned home receives cash compensation of \$60,000 from the church. The church prospectively designates \$30,000 of the \$60,000 as a housing allowance. Actual housing expenses for the year are \$50,000. The fair rental value is \$28,000. The expenses were unusually high because of a down payment on that house. The amount excludable from income is the fair rental value of \$28,000. There is no carryover of the \$22,000 (\$50,000 less \$28,000) of actual expenses in excess of the designated housing allowance to the next tax year.

● Housing Allowances for Retired Ministers

Pension payments, retirement allowances, or disability payments paid to retired ministers from an established plan are generally taxable as pension income. However, denominations often designate a housing allowance for retired ministers to compensate them for past services to local churches of the denomination or in denominational administrative positions. The housing allowance designated relates only to payments from the denominationally sponsored retirement program.

Withdrawals from a denominationally sponsored 403(b), also called a tax-sheltered annuity (TSA), or 401(k) plan qualify for designation as a housing allowance. Withdrawals from a 403(b) or 401(k) plan not sponsored by a local church are not eligible for designation as a housing allowance. Retired ministers may also exclude the rental value of a home furnished by a church or a rental allowance paid by a church as compensation for past services.

If a denomination or organization reports the gross amount of pension or TSA payments on Form 1099-R and designates the housing allowance, the minister may offset the housing expenses and reflect the net amount on page 1, Form 1040. A supplementary schedule such as the following example should be attached to the tax return:

Pensions and annuity income (Form 1040, line 16a)	\$ 10,000
Less housing exclusion	<u>8,000</u>
Form 1040, line 16b	<u>\$ 2,000</u>



Remember

Payments from denominational retirement plans are generally allowed to be designated as a housing allowance designation. While a local church may designate a housing allowance for a retired minister, it is unclear if the IRS will honor the designation on the minister's tax return.

For retired ministers, the amount excluded for income tax purposes is limited to the lowest of (1) the amount used to provide a home, (2) the properly designated housing allowance, or (3) the fair rental value of the furnished home, plus utilities.

Housing Allowance Resolutions

Parsonage owned by or rented by a church

Whereas, the Internal Revenue Code permits ministers to exclude from gross income “the rental value of a home furnished as part of compensation” or a church-designated allowance paid as a part of compensation to the extent that actual expenses are paid from the allowance to maintain a parsonage owned or rented by the church;

Whereas, the church compensates (insert name) for services in the exercise of ministry; and

Whereas, the church provides (insert name) with rent-free use of a parsonage owned by (rented by) the church as a portion of the compensation for services rendered to the church in the exercise of ministry;

Resolved, That the compensation of (insert name) is \$4,500 per month, of which \$2,000 per month is a designated housing allowance; and

Resolved, That the designation of \$2,000 per month as a housing allowance shall apply until otherwise provided.

Home owned or rented by ministers

Whereas, the Internal Revenue Code permits a minister to exclude from gross income a church-designated allowance paid as part of compensation to the extent used for actual expenses in owning or renting a home; and

Whereas, the church compensates (insert name) for services in the exercise of ministry;

Resolved, That the compensation of (insert name) is \$4,500 per month, of which \$2,000 per month is a designated housing allowance; and

Resolved, That the designation of \$2,000 per month as a housing allowance shall apply until otherwise provided.

Evangelists

Whereas, the Internal Revenue Code permits ministers to exclude from gross income a church-designated allowance paid as part of compensation to the extent used in owning or renting a permanent home; and

Whereas, the church compensates (insert name) for services in the exercise of ministry as an evangelist;

Resolved, That the honorarium paid to (insert name) shall be \$1,512, consisting of \$312 for travel expenses (with documentation provided to the church), \$500 for housing allowance, and a \$700 honorarium.

Housing Allowance Worksheet

Ministers Living in Housing Owned or Rented by the Church

Name: _____

For the period _____, 20__ to _____, 20__

Date designation approved _____, 20__

Allowable Housing Expenses *(expenses paid by minister from current income)*

	Estimated Expenses	Actual	
Utilities (<i>gas, electricity, water</i>) and trash collection	\$ _____	\$ _____	
Local telephone expense (<i>base charge</i>)	_____	_____	
Decoration and redecoration	_____	_____	
Structural maintenance and repair	_____	_____	
Landscaping, gardening, and pest control	_____	_____	
Furnishings (<i>purchase, repair, replacement</i>)	_____	_____	
Personal property insurance on minister-owned contents	_____	_____	
Personal property taxes on contents	_____	_____	
Umbrella liability insurance	_____	_____	
Subtotal	_____		
10% allowance for unexpected expenses	_____		
TOTAL	\$ _____	\$ _____	(A)
Properly designated housing allowance		\$ _____	(B)

The amount excludable from income for federal income tax purposes is the *lower* of A or B.

Housing Allowance Worksheet

Minister-Owned Housing

Name: _____

For the period _____, 20__ to _____, 20__

Date designation approved _____, 20__

Allowable Housing Expenses *(expenses paid by minister from current income)*

	<u>Estimated Expenses</u>	<u>Actual</u>	
Down payment on purchase of housing	\$ _____	\$ _____	
Housing loan principal and interest payments ⁽¹⁾	_____	_____	
Real estate commission, escrow fees	_____	_____	
Real property taxes	_____	_____	
Personal property taxes on contents	_____	_____	
Homeowner's insurance	_____	_____	
Personal property insurance on contents	_____	_____	
Umbrella liability insurance	_____	_____	
Structural maintenance and repair	_____	_____	
Landscaping, gardening, and pest control	_____	_____	
Furnishings <i>(purchase, repair, replacement)</i>	_____	_____	
Decoration and redecoration	_____	_____	
Utilities <i>(gas, electricity, water)</i> and trash collection	_____	_____	
Local telephone expense <i>(base charge)</i>	_____	_____	
Homeowner's association dues/condominium fees	_____	_____	
Subtotal	_____		
10% allowance for unexpected expenses	_____		
TOTAL	\$ _____	\$ _____	(A)
Properly designated housing allowance		\$ _____	(B)
Fair rental value of home, including furnishings, plus utilities		\$ _____	(C)

⁽¹⁾ Loan payments on home equity loans or second mortgages are includible only to the extent the loan proceeds were used for housing expenses.

The amount excludable from income for federal income tax purposes is the *lowest* of A, B, or C.

More Than Meets the Eye

Ask most ministers how much they are paid, and the response will often be “My check from the church is \$1,000 a week.” But that tells us very little. Not only is your salary subject to tax, but so are many fringe benefits that you may receive.

What are fringe benefits? A fringe benefit is any cash, property, or service that ministers receive from the church in addition to salary. The term “fringe benefits” is really a misnomer because ministers have come to depend on them as a part of the total compensation package. All fringe benefits are taxable income to ministers unless specifically exempted by the Internal Revenue Code.

Many fringe benefits can be provided by a church to a minister without any dollar limitation (qualified health insurance is an example), while other fringe benefits are subject to annual limits (dependent care is an example). A brief discussion of some of the key fringe benefits follows.

● Tax Treatment of Compensation Elements

- **Business and professional expenses reimbursed with adequate accounting.** If the church reimburses ministers under an *accountable* plan for employment-related professional or business expenses (for example, auto, other travel, subscriptions, and entertainment), the reimbursement is not taxable compensation and is not reported to the IRS by the church or ministers. Per diem reimbursements up to IRS-approved limits also qualify as excludable reimbursements.
- **Business and professional expense payments without adequate accounting.** Many churches pay periodic allowances or reimbursements to ministers for business expenses with no requirement to account adequately for the expenses. These payments do not meet the requirements of an accountable expense reimbursement plan.

Allowances or reimbursements under a *nonaccountable* plan must be included in a minister's taxable income. For an employee, the expenses related to a nonaccountable reimbursement plan are deductible only if the minister itemizes expenses on Schedule A. Even then, the business expenses, combined with other miscellaneous deductions, must exceed 2% of adjusted gross income. *Note:* This deduction on Schedule A is not available for 2018 tax returns filed in 2019.

A portion of unreimbursed expenses are also subject to disallowance when they relate to a housing allowance according to the IRS.

- **Club dues and memberships.** Dues for professional organizations (such as ministerial associations) or public service organizations (such as Kiwanis, Rotary, and Lions Clubs) are generally deductible or reimbursable. Other club dues are generally not deductible or reimbursable (including any club organized for business, pleasure, recreation, or other social purposes). If the church pays the health, fitness, or athletic facility dues for a minister, the amounts paid are generally fully includible in the minister's income as additional compensation.
- **Disability insurance.** If the church pays the disability insurance premiums (and the minister is named as the beneficiary) as a part of the compensation package, the premiums are excluded from income. However, any disability policy proceeds must be included in gross income. This is based on who paid the premiums for the policy covering the year when the disability started. If the premiums are shared between the church and a minister, then the benefits are taxable in the same proportion as the payment of the premiums.



Idea

Statistics suggest that ministers are seven times more likely to need disability insurance than life insurance before age 65. When a church provides the maximum disability insurance as a tax-free benefit, it can reduce the awkwardness of a minister's transition relating to disability while serving the church.

Conversely, if you pay the disability insurance premiums or have the church withhold the premiums from your salary, you receive no current deduction and any disability benefits paid under the policy are not taxable to you.

A third option is for the church to pay the disability premiums. But instead of treating the premiums as tax-free, the church treats the premiums as additional ministerial compensation. Benefits you receive under this option are tax-free.

- **Educational reimbursement plans.** If your church requires you to take educational courses or if you take job-related courses, and your church either pays the expenses directly to the educational organization or reimburses you for the expenses after you make a full accounting, you may not have to include in income the amount paid by your church.

While there are no specific dollar limits on educational expenses paid under a nonqualified reimbursement plan, the general ordinary and necessary business expense rules do apply. These types of payments may be discriminatory.

Though the education may lead to a degree, expenses may be deductible or reimbursable if the education:

- ☐ is required by your church to keep your salary, status, or job (and serves a business purpose of your church), or
- ☐ maintains or improves skills required in your present employment.

Even though the above requirements are met, expenses do not qualify if the education is:

- ☐ required to meet the minimum educational requirements of your present work, or
- ☐ part of a program of study that will qualify you for a new occupation.

- **Entertainment expenses.** Ministers may deduct ministry-related entertainment expenses. Entertainment expenses must be directly related to, or associated with, the work of the church. Entertainment expenses are not deductible if they are lavish or extravagant.

If business meal and entertainment expenses are not reimbursed under an accountable plan, only 50% of the expenses are deductible. (While business meals and entertainment may be reimbursed in 2018, no deduction is available for 2018.) If the church reimburses the expenses, a 100% reimbursement may be made.

- **Flexible spending account (FSA).** “Cafeteria” (called cafeteria plans because a person can choose among several benefit options) or FSAs are plans used to reimburse the employee for certain personal expenses. They are provided by employers to pre-fund dependent care, medical, or dental expenses (often called a healthcare flexible spending account) in pre-tax dollars.

A cafeteria or flexible spending plan cannot discriminate in favor of highly compensated participants for contributions, benefits, or eligibility to participate in the plan. While only larger churches generally offer cafeteria plans because of plan complexity and cost, many churches could feasibly offer an FSA.

The money is the account holder’s to use during the plan year. Ultimately the employer owns the account and any unused balance at the end of the plan year or any administrative grace period is forfeited to the employer.



Idea

A deduction for college costs by itemizers and non-itemizers alike is available up to \$4,000. To take this deduction, the education need not be necessary for you to keep your position. The education can even qualify you for a new occupation.

An administrative grace period may be adopted as a way to provide relief without running afoul of the prohibition on deferred compensation. Under this provision, employees are permitted a grace period of 2½ months immediately following the end of the plan year. Expenses for qualified benefits incurred during the grace period may be paid or reimbursed from benefits or contributions remaining unused at the end of the plan year. There is also the option of rolling over any unused FSA dollars into the next plan year, but this option is subject to a \$500 limit.



Warning

Consult with your ministry's professional tax advisors before reimbursing medical expenses for employees. Under changes brought by the Affordable Care Act, non-compliant reimbursements may result in penalties of \$100 per employee per day.

- **Health insurance.** If the church pays a minister-employee's qualified group health insurance premiums directly to the insurance carrier, the premiums are tax-free to the minister. However, if similar payments are made for a minister whom the church considers to be self-employed for income tax purposes, the payments represent additional taxable income.
- **Health savings account (HSA).** HSAs are individual, portable, tax-free, interest-bearing accounts (typically held by a bank or insurance company) through which individuals with a high-deductible health plan (HDHP) save for medical expenses. The purpose of an HSA is to pay what basic coverage would ordinarily pay.

Within limits, HSA contributions made by employers are excludable from income tax and social security wages and do not affect the computation of the earned income credit. HSA contributions may not be funded through salary reduction. Earnings on amounts in an HSA are not currently taxable, and HSA distributions used to pay for medical expenses are not taxable.

Funding of an HSA by the employer may fluctuate from one month to the next. This is unlike a cafeteria or flexible spending account, under which changes in contributions are generally only available on each January 1.

Only employees who are enrolled in qualifying high-deductible plans may participate in an HSA. A state high-risk health insurance plan (high-risk pool) qualifies as an HDHP if it does not pay benefits below the minimum annual deductible under the HSA rules.

HSA withdrawals do not qualify to cover over-the-counter medications (other than insulin or doctor-prescribed medicine). Additionally, there is an excise tax for nonqualified HSA withdrawals (withdrawals not used for qualified medical expenses) of 20%.

- **Life insurance/group-term.** If the group life coverage provided under a nondiscriminatory plan does not exceed \$50,000 for ministers, the life insurance premiums are generally tax-free to minister-employees. Group-term life insurance coverage of more than \$50,000 provided to a minister by the church is taxable under somewhat favorable IRS tables.
- **Rabbi Trust.** Rabbi Trusts are used by some churches to "fund" nonqualified 457 deferred compensation plans. Churches make cash contributions to the trust to fund their future obligation to pay deferred compensation benefits. The funds contributed are tax deferred in a similar manner to other tax deferred vehicles such as a 403(b) plan. The name "Rabbi Trust" was established because the first IRS letter ruling with respect to this type of trust involved a rabbi. However, the Rabbi Trust is now widely utilized in commercial enterprises and nonprofit organizations.

In some instances, depending on a participant's includable income (generally, includable income is a participant's salary without including parsonage), churches can make contributions that exceed the IRS maximum annual contribution limits for a 403(b) plan.

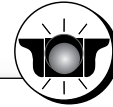
- **Social security tax reimbursement.** Churches commonly reimburse ministers for a portion or all of their self-employment social security (SECA) tax liability. Any social security reimbursement must be reported as taxable income.

Because of the deductibility of the self-employment tax in both the income tax and self-employment tax computations, a full reimbursement is effectively less than the gross 15.3% rate.

- **Tuition and fee discounts.** If you are an employee of a church-operated elementary, secondary, or undergraduate institution, certain tuition and fee discounts provided to a minister, spouse, or dependent children are generally tax-free. The discounts must be nondiscriminatory and relate to an educational program.

If you are employed by the church and not by the church-related or church-operated private school, any tuition and fee discounts that you receive are taxable income.

- **Vehicles/personal use of church-owned vehicle.** The personal use of a church-provided vehicle is considered a taxable fringe benefit. The fair market value of the personal use must be included in the minister's gross income, unless the full value is reimbursed to the church.



Caution

An allowance to cover the minister's self-employment social security tax provides absolutely no tax benefit since the amount is fully taxable. However, paying at least one-half of the minister's social security tax is important so this amount can be properly shown as a fringe benefit for compensation analysis purposes.

Reporting Compensation, Fringe Benefits, and Reimbursements for Income Tax Purposes*

Explanation	Minister-Employee
Bonus or gift from the church	Taxable income/Form W-2
Business and professional expenses reimbursed with adequate accounting	Tax-free/excluded
Business and professional expense payments without adequate accounting	Deduction on Schedule A, Miscellaneous Deductions. Subject to 2% of AGI and 50% meals and entertainment limits
Club dues paid by the church	Taxable income/Form W-2 (exception for dues for professional organizations and civic and public service groups)
Compensation reported to the minister by the church	Form W-2
Dependent care assistance payments	Tax-free, subject to limitations
Educational assistance programs	May be eligible to exclude up to \$5,250 of qualified assistance
401(k) plan	Eligible for 401(k)
403(b) tax-sheltered annuity	Eligible for 403(b)
Gifts/personal (not handled through the church)	Tax-free/excluded
Health Savings Account	Tax-free, if plan is properly established
Healthcare flexible spending account	Tax-free, if plan is properly established
Housing allowance	Excludable, subject to limitations
IRA payments by church	Taxable income/Form W-2, may be deducted on Form 1040, line 32
Insurance, disability, paid by minister; minister is beneficiary	Premiums paid after tax; proceeds are tax-free
Insurance, disability paid by church; minister is beneficiary	Premiums are tax-free; proceeds are taxable
Insurance, group-term life paid by church	First \$50,000 of coverage is tax-free, if plan is properly established
* Many of these compensation elements are conditioned on plans being properly established and subject to annual limits.	

Explanation	Minister-Employee
Insurance, health premiums	Tax-free, if directly paid by church as part of a qualifying group plan. If paid by minister and not reimbursed by church, deduct on Schedule A
Insurance, life, whole or universal, church is beneficiary	Tax-free/excluded
Insurance, life, whole or universal, minister designates beneficiary	Taxable income/Form W-2
Insurance, long-term care	Tax-free if directly paid by the church or reimbursed to minister on substantiation. If paid by minister and not reimbursed by church, deduct on Schedule A subject to limitations
Loans, certain low-interest or interest-free loans over \$10,000 to ministers	Imputed (the difference between the IRS-established interest rate and the rate charged) interest is taxable income/Form W-2
Moving expenses paid by the church (only applies to certain qualified expenses)	Tax-free if directly paid by the church or reimbursed to minister on substantiation. Reported on Form W-2, Box 12, using Code P (taxable in 2018)
Pension payments by the church to a denominational plan for minister	Tax-deferred. No reporting required until the funds are withdrawn by minister or pension benefits are paid
Per diem payments for meals, lodging, and incidental expenses	May be used for travel away from home under an accountable reimbursement plan
Professional income (weddings, funerals)	Taxable income/Schedule C (C-EZ)
Property transferred to minister at no cost or less than fair market value	Taxable income/Form W-2
Retirement or farewell gift to minister from church	Generally taxable income/Form W-2
Salary from church	Report salary on page 1, Form 1040
Social security reimbursed by church to minister	Taxable income/Form W-2
Travel paid for minister's spouse by the church	May be tax-free if there is a business purpose
Tuition and fee discounts	May be tax-free in certain situations
Value of home provided to minister	Tax-free/excluded, subject to limitations
Vehicles/personal use of church-owned automobile	Taxable income/Form W-2
Voluntary withholding	Eligible for voluntary withholding agreement

How Much Are They Worth?

Note: The deduction of business and professional expenses on Schedule A is eliminated in 2018 under tax reform (see pages 3–4).

Most ministers spend several thousand dollars each year on church-related business expenses. For example, the ministry-related portion of auto expenses is often a major cost.

Business and professional expenses fall into three basic categories: expenses reimbursed under an accountable plan, expenses paid under a nonaccountable plan, and unreimbursed expenses. The last two categories are treated the same for tax purposes. You will almost always save tax dollars if your expenses are reimbursed.

The reimbursement of an expense never changes the character of the item from personal to business. Business expenses are business whether or not they are reimbursed. Personal expenses are always nondeductible and nonreimbursable. If a personal expense is inadvertently reimbursed by the church, ministers should immediately refund the money to the church.

To be deductible or reimbursable, a business expense must be both ordinary and necessary. An ordinary expense is one that is common and accepted in your field. A necessary expense is one that is helpful and appropriate for your field. An expense does not have to be indispensable to be considered necessary.



Key Issue

Combining an accountable expense reimbursement plan with a housing allowance or health reimbursement arrangement (or any other fringe benefit plan) is not permissible. These concepts are each covered under separate sections of the tax law and cannot be commingled.

● **Accountable and Nonaccountable Expense Reimbursement Plans**

An accountable plan is a reimbursement or expense allowance arrangement established by your church that requires (1) a business purpose for the expenses, (2) substantiation of the expenses to the church, and (3) the return of any excess reimbursements.

The substantiation of expenses and return of excess reimbursements must be handled within a reasonable time. The following methods meet the “reasonable time” definition:

➤ The fixed date method applies if:

- ☐ an advance is made within 30 days of when an expense is paid or incurred;
- ☐ an expense is substantiated to the church within 60 days after the expense is paid or incurred; and
- ☐ any excess amount is returned to the church within 120 days after the expense is paid or incurred.

➤ The periodic statement method applies if:

- ☐ the church provides employees with a periodic statement that sets forth the amount paid that is more than substantiated expenses under the arrangement;
- ☐ the statements are provided at least quarterly;
- ☐ the church requests that ministers provide substantiation for any additional expenses that have not yet been substantiated and/or return any amounts remaining unsubstantiated within 120 days of the statement.

If you substantiate your business expenses to the church and any unused payments are returned, expense reimbursements have no impact on your taxes. The expenses reimbursed are not included on Form W-2 or deducted on your tax return.

The IRS disallows deductions for a portion of unreimbursed business expenses on the premise that the expenses can be allocated to your tax-exempt housing allowance (see page 29). This is another reason that all ministers should comply with the accountable expense reimbursement rules. The goal should be to eliminate all unreimbursed business expenses.

Nonaccountable Expense Reimbursement Plans

If you do not substantiate your business expenses to the church, or if the amount [of the reimbursement exceeds your actual expenses and the excess is not returned to the church within a reasonable period, your tax life becomes more complicated. Nonaccountable reimbursements and excess reimbursements over IRS mileage or per diem limits must be included in your gross income and reported as wages on Form W-2.

Unreimbursed expenses or expenses reimbursed under a nonaccountable plan can be deducted only as itemized miscellaneous deductions and only to the extent that they, with your other miscellaneous deductions, exceed 2% of your adjusted gross income. Unreimbursed expenses are not deductible if you are an employee for income tax purposes and do not itemize.

If your church pays you an “allowance” for business expenses, it represents taxable compensation. The term “allowance” implies that the payment is not based upon documented expenses, does not meet the adequate accounting requirements for an accountable plan, and must be included in your income.



Warning

Many ministers are paid expense “allowances.” These payments accomplish nothing in terms of good stewardship. “Allowances” are fully taxable for income and social security tax purposes. Ministers must then resort to trying to deduct their expenses—much of which will be limited by the tax law—instead of receiving a full reimbursement.

● Documenting Business Expenses

For expenses to be allowed as deductions, you must show that you spent the money and that you spent it for a legitimate business reason. To prove that you spent the money, you generally need to provide documentary evidence that can be confirmed by a third party. Canceled checks, credit card statements, or other receipts are an excellent starting point. To the IRS, third-party verification is important; if business expenses are paid in cash, be sure to get a receipt.

Documenting a business expense can be time-consuming. The IRS is satisfied if you note the five Ws on the back of your credit card slip or other receipt:

- Why (business purpose)
- What (description, including itemized accounting of cost)
- When (date)
- Where (location)
- Who (names of those for whom the expense was incurred; *e.g.*, Pastor Mark Smith)



Remember

When ministers provide a listing of business expenses to the church or other employer—this is only a report, not documentation. Documentary evidence is much more than a report. It involves a hard-copy support of the five Ws (why, what, when, where, and who).

The only exception to the documentation rules is if your individual outlays for business expenses, other than for lodging, come to less than \$75. The IRS does not require receipts for such expenses, although the five Ws are still required. You always need a receipt for lodging expenses regardless of the amount. A church may apply a documentation threshold lower than \$75.

● Auto Expense Deductions

A minister's car expenses are deductible or reimbursable to the extent they are for business (or income producing) rather than personal use. Generally, only those expenses that are necessary to drive and maintain a car that is used to go from one workplace to another are deductible.

Mileage and Actual Expense Methods

In determining your deduction for the business use of a personal car, you can use one of two methods to figure your deduction: the standard mileage rate or the actual expense method. Generally, you can choose the method that gives you the greater deduction.

Standard Mileage Rate Method

If your church pays you a fixed mileage rate up to the IRS standard rate (see page 5 for rates) and you provide the church with the time, place, and business purpose of your driving, you have made an adequate accounting of your automobile expenses.

If the church does not reimburse you for auto expenses or reimburses you under a nonaccountable plan, you may deduct business miles on Form 2106 (2106-EZ). The total from Form 2106 (2106-EZ) is carried to Schedule A, Miscellaneous Deductions.

The standard mileage rate, which includes depreciation and maintenance costs, is based on the government's estimate of the average cost of operating an automobile. Depending upon the make, age, and cost of the car, the mileage rate may be more or less than your actual auto expense. If you use the mileage rate, you also may deduct parking fees, tolls, and the business portion of the personal property tax. All auto-related taxes must be claimed on Schedule A for employees.



Remember

The standard mileage rate may generate a lower deduction than using actual expenses in some instances. But the simplicity of the standard mileage method is a very compelling feature.

Actual Expense Method

If you keep accurate records, determining your deduction for most expenses should be straightforward. Generally, the amount of depreciation you may claim and the method you use to calculate it depend on when you purchased your automobile and began to use it for ministerial purposes.

Under the actual expense method, you can use either accelerated depreciation or straight-line depreciation. As the names imply, the accelerated method front-loads the depreciation, giving you larger deductions sooner. The straight-line method gives you the same depreciation deduction every year.

Allowable expenses under the actual expense method include: gas and oil, interest on an auto loan, repairs, lease payments, tires, automobile club membership, batteries, car washes and waxes, insurance, license plates, parking fees and tolls, and supplies, such as antifreeze.



Warning

You have an important decision to make the first year you put a car into service. You will generally want to use the standard mileage rate in that first year. If you do not use the standard mileage rate in the first year, you may not use it for that car in any year.

Commuting

Personal mileage is never deductible. Commuting expenses are nondeductible personal expenses.

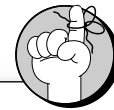
Unless your home-office qualifies as a home-office under tax law, travel from home to the church (a regular work location) and return for church services and other work at the church is commuting and is not deductible or reimbursable. The same rule applies to multiple trips made in the same day. On the other hand, the cost of traveling between your home and a temporary work location is generally deductible or reimbursable. Once you arrive at the first work location, temporary or regular, you may deduct trips between work locations.

A regular place of business is any location at which you work or perform services on a regular basis. These services may be performed every week, for example, or merely on a set schedule.

A temporary place of business is any location at which you perform services on an irregular or short-term (i.e., generally a matter of days or weeks) basis.

Documentation of Auto Expense

To support your automobile expense deduction or reimbursement, automobile expenses must be substantiated by adequate records. A weekly or monthly mileage log that identifies dates, destinations, business purposes, and odometer readings in order to allocate total mileage between business and personal use is a basic necessity if you use the mileage method. If you use the actual expense method, a mileage log and supporting documentation on expenses are required.



Remember

For your records to withstand an IRS audit, use a daily mileage log to document business vs. personal mileage. Whether you keep a notepad in the car or track the data on your smartphone, some type of log is the best approach to submitting data for reimbursement from your church or taking a tax deduction.

Per diem allowance

The IRS provides per diem allowances under which the amount of away-from-home meals and lodging expenses may be substantiated. These rates may not be used to claim deductions for unreimbursed expenses and may not be used to reimburse volunteers. Higher per diem rates apply to certain locations annually identified by the IRS. For more information on these rules, see IRS Publication 1542.

● Other Business and Professional Expenses

Business Gifts

You can deduct up to \$25 per donee for business gifts to any number of individuals every year. Incidental costs, such as for engraving, gift wrapping, insurance, and mailing do not need to be included in determining whether the \$25 limit has been exceeded.

The gifts must be related to your ministry. Gifts to church staff or board members would generally be deductible, subject to the \$25 limit. Wedding and graduation gifts generally do not qualify as business expenses.

Entertainment

Meal and entertainment expenses are deductible or reimbursable if they are ordinary and necessary and are either directly related to or associated with your ministerial responsibilities.

Personal Computers

Personal computers you own and use more than 50% for ministry may be depreciated (or reimbursed) as five-year recovery property or deducted (but not reimbursed).

The business portion of depreciation may be reimbursed under an accountable expense reimbursement plan if the 50% business “convenience of the employer (church)” and “condition of employment” tests are met.

If a computer is provided by the church in the church office but you prefer to work at home on your personal computer, it is not being used for the church’s convenience. If you meet the “convenience of the church” and “condition of employment” tests but do not use your computer (and related equipment) more than 50% of the time for your work, you must depreciate these items using the straight-line method and you cannot take the Section 179 write-off. If you qualify under the home-office rules, the 50% test does not apply to you.

Adequate records of the business use of your computer should be maintained to substantiate your deductions.

Subscriptions and Books

Subscriptions to minister-related periodicals are deductible. If the information in a news magazine relates to your ministerial preparation, that periodical may qualify for a deduction.

The cost of books related to your ministry with a useful life of one year or less may be deducted. The cost of books with a useful life of more than one year may be depreciated over the useful life.

Telephone

You may not deduct, as a business expense, any of the basic local service charges (including taxes) for the first telephone line into your home. Ministry-related long distance calls, a second line, special equipment, and services used for business are deductible. If you are out of town on a business trip, the IRS generally will not challenge a reasonable number of calls home. Although your basic local telephone service (including taxes) for the first telephone line into your home is not deductible for tax purposes, it is includible as a housing expense for housing allowance purposes.

Telephone/Cellular

The IRS treats the value of a church-provided cell phone and similar telecommunications equipment (including the value of any personal use by the employee) as excludible from the employee’s income as long as the cell phone is provided to the employee primarily for a noncompensatory business reason (such as the employer’s need to contact the employee at all times for work-related emergencies). Providing a cell phone to promote morale or goodwill, to attract a prospective employee, or to furnish additional compensation to an employee is evidence that there is no noncompensatory business reason.



Warning

If ministers purchase a computer and use it primarily for church work and meet the “condition” and “convenience” tests, only the depreciation on the business portion of the computer can be reimbursed by the church, not the entire cost of the business portion, based on the Section 179 first-year write-off rules.



Remember

If a church provides a cell phone to an employee primarily for a noncompensatory business reason, the value of the cell phone is excludible from the employee’s income.

Church staff may be reimbursed for the business use of a cell phone but the church should probably require the employee to submit a copy of the monthly bill and evidence that the bill has been paid.

If a church does not have a substantial noncompensatory business reason for providing a cell phone to an employee, or reimbursing the employee for business use of his or her personal cell phone, the value of the use of the phone, or the amount of the reimbursement is includible in gross income, reportable on Forms 941 and W-2, and for lay employees is subject to federal and state employment tax withholding.

● Allocation of Business Expenses

If you receive a rental or parsonage allowance that is tax-free, you must allocate the expenses of operating your ministry (this is commonly referred to as the “Deason Rule”). You cannot deduct expenses that are allocable to your tax-free rental or parsonage allowance. This rule does not apply to your deductions for home mortgage interest or real estate taxes. See examples on pages 42 and 60.

This limitation requires the following calculation:

1. Amount of tax-exempt income (the fair rental value of a church-provided parsonage and the housing allowance excluded from gross income; this may be less than the church-designated housing allowance) \$ _____

2. Total income from ministry:

Salary (including the fair rental value of a church-provided parsonage and the housing allowance excluded from gross income)	\$ _____	
Fees	_____	
Allowances (nonaccountable plan)	_____	\$ _____

3. Divide line 1 amount by line 2 amount = % of nontaxable income. _____ %

4. Total unreimbursed business and professional expenses, less 50% of meals and entertainment expenses. \$ _____

5. Multiply line 4 total by line 3 percentage (these are non-deductible expenses allocable to tax-exempt income). \$ _____

6. Subtract line 5 amount from line 4 amount (these are deductible expenses for federal income tax purposes on Form 2106 [2106-EZ] or Schedule C [C-EZ]). \$ _____

Income Taxes

The federal income tax is a pay-as-you-go tax. You must pay the tax as you earn or receive income during the year. Employees usually have income tax withheld from their pay. However, the pay of a qualified minister is not subject to federal income tax withholding. Ministers who are employees for income tax purposes may enter into a voluntary withholding agreement with the church to cover any income tax and self-employment social security tax that are due. IRS Publication 505 provides additional information on tax withholding and estimated taxes.

● Tax Withholding

Churches are not required to withhold income taxes from wages paid to ministers for services performed in the exercise of their ministry. The exemption does not apply to nonministerial church employees such as a secretary, organist, or custodian.

Minister-employees may have a voluntary withholding agreement with the employing church to cover income taxes (the amount may be set high enough to also cover the self-employment social security tax liability). Ministers need only file Form W-4 with the church to establish a voluntary withholding arrangement.

● Estimated Tax

Estimated tax is the method used to pay income and self-employment taxes for income that is not subject to withholding. Your estimated tax is your expected tax for the year minus your expected withholding and credits.

If you are filing a declaration of estimated tax, complete the quarterly Forms 1040-ES. If 2017 estimated taxes are \$1,000 or less, no declaration of estimated tax is required.

If your estimated tax payments for 2018 equal 90% of the 2017 tax liability, you will generally avoid underpayment penalties. An option is to make the 2018 estimated tax payments equal 100% of your 2017 federal and social security taxes (Form 1040, page 2, line 61). This method generally avoids underpayment penalties and is easier to calculate.

In estimating 2018 taxes, net earnings from self-employment should be reduced by 7.65% before calculating the self-employment tax of 15.3%. There also is an income tax deduction for one-half of your self-employment tax (Form 1040, page 1, line 27).

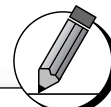
You pay one-fourth of your total estimated taxes in installments as follows:

<u>For the Period</u>	<u>Due Date</u>
Jan. 1 - Mar. 31	April 15
April 1 - May 31	June 15
June 1 - Aug. 31	September 15
Sept. 1 - Dec. 31	January 15



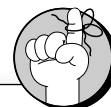
Idea

Though not required, churches should offer to withhold federal (and state and local, where applicable) income taxes (never FICA taxes!) from ministerial pay. Filing Forms 1040-ES often means saving up money for the 4/15, 6/15, 9/15, and 1/15 deadlines. Withholding the proper amount each week or payday is so much more efficient.



Filing Tip

When using the estimated tax method of submitting income and social security tax money to the IRS, pay at least as much as your previous year's total taxes (before offsetting withholding, estimated tax payments, etc.). Spread the payments equally over the four Forms 1040-ES. This will generally avoid underpayment penalties.



Remember

State income tax payment requirements may also be met by making estimated state tax payments.

Social Security Taxes

Social security taxes are collected under two systems. Under the Federal Insurance Contributions Act (FICA), the employer pays one-half of the tax and the employee pays the other half. Under the Self-Employment Contributions Act (SECA), the self-employed person pays all the tax (self-employment tax) as calculated on the taxpayer's Schedule SE.

Compensation received by ministers for services performed in the exercise of ministry is self-employment income and is always subject to self-employment tax (SECA). Ministerial income is exempt from SECA only if you have opted out of social security. Federal Insurance Contributions Act (FICA) social security tax should *never* be withheld from the compensation of qualified ministers.

● Opting Out of Social Security Taxes

All ministers are automatically covered by social security (SECA) for services in the exercise of ministry, unless an exemption has been received based on the filing with and approval by the IRS of Form 4361. You must certify that you oppose, either conscientiously or because of religious principles, the *acceptance* of any public insurance (with respect to services performed as a minister), including social security coverage. This includes an opposition to insurance that helps pay for or provides services for medical care (such as Medicare) and social security benefits. Your opinion of the financial stability of the social security program is not a valid basis to file for exemption.

Deadline for Filing for an Exemption

The application for exemption from self-employment tax must be filed by the date your tax return is due, including extensions, for the second year in which you had net ministerial income of \$400 or more. These do not have to be consecutive tax years.

● Computing the Self-Employment Tax

The following tax rates apply to net earnings from self-employment of \$400 or more each year:

Year	Tax Rate		Maximum Earnings Base	
	OASDI	Medicare	OASDI	Medicare
2016	12.4%	2.9%	\$118,500	no limit
2017	12.4%	2.9%	127,200	no limit
2018	12.4%	2.9%	128,400	no limit

OASDI = Old-age, survivors, and disability insurance, or social security

● Self-Employment Tax Deductions

You can take an income tax deduction equal to one-half of your self-employment tax liability. The deduction is claimed against gross income on line 27 of Form 1040, page 1. You may also deduct a portion of your self-employment tax liability in calculating your self-employment tax. This deduction is made on Schedule SE, Section A, line 4 or Section B, line 4a, by multiplying self-employment income by .9235. The purpose of these deductions is to equalize the social security (and income) taxes paid by (and for) employees and self-employed persons with equivalent income.



Warning

Opting out of social security is relatively simple. Form 4361 must be filed by the due date of the tax return for the second year with \$400 or more, any portion of which comes from the exercise of ministry. But the simplicity of opting out should not be confused with the significant difficulty of complying with the requirements for opting out.



Key Issue

Unless ministers have opted out of social security, the net ministerial income plus the excluded housing allowance and the fair rental value of church-provided housing is subject to self-employment social security tax. This is true even if the minister is retired and receiving social security benefits. There is no age limit on paying social security tax.

Line by Line

Form 1040

There are two short forms; the 51-line 1040A and the super-short, 14-line 1040EZ. Generally, ministers should use the 79-line Form 1040 instead. It accommodates every minister, and there's no penalty for leaving some of the lines blank. Besides, going down the 1040 line by line may jog your memory about money you received or spent in 2017. (Line numbers noted refer to the 1040 and related schedules.)

- **Filing status (lines 1 to 5).** **Line 2:** If your spouse died in 2017, you can still file jointly and take advantage of tax rates that would be lower than if you were to file as a single person or as a head of household.

Line 3: If you're married and live in a separate-property state, compute your tax two ways—jointly and separately. Then, file the return resulting in the lower tax.

Line 4: If you're single, you may qualify as head of household if you provided a home for someone else—like your parent. Filing as head of household rather than as a single person can save you a bundle on taxes.

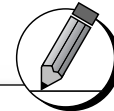
Line 5: If your spouse died in 2015 or 2016 and you have a dependent child, you can also benefit from joint-return rates as a qualifying widow(er).

- **Exemptions (lines 6a to 6d).** Remember to include a social security number for any dependent who was at least one year old on December 31, 2017. If your child does not have one, obtain Form SS-5, Application for a Social Security Number, at <http://www.ssa.gov/online/ssa-5.html>. If you are unable to secure the social security number before the filing deadline, file for an extension of time to file.

- **Income (lines 7 to 22).** **Line 7:** If your employer considered you an employee for income tax purposes, you should receive Form W-2 from the employer. The total amount of your taxable wages is shown in Box 1 of Form W-2; attach Copy B of your W-2 to your Form 1040. Include the data from other W-2s you or your spouse received on this line. If the employer erroneously included your housing allowance in Box 1, Form W-2, ask the church to reissue a corrected Form W-2.

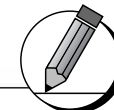
If your cash housing allowance designated and paid by the employer exceeds the lowest of (1) reasonable compensation, (2) the amount used to provide a home from current ministerial income, (3) the amount properly designated by the employer, or (4) the fair rental value of the home including utilities and furnishings, enter the difference on line 7.

Line 8a: Include as taxable-interest income the total amount of what you earned on savings accounts, certificates of deposit, credit union accounts, corporate bonds and corporate bond mutual funds, U.S. treasuries and U.S. government mutual funds, and interest paid to you for a belated federal or state tax refund (whether or not you have received a Form 1099-INT). If you haven't yet received any of the statements due to you,



Filing Tip

Form 1040, Line 7. All compensation from Forms W-2 is reported on line 7. Be sure your church has not included the housing allowance amount in Box 1 of Form W-2.



Filing Tip

Form 1040, Line 7. If the housing allowance designated by the employer exceeds the housing allowance exclusion to which you are entitled, you must include the difference on line 7 with a description "Excess housing allowance." Your exclusion is limited by the lower of the fair rental value of a minister-provided home or your actual housing expenses.

call the issuer to get them. If you received more than \$1,500 of taxable interest income in 2017, you must also complete Schedule B.

Line 8b: Here's where you note any tax-exempt interest from municipal bond funds. Don't worry—that income is not taxable. However, social security recipients must count all their tax-exempt interest when computing how much of their social security benefits will be taxable.

Line 9a: Enter as dividend income only ordinary dividends, not capital-gains dividends paid by mutual funds, which are reported on Schedule D. Your Form 1099-DIV statements show the amount and type of ordinary dividends you received in 2017. If you received more than \$1,500 in dividend income in 2017, you must also complete Schedule B. Remember: Earnings from a money-market mutual fund are considered dividend income, not interest income.

Line 10: If you received a refund of a state or local tax in 2017 that you deducted on Schedule A in a prior year, include the refund here.

Line 12: Even when you file as an employee for income tax purposes, you will probably have some honoraria or fee income from speaking engagements, weddings, funerals, and so on. This income, less related expenses (see pages 41 and 50), should be reported on Schedule C or C-EZ and entered on this line.

Line 13: Enter capital-gains dividends here if you had no other capital gains or losses in 2017.

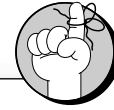
Line 15a: Report as IRA distributions even amounts you rolled over tax-free in 2017 from one IRA into another. On line 15b, you will report as taxable the amount of any IRA distributions that you did not roll over minus any return of nondeductible contributions.

Line 16a: It's likely that only a portion of the total pensions and annuities you received is taxable. Your Form 1099-R will show the taxable amount, which you enter on line 16b. If you received pensions and annuities from a denominationally sponsored plan, you may be eligible to exclude a portion or all of these payments as a housing allowance.

Line 20a: No more than 85% of your social security benefits can be taxed for 2017 and none at all if your provisional income is below \$32,000 on a joint return, or \$25,000 for singles. If your income doesn't exceed the threshold, leave this line blank. If it does, use the worksheet on Form 1099-SSA to compute taxes on your benefits.

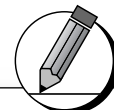
- **Adjustments to income (lines 23 to 37).** **Line 25:** Health savings account deduction. Contributions made by a taxpayer to a health savings account (HSA) up to \$3,400 for an individual plan and up to \$6,750 for a family plan are deductible on this line. Individuals who have reached age 55 by the end of the tax year are allowed to increase their annual contribution for years after 2017.

Line 26: If your employer paid directly or reimbursed you for your qualified moving costs incurred in 2017, these amounts would not be included as compensation on your Form W-2. Therefore, you would have no moving expenses to deduct on line 26. However, if part or all of your moving costs were not paid directly or reimbursed, deduct these expenses here.



Remember

Most ministers do not have to file a separate schedule if interest or dividend income is \$1,500 or less. Only the totals need to be reported on Form 1040.



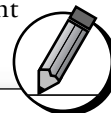
Filing Tip

Form 1040, Line 12. The only ministerial income that should be reported on line 12 is fees from weddings, funerals, speaking engagements, and similar income. Unreimbursed expenses related to this income should be deducted on Schedule C or Schedule C-EZ.

Line 27: One-half of your social security tax that is deductible for income tax purposes is reflected on this line. This number comes from Schedule SE, Section A, line 6 or Section B, line 13.

Line 33: Interest paid on a qualifying student loan may be deducted on this line.

Line 36: If you are employed as a chaplain or any other minister-employee of a nonreligious organization, use this line for your deduction of 403(b) contributions that you sent directly to the plan. On the dotted line next to line 36, enter the amount of your deduction and identify it as indicated.



Filing Tip

Form 1040, Line 54. If you made contributions to a 403(b) or 401(k) plan, and your adjusted gross income was \$50,000 or less, you may be eligible for this credit. The credit is also available for contributions to either a traditional or a Roth IRA. The excluded portion of minister's housing does not reduce this credit.

- **Tax computation (lines 38 to 56). Line 40:** Claim the standard deduction only if the amount exceeds what you could write off in itemizing expenses on Schedule A. For 2017, the standard deduction is \$12,700 joint, \$9,500 head of household, and \$6,350 single. The amounts are higher if you or your spouse is 65 or older or legally blind.

Line 52: Taxpayers with adjusted gross income of \$50,000 or less may claim a credit on this line equal to a certain percentage of the employee contributions made to a retirement account or IRA (must complete Form 8880).

- **Other taxes (lines 57 to 63). Line 57:** If you are a qualified minister (see pages 7–8) and have not opted out of social security, you are self-employed for social security tax purposes. Your social security is not withheld by your church but is calculated on Schedule SE if you had net earnings of \$400 or more and paid with Form 1040. The tax is 15.3% of the first \$127,200 of 2017 self-employment income and 2.95% of income above \$127,200. If your total wages and self-employment earnings were less than \$127,200, you can probably save time and headaches by filing the Short Schedule SE on the front of the SE form.

Line 59: You will owe the tax on qualified plans plus the 10% penalty on the amount you withdrew from your IRA or another retirement plan if you were under 59½, unless you meet certain exceptions.

- **Payments (lines 64 to 74). Line 64:** Did you have a voluntary withholding arrangement whereby your employing church withheld federal income tax from your compensation? Then show the amount of federal income tax the church withheld (from your W-2, Box 2) along with other federal income tax withholding from other employment of you or your spouse here. Also include tax withheld on your W-2G and other Forms 1099 and W-2. The amount withheld should be shown in Box 2 of Form W-2G, in Box 6 of Form 1099-SSA, and Box 4 of other Forms 1099.

Line 65: Don't get confused: Even though you made your fourth-quarter 2017 estimated tax payment in January 2018, it's counted on your 2017 return.

Line 66a: Enter your earned income tax credit here or let the IRS calculate it for you. If you have a qualifying child, you must complete Schedule EIC.

- **Refund or amount you owe (lines 75 to 79). Line 79:** The IRS assumes you must pay the estimated tax penalty if you owe \$1,000 or more beyond what you've paid through withholding or estimated tax and the amount due is more than 110% of your 2016 tax bill. You may qualify for one of several exceptions, however. Use Form 2210 to prove your case.

Schedule A (Itemized Deductions)

If you live in church-provided housing, you often cannot itemize. However, you can work through Schedule A just to see whether you might have more write-offs than the standard deduction will permit.

- **Medical and dental expenses (lines 1 to 4).** Don't overlook the cost of getting to and from the doctor or druggist. Write off 17 cents per mile plus the cost of parking. If you didn't drive, deduct your bus, train, or taxi fares. The cost of trips to see out-of-town specialists and as much as \$50 a day for the cost of lodging when you're out of town to get medical care count toward the 7.5%. Include all your health insurance premiums, as well as Medicare Part B premiums for 2017.
- **Taxes you paid (lines 5 to 9).** Even though your real estate taxes are a housing expense excludable under the housing allowance, you may still deduct them (even for multiple properties if not deducted elsewhere on the return) on line 6 as an itemized deduction—one of the few "double deductions" allowed in the tax law.
- **Interest you paid (lines 10 to 15).** **Line 10:** If you bought a house during 2017, review your escrow or settlement papers for any mortgage interest you paid that was not shown on your lender's year-end statement. If you paid interest on a second mortgage or line of credit secured by your home, include the interest expense here.

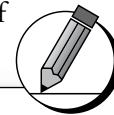
As with real estate taxes, it is possible to deduct mortgage interest as an itemized deduction even if the interest is included in housing expenses subject to a housing allowance. Interest paid on a secured mortgage is deductible on Schedule A regardless of how the proceeds of the loan are used. However, the only mortgage interest properly includible as housing expense under a housing allowance is when the loan proceeds were used to provide housing. For example, interest on a second mortgage used to finance your child's college education is deductible on Schedule A but does not qualify as a housing expense for housing allowance purposes.

Don't overlook points you paid to get the mortgage. All of the points are generally deductible as interest here. Points paid for a refinancing must be amortized over the life of the loan. However, you can deduct on your 2017 return the portion of all points paid that correspond with the percentage of your refinancing used for home improvements.

- **Gifts to charity (lines 16 to 19).** **Line 16:** For gifts you made in 2017, you must have written acknowledgments from the charity of any single gifts of \$250 or more and for all gifts of cash.

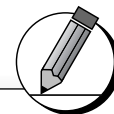
Line 17: Deduct your charitable mileage for any volunteer work at the rate of 14 cents a mile.

- **Job expenses and other miscellaneous deductions (lines 21 to 27).** Don't assume you can't surmount the 2% AGI floor on these miscellaneous deductions. A wealth of employee business, investment, and tax-related expenses—from job-hunting costs to tax preparation fees—are deductible here. And if you bought business equipment required by your employer and you were not reimbursed, you can write off its entire cost up to the 2017 limit. (However, see the allocation of expense rules, page 29, and examples on pages 42 and 60.)



Filing Tip

Schedule A, Lines 6, 10-12. These lines relate to the most significant tax break available to ministers who own their own homes. Even though real estate taxes, mortgage interest, and points are excludable under the housing allowance, subject to certain limits, the same amounts are deductible as itemized deductions.



Filing Tip

Schedule A, Line 21. Since the deduction for meal and entertainment expense is limited on Form 2106, expenses claimed on lines 21 to 23 are reduced by 2% of your adjusted gross income, and the standard deduction may be advantageous for you. Using an accountable expense reimbursement plan to reduce or eliminate unreimbursed expenses is generally a wise move.

Sample Return No. 1

- Accountable expense reimbursement plan
- Minister owns residence
- Pays federal taxes through voluntary withholding
- Church reimbursed nonqualifying moving expenses
- Housing fair rental value test applied
- 403(b) contribution by salary reduction and employer contributions
- Application of Deason Rule

Minister considered to be an employee for income tax purposes with an accountable business expense plan.

The Browns live in a home they are personally purchasing. Pastor Brown has entered into a voluntary withholding agreement with the church, and \$12,000 of federal income taxes are withheld.

Income, Benefits, and Reimbursements:

Church salary	\$64,850
Christmas and other special occasion gifts paid by the church based on designed member-gifts to the church	750
Honoraria for performing weddings, funerals, and baptisms	650
Honorarium for speaking as an evangelist at another church	1,000
Mutual fund dividend income:	
Capital gain distributions	150
Interest income:	
Taxable	175
Reimbursement of self-employment tax	12,000

Business Expenses, Itemized Deductions, Housing, and Other Data:

100% of church-related expenses (including 9,412 business miles) paid personally were reimbursed by the church under an accountable expense plan, based on timely substantiation of the expenses.

Expenses related to honoraria income:

Parking	\$ 25
Travel –	
929 x 53.5¢ per mile	497
Meals and entertainment	50
Other	200

Potential itemized deductions:

Unreimbursed doctors, dentists, and drugs	1,500
State and local income taxes:	
2016 taxes paid in 2017	400
Withheld from salary	1,600
Real estate taxes on home	1,000
Home mortgage interest	14,850
Cash contributions	8,200
Noncash contributions – household	
furniture/fair market value	266
Tax preparation fee	200
Student loan interest	1,906

Housing data:

Designation	26,000
Actual expenses	25,625
Fair rental value including utilities	25,000

403(b) pre-tax contributions for Pastor Brown:

Voluntary employee contributions made under a salary reduction agreement	500
Nonvoluntary employer contributions	2,000

Moving expenses reimbursed under a nonqualified plan (see page 44)	6,750
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Form 1040 Department of the Treasury—Internal Revenue Service (99) 2017 U.S. Individual Income Tax Return		OMB No. 1545-0074 IRS Use Only—Do not write or staple in this space.	
For the year Jan. 1–Dec. 31, 2017, or other tax year beginning , 2017, and ending , 20			
Your first name and initial Milton L.		Last name Brown	
If a joint return, spouse's first name and initial Alessia S.		Last name Brown	
Home address (number and street). If you have a P.O. box, see instructions. 418 Trenton Street		Apt. no. 	
City, town or post office, state, and ZIP code. If you have a foreign address, also complete spaces below (see instructions). Springfield, OH 45504		Presidential Election Campaign Check here if you, or your spouse if filing jointly, want \$3 to go to this fund. Checking a box below will not change your tax or refund. <input type="checkbox"/> You <input type="checkbox"/> Spouse	
Foreign country name		Foreign province/state/county	
Foreign postal code			
Filing Status			
1 <input type="checkbox"/> Single 2 <input checked="" type="checkbox"/> Married filing jointly (even if only one had income) 3 <input type="checkbox"/> Married filing separately. Enter spouse's SSN above and full name here. ▶ 4 <input type="checkbox"/> Head of household (with qualifying person). (See instructions.) If the qualifying person is a child but not your dependent, enter this child's name here. ▶ 5 <input type="checkbox"/> Qualifying widow(er) (see instructions)			
Exemptions			
6a <input checked="" type="checkbox"/> Yourself. If someone can claim you as a dependent, do not check box 6a. b <input checked="" type="checkbox"/> Spouse			
c Dependents:			
(1) First name Last name (2) Dependent's social security number (3) Dependent's relationship to you (4) <input checked="" type="checkbox"/> if child under age 17 qualifying for child tax credit (see instructions)			
Charles Brown 514 43 9196 Son <input checked="" type="checkbox"/>			
If more than four dependents, see instructions and check here <input type="checkbox"/>			
d Total number of exemptions claimed 3			
Income			
7 Wages, salaries, tips, etc. Attach Form(s) W-2 Incl. Excess Housing Allow. \$1,000 58,850			
8a Taxable interest. Attach Schedule B if required 175			
b Tax-exempt interest. Do not include on line 8a 8b			
9a Ordinary dividends. Attach Schedule B if required 9a			
b Qualified dividends 9b			
10 Taxable refunds, credits, or offsets of state and local income taxes			
11 Alimony received			
12 Business income or (loss). Attach Schedule C or C-EZ 1,120			
13 Capital gain or (loss). Attach Schedule D if required. If not required, check here <input checked="" type="checkbox"/> 150			
14 Other gains or (losses). Attach Form 4797			
15a IRA distributions 15a b Taxable amount 15b			
16a Pensions and annuities 16a b Taxable amount 16b			
17 Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E			
18 Farm income or (loss). Attach Schedule F			
19 Unemployment compensation			
20a Social security benefits 20a b Taxable amount 20b			
21 Other income. List type and amount			
22 Combine the amounts in the far right column for lines 7 through 21. This is your total income 60,295			
Adjusted Gross Income			
23 Educator expenses 23			
24 Certain business expenses of reservists, performing artists, and fee-basis government officials. Attach Form 2106 or 2106-EZ 24			
25 Health savings account deduction. Attach Form 8889 25			
26 Moving expenses. Attach Form 3903 26			
27 Deductible part of self-employment tax. Attach Schedule SE 27 5,988			
28 Self-employed SEP, SIMPLE, and qualified plans 28			
29 Self-employed health insurance deduction 29			
30 Penalty on early withdrawal of savings 30			
31a Alimony paid b Recipient's SSN ▶ 31a			
32 IRA deduction 32			
33 Student loan interest deduction 33 1,906			
34 Reserved for future use 34			
35 Domestic production activities deduction. Attach Form 8803 35			
36 Add lines 23 through 35 36 7,894			
37 Subtract line 36 from line 22. This is your adjusted gross income 37 52,401			
For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see separate instructions. Cat. No. 11320B Form 1040 (2017)			

Line 7 – See page 43 for the calculation of the excess housing allowance.

Line 27 – See page 31 for the explanation of the self-employment tax deduction.

Form 1040 (2017)

Page **2**

Tax and Credits	38	Amount from line 37 (adjusted gross income)	38	52,401
	39a	Check <input type="checkbox"/> You were born before January 2, 1953, <input type="checkbox"/> Blind. <input type="checkbox"/> Spouse was born before January 2, 1953, <input type="checkbox"/> Blind. Total boxes checked ▶ 39a		
	b	If your spouse itemizes on a separate return or you were a dual-status alien, check here ▶ 39b <input type="checkbox"/>		
Standard Deduction for— • People who check any box on line 39a or 39b or who can be claimed as a dependent, see instructions. • All others: Single or Married filing separately, \$6,350 Married filing jointly or Qualifying widow(er), \$12,700 Head of household, \$9,350	40	Itemized deductions (from Schedule A) or your standard deduction (see left margin)	40	26,316
	41	Subtract line 40 from line 38	41	26,085
	42	Exemptions. If line 38 is \$156,000 or less, multiply \$4,050 by the number on line 6d. Otherwise, see instructions	42	12,150
	43	Taxable income. Subtract line 42 from line 41. If line 42 is more than line 41, enter -0-	43	13,935
	44	Tax (see instructions). Check if any from: a <input type="checkbox"/> Form(s) 8814 b <input type="checkbox"/> Form 4972 c <input type="checkbox"/>	44	1,378
	45	Alternative minimum tax (see instructions). Attach Form 6251	45	
	46	Excess advance premium tax credit repayment. Attach Form 8962	46	
	47	Add lines 44, 45, and 46	47	1,378
	48	Foreign tax credit. Attach Form 1116 if required	48	
	49	Credit for child and dependent care expenses. Attach Form 2441	49	
	50	Education credits from Form 8863, line 19	50	
	51	Retirement savings contributions credit. Attach Form 8880	51	
	52	Child tax credit. Attach Schedule 8812, if required	52	1,000
	53	Residential energy credit. Attach Form 5695	53	
	54	Other credits from Form: a <input type="checkbox"/> 3800 b <input type="checkbox"/> 8801 c <input type="checkbox"/>	54	
	55	Add lines 48 through 54. These are your total credits	55	1,000
	56	Subtract line 55 from line 47. If line 55 is more than line 47, enter -0-	56	378
Other Taxes	57	Self-employment tax. Attach Schedule SE	57	11,975
	58	Unreported social security and Medicare tax from Form: a <input type="checkbox"/> 4137 b <input type="checkbox"/> 8919	58	
	59	Additional tax on IRAs, other qualified retirement plans, etc. Attach Form 5329 if required	59	
	60a	Household employment taxes from Schedule H	60a	
	b	First-time homebuyer credit repayment. Attach Form 5405 if required	60b	
	61	Health care: individual responsibility (see instructions) Full-year coverage <input checked="" type="checkbox"/>	61	
	62	Taxes from: a <input type="checkbox"/> Form 8959 b <input type="checkbox"/> Form 8960 c <input type="checkbox"/> Instructions; enter code(s)	62	
	63	Add lines 56 through 62. This is your total tax	63	12,353
Payments	64	Federal income tax withheld from Forms W-2 and 1099	64	12,000
	65	2017 estimated tax payments and amount applied from 2016 return	65	
	66a	Earned income credit (EIC)	66a	
	b	Nontaxable combat pay election 66b	66b	
	67	Additional child tax credit. Attach Schedule 8812	67	
	68	American opportunity credit from Form 8863, line 8	68	
	69	Net premium tax credit. Attach Form 8962	69	
	70	Amount paid with request for extension to file	70	
	71	Excess social security and tier 1 RRTA tax withheld	71	
	72	Credit for federal tax on fuels. Attach Form 4136	72	
	73	Credits from Form: a <input type="checkbox"/> 2439 b <input checked="" type="checkbox"/> Reserved c <input type="checkbox"/> 8885 d <input type="checkbox"/>	73	
	74	Add lines 64, 65, 66a, and 67 through 73. These are your total payments	74	12,000
Refund	75	If line 74 is more than line 63, subtract line 63 from line 74. This is the amount you overpaid	75	
	76a	Amount of line 75 you want refunded to you. If Form 8888 is attached, check here <input type="checkbox"/>	76a	
Direct deposit? See instructions.	b	Routing number	c	Type: <input type="checkbox"/> Checking <input type="checkbox"/> Savings
	d	Account number		
	77	Amount of line 75 you want applied to your 2018 estimated tax ▶	77	
Amount You Owe	78	Amount you owe. Subtract line 74 from line 63. For details on how to pay, see instructions ▶	78	353
	79	Estimated tax penalty (see instructions)	79	
Third Party Designee	Do you want to allow another person to discuss this return with the IRS (see instructions)? <input type="checkbox"/> Yes. Complete below. <input type="checkbox"/> 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 accurately list all amounts and sources of income I received during the tax year. 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>Milton A. Brown</i>	Date 4/15/18	Your occupation Minister	Daytime phone number
	Spouse's signature. If a joint return, both must sign. <i>Alessia J. Brown</i>	Date 4/15/18	Spouse's occupation Housewife	If the IRS sent you an Identity Protection PIN, enter it here (see inst.)
Paid Preparer Use Only	Print/type preparer's name	Preparer's signature	Date	Check <input type="checkbox"/> if self-employed PTIN
	Firm's name ▶			Firm's EIN ▶
	Firm's address ▶			Phone no.

Go to www.irs.gov/Form1040 for instructions and the latest information.Form **1040** (2017)

Line 44 – If applicable, be sure to use "Qualified Dividends and Capital Gain Tax Worksheet" in the instructions to Form 1040.

Line 64 – The minister had income tax withheld under a voluntary withholding agreement with the church. Notice that income tax was withheld relating to both the income and social security tax liability.

SCHEDULE A (Form 1040) <small>Department of the Treasury Internal Revenue Service (99)</small>		Itemized Deductions <small>Go to www.irs.gov/ScheduleA for instructions and the latest information.</small> <small>Attach to Form 1040.</small>		<small>CMB No. 1545-0074</small> 2017 <small>Attachment Sequence No. 07</small>	
Name(s) shown on Form 1040 Milton L. and Alessia S. Brown				Your social security number 541-16-8194	
Medical and Dental Expenses	Caution: Do not include expenses reimbursed or paid by others.				
	1 Medical and dental expenses (see instructions)	1	1,500		
	2 Enter amount from Form 1040, line 38	2	52,401		
	3 Multiply line 2 by 10% (0.10)	3	5,240		
	4 Subtract line 3 from line 1. If line 3 is more than line 1, enter -0-	4			0
Taxes You Paid	5 State and local (check only one box): a <input checked="" type="checkbox"/> Income taxes, or b <input type="checkbox"/> General sales taxes				
	6 Real estate taxes (see instructions)	6	1,000		
	7 Personal property taxes	7			
	8 Other taxes. List type and amount	8			
	9 Add lines 5 through 8	9			3,000
	10 Home mortgage interest and points reported to you on Form 1098	10	14,850		
	11 Home mortgage interest not reported to you on Form 1098. If paid to the person from whom you bought the home, see instructions and show that person's name, identifying no., and address	11			
	12 Points not reported to you on Form 1098. See instructions for special rules	12			
13 Reserved	13				
14 Investment interest. Attach Form 4952 if required. See instructions.	14				
15 Add lines 10 through 14	15				14,850
Gifts to Charity <small>If you made a gift and got a benefit for it, see instructions.</small>	16 Gifts by cash or check. If you made any gift of \$250 or more, see instructions.	16	8,200		
	17 Other than by cash or check. If any gift of \$250 or more, see instructions. You must attach Form 8283 if over \$500.	17	266		
	18 Carryover from prior year	18			
	19 Add lines 16 through 18	19			
20 Casualty or theft loss(es). Attach Form 4684. See instructions	20				
Job Expenses and Certain Miscellaneous Deductions	21 Unreimbursed employee expenses—job travel, union dues, job education, etc. Attach Form 2106 or 2106-EZ if required. See instructions.	21			
	22 Tax preparation fees	22	200		
	23 Other expenses—investment, safe deposit box, etc. List type and amount	23			
	24 Add lines 21 through 23	24	200		
	25 Enter amount from Form 1040, line 38	25	52,401		
	26 Multiply line 25 by 2% (0.02)	26	1,048		
	27 Subtract line 26 from line 24. If line 26 is more than line 24, enter -0-	27			
28 Other— from list in instructions. List type and amount	28				
Total Itemized Deductions	29 Is Form 1040, line 38, over \$156,900?	29			
	<input checked="" type="checkbox"/> No. Your deduction is not limited. Add the amounts in the far right column for lines 4 through 28. Also, enter this amount on Form 1040, line 40. <input type="checkbox"/> Yes. Your deduction may be limited. See the Itemized Deductions Worksheet in the instructions to figure the amount to enter.				26,316
	30 If you elect to itemize deductions even though they are less than your standard deduction, check here				

Lines 6 and 10 – The real estate taxes and home mortgage interest are deducted on this form plus excluded from income on line 7, Form 1040, page 1 as a housing allowance.

Line 21 – There are no unreimbursed employee expenses to deduct since the church reimbursed all the professional expenses under an accountable expense reimbursement plan.

**SCHEDULE C-EZ
(Form 1040)**Department of the Treasury
Internal Revenue Service (IRS)

Name of proprietor:

Milton L. Brown

Net Profit From Business

(Sole Proprietorship)

- Partnerships, joint ventures, etc., generally must file Form 1065 or 1065-B.
► Attach to Form 1040, 1040NR, or 1041. ► See instructions on page 2.

OMB No. 1545-0074

2017Attachment
Sequence No. **09A**

Social security number (SSN)

541-16-8194

Part I General Information

**You May Use
Schedule C-EZ
Instead of
Schedule C
Only If You:**

- Had business expenses of \$5,000 or less,
- Use the cash method of accounting,
- Did not have an inventory at any time during the year,
- Did not have a net loss from your business,
- Had only one business as either a sole proprietor, qualified joint venture, or statutory employee,

And You:

- Had no employees during the year,
- Do not deduct expenses for business use of your home,
- Do not have prior year unallowed passive activity losses from this business, and
- Are not required to file Form 4562, Depreciation and Amortization, for this business. See the instructions for Schedule C, line 13, to find out if you must file.

A Principal business or profession, including product or service

Minister

B Enter business code (see page 2)

8 1 3 0 0 0

C Business name. If no separate business name, leave blank.**D** Enter your EIN (see page 2)**E** Business address (including suite or room no.). Address not required if same as on page 1 of your tax return.

City, town or post office, state, and ZIP code

F Did you make any payments in 2017 that would require you to file Form(s) 1099? (see the instructions for Schedule C)☐ Yes ☒ No**G** If "Yes," did you or will you file required Forms 1099?☐ Yes ☐ No**Part II Figure Your Net Profit****1** **Gross receipts.** Caution: If this income was reported to you on Form W-2 and the "Statutory employee" box on that form was checked, see *Statutory employees* in the instructions for Schedule C, line 1, and check here

1 1,650

2 **Total expenses** (see page 2). If more than \$5,000, you **must** use Schedule C

2 530

3 **Net profit.** Subtract line 2 from line 1. If less than zero, you **must** use Schedule C. Enter on both Form 1040, line 12, and Schedule SE, line 2, or on Form 1040NR, line 13, and Schedule SE, line 2 (see page 2). (Statutory employees **do not** report this amount on Schedule SE, line 2.) Estates and trusts, enter on Form 1041, line 3

3 1,120

Part III Information on Your Vehicle. Complete this part **only** if you are claiming car or truck expenses on line 2.**4** When did you place your vehicle in service for business purposes? (month, day, year) ► 1/1/08**5** Of the total number of miles you drove your vehicle during 2017, enter the number of miles you used your vehicle for:**a** Business 9,412 **b** Commuting (see page 2) 1,216 **c** Other 929 (Sch. C related)**6** Was your vehicle available for personal use during off-duty hours? ☒ Yes ☐ No**7** Do you (or your spouse) have another vehicle available for personal use? ☒ Yes ☐ No**8a** Do you have evidence to support your deduction? ☒ Yes ☐ No**b** If "Yes," is the evidence written? ☒ Yes ☐ No

For Paperwork Reduction Act Notice, see the separate instructions for Schedule C (Form 1040).

Cat. No. 14374D

Schedule C-EZ (Form 1040) 2017

Gross receipts:

Honoraria (weddings, etc.) \$650
Speaking honorarium 1,000
\$1,650

Expenses:

See Attachment 1 on page 42

Most ministers considered to be employees for income tax purposes (with that income reported on line 7, Form 1040, page 1) also have honoraria and fee income and related expenses that are reportable on Schedule C (C-EZ).

Schedule SE (Form 1040) 2017

Attachment Sequence No. **17**Page **2**

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

Social security number of person
with self-employment income ▶**541-16-8194****Milton L. Brown****Section B—Long Schedule SE****Part I Self-Employment Tax****Note:** If your only income subject to self-employment tax is **church employee income**, see instructions. Also see instructions for 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
- ☐

1a Net farm profit or (loss) from Schedule F, line 34, and farm partnerships, Schedule K-1 (Form 1065), box 14, code A. **Note:** Skip lines 1a and 1b if you use the farm optional method (see instructions)**b** If you received social security retirement or disability benefits, enter the amount of Conservation Reserve Program payments included on Schedule F, line 4b, or listed on Schedule K-1 (Form 1065), box 20, code Z**2** Net profit or (loss) from Schedule C, line 31; Schedule C-EZ, line 3; Schedule K-1 (Form 1065), box 14, code A (other than farming); and Schedule K-1 (Form 1065-B), box 9, code J1. Ministers and members of religious orders, see instructions for types of income to report on this line. See instructions for other income to report. **Note:** Skip this line if you use the nonfarm optional method (see instructions)**3** Combine lines 1a, 1b, and 2**4a** If line 3 is more than zero, multiply line 3 by 92.35% (0.9235). Otherwise, enter amount from line 3 **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 . . .**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 ▶**5a** Enter your **church employee income** from Form W-2. See instructions for definition of church employee income **5a****b** Multiply line 5a by 92.35% (0.9235). If less than \$100, enter -0- **5b****6** Add lines 4c and 5b **6****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 2017 **7****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 \$127,200 or more, skip lines 8b through 10, and go to line 11**b** Unreported tips subject to social security tax (from Form 4137, line 10)**c** Wages subject to social security tax (from Form 8919, line 10)**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 ▶**10** Multiply the **smaller** of line 6 or line 9 by 12.4% (0.124) **10****11** Multiply line 6 by 2.9% (0.029) **11****12** **Self-employment tax.** Add lines 10 and 11. Enter here and on Form 1040, line 57, or Form 1040NR, line 55**13** **Deduction for one-half of self-employment tax.**

Multiply line 12 by 50% (0.50). Enter the result here and on

Form 1040, line 27, or Form 1040NR, line 27 **13****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 \$7,800, or (b) your net farm profits² were less than \$5,631.**14** Maximum income for optional methods **14****15** Enter the **smaller** of: two-thirds (2/3) of gross farm income¹ (not less than zero) or \$5,200. Also include this amount on line 4b above **15****Nonfarm Optional Method.** You may use this method **only** if (a) your net nonfarm profits³ were less than \$5,631 and also less than 72.189% of your gross nonfarm income,⁴ and (b) you had net earnings from self-employment of at least \$400 in 2 of the prior 3 years. **Caution:** You may use this method no more than five times.**16** Subtract line 15 from line 14 **16****17** Enter the **smaller** of: two-thirds (2/3) of gross nonfarm income⁴ (not less than zero) or the amount on line 16. Also include this amount on line 4b above **17**¹ From Sch. F, line 9, and Sch. K-1 (Form 1065), box 14, code B.² From Sch. F, line 34, and Sch. K-1 (Form 1065), box 14, code A—minus the amount you would have entered on line 1b had you not used the optional method.³ From Sch. C, line 31; Sch. C-EZ, line 3; Sch. K-1 (Form 1065), box 14, code A; and Sch. K-1 (Form 1065-B), box 9, code J1.⁴ From Sch. C, line 7; Sch. C-EZ, line 1; Sch. K-1 (Form 1065), box 14, code C; and Sch. K-1 (Form 1065-B), box 9, code J2.

Line 2 – See Attachment 2 on page 42.

Line 4 – This line results in the deduction of a portion of the self-employment tax liability.

A minister must use Section B—Long Schedule if he or she received nonministerial wages (subject to FICA) and the total of these wages and net ministerial self-employment earnings (W-2 and Schedule C [C-EZ]-related) is more than \$127,200. The Long Schedule is shown here for illustrative purposes.

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

	<u>Taxable</u>	<u>Tax-Free</u>	<u>Total</u>
Salary as a minister	\$ 57,850		\$ 57,850
Housing allowance:			
Amount designated and paid by church	\$ 26,000		
Actual expenses	25,625		
Fair rental value of home (including furnishings and utilities)	25,000		
Taxable portion of allowance (excess of amount designated & paid over lesser of actual expenses or fair rental value)	<u>\$ 1,000</u>	1,000	1,000
Tax-free portion of allowance (lesser of amount designated, actual expenses, or fair rental value)		25,000	
Gross income from weddings, baptisms, and honoraria	<u>1,650</u>		<u>1,650</u>
Ministerial Income	<u>\$ 60,500</u>	<u>\$ 25,000</u>	<u>\$ 85,500</u>
% of nondeductible expenses: \$25,000/\$85,500 = 29%			

Schedule C-EZ Deduction Computation

Parking	\$ 25
Meals & Entertainment (\$50 x 50% deductible portion)	25
Other	200
Mileage (929 miles x 53.5 cents per mile)	<u>497</u>
Unadjusted Schedule C-EZ expenses	747
Minus:	
Nondeductible part of Schedule C-EZ expenses (29% x \$747)	<u>(217)</u>
Schedule C-EZ deductions (line 2) (See page 40)	<u>\$ 530</u>

Attachment 2.**Net earnings from self-employment (attachment to Schedule SE, Form 1040)**

Church wages	\$ 57,850
Housing allowance	26,000
Net profit from Schedule C-EZ	<u>1,120</u>
	84,970
Less:	
Schedule C-EZ expenses allocable to tax-free income	<u>(217)</u>
Net Self-Employed Income	
Schedule SE, Section A, line 2 (See page 41)	<u>\$ 84,753</u>

Housing Allowance Worksheet

Minister-Owned Home

Name: Milton L. Brown

For the period January 1, 2017 to December 31, 2017

Date designation approved December 20, 2016

Allowable Housing Expenses *(expenses paid from current income)*

	<u>Estimated Expenses</u>	<u>Actual</u>
Down payment on purchase of housing	\$ <u> </u>	\$ <u> </u>
Housing loan principal and interest payments	<u>18,117</u>	<u>18,875</u>
Real estate commission, escrow fees	<u> </u>	<u> </u>
Real property taxes	<u>900</u>	<u>1,000</u>
Personal property taxes on contents	<u> </u>	<u> </u>
Homeowner's insurance	<u>500</u>	<u>550</u>
Personal property insurance on contents	<u>150</u>	<u>200</u>
Umbrella liability insurance	<u>100</u>	<u> </u>
Structural maintenance and repair	<u> </u>	<u>550</u>
Landscaping, gardening, and pest control	<u> </u>	<u>200</u>
Furnishings <i>(purchase, repair, replacement)</i>	<u> </u>	<u>400</u>
Decoration and redecoration	<u> </u>	<u> </u>
Utilities <i>(gas, electricity, water)</i> and trash collection	<u>3,500</u>	<u>3,500</u>
Local telephone expense <i>(base charge)</i>	<u>150</u>	<u>150</u>
Homeowner's association dues/condominium fees	<u>219</u>	<u>200</u>
Subtotal	<u>23,636</u>	
10% allowance for unexpected expenses	<u>2,364</u>	
TOTAL	\$ <u><u>26,000</u></u>	\$ <u><u>25,625</u></u> (A)

Properly designated housing allowance \$ 26,000 (B)

Fair rental value of home, including furnishings, plus utilities \$ 25,000 (C)

Note: The amount excludable from income for federal income tax purposes is the *lowest* of A, B, or C.

The \$1,000 difference between the designation (\$26,000) and the fair rental value (\$25,000) is reported as additional income on Form 1040, line 7.

22222		Void <input type="checkbox"/>		a Employee's social security number 541-16-8194		For Official Use Only ▶ OMB No. 1545-0008	
b Employer identification number (EIN) 38-9417217				1 Wages, tips, other compensation 57850.00		2 Federal income tax withheld 12000.00	
c Employer's name, address, and ZIP code Magnolia Springs Church 4805 Douglas Road Springfield, OH 45504				3 Social security wages		4 Social security tax withheld	
				5 Medicare wages and tips		6 Medicare tax withheld	
				7 Social security tips		8 Allocated tips	
d Control number				9 Verification code		10 Dependent care benefits	
e Employee's first name and initial Milton L.		Last name Brown		Suff.		11 Nonqualified plans	
418 Trenton Street Springfield, OH 45504				12a See instructions for box 12 E 500		12b	
				13 Statutory employee <input type="checkbox"/> Retirement plan <input checked="" type="checkbox"/> Third-party sick pay <input type="checkbox"/>		12c	
				14 Other Housing Allowance 26,000		12d	
f Employee's address and ZIP code							
15 State Employer's state ID number OH 677803		16 State wages, tips, etc. 57850.00		17 State income tax 1600.00		18 Local wages, tips, etc.	
						19 Local income tax	
						20 Locality name	

Form **W-2** Wage and Tax Statement**2017**

Department of the Treasury—Internal Revenue Service

Copy A For Social Security Administration — Send this entire page with Form W-3 to the Social Security Administration; photocopies are **not** acceptable.

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

Cat. No. 10134D

Do Not Cut, Fold, or Staple Forms on This Page

Explanation of compensation reported on Form W-2, Box 1:

Salary (\$64,850 less \$26,000 housing allowance and \$500 403[b] contributions)	\$ 38,350
Special occasion gifts	750
Reimbursement of self-employment tax	12,000
Moving expense reimbursement of nonqualified expenses	<u>6,750</u>
	<u>\$ 57,850</u>

Pastor Brown received reimbursements of \$7,593 under an accountable expense reimbursement plan. The reimbursements are not included on Form W-2 or deductible on Form 1040. There is no requirement to add the reimbursements to income taxable for social security purposes on Schedule SE.

Pastor Brown was also reimbursed for \$6,750 of nonqualified moving expenses. He failed the distance test in that his new principal place of work was less than 50 miles farther from his old residence than the old residence was from his old place of work.

Sample Return No. 2

- Nonaccountable expense reimbursements
- Minister occupies a church-provided parsonage
- Pays federal taxes using Form 1040-ES
- Qualifies for the Earned Income Credit
- Church did not reimburse moving expenses
- Application of Deason Rule
- Tax Saver's Credit

Minister considered to be an employee for income tax purposes with a nonaccountable business expense plan.

The Halls live in church-provided housing.

Income, Benefits, and Reimbursements:

Church salary – Donald	\$ 11,000
Salary – Julie (W-2 not shown)/	
Federal withholding of \$250	13,350
Christmas and other special occasion gifts paid by the church based on designated member-gifts to the church	500
Honoraria for performing weddings, funerals, baptisms, and outside speaking engagements	5,200
Interest income (taxable)	750
Reimbursement of self-employment tax	2,100
Business expense allowance (no accounting provided to church)	1,700

Business Expenses, Itemized Deductions, 403(b) Contributions, Housing Data, and Moving Expense Data:

Church-related expenses paid personally:

Business use of personally owned auto (W-2 related)	8,007 miles
Personal nondeductible commuting	2,432 miles
Seminar expenses:	
Airfare	\$675
Meals	233
Lodging	167
Subscriptions	200

Books (less than one-year life)	100
Supplies	250
Entertainment expenses	1,207
Continuing education tuition (related to church employment)	500
Travel expense related to honoraria (Schedule C-EZ):	
Airfare	2,042
Business use of personally owned auto 2,340 x 53.5¢ per mile	1,252
Lodging	400
Supplies	700

Potential itemized deductions:

Unreimbursed doctors, dentists, and drugs	3,050
State and local income taxes	460
Personal property taxes	300
Cash contributions	3,310

Housing data:

Designation	2,000
Actual expenses	1,000
Fair rental value, including furnishings and utilities	11,150

403(b) pre-tax contributions for

Pastor Hall: Voluntary employee contributions made under a salary reduction agreement	500
---	-----

Moving expenses (deductible) 1,183

Estimated \$24,500 in income for health insurance exchange subsidy at the beginning of year

Form 1095-A reports \$12,153 on lines 33A and 33B, and \$11,653 on line 33C

Form 1040 Department of the Treasury—Internal Revenue Service (99) 2017 U.S. Individual Income Tax Return		OMB No. 1545-0074 IRS Use Only—Do not write or staple in this space.	
For the year Jan. 1–Dec. 31, 2017, or other tax year beginning , 2017, ending , 20			
Your first name and initial Donald L.		Last name Hall	
If a joint return, spouse's first name and initial Julie M.		Last name Hall	
Home address (number and street). If you have a P.O. box, see instructions. 804 Linden Avenue		Apt. no. 	
City, town or post office, state, and ZIP code. If you have a foreign address, also complete spaces below (see instructions). Pensacola, FL 32502		Presidential Election Campaign Check here if you, or your spouse if filing jointly, want \$3 to go to this fund. Checking a box below will not change your tax or refund. <input type="checkbox"/> You <input type="checkbox"/> Spouse	
Foreign country name		Foreign province/state/county	
Foreign postal code			
Filing Status			
1 <input type="checkbox"/> Single 2 <input checked="" type="checkbox"/> Married filing jointly (even if only one had income) 3 <input type="checkbox"/> Married filing separately. Enter spouse's SSN above and full name here. ▶ 4 <input type="checkbox"/> Head of household (with qualifying person). (See instructions.) If the qualifying person is a child but not your dependent, enter this child's name here. ▶ 5 <input type="checkbox"/> Qualifying widow(er) (see instructions)			
Check only one box.			
Exemptions			
6a <input checked="" type="checkbox"/> Yourself. If someone can claim you as a dependent, do not check box 6a. b <input checked="" type="checkbox"/> Spouse			
c Dependents:			
(1) First name Last name		(2) Dependent's social security number	(3) Dependent's relationship to you
David K. Hall		514 42 7465	Son
Sarah E. Hall		416 49 9125	Daughter
If more than four dependents, see instructions and check here ▶ <input type="checkbox"/>		(4) <input checked="" type="checkbox"/> If child under age 17 qualifying for child tax credit (see instructions) <input type="checkbox"/> <input type="checkbox"/>	
Boxes checked on 6a and 6b No. of children on 6c who: • lived with you • did not live with you due to divorce or separation (see instructions) Dependents on 6c not entered above Add numbers on lines above ▶ 4			
d Total number of exemptions claimed			
Income			
7 Wages, salaries, tips, etc. Attach Form(s) W-2 . Incl. Excess Housing Allow., \$1,000			
8a Taxable interest. Attach Schedule B if required			
b Tax-exempt interest. Do not include on line 8a			
9a Ordinary dividends. Attach Schedule B if required			
b Qualified dividends			
10 Taxable refunds, credits, or offsets of state and local income taxes			
11 Alimony received			
12 Business income or (loss). Attach Schedule C or C-EZ			
13 Capital gain or (loss). Attach Schedule D if required. If not required, check here ▶ <input type="checkbox"/>			
14 Other gains or (losses). Attach Form 4797			
15a IRA distributions 15a Taxable amount			
16a Pensions and annuities 16a Taxable amount			
17 Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E			
18 Farm income or (loss). Attach Schedule F			
19 Unemployment compensation			
20a Social security benefits 20a Taxable amount			
21 Other income. List type and amount			
22 Combine the amounts in the far right column for lines 7 through 21. This is your total income ▶			
Adjusted Gross Income			
23 Educator expenses			
24 Certain business expenses of reservists, performing artists, and fee-basis government officials. Attach Form 2106 or 2106-EZ			
25 Health savings account deduction. Attach Form 8889			
26 Moving expenses. Attach Form 3903			
27 Deductible part of self-employment tax. Attach Schedule SE			
28 Self-employed SEP, SIMPLE, and qualified plans			
29 Self-employed health insurance deduction			
30 Penalty on early withdrawal of savings			
31a Alimony paid b Recipient's SSN ▶			
32 IRA deduction			
33 Student loan interest deduction			
34 Reserved for future use			
35 Domestic production activities deduction. Attach Form 8903			
36 Add lines 23 through 35			
37 Subtract line 36 from line 22. This is your adjusted gross income ▶			

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

Cat. No. 11520B

Form 1040 (2017)

Line 7 – Julie's W-2, \$9,150, Donald's W-2, \$12,800 (see page 63), plus \$1,000 of excess housing allowance (see page 61).

Line 27 – See page 31 for explanation of the self-employment tax deduction.

Form 1040 (2017)

Page 2

Tax and Credits**Standard Deduction for —**

• People who check any box on line 39a or 39b or who can be claimed as a dependent, see instructions.

• All others:

Single or Married filing separately, \$6,350

Married filing jointly or Qualifying widow(er), \$12,700

Head of household, \$9,350

38	Amount from line 37 (adjusted gross income)	38	27,834
39a	Check <input type="checkbox"/> You were born before January 2, 1953, <input type="checkbox"/> Blind. <input type="checkbox"/> Spouse was born before January 2, 1953, <input type="checkbox"/> Blind. Total boxes checked <input type="checkbox"/> 39a		
b	If your spouse itemizes on a separate return or you were a dual-status alien, check here <input type="checkbox"/> 39b		
40	Itemized deductions (from Schedule A) or your standard deduction (see left margin)	40	12,700
41	Subtract line 40 from line 38	41	15,134
42	Exemptions. If line 38 is \$155,900 or less, multiply \$4,050 by the number on line 42. Otherwise, see instructions	42	16,200
43	Taxable income. Subtract line 42 from line 41. If line 42 is more than line 41, enter -0-	43	0
44	Tax (see instructions). Check if any from: a <input type="checkbox"/> Form(s) 8814 b <input type="checkbox"/> Form 4972 c <input type="checkbox"/>	44	
45	Alternative minimum tax (see instructions). Attach Form 6251	45	
46	Excess advance premium tax credit repayment. Attach Form 8962	46	68
47	Add lines 44, 45, and 46	47	68
48	Foreign tax credit. Attach Form 1116 if required	48	
49	Credit for child and dependent care expenses. Attach Form 2441	49	
50	Education credits from Form 8863, line 19	50	
51	Retirement savings contributions credit. Attach Form 8880	51	68
52	Child tax credit. Attach Schedule 8812, if required	52	
53	Residential energy credit. Attach Form 5695	53	
54	Other credits from Form: a <input type="checkbox"/> 8800 b <input type="checkbox"/> 8801 c <input type="checkbox"/>	54	
55	Add lines 48 through 54. These are your total credits	55	68
56	Subtract line 55 from line 47. If line 55 is more than line 47, enter -0-	56	0
57	Self-employment tax. Attach Schedule SE	57	2,806
58	Unreported social security and Medicare tax from Form: a <input type="checkbox"/> 4137 b <input type="checkbox"/> 6919	58	
59	Additional tax on IRAs, other qualified retirement plans, etc. Attach Form 5329 if required	59	
60a	Household employment taxes from Schedule H	60a	
b	First-time homebuyer credit repayment. Attach Form 5405 if required	60b	
61	Health care: individual responsibility (see instructions) Full-year coverage <input checked="" type="checkbox"/>	61	
62	Taxes from: a <input type="checkbox"/> Form 8959 b <input type="checkbox"/> Form 8960 c <input type="checkbox"/> Instructions; enter code(s)	62	
63	Add lines 56 through 62. This is your total tax	63	2,806

Other Taxes**Payments**

If you have a qualifying child, attach Schedule EIC.

64	Federal income tax withheld from Forms W-2 and 1099	64	250
65	2017 estimated tax payments and amount applied from 2016 return	65	
66a	Earned income credit (EIC)	66a	3,933
b	Nonrefundable combat pay election <input type="checkbox"/> 66b		
67	Additional child tax credit. Attach Schedule 8812	67	2,000
68	American opportunity credit from Form 8863, line 8	68	
69	Net premium tax credit. Attach Form 8962	69	
70	Amount paid with request for extension to file	70	
71	Excess social security and tier 1 RRTA tax withheld	71	
72	Credit for federal tax on fuels. Attach Form 4136	72	
73	Credits from Form: a <input type="checkbox"/> 2439 b <input type="checkbox"/> 8865 c <input type="checkbox"/> 8865 d <input type="checkbox"/>	73	
74	Add lines 64, 65, 66a, and 67 through 73. These are your total payments	74	6,203

Refund

75	If line 74 is more than line 63, subtract line 63 from line 74. This is the amount you overpaid	75	3,397
76a	Amount of line 75 you want refunded to you. If Form 8888 is attached, check here <input type="checkbox"/>	76a	3,397

Direct deposit? See instructions.

b	Routing number	c	Type: <input type="checkbox"/> Checking <input type="checkbox"/> Savings
d	Account number		
77	Amount of line 75 you want applied to your 2018 estimated tax	77	

Amount You Owe

78	Amount you owe. Subtract line 74 from line 63. For details on how to pay, see instructions	78	
79	Estimated tax penalty (see instructions)	79	

Third Party Designee

Do you want to allow another person to discuss this return with the IRS (see instructions)? <input type="checkbox"/> Yes. Complete below. <input type="checkbox"/> No	
Designee's name	Phone no.
Personal identification number (PIN)	

Sign Here

Joint return? See instructions. Keep a copy for your records.

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 accurately list all amounts and sources of income I received during the tax year. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.	Your signature		Date	Your occupation	Daytime phone number
	<i>Donald T. Hall</i>		4/15/18	Minister	
	Spouse's signature, if a joint return, both must sign.		Date	Spouse's occupation	
	<i>Julie M. Hall</i>		4/15/18	Secretary	

Paid Preparer Use Only

Print/Type preparer's name	Preparer's signature	Date	Check <input type="checkbox"/> if self-employed	PTIN
Firm's name	Firm's EIN	Phone no.		

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

Form 1040 (2017)

**SCHEDULE C-EZ
(Form 1040)**Department of the Treasury
Internal Revenue Service (99)

Name of proprietor

Donald L. Hall

Net Profit From Business

(Sole Proprietorship)

► Partnerships, joint ventures, etc., generally must file Form 1065 or 1065-B.
 ► Attach to Form 1040, 1040NR, or 1041. ► See instructions on page 2.

OMB No. 1545-0074

2017Attachment
Sequence No. **09A**

Social security number (SSN)

482-11-6043

Part I General Information

**You May Use
Schedule C-EZ
Instead of
Schedule C
Only If You:**

- Had business expenses of \$5,000 or less,
- Use the cash method of accounting,
- Did not have an inventory at any time during the year,
- Did not have a net loss from your business,
- Had only one business as either a sole proprietor, qualified joint venture, or statutory employee,

And You:

- Had no employees during the year,
- Do not deduct expenses for business use of your home,
- Do not have prior year unallowed passive activity losses from this business, and
- Are not required to file Form 4562, Depreciation and Amortization, for this business. See the instructions for Schedule C, line 13, to find out if you must file.

A Principal business or profession, including product or service
Minister**B** Enter business code (see page 2)

8 1 3 0 0 0

C Business name. If no separate business name, leave blank.**D** Enter your EIN (see page 2)**E** Business address (including suite or room no.). Address not required if same as on page 1 of your tax return.

City, town or post office, state, and ZIP code

F Did you make any payments in 2017 that would require you to file Form(s) 1099? (see the instructions for Schedule C)☐ Yes ☒ No**a** If "Yes," did you or will you file required Forms 1099? ☐ Yes ☒ No**Part II Figure Your Net Profit**

1	Gross receipts. Caution: If this income was reported to you on Form W-2 and the "Statutory employee" box on that form was checked, see <i>Statutory employees</i> in the instructions for Schedule C, line 1, and check here	<input type="checkbox"/>	1	5,200	
2	Total expenses (see page 2). If more than \$5,000, you must use Schedule C		2	2,680	(1)
3	Net profit. Subtract line 2 from line 1. If less than zero, you must use Schedule C. Enter on both Form 1040, line 12, and Schedule SE, line 2, or on Form 1040NR, line 13, and Schedule SE, line 2 (see page 2). (Statutory employees do not report this amount on Schedule SE, line 2.) Estates and trusts, enter on Form 1041, line 3		3	2,520	

Part III Information on Your Vehicle. Complete this part **only** if you are claiming car or truck expenses on line 2.

- 4** When did you place your vehicle in service for business purposes? (month, day, year) ► 1/1/10 .
- 5** Of the total number of miles you drove your vehicle during 2017, enter the number of miles you used your vehicle for:
- a** Business 2,340 **b** Commuting (see page 2) **c** Other
- 6** Was your vehicle available for personal use during off-duty hours? ☒ Yes ☐ No
- 7** Do you (or your spouse) have another vehicle available for personal use? ☒ Yes ☐ No
- 8a** Do you have evidence to support your deduction? ☒ Yes ☐ No
- b** If "Yes," is the evidence written? ☒ Yes ☐ No

For Paperwork Reduction Act Notice, see the separate instructions for Schedule C (Form 1040).

Cat. No. 14374D

Schedule C-EZ (Form 1040) 2017

- (1) Expenses have been reduced by 39% as allocable to tax-free income (see page 60 for percentage). Most ministers are employees for income tax purposes (with that income reported on line 7, Form 1040, page 1) and also have honoraria and fee income and related expenses that are reportable on Schedule C (C-EZ). For an explanation of expenses related to the honoraria in this sample return, see page 57.

SCHEDULE SE
(Form 1040)Department of the Treasury
Internal Revenue Service (90)**Self-Employment Tax**▶ Go to www.irs.gov/ScheduleSE for instructions and the latest information.

▶ Attach to Form 1040 or Form 1040NR.

OMB No. 1545-0074

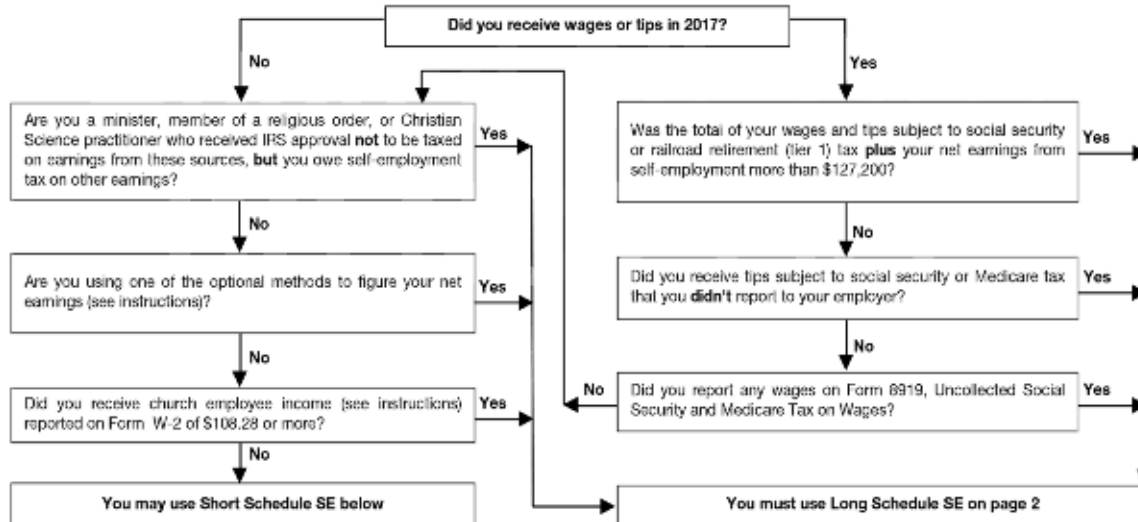
2017Attachment
Sequence No. **17**

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

Donald L. Hall

Social security number of person
with self-employment income ▶

482-11-6043

Before you begin: To determine if you must file Schedule SE, see the instructions.**May I Use Short Schedule SE or Must I Use Long Schedule SE?****Note:** Use this flowchart **only if** you must file Schedule SE. If unsure, see *Who Must File Schedule SE* in the instructions.**Section A—Short Schedule SE. Caution:** Read above to see if you can use Short Schedule SE.**1a** Net farm profit or (loss) from Schedule F, line 34, and farm partnerships, Schedule K-1 (Form 1065), box 14, code A**b** If you received social security retirement or disability benefits, enter the amount of Conservation Reserve Program payments included on Schedule F, line 4b, or listed on Schedule K-1 (Form 1065), box 20, code Z**2** Net profit or (loss) from Schedule C, line 31; Schedule C-EZ, line 3; Schedule K-1 (Form 1065), box 14, code A (other than farming); and Schedule K-1 (Form 1065-B), box 9, code J1. Ministers and members of religious orders, see instructions for types of income to report on this line. See instructions for other income to report**3** Combine lines 1a, 1b, and 2**4** Multiply line 3 by 92.35% (0.9235). If less than \$400, you don't owe self-employment tax; **don't** file this schedule unless you have an amount on line 1b. ▶**Note:** If line 4 is less than \$400 due to Conservation Reserve Program payments on line 1b, see instructions.**5 Self-employment tax.** If the amount on line 4 is:• \$127,200 or less, multiply line 4 by 15.3% (0.153). Enter the result here and on **Form 1040, line 57, or Form 1040NR, line 55**

• More than \$127,200, multiply line 4 by 2.9% (0.029). Then, add \$15,772.80 to the result.

Enter the total here and on **Form 1040, line 57, or Form 1040NR, line 55****6 Deduction for one-half of self-employment tax.**Multiply line 5 by 50% (0.50). Enter the result here and on **Form 1040, line 27, or Form 1040NR, line 27**

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

Cat. No. 11358Z

Schedule SE (Form 1040) 2017

Line 2 – See the schedule on page 60 for the calculation of this amount.

Line 4 – This line results in the deduction of a portion of the self-employment tax liability.

A minister may use Section A-Short Schedule unless he received nonministerial wages (subject to FICA) and the total of these wages and net ministerial self-employment earnings (W-2 and Schedule C-related) is more than \$127,200.

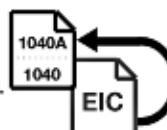
SCHEDULE EIC
(Form 1040A or 1040)Department of the Treasury
Internal Revenue Service (99)

Name(s) shown on return

Donald L. Hall

Earned Income Credit
Qualifying Child Information

- ▶ Complete and attach to Form 1040A or 1040 only if you have a qualifying child.
▶ Go to www.irs.gov/ScheduleEIC for the latest information.



OMB No. 1545-0074

2017Attachment
Sequence No. **43**Your social security number
482-11-6043**Before you begin:**

- See the instructions for Form 1040A, lines 42a and 42b, or Form 1040, lines 66a and 66b, to make sure that (a) you can take the EIC, and (b) you have a qualifying child.
- Be sure the child's name on line 1 and social security number (SSN) on line 2 agree with the child's social security card. Otherwise, at the time we process your return, we may reduce or disallow your EIC. If the name or SSN on the child's social security card is not correct, call the Social Security Administration at 1-800-772-1213.



- You can't claim the EIC for a child who didn't live with you for more than half of the year.
- If you take the EIC even though you are not eligible, you may not be allowed to take the credit for up to 10 years. See the instructions for details.
- It will take us longer to process your return and issue your refund if you do not fill in all lines that apply for each qualifying child.

Qualifying Child Information

	Child 1	Child 2	Child 3
1 Child's name If you have more than three qualifying children, you have to list only three to get the maximum credit.	First name: David K. Last name: Hall	First name: Sarah E. Last name: Hall	First name: Last name:
2 Child's SSN The child must have an SSN as defined in the instructions for Form 1040A, lines 42a and 42b, or Form 1040, lines 66a and 66b, unless the child was born and died in 2017. If your child was born and died in 2017 and did not have an SSN, enter "Died" on this line and attach a copy of the child's birth certificate, death certificate, or hospital medical records showing a live birth.	514-42-7465	416-49-9125	
3 Child's year of birth <i>If born after 1998 and the child is younger than you (or your spouse, if filing jointly), skip lines 4a and 4b; go to line 5.</i>	Year <u>2 0 0 4</u>	Year <u>2 0 0 8</u>	Year _____
4a Was the child under age 24 at the end of 2017, a student, and younger than you (or your spouse, if filing jointly)?	<input checked="" type="checkbox"/> Yes. <input type="checkbox"/> No. <i>Go to line 5.</i>	<input checked="" type="checkbox"/> Yes. <input type="checkbox"/> No. <i>Go to line 5.</i>	<input type="checkbox"/> Yes. <input type="checkbox"/> No. <i>Go to line 5.</i>
b Was the child permanently and totally disabled during any part of 2017?	<input type="checkbox"/> Yes. <input type="checkbox"/> No. <i>Go to line 5.</i> The child is not a qualifying child.	<input type="checkbox"/> Yes. <input type="checkbox"/> No. <i>Go to line 5.</i> The child is not a qualifying child.	<input type="checkbox"/> Yes. <input type="checkbox"/> No. <i>Go to line 5.</i> The child is not a qualifying child.
5 Child's relationship to you (for example, son, daughter, grandchild, niece, nephew, eligible foster child, etc.)	Son	Daughter	
6 Number of months child lived with you in the United States during 2017 • If the child lived with you for more than half of 2017 but less than 7 months, enter "7." • If the child was born or died in 2017 and your home was the child's home for more than half the time he or she was alive during 2017, enter "12."	<u>12</u> months <i>Do not enter more than 12 months.</i>	<u>12</u> months <i>Do not enter more than 12 months.</i>	<u> </u> months <i>Do not enter more than 12 months.</i>

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

Cat. No. 13339M

Schedule EIC (Form 1040A or 1040) 2017

If you are eligible for the Earned Income Credit, you must file page 1 of Schedule EIC if you have a qualifying child. Compute your credit on Worksheet B found in the IRS instruction booklet.

There could have been a much larger Earned Income Credit if Donald Hall's business expenses had been reimbursed and a lower salary prospectively established. The expenses claimed on Form 2106-EZ do not offset earned income for the EIC calculation.

2017 Form 1040—Lines 66a and 66b

Worksheet B—2017 EIC—Lines 66a and 66b

Keep for Your Records



Use this worksheet if you answered "Yes" to Step 5, question 2.

- ✓ Complete the parts below (Parts 1 through 3) that apply to you. Then, continue to Part 4.
- ✓ If you are married filing a joint return, include your spouse's amounts, if any, with yours to figure the amounts to enter in Parts 1 through 3.

Part 1	1a. Enter the amount from Schedule SE, Section A, line 3, or Section B, line 3, whichever applies.	1a 33,210
Self-Employed, Members of the Clergy, and People With Church Employee Income Filing Schedule SE	b. Enter any amount from Schedule SE, Section B, line 4b, and line 5a.	+ 1b
	c. Combine lines 1a and 1b.	= 1c 33,210
	d. Enter the amount from Schedule SE, Section A, line 6, or Section B, line 13, whichever applies.	- 1d 1,403
	e. Subtract line 1d from 1c.	= 1e 31,807
Part 2	2. Don't include on these lines any statutory employee income, any net profit from services performed as a notary public, any amount exempt from self-employment tax as the result of the filing and approval of Form 4029 or Form 4361, or any other amounts exempt from self-employment tax.	
Self-Employed NOT Required To File Schedule SE	a. Enter any net farm profit or (loss) from Schedule F, line 34, and from farm partnerships, Schedule K-1 (Form 1065), box 14, code A*.	2a
	b. Enter any net profit or (loss) from Schedule C, line 31; Schedule C-EZ, line 3; Schedule K-1 (Form 1065), box 14, code A (other than farming); and Schedule K-1 (Form 1065-B), box 9, code J1*.	+ 2b
	c. Combine lines 2a and 2b.	= 2c
Part 3	3. Enter the amount from Schedule C, line 1, or Schedule C-EZ, line 1, that you are filing as a statutory employee.	3
Statutory Employees Filing Schedule C or C-EZ		
Part 4	4a. Enter your earned income from Step 5.	4a
All Filers Using Worksheet B	b. Combine lines 1e, 2c, 3, and 4a. This is your total earned income.	4b 31,807
	If line 4b is zero or less, You can't take the credit. Enter "No" on the dotted line next to line 66a.	
	5. If you have: <ul style="list-style-type: none"> • 3 or more qualifying children, is line 4b less than \$48,340 (\$53,930 if married filing jointly)? • 2 qualifying children, is line 4b less than \$45,007 (\$50,597 if married filing jointly)? • 1 qualifying child, is line 4b less than \$39,617 (\$45,207 if married filing jointly)? • No qualifying children, is line 4b less than \$15,010 (\$20,600 if married filing jointly)? <input checked="" type="checkbox"/> Yes. If you want the IRS to figure your credit, see <i>Credit figured by the IRS</i> , earlier. If you want to figure the credit yourself, enter the amount from line 4b on line 6 of this worksheet.	
<input type="checkbox"/> No. You can't take the credit. Enter "No" on the dotted line next to line 66a.		

Included on Line 1a: Julie Hall's salary \$ 13,350
Schedule SE income 19,860
\$33,210

Worksheet B is found in the IRS instruction booklet. Complete this worksheet whether or not you have a qualifying child.

2017 Form 1040—Lines 66a and 66b

Worksheet B—2017 EIC—Lines 66a and 66b—Continued

Keep for Your Records

**Part 5****All Filers Using Worksheet B**

6. Enter your total earned income from Part 4, line 4b.

6 31,807

7. Look up the amount on line 6 above in the EIC Table to find the credit. Be sure you use the correct column for your filing status and the number of children you have. Enter the credit here.

7 3,953

If line 7 is zero,  You can't take the credit. Enter "No" on the dotted line next to line 66a.

8. Enter the amount from Form 1040, line 38.

8 27,834

9. Are the amounts on lines 8 and 6 the same?

☐ **Yes.** Skip line 10; enter the amount from line 7 on line 11.☒ **No.** Go to line 10.**Part 6****Filers Who Answered "No" on Line 9**

10. If you have:

- No qualifying children, is the amount on line 8 less than \$8,350 (\$13,950 if married filing jointly)?
- 1 or more qualifying children, is the amount on line 8 less than \$18,350 (\$23,950 if married filing jointly)?

☐ **Yes.** Leave line 10 blank; enter the amount from line 7 on line 11.
☒ **No.** Look up the amount on line 8 in the EIC Table to find the credit. Be sure you use the correct column for your filing status and the number of children you have. Enter the credit here.
 Look at the amounts on lines 10 and 7.
 Then, enter the **smaller** amount on line 11.

10 4,796

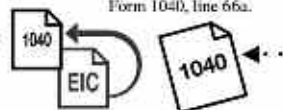
Part 7**Your Earned Income Credit**

11. This is your earned income credit.

11 3,953

Reminder—

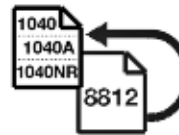
✓ If you have a qualifying child, complete and attach Schedule EIC.



Enter this amount on Form 1040, line 66a.



If your EIC for a year after 1996 was reduced or disallowed, see Form 8862, who must file, earlier, to find out if you must file Form 8862 to take the credit for 2017.

SCHEDULE 8812
(Form 1040A or 1040)**Child Tax Credit**Department of the Treasury
Internal Revenue Service (99)▶ **Attach to Form 1040, Form 1040A, or Form 1040NR.**
▶ **Go to www.irs.gov/Schedule8812 for instructions and the latest information.**

OMB No. 1545-0074

2017Attachment
Sequence No. **47**

Name(s) shown on return

Donald L. and Julie M. HallYour social security number
482-11-6043**Part I Filers Who Have Certain Child Dependent(s) with an Individual Taxpayer Identification Number (ITIN)***Complete this part only for each dependent who has an ITIN and for whom you are claiming the child tax credit. If your dependent is **not** a qualifying child for the credit, you cannot include that dependent in the calculation of this credit.*

Answer the following questions for each dependent listed on Form 1040, line 6c; Form 1040A, line 6c; or Form 1040NR, line 7c, who has an Individual Taxpayer Identification Number (ITIN) and that you indicated is a qualifying child for the child tax credit by checking column (4) for that dependent.

- A** For the first dependent identified with an ITIN and listed as a qualifying child for the child tax credit, did this child meet the substantial presence test? See separate instructions.
☒ **Yes** ☐ **No**
- B** For the second dependent identified with an ITIN and listed as a qualifying child for the child tax credit, did this child meet the substantial presence test? See separate instructions.
☒ **Yes** ☐ **No**
- C** For the third dependent identified with an ITIN and listed as a qualifying child for the child tax credit, did this child meet the substantial presence test? See separate instructions.
☐ **Yes** ☐ **No**
- D** For the fourth dependent identified with an ITIN and listed as a qualifying child for the child tax credit, did this child meet the substantial presence test? See separate instructions.
☐ **Yes** ☐ **No**

Note: If you have more than four dependents identified with an ITIN and listed as a qualifying child for the child tax credit, see separate instructions and check here ☐**Part II Additional Child Tax Credit Filers**

- 1**
- If you file Form 2555 or 2555-EZ,
- stop**
- here; you cannot claim the additional child tax credit.

If you are required to use the worksheet in **Pub. 972**, enter the amount from line 8 of the Child Tax Credit Worksheet in the publication. Otherwise:**1040 filers:** Enter the amount from line 6 of your Child Tax Credit Worksheet (see the instructions for Form 1040, line 52).**1040A filers:** Enter the amount from line 6 of your Child Tax Credit Worksheet (see the instructions for Form 1040A, line 35).**1040NR filers:** Enter the amount from line 6 of your Child Tax Credit Worksheet (see the instructions for Form 1040NR, line 49).

- 2**
- Enter the amount from Form 1040, line 52; Form 1040A, line 35; or Form 1040NR, line 49

- 3**
- Subtract line 2 from line 1. If zero,
- stop**
- here; you cannot claim this credit

4a Earned income (see separate instructions) **31,807 - 11,150 - 1,000****b** Nontaxable combat pay (see separate instructions)

- 5**
- Is the amount on line 4a more than \$3,000?

☐ **No.** Leave line 5 blank and enter -0- on line 6.☒ **Yes.** Subtract \$3,000 from the amount on line 4a. Enter the result

- 6**
- Multiply the amount on line 5 by 15% (0.15) and enter the result

Next. Do you have three or more qualifying children?☒ **No.** If line 6 is zero, **stop** here; you cannot claim this credit. Otherwise, skip Part III and enter the smaller of line 3 or line 6 on line 13.☐ **Yes.** If line 6 is equal to or more than line 3, skip Part III and enter the amount from line 3 on line 13. Otherwise, go to line 7.

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

Cat. No. 59761M

Schedule 8812 (Form 1040A or 1040) 2017

Line 4 – Earned income from EIC Worksheet B, line 46 (plus nontaxable combat pay), less the rental value of a home or the nontaxable portion of an allowance for a furnished home (per Form 8812 instructions)

Schedule 8812 (Form 1040A or 1040) 2017

Page **2****Part III Certain Filers Who Have Three or More Qualifying Children**

7	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, see separate instructions	7			
8	1040 filers: Enter the total of the amounts from Form 1040, lines 27 and 58, plus any taxes that you identified using code "UT" and entered on line 62. 1040A filers: Enter -0-. 1040NR filers: Enter the total of the amounts from Form 1040NR, lines 27 and 56, plus any taxes that you identified using code "UT" and entered on line 60.	8			
9	Add lines 7 and 8	9			
10	1040 filers: Enter the total of the amounts from Form 1040, lines 66a and 71. 1040A filers: Enter the total of the amount from Form 1040A, line 42a, plus any excess social security and tier 1 RRTA taxes withheld that you entered to the left of line 46 (see separate instructions). 1040NR filers: Enter the amount from Form 1040NR, line 67.	10			
11	Subtract line 10 from line 9. If zero or less, enter -0-	11			
12	Enter the larger of line 6 or line 11 Next, enter the smaller of line 3 or line 12 on line 13.	12			

Part IV Additional Child Tax Credit

13	This is your additional child tax credit	13	2,000
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Enter this amount on
Form 1040, line 67,
Form 1040A, line 43, or
Form 1040NR, line 64.

Schedule 8812 (Form 1040A or 1040) 2017

2017 Form 1040—Line 52

2017 Child Tax Credit Worksheet—Continued

Keep for Your Records



Before you begin Part 2: ✓ Figure the amount of any credits you are claiming on Form 5695, Part II*; Form 8910; Form 8936; or Schedule R.

Part 2

7. Enter the amount from Form 1040, line 47.

7 68

8. Add any amounts from:

Form 1040, line 48 _____

Form 1040, line 49 + _____

Form 1040, line 50 + _____

Form 1040, line 51 + 68 _____

Form 5695, line 30*+ _____

Form 8910, line 15 + _____

Form 8936, line 23 + _____

Schedule R, line 22 + _____

Enter the total. 8 68

9. Are the amounts on lines 7 and 8 the same?

☒ **Yes.**

You can't take this credit because there is no tax to reduce. However, you may be able to take the **additional child tax credit**. See the **TIP** below.

☐ **No.** Subtract line 8 from line 7.

9

10. Is the amount on line 6 more than the amount on line 9?

☐ **Yes.** Enter the amount from line 9.

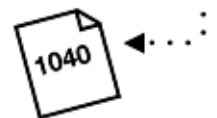
Also, you may be able to take the **additional child tax credit**. See the **TIP** below.

This is your child tax credit.

☐ **No.** Enter the amount from line 6.

10

Enter this amount on Form 1040, line 52.



You may be able to take the **additional child tax credit** on Form 1040, line 67, if you answered "Yes" on line 9 or line 10 above.

- First, complete your Form 1040 through lines 66a and 66b.
- Then, use Schedule 8812 to figure any additional child tax credit.

* If applicable.

Form 2106-EZ <small>Department of the Treasury Internal Revenue Service (99)</small>	Unreimbursed Employee Business Expenses ▶ Attach to Form 1040 or Form 1040NR. ▶ Go to www.irs.gov/Form2106EZ for the latest information.	OMB No. 1545-0074 <div style="font-size: 2em; font-weight: bold;">2017</div> <small>Attachment Sequence No. 129A</small>
Your name Donald L. Hall	Occupation in which you incurred expenses Minister	Social security number 482 11 6043

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

- You are an employee deducting ordinary and necessary expenses attributable to your job. An ordinary expense is one that is common and accepted in your field of trade, business, or profession. A necessary expense is one that is helpful and appropriate for your business. An expense doesn't have to be required to be considered necessary.
- You **don't** get reimbursed by your employer for any expenses (amounts your employer included in box 1 of your Form W-2 aren't considered reimbursements for this purpose).
- If you are claiming vehicle expense, you are using the standard mileage rate for 2017.

Caution: You can use the standard mileage rate for 2017 **only if:** (a) you owned the vehicle and used the standard mileage rate for the first year you placed the vehicle in service, or (b) you leased the vehicle and used the standard mileage rate for the portion of the lease period after 1997.

Part I Figure Your Expenses

1 Complete Part II. Multiply line 8a by 53.5¢ (0.535). Enter the result here	1	2,613	
2 Parking fees, tolls, and transportation, including train, bus, etc., that didn't involve overnight travel or commuting to and from work	2		
3 Travel expense while away from home overnight, including lodging, airplane, car rental, etc. Don't include meals and entertainment	3	514	
4 Business expenses not included on lines 1 through 3. Don't include meals and entertainment	4	640	
5 Meals and entertainment expenses: \$ 878 × 50% (0.50). (Employees subject to Department of Transportation (DOT) hours of service limits: Multiply meal expenses incurred while away from home on business by 80% (0.80) instead of 50%. For details, see instructions.)	5	439	
6 Total expenses. Add lines 1 through 5. Enter here and on Schedule A (Form 1040), line 21 (or on Schedule A (Form 1040NR), line 7). (Armed Forces reservists, fee-basis state or local government officials, qualified performing artists, and individuals with disabilities: See the instructions for special rules on where to enter this amount.)	6	4,206	

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

7 When did you place your vehicle in service for business use? (month, day, year) ▶ 01 / 01 / 08

8 Of the total number of miles you drove your vehicle during 2017, enter the number of miles you used your vehicle for:

a Business 8,007 **b** Commuting (see instructions) 2,432 **c** Other 2,340 (Sch. C Related)

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

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

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

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

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

Cat. No. 20604Q

Form **2106-EZ** (2017)

Lines 1, 3, 4, 5 – See allocations on page 60.

Line 6 – The total expenses on this line are carried forward to Form 1040, Schedule A, line 21.

Form 3903 Department of the Treasury Internal Revenue Service (99)	Moving Expenses ▶ Information about Form 3903 and its instructions is available at www.irs.gov/form3903 . ▶ Attach to Form 1040 or Form 1040NR.	OMB No. 1545-0074 2017 Attachment Sequence No. 170														
Name(s) shown on return Donald L. Hall		Your social security number 482-11-6043														
Before you begin: <ul style="list-style-type: none"> ✓ See the Distance Test and Time Test in the instructions to find out if you can deduct your moving expenses. ✓ See Members of the Armed Forces in the instructions, if applicable. 																
1 Transportation and storage of household goods and personal effects (see instructions) 2 Travel (including lodging) from your old home to your new home (see instructions). Do not include the cost of meals 3 Add lines 1 and 2 4 Enter the total amount your employer paid you for the expenses listed on lines 1 and 2 that is not included in box 1 of your Form W-2 (wages). This amount should be shown in box 12 of your Form W-2 with code P 5 Is line 3 more than line 4? <input type="checkbox"/> No. You cannot deduct your moving expenses. If line 3 is less than line 4, subtract line 3 from line 4 and include the result on Form 1040, line 7, or Form 1040NR, line 8. <input checked="" type="checkbox"/> Yes. Subtract line 4 from line 3. Enter the result here and on Form 1040, line 26, or Form 1040NR, line 26. This is your moving expense deduction	<table border="1" style="width: 100%; border-collapse: collapse;"> <tr><td style="width: 10%;">1</td><td style="width: 80%;"></td><td style="width: 10%; text-align: right;">1,183</td></tr> <tr><td>2</td><td></td><td></td></tr> <tr><td>3</td><td></td><td style="text-align: right;">1,183</td></tr> <tr><td>4</td><td></td><td></td></tr> <tr><td>5</td><td></td><td style="text-align: right;">1,183</td></tr> </table>	1		1,183	2			3		1,183	4			5		1,183
1		1,183														
2																
3		1,183														
4																
5		1,183														
For Paperwork Reduction Act Notice, see your tax return instructions.																

Cat. No. 12490K

Form **3903**

Computation of expenses related to honoraria on Sample Return No. 2/page 49

	<u>Deductible</u>	<u>Nondeductible</u>
Airfare	$\$2,042 \times 61\% = \$1,246$	\$796
Auto	$2,340 \times .535 \times 61\% = 764$	488
Lodging	$400 \times 61\% = 244$	156
Supplies	$\underline{700} \times 61\% = \underline{427}$	<u>273</u>
	$\$4,394 \times 61\% = \$2,680$	\$1,714

Form **8880**
Department of the Treasury
Internal Revenue Service

Credit for Qualified Retirement Savings Contributions

▶ Attach to Form 1040, Form 1040A, or Form 1040NR.

▶ Go to www.irs.gov/Form8880 for instructions and the latest information.

OMB No. 1545-0074

2017

Attachment
Sequence No. **54**

Name(s) shown on return

Donald L. Hall

Your social security number

482-11-6043



You **cannot** take this credit if **either** of the following applies.

- The amount on Form 1040, line 38; Form 1040A, line 22; or Form 1040NR, line 37 is more than \$31,000 (\$46,500 if head of household; \$62,000 if married filing jointly).
- The person(s) who made the qualified contribution or elective deferral (a) was born after January 1, 2000, (b) is claimed as a dependent on someone else's 2017 tax return, or (c) was a **student** (see instructions).

- Traditional and Roth IRA (including myRA) contributions for 2017. **Do not** include rollover contributions.
- Elective deferrals to a 401(k) or other qualified employer plan, voluntary employee contributions, and 501(c)(18)(D) plan contributions for 2017 (see instructions).
- Add lines 1 and 2.
- Certain distributions received **after** 2014 and **before** the due date (including extensions) of your 2017 tax return (see instructions). If married filing jointly, include **both** spouses' amounts in **both** columns. See instructions for an exception.
- Subtract line 4 from line 3. If zero or less, enter -0-
- In each column, enter the **smaller** of line 5 or \$2,000.
- Add the amounts on line 6. If zero, **stop**; you cannot take this credit.
- Enter the amount from Form 1040, line 38*; Form 1040A, line 22; or Form 1040NR, line 37.
- Enter the applicable decimal amount shown below.

	(a) You	(b) Your spouse
1		
2	500	
3	500	
4		
5	500	
6	500	
7		500
8	27,834	

If line 8 is—		And your filing status is—		
Over—	But not over—	Married filing jointly	Head of household	Single, Married filing separately, or Qualifying widow(er)
---	\$18,500	.5	.5	.5
\$18,500	\$20,000	.5	.5	.2
\$20,000	\$27,750	.5	.5	.1
\$27,750	\$30,000	.5	.2	.1
\$30,000	\$31,000	.5	.1	.1
\$31,000	\$37,000	.5	.1	.0
\$37,000	\$40,000	.2	.1	.0
\$40,000	\$46,500	.1	.1	.0
\$46,500	\$62,000	.1	.0	.0
\$62,000	---	.0	.0	.0

Note: If line 9 is zero, **stop**; you cannot take this credit.

- Multiply line 7 by line 9.
- Limitation based on tax liability. Enter the amount from the Credit Limit Worksheet in the instructions.
- Credit for qualified retirement savings contributions.** Enter the **smaller** of line 10 or line 11 here and on Form 1040, line 51; Form 1040A, line 34; or Form 1040NR, line 48.

9	X . 5
10	250
11	68
12	68

*See Pub. 590-A for the amount to enter if you are filing Form 2555, 2555-EZ, or 4563 or you are excluding income from Puerto Rico.

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

Cat. No. 33394D

Form **8880** (2017)

Form 8962 Department of the Treasury Internal Revenue Service	Premium Tax Credit (PTC) ▶ Attach to Form 1040, 1040A, or 1040NR. ▶ Go to www.irs.gov/Form8962 for instructions and the latest information.	OMB No. 1545-0074 2017 Attachment Sequence No. 73				
Name shown on your return Donald L. Hall		Your social security number 482-11-6043				
You cannot take the PTC if your filing status is married filing separately unless you qualify for an exception (see instructions). If you qualify, check the box <input type="checkbox"/>						
Part I Annual and Monthly Contribution Amount						
1 Tax family size. Enter the number of exemptions from Form 1040 or Form 1040A, line 6d, or Form 1040NR, line 7d		1 4				
2a Modified AGI. Enter your modified AGI (see instructions)		2a 27,834				
b Enter the total of your dependents' modified AGI (see instructions)		2b 0				
3 Household income. Add the amounts on lines 2a and 2b (see instructions)		3 27,834				
4 Federal poverty line. Enter the federal poverty line amount from Table 1-1, 1-2, or 1-3 (see instructions). Check the appropriate box for the federal poverty table used. a <input type="checkbox"/> Alaska b <input type="checkbox"/> Hawaii c <input checked="" type="checkbox"/> Other 48 states and DC		4 23,000				
5 Household income as a percentage of federal poverty line (see instructions)		5 114 %				
6 Did you enter 401% on line 5? (See instructions if you entered less than 100%.) <input checked="" type="checkbox"/> No. Continue to line 7. <input type="checkbox"/> Yes. You are not eligible to take the PTC. If advance payment of the PTC was made, see the instructions for how to report your excess advance PTC repayment amount.						
7 Applicable Figure. Using your line 5 percentage, locate your "applicable figure" on the table in the instructions		7 0.0204				
8a Annual contribution amount. Multiply line 3 by line 7. Round to nearest whole dollar amount		8a 568				
b Monthly contribution amount. Divide line 8a by 12. Round to nearest whole dollar amount		8b 47				
Part II Premium Tax Credit Claim and Reconciliation of Advance Payment of Premium Tax Credit						
9 Are you allocating policy amounts with another taxpayer or do you want to use the alternative calculation for year of marriage (see instructions)? <input type="checkbox"/> Yes. Skip to Part IV, Allocation of Policy Amounts, or Part V, Alternative Calculation for Year of Marriage. <input checked="" type="checkbox"/> No. Continue to line 10.						
10 See the instructions to determine if you can use line 11 or must complete lines 12 through 23. <input checked="" type="checkbox"/> Yes. Continue to line 11. Compute your annual PTC. Then skip lines 12-23 and continue to line 24. <input type="checkbox"/> No. Continue to lines 12-23. Compute your monthly PTC and continue to line 24.						
Annual Calculation	(a) Annual enrollment premiums (Form(s) 1095-A, line 33A)	(b) Annual applicable SLCSP premium (Form(s) 1095-A, line 33B)	(c) Annual contribution amount (line 8a)	(d) Annual maximum premium assistance (subtract (c) from (b), if zero or less, enter -0-)	(e) Annual premium tax credit allowed (smaller of (a) or (d))	(f) Annual advance payment of PTC (Form(s) 1095-A, line 33C)
11 Annual Totals	12,153	12,153	568	11,585	11,585	11,653
Monthly Calculation	(a) Monthly enrollment premiums (Form(s) 1095-A, lines 21-32, column A)	(b) Monthly applicable SLCSP premium (Form(s) 1095-A, lines 21-32, column B)	(c) Monthly contribution amount (amount from line 8b or alternative marriage monthly calculation)	(d) Monthly maximum premium assistance (subtract (c) from (b), if zero or less, enter -0-)	(e) Monthly premium tax credit allowed (smaller of (a) or (d))	(f) Monthly advance payment of PTC (Form(s) 1095-A, lines 21-32, column C)
12 January						
13 February						
14 March						
15 April						
16 May						
17 June						
18 July						
19 August						
20 September						
21 October						
22 November						
23 December						
24 Total premium tax credit. Enter the amount from line 11(e) or add lines 12(e) through 23(e) and enter the total here						24 11,585
25 Advance payment of PTC. Enter the amount from line 11(f) or add lines 12(f) through 23(f) and enter the total here						25 11,653
26 Net premium tax credit. If line 24 is greater than line 25, subtract line 25 from line 24. Enter the difference here and on Form 1040, line 69; Form 1040A, line 45; or Form 1040NR, line 65. If line 24 equals line 25, enter -0-. Stop here. If line 25 is greater than line 24, leave this line blank and continue to line 27						26
Part III Repayment of Excess Advance Payment of the Premium Tax Credit						
27 Excess advance payment of PTC. If line 25 is greater than line 24, subtract line 24 from line 25. Enter the difference here						27 68
28 Repayment limitation (see instructions)						28 600
29 Excess advance premium tax credit repayment. Enter the smaller of line 27 or line 28 here and on Form 1040, line 48; Form 1040A, line 29; or Form 1040NR, line 44						29 68

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

Cat. No. 37784Z

Form 8962 (2017)

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

	<u>Taxable</u>	<u>Tax-Free</u>	<u>Total</u>
Salary as a minister (less housing allowance designation and 403(b) contributions)	\$ 8,500		\$ 8,500
Special occasion gifts	500		500
Reimbursement of self-employment tax	2,100		2,100
Expense allowance under nonaccountable plan	1,700		1,700
Housing allowance:			
Amount designated and paid by church	\$ 2,000		
Actual expenses	<u>1,000</u>		
Taxable portion of allowance	<u>\$ 1,000</u>	<u>\$ 1,000</u>	<u>2,000</u>
Fair rental value of home (including furnishings and utilities)		11,150	11,150
Schedule C gross income from ministry	<u>5,200</u>		<u>5,200</u>
Ministerial income	<u>\$ 19,000</u>	<u>\$ 12,150</u>	<u>\$ 31,150</u>
% of nondeductible expenses: \$12,150/\$31,150 = 39%			

Unreimbursed Employee Business Expenses

	<u>61% Deductible</u>	<u>39% Not Deductible</u>
Business mileage:		
8,007 x 53.5¢ per mile	\$ 2,613	\$ 1,671
Travel expense:		
Airfare	412	263
Lodging	102	65
Business expenses:		
Subscriptions	122	78
Books and supplies	213	137
Continuing education tuition	305	195
Meals and entertainment expenses:		
Meals	\$ 233	
Entertainment	<u>1,207</u>	
	<u>\$ 1,440</u> x 50% = \$720	<u>281</u>
Form 2106-EZ	<u>\$ 4,206</u>	<u>\$2,690</u>

Attachment 2.**Net earnings from self-employment (attachment to Schedule SE, Form 1040)**

Salary paid by church as reflected on Form W-2, Box 1	\$ 12,800
Net profit or loss as reflected on Schedule C or C-EZ (includes speaking honoraria, offerings you receive for weddings, baptisms, funerals, and other fees)	2,520
Housing allowance excluded from salary on Form W-2	2,000
Fair rental value of church-provided housing (including paid utilities)	<u>11,150</u>
	<u>28,470</u>
Less:	
Unreimbursed ministerial business and professional expenses or reimbursed expenses paid under a nonaccountable plan	
A. Deductible on Schedule A before the 2% of AGI limitation	4,206
B. Not deductible on Form 2106/2106 EZ (\$2,690) or Schedule C/C-EZ (\$1,714) because expenses were allocated to taxable/nontaxable income	<u>4,404</u>
Total deductions	<u>8,610</u>
Net earnings from self-employment (to Schedule SE) (See page 49)	<u>\$ 19,860</u>

Housing Allowance Worksheet

Minister Living in Housing Owned or Rented by the Church

Name: Donald L. Hall

For the period January 1, 20 17 to December 31, 20 17

Date designation approved December 20, 20 16

Allowable Housing Expenses *(expenses paid from current income)*

	<u>Estimated Expenses</u>	<u>Actual</u>
Utilities <i>(gas, electricity, water)</i> and trash collection	\$ <u> </u>	\$ <u> </u>
Local telephone expense <i>(base charge)</i>	<u>250</u>	<u>275</u>
Decoration and redecoration	<u> </u>	<u> </u>
Structural maintenance and repair	<u> </u>	<u> </u>
Landscaping, gardening, and pest control	<u> </u>	<u> </u>
Furnishings <i>(purchase, repair, replacement)</i>	<u>1,218</u>	<u>460</u>
Personal property insurance on minister-owned contents	<u>200</u>	<u>190</u>
Personal property taxes on contents	<u>150</u>	<u>75</u>
Umbrella liability insurance	<u> </u>	<u> </u>
Subtotal	<u>1,818</u>	
10% allowance for unexpected expenses	<u>182</u>	
TOTAL	\$ <u><u>2,000</u></u>	\$ <u><u>1,000</u></u> (A)
Properly designated housing allowance		\$ <u><u>2,000</u></u> (B)

The amount excludable from income for federal income tax purposes is the lower of A or B.

Because actual housing expenses are less than the designated allowance, the housing exclusion is limited to \$1,000. The \$1,000 difference between the designation and the exclusion is reported as excess housing allowance on Form 1040, line 7 (see page 46).

22222		Void <input type="checkbox"/>		a Employee's social security number 482-11-6043		For Official Use Only ▶ OMB No. 1545-0008	
b Employer identification number (EIN) 25-7921873				1 Wages, tips, other compensation 12800.00		2 Federal income tax withheld	
c Employer's name, address, and ZIP code Lancaster Community Church 1425 Spencer Avenue Wabash, IN 46992				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 Verification code		10 Dependent care benefits	
e Employee's first name and initial Donald L.		Last name Hall		Suff.		11 Nonqualified plans	
f Employee's address and ZIP code 804 Linden Avenue Pensacola, FL 32502				13 Statutory employee <input type="checkbox"/> Retirement plan <input checked="" type="checkbox"/> Third party sick pay <input type="checkbox"/>		12a See instructions for box 12	
				14 Other Parsonage Allowance 11150 Housing Allowance 2000		12b E 500	
						12c	
15 State Employer's state ID number FL				16 State wages, tips, etc. 12800.00		17 State income tax	
						18 Local wages, tips, etc.	
						19 Local income tax	
						20 Locality name	

Form **W-2** Wage and Tax Statement**2017**

Department of the Treasury—Internal Revenue Service

Copy A For Social Security Administration — Send this entire page with Form W-3 to the Social Security Administration; photocopies are not acceptable.

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

Cat. No. 10134D

Do Not Cut, Fold, or Staple Forms on This Page

Explanation of compensation reported on Form W-2, Box 1:

Salary (\$11,000 less \$2,000 housing allowance and \$500 403[b] contributions)	\$ 8,500
Special occasion gifts	500
Reimbursement of self-employment tax	2,100
Expense allowance under nonaccountable plan	1,700
	<u>\$12,800</u>

*Projected 2018 Filing Dates***January**

- 15 Quarterly Estimated Taxes (last payment for prior tax period)

February

- 15 W-4 (if claimed an exemption, to continue same exemption in current year)

April

- 16 Personal tax returns due (unless automatic extension, see October 15)
- 16 Quarterly Estimated Taxes, if not paid with return (first payment for current tax year)

June

- 15 Quarterly Estimated Taxes (2nd payment for current tax year)

September

- 17 Quarterly Estimated Taxes (3rd payment for current tax year)

October

- 15 Personal tax returns due (if automatic extension)

Citations

The Tax System for Ministers

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Code Sec. 3401(a)(9)
- Qualifying tests for ministerial status
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Mosley v. Commissioner, T.C.M. 457 (1994)

Knight v. Commissioner
92 T.C.M. 12 (1989)
- Voluntary withholding of income tax for clergy
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- Designation of housing allowance
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Whittington v. Commissioner, T.C.M. 296 (2000)

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- Determination of housing exclusion amount
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- Housing allowances for retired clergy
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- 403(b) plans
Code Sec. 403(b)

Code Sec. 1402(a)
- Healthcare flexible spending account
Code Sec. 105(b), (e)
- Health reimbursement arrangements
Code Sec. 105(b), (e)

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- Health savings accounts
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- Highly compensated employees
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- Medical insurance premiums paid by the church
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- Nontaxable fringe benefits
Code Sec. 132
- Property transfers
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- Reimbursement payments excludable from recipient's income
Letter Ruling 9112022
- Retirement gifts
Code Sec. 102(c)

Commissioner v. Duberstein, 363 U.S. 278, 285 (1960)

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- Sabbatical Pay
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- Educational expenses
Ltr. Rul. 9431024

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- Personal computer expenses
Code Sec. 280F

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- Traveling/commuting
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Social Security Taxes

- Opting out of social security
Code Sec. 1402(e)

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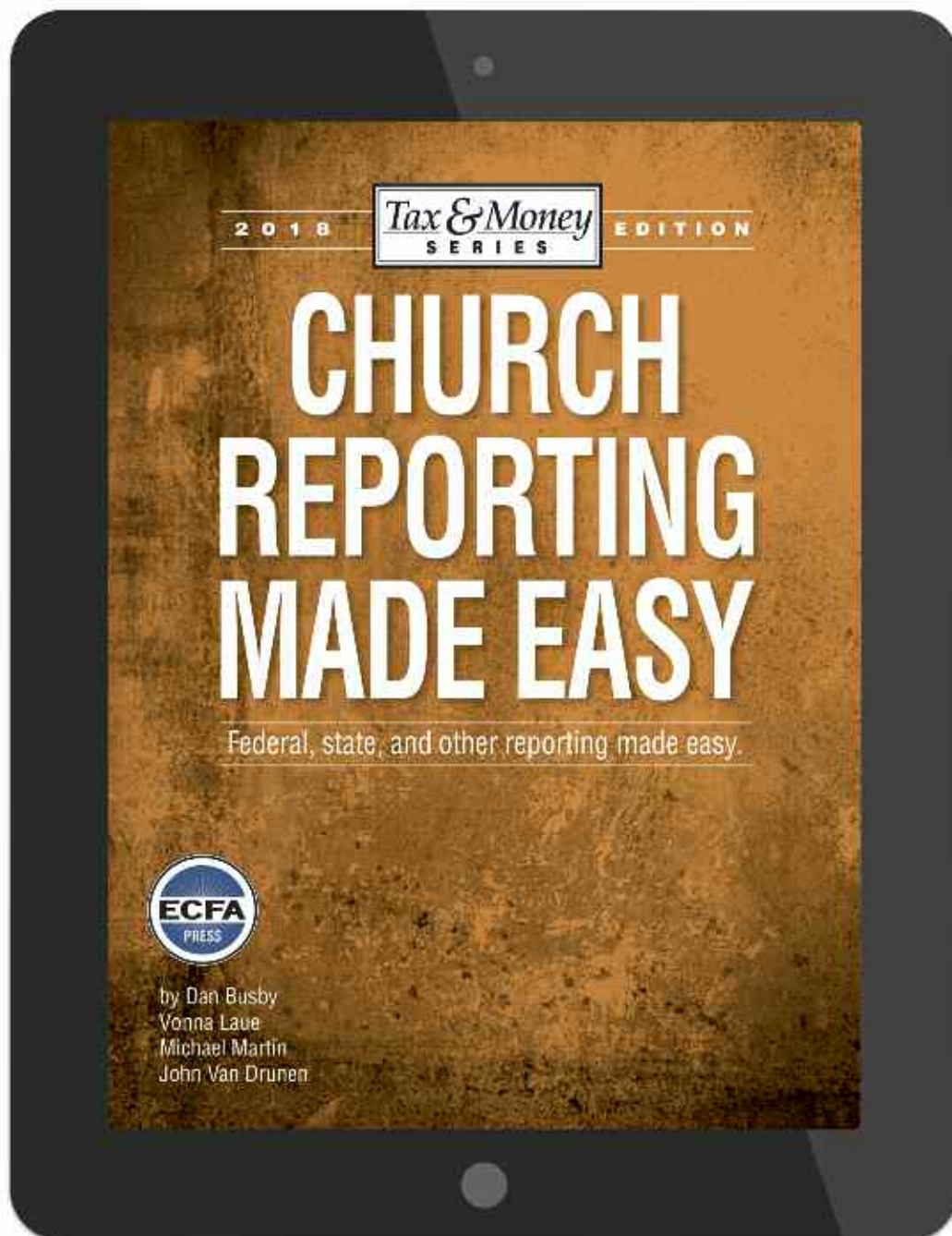
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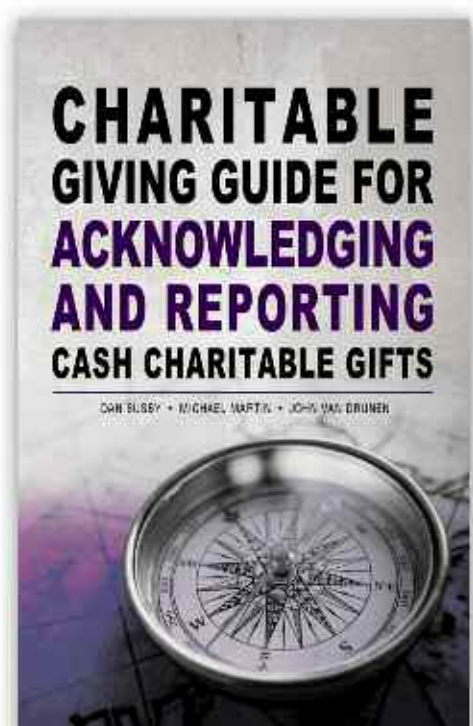
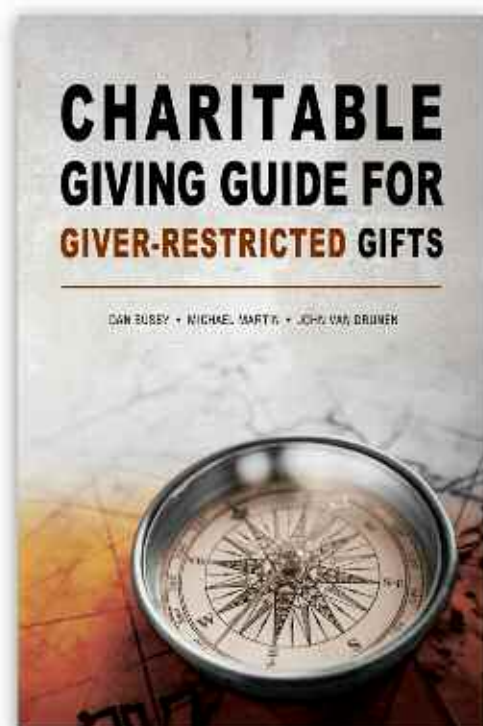
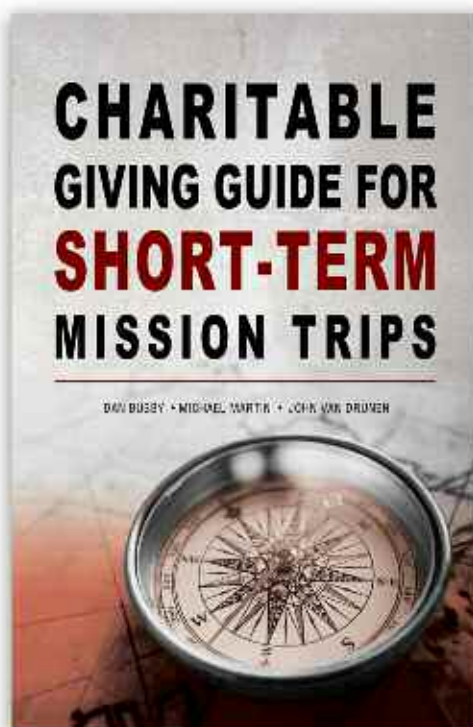
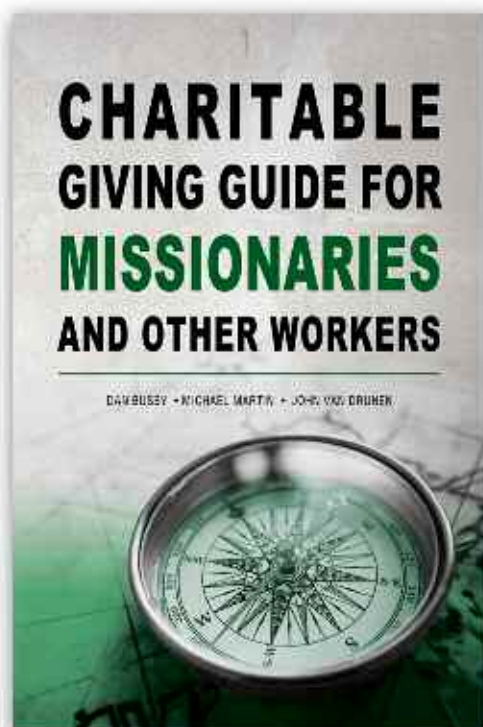


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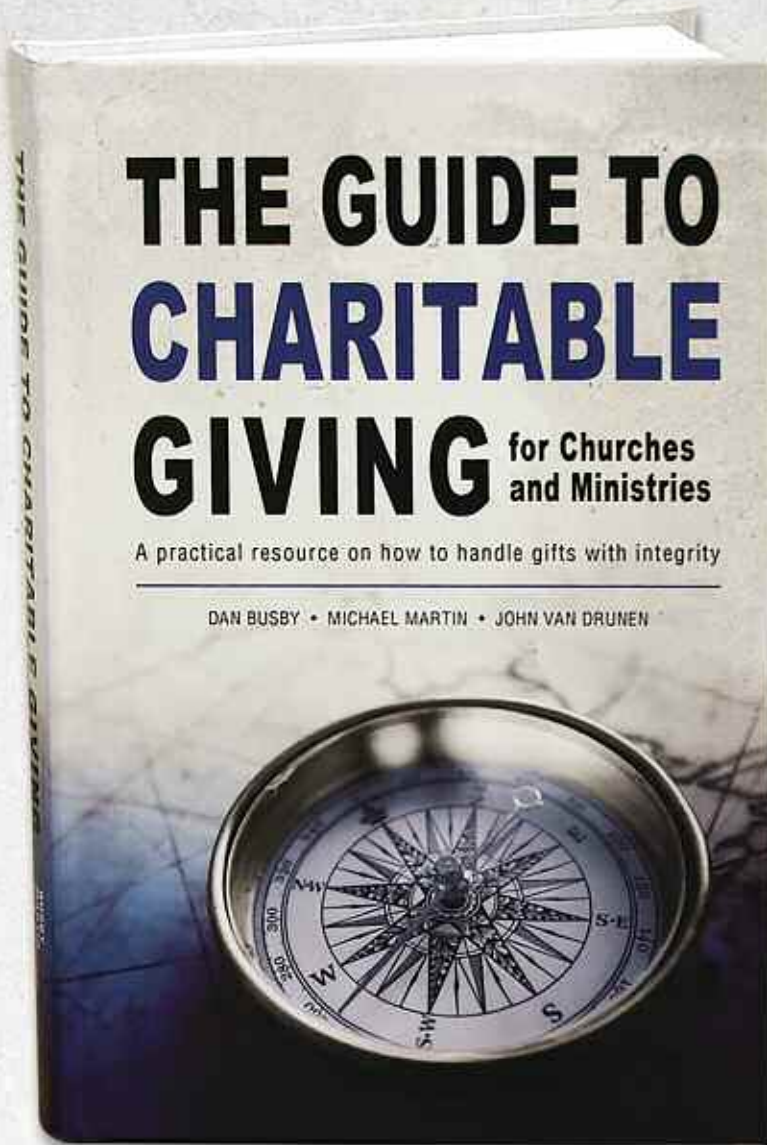
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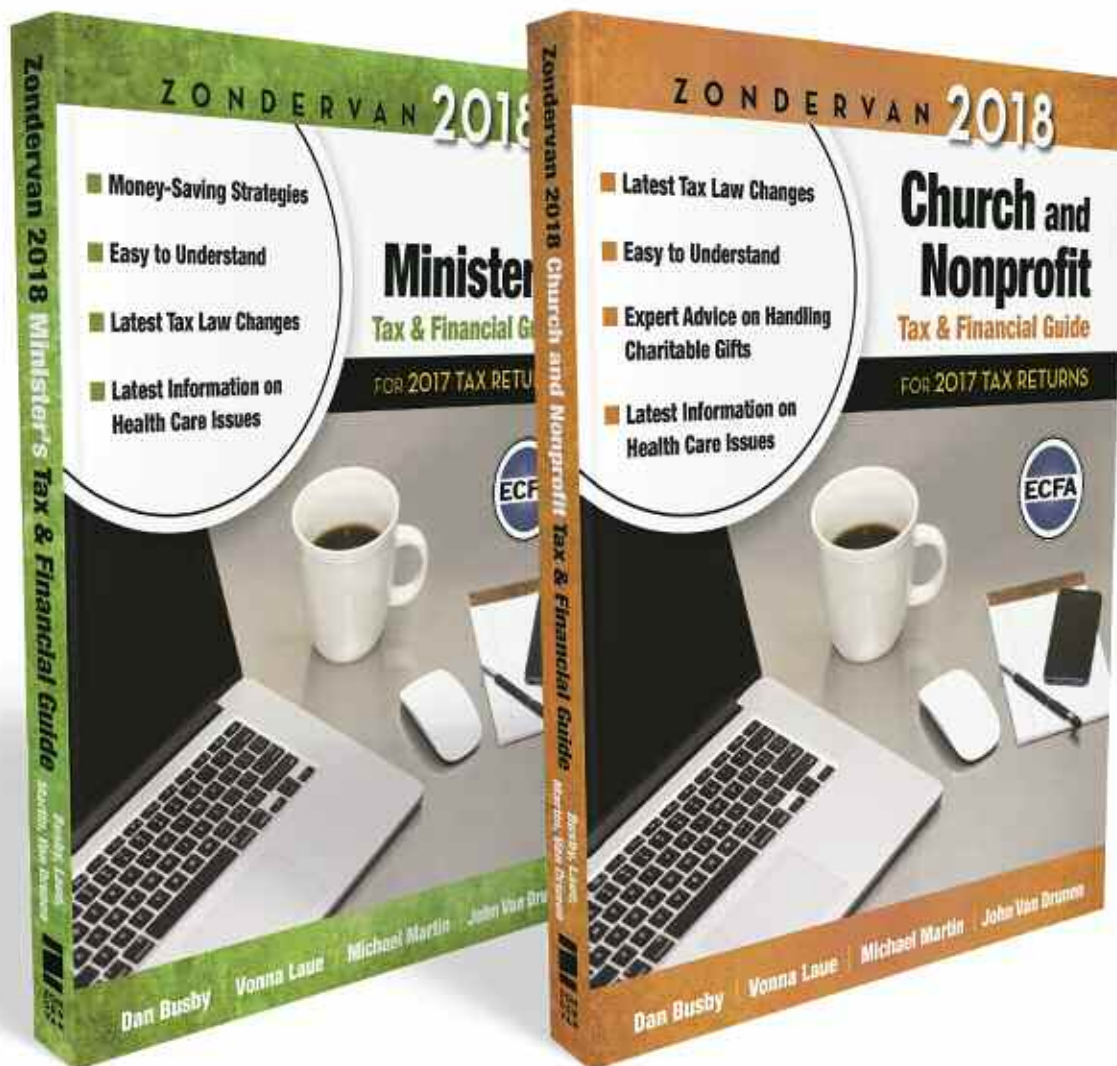
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