

Taxes

Congregations/schools are encouraged to review the Congregational Treasurer's Manual and the Taxes and Ministers booklet as they consider the issue of taxes.

Social Security Taxes

Ministers of the Gospel

The following individuals who are listed on the Synod's roster and in the exercise of ministry are considered Ministers of the Gospel under the Internal Revenue Code:

- Ministers of Religion — Ordained
- Ministers of Religion — Commissioned
- Certified Teachers
- Directors of Christian Education
- Deaconesses
- Directors of Christian Outreach
- Certified Lay Ministers
- Parish Assistants
- Directors of Parish Music
- Directors of Family Life Ministry

Ministers of the Gospel have received unique tax treatment under the Internal Revenue Code. Ministers of the Gospel are employees; however the special treatment requires that Ministers of the Gospel be "self-employed" for income tax withholding and subject to "self-employment" tax, not Social Security/Medicare tax. **Therefore, Ministers of the Gospel must compute and pay quarterly estimated tax payments or request their congregation/school to voluntarily withhold and deposit federal and state taxes.** A request for voluntary withholding does **not** change their self-employment status. **As a Minister of the Gospel, Social Security and Medicare tax must not be withheld. However, the self-employment tax can and should be withheld as Federal Income Tax if voluntary withholding has been requested.** A request for voluntary withholding should be in the form of an amount to be withheld per paycheck, with any self-employment tax included with the federal income tax withholding amount. Congregations/schools should deposit voluntary withholding as if it were normal payroll tax withholding, using the same deposit requirements and reporting on the required quarterly and annual payroll tax returns.

Congregations/schools wishing to reimburse the worker for all or part of his/her self-employment taxes may do so. Please note that this reimbursement is considered additional salary for tax purposes.

Opposition to Social Security

The Synod encourages participation in Social Security. An ordained or commissioned minister who claims a conscientious opposition on religious grounds to the acceptance of Social Security benefits may be called upon by the Internal Revenue Service or Social Security Administration to justify his/her opposition. It may be necessary for him/her to provide explanations to them. The worker should be aware that in view of the Synod's position, its officials **cannot** act to aid any ministers claiming exemption from Social Security. The worker should also be aware that the exemption from self-employment tax by ministers is a conscientious objection to public insurance and cannot be elected for financial reasons.

Vicars

Vicars are treated as lay employees for tax purposes. Therefore, the employer is required to withhold the worker's share of Social Security and Medicare taxes from compensation and any applicable income taxes. The employer's share of Social Security and Medicare taxes must be paid by the congregation/school.

Specific Ministry Pastor (SMP) vicars are to be treated as lay employees for years one and two of their training. They will be treated as Ministers of the Gospel upon ordination for the duration of their training in the third and fourth years and following completion of their training.

Taxation of Housing Allowance

Ministers of the Gospel

Ministers of the Gospel (Ordained or Commissioned as outlined under "Social Security Taxes") have been granted favorable tax treatment by the Internal Revenue Service for designated housing allowances received pursuant to official action (resolution) evidenced in the minutes of the governing body of the employer (voters' assembly, board of directors, etc.) This designation and official action **cannot** be made retroactively.

Sample Housing Allowance Resolutions

All Employed Ministers—Stated Dollar Amount

RESOLVED, that (name of congregation/school), authorizes and establishes the following individual(s) housing allowance for the year 20xx:

Name _____ Amount _____

Name _____ Amount _____

Name _____ Amount _____

Name _____ Amount _____

The housing allowance will be paid from _____, 20xx to December 31, 20xx

All Employed Ministers—Stated Percentage

RESOLVED, that (name of congregation/school), as a standing resolution to remain in force and effect until such time as amended or revoked, hereby authorizes and establishes a housing allowance for each ordained, commissioned, or certified lay minister of religion at any time serving it in an amount each year equal to ____ percent of that person's gross annual compensation. (Congregation/school should designate what is included in "gross annual compensation.")

Individual Minister—Stated Dollar Amount

RESOLVED, that (name of congregation/school), as a standing resolution to remain in force and effect until such time as amended or revoked, hereby authorizes and establishes a housing allowance for (individual's name) at any time serving it in the amount of \$ _____ per year.

Individual Minister—Stated Percentage

RESOLVED, that (name of congregation/school), as a standing resolution to remain in force and effect until such time as amended or revoked, hereby authorizes and establishes a housing allowance for (individual's name) for the duration of service in an amount each year equal to ____ percent of that person's annual compensation.

In addition to standing resolutions, the sample resolutions could be adopted annually to reflect revised annual requests for housing allowance amounts by the minister.

Certain Tax Advantages

The housing allowance approved pursuant to official action by the employer is **excluded** from income taxable compensation of the worker to the extent that: (1) the funds are actually used to provide a home (rent, mortgage payments, utilities, furnishings, real estate taxes, repairs, etc.), and the funds do not exceed the fair rental value for the residence occupied plus utilities and furnishings. The "Clergy Housing Allowance Clarification Act of 2002," signed into law May 20, 2002, reinstated the fair market rental value limitation. The limitation must be considered by ministers as they prepare their tax projections. The worker is responsible for supporting actual use of the funds for housing, and for determination of the fair rental value of the home. If the actual expense is less than the housing allowance provided, the worker should report the excess as other income on their personal income tax return.

Although excludable from income taxes, the housing allowance is fully taxable for self-employment tax purposes.

Vicars

Currently, vicars do not enjoy a tax exclusion for a housing allowance. They must consider any housing allowance received as additional salary. No exclusion for amounts spent on housing exists. Any "housing allowance" paid to vicars should be included as part of the regular salary on his W-2 form. Employee and employer Social Security and Medicare taxes are to be withheld/paid on this allowance.

Specific Ministry Pastor (SMP) Vicars are to be treated as lay employees for years one and two of their training and therefore do not enjoy a tax exclusion for a housing allowance during those years. Upon ordination for the duration of their training in the third and fourth years, and following completion of their training, they will be treated as Ministers of the Gospel; therefore, they will qualify for the housing allowance.

Tax-Sheltered Annuity

One option to assist your worker with tax deferred savings is the Tax-Sheltered Annuity (TSA). TSAs are available to employees of tax-exempt organizations under section 403(b) of the Internal Revenue Code. Qualified employees can make an election to defer a portion of their taxable salary and request the employer to contribute the deferral to the TSA plan.

Concordia Plan Services provides the Concordia Retirement Savings Plan (CRSP). CRSP is a tax-sheltered annuity program established under Section 403(b) of the Internal Revenue Code and includes the opportunity for eligible workers to save for their retirement. Employers may also elect to provide a direct contribution or match worker contributions as part of the plan. The CRSP partnership between Concordia Plans and Fidelity Investments provides participating workers with the opportunity to utilize the traditional option with pre-tax contributions, the Roth option with after-tax contributions, or both options. Workers should consult with their tax professional regarding their option choice

The Internal Revenue Service has established specific requirements on employers providing section 403(b) plans. The requirements shift certain Administration and Compliance Requirements to the employer. Review the information provided by Concordia Plan Services and obtain appropriate professional advice to ensure you are in compliance with the new requirements.

Worker Savings Plans

In addition to tax-deferred savings plans, congregations/schools are encouraged to offer their workers the opportunity to have funds withheld from their paychecks and deposited by the congregation/school directly into the worker's savings or investment accounts. Financial planners will suggest that funds withheld from a paycheck and "never seen by the worker" provide one of the biggest opportunities for a worker to develop and maintain a personal savings plan.