2015 Tax & Money SERIES EDITION

# PREPARING TAX RETURNS FOR CLERGY

Federal, state, and other reporting made easy.

by Dan Busby, CPA
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ECFA PRESS

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## *Recent Developments*

Clergy continue to be faced with a plethora of tax and finance developments. A summary of some of the more significant developments follow (see the "In the News" link at ECFA.org for current updates on these issues and much more):

**Health care reform.** No issue has recently been at the forefront of national tax policy developments quite like health care reform. The Patient Protection and Affordable Care Act (ACA), passed by Congress in 2010, overhauled the nation's health care industry and has brought with it numerous changes to the tax code.

While the law remains controversial and has been challenged in a variety of ways politically and in the courts, key provisions of the law remain in force and are being implemented over the next several years.

The following is a summary of major changes in the health care law directly impacting clergy:

- **Individual responsibility provision ("individual mandate").** As of January 1, 2014, most ministers are now required to maintain "minimum essential" health care coverage as defined by the law or be subject to a penalty tax known as the individual shared responsibility payment. For 2014, this penalty is the greater of (1) a flat rate of $95 per adult and $47.50 per child (up to $285 for a family), or (2) 1.0% of household income, whichever is greater. The penalty is calculated based on the number of months in the year that the taxpayer is without the required coverage, and a taxpayer will not be penalized for a single gap in coverage less than three months. Individual shared responsibility payments are made along with the filing of federal income tax returns. Most ministers can avoid these penalties by obtaining health care coverage through their employer's plan or purchasing "Bronze" level coverage through a government exchange (or equivalent coverage through a private insurer).

- **Employer payments of individual health insurance policy premiums.** For decades, many churches that were unable to provide group health insurance coverage for their ministers and other employees would choose instead to reimburse individual policy premiums to help offset health care costs for staff. Until January 2014, these types of employer payment plans were considered legitimate and treated as tax-free fringe benefits. However, recent regulations issued by the IRS indicate that pre-tax reimbursements of individual policy premiums are not in compliance with the ACA and may be subject to significant tax penalties of $100 per day for each employee (that's $36,500 each year per employee!).

  The IRS has indicated an employer can offer "an employer-sponsored arrangement under which an employee may choose either cash or an after-tax amount to be applied toward health coverage." However, in a recent update the Department of Labor has indicated that regardless of whether a cash reimbursement arrangement is treated as pre-tax or post-tax it will violate health care reforms and therefore expose the employer to the previously mentioned tax penalties. Since at the time of this publication there was insufficient clarity to reconcile these two positions, it is advisable to conult a legal or tax advisor regarding the compliance of any medical insurance reimbursement arrangement.

  The same regulations also prohibit, in effect, employers from providing health reimbursement arrangements (HRAs) or health flexible spending arrangements (health FSAs) to their employees without also offering group health plans that meet ACA requirements (see IRS Notice 2013-54). ECFA President Dan Busby sent a letter to IRS officials commenting on the significant impact of these changes on smaller ministries:

  > By effectively eliminating these pre-tax reimbursements, Notice 2013-54 indirectly imposes a significant tax increase on thousands of individuals who serve on the staffs of smaller charities. While health care insurance premiums can be reimbursed post-tax,

employees who do not receive section 36B tax credits will sacrifice a significantly higher amount of their limited resources to keep health insurance. Thus, Notice 2013-54 disproportionately affects church and nonprofit workers, their families, and their charitable endeavors across the nation.

Mr. Busby's letter also addressed the January 2014 effective date, which was insufficient to allow many organizations time to learn about the changes and come into compliance.

- **Health FSAs limits relaxed.** Health FSAs have traditionally been subject to a "use-or-lose" rule, under which employees must forfeit any remaining FSA amounts that are not used up during the plan year. Additionally, beginning in 2013, health FSAs became subject to a $2,500 annual limit indexed for inflation under changes brought by health care reform ($2,550 limit for 2015). The IRS brought welcome news in late 2013 that it would somewhat relax the use-or-lose FSA rules in response to the new limit. Employers sponsoring health FSAs now have the option of amending their written plans to allow employees to carry over up to $500 of unused amounts remaining at the end of a plan year to the immediately following plan year, subject to certain limitations. The carryover does not otherwise affect the annual limit on FSAs.

**Court rejects atheists' challenge to housing exclusion.** The U.S. Court of Appeals for the Seventh Circuit issued an important decision on November 13, 2014 in *Freedom From Religion Foundation v. Lew*, concluding that the federal tax code provision that treats church-provided housing allowances to ministers as income tax-free must stand.

In doing so, the appeals court overturned a previous decision by a lower district court in favor of the atheist group, Freedom From Religion Foundation (FFRF). The district court had found that the exclusion is an unconstitutional benefit in favor of religious groups.

Before the Seventh Circuit could even analyze the constitutionality of the law, it first decided it had to dismiss the case on the procedural ground of standing. The court determined that FFRF and its leaders were not proper parties to challenge the law in federal court because they had not suffered any concrete, personal injury—a critical element to establish standing.

**IRS audits of churches.** A recent court settlement between the IRS and the Freedom From Religion Foundation (FFRF) in a case regarding church political activity has shifted focus back to the issue of IRS audits of churches. Five years ago, the IRS began the process of adopting updated procedures for auditing churches, but it has failed to publicly announce the results. This left many, including FFRF, to wonder if the IRS was actively auditing churches for federal income tax compliance.

FFRF agreed to drop its case after the IRS disclosed procedures it had developed behind closed doors for auditing houses of worship, along with an indication that nearly 100 churches are possible targets for future IRS examinations based on concerns surrounding their political activity. At the same time, ECFA has also observed an uptick in the number of IRS payroll tax audits of churches and other ministries prompted by health care reform.

IRS Commissioner John Koskinen later clarified that there are 92 church audits underway, and they were not prompted by this litigation but were part of the IRS' regular audit process.

**2014 Large Church Salary Report reveals latest trends in compensation and staffing.** Salaries of senior pastors and executive pastors (or comparable leaders) account for 3.4% and 2.5%, respectively, of the average large church budget, according to the 2014 Large Church Salary Report released by Leadership Network. Churches with weekly attendance of 1,000 to 30,000 were surveyed. Download the full report free at www.leadnet.org/salary.

# Key Federal Tax Limits, Rates, and Other Data

| | 2013 | 2014 | 2015 |
|---|---|---|---|
| **Standard deductions, exemptions, and exclusions:** | | | |
| Standard Deductions | Married-Joint Return $12,200<br>Head of Household 8,950<br>Single 6,150<br>Married-Separate Returns 6,150 | Married-Joint Return $12,400<br>Head of Household 9,100<br>Single 6,200<br>Married-Separate Returns 6,200 | Married-Joint Return $12,600<br>Head of Household 9,250<br>Single 6,300<br>Married-Separate Returns 6,300 |
| Personal & dependent exemption amount | $3,900 | $3,950 | $4,000 |
| Foreign earned income exclusion | $97,600 | $99,200 | $100,800 |
| **Social security:** | | | |
| SECA (OASDI & Medicare) rate | 15.3%<br>on wages up to<br>$250,000 married-joint,<br>$125,000 married-separate,<br>and $200,000 all others | 15.3%<br>on wages up to<br>$250,000 married-joint,<br>$125,000 married-separate,<br>and $200,000 all others | 15.3%<br>on wages up to<br>$250,000 married-joint,<br>$125,000 married-separate,<br>and $200,000 all others |
| OASDI maximum compensation base | $113,700 | $117,000 | $118,500 |
| Social security cost of living benefit increase | 1.7% | 1.5% | 1.7% |
| Social security Full Retirement Age (FRA) | 66 years | 66 years | 66 years |
| Medicare Part B premiums - Basic | $104.90 | $104.90 | $104.90 |
| Earnings ceiling for social security (for employment before FRA; special formula in FRA year) | Below FRA: $15,120<br>Over FRA: None | Below FRA: $15,480<br>Over FRA: None | Below FRA: $15,720<br>Over FRA: None |
| Earnings limit in year FRA attained | $40,080 | $41,400 | $41,880 |
| **Benefits and contributions:** | | | |
| Maximum annual contribution to defined contribution plan | $51,000 | $52,000 | $53,000 |
| Maximum salary deduction for 401(k)/403(b) | $17,500 | $17,500 | $18,000 |
| 401(k) & 403(b) over 50 "catch up" limit | $5,500 | $5,500 | $6,000 |
| Maximum income exclusion for nonqualified plans in 501(c)(3) organizations (IRC 457) | $17,500 | $17,500 | $18,000 |
| IRA contribution limit – age 49 and below<br>– age 50 and above | $5,500<br>$6,500 | $5,500<br>$6,500 | $5,500<br>$6,500 |
| Highly compensated employee limit | $115,000 | $115,000 | $115,000 |
| Maximum annual contribution to health flexible spending arrangements | $2,500 | $2,500 | $2,550 |
| **Per diem and mileage rates and other transportation:** | | | |
| Standard per diem: Lowest rates in continental USA | Lodging $77<br>Meals & Incidentals $46 | Lodging $83<br>Meals & Incidentals $46 | Lodging $83<br>Meals & Incidentals $46 |
| Business auto mileage rate | 56.5¢ per mile | 56¢ per mile | 57.5¢ per mile |
| Moving & medical auto mileage rate | 24¢ per mile | 23.5¢ per mile | 23¢ per mile |
| Charitable auto mileage rate | 14¢ per mile | 14¢ per mile | 14¢ per mile |
| Airplane mileage rate [1] | $1.33 per mile | $1.31 per mile | |
| Motorcycle mileage rate [1] | 53.5¢ per mile | 53¢ per mile | |
| Bicycle commuting rate | $20 per month | $20 per month | |
| 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 | $16,000 | |
| Monthly limit on free parking | $245 | $250 | $250 |
| Transit passes/token – monthly tax-free limit | $125 | $130 | $130 |
| **Other:** | | | |
| Gift tax annual exclusion | $14,000 | $14,000 | $14,000 |

[1] Privately owned vehicle mileage rates set by the U.S. General Services Administration

Note: In some instances, the rate for a particular year may apply to a tax return filed in a subsequent year.

## *Get the Big Picture*

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

### Special Tax Provisions for Clergy

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

**Remember**

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

**Remember**

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

## ● Clergy Serving Local Congregations

You may believe you are classified as clergy, your congregation may consider you as clergy, your denomination may classify you as clergy, but what does the IRS consider you? For tax purposes, the opinion of the IRS is the one that counts.

Determining whether you are classified as clergy for tax purposes is very important. It determines how you prepare your tax return for income and social security tax purposes. Qualified clergy are eligible for the housing allowance. This alone can exclude thousands of dollars from income taxation. Clergy calculate self-employment social security tax on Schedule SE and pay the tax with Form 1040. Nonclergy have one-half of their social security tax (FICA) withheld from salary, and the congregation pays the other half.

**Caution**

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

### How can I tell whether the IRS will treat me as clergy?

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

**Warning**

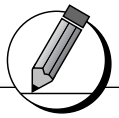
Individuals serving local congregations must meet certain tests to qualify as clergy in the eyes of the IRS. The individual should generally be ordained, licensed, or commissioned.

Based on guidelines issued by the IRS, some of the four tests, but not necessarily all, must be met in determining clergy status. This flexible approach is beneficial to many clergy 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 clergy may have a job title that implies a ministry function. However, the actual responsibilities of the position will determine if the four-factor test (see page 5) is met. Clergy performing services of a routine nature, such as those performed by secretaries, clerks, and janitors, generally do not qualify as clergy for tax purposes.

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



**Tip**

Clergy 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.

## ● Clergy in Denominational, Administrative, and Teaching Positions

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

- ❑ 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 denomination.
- ❑ Performing services for a parachurch organization based upon an assignment or designation by a congregation.

If a congregation does not assign or designate your services, you will qualify for the special tax treatments of clergy if your services substantially involve performing sacerdotal functions or conducting religious worship.

**Caution**

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

## ● Social Security Status of Clergy

Clergy engaged in the exercise of ministry are always treated as self-employed for social security tax purposes. Clergy 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 you meet strict exemption requirements. The request for exemption must be filed using Form 4361 within a specified time from the beginning of your ministry. The request for exemption must be approved by the IRS (see page 28).

Your 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**

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

## ● Income Tax Status of Clergy

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

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

**Key Issue**

The defining court case on the topic of income tax status for clergy 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.

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

- ❑ Clergy-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 you itemize 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%.

- ❑ Accident, long-term care insurance, and qualified group health insurance premiums paid directly by a congregation or reimbursed by a congregation, after the cleric provides substantiation, are not reportable as income to the clergy-employee but must be reported as taxable income to the self-employed cleric.

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

**Caution**

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

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.

**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.

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

**Key Issue**

It is vital for congregations to treat clergy as employees (Form W-2) for income tax purposes in nearly every instance. If clergy 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.

## ● Recommended Filing Status

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

Even though clergy may take exception to the reporting of the congregation, the congregation 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 clergy tax provisions are generally the same as for clergy serving local congregations.

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 clergy status for tax purposes. Qualifying for benefits such as a housing allowance is often not so important for clergy-missionaries because of the foreign earned income exclusion. However, the question of clergy tax status is vitally important to determine if clergy 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.

## *The Best Friend of Clergy*

Nearly all clergy should have a portion of salary designated as a housing allowance. Maximizing housing benefits requires careful planning. For clergy living in congregation-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 clergy living in their own homes or rented quarters. For clergy without a housing allowance, every dollar of compensation is taxable for federal income tax purposes.

**Key Issue**

Understanding the distinction between a housing allowance designation and the housing exclusion is fundamental. The designation is officially made by the congregation. The exclusion is the amount clergy actually exclude for income tax purposes after applying the limitations outlined here.

The housing allowance provides an opportunity to exclude dollars from gross income. The designated housing allowance should be subtracted from compensation before the congregation 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 your congregation properly designates a portion of your cash salary for expenses of a home you provide, the exclusion is commonly referred to as a housing allowance. If the congregation properly designates a portion of your cash salary for expenses you incur in relation to congregation-provided housing, the exclusion is often called a parsonage allowance. In either instance, it is an exclusion from income tax, not self-employment tax.

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

- The allowance must be officially designated by the congregation. 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 congregation budget and payroll records. If the only reference to the housing allowance is in the congregation budget, the budget should be formally approved by the top governing body of the congregation.

  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 congregation. 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 13).

- Only actual expenses can be excluded from income. The source of the funds used to pay clergy housing expenses must be compensation earned by clergy in the exercise of ministry in the current year.

- Only an annual comparison by clergy 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.

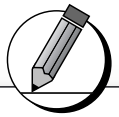
## ● Types of Housing Arrangements

### Clergy Living in a Parsonage Owned by or Rented by a Congregation

If you live in a congregation-owned parsonage or housing rented by the congregation, 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.

You may request a housing allowance to cover expenses incurred in maintaining the congregation-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 congregation, the excess amount cannot be excluded from income.

It is appropriate for clergy's out-of-pocket expenses for the maintenance of a congregation-owned parsonage to be reimbursed by the congregation 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.



**Tip**

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

If the congregation owns the parsonage, the congregation may wish to provide an equity allowance to help compensate clergy 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.

### Clergy Owning or Renting Own Home

If you own or rent your own home, you may exclude, for income tax purposes, a cash housing allowance that is the *lowest* of (1) reasonable compensation, (2) the amount used to provide a home from current congregational income, (3) the amount prospectively and officially designated, or (4) the fair rental value of the furnished home, plus utilities.

Many clergy 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 cleric lives in a personally owned home. The congregation prospectively designated $28,000 of the salary as housing allowance. The cleric 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 cleric 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. Clergy estimates the housing-related expenses to be spent in the coming year and presents this information to the congregation.
2. The congregation then adopts a written housing allowance designation based on the estimate.
3. At the close of the tax year, the cleric 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. Clergy living in congregation-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 congregation uses a calendar or fiscal year. Changing the designation to cover expenses that have already been paid (almost all clergy use the cash basis for tax purposes) is not acceptable.

### Designation Limits

The IRS does not place a limit on how much of clergy compensation may be designated as a housing allowance by the employing congregation. 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 congregation to exclude 100% of compensation.

It is often best for the congregation 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 Clergy

The designated housing allowance may be reflected for clergy-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, congregations can report the designated housing allowance to clergy 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 congregation may erroneously include the housing allowance on Form W-2, Box 1. If this happens, the congregation should prepare a corrected Form W-2.

## Accounting for the Housing Allowance

### Determining Fair Rental Value

The determination of the fair rental value of congregation-provided housing for self-employment social security purposes is solely the responsibility of clergy. The congregation 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 clergy erroneously believe that they may exclude every dollar of the housing *designation* adopted by the congregation 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 cleric living in a personally owned home receives cash compensation of $60,000 from the congregation. The congregation prospectively designates $20,000 as a housing allowance. The fair rental value is $21,000. Actual housing expenses for the year are $14,000. The amount excludable from income is limited to the actual housing expenses of $14,000.

### 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 cleric living in a personally owned home receives cash compensation of $60,000 from the congregation. The congregation prospectively designates $20,000 of the $60,000 as a housing allowance. Actual housing expenses for the year are $50,000. The fair rental value is $21,000. The expenses were unusually high because of a down payment on that house. The amount excludable from income is the designated housing allowance of $20,000. There is no carryover of the $30,000 of actual expenses in excess of the designated housing allowance to the next tax year.

## ● Housing Allowances for Retired Clergy

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

**Remember**

Payments from denominational retirement plans are generally subject to 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.

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 congregation are not eligible for designation as a housing allowance. Retired clergy may also exclude the rental value of a home furnished by a congregation or a rental allowance paid by a congregation 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 clergy 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 | 8,000 |
| Form 1040, line 16b | $ 2,000 |

For retired clergy, 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 congregation

Whereas, the Internal Revenue Code permits clergy to exclude from gross income "the rental value of a home furnished as part of compensation" or a congregation-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 congregation;

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

Whereas, the congregation provides (insert name) with rent-free use of a parsonage owned by (rented by) the congregation as a portion of the compensation for services rendered to the congregation 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 clergy

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

Whereas, the congregation 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 congregation), $500 for housing allowance, and a $700 honorarium.

# Housing Allowance Worksheet

## Clergy Living in Housing

## Owned or Rented by the Congregation

Name: _____

For the period _____, 20___ to _____, 20___

Date designation approved _____, 20___

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

| | Estimated Expenses | Actual | |
|---|---|---|---|
| Utilities *(gas, electricity, water)* and trash collection | $ _____ | $ _____ | |
| Local telephone expense *(base charge)* | _____ | _____ | |
| Decoration and redecoration | _____ | _____ | |
| Structural maintenance and repair | _____ | _____ | |
| Landscaping, gardening, and pest control | _____ | _____ | |
| Furnishings *(purchase, repair, replacement)* | _____ | _____ | |
| 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

## Clergy-Owned Housing

Name: _____

For the period _____, 20___ to _____, 20___

Date designation approved _____, 20___

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

| | Estimated Expenses | Actual |
|---|---|---|
| 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 *(purchase, repair, replacement)* | _____ | _____ |
| Decoration and redecoration | _____ | _____ |
| Utilities *(gas, electricity, water)* and trash collection | _____ | _____ |
| Local telephone expense *(base charge)* | _____ | _____ |
| 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 clergy 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 clergy receive from the congregation in addition to salary. The term "fringe benefits" is really a misnomer because clergy have come to depend on them as a part of the total compensation package. All fringe benefits are taxable income to clergy unless specifically exempted by the Internal Revenue Code.

Many fringe benefits can be provided by a congregation to a clergy 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 congregation reimburses clergy 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 congregation or clergy. 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.

A portion of unreimbursed expenses are 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 congregation pays the disability insurance premiums (and the cleric 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 congregation and clergy, then the benefits are taxable in the same proportion as the payment of the premiums.

**Idea**

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

Conversely, if you pay the disability insurance premiums or have the congregation 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 congregation to pay the disability premiums. But instead of treating the premiums as tax-free, the congregation treats the premiums as additional clergy compensation. Benefits you receive under this option are tax-free.

**Idea**

A college costs deduction for 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.

- **Educational reimbursement plans.** If your congregation requires you to take educational courses or you take job-related courses, and your congregation 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.** Clergy may deduct ministry-related entertainment expenses. Entertainment expenses must be directly related to or associated with the work of the congregation. 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. If the congregation reimburses the expenses, a 100% reimbursement may be made.

- **Flexible spending account (FSA).** "Cafeteria" 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 congregations generally offer cafeteria plans because of plan complexity and cost, many congregations could feasibly offer an FSA.

There is a $2,500 per person per year FSA contribution limit indexed for inflation ($2,550 in 2015). 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.

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. A $500 carryover option was also recently announced by the IRS (see page 3).

**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.

  Under health care reform, churches generally cannot discriminate in favor of more highly paid individuals when providing group health care coverage.

- **Health reimbursement arrangement (HRA).** A properly designed, written HRA under which the church pays the medical expenses of the minister, spouse, and dependents may be nontaxable to the minister-employee.

  HRAs must be integrated with the church's group health insurance plan and only be funded by church-provided funds. Funding by a salary reduction election is not permitted. Excess money in a church-funded HRA can be carried over to a future year without any tax implications to the minister. Because benefits can be carried over indefinitely, the only danger of losing the balance in an HRA account is at retirement or other separation of employment.

  Typical expenses covered by such a plan are deductibles, coinsurance, and noncovered amounts paid by the individual.

  HRAs may not discriminate in favor of highly compensated employees with regard to either benefits or eligibility. HRAs are only available to employees.

- **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.

  HSAs can be funded up to $3,300 for individuals and $6,550 for families to cover health care costs (2014 limits). In addition to the maximum contribution amount, catch-up contributions may be made by or on behalf of individuals age 55 or older and younger than 65. Individuals who have reached age 55 by the end of the tax year are allowed to increase their annual contribution limit by $1,000.

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 HDHP has at least $1,250 annual deductible for self-only coverage and $2,500 deductible for family coverage (2014 limits). Additionally, annual out-of-pocket expenses for HSAs must be limited to $6,350 for self-covered and $12,700 (2014 limits) for families. 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.

Beginning in 2011, HSA withdrawals did not qualify to cover over-the-counter medications (other than insulin or doctor-prescribed medicine). Additionally, the excise tax for nonqualified HSA withdrawals (withdrawals not used for qualified medical expenses) increased from 10 to 20%.

- **Life insurance/group-term**. If the group life coverage provided under a nondiscriminatory plan does not exceed $50,000 for clergy, the life insurance premiums are generally tax-free to clergy-employees. Group-term life insurance coverage of more than $50,000 provided to clergy by the congregation is taxable under somewhat favorable IRS tables.

**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.

- **Social security tax reimbursement**. Congregations commonly reimburse clergy 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 (the payroll tax "holiday" is ignored for this example):

| Your Marginal Tax Rate | Effective SECA Rate |
|---|---|
| 0% | 14.13% |
| 10 | 13.42 |
| 15 | 13.07 |
| 27 | 12.22 |
| 30 | 12.01 |

- **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 congregation-owned vehicle.** The personal use of a congregation-provided vehicle is considered a taxable fringe benefit. The fair market value of the personal use must be included in clergy gross income, unless the full value is reimbursed to the congregation.

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

| Explanation | Clergy-Employee |
|---|---|
| Bonus or gift from the congregation | 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 congregation | Taxable income/Form W-2 (exception for dues for civic and public service groups) |
| Compensation reported to clergy by the congregation | Form W-2 |
| Dependent care assistance payments | Tax-free, subject to limitations |
| Earned income tax credit (EITC) | May be eligible for EITC |
| 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 congregation) | Tax-free/excluded |
| Health reimbursement arrangement | Tax-free, if plan is properly established |
| 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 congregation | Taxable income/Form W-2, may be deducted on Form 1040, Line 25 |
| Insurance, disability paid by congregation; clergy – beneficiary | Premiums are tax-free, but proceeds are taxable |
| Insurance, disability paid by clergy; clergy – beneficiary | Proceeds are tax-free |
| Insurance, group-term life paid by congregation | First $50,000 of coverage is tax-free, if plan properly established |
| Insurance, health | Tax-free, if directly paid by congregation or reimbursed to clergy upon substantiation. If paid by clergy and not reimbursed by congregation, deduct on Schedule A |

* Many of these compensation elements are conditioned on plans being properly established and subject to annual limits.

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

| Explanation | Minister-Employee |
|---|---|
| Insurance, life, whole or universal, congregation is beneficiary | Tax-free/excluded |
| Insurance, life, whole or universal, clergy designates beneficiary | Taxable income/Form W-2 |
| Insurance, long-term care | Tax-free if directly paid by the congregation or reimbursed to clergy on substantiation. If paid by clergy and not reimbursed by congregation, deduct on Schedule A subject to limitations |
| Loans, certain low-interest or interest-free loans over $10,000 to clergy | 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 congregation (only applies to certain qualified expenses) | Tax-free if directly paid by the congregation or reimbursed to clergy on substantiation. Reported on Form W-2, Box 12, using Code P |
| Pension payments by the congregation to a denominational plan for clergy | Tax-deferred. No reporting required until the funds are withdrawn by clergy 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 clergy at no cost or less than fair market value | Taxable income/Form W-2 |
| Retirement or farewell gift to clergy from congregation | Taxable income/Form W-2 |
| Salary from congregation | Report salary on page 1, Form 1040 |
| Social security reimbursed by congregation to clergy | Taxable income/Form W-2 |
| Travel paid for cleric's spouse by the congregation | 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 clergy | Tax-free/excluded |
| Vehicles/personal use of congregation-owned auto | Taxable income/Form W-2 |
| Voluntary withholding | Eligible for voluntary withholding agreement |

## *How Much Are They Worth?*

Most clergy spend several thousands of dollars each year on congregation-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.

**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.

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 congregation, clergy should immediately refund the money to the congregation.

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.

### ● Accountable and Nonaccountable Expense Reimbursement Plans

An accountable plan is a reimbursement or expense allowance arrangement established by your congregation that requires (1) a business purpose for the expenses, (2) substantiation of the expenses to the congregation, 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 congregation within 60 days after the expense is paid or incurred; and
- ❑ any excess amount is returned to the congregation within 120 days after the expense is paid or incurred.

➤ The periodic statement method applies if:

- ❑ the congregation 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 congregation requests that clergy 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 congregation 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 26). This is another reason that all clergy 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 congregation, or if the amount of the reimbursement exceeds your actual expenses and the excess is not returned to the congregation 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 congregation 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 clergy are paid expense "allowances." These payments accomplish nothing in terms of good stewardship. "Allowances" are fully taxable for income and social security tax purposes. Clergy 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, 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.*, meals and entertainment)

**Remember**

When clergy provide a listing of business expenses to the congregation 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 congregation may apply a documentation threshold lower than $75.

## Auto Expense Deductions

Clergy'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 congregation pays you a fixed mileage rate up to the IRS standard rate (see page 4 for rates) and you provide the congregation with the time, place, and business purpose of your driving, you have made an adequate accounting of your automobile expenses.

If the congregation 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.

**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.

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 and tolls and the business portion of personal property tax. All auto-related taxes must be claimed on Schedule A for employees.

### 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 auto 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.

**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.

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.

### 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 worship center (a regular work location) and return for worship services and other work at the worship center is commuting and is not deductible or reimbursable. The same rule applies to multiple trips made in the same day. 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.

**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 in a PDA, some type of log is the best approach to submitting data for reimbursement from your congregation or taking a tax deduction.

### 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 is required.

### 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 congregation 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 congregation" and "condition of employment" tests are met.

If a computer is provided by the congregation in the congregation office but you prefer to work at home on your personal computer, it is not being used for the congregation's convenience. If you meet the "convenience of the congregation" 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.

**Warning**

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

### Subscriptions and Books

Subscriptions to clergy-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 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.

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

**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.

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 40 and 58.

This limitation requires the following calculation:

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

2. Total income from ministry:

   | | | |
   |---|---|---|
   | Salary (including the fair rental value of a congregation-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 qualified clergy is not subject to federal income tax withholding. Clergy who are employees for income tax purposes may enter into a voluntary withholding agreement with the congregation 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.

**Idea**

Though not required, congregations should offer to withhold federal (and state and local, where applicable) income taxes (never FICA taxes!) from clergy 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.

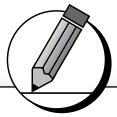
### ● Tax Withholding

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

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



**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.

If you are filing a declaration of estimated tax, complete the quarterly Forms 1040-ES. If 2014 estimated taxes are $1,000 or less, no declaration of estimated tax is required.

If your estimated tax payments for 2015 equal 90% of the 2014 tax liability, you will generally avoid underpayment penalties. An option is to make the 2015 estimated tax payments equal 100% of your 2014 federal and social security taxes (Form 1040, page 2, line 61). This method generally avoids underpayment penalties and is easier to calculate.

In estimating 2015 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:

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

**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 clergy 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 clergy.

### ● Opting Out of Social Security Taxes

All clergy 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 clergy), 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.

**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 of clergy income. But the simplicity of opting out should not be confused with the significant difficulty of complying with the requirements for opting out.

#### 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:

| | Tax Rate | | Maximum Earnings Base | |
|---|---|---|---|---|
| Year | OASDI | Medicare | OASDI | Medicare |
| 2013 | 10.4% | 2.9% | $113,700 | no limit |
| 2014 | 12.4% | 2.9% | 117,000 | no limit |
| 2015 | 12.4% | 2.9% | 118,500 | no limit |

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

**Key Issue**

Unless clergy 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 clergy are retired and receiving social security benefits. There is no age limit on paying social security tax.

### ● 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.

## *Line by Line*

# Form 1040

There are two short forms, the 46-line 1040A and the super-short, 12-line 1040EZ. Generally, ministers should use the 77-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 2014. (Line numbers noted refer to the 1040 and related schedules.)

- **Filing status (lines 1 to 5). Line 2:** If your spouse died in 2014, you can still file jointly and take advantage of tax rates that would be lower than if you 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.

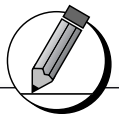
  **Line 5:** If your spouse died in 2012 or 2013 and you have a dependent child, you can also benefit from joint-return rates as a qualifying widow(er).

- **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, 2014. 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 congregation to reissue a corrected Form W-2.

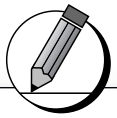
  If your cash housing allowance designated and paid by the employer exceeds the lowest of (1) reasonable compensation, (2) the amount used to provide a home from current ministerial income, (3) the amount properly designated by the employer, or (4) the fair rental value of the home including utilities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



**Filing Tip**

**Form 1040, Line 7.** All compensation from Forms W-2 is reported on line 7. Be sure your congregation 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.

the issuer to get them. If you received more than $1,500 of taxable interest income in 2014, you must also complete Schedule B.

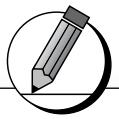
**Line 8b:** Here's where you note any tax-exempt interest from municipal bond funds. Don't worry—that income is not taxable. But social security recipients must count all their tax-exempt interest when computing how much of their social security benefits will be taxable.

**Remember**

Most clergy 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.

**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 2014. If you received more than $1,500 in dividend income in 2014, 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 2014 that you deducted on Schedule A in a prior year, include the refund here.



**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 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 38 and 47), 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 2014.

**Line 15a:** Report as IRA distributions even amounts you rolled over tax-free in 2014 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 2014 and none at all if your provisional income is below $32,000 on a joint return, $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.

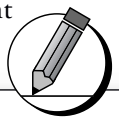
- **Adjustments to income (lines 23 to 37). Line 25:** Health savings account deduction. Contributions made by a taxpayer to a health savings account (HSA) up to $3,300 for an individual plan and $6,550 for a family plan are deductible on this line. Individuals who have reached age 55 by the end of the tax year are allowed to increase their annual contribution for years after 2014.

  **Line 26:** If your employer paid directly or reimbursed you for your qualified moving costs incurred in 2014, 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.

**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 53.** 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 2014, the standard deduction is $12,400 joint, $9,100 head of household, and $6,200 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 5-6) 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 $117,000 of 2014 self-employment income and 2.95% of income above $117,000. If your total wages and self-employment earnings were less than $117,000, 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 congregation 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 2014 estimated tax payment in January 2015, it's counted on your 2013 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 2013 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. But run down Schedule A just to see whether you might have more write-offs than the standard deduction will permit.

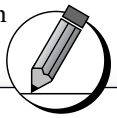
- **Medical and dental expenses (lines 1 to 4)**. Don't overlook the cost of getting to and from the doctor or druggist. Write off 23.5 cents per mile plus the cost of parking. If you didn't drive, deduct your bus, train, or taxi fares. The cost of trips to see out-of-town specialists and as much as $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 2014.

- **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 2014, 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. But you can deduct on your 2014 return the portion of all points paid that correspond with the percentage of your refinancing used for home improvements.



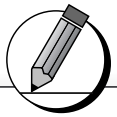
**Filing Tip**

**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.

- **Gifts to charity (lines 16 to 19). Line 16:** For gifts you made in 2014, 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 2014 limit. (However, see the allocation of expense rules, page 26, and examples on pages 40 and 58.)



**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
- Congregation 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:**

| | |
|---|---|
| Congregation salary | $64,850 |
| Christmas and other special occasion gifts paid by the congregation based on designed member-gifts to the congregation | 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 |
| Ordinary | 954 |
| Interest income: | |
| Taxable | 675 |
| Tax-exempt | 1,200 |
| 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 – 888 x 56¢ per mile | 497 |
| Meals and entertainment | 50 |
| Other | 200 |
| Potential itemized deductions: | |
| Unreimbursed doctors, dentists, and drugs | 1,500 |
| State and local income taxes: | |
| 2013 taxes paid in 2014 | 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 42) | 6,750 |

Form **1040** Department of the Treasury – Internal Revenue Service (99) **U.S. Individual Income Tax Return** **2014** OMB No. 1545-0074 IRS Use Only—Do not write or staple in this space.

For the year Jan. 1–Dec. 31, 2014, or other tax year beginning , 2014, ending , 20 See separate instructions.

| Your first name and initial | Last name | Your social security number |
|---|---|---|
| Milton L. | Brown | 541 16 8194 |
| If a joint return, spouse's first name and initial | Last name | Spouse's social security number |
| Alessia S. | Brown | 238 49 7249 |

Home address (number and street). If you have a P.O. box, see instructions. Apt. no.
418 Trenton Street

▲ Make sure the SSN(s) above and on line 6c are correct.

City, town or post office, state, and ZIP code. If you have a foreign address, also complete spaces below (see instructions).
Springfield, OH 45504

Foreign country name | Foreign province/state/county | Foreign postal code

**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. ☐ You ☐ Spouse

**Filing Status** Check only one box.

1 ☐ Single
2 ☒ Married filing jointly (even if only one had income)
3 ☐ Married filing separately. Enter spouse's SSN above and full name here. ►
4 ☐ 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 ☐ Qualifying widow(er) with dependent child

**Exemptions**

6a ☒ **Yourself.** If someone can claim you as a dependent, **do not** check box 6a
b ☒ **Spouse**

Boxes checked on 6a and 6b: 2

| c Dependents: (1) First name | Last name | (2) Dependent's social security number | (3) Dependent's relationship to you | (4) ✓ if child under age 17 qualifying for child tax credit (see instructions) |
|---|---|---|---|---|
| Charles | Brown | 514 43 9196 | Son | ☒ |
| | | | | ☐ |
| | | | | ☐ |
| | | | | ☐ |

If more than four dependents, see instructions and check here ► ☐

No. of children on 6c who:
• lived with you: 1
• did not live with you due to divorce or separation (see instructions):
Dependents on 6c not entered above:

d Total number of exemptions claimed — Add numbers on lines above ►: 3

**Income**

Attach Form(s) W-2 here. Also attach Forms W-2G and 1099-R if tax was withheld.

If you did not get a W-2, see instructions.

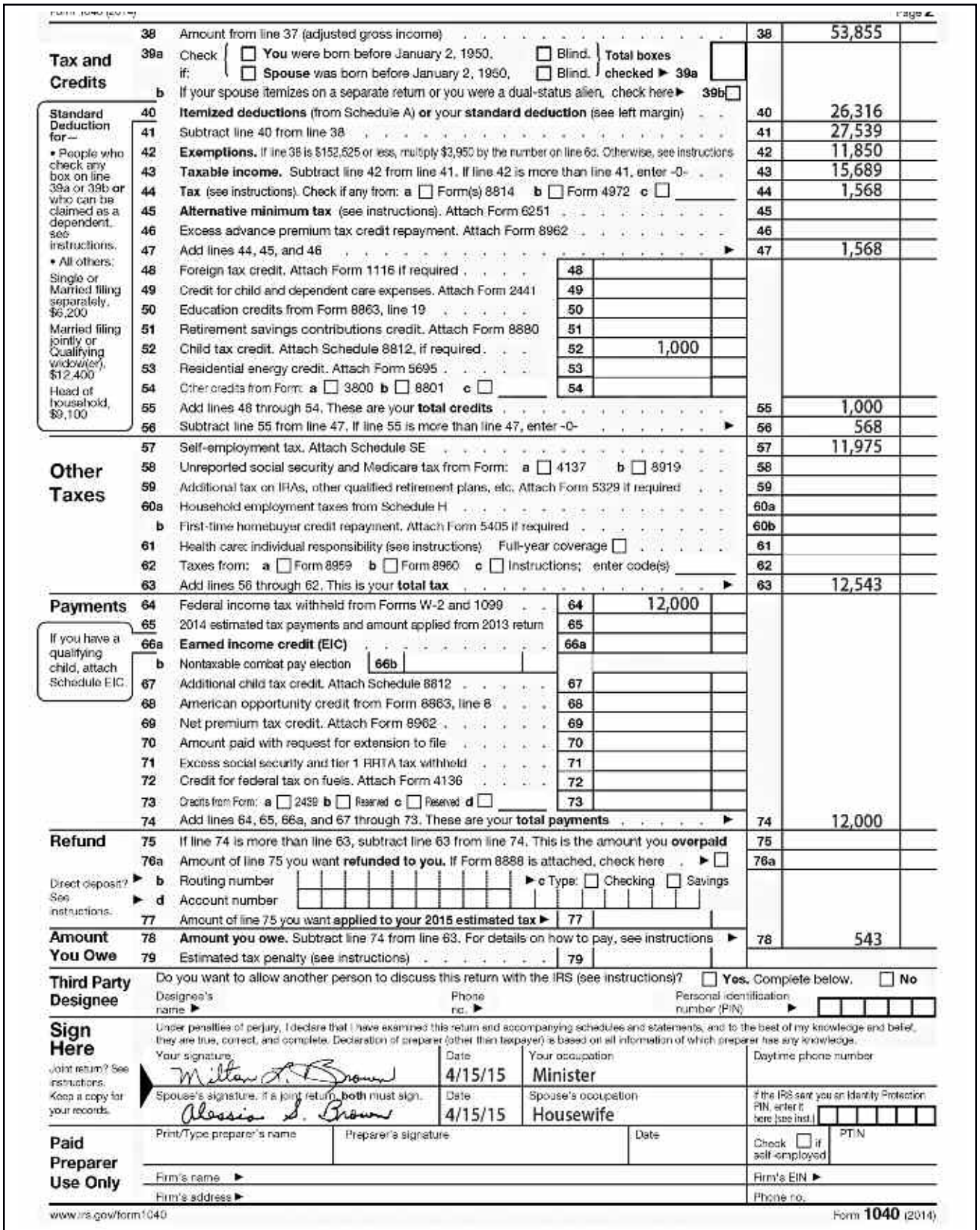
| | | | | |
|---|---|---|---|---|
| 7 | Wages, salaries, tips, etc. Attach Form(s) W-2 **Incl. Excess Housing Allow. $1,000** | | 7 | 58,850 |
| 8a | **Taxable** interest. Attach Schedule B if required | | 8a | 675 |
| b | **Tax-exempt** interest. **Do not** include on line 8a | 8b 1,200 | | |
| 9a | Ordinary dividends. Attach Schedule B if required | | 9a | 954 |
| b | Qualified dividends | 9b | | |
| 10 | Taxable refunds, credits, or offsets of state and local income taxes | | 10 | |
| 11 | Alimony received | | 11 | |
| 12 | Business income or (loss). Attach Schedule C or C-EZ | | 12 | 1,120 |
| 13 | Capital gain or (loss). Attach Schedule D if required. If not required, check here ► ☒ | | 13 | 150 |
| 14 | Other gains or (losses). Attach Form 4797 | | 14 | |
| 15a | IRA distributions 15a | b Taxable amount | 15b | |
| 16a | Pensions and annuities 16a | b Taxable amount | 16b | |
| 17 | Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E | | 17 | |
| 18 | Farm income or (loss). Attach Schedule F | | 18 | |
| 19 | Unemployment compensation | | 19 | |
| 20a | Social security benefits 20a | b Taxable amount | 20b | |
| 21 | Other income. List type and amount | | 21 | |
| 22 | Combine the amounts in the far right column for lines 7 through 21. This is your **total income** ► | | 22 | 61,749 |

**Adjusted Gross Income**

| | | | | |
|---|---|---|---|---|
| 23 | Reserved | 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 | 34 | | |
| 35 | Domestic production activities deduction. Attach Form 8903 | 35 | | |
| 36 | Add lines 23 through 35 | | 36 | 7,894 |
| 37 | Subtract line 36 from line 22. This is your **adjusted gross income** ► | | 37 | 53,855 |

**For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see separate instructions.** Cat. No. 11320B Form **1040** (2014)

Line 7 – See page 41 for the calculation of the excess housing allowance.
Line 27 – See page 28 for the explanation of the self-employment tax deduction.



| | | | | | | |
|---|---|---|---|---|---|---|
| | 38 | Amount from line 37 (adjusted gross income) | | | 38 | 53,855 |
| **Tax and Credits** | 39a | Check if: ☐ You were born before January 2, 1950, ☐ Blind. ☐ Spouse was born before January 2, 1950, ☐ Blind. Total boxes checked ▶ 39a | | | | |
| | b | If your spouse itemizes on a separate return or you were a dual-status alien, check here ▶ 39b ☐ | | | | |
| Standard Deduction for— • People who check any box on line 39a or 39b or who can be claimed as a dependent, see instructions. • All others: Single or Married filing separately, $6,200 Married filing jointly or Qualifying widow(er), $12,400 Head of household, $9,100 | 40 | **Itemized deductions** (from Schedule A) **or** your **standard deduction** (see left margin) | | | 40 | 26,316 |
| | 41 | Subtract line 40 from line 38 | | | 41 | 27,539 |
| | 42 | **Exemptions.** If line 38 is $152,525 or less, multiply $3,950 by the number on line 6d. Otherwise, see instructions | | | 42 | 11,850 |
| | 43 | **Taxable income.** Subtract line 42 from line 41. If line 42 is more than line 41, enter -0- | | | 43 | 15,689 |
| | 44 | **Tax** (see instructions). Check if any from: a ☐ Form(s) 8814 b ☐ Form 4972 c ☐ | | | 44 | 1,568 |
| | 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 | 1,568 |
| | 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 ☐ 3800 b ☐ 8801 c ☐ | 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 | 568 |
| **Other Taxes** | 57 | Self-employment tax. Attach Schedule SE | | | 57 | 11,975 |
| | 58 | Unreported social security and Medicare tax from Form: a ☐ 4137 b ☐ 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 ☐ | | | 61 | |
| | 62 | Taxes from: a ☐ Form 8959 b ☐ Form 8960 c ☐ Instructions; enter code(s) | | | 62 | |
| | 63 | Add lines 56 through 62. This is your **total tax** ▶ | | | 63 | 12,543 |
| **Payments** | 64 | Federal income tax withheld from Forms W-2 and 1099 | 64 | 12,000 | | |
| If you have a qualifying child, attach Schedule EIC. | 65 | 2014 estimated tax payments and amount applied from 2013 return | 65 | | | |
| | 66a | **Earned income credit (EIC)** | 66a | | | |
| | b | Nontaxable combat pay election 66b | | | | |
| | 67 | Additional child tax credit. Attach Schedule 8812 | 67 | | | |
| | 68 | American opportunity credit from Form 8863, line 8 | 68 | | | |
| | 69 | Net premium tax credit. Attach Form 8962 | 69 | | | |
| | 70 | Amount paid with request for extension to file | 70 | | | |
| | 71 | Excess social security and tier 1 RRTA tax withheld | 71 | | | |
| | 72 | Credit for federal tax on fuels. Attach Form 4136 | 72 | | | |
| | 73 | Credits from Form: a ☐ 2439 b ☐ Reserved c ☐ Reserved d ☐ | 73 | | | |
| | 74 | Add lines 64, 65, 66a, and 67 through 73. These are your **total payments** ▶ | | | 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 ▶ ☐ | | | 76a | |
| Direct deposit? See instructions. | b | Routing number ▶ c Type: ☐ Checking ☐ Savings | | | | |
| | d | Account number | | | | |
| | 77 | Amount of line 75 you want **applied to your 2015 estimated tax** ▶ | 77 | | | |
| **Amount You Owe** | 78 | **Amount you owe.** Subtract line 74 from line 63. For details on how to pay, see instructions ▶ | | | 78 | 543 |
| | 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)? ☐ **Yes.** Complete below. ☐ **No**

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

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

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

| Your signature | Date | Your occupation | Daytime phone number |
|---|---|---|---|
| Milton A. Brown | 4/15/15 | Minister | |
| **Spouse's signature. If a joint return, both must sign.** | **Date** | **Spouse's occupation** | If the IRS sent you an Identity Protection PIN, enter it here (see inst.) |
| Alessia L. Brown | 4/15/15 | Housewife | |

**Paid Preparer Use Only**

| Print/Type preparer's name | Preparer's signature | Date | Check ☐ if self-employed | PTIN |
|---|---|---|---|---|
| Firm's name ▶ | | | Firm's EIN ▶ | |
| Firm's address ▶ | | | Phone no. | |

www.irs.gov/form1040 — Form **1040** (2014)

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)**
Department of the Treasury
Internal Revenue Service (99)

# Itemized Deductions

► Information about Schedule A and its separate instructions is at *www.irs.gov/schedulea*.
► Attach to Form 1040.

OMB No. 1545-0074
**2014**
Attachment Sequence No. **07**

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] 53,855 | | | | |
| | 3 | Multiply line 2 by 10% (.10). But if either you or your spouse was born before January 2, 1950, multiply line 2 by 7.5% (.075) instead | 3 | 5,386 | | |
| | 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 | | | | |
| | | a [X] Income taxes | 5 | 2,000 | | |
| | | b [ ] RESERVED | | | | |
| | 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 |
| **Interest You Paid** | 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 | | | |
| **Note.** Your mortgage interest deduction may be limited (see instructions). | 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** | 16 | Gifts by cash or check. If you made any gift of $250 or more, see instructions | 16 | 8,200 | | |
| If you made a gift and got a benefit for it, see instructions. | 17 | Other than by cash or check. If any gift of $250 or more, see instructions. You **must** attach Form 8283 if over $500 | 17 | 266 | | |
| | 18 | Carryover from prior year | 18 | | | |
| | 19 | Add lines 16 through 18 | | | 19 | 8,466 |
| **Casualty and Theft Losses** | 20 | Casualty or theft loss(es). Attach Form 4684. (See instructions.) | | | 20 | |
| **Job Expenses and Certain Miscellaneous Deductions** | 21 | Unreimbursed employee expenses—job travel, union dues, job education, etc. Attach Form 2106 or 2106-EZ if required. (See 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] 53,855 | | | | |
| | 26 | Multiply line 25 by 2% (.02) | 26 | 1,077 | | |
| | 27 | Subtract line 26 from line 24. If line 26 is more than line 24, enter -0- | | | 27 | 0 |
| **Other Miscellaneous Deductions** | 28 | Other—from list in instructions. List type and amount ► | | | 28 | |
| **Total Itemized Deductions** | 29 | Is Form 1040, line 38, over $152,525? | | | | |
| | | [X] **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. | | | 29 | 26,316 |
| | | [ ] **Yes.** Your deduction may be limited. See the Itemized Deductions Worksheet in the instructions to figure the amount to enter. | | | | |
| | 30 | If you elect to itemize deductions even though they are less than your standard deduction, check here ► [ ] | | | | |

For Paperwork Reduction Act Notice, see Form 1040 instructions. Cat. No. 17145C Schedule A (Form 1040) 2014

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 B** (Form 1040A or 1040)
Department of the Treasury
Internal Revenue Service (99)

# Interest and Ordinary Dividends

► Attach to Form 1040A or 1040.
► Information about Schedule B and its instructions is at *www.irs.gov/scheduleb*.

OMB No. 1545-0074
**2014**
Attachment Sequence No. **08**

Name(s) shown on return: Milton L. and Alessia S. Brown

Your social security number: 541-16-8194

## Part I Interest

(See instructions on back and the instructions for Form 1040A, or Form 1040, line 8a.)

**Note.** If you received a Form 1099-INT, Form 1099-OID, or substitute statement from a brokerage firm, list the firm's name as the payer and enter the total interest shown on that form.

| | | | Amount |
|---|---|---|---|
| 1 | List name of payer. If any interest is from a seller-financed mortgage and the buyer used the property as a personal residence, see instructions on back and list this interest first. Also, show that buyer's social security number and address ► | | |
| | State Highway Bonds | | 1,200 |
| | Ohio S&L | | 675 |
| | Subtotal | | 1,875 |
| | Less: Tax-Exempt Interest | | -1,200 |
| 2 | Add the amounts on line 1 | 2 | 675 |
| 3 | Excludable interest on series EE and I U.S. savings bonds issued after 1989. Attach Form 8815 | 3 | |
| 4 | Subtract line 3 from line 2. Enter the result here and on Form 1040A, or Form 1040, line 8a ► | 4 | 675 |

**Note.** If line 4 is over $1,500, you must complete Part III.

## Part II Ordinary Dividends

(See instructions on back and the instructions for Form 1040A, or Form 1040, line 9a.)

**Note.** If you received a Form 1099-DIV or substitute statement from a brokerage firm, list the firm's name as the payer and enter the ordinary dividends shown on that form.

| | | | Amount |
|---|---|---|---|
| 5 | List name of payer ► | | |
| | Vanguard | | 954 |
| 6 | Add the amounts on line 5. Enter the total here and on Form 1040A, or Form 1040, line 9a ► | 6 | 954 |

**Note.** If line 6 is over $1,500, you must complete Part III.

## Part III Foreign Accounts and Trusts

(See instructions on back.)

You must complete this part if you **(a)** had over $1,500 of taxable interest or ordinary dividends; **(b)** had a foreign account; or **(c)** received a distribution from, or were a grantor of, or a transferor to, a foreign trust.

| | | Yes | No |
|---|---|---|---|
| 7a | At any time during 2014, did you have a financial interest in or signature authority over a financial account (such as a bank account, securities account, or brokerage account) located in a foreign country? See instructions | | X |
| | If "Yes," are you required to file FinCEN Form 114, Report of Foreign Bank and Financial Accounts (FBAR), to report that financial interest or signature authority? See FinCEN Form 114 and its instructions for filing requirements and exceptions to those requirements | | |
| b | If you are required to file FinCEN Form 114, enter the name of the foreign country where the financial account is located ► | | |
| 8 | During 2014, did you receive a distribution from, or were you the grantor of, or transferor to, a foreign trust? If "Yes," you may have to file Form 3520. See instructions on back | | |

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

## 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
**2014**
Attachment Sequence No. **09A**

Name of proprietor: Milton L. Brown
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.
- 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.
- Do not deduct expenses for business use of your home.
- Do not have prior year unallowed passive activity losses from this business.

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 2014 that would require you to file Form(s) 1099? (see the Schedule C instructions) . . . ☐ 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 instructions). (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) ► 1/1/06

5 Of the total number of miles you drove your vehicle during 2014, enter the number of miles you used your vehicle for:
Schedule C 888
a Business 9,412 b Commuting (see page 2) 1,216 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) 2014

**Gross receipts:**

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

**Expenses:**
See Attachment 1 on page 40

Most clergy 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) 2014 — Attachment Sequence No. **17** — Page **2**

Name of person with **self-employment** income (as shown on Form 1040 or Form 1040NR): **Milton L. Brown**

Social security number of person with **self-employment** income ▶ **541-16-8194**

## 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) | | 1a | |
| b | If you received social security retirement or disability benefits, enter the amount of Conservation Reserve Program payments included on Schedule F, line 4b, or listed on Schedule K-1 (Form 1065), box 20, code Z | | 1b | ( ) |
| 2 | Net profit or (loss) from Schedule C, line 31; Schedule C-EZ, line 3; Schedule K-1 (Form 1065), box 14, code A (other than farming); and Schedule K-1 (Form 1065-B), box 9, code J1. Ministers and members of religious orders, see instructions for types of income to report on this line. See instructions for other income to report. **Note.** Skip this line if you use the nonfarm optional method (see instructions) | | 2 | 84,753 |
| 3 | Combine lines 1a, 1b, and 2 | | 3 | 84,753 |
| 4a | If line 3 is more than zero, multiply line 3 by 92.35% (.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. | | 4a | 78,269 |
| b | If you elect one or both of the optional methods, enter the total of lines 15 and 17 here | | 4b | |
| c | Combine lines 4a and 4b. If less than $400, **stop**; you do not owe self-employment tax. **Exception.** If less than $400 and you had **church employee income,** enter -0- and continue ▶ | | 4c | 78,269 |
| 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% (.9235). If less than $100, enter -0- | | 5b | |
| 6 | Add lines 4c and 5b | | 6 | 78,269 |
| 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 2014 | | 7 | 117,000 00 |
| 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 $117,000 or more, skip lines 8b through 10, and go to line 11 | 8a | | |
| b | Unreported tips subject to social security tax (from Form 4137, line 10) | 8b | | |
| c | Wages subject to social security tax (from Form 8919, line 10) | 8c | | |
| d | Add lines 8a, 8b, and 8c | | 8d | |
| 9 | Subtract line 8d from line 7. If zero or less, enter -0- here and on line 10 and go to line 11 ▶ | | 9 | 117,000 |
| 10 | Multiply the **smaller** of line 6 or line 9 by 12.4% (.124) | | 10 | 9,705 |
| 11 | Multiply line 6 by 2.9% (.029) | | 11 | 2,270 |
| 12 | **Self-employment tax.** Add lines 10 and 11. Enter here and on **Form 1040, line 57,** or **Form 1040NR, line 55** | | 12 | 11,975 |
| 13 | **Deduction for one-half of self-employment tax.** Multiply line 12 by 50% (.50). Enter the result here and on **Form 1040, line 27,** or **Form 1040NR, line 27** | 13 5,988 | | |

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

**Farm Optional Method.** You may use this method **only** if **(a)** your gross farm income[1] was not more than $7,200, **or (b)** your net farm profits[2] were less than $5,198.

| | | | | |
|---|---|---|---|---|
| 14 | Maximum income for optional methods | | 14 | 4,800 00 |
| 15 | Enter the **smaller** of: two-thirds (⅔) of gross farm income[1] (not less than zero) **or** $4,800. Also include this amount on line 4b above | | 15 | |

**Nonfarm Optional Method.** You may use this method **only** if **(a)** your net nonfarm profits[3] were less than $5,198 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 (⅔) of gross nonfarm income[4] (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.

Schedule SE (Form 1040) 2014

Line 2 – See Attachment 2 on page 40.

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 $117,000.

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

| | | Taxable | Tax-Free | Total |
|---|---|---|---|---|
| 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) | $ 1,000 | 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 | | 1,650 | | 1,650 |
| Ministerial Income | | $ 60,500 | $ 25,000 | $ 85,500 |

**% 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 (888 miles x 56 cents per mile) | 497 |
| Unadjusted Schedule C-EZ expenses | 747 |
| Minus: | |
| Nondeductible part of Schedule C-EZ expenses (29% x $747) | (217) |
| Schedule C-EZ deductions (line 2) (See page 38) | $ 530 |

## Attachment 2.

## Net earnings from self-employment (attachment to Schedule SE, Form 1040)

| | |
|---|---|
| Congregation wages | $ 57,850 |
| Housing allowance | 26,000 |
| Net profit from Schedule C-EZ | 1,120 |
| | 84,970 |
| Less: | |
| Schedule C-EZ expenses allocable to tax-free income | (217) |
| Net Self-Employed Income Schedule SE, Section A, line 2 (See page 39) | $ 84,753 |

# Housing Allowance Worksheet

## Clergy-Owned Home

Name: Milton L. Brown

For the period January 1, 2014 to December 31, 2014

Date designation approved December 20, 2013

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

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

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

10 Dependent care benefits

e Employee's first name and initial: Milton L.

Last name: Brown

Suff.

11 Nonqualified plans

12a See instructions for box 12: Code E | 500

13 Statutory employee ☐ Retirement plan ☒ Third-party sick pay ☐

12b

14 Other

12c

12d

418 Trenton Street
Springfield, OH 45504

f Employee's address and ZIP code

| 15 State | Employer's state ID number | 16 State wages, tips, etc. | 17 State income tax | 18 Local wages, tips, etc. | 19 Local income tax | 20 Locality name |
|---|---|---|---|---|---|---|
| OH | 677803 | 57850.00 | 1600.00 | | | |

Form **W-2** Wage and Tax Statement 2014

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 | 6,750 |
| | $ 57,850 |

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
- Congregation 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) | 7,650 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 2,235 x 56¢ 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 $24,000 in income for health insurance exchange subsidy at the beginning of year

Form **1040** Department of the Treasury—Internal Revenue Service (99) **U.S. Individual Income Tax Return** **2014** OMB No. 1545-0074 IRS Use Only—Do not write or staple in this space.

For the year Jan. 1–Dec. 31, 2014, or other tax year beginning , 2014, ending , 20 — See separate instructions.

| Your first name and initial | Last name | Your social security number |
|---|---|---|
| Donald L. | Hall | 482 \| 11 \| 6043 |
| If a joint return, spouse's first name and initial | Last name | Spouse's social security number |
| Julie M. | Hall | 720 \| 92 \| 1327 |

Home address (number and street). If you have a P.O. box, see instructions. — Apt. no.
804 Linden Avenue

▲ Make sure the SSN(s) above and on line 6c are correct.

City, town or post office, state, and ZIP code. If you have a foreign address, also complete spaces below (see instructions).
Wabash, IN 46992

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. ☐ You ☐ Spouse

Foreign country name | Foreign province/state/county | Foreign postal code

**Filing Status** Check only one box.

1 ☐ Single
2 ☒ Married filing jointly (even if only one had income)
3 ☐ Married filing separately. Enter spouse's SSN above and full name here. ►
4 ☐ 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 ☐ Qualifying widow(er) with dependent child

**Exemptions**

6a ☒ **Yourself.** If someone can claim you as a dependent, **do not** check box 6a . . . . . Boxes checked on 6a and 6b: 2
b ☒ **Spouse** . . . . . No. of children on 6c who: • lived with you: 2 • did not live with you due to divorce or separation (see instructions):

| c Dependents: (1) First name | Last name | (2) Dependent's social security number | (3) Dependent's relationship to you | (4) ✓ if child under age 17 qualifying for child tax credit (see instructions) |
|---|---|---|---|---|
| David K. | Hall | 514 42 7465 | Son | ☒ |
| Sarah E. | Hall | 416 49 9125 | Daughter | ☒ |
| | | | | ☐ |
| | | | | ☐ |

If more than four dependents, see instructions and check here ► ☐

Dependents on 6c not entered above:
d Total number of exemptions claimed . . . . . Add numbers on lines above ►: 4

**Income**

Attach Form(s) W-2 here. Also attach Forms W-2G and 1099-R if tax was withheld.

If you did not get a W-2, see instructions.

| | | | | |
|---|---|---|---|---|
| 7 | Wages, salaries, tips, etc. Attach Form(s) W-2 Incl, Excess Housing Allow, $1,000 | | 7 | 27,150 |
| 8a | **Taxable** interest. Attach Schedule B if required | | 8a | 750 |
| b | **Tax-exempt** interest. **Do not** include on line 8a | 8b | | |
| 9a | Ordinary dividends. Attach Schedule B if required | | 9a | |
| b | Qualified dividends | 9b | | |
| 10 | Taxable refunds, credits, or offsets of state and local income taxes | | 10 | |
| 11 | Alimony received | | 11 | |
| 12 | Business income or (loss). Attach Schedule C or C-EZ | | 12 | 2,520 |
| 13 | Capital gain or (loss). Attach Schedule D if required. If not required, check here ► ☐ | | 13 | |
| 14 | Other gains or (losses). Attach Form 4797 | | 14 | |
| 15a | IRA distributions 15a | b Taxable amount | 15b | |
| 16a | Pensions and annuities 16a | b Taxable amount | 16b | |
| 17 | Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E | | 17 | |
| 18 | Farm income or (loss). Attach Schedule F | | 18 | |
| 19 | Unemployment compensation | | 19 | |
| 20a | Social security benefits 20a | b Taxable amount | 20b | |
| 21 | Other income. List type and amount | | 21 | |
| 22 | Combine the amounts in the far right column for lines 7 through 21. This is your **total income** ► | | 22 | 30,420 |

**Adjusted Gross Income**

| | | | | |
|---|---|---|---|---|
| 23 | Reserved | 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 | 1,183 | |
| 27 | Deductible part of self-employment tax. Attach Schedule SE | 27 | 1,403 | |
| 28 | Self-employed SEP, SIMPLE, and qualified plans | 28 | | |
| 29 | Self-employed health insurance deduction | 29 | | |
| 30 | Penalty on early withdrawal of savings | 30 | | |
| 31a | Alimony paid b Recipient's SSN ► | 31a | | |
| 32 | IRA deduction | 32 | | |
| 33 | Student loan interest deduction | 33 | | |
| 34 | Reserved | 34 | | |
| 35 | Domestic production activities deduction. Attach Form 8903 | 35 | | |
| 36 | Add lines 23 through 35 | | 36 | 2,586 |
| 37 | Subtract line 36 from line 22. This is your **adjusted gross income** ► | | 37 | 27,834 |

**For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see separate instructions.** Cat. No. 11320B Form **1040** (2014)

Line 7 – Julie's W-2, $9,150, Donald's W-2, $12,800 (see page 60), plus $1,000 of excess housing allowance (see page 59).

Line 27 – See page 28 for explanation of the self-employment tax deduction.

Form 1040 (2014) Page 2

| | | | | | |
|---|---|---|---|---|---|
| Tax and Credits | 38 | Amount from line 37 (adjusted gross income) | | 38 | 27,834 |
| | 39a | Check if: ☐ You were born before January 2, 1950, ☐ Blind. ☐ Spouse was born before January 2, 1950, ☐ Blind. Total boxes checked ▶ 39a | | | |
| | b | If your spouse itemizes on a separate return or you were a dual-status alien, check here ▶ 39b ☐ | | | |
| Standard Deduction for— • People who check any box on line 39a or 39b or who can be claimed as a dependent, see instructions. • All others: Single or Married filing separately, $6,200 Married filing jointly or Qualifying widow(er), $12,400 Head of household, $9,100 | 40 | Itemized deductions (from Schedule A) or your standard deduction (see left margin) | | 40 | 12,400 |
| | 41 | Subtract line 40 from line 38 | | 41 | 15,434 |
| | 42 | Exemptions. If line 38 is $152,525 or less, multiply $3,950 by the number on line 6d. Otherwise, see instructions | | 42 | 15,800 |
| | 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 ☐ Form(s) 8814 b ☐ Form 4972 c ☐ | | 44 | |
| | 45 | Alternative minimum tax (see instructions). Attach Form 6251 | | 45 | |
| | 46 | Excess advance premium tax credit repayment. Attach Form 8962 | | 46 | 77 |
| | 47 | Add lines 44, 45, and 46 ▶ | | 47 | 77 |
| | 48 | Foreign tax credit. Attach Form 1116 if required | | | |
| | 49 | Credit for child and dependent care expenses. Attach Form 2441 | | | |
| | 50 | Education credits from Form 8863, line 19 | | | |
| | 51 | Retirement savings contributions credit. Attach Form 8880 | | | |
| | 52 | Child tax credit. Attach Schedule 8812, if required | 77 | | |
| | 53 | Residential energy credit. Attach Form 5695 | | | |
| | 54 | Other credits from Form: a ☐ 3800 b ☐ 8801 c ☐ | | | |
| | 55 | Add lines 48 through 54. These are your total credits | | 55 | 77 |
| | 56 | Subtract line 55 from line 47. If line 55 is more than line 47, enter -0- ▶ | | 56 | 2,806 |
| Other Taxes | 57 | Self-employment tax. Attach Schedule SE | | 57 | |
| | 58 | Unreported social security and Medicare tax from Form: a ☐ 4137 b ☐ 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 ☐ | | 61 | |
| | 62 | Taxes from: a ☐ Form 8959 b ☐ Form 8960 c ☐ Instructions; enter code(s) | | 62 | |
| | 63 | Add lines 56 through 62. This is your total tax ▶ | | 63 | 2,806 |
| Payments | 64 | Federal income tax withheld from Forms W-2 and 1099 | 250 | | |
| If you have a qualifying child, attach Schedule EIC. | 65 | 2014 estimated tax payments and amount applied from 2013 return | | | |
| | 66a | Earned income credit (EIC) | 3,656 | | |
| | b | Nontaxable combat pay election 66b | | | |
| | 67 | Additional child tax credit. Attach Schedule 8812 | 1,923 | | |
| | 68 | American opportunity credit from Form 8863, line 8 | | | |
| | 69 | Net premium tax credit. Attach Form 8962 | | | |
| | 70 | Amount paid with request for extension to file | | | |
| | 71 | Excess social security and tier 1 RRTA tax withheld | | | |
| | 72 | Credit for federal tax on fuels. Attach Form 4136 | | | |
| | 73 | Credits from Form: a ☐ 2439 b ☐ Reserved c ☐ Reserved d ☐ | | | |
| | 74 | Add lines 64, 65, 66a, and 67 through 73. These are your total payments ▶ | | 74 | 5,829 |
| Refund | 75 | If line 74 is more than line 63, subtract line 63 from line 74. This is the amount you overpaid | | 75 | 3,023 |
| | 76a | Amount of line 75 you want refunded to you. If Form 8888 is attached, check here ▶ ☐ | | 76a | 3,023 |
| Direct deposit? See instructions. | b | Routing number ▶ c Type: ☐ Checking ☐ Savings | | | |
| | d | Account number | | | |
| | 77 | Amount of line 75 you want applied to your 2015 estimated tax ▶ | 77 | | |
| Amount You Owe | 78 | Amount you owe. Subtract line 74 from line 63. For details on how to pay, see instructions ▶ | | 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)? ☐ Yes. Complete below. ☐ 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 complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.

| Your signature | Date | Your occupation | Daytime phone number |
|---|---|---|---|
| Ronald L. Hall | 4/15/15 | Minister | |
| **Spouse's signature. If a joint return, both must sign.** | **Date** | **Spouse's occupation** | **If the IRS sent you an Identity Protection PIN, enter it here (see inst.)** |
| Julie M. Hall | 4/15/15 | Secretary | |

**Paid Preparer Use Only**

| Print/Type preparer's name | Preparer's signature | Date | Check ☐ if self-employed | PTIN |
|---|---|---|---|---|
| | | | | |

Firm's name ▶ Firm's EIN ▶

Firm's address ▶ Phone no.

www.irs.gov/form1040 Form **1040** (2014)

**SCHEDULE C-EZ (Form 1040)**

Department of the Treasury
Internal Revenue Service (99)

# 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

**2014**

Attachment Sequence No. **09A**

Name of proprietor: Donald L. Hall

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.
- 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.
- Do not deduct expenses for business use of your home.
- Do not have prior year unallowed passive activity losses from this business.

A Principal business or profession, including product or service: Minister

B Enter business code (see page 2): ► 813000

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 2014 that would require you to file Form(s) 1099? (see the Schedule C instructions) ☐ 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 | 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 instructions). (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) ► 1/1/07

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

a Business 2,235 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) 2014

(1) Expenses have been reduced by 39% as allocable to tax-free income (see page 58 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 56.

**SCHEDULE SE (Form 1040)**
Department of the Treasury
Internal Revenue Service (99)

## Self-Employment Tax

► Information about Schedule SE and its separate instructions is at *www.irs.gov/schedulese.*
► **Attach to Form 1040 or Form 1040NR.**

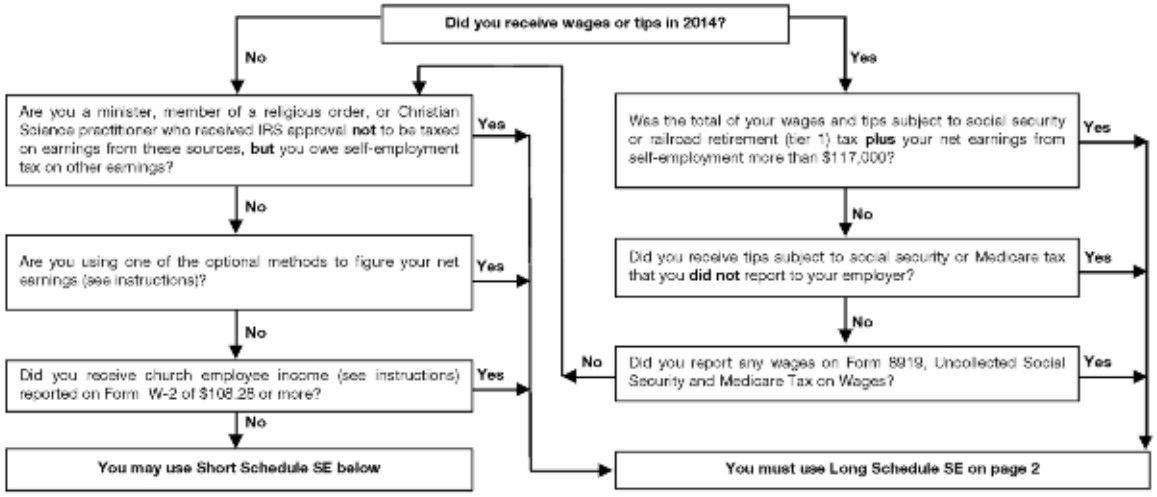
OMB No. 1545-0074
**2014**
Attachment Sequence No. **17**

| Name of person with **self-employment** income (as shown on Form 1040 or Form 1040NR) | Social security number of person with **self-employment** income ► |
|---|---|
| Donald L. Hall | 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 | 1a | |
| **b** | If you received social security retirement or disability benefits, enter the amount of Conservation Reserve Program payments included on Schedule F, line 4b, or listed on Schedule K-1 (Form 1065), box 20, code Z | 1b | ( ) |
| **2** | Net profit or (loss) from Schedule C, line 31; Schedule C-EZ, line 3; Schedule K-1 (Form 1065), box 14, code A (other than farming); and Schedule K-1 (Form 1065-B), box 9, code J1. Ministers and members of religious orders, see instructions for types of income to report on this line. See instructions for other income to report | 2 | 19,860 |
| **3** | Combine lines 1a, 1b, and 2 | 3 | 19,860 |
| **4** | Multiply line 3 by 92.35% (.9235). If less than $400, you do not owe self-employment tax; **do not** file this schedule unless you have an amount on line 1b ► | 4 | 18,341 |
| | **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:<br>• $117,000 or less, multiply line 4 by 15.3% (.153). Enter the result here and on **Form 1040, line 57,** or **Form 1040NR, line 55**<br>• More than $117,000, multiply line 4 by 2.9% (.029). Then, add $14,508 to the result.<br>Enter the total here and on **Form 1040, line 57,** or **Form 1040NR, line 55** | 5 | 2,806 |
| **6** | **Deduction for one-half of self-employment tax.** Multiply line 5 by 50% (.50). Enter the result here and on **Form 1040, line 27,** or **Form 1040NR, line 27** | 6 | 1,403 |

**For Paperwork Reduction Act Notice, see your tax return instructions.** Cat. No. 11358Z **Schedule SE (Form 1040) 2014**

Line 2 – See the schedule on page 58 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 $117,000.

**SCHEDULE EIC**
**(Form 1040A or 1040)**

Department of the Treasury
Internal Revenue Service (99)

# Earned Income Credit

Qualifying Child Information

▶ Complete and attach to Form 1040A or 1040 only if you have a qualifying child.

▶ Information about Schedule EIC (Form 1040A or 1040) and its instructions is at www.irs.gov/scheduleeic

1040A 1040 EIC

OMB No. 1545-0074

**2014**

Attachment Sequence No. **43**

Name(s) shown on return
Donald L. Hall

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.

CAUTION

- *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**<br>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**<br>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 2014. If your child was born and died in 2014 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. | 514-42-7465 | 416-49-0125 | |
| **3 Child's year of birth** | Year 2003<br>*If born after 1995 and the child is younger than you (or your spouse, if filing jointly), skip lines 4a and 4b; go to line 5.* | Year 2007<br>*If born after 1995 and the child is younger than you (or your spouse, if filing jointly), skip lines 4a and 4b; go to line 5.* | Year ____<br>*If born after 1995 and the child is younger than you (or your spouse, if filing jointly), skip lines 4a and 4b; go to line 5.* |
| **4a** Was the child under age 24 at the end of 2014, a student, and younger than you (or your spouse, if filing jointly)? | [X] Yes. *Go to line 5.* [ ] No. *Go to line 4b.* | [X] Yes. *Go to line 5.* [ ] No. *Go to line 4b.* | [ ] Yes. *Go to line 5.* [ ] No. *Go to line 4b.* |
| **b** Was the child permanently and totally disabled during any part of 2014? | [ ] Yes. *Go to line 5.* [ ] No. The child is not a qualifying child. | [ ] Yes. *Go to line 5.* [ ] No. The child is not a qualifying child. | [ ] Yes. *Go to line 5.* [ ] No. The child is not a qualifying child. |
| **5 Child's relationship to you**<br>(for example, son, daughter, grandchild, niece, nephew, foster child, etc.) | | | |
| **6 Number of months child lived with you in the United States during 2014**<br>• If the child lived with you for more than half of 2014 but less than 7 months, enter "7."<br>• If the child was born or died in 2014 and your home was the child's home for more than half the time he or she was alive during 2014, enter "12." | 12 months<br>*Do not enter more than 12 months.* | 12 months<br>*Do not enter more than 12 months.* | ____ months<br>*Do not enter more than 12 months.* |

**For Paperwork Reduction Act Notice, see your tax return instructions.** Cat. No. 13339M **Schedule EIC (Form 1040A or 1040) 2014**

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.

## Worksheet B—2014 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 — Self-Employed, Members of the Clergy, and People With Church Employee Income Filing Schedule SE**

| | | | | |
|---|---|---|---|---|
| 1a. | Enter the amount from Schedule SE, Section A, line 3, or Section B, line 3, whichever applies. | | 1a | 33,210 [1] |
| 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 — Self-Employed NOT Required To File Schedule SE**

For example, your net earnings from self-employment were less than $400.

2. Do not 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.

| | | | | |
|---|---|---|---|---|
| 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 | |

**If you have any Schedule K-1 amounts, complete the appropriate line(s) of Schedule SE, Section A. Reduce the Schedule K-1 amounts as described in the Partner's Instructions for Schedule K-1. Enter your name and social security number on Schedule SE and attach it to your return.*

**Part 3 — Statutory Employees Filing Schedule C or C-EZ**

3. Enter the amount from Schedule C, line 1, or Schedule C-EZ, line 1, that you are filing as a statutory employee. — 3

**Part 4 — All Filers Using Worksheet B**

**Note.** If line 4b includes income on which you should have paid self-employment tax but did not, we may reduce your credit by the amount of self-employment tax not paid.

4a. Enter your earned income from Step 5. — 4a

b. Combine lines 1e, 2c, 3, and 4a. **This is your total earned income.** — 4b 31,807

If line 4b is zero or less, STOP You cannot take the credit. Enter "No" on the dotted line next to line 66a.

5. If you have:

- 3 or more qualifying children, is line 4b less than $46,997 ($52,427 if married filing jointly)?
- 2 qualifying children, is line 4b less than $43,756 ($49,186 if married filing jointly)?
- 1 qualifying child, is line 4b less than $38,511 ($43,941 if married filing jointly)?
- No qualifying children, is line 4b less than $14,590 ($20,020 if married filing jointly)?

☐ **Yes.** If you want the IRS to figure your credit, see *Credit figured by the IRS*, earlier. If you want to figure the credit yourself, enter the amount from line 4b on line 6 of this worksheet.

☐ **No.** STOP You cannot take the credit. Enter "No" on the dotted line next to line 66a.

[1] Included on Line 1a:

| | |
|---|---|
| Julie Hall's salary | $ 9,150 |
| Schedule SE income | 19,860 |
| | $29,010 |

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

**Worksheet B** —2014 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 | 3,656

If line 7 is zero, STOP You cannot 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 $8,150 ($13,550 if married filing jointly)?
- 1 or more qualifying children, is the amount on line 8 less than $17,850 ($23,300 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. 10 | 4,499

Look at the amounts on lines 10 and 7. Then, enter the **smaller** amount on line 11.

**Part 7**

**Your Earned Income Credit**

11. **This is your earned income credit.** 11 | 3,656

Enter this amount on Form 1040, line 66a.

**Reminder—**

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

CAUTION *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 2014.*

**SCHEDULE 8812 (Form 1040A or 1040)**

Department of the Treasury
Internal Revenue Service (99)

# Child Tax Credit

► Attach to Form 1040, Form 1040A, or Form 1040NR.
► Information about Schedule 8812 and its separate instructions is at *www.irs.gov/schedule8812*.

1040 1040A 1040NR 8812

OMB No. 1545-0074

**2014**

Attachment Sequence No. 47

Name(s) shown on return: Donald L. and Julie M. Hall

Your social security number: 482-11-6043

**Part I Filers Who Have Certain Child Dependent(s) with an ITIN (Individual Taxpayer Identification Number)**

CAUTION

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 ITIN (Individual Taxpayer Identification Number) 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 the instructions and check here . . . . . ► ☐

**Part II Additional Child Tax Credit Filers**

| | | | | | |
|---|---|---|---|---|---|
| 1 | **1040 filers:** Enter the amount from line 6 of your Child Tax Credit Worksheet (see the Instructions for Form 1040, line 52).<br>**1040A filers:** Enter the amount from line 6 of your Child Tax Credit Worksheet (see the Instructions for Form 1040A, line 35).<br>**1040NR filers:** Enter the amount from line 6 of your Child Tax Credit Worksheet (see the Instructions for Form 1040NR, line 49).<br>If you used Pub. 972, enter the amount from line 8 of the Child Tax Credit Worksheet in the publication. | | | 1 | 2,000 |
| 2 | Enter the amount from Form 1040, line 52; Form 1040A, line 35; or Form 1040NR, line 49 | | | 2 | 77 |
| 3 | Subtract line 2 from line 1. If zero, **stop;** you cannot take this credit | | | 3 | 1,923 |
| 4a | Earned income (see separate instructions) 33,807 - 11,150 - 1,000 | 4a | 19,657 | | |
| b | Nontaxable combat pay (see separate instructions) | 4b | | | |
| 5 | Is the amount on line 4a more than $3,000?<br>☐ **No.** Leave line 5 blank and enter -0- on line 6.<br>☒ **Yes.** Subtract $3,000 from the amount on line 4a. Enter the result | 5 | 16,657 | | |
| 6 | Multiply the amount on line 5 by 15% (.15) and enter the result | | | 6 | 2,499 |
| | **Next.** Do you have three or more qualifying children?<br>☐ **No.** If line 6 is zero, stop; you cannot take this credit. Otherwise, skip Part III and enter the **smaller** of line 3 or line 6 on line 13.<br>☐ **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) 2014**

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 home furnished (per Form 8812 instructions)

Schedule 8812 (Form 1040A or 1040) 2014 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.<br>**1040A filers:** Enter -0-.<br>**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.<br>**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).<br>**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<br>**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 | 1,923 |

1040 / 1040A / 1040NR ← *Enter this amount on Form 1040, line 67, Form 1040A, line 43, or Form 1040NR, line 64.*

Schedule 8812 (Form 1040A or 1040) 2014

**2014 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 8910, Form 8936, or Schedule R.

**Part 2**

7. Enter the amount from Form 1040, line 47. | 7 | 77 |

8. Add any amounts from:

Form 1040, line 48 _____

Form 1040, line 49 + _____

Form 1040, line 50 + _____

Form 1040, line 51 + _____

Form 8910, line 15 + _____

Form 8936, line 23 + _____

Schedule R, line 22 + _____

Enter the total. | 8 | 0 |

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

☐ **Yes.** STOP

You cannot 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 | 77 |

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.

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

} **This is your child tax credit.**

| 10 | 77 |

Enter this amount on Form 1040, line 52.

**TIP**

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.

Form **2106-EZ**

Department of the Treasury
Internal Revenue Service (99)

## Unreimbursed Employee Business Expenses

► Attach to Form 1040 or Form 1040NR.

► Information about Form 2106 and its separate instructions is available at *www.irs.gov/form2106*.

OMB No. 1545-0074

**2014**

Attachment Sequence No. **129A**

| Your name | Occupation in which you incurred expenses | Social security number |
|---|---|---|
| Donald L. Hall | Minister | 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 does not have to be required to be considered necessary.
- You **do not** get reimbursed by your employer for any expenses (amounts your employer included in box 1 of your Form W-2 are not considered reimbursements for this purpose).
- If you are claiming vehicle expense, you are using the standard mileage rate for 2014.

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

**Part I** **Figure Your Expenses**

| | | | | |
|---|---|---|---|---|
| 1 | Complete Part II. Multiply line 8a by 56c (.56). Enter the result here | 1 | 2,613 | |
| 2 | Parking fees, tolls, and transportation, including train, bus, etc., that **did not** involve overnight travel or commuting to and from work | 2 | | |
| 3 | Travel expense while away from home overnight, including lodging, airplane, car rental, etc. **Do not** include meals and entertainment | 3 | 514 | |
| 4 | Business expenses not included on lines 1 through 3. **Do not** include meals and entertainment | 4 | 640 | |
| 5 | Meals and entertainment expenses: $ 878 × 50% (.50). (Employees subject to Department of Transportation (DOT) hours of service limits: Multiply meal expenses incurred while away from home on business by 80% (.80) instead of 50%. For details, see instructions.) | 5 | 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 / 07

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

a Business 7,650 b Commuting (see instructions) 2,432 c Other 2,235 (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** (2014)

Lines 1, 3, 4, 5 – See allocations on page 58.

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
2014
Attachment Sequence No. 170

Name(s) shown on return: Donal L. Hall
Your social security number: 482-11-6043

***Before you begin:*** ✓ 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) . . . | 1 | 1,183 | |
| 2 | Travel (including lodging) from your old home to your new home (see instructions). **Do not** include the cost of meals . . . | 2 | | |
| 3 | Add lines 1 and 2 . . . | 3 | 1,183 | |
| 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** . . . | 4 | | |
| 5 | Is line 3 **more than** line 4? | | | |
| | ☐ **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. | | | |
| | ☒ **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** . . . | 5 | 1,183 | |

**For Paperwork Reduction Act Notice, see your tax return instructions.** Cat. No. 12490K Form **3903** (2014)

## Computation of expenses related to honoraria on Sample Return No. 2/page 47

| | | | Deductible | Nondeductible |
|---|---|---|---|---|
| Airfare | $2,042 | x 61% = | 1,246 | 796 |
| Auto | 2,235 x .56 | x 61% = | 764 | 488 |
| Lodging | 400 | x 61% = | 244 | 156 |
| Supplies | 700 | x 61% = | 427 | 273 |
| | 4,394 | x 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.**
► **Information about Form 8880 and its instructions is at *www.irs.gov/form8880*.**

OMB No. 1545-0074

**2014**

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.

CAUTION

- The amount on Form 1040, line 38; Form 1040A, line 22; or Form 1040NR, line 37 is more than $30,000 ($45,000 if head of household; $60,000 if married filing jointly).
- The person(s) who made the qualified contribution or elective deferral **(a)** was born after January 1, 1997, **(b)** is claimed as a dependent on someone else's 2014 tax return, or **(c)** was a **student** (see instructions).

| | | (a) You | (b) Your spouse |
|---|---|---|---|
| 1 | Traditional and Roth IRA contributions for 2014. **Do not** include rollover contributions | 1 | |
| 2 | Elective deferrals to a 401(k) or other qualified employer plan, voluntary employee contributions, and 501(c)(18)(D) plan contributions for 2014 (see instructions) | 2 500 | |
| 3 | Add lines 1 and 2 | 3 500 | |
| 4 | Certain distributions received **after** 2011 and **before** the due date (including extensions) of your 2014 tax return (see instructions). If married filing jointly, include **both** spouses' amounts in **both** columns. See instructions for an exception | 4 | |
| 5 | Subtract line 4 from line 3. If zero or less, enter -0- | 5 500 | |
| 6 | In each column, enter the **smaller** of line 5 or $2,000 | 6 500 | |
| 7 | Add the amounts on line 6. If zero, **stop;** you cannot take this credit | | 7 500 |
| 8 | Enter the amount from Form 1040, line 38*; Form 1040A, line 22; or Form 1040NR, line 37 | 8 | |
| 9 | Enter the applicable decimal amount shown below: | | 9 X .5 |

| 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) |
| | | Enter on line 9— | | |
| --- | $18,000 | .5 | .5 | .5 |
| $18,000 | $19,500 | .5 | .5 | .2 |
| $19,500 | $27,000 | .5 | .5 | .1 |
| $27,000 | $29,250 | .5 | .2 | .1 |
| $29,250 | $30,000 | .5 | .1 | .1 |
| $30,000 | $36,000 | .5 | .1 | .0 |
| $36,000 | $39,000 | .2 | .1 | .0 |
| $39,000 | $45,000 | .1 | .1 | .0 |
| $45,000 | $60,000 | .1 | .0 | .0 |
| $60,000 | --- | .0 | .0 | .0 |

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

| | | | |
|---|---|---|---|
| 10 | Multiply line 7 by line 9 | 10 | 250 |
| 11 | Limitation based on tax liability. Enter the amount from the Credit Limit Worksheet in the instructions | 11 | 0 |
| 12 | **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 | 12 | 0 |

*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** (2014)

Form **8962**

Department of the Treasury
Internal Revenue Service

# Premium Tax Credit (PTC)

► Attach to Form 1040, 1040A, or 1040NR.
► Information about Form 8962 and its separate instructions is at *www.irs.gov/form8962*.

OMB No. 1545-0074

**2014**

Attachment Sequence No. **73**

| Name shown on your return | Your social security number | Relief (see instructions) |
|---|---|---|
| Donald L. Hall | 482-11-6043 | ☐ |

## Part 1: Annual and Monthly Contribution Amount

| | | | | | |
|---|---|---|---|---|---|
| 1 | 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 | 2b | 0 |
| | **b** Enter total of your dependents' modified AGI (see instructions) | | | | |
| 3 | Household Income: Add the amounts on lines 2a and 2b | | | 3 | 27,834 |
| 4 | Federal Poverty Line: Enter the federal poverty amount as determined by the family size on line 1 and the federal poverty table for your state of residence during the tax year (see instructions). Check the appropriate box for the federal poverty table used. **a** ☐ Alaska **b** ☐ Hawaii **c** ☒ Other 48 states and DC | | | 4 | 23,550 |
| 5 | Household Income as a Percentage of Federal Poverty Line: Divide line 3 by line 4. Enter the result rounded to a whole percentage. (For example, for 1.542 enter the result as 154, for 1.549 enter as 155.) (See instructions for special rules.) | | | 5 | 118 % |
| 6 | Is the result entered on line 5 less than or equal to 400%? (See instructions if the result is less than 100%.)<br>☒ **Yes. Continue to line 7.**<br>☐ **No.** You are not eligible to receive PTC. If you received advance payment of PTC, 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 | 0.0200 |
| 8a | Annual Contribution for Health Care: Multiply line 3 by line 7 | 8a | 557 | 8b | 46 |
| | **b** Monthly Contribution for Health Care: Divide line 8a by 12. Round to whole dollar amount | | | | |

## Part 2: Premium Tax Credit Claim and Reconciliation of Advance Payment of Premium Tax Credit

9 Did you share a policy with another taxpayer or get married during the year and want to use the alternative calculation? (see instructions)
☐ **Yes.** Skip to Part 4, Shared Policy Allocation, or Part 5, Alternative Calculation for Year of Marriage. ☐ **No. Continue to line 10.**

10 Do all Forms 1095-A for your tax household include coverage for January through December with no changes in monthly amounts shown on lines 21–32, columns A and B?
☐ **Yes. Continue to line 11.** Compute your annual PTC. Skip lines 12–23 and continue to line 24. ☐ **No. Continue to lines 12–23.** Compute your monthly PTC and continue to line 24.

| Annual Calculation | A. Premium Amount (Form(s) 1095-A, line 33A) | B. Annual Premium Amount of SLCSP (Form(s) 1095-A, line 33B) | C. Annual Contribution Amount (Line 8a) | D. Annual Maximum Premium Assistance (Subtract C from B) | 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 | 13,700 | 13,700 | 557 | 13,143 | 13,143 | 13,220 |

| Monthly Calculation | A. Monthly Premium Amount (Form(s) 1095-A, lines 21–32, column A) | B. Monthly Premium Amount of SLCSP (Form(s) 1095-A, lines 21–32, column B) | C. Monthly Contribution Amount (Amount from line 8b or alternative marriage monthly contribution) | D. Monthly Maximum Premium Assistance (Subtract C from B) | 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 11E or add lines 12E through 23E and enter the total here | 24 | 13,143 |
| 25 | Advance Payment of PTC: Enter the amount from line 11F or add lines 12F through 23F and enter the total here | 25 | 13,220 |
| 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 you elected the alternative calculation for marriage, enter zero. If line 24 equals line 25, enter zero. Stop here. If line 25 is greater than line 24, leave this line blank and continue to line 27 | 26 | |

## Part 3: 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 | 77 |
| 28 | Repayment Limitation: Using the percentage on line 5 and your filing status, locate the repayment limitation amount in the instructions. Enter the amount here | 28 | 600 |
| 29 | Excess Advance Premium Tax Credit Repayment: Enter the smaller of line 27 or line 28 here and on Form 1040, line 46; Form 1040A, line 29; or Form 1040NR, line 44 | 29 | 77 |

**For Paperwork Reduction Act Notice, see your tax return instructions.** Cat. No. 37784Z Form **8962** (2014)

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

| | | | Taxable | Tax-Free | Total |
|---|---|---|---|---|---|
| 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 | 1,000 | | | | |
| Taxable portion of allowance | $ 1,000 | | 1,000 | $ 1,000 | 2,000 |
| Fair rental value of home (including furnishings and utilities) | | | | 11,150 | 11,150 |
| Schedule C gross income from ministry | | | 5,200 | | 5,200 |
| Ministerial income | | | $ 19,000 | $ 12,150 | $ 31,150 |

**% of nondeductible expenses: $12,150/$31,150 = 39%**

### Unreimbursed Employee Business Expenses

| | | | 61% Deductible | 39% Not Deductible |
|---|---|---|---|---|
| Business mileage: | | | | |
| 7,650 x 56¢ 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 | 1,207 | | | |
| | $ 1,440 | x 50% = $720 | 439 | 281 |
| Form 2106-EZ | | | $ 4,206 | $2,690 |

## 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) | 11,150 |
| | 28,470 |
| 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 | 4,404 |
| ***Total deductions*** | 8,610 |
| Net earnings from self-employment (to Schedule SE) (See page 48) | $ 19,860 |

# Housing Allowance Worksheet

## Clergy Living in Housing
## Owned or Rented by the Congregation

Name: Donald L. Hall

For the period January 1, 20 14 to December 31, 20 14

Date designation approved December 20, 20 13

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

| | Estimated Expenses | Actual | |
|---|---|---|---|
| Utilities *(gas, electricity, water)* and trash collection | $ | $ | |
| Local telephone expense *(base charge)* | 250 | 275 | |
| Decoration and redecoration | | | |
| Structural maintenance and repair | | | |
| Landscaping, gardening, and pest control | | | |
| Furnishings *(purchase, repair, replacement)* | 1,218 | 460 | |
| Personal property insurance on minister-owned contents | 200 | 190 | |
| Personal property taxes on contents | 150 | 75 | |
| Umbrella liability insurance | | | |
| **Subtotal** | 1,818 | | |
| 10% allowance for unexpected expenses | 182 | | |
| **TOTAL** | **$** 2,000 | **$** 1,000 | (A) |
| Properly designated housing allowance | | **$** 2,000 | (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 44).

22222 | Void ☐ | 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 |
| c Employer's name, address, and ZIP code<br>Lancaster Community Church<br>1425 Spencer Avenue<br>Wabash, IN 46992 | 2 Federal income tax withheld<br>3 Social security wages<br>4 Social security tax withheld<br>5 Medicare wages and tips<br>6 Medicare tax withheld<br>7 Social security tips<br>8 Allocated tips |
| d Control number | 9<br>10 Dependent care benefits |
| e Employee's first name and initial: Donald L. / Last name: Hall / Suff. | 11 Nonqualified plans<br>12a See instructions for box 12: E 500 |
| 804 Linden Avenue<br>Wabash, IN 46992<br>f Employee's address and ZIP code | 13 Statutory employee ☐ Retirement plan ☒ Third-party sick pay ☐<br>14 Other<br>12b<br>12c<br>12d |

| 15 State / Employer's state ID number | 16 State wages, tips, etc. | 17 State income tax | 18 Local wages, tips, etc. | 19 Local income tax | 20 Locality name |
|---|---|---|---|---|---|
| IN | 12800.00 | | | | |

Form **W-2** Wage and Tax Statement 2014

Department of the Treasury—Internal Revenue Service

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

Cat. No. 10134D

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

**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 |
| | $12,800 |

# *2015 Filing Dates*

**January**

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

**February**

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

**April**

15 Personal tax returns due

15 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**

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

**October**

15 If you had an automatic extension to file individual tax return, it's now due

# *Citations*

## *The Tax System for Clergy*

- Employees v. self-employed for income tax purposes
  Treas. Reg. 31.3401(c)-1(b)-(c)

  Weber v. Commissioner, 103 T.C.M. 19 (1994), Affirmed 4th Cir., 94-2609 (1995)

  Shelley v. Commissioner, T.C.M. 432 (1994)

  Rev. Rul. 87-41

- Exempt from income tax withholding
  Code Sec. 3401(a)(9)

- Qualifying tests for ministerial status
  Treas. Reg. 1.1402(c)-5

  Ltr. Rul. 199910055

  Mosley v. Commissioner, T.C.M. 457 (1994)

  Knight v. Commissioner 92 T.C.M. 12 (1989)

- Voluntary withholding of income tax for clergy
  Rev. Rul. 68-507

## *The Housing Allowance*

- Designation of housing allowance
  Treas. Reg. 1.107-1(b)

  Whittington v. Commissioner, T.C.M. 296 (2000)

  Mosley v. Commissioner, T.C.M. 457 (1994)

- Determination of housing exclusion amount
  Clergy Housing Allowance Clarification Act, Public Law 107-181

  Warren v. Commissioner, 114 T.C., No. 23 (1998) Appeal to the Ninth Cir. Court of Appeals (Feb. 2000), case dismissed by Ninth Cir. Court of Appeals (Aug. 2002)

- Housing allowances for retired clergy
  Rev. Proc. 92-3

  Rev. Rul. 75-22

## *Compensation and Fringe Benefits*

- 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)

  Rev. Rul. 2002-41

  IRS Notice 2002-45

  IRS Policy 80,600

- Health savings accounts
  Code Sec. 233

  IRS Notice 2004-2

  Rev. Proc. 2004-22

  IRS Notice 2004-23

  Rev. Rul. 2004-38

  IRS Notice 2004-50

- Highly compensated employees
  Code Sec. 414(q)

  Treas. Reg. 1.132-8(f)(1)

- Medical insurance premiums paid by the congregation
  Code Sec. 106(a)

  Code Sec. 4980B

- Nontaxable fringe benefits
  Code Sec. 132

- Property transfers
  Treas. Reg. 1.61-2(d)(2)

- 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)

  Rev. Rul. 55-422

- Sabbatical Pay
  Kant v. Commissioner, T.C. Memo 1997-217

- Social security reimbursements
  Rev. Rul. 68-507

- Special occasion gifts
  Goodwin v. U.S., 94-2 U.S.T.C. (S.D. Iowa 1994) Affirmed 8th Cir. Ct. of Appeals

## *Business and Professional Expenses*

- Accountable expense reimbursement plans
  Treas. Reg. 1.62-2

  Treas. Reg. 1.274-5T(f)

- Allocation of unreimbursed business expenses
  McFarland v. Commissioner, T.C.M. 440 (1992)

  Dalan v. Commissioner, T.C.M. 106 (1988)

  Deason v. Commissioner, 41 T.C. 465 (1964)

- Educational expenses
  Ltr. Rul. 9431024

  Burt v. Commissioner, 40 T.C.M. 1164 (1980)

- Personal computer expenses
  Code Sec. 280F

  Rev. Rul. 86-129

- Traveling/commuting
  Rev. Rul. 94-47

  Rev. Rul. 90-23

  Walker v. Commissioner, 101 T.C.M. 537 (1993

## *Social Security Taxes*

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

  Treas. Reg. 1.1402(e)-3A

- Social security coverage for clergy
  Code Sec. 1402(c)(2) and (4)

  Code Sec. 3121(b)(8)(A)

  Code Sec. 3401(a)(9)

  Rev. Rul. 80-110

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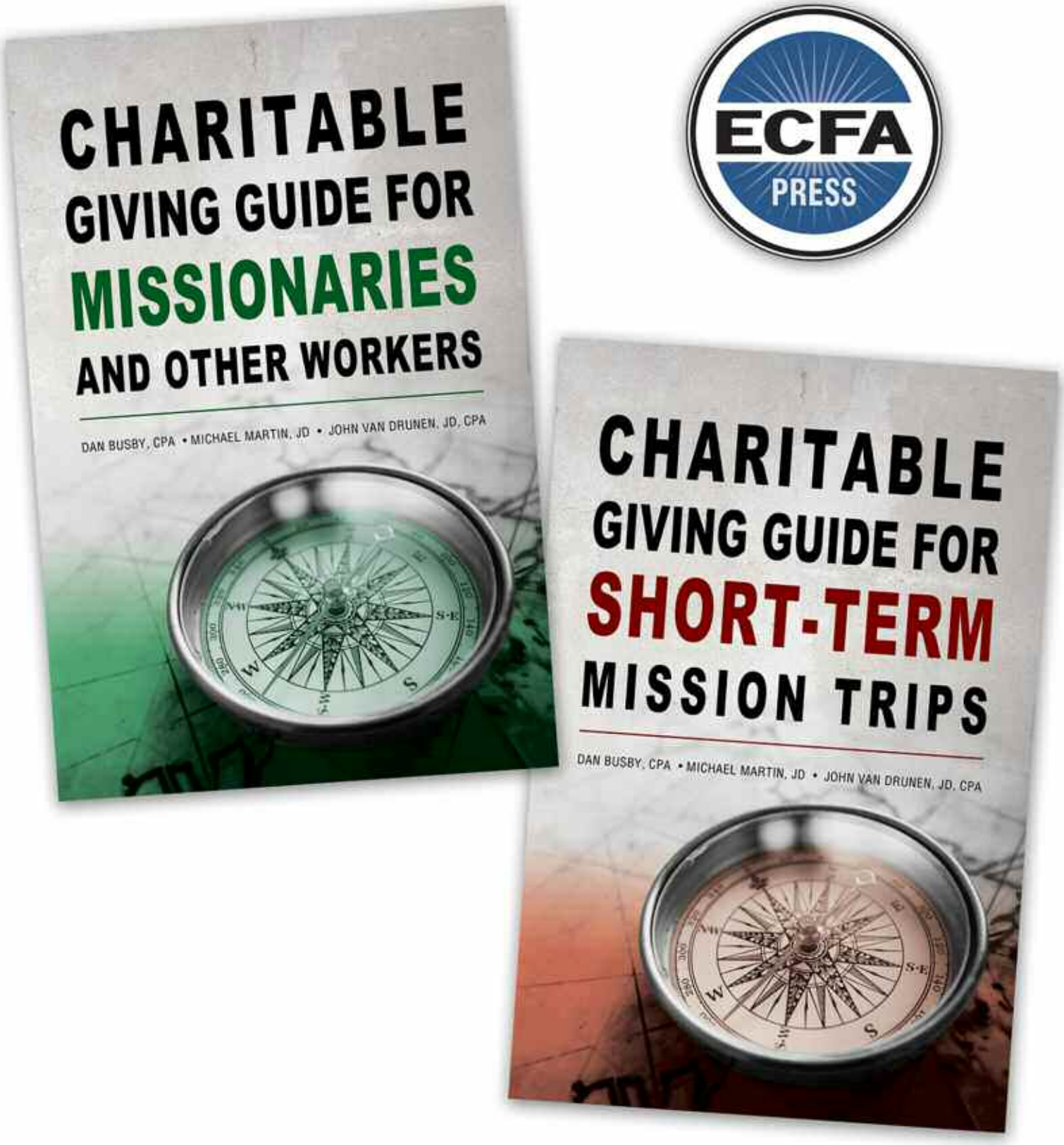


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# 10 Biggest Tax Mistakes Made By Clergy

1. Improperly treating congregation payments for out-of-pocket medical expenses as tax-free when the congregation has not established a proper plan.

2. Filing as self-employed for income tax purposes on your congregation salary, using tax benefits only available to employees, and leaving yourself vulnerable to reclassification by the IRS to employee status upon audit.

3. Failing to have at least a modest housing allowance designated when living in a congregation-provided housing.

4. Failure to understand and apply the fair rental test for the housing allowance relating to clergy-provided housing.

5. Confusing the fair rental value of a congregation-provided parsonage (only includible for social security purposes) with the designation of a portion of your salary as housing allowance (providing an exclusion for income tax purposes).

6. Failing to keep a log of miles driven for personal use v. congregation purposes.

7. Claiming office-in-the-home treatment — rarely justified under present law.

8. Not documenting business expenses to reflect business purpose, business relationship, cost, time, and place.

9. Failure of clergy to use an accountable reimbursement plan.

10. Improperly opting out of social security because you don't believe it is a good investment.

# The Zondervan Church & Nonprofit Tax & Financial Guide

# The Zondervan Minister's Tax & Financial Guide

*2015 Edition for 2014 Returns*

*Dan Busby, CPA*
*J. Michael Martin, JD*
*John Van Drunen, JD, CPA*

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