



# Clergy Financial Seminar

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NOVEMBER 16<sup>TH</sup>, 2021

# What we will be covering today

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- 1099 vs W-2 income
- Schedule C Deductions
- Quarterly Estimates
- Social Security
- Housing Allowance
- Maximizing Deductions
- Amended Returns
- Accountable plans

1099 vs. W-2?

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# 1099 vs. W-2?

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- When are you an employee vs self employed?
- What is the tax impact of being self employed?
- If a congregation employs you and pays you a salary, you are generally a common-law employee and income from the exercise of your ministry is wages for income tax purposes. However, amounts received directly from members of the congregation, such as fees for performing marriages, baptisms, or other personal services, aren't wages; such amounts are self-employment income for both income tax purposes and social security tax purposes.

# 1099 vs. W-2?

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- A licensed, commissioned, or ordained minister is generally the common law employee of the church, denomination, sect, or organization that employs him or her to provide ministerial services. However, there are some exceptions, such as traveling evangelists who are independent contractors (self-employed) under the common law.
- Regardless of whether you're a minister performing ministerial services as an employee or a self-employed person, all of your earnings, including wages, offerings, and fees you receive for performing marriages, baptisms, funerals, etc., are subject to income tax. However, the way you treat expenses related to those earnings differs if you earn the income as an employee or as a self-employed person.

# 1099 vs. W-2?

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- Reporting

- Wages would be reported on a W-2 and would be reported on page 1 of the 1040. Currently, the taxpayer cannot report any unreimbursed business expenses for income incurred from a W-2.
- Income earned outside of normal church responsibilities would be reported on the Schedule C of the 1040.

# 1099 vs. W-2?

Name of proprietor		Social security number (SSN)	
<b>A</b> Principal business or profession, including product or service (see instructions)		<b>B</b> Enter code from instructions	
<b>C</b> Business name. If no separate business name, leave blank.		<b>D</b> Employer ID number (EIN) (see instr.)	
<b>E</b> Business address (including suite or room no.) City, town or post office, state, and ZIP code			
<b>F</b> Accounting method: (1) <input type="checkbox"/> Cash (2) <input type="checkbox"/> Accrual (3) <input type="checkbox"/> Other (specify)			
<b>G</b> Did you "materially participate" in the operation of this business during 2021? If "No," see instructions for limit on losses <input type="checkbox"/> Yes <input type="checkbox"/> No			
<b>H</b> If you started or acquired this business during 2021, check here <input type="checkbox"/>			
<b>I</b> Did you make any payments in 2021 that would require you to file Form(s) 1099? See instructions <input type="checkbox"/> Yes <input type="checkbox"/> No			
<b>J</b> If "Yes," did you or will you file required Form(s) 1099? <input type="checkbox"/> Yes <input type="checkbox"/> No			
<b>Part I Income</b>			
<b>1</b> Gross receipts or sales. See instructions for line 1 and check the box if this income was reported to you on Form W-2 and the "Statutory employee" box on that form was checked <input type="checkbox"/>	<b>1</b>		
<b>2</b> Returns and allowances	<b>2</b>		
<b>3</b> Subtract line 2 from line 1	<b>3</b>		
<b>4</b> Cost of goods sold (from line 42)	<b>4</b>		
<b>5</b> <b>Gross profit.</b> Subtract line 4 from line 3	<b>5</b>		
<b>6</b> Other income, including federal and state gasoline or fuel tax credit or refund (see instructions)	<b>6</b>		
<b>7</b> <b>Gross income.</b> Add lines 5 and 6	<b>7</b>		
<b>Part II Expenses.</b> Enter expenses for business use of your home <b>only</b> on line 30.			
<b>8</b> Advertising	<b>8</b>	<b>18</b> Office expense (see instructions)	<b>18</b>
<b>9</b> Car and truck expenses (see instructions)	<b>9</b>	<b>19</b> Pension and profit-sharing plans	<b>19</b>
<b>10</b> Commissions and fees	<b>10</b>	<b>20</b> Rent or lease (see instructions):	
<b>11</b> Contract labor (see instructions)	<b>11</b>	<b>a</b> Vehicles, machinery, and equipment	<b>20a</b>
<b>12</b> Depletion	<b>12</b>	<b>b</b> Other business property	<b>20b</b>
<b>13</b> Depreciation and section 179 expense deduction (not included in Part III) (see instructions)	<b>13</b>	<b>21</b> Repairs and maintenance	<b>21</b>
<b>14</b> Employee benefit programs (other than on line 19)	<b>14</b>	<b>22</b> Supplies (not included in Part III)	<b>22</b>
<b>15</b> Insurance (other than health)	<b>15</b>	<b>23</b> Taxes and licenses	<b>23</b>
<b>16</b> Interest (see instructions):		<b>24</b> Travel and meals:	
<b>a</b> Mortgage (paid to banks, etc.)	<b>16a</b>	<b>a</b> Travel	<b>24a</b>
<b>b</b> Other	<b>16b</b>	<b>b</b> Deductible meals (see instructions)	<b>24b</b>
<b>17</b> Legal and professional services	<b>17</b>	<b>25</b> Utilities	<b>25</b>
<b>28</b> <b>Total expenses</b> before expenses for business use of home. Add lines 8 through 27a	<b>28</b>	<b>26</b> Wages (less employment credits)	<b>26</b>
<b>29</b> Tentative profit or (loss). Subtract line 28 from line 7	<b>29</b>	<b>27a</b> Other expenses (from line 48)	<b>27a</b>
<b>30</b> Expenses for business use of your home. Do not report these expenses elsewhere. Attach Form 8829 unless using the simplified method. See instructions.	<b>30</b>	<b>b</b> <b>Reserved for future use</b>	<b>27b</b>
<b>Simplified method filers only:</b> Enter the total square footage of (a) your home:			
and (b) the part of your home used for business:			
Use the Simplified Method Worksheet in the instructions to figure the amount to enter on line 30			

# 1099 vs. W-2?

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- 1099 earnings

- Income from form 1099 is subject to self employment tax
- Ministers must calculate their self-employment tax on Schedule SE, *Self-Employment Tax*, of Form 1040. Although a minister excludes the housing allowance from gross income, the minister must include the housing allowance in self-employment income.
- Self employment tax is covered under SECA and is used to fund Social Security and Medicare. The IRS permits taxpayers to deduct half of the self employment tax as a business expense.

- W-2 Earnings

- Ministers are exempt from federal withholding, but can voluntarily have withholding on their W-2's and pulled from their pay. This does not exempt them from penalties and income tax from these earnings.



# Schedule C Deductible Expenses

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# Schedule C Deductible Expenses

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- Beginning January 1, 2021, through December 31, 2022, businesses can claim 100% of their food or beverage expenses paid to restaurants as long as the business owner (or an employee of the business) is present when food or beverages are provided and the expense is not lavish or extravagant under the circumstances.
  - This meals expense can be claimed on the Schedule C for ministerial income that is not included in W-2 wages.
- Any reasonable expense incurred while producing income qualifying for the schedule C can be deducted except penalties, personal expenses, etc.
- Ministers could also claim a business use of home deduction, but it would impact the housing allowance. This is up to each taxpayer what would be most beneficial.

# Schedule C Deductible Expenses

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- Ministers should keep track of all related expenses to outside business that will be reported on the Schedule C.
- Mileage vs Actual expenses
  - 56 cents per mile can be deducted. This should be tracked with an odometer log for each time the minister is traveling to produce Schedule C income.
  - The taxpayer may also use a various amount of phone apps that can keep track of mileage.

# Quarterly Estimates

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# Quarterly Estimates

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- Taxes must be paid as you earn or receive income during the year, either through withholding or estimated tax payments. If the amount of income tax withheld from your salary or pension is not enough, or if you receive income such as interest, dividends, alimony, self-employment income, capital gains, prizes and awards, you may have to make estimated tax payments.
- You don't have to pay estimated tax for the current year if you **meet all three** of the following conditions.
  - You had no tax liability for the prior year
  - You were a U.S. citizen or resident for the whole year
  - Your prior tax year covered a 12-month period

# Quarterly Estimates

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- Typically, your wages will have enough withheld during the year to cover estimated tax payments.
- However, the income the taxpayer makes during the year for services outside of the normal church activities would not have any withholdings.
- The income made during the year less any deductions incurred earning that income would be subject to self employment tax as well.

# Quarterly Estimates

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- Avoiding penalties on the taxpayer's tax return
  - If the taxpayer owes less than \$1,000 in tax after subtracting their withholdings and credits
  - If they paid at least 90% of the current year's tax or 100% of the tax shown on the return for the prior year, whichever is smaller.

# Social Security

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- If you are a minister of a church, your earnings for the services you perform in your capacity as a minister are subject to SE tax, even if you perform these services as an employee of that church.
- The self-employment tax rate is **15.3%**. The rate consists of two parts: 12.4% for social security (old-age, survivors, and disability insurance) and 2.9% for Medicare (hospital insurance).



# Housing Allowance

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# Housing Allowance

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- A minister's housing allowance (sometimes called a parsonage allowance or a rental allowance) is excludable from gross income for income tax purposes but not for self-employment tax purposes.
- If you receive as part of your salary (for services as a minister) an amount officially designated (in advance of payment) as a housing allowance, and the amount isn't more than reasonable pay for your services, you can exclude from gross income the lesser of the following amounts:
  - the amount officially designated (in advance of payment) as a housing allowance;
  - the amount actually used to provide or rent a home; or
  - the fair market rental value of the home (including furnishings, utilities, garage, etc.).

The payments officially designated as a housing allowance must be used in the year received.

# Housing Allowance

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- If your congregation furnishes housing in kind as pay for your services as a minister instead of a housing allowance, you may exclude the fair market rental value of the housing from income, but you must include the fair market rental value of the housing in net earnings from self-employment for self-employment tax purposes.

# Maximizing Deductions

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# Maximizing Deductions

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- Keep records!
  - Keep records of every expense related to work outside of the church.
  - Look over these records multiple times out of the year.
- If the taxpayer is looking at a high amount of income (which would be subject to self employment tax), the taxpayer could either purchase new fixed assets such as computer, new vehicle, etc. to reduce taxable income. The taxpayer also has the ability to make charitable contributions (if they are itemizing) to reduce any liability at the end of the year.
- This all is subjective and covers each taxpayer differently.

# Maximizing Deductions

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- IRA deductions

- Traditional IRA's offer a tax deductible contribution that is subject to limitations. If the taxpayer is eligible, the taxpayer may want to make a retirement contribution to reduce current year income.
  - Be aware, when distributions from these IRA's are incurred, the taxpayer will be subject to income tax on those distributions.
- For 2022, 2021, 2020 and 2019, the total contributions you make each year to all of your [traditional IRAs](#) and [Roth IRAs](#) can't be more than:
  - [\\$6,000](#) (\$7,000 if you're age 50 or older), or
  - If less, your taxable compensation for the year
- The modified AGI limit for the taxpayer will impact the amount of contributions eligible to be deducted on the taxpayer's return. See next slide.

# Maximizing Deductions

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If Your Filing Status Is...	And Your Modified AGI Is...	Then You Can Take...
<b>single or head of household</b>	\$66,000 or less	a full deduction up to the amount of your <a href="#">contribution limit</a> .
	more than \$66,000 but less than \$76,000	a partial deduction.
	\$76,000 or more	no deduction.
<b>married filing jointly or qualifying widow(er)</b>	\$105,000 or less	a full deduction up to the amount of your <a href="#">contribution limit</a> .
	more than \$105,000 but less than \$125,000	a partial deduction.
	\$125,000 or more	no deduction.
<b>married filing separately</b>	less than \$10,000	a partial deduction.
	\$10,000 or more	no deduction.

# Amended Returns

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# Amended Returns

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- The taxpayer may encounter a change from a prior year that needs to be corrected on that year's tax return.
- A taxpayer would need to file a form 1040X.
- The 1040X is a paper filed form that requires attachments to be included with the 1040X.
- The 1040X is used for the following:
  - Correct Form 1040, 1040-SR, 1040A, 1040EZ, 1040NR, or 1040NR-EZ.
  - Make certain elections after the prescribed deadline (see Regulations sections 301.9100-1 through -3 for details).
  - Change amounts previously adjusted by the IRS. However, don't include any interest or penalties on Form 1040X; they will be adjusted accordingly.
  - Make a claim for a carryback due to a loss or unused credit. However, you may be able to use Form 1045, Application for Tentative Refund, instead of Form 1040X. For more information, see *Loss or credit carryback* under *When To File*, later, and the discussion on carryback claims under *Special Situations*, later.

# Amended Returns

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- When to file 1040X
  - File Form 1040X only after you have filed your original return. Generally, for a credit or refund, you must file Form 1040X within 3 years (including extensions) after the date you filed your original return or within 2 years after the date you paid the tax, whichever is later.
  - If you filed your original return early (for example, March 1 for a calendar year return), your return is considered filed on the due date (generally April 15). However, if you had an extension to file (for example, until October 15) but you filed earlier and we received it July 1, your return is considered filed on July 1.
- Attachments to 1040X:
  - Assemble any schedules and forms behind Form 1040X in the order of the “Attachment Sequence No.” shown in the upper-right corner of the schedule or form. If you have supporting statements, arrange them in the same order as the schedules or forms they support and attach them last. Don’t attach a copy of your original return, correspondence, or other items unless required to do so.

# Amended Returns

City, town or post office, state, and ZIP code. If you have a foreign address, also complete spaces below. See instructions.			
Foreign country name		Foreign province/state/country	Foreign postal code

**Amended return filing status.** You **must** check one box even if you are not changing your filing status. **Caution:** In general, you can't change your filing status from married filing jointly to married filing separately after the return due date.

Single     Married filing jointly     Married filing separately (MFS)     Head of household (HOH)     Qualifying widow(er) (QW)

If you checked the MFS box, enter the name of your spouse. If you checked the HOH or QW box, enter the child's name if the qualifying person is a child but not your dependent ►

	A. Original amount reported or as previously adjusted (see instructions)	B. Net change—amount of increase or (decrease)—explain in Part III	C. Correct amount
<b>Income and Deductions</b>			
<b>1</b> Adjusted gross income. If a net operating loss (NOL) carryback is included, check here . . . . . ► <input type="checkbox"/>	<b>1</b>		
<b>2</b> Itemized deductions or standard deduction . . . . .	<b>2</b>		
<b>3</b> Subtract line 2 from line 1 . . . . .	<b>3</b>		
<b>4a</b> Reserved for future use . . . . .	<b>4a</b>		
<b>b</b> Qualified business income deduction . . . . .	<b>4b</b>		
<b>5</b> Taxable income. Subtract line 4b from line 3. If the result is zero or less, enter -0- . . . . .	<b>5</b>		
<b>Tax Liability</b>			
<b>6</b> Tax. Enter method(s) used to figure tax (see instructions):	<b>6</b>		
<b>7</b> Nonrefundable credits. If a general business credit carryback is included, check here . . . . . ► <input type="checkbox"/>	<b>7</b>		
<b>8</b> Subtract line 7 from line 6. If the result is zero or less, enter -0- . . . . .	<b>8</b>		
<b>9</b> Reserved for future use . . . . .	<b>9</b>		
<b>10</b> Other taxes . . . . .	<b>10</b>		
<b>11</b> Total tax. Add lines 8 and 10 . . . . .	<b>11</b>		
<b>Payments</b>			
<b>12</b> Federal income tax withheld and excess social security and tier 1 RRTA tax withheld. <b>(If changing, see instructions.)</b> . . . . .	<b>12</b>		
<b>13</b> Estimated tax payments, including amount applied from prior year's return . . . . .	<b>13</b>		
<b>14</b> Earned income credit (EIC) . . . . .	<b>14</b>		
<b>15</b> Refundable credits from: <input type="checkbox"/> Schedule 8812 Form(s) <input type="checkbox"/> 2439 <input type="checkbox"/> 4136 <input type="checkbox"/> 8863 <input type="checkbox"/> 8885 <input type="checkbox"/> 8962 or <input type="checkbox"/> other (specify):	<b>15</b>		
<b>16</b> Total amount paid with request for extension of time to file, tax paid with original return, and additional tax paid after return was filed . . . . .			<b>16</b>
<b>17</b> Total payments. Add lines 12 through 15, column C, and line 16 . . . . .			<b>17</b>
<b>Refund or Amount You Owe</b>			
<b>18</b> Overpayment, if any, as shown on original return or as previously adjusted by the IRS . . . . .			<b>18</b>
<b>19</b> Subtract line 18 from line 17. (If less than zero, see instructions.) . . . . .			<b>19</b>
<b>20</b> <b>Amount you owe.</b> If line 11, column C, is more than line 19, enter the difference . . . . .			<b>20</b>
<b>21</b> If line 11, column C, is less than line 19, enter the difference. This is the amount <b>overpaid</b> on this return . . . . .			<b>21</b>

# Amended Returns

- Where to send amended returns

if you live in:	THEN mail Form 1040X and attachments to:
Connecticut, Delaware, District of Columbia, Illinois, Indiana, Kentucky, Maine, Maryland, Massachusetts, Minnesota, Missouri, New Hampshire, New Jersey, New York, North Carolina, Pennsylvania, Rhode Island, South Carolina, Tennessee, Vermont, Virginia, West Virginia, Wisconsin	Department of the Treasury Internal Revenue Service Kansas City, MO 64999-0052
Alabama, Arkansas, Florida, Georgia, Louisiana, Mississippi, Oklahoma, Texas	Department of the Treasury Internal Revenue Service Austin, TX 73301-0052
Alaska, California, Hawaii	Use this address if you file January 1, 2021 through June 18, 2021: Department of the Treasury Internal Revenue Service Fresno, CA 93888-0422  Starting June 19, 2021, use the following address: Department of the Treasury Internal Revenue Service Ogden, UT 84201-0052
Arizona, Colorado, Idaho, Iowa, Kansas, Michigan, Montana, Nebraska, Nevada, New Mexico, North Dakota, Ohio, Oregon, South Dakota, Utah, Washington, Wyoming	Department of the Treasury Internal Revenue Service Ogden, UT 84201-0052

# Accountable Plans

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# Accountable Plans

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- With the changes arising from the Tax Cuts & Jobs Act, unreimbursed expenses would no longer be able to be claimed by employees of businesses. An accountable plan allows for employees to be reimbursed for expenses related to their current business.
- Accountable plans may include reimbursement for a number of different employee related expenses including:
  - Employee travel expenses, including meals
  - Purchase of tools and equipment
  - Employee home office expenses
  - Mileage costs
  - Required uniforms not suitable for ordinary wear
  - Dues and subscriptions
  - Job search expenses for employees who have been laid off

# Accountable Plans

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- In order to be considered an "accountable plan" by the IRS, your arrangement must include ALL of the following:
  - The expenses must have a **business connection**; that is, they must have been paid or incurred while performing services as an employee.
  - The employee must **adequately account to the employer** for these expenses within a reasonable time. You must require employees to provide you with detailed information on these expenses, including date, time, place, amount, and business purpose for the expense.
  - You must require the employee to **return excess reimbursements** within a reasonable and specific period of time, depending on the circumstances. If employees are not required to turn in excess amounts, these amounts must be included in their income.

# Accountable Plans

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- Using an accountable plan has its advantages if you meet the criteria from the previous slides. Reimbursements from an accountable plan are not treated as wages, and as such are not subject to employment taxes that can drain cash from both the employer and the employee.
- Accountable plans allow for the employer to deduct the expenses that they are reimbursing and allows for the reimbursement to be tax free for the employee.



Thank you!

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# FOUTS & MORGAN

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