

2019

Tax & Money
SERIES

EDITION

MINISTERS' TAXES MADE EASY

Federal income tax filing made easy.



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Appreciation

The authors express their sincere appreciation to Mr. Michael Batts, CPA and managing partner, Batts Morrison Wales & Lee, P.A., Orlando, FL, and the staff of the firm for their valued assistance in reviewing the two sample tax returns included in this guide.

This publication is designed to provide accurate and authoritative information regarding the subject matter covered. The text has been significantly excerpted from the *Zondervan Minister's Tax & Financial Guide*, 2019 edition. It is distributed with the understanding that neither the publisher nor the authors are engaged in rendering legal, accounting, or other professional services. If legal advice or other expert assistance is required, the services of a competent professional person should be sought.

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

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ISBN: 978-1-949365-07-8

Recent Developments

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

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

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

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

What is the immediate impact for ministers using housing allowances?

As of this publication, there is no immediate impact on ministers using the housing exclusion from their church or other employer. We are awaiting a ruling on an appeal to the Seventh Circuit Court of Appeals.

The appeals court could disagree with the lower court and find the housing exclusion constitutional. In the alternative, if the lower court ruling is upheld on appeal, the district court’s ruling states it will not go into effect until 180 days after the appeals process concludes. The longer-term impact hinges on how the appeals court rules and whether additional appeals are filed in the case.

What about ministers living in parsonages?

This pending court case does not apply to Section 107(1) of the tax code. In other words, the ruling has no impact whatsoever on ministers living in church-provided housing (“parsonages”).

Tax reform—how are ministers and churches impacted? Massive new tax legislation was enacted in December 2017 with most of the changes effective for 2018 returns filed in 2019.

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

The most significant issues for ministers are:

- The standard deduction nearly doubled to \$24,000 for couples, \$12,000 for singles, and \$18,000 for household heads. Those age 65 or up and blind people get \$1,250 more per person. Given these much higher amounts, it is a sure thing that fewer ministers will itemize their deductions for 2018.
 - Personal exemptions for individual filers and their dependents are repealed.
 - The new law pares back or axes many deductions claimed by ministers:
 - The popular deduction for state and local taxes is squeezed. You can now deduct any combination of residential property taxes and income or sales taxes up to a \$10,000 cap.
-

- o Deductions for job-related moves are gone. If moving expenses are reimbursed by an employer, the amount is taxable income.
 - o All miscellaneous write-offs on Schedule A subject to the 2%-of-adjusted gross income threshold are eliminated. This includes unreimbursed employee business expenses, tax return preparation costs, theft losses, and more. *Note:* Ministers should be sure their church-related expenses are reimbursed under an accountable plan. Unreimbursed expenses will have absolutely no value for 2018 and later years.
 - o Medical expense deductions are enhanced. The new law temporarily lowers the adjusted gross income threshold for deducting 2018 medical expense on Schedule A from 10% to 7.5%.
- The law keeps seven tax brackets, but with different rates and break points.
 - The penalty for the individual mandate under the Affordable Care Act has been eliminated.
 - The child tax credit is doubled to \$2,000 for each dependent under age 17, with up to \$1,400 of the credit refundable to lower-income taxpayers, and it is available to many more taxpayers.
-

Key Federal Tax Limits, Rates, and Other Data			
	2017	2018	2019
Standard deductions, exemptions, and exclusions:			
Standard Deductions	Married-Joint Return \$12,700 Head of Household 9,350 Single 6,350 Married-Separate Returns 6,350	Married-Joint Return \$24,000 Head of Household 18,000 Single 12,000 Married-Separate Returns 12,000	Married-Joint Return \$24,400 Head of Household 18,350 Single 12,200 Married-Separate Returns 12,200
Personal & dependent exemption amount	\$4,050	0	0
Foreign earned income exclusion	\$102,100	\$104,100	\$105,900
Social security:			
SECA (OASDI & Medicare) rate	15.3% on wages up to \$250,000 married-joint, \$125,000 married-separate, and \$200,000 all others	15.3% on wages up to \$250,000 married-joint, \$125,000 married-separate, and \$200,000 all others	15.3% on wages up to \$250,000 married-joint, \$125,000 married-separate, and \$200,000 all others
OASDI maximum compensation base	\$127,200	\$128,400	\$132,900
Social security cost of living benefit increase	0.3%	2%	2.8%
Social security Full Retirement Age (FRA)	66 years	66 years	66 years
Medicare Part B premiums - Basic	\$108.50	\$134.00	\$135.50
Earnings ceiling for social security (for employment before FRA; special formula in FRA year)	Below FRA: \$16,920 Over FRA: None	Below FRA: \$17,040 Over FRA: None	Below FRA: \$17,640 Over FRA: None
Earnings limit in year FRA attained	\$44,880	\$45,360	\$46,920
Benefits and contributions:			
Maximum annual contribution to defined contribution plan	\$54,000	\$55,000	\$56,000
Maximum salary deduction for 401(k)/403(b)	\$18,000	\$18,500	\$19,000
401(k) & 403(b) over 50 "catch up" limit	\$6,000	\$6,000	\$6,000
Maximum income exclusion for nonqualified plans in 501(c)(3) organizations (IRC 457)	\$18,000	\$18,500	\$19,000
IRA contribution limit – age 49 and below	\$5,500	\$5,500	\$6,000
– age 50 and above	\$6,500	\$6,500	\$7,000
Highly compensated employee limit	\$120,000	\$120,000	\$125,000
Maximum annual contribution to health flexible spending arrangements	\$2,600	\$2,650	\$2,700
Per diem and mileage rates and other transportation:			
Standard per diem: Lowest rates in continental USA	Lodging \$91 Meals & Incidentals \$51	Lodging \$93 Meals & Incidentals \$51	Lodging \$94 Meals & Incidentals \$55
Business auto mileage rate	53.5¢ per mile	54.5¢ per mile	58¢ per mile
Moving & medical auto mileage rate	17¢ per mile	18¢ per mile	20¢ per mile
Charitable auto mileage rate	14¢ per mile	14¢ per mile	14¢ per mile
Airplane mileage rate ⁽¹⁾	\$1.29 per mile	\$1.21 per mile	
Motorcycle mileage rate ⁽¹⁾	51.5¢ per mile	51.5¢ per mile	
Bicycle commuting rate	\$20 per month	N/A	N/A
Maximum value of reimbursement of business expenses (other than lodging) without receipt	\$75	\$75	\$75
Monthly limit on free parking	\$255	\$260	N/A ⁽²⁾
Transit passes/token – monthly tax-free limit	\$255	\$260	N/A ⁽²⁾
Other:			
Gift tax annual exclusion	\$14,000	\$15,000	\$15,000

⁽¹⁾ Privately owned vehicle mileage rates set by the U.S. General Services Administration

⁽²⁾ Disallowed except as necessary for the safety of employees.

Get the Big Picture

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

Special Tax Provisions for Ministers

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



Remember

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



Remember

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

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

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

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



Caution

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

● Ministers Serving Local Churches

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

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

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

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

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

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

● Ministers in Denominational, Administrative, and Teaching Positions

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

Denominational service

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

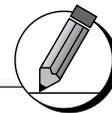
The IRS uses the following criteria to determine if an institution is an integral agency of a church:

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



Warning

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



Tip

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

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

Assignment by a church to another parachurch ministry

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

The following characteristics must be present for an effective assignment:

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

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

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

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

The following are keys to a proper assignment:

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

● Social Security Status of Ministers

Ministers engaged in the exercise of ministry are always treated as self-employed for social security tax purposes. Ministers pay social security under the Self-Employment Contributions Act (SECA) instead of the Federal Insurance Contributions Act (FICA). It is possible to become exempt from SECA only if a minister meets strict exemption requirements. The request for exemption must be filed using Form 4361 within a specified time from the beginning of ministry. The request for exemption must be approved by the IRS (see page 33).

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.

● Income Tax Status of Ministers

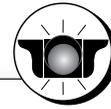
Are ministers employees or self-employed (independent contractors) for income tax purposes? The IRS considers virtually all ministers to be employees for income tax purposes. The income tax filing status has many ramifications for what and how churches and ministers report to the IRS.

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

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

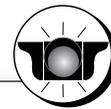
- ❑ Minister-employees must be given Form W-2 and report their compensation on page 1 of Form 1040. Expenses reimbursed under a nonaccountable plan must be included in compensation on Form W-2.
- ❑ Accident, long-term care insurance, and qualified group health insurance premiums paid directly by a church or reimbursed by a church, after the minister provides substantiation, are not reportable as income to the minister-employee but must be reported as taxable income to the self-employed minister.

Minister-employees may deduct health, accident, and long-term care insurance premiums paid personally, and not reimbursed by the church, on Schedule A as a medical and dental expense, subject to a limitation of adjusted gross income (7.5% for 2018 and 10% for 2019 and beyond).



Caution

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



Caution

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



Key Issue

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

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

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

● Recommended Filing Status

Nearly every minister serving a local church qualifies as an employee for income tax purposes. It is wise to file as an employee for income tax purposes, unless the minister can clearly demonstrate that self-employed status is appropriate. Few ministers can substantiate filing as self-employed for income tax purposes.

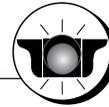
Even though ministers may take exception to the reporting of the church, the church has a responsibility under the law to determine the proper filing method and to proceed accordingly.

● Evangelists and Missionaries

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

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

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



Caution

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



Key Issue

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

The Best Friend of Ministers

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

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

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

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

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

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

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

● Types of Housing Arrangements

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

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

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

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

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

Ministers Owning or Renting Their Own Home

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

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

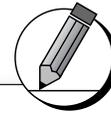
Example: A minister lives in a personally owned home. The church prospectively designated \$28,000 of the salary as housing allowance. The minister spends \$27,000 for housing-related items. The fair rental value of the home is \$29,000.

Since the amount spent is lower than the designated housing allowance or the fair rental value, the excludable housing is \$27,000. Therefore, \$1,000 (\$28,000 less \$27,000) must be added to taxable income on Form 1040, page 2, line 1. Unless the minister has opted out of social security, the entire \$28,000 is reportable for social security purposes on Schedule SE.

● Designating the Housing Allowance

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

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



Tip

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

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

Designation Limits

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

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

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

● Reporting the Housing Allowance to Ministers

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

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

● Accounting for the Housing Allowance

Determining Fair Rental Value

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

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

Housing Allowance in Excess of Actual Expenses or Fair Rental Value

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



Remember

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

Example: A minister living in a personally owned home receives cash compensation of \$60,000 from the church. The church prospectively designates \$25,000 as a housing allowance. The fair rental value is \$26,000. Actual housing expenses for the year are \$24,000. The amount excludable from income is limited to the actual housing expenses of \$24,000.

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

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

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

● **Housing Allowances for Retired Ministers**

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

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

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

Pensions and annuity income (Form 1040, line 4a)	\$ 10,000
Less housing exclusion	<u>8,000</u>
Form 1040, line 4b	<u>\$ 2,000</u>



Remember

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

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

Housing Allowance Resolutions

Parsonage owned by or rented by a church

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

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

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

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

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

Home owned or rented by ministers

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

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

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

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

Evangelists

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

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

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

Housing Allowance Worksheet

Ministers Living in Housing Owned or Rented by the Church

Name: _____

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

Date designation approved _____, 20__

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

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

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

Housing Allowance Worksheet

Minister Living in Home Minister Owns or Is Buying

Name: _____

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

Date designation approved _____, 20__

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

	<u>Estimated Expenses</u>	<u>Actual</u>
Down payment on purchase of housing	\$ _____	\$ _____
Housing loan principal and interest payments ⁽¹⁾	_____	_____
Real estate commission, escrow fees	_____	_____
Real property taxes	_____	_____
Personal property taxes on contents	_____	_____
Homeowner's insurance	_____	_____
Personal property insurance on contents	_____	_____
Umbrella liability insurance	_____	_____
Structural maintenance and repair	_____	_____
Landscaping, gardening, and pest control	_____	_____
Furnishings (<i>purchase, repair, replacement</i>)	_____	_____
Decoration and redecoration	_____	_____
Utilities (<i>gas, electricity, water</i>) and trash collection	_____	_____
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 (or reasonable compensation).

Housing Allowance Worksheet

Minister Living in Home Minister Is Renting

Name: _____

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

Date designation approved _____, 20__

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

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

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

More Than Meets the Eye

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

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

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

● Tax Treatment of Compensation Elements

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

Allowances or reimbursements under a *nonaccountable* plan must be included in a minister’s taxable income on Form W-2, and there is no income tax deduction for unreimbursed business expenses.

- **Cell phones.** Cell phones and similar devices provided to employees are excludable from an employee’s income as a fringe benefit and are not subject to stringent recordkeeping requirements in certain situations. The cell phones must be provided for “substantial reasons relating to the employer’s business, other than providing compensation to the employee.” Cell phones provided for employee morale or goodwill, or to recruit prospective employees, are not provided for “noncompensatory business purposes.”

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

- **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 reimbursable.

Other club dues are generally not 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.

- **Computers.** The value of the personal use of a church-provided computer may qualify as a nontaxable fringe benefit if the personal use is minimal or infrequent. Otherwise, the personal use must be valued and reported as taxable income on Form W-2.
- **Disability insurance.** If the church pays the disability insurance premiums (and the minister is named as the beneficiary) as a part of the compensation package, the premiums are excluded from income. However, any disability policy proceeds must be included in gross income. This is based on who paid the premiums for the policy covering the year when the disability started. If the premiums are shared between the church and a minister, then the benefits are taxable in the same proportion as the payment of the premiums.

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

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

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

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

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

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

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

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

- **Entertainment expenses.** Entertainment expenses that represent an ordinary and necessary business expense generally qualify for reimbursement under an accountable business expense reimbursement plan.
- **Flexible spending account (FSA).** “Cafeteria” (called cafeteria plans because a person can choose among several benefit options) or FSAs are plans used to reimburse the employee for certain personal expenses. They are provided by employers to pre-fund dependent care, medical, or dental expenses (often called a healthcare flexible spending account) in pre-tax dollars.



Idea

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

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

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

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

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



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.

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

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

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

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

- **Life insurance/group-term.** If the group life coverage provided under a nondiscriminatory plan does not exceed \$50,000 for ministers, the life insurance premiums are generally tax-free

to minister-employees. Group-term life insurance coverage of more than \$50,000 provided to a minister by the church is taxable under somewhat favorable IRS tables.

► **Retirement plans**

□ **457 deferred compensation plans (also known as Rabbi Trusts or Top Hat plans).**

Churches may make cash contributions to 457 deferred compensation plans to fund their future obligation to pay deferred compensation benefits. The funds contributed are tax deferred in a similar manner to other tax deferred vehicles such as a 403(b) plan.

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

These plans are intended to provide a degree of certainty that accumulated deferred compensation benefits will actually be paid. Amounts contributed to an irrevocable plan should not revert to the church until all nonqualified deferred compensation benefits have been paid to eligible participants.

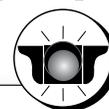
Because trust assets are subject to the claims of the church’s creditors in the case of insolvency or bankruptcy, the creation of a 457 plan does not cause the arrangement to be treated as “funded” for income tax purposes.

Distribution rules for 457 plans are not as flexible as for 403(b) accounts. For example, money in a 457 plan is not eligible to be rolled over into qualified retirement plans such as 403(b) plans or IRAs.

□ **Individual retirement accounts.** Amounts contributed by a church for a minister-employee’s Individual Retirement Account (IRA) are includible in the employee’s compensation on the Form W-2 and are subject to self-employment tax. IRA contributions may fall into one of the following categories:

- **Contributions to a regular IRA.** Each spouse may, in the great majority of cases, make deductible contributions to his or her IRA up to the dollar limitation (e.g., \$5,500 reduced by adjusted gross income limits). The adjusted gross income phaseout ranges for 2019 are \$103,000 to \$123,000 for married taxpayers and \$64,000 to \$74,000 for singles. (The phaseout amounts are different if the minister-employee is not an active participant but his or her spouse is.) Catch-up contributions of \$1,000 may be made by taxpayers age 50 and over.
- **Contributions to a Roth IRA.** Nondeductible contributions may be made to a Roth IRA. The buildup of interest and dividends within the account may be tax-free depending on how and when you withdraw the money from the account.

□ **Keogh plans.** If a minister has self-employment income for income tax purposes, a Keogh plan (also called “qualified retirement plans”) may be used. Amounts contributed to a Keogh plan are not taxed until distribution if the contribution limits are observed. If a minister withdraws money from a Keogh plan before reaching the age of 59½, the minister will be subject to a 10% early withdrawal penalty.



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

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

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

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

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

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

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

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

How Much Are They Worth?

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

Business and professional expenses fall into three basic categories: (1) expenses reimbursed under an accountable plan, (2) expenses paid under a nonaccountable plan, and (3) unreimbursed expenses. Neither of the last two categories provide any income tax benefit to a minister.

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

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



Key Issue

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

● Accountable and Nonaccountable Expense Reimbursement Plans

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

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

- The fixed date method applies if:
 - an advance is made within 30 days of when an expense is paid or incurred;
 - an expense is substantiated to the church within 60 days after the expense is paid or incurred; and
 - any excess amount is returned to the church within 120 days after the expense is paid or incurred.
- The periodic statement method applies if:
 - the church provides employees with a periodic statement that sets forth the amount paid that is more than substantiated expenses under the arrangement;
 - the statements are provided at least quarterly;
 - the church requests that ministers provide substantiation for any additional expenses that have not yet been substantiated and/or return any amounts remaining unsubstantiated within 120 days of the statement.

Expenses that are substantiated and reimbursed are not included on Form W-2 or deducted on your tax return. Expenses that are not substantiated and reimbursed cannot be deducted for income tax purposes.

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

Nonaccountable Expense Reimbursement Plans

If you do not substantiate your business expenses to the church, or if the amount of the reimbursement exceeds your actual expenses and the excess is not returned to the church within a reasonable period, your tax life becomes more complicated.

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

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 are not deductible for income tax purposes.



Warning

Many ministers are paid expense “allowances.” These payments accomplish nothing in terms of good stewardship. “Allowances” are fully taxable for income and social security tax purposes.

● Documenting Business Expenses

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

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

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

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



Remember

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

● Auto Expense Reimbursements

A minister's car expenses are 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 the amount eligible for reimbursement 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. The simplicity of the standard mileage rate method is compelling.

Standard Mileage Rate Method

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

If the church does not reimburse you for auto expenses or reimburses you under a nonaccountable plan, you may not deduct the expenses for income tax purposes.

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 be reimbursed for parking fees, tolls, and the business portion of the personal property tax.

Commuting

Personal mileage is never reimbursable. Commuting mileage is personal mileage.

Travel to and from home and church (a regular work location) and for church services and other work at the church is commuting and is not reimbursable. The same rule applies to multiple trips made in the same day. On the other hand, the cost of traveling between your home and a temporary work location is generally reimbursable. Once you arrive at the first work location, temporary or regular, you may be reimbursed for trips between work locations.

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

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

Documentation of Auto Expense

To support your automobile expense reimbursement, automobile expenses must be substantiated by adequate records. A weekly or monthly mileage log that identifies dates, destinations, business



Remember

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



Remember

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

purposes, and odometer readings in order to allocate total mileage between business and personal use is a basic necessity if you use the mileage method. If you use the actual expense method, a mileage log and supporting documentation on expenses are required.

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

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

Cell phones

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, then the value of the use of the phone or the amount of the reimbursement is includible in gross income, reportable on Forms 941 and W-2, and for lay employees is subject to employment tax withholding.

Cell phones a minister owns and uses more than 50% for ministry may be depreciated for reimbursement purposes as five-year recovery property. The business portion of depreciation may be reimbursed under an accountable expense reimbursement plan, if the 50% business, "convenience of the church," and "condition of employment" tests are met.

As a minister-employee, the use of a cell phone must be for the "convenience of the church" and required as a "condition of employment." The "convenience of the church" test will generally be met if the cell phone is furnished for substantial "noncompensatory business reasons." Whether a minister (or other church employee) passes the "condition of employment" test is based on all the

facts and circumstances and is not determined merely by an employer's statement that the use of the cell phone is a condition of employment.

If a minister meets the "convenience of the employer" and "condition of employment" tests but does not use the cell phone more than 50% of the time for work, he or she must depreciate it using the straight-line method. The minister may be reimbursed the business-related phone call charges and the business-related portion of the monthly fees.

Entertainment

Entertainment expenses may qualify for reimbursement under an accountable expense reimbursement plan if they represent an ordinary and necessary business expense.

Personal computers

Personal computers a minister owns and uses more than 50% for ministry may be depreciated for reimbursement purposes as five-year recovery property but no reimbursement is available under Section 179 (see next item). The business portion of depreciation may be reimbursed under an accountable expense reimbursement plan if the 50% business, "convenience of the church," and "condition of employment" tests are met (see the discussion of these topics under "Cell phones" on pages 29-30).

If a computer is provided by the church in the church office but you prefer to work at home on your personal computer, it is not being used for the church's convenience. If you meet the "convenience of the church" and "condition of employment" tests but do not use your computer (and related equipment) more than 50% of the time for your work, you must depreciate these items using the straight-line method to calculate the amount reimbursable.

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

Subscriptions and books

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

The cost of books related to your ministry may be reimbursed.

● Allocation of Business Expenses

The IRS takes the position that the deduction of unreimbursed business expenses on Schedule C (C-EZ) is limited to the extent that they are allocable to an excluded housing allowance or the fair rental value of church-provided housing. The IRS applies what is often referred to as the "Deason rule" (referring to a 1964 Tax Court Memorandum).

IRS Publication 517, *Social Security and Other Information for Members of the Clergy and Religious Workers*, explains this topic in detail and includes the concept



Warning

If a minister purchases a computer and uses it primarily for church work and meets the "condition" and "convenience" tests, only the depreciation on the business portion of the computer can be reimbursed by the church, not the entire cost of the business portion, based on the Section 179 first-year write-off rules.



Remember

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

in a completed tax return example. The most recent *Tax Guide for Churches and Other Religious Organizations* and *Minister Audit Technique Guide*, both issued by the IRS, clearly apply the expense allocation concept.

Since the housing allowance is not tax-exempt for self-employment purposes, the IRS takes the position in their *Minister Audit Technique Guide* that the Deason rule does not apply to the computation of a minister's self-employment taxes.

Under the IRS guidelines, if you exclude a housing allowance or are provided housing by your church, you cannot deduct expenses that are allocable to your excluded rental or parsonage allowance. Home mortgage interest and real estate taxes are still deductible on Schedule A as itemized deductions even though the same amounts are excluded for income tax purposes under the housing allowance rules.

A statement containing all the following information should be attached to your tax return:

- A list of each item of taxable ministerial income by source (such as wages, salary, honoraria from weddings, baptisms, etc.) plus the amount
- The amount of excluded housing allowance or the fair rental value of church-provided housing
- A list of each item of unreimbursed ministerial expense plus the amount
- A statement that the other deductions on your tax return are not allocable to the excluded housing allowance

This limitation requires the following calculation:

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

2. Total income from ministry:

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

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

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

5. Multiply line 4 total by line 3 percentage (these are nondeductible 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 Schedule C [C-EZ]) \$ _____

Income Taxes

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

● Tax Withholding

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

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

● Estimated Tax

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

If you are filing a declaration of estimated tax, complete the quarterly Forms 1040-ES. If 2018 estimated taxes are \$1,000 or less, no declaration of estimated tax is required.

If your estimated tax payments for 2019 equal 90% of the 2018 tax liability, you will generally avoid underpayment penalties. An option is to make the 2019 estimated tax payments equal 100% of your 2018 federal and social security taxes (Form 1040, page 2, line 15). This method generally avoids underpayment penalties and is easier to calculate.

In estimating 2019 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, Schedule 1, line 27).

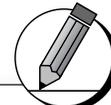
You pay one-fourth of your total estimated taxes in installments as follows:

<u>For the Period</u>	<u>2019 Due Date</u>
January 1 - March 31	April 15
April 1 - May 31	June 17
June 1 - August 31	September 16
September 1 - December 31	January 15



Idea

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



Filing Tip

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



Remember

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

Social Security Taxes

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

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

● Opting Out of Social Security Taxes

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

Deadline for Filing for an Exemption

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

● Computing the Self-Employment Tax

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

Year	Tax Rate		Maximum Earnings Base	
	OASDI	Medicare	OASDI	Medicare
2017	12.4%	2.9%	\$127,200	no limit
2018	12.4%	2.9%	128,400	no limit
2019	12.4%	2.9%	132,900	no limit

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

● Self-Employment Tax Deductions

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



Warning

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



Key Issue

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

Line by Line

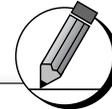
Form 1040

New for 2018, the IRS has simplified the basic tax Form 1040 from two full pages down to two half pages. With this simplified design, from 79 lines in 2017 down to 23 lines now, the IRS is no longer offering Forms 1040A or 1040EZ.

The first half page of the new Form 1040 includes basic taxpayer and dependent identification information, while the second page is where all income and tax reporting occur. To accomplish this simplified design, the IRS has moved many of the less frequently used fields and added them to Schedules 1-5. Many ministers may report information on several of these schedules, especially as it relates to self-employment taxes.

Reviewing the Form 1040 and Schedules 1-5 line by line may jog one’s memory about money received or spent in 2018.

- Filing status. Married filing jointly: If the minister’s spouse died in 2018, he or she can still file jointly and take advantage of tax rates that would be lower than if he or she files as a single person or as a head of household.
- Married filing separately: If the minister is married and lives in a separate-property state, compute the tax two ways—jointly and separately. Then, file the return resulting in the lower tax.



Filing Tip

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

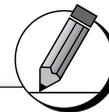
Form 1040 Department of the Treasury—Internal Revenue Service (99)		2018		OMB No. 1545-0074		IRS Use Only—Do not write or staple in this space.	
Filing status: <input type="checkbox"/> Single <input type="checkbox"/> Married filing jointly <input type="checkbox"/> Married filing separately <input type="checkbox"/> Head of household <input type="checkbox"/> Qualifying widow(er)							
Your first name and initial			Last name			Your social security number	
Your standard deduction: <input type="checkbox"/> Someone can claim you as a dependent <input type="checkbox"/> You were born before January 2, 1954 <input type="checkbox"/> You are blind							
If joint return, spouse's first name and initial			Last name			Spouse's social security number	
Spouse standard deduction: <input type="checkbox"/> Someone can claim your spouse as a dependent <input type="checkbox"/> Spouse was born before January 2, 1954							
<input type="checkbox"/> Spouse is blind <input type="checkbox"/> Spouse itemizes on a separate return or you were dual-status alien							
Home address (number and street). If you have a P.O. box, see instructions.					Apt. no.	Presidential Election Campaign (see inst.) <input type="checkbox"/> You <input type="checkbox"/> Spouse	
City, town or post office, state, and ZIP code. If you have a foreign address, attach Schedule E.							If more than four dependents, see inst. and ✓ here ▶ <input type="checkbox"/>
Dependents (see instructions):							
(1) First name		Last name		(2) Social security number		(3) Relationship to you	
						(4) ✓ if qualifies for (see inst.):	
						Child tax credit	
						Credit for other dependents	
						<input type="checkbox"/>	
						<input type="checkbox"/>	
						<input type="checkbox"/>	
						<input type="checkbox"/>	
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	
		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.)	
						If the IRS sent you an Identity Protection PIN, enter it here (see inst.)	
						Check if:	
						<input type="checkbox"/> 3rd Party Designee	
						<input type="checkbox"/> Self-employed	
Paid Preparer Use Only		Preparer's name		Preparer's signature		PTIN	
		Firm's name ▶		Phone no.		Firm's EIN	
		Firm's address ▶					
For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see separate instructions.				Cat. No. 11320B		Form 1040 (2018)	

- Head of household: If the minister is single, he or she may qualify as head of household if he or she provided a home for someone else—like a parent. Filing as head of household rather than as a single person can save a bundle on taxes.
- Qualifying widow(er): If the minister’s spouse died in 2016 or 2017 and he or she has a dependent child, there is benefit from joint-return rates as a qualifying widow(er).
- Dependents. Remember to include a social security number for any dependents. If a 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 unable to secure the social security number before the filing deadline, the minister may file for an extension of time to file.

Form 1040 – Page 2

- **Income (lines 1 to 6). Line 1:** If the minister is considered an employee for income tax purposes, he or she should receive Form W-2 from the employer. The total amount of the taxable wages is shown in Box 1 of Form W-2; attach Copy B of the W-2 to your Form 1040. Include the data from other W-2s received for the minister or spouse on this line. If the church erroneously included the housing allowance in Box 1, Form W-2, the minister should ask the church to reissue a corrected Form W-2.

If the cash housing allowance designated and paid by the employer exceeds the lowest of (1) the amount used to provide a home from current ministerial income, (2) the amount



Filing Tip

Form 1040, Page 2, Line 1. If the housing allowance designated by the employer exceeds the housing allowance exclusion to which the minister is entitled, he or she must include the difference on line 1 with a description “Excess housing allowance.” The exclusion is limited by the lower of the fair rental value of a minister-provided home or the actual housing expenses.

Form 1040 (2018)		Page 2	
1	Wages, salaries, tips, etc. Attach Form(s) W-2	1	
2a	Tax-exempt interest	2a	
3a	Qualified dividends	3a	
4a	IRAs, pensions, and annuities	4a	
5a	Social security benefits	5a	
b	Taxable interest	2b	
b	Ordinary dividends	3b	
b	Taxable amount	4b	
b	Taxable amount	5b	
6	Total income. Add lines 1 through 5. Add any amount from Schedule 1, line 22	6	
7	Adjusted gross income. If you have no adjustments to income, enter the amount from line 6; otherwise, subtract Schedule 1, line 36, from line 6	7	
8	Standard deduction or itemized deductions (from Schedule A)	8	
9	Qualified business income deduction (see instructions)	9	
10	Taxable income. Subtract lines 8 and 9 from line 7. If zero or less, enter -0-	10	
11	a Tax (see inst) (check if any from: 1 <input type="checkbox"/> Form(s) 8814 2 <input type="checkbox"/> Form 4972 3 <input type="checkbox"/>)	11	
b	Add any amount from Schedule 2 and check here <input type="checkbox"/>	12	
12	a Child tax credit/credit for other dependents b Add any amount from Schedule 3 and check here <input type="checkbox"/>	13	
13	Subtract line 12 from line 11. If zero or less, enter -0-	14	
14	Other taxes. Attach Schedule 4	15	
15	Total tax. Add lines 13 and 14	16	
16	Federal income tax withheld from Forms W-2 and 1099	17	
17	Refundable credits: a EIC (see inst.) b Sch 8812 c Form 8863	18	
18	Add any amount from Schedule 5	19	
18	Add lines 16 and 17. These are your total payments	20a	
19	If line 18 is more than line 15, subtract line 15 from line 18. This is the amount you overpaid	21	
20a	Amount of line 19 you want refunded to you. If Form 8888 is attached, check here <input type="checkbox"/>	22	
b	Routing number	c	Type: <input type="checkbox"/> Checking <input type="checkbox"/> Savings
d	Account number		
21	Amount of line 19 you want applied to your 2019 estimated tax	23	
22	Amount you owe. Subtract line 18 from line 15. For details on how to pay, see instructions		
23	Estimated tax penalty (see instructions)		

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

Form 1040 (2018)

properly designated by the employer, or (3) the fair rental value of the home including utilities and furnishings, enter the difference on line 1.

Line 2a: Here's where to note any tax-exempt interest from municipal bonds or 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.

Line 2b: Include as taxable-interest income the total amount of earnings 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 the minister for a belated federal or state tax refund (whether or not a Form 1099-INT has been received). If the statements due have not yet been received, call the issuer to get them. If more than \$1,500 of taxable interest income was received in 2018, Schedule B must also be completed.

Line 3b: Enter as dividend income only ordinary dividends, not capital-gains dividends paid by mutual funds, which are reported on Schedule D. Form 1099-DIV statements show the amount and type of ordinary dividends received during 2018. If more than \$1,500 in dividend income was received in 2018, Schedule B must be completed. Remember: earnings from a money-market mutual fund are considered dividend income, not interest income.

Line 4a: Report all distributions from IRAs, pensions and annuities on this line, including amounts that were rolled over tax-free in 2018 from one account into another.

Line 4b: Report the taxable portion of these distributions. If any distributions were received from a denominationally sponsored plan, the minister may be eligible to exclude a portion or all of these payments as a housing allowance.

Line 5a: No more than 85% of social security benefits can be taxed for 2018 and none at all if the provisional income is below \$32,000 on a joint return, \$25,000 for singles. If the income doesn't exceed the threshold, leave this line blank. If it does, use the worksheet on Form 1099-SSA to compute taxes on the benefits.

Line 5b: Report any taxable portion of social security benefits on this line.

- **Tax computation (lines 7 to 13).** **Line 8:** Claim the standard deduction only if the amount exceeds what could be written off in itemizing expenses on Schedule A. For 2018, the standard deduction is \$24,000 joint, \$18,000 head of household, and \$12,000 single. The amounts are higher if the minister or spouse is 65 or older or legally blind.

Line 12a: If the minister has a dependent child (a child under the age of 17 at the end of the tax year), he or she should complete Schedule 8812 to claim up to a maximum credit of \$2,000 per qualifying child. This credit can reduce the actual taxes owed dollar-for-dollar, but only \$1,400 per child can be refundable beyond 2018.

Line 16: Did the minister have a voluntary withholding arrangement whereby the employing church withheld federal income tax from the minister's compensation? Then show the amount of federal income tax the church withheld (from the W-2, Box 2) along with other federal income tax withholding from other employment of the minister or spouse here. Also include tax withheld on the other Forms 1099 and W-2. The amount withheld should be shown in Box 6 of Form 1099-SSA and Box 4 of other Forms 1099.

Line 17a: Enter the earned income tax credit here or let the IRS calculate it. If the minister has a qualifying child, Schedule EIC must be completed.

Line 17b: Enter the amount of your child tax credit on this line based on the completion of Schedule 8812.

- **Refund or amount owed (lines 19 to 23). Line 23:** The IRS assumes the taxpayer must pay the estimated tax penalty if he or she owes \$1,000 or more beyond what has been paid through withholding or estimated tax and the amount due is more than 110% of the 2017 tax bill. The minister may qualify for one of several exceptions, however. Use Form 2210 to document an exception to an underpayment penalty.

Schedule 1 – Additional income and adjustments to income

SCHEDULE 1 (Form 1040)		Additional Income and Adjustments to Income		OMB No. 1545-0074 2018 Attachment Sequence No. 01	
Department of the Treasury Internal Revenue Service		▶ Attach to Form 1040. ▶ Go to www.irs.gov/Form1040 for instructions and the latest information.		Your social security number	
Name(s) shown on Form 1040					
Additional Income	1-9b Reserved			1-9b	
	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	
	13 Capital gain or (loss). Attach Schedule D if required. If not required, check here <input type="checkbox"/>			13	
	14 Other gains or (losses). Attach Form 4797			14	
	15a Reserved			15b	
	16a Reserved			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 Reserved			20b	
21 Other income. List type and amount ▶			21		
22 Combine the amounts in the far right column. If you don't have any adjustments to income, enter here and include on Form 1040, line 6. Otherwise, go to line 23			22		
Adjustments to Income	23 Educator expenses	23			
	24 Certain business expenses of reservists, performing artists, and fee-basis government officials. Attach Form 2106	24			
	25 Health savings account deduction. Attach Form 8889	25			
	26 Moving expenses for members of the Armed Forces. Attach Form 3903	26			
	27 Deductible part of self-employment tax. Attach Schedule SE	27			
	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 Reserved	35				
36 Add lines 23 through 35	36				

Schedule 1, Line 10: If a refund of a state or local tax was received in 2018 that was deducted on Schedule A in a prior year, include the refund here.

Line 12: Ministers almost always receive some honoraria or fee income from speaking engagements, weddings, funerals, and so on. This income, less related expenses (see page 138), should be reported on Schedule C or C-EZ and entered on this line.

Line 13: Enter capital-gains dividends here if there were no other capital gains or losses in 2018.

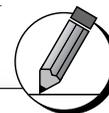
Line 23: If you or your spouse is an eligible educator, you can deduct up to \$500 (married filing jointly) for unreimbursed teaching-related expenses on this line.

Line 25: Contributions made by a taxpayer to a health savings account (HSA) up to \$3,450 for an individual plan and \$6,900 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 2018.

Line 27: One-half of the 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. The maximum deductible amount of interest is \$2,500, and it is phased out at high income levels.

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



Filing Tip

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

Schedule 2 – Tax

SCHEDULE 2 (Form 1040)		Tax		OMB No. 1545-0074	
Department of the Treasury Internal Revenue Service		▶ Attach to Form 1040. ▶ Go to www.irs.gov/Form1040 for instructions and the latest information.		2018 Attachment Sequence No. 02	
Name(s) shown on Form 1040				Your social security number	
Tax	38-44	Reserved		38-44	
	45	Alternative minimum tax. Attach Form 6251		45	
	46	Excess advance premium tax credit repayment. Attach Form 8962		46	
	47	Add the amounts in the far right column. Enter here and include on Form 1040, line 11		47	
For Paperwork Reduction Act Notice, see your tax return instructions.				Cat. No. 71478U	
				Schedule 2 (Form 1040) 2018	

Line 45: Few ministers will have taxable income high enough to trigger the alternative minimum tax.

Line 46: If a minister had an excess advance payment of the premium tax credit, it would be calculated on Form 8962 with the amount carried over to line 46.

Schedule 3 – Nonrefundable Credits

SCHEDULE 3 (Form 1040)		Nonrefundable Credits		OMB No. 1545-0074	
Department of the Treasury Internal Revenue Service		▶ Attach to Form 1040. ▶ Go to www.irs.gov/Form1040 for instructions and the latest information.		2018 Attachment Sequence No. 03	
Name(s) shown on Form 1040				Your social security number	
Nonrefundable Credits	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	Reserved	52		
	53	Residential energy credit. Attach Form 5695	53		
	54	Other credits from Form a <input type="checkbox"/> 3800 b <input type="checkbox"/> 8801 c <input type="checkbox"/>	54		
	55	Add the amounts in the far right column. Enter here and include on Form 1040, line 12	55		

For Paperwork Reduction Act Notice, see your tax return instructions. Cat. No. 71480G Schedule 3 (Form 1040) 2018

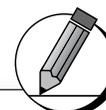
Line 48: If you paid income tax to a foreign country of U.S. possession, you may be able to take this credit. Generally, you must complete and attach Form 1116 to do so. However, if all of your foreign source gross income was from interest and dividends and all of that income and the foreign tax paid on it were reported to you on Form 1099-INT, Form 1099-DIV, or Schedule K and the total of your foreign taxes wasn't more than \$600 if married filing jointly, you generally do not have to complete Form 1116.

Line 49: You may be able to take this credit if you paid someone to care for:

- (1) Your qualifying child under age 13 whom you claim as your dependent,
- (2) Your disabled spouse or any other disabled person who couldn't care for himself or herself, or
- (3) Your child whom you couldn't claim as a dependent because of the rules for children of divorced or separated parents.

Line 50: If you (or your dependent) paid qualified expenses in 2018 for yourself, your spouse, or your dependent to enroll in or attend an eligible educational institution, you may be able to take an education credit. See Form 8863 for details.

Line 51: Taxpayers with adjusted gross income of \$63,000 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).



Filing Tip

Schedule 3, Line 51. If contributions were made to a 403(b) or 401(k) plan, and the adjusted gross income was \$50,000 or less, the minister may be eligible for the retirement savings contributions 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.

Schedule 4 – Other Taxes

SCHEDULE 4 (Form 1040)		Other Taxes		OMB No. 1545-0074	
Department of the Treasury Internal Revenue Service		▶ Attach to Form 1040. ▶ Go to www.irs.gov/Form1040 for instructions and the latest information.		2018 Attachment Sequence No. 04	
Name(s) shown on Form 1040				Your social security number	
Other Taxes	57	Self-employment tax. Attach Schedule SE	57		
	58	Unreported social security and Medicare tax from: Form a <input type="checkbox"/> 4137 b <input type="checkbox"/> 8919	58		
	59	Additional tax on IRAs, other qualified retirement plans, and other tax-favored accounts. Attach Form 5329 if required	59		
	60a	Household employment taxes. Attach Schedule H	60a		
	b	Repayment of first-time homebuyer credit from Form 5405. Attach Form 5405 if required	60b		
	61	Health care: individual responsibility (see instructions)	61		
	62	Taxes from: a <input type="checkbox"/> Form 8959 b <input type="checkbox"/> Form 8960 c <input type="checkbox"/> Instructions; enter code(s)	62		
	63	Section 965 net tax liability installment from Form 965-A	63		
	64	Add the amounts in the far right column. These are your total other taxes . Enter here and on Form 1040, line 14	64		
For Paperwork Reduction Act Notice, see your tax return instructions.				Cat. No. 71481R Schedule 4 (Form 1040) 2018	

Line 57: If the taxpayer is a qualified minister (see pages 2–9) and has not opted out of social security (see pages 104–8), he or she is self-employed for social security tax purposes. Social Security is not withheld by the church but is calculated on Schedule SE if there were net earnings of \$400 or more and paid with Form 1040. The tax is 15.3% of the first \$128,400 of 2018 self-employment income. If the total wages and self-employment earnings were less than \$128,400, time and headaches can probably be saved by filing the Short Schedule SE on the front of the SE form.

Line 59: The minister will owe the tax on qualified plans plus the 10% penalty on the amount withdrawn from the IRA or another retirement plan if the minister was under 59½, unless certain exceptions are met.

Schedule 5 – Other Payments and Refundable Credits

SCHEDULE 5 (Form 1040)		Other Payments and Refundable Credits		OMB No. 1545-0074	
Department of the Treasury Internal Revenue Service		▶ Attach to Form 1040. ▶ Go to www.irs.gov/Form1040 for instructions and the latest information.		2018 Attachment Sequence No. 05	
Name(s) shown on Form 1040				Your social security number	
Other Payments and Refundable Credits	65	Reserved	65		
	66	2018 estimated tax payments and amount applied from 2017 return	66		
	67a	Reserved	67a		
	b	Reserved	67b		
	68–69	Reserved	68–69		
	70	Net premium tax credit. Attach Form 8962	70		
	71	Amount paid with request for extension to file (see instructions)	71		
	72	Excess social security and tier 1 RRTA tax withheld	72		
	73	Credit for federal tax on fuels. Attach Form 4136	73		
	74	Credits from Form: a <input type="checkbox"/> 2439 b <input type="checkbox"/> Reserved c <input type="checkbox"/> 8885 d <input type="checkbox"/>	74		
	75	Add the amounts in the far right column. These are your total other payments and refundable credits . Enter here and include on Form 1040, line 17	75		
For Paperwork Reduction Act Notice, see your tax return instructions.				Cat. No. 71482C Schedule 5 (Form 1040) 2018	

Line 66: Don't get confused: Even though the fourth-quarter 2018 estimated tax payment was made in January 2019, it's counted on the 2018 return.

Schedule A (Itemized Deductions)

If the minister lives in church-provided housing, he or she often cannot itemize. But run down Schedule A just to see whether there might be 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 pharmacist. Write off 18 cents per mile plus the cost of parking. If the taxpayer didn't drive, deduct any 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 out of town to get medical care count toward the 7.5% limit of adjusted gross income. Include all health insurance premiums, as well as Medicare Part B premiums for 2018.
- **Taxes you paid (lines 5 to 7).** Even though real estate taxes are a housing expense excludable under the housing allowance, they may still be deducted (even for multiple properties if not deducted elsewhere on the return) on line 5b as an itemized deduction—one of the few “double benefits” allowed in the tax law.
- **Interest you paid (lines 8 to 10).** **Line 8a:** If the minister bought a house during 2018, review all escrow or settlement papers for any mortgage interest paid that was not shown on the lender's year-end statement. If interest was paid on a second mortgage or line of credit secured by the minister's home, include the interest expense here.

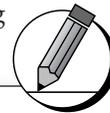
It is possible to deduct mortgage interest as an itemized deduction even if the interest is included in housing expenses subject to a housing allowance. Interest on a home equity loan or line of credit is not deductible on Schedule A unless the loan proceeds were used to buy, build, or substantially improve the minister's home that secures the loan.

Likewise, 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 a child's college education is not deductible on Schedule A and does not qualify as a housing expense for housing allowance purposes.

Don't overlook points 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 it is permissible to deduct on the 2018 return the portion of all points paid that correspond with the percentage of refinancing used for home improvements.

- **Gifts to charity (lines 11 to 14).** **Line 16:** For gifts you made in 2018, there must be written acknowledgments from the charity of any single gifts of \$250 or more and for all gifts of cash.

Line 12: Deduct charitable mileage for any volunteer work at the rate of 14 cents a mile.

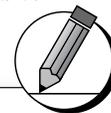


Filing Tip

Schedule A, 8a-c. 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.

Schedule C (C-EZ)

Nearly every minister should file Schedule C or Schedule C-EZ. While a minister should receive Form W-2 for employment compensation and report the amount in Box 1 of Form W-2 on Form 1040, line 1, most ministers have some income from honoraria or fees related to weddings or funerals. Additionally, a minister may have speaking fees unrelated to the employer, product royalties, and other self-employment income reportable on Schedule C (C-EZ).



Filing Tip

Schedule C-EZ, Line 2. Only business expenses related to the income reported on line 1 may be reported on line 2. A minister's housing expenses are not deducted on this form (or generally any other form). Unreimbursed expenses related to employee compensation are not deductible as a result of tax reform.

Only expenses related to the income reported on Schedule C (C-EZ) may be deducted on the form. For example, if a minister received honoraria of \$500 for speaking at a church other than where employed, the \$500 is reported on Schedule C (C-EZ) and the travel and other expenses related to the speaking engagement are deductible on the form. Expenses related to a minister's primary employment (compensation that was reported on Form W-2) is no longer deductible. This highlights the importance of churches adopting an accountable expense reimbursement policy. If using Schedule C-EZ, reflect the data as follows:

- **Gross receipts. Line 1:** Include income from honoraria, fees, product royalties, and other income earned as an independent contractor.
- **Total expenses. Line 2:** Only include business expenses related to the income on line 1.

Schedule SE

Most ministers will need to file Schedule SE to report income subject to self-employment taxes. Most frequently, a minister will be able to utilize the short-form (page 1 of the form), but the decision matrix at the top of the form will indicate if a minister may need to utilize the long form (page 2 of the form).

When computing the self-employment tax, net earnings include the gross income earned from performing qualified services minus the deductions related to that income. See Self-Employment Social Security Tax Worksheet on pages 52 and 68.

Form 2441

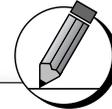
If the minister paid someone to care for his or her child or other qualifying person so he or she (and spouse, if filing a joint return) could work or look for work in 2018, the minister may be able to take the credit for child and dependent care expenses.

- **Qualifying person (Line 2[a]).** A qualifying person is any child under age 13 who can be claimed as a dependent. If the child turned 13 during the year, the child is a qualifying person for the part of the year he or she was under age 13.
- **Qualified expenses (Line 2[c]).** These include amounts paid for household services and care of the qualifying person while the taxpayer worked or looked for work. Child support payments are not qualified expenses. Household services include the services of a cook, maid, babysitter, housekeeper, or cleaning person if the services were partly for the care of the qualifying person.

Form 8863

Education credits may be taken if the minister, spouse, or a dependent claimed on the taxpayer's return was a student enrolled at or attending an eligible educational institution.

- **American Opportunity Credit (Part I).** The minister may be able to take a credit of up to \$2,500 for qualified expenses paid in 2018 for each student who qualifies for the credit (see instructions for Form 8863).
- **Lifetime learning credit (Part II).** The maximum lifetime learning credit for 2018 is \$2,000, regardless of the number of students. The lifetime learning credit cannot be taken for any student for whom the American Opportunity Credit is being taken.
- **Qualified expenses (worksheet in form instructions).** Generally, qualified expenses are amounts paid in 2018 for tuition and fees required for the student's enrollment or attendance at an eligible educational institution. Qualified expenses do not include amounts paid for room and board, insurance, medical expenses, transportation, or course-related books, supplies, and equipment.



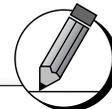
Tip

It does not matter whether the education expenses were paid in cash, by check, by credit card, or with borrowed funds.

Form 8889

The minister may be required to file Form 8889 if he or she participated in a Health Savings Account (HSA) in 2018.

- **HSA distributions (Line 14).** Amounts withdrawn from the HSA in 2018 are reflected on this line. There is generally no tax impact of HSA withdrawals unless they exceed unreimbursed medical expenses.
- **Unreimbursed medical expenses (Line 15).** Medical expenses that were not reimbursed by your medical insurance may generally be included on this line.



Tip

There is no requirement to file Form 8889 if HSA withdrawals for the year do not exceed unreimbursed medical expenses.

Form 8962

The premium tax credit is for those that were enrolled in health insurance through a state marketplace. The credit provides financial assistance to pay the premiums. This form reconciles whether there is a refund owed to a taxpayer or whether the taxpayer owes additional taxes related to an advance payment of the premium tax credit. There is an example of this form in use on page 67, which includes an excess advance payment of the premium tax credit.

- **Part I.** This section determines the annual contribution amount one is required to pay out of pocket.
- **Part II.** This section reconciles how much one has paid based on Form 1095-A and how much should be paid based on actual income as determined in Part I.
- **Part III.** This section is used to determine any necessary repayment of excess advance payment of a premium tax credit.
- **Parts IV & V.** Use these parts to make allocations as it may relate to divorces, married filing separately, marriages, or where a policy is shared between two tax families. See the Instructions to 8962 for further details.

Sample Return No. 1

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

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

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

Income, Benefits, and Reimbursements:

Church salary	\$64,850
Christmas and other special occasion gifts paid by the church based on designated member-gifts to the church	750
Honoraria for performing weddings, funerals, and baptisms	650
Honorarium for speaking at another church	1,000
Reimbursement of self-employment tax	12,000
Moving expenses reimbursed	6,750
Church-related expenses were reimbursed to Pastor Brown under an accountable expense reimbursement plan	7,593

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 and tolls	\$ 50
Travel – 912 x 54.5¢ per mile	497
Other 200	

Potential itemized deductions:

Unreimbursed doctors, dentists, and drugs	1,500
State and local income taxes:	
2017 taxes paid in 2018	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
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

Form 1040 Department of the Treasury—Internal Revenue Service (99) **2018** U.S. Individual Income Tax Return OMB No. 1545-0074 IRS Use Only—Do not write or staple in this space.

Filing status: Single Married filing jointly Married filing separately Head of household Qualifying widow(er)

Your first name and initial: **Milton L.** Last name: **Brown** Your social security number: **541 | 16 | 8194**

Your standard deduction: Someone can claim you as a dependent You were born before January 2, 1954 You are blind

If joint return, spouse's first name and initial: **Alessia S.** Last name: **Brown** Spouse's social security number: **238 | 49 | 7249**

Spouse standard deduction: Someone can claim your spouse as a dependent Spouse was born before January 2, 1954 Full-year health care coverage or exempt (see inst.)

Spouse is blind Spouse itemizes on a separate return or you were dual-status alien

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

City, town or post office, state, and ZIP code. If you have a foreign address, attach Schedule 6. **Springfield, OH 45504** If more than four dependents, see inst. and here

Dependents (see instructions):		(2) Social security number	(3) Relationship to you	(4) <input checked="" type="checkbox"/> If qualifies for (see inst.):	
(1) First name	Last name			Child tax credit	Credit for other dependents
Charles	Brown	514 43 9196	Son	<input checked="" type="checkbox"/>	<input type="checkbox"/>
				<input type="checkbox"/>	<input type="checkbox"/>
				<input type="checkbox"/>	<input type="checkbox"/>
				<input type="checkbox"/>	<input type="checkbox"/>

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: *Milton L. Brown* Date: **4/15/19** Your occupation: **Minister**

Spouse's signature. If a joint return, both must sign. *Alessia S. Brown* Date: **4/15/19** Spouse's occupation: **Housewife**

If the IRS sent you an Identity Protection PIN, enter it here (see inst.): _____

If the IRS sent you an Identity Protection PIN, enter it here (see inst.): _____

Paid Preparer Use Only

Preparer's name: _____ Preparer's signature: _____ PTIN: _____ Firm's EIN: _____ Check if: 3rd Party Designee Self-employed

Firm's name: _____ Phone no.: _____

Firm's address: _____

For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see separate instructions. Cat. No. 11320B Form **1040** (2018)

Form 1040 (2018) Page **2**

1 Wages, salaries, tips, etc. Attach Form(s) W-2 Excess Housing Allowance \$1,000	1	58,850
2a Tax-exempt interest	2a	
3a Qualified dividends	3a	
4a IRAs, pensions, and annuities	4a	
5a Social security benefits	5a	
6 Total income. Add lines 1 through 5. Add any amount from Schedule 1, line 22 1,120	6	59,970
7 Adjusted gross income. If you have no adjustments to income, enter the amount from line 6; otherwise, subtract Schedule 1, line 36, from line 6	7	52,076
8 Standard deduction or itemized deductions (from Schedule A)	8	26,316
9 Qualified business income deduction (see instructions)	9	224
10 Taxable income. Subtract lines 8 and 9 from line 7. If zero or less, enter -0-	10	25,536
11 a Tax (see inst.) 2,682 (check if any from: 1 <input type="checkbox"/> Form(s) 8814 2 <input type="checkbox"/> Form 4972 3 <input type="checkbox"/> _____)	11	2,682
b Add any amount from Schedule 2 and check here <input type="checkbox"/>	11	2,682
12 a Child tax credit/credit for other dependents 2,000 b Add any amount from Schedule 3 and check here <input checked="" type="checkbox"/>	12	2,050
13 Subtract line 12 from line 11. If zero or less, enter -0-	13	632
14 Other taxes. Attach Schedule 4	14	11,975
15 Total tax. Add lines 13 and 14	15	12,607
16 Federal income tax withheld from Forms W-2 and 1099	16	12,000
17 Refundable credits: a EIC (see inst.) _____ b Sch 8812 _____ c Form 8863 _____	17	
Add any amount from Schedule 5 _____	17	
18 Add lines 16 and 17. These are your total payments	18	12,000
19 If line 18 is more than line 15, subtract line 15 from line 18. This is the amount you overpaid	19	
20a Amount of line 19 you want refunded to you. If Form 8888 is attached, check here <input type="checkbox"/>	20a	
b Routing number _____ c Type: <input type="checkbox"/> Checking <input type="checkbox"/> Savings	20a	
d Account number _____	20a	
21 Amount of line 19 you want applied to your 2019 estimated tax	21	
Amount You Owe 22 Amount you owe. Subtract line 18 from line 15. For details on how to pay, see instructions	22	607
23 Estimated tax penalty (see instructions)	23	

Go to www.irs.gov/Form1040 for instructions and the latest information. Form **1040** (2018)

Line 1 – See page 53 for the calculation of the excess housing allowance.

SCHEDULE 1
(Form 1040)

Additional Income and Adjustments to Income

OMB No. 1545-0074

2018
Attachment
Sequence No. **01**

Department of the Treasury
Internal Revenue Service

▶ Attach to Form 1040.

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

Name(s) shown on Form 1040

Milton L. Brown

Your social security number
541-16-8194

Additional Income					
1-9b	Reserved			1-9b	
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 ▶ <input type="checkbox"/>			13	
14	Other gains or (losses). Attach Form 4797			14	
15a	Reserved			15b	
16a	Reserved			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	Reserved			20b	
21	Other income. List type and amount ▶			21	
22	Combine the amounts in the far right column. If you don't have any adjustments to income, enter here and include on Form 1040, line 6. Otherwise, go to line 23			22	1,120
Adjustments to Income					
23	Educator expenses	23			
24	Certain business expenses of reservists, performing artists, and fee-basis government officials. Attach Form 2106	24			
25	Health savings account deduction. Attach Form 8889	25			
26	Moving expenses for members of the Armed Forces. 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	Reserved	35			
36	Add lines 23 through 35	36			7,894

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

Cat. No. 71479F

Schedule 1 (Form 1040) 2018

SCHEDULE 3
(Form 1040)

Nonrefundable Credits

OMB No. 1545-0074

2018
Attachment
Sequence No. **03**

Department of the Treasury
Internal Revenue Service

▶ Attach to Form 1040.

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

Name(s) shown on Form 1040

Milton L. Brown

Your social security number
541-16-8194

Nonrefundable Credits					
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	50		
52	Reserved	52			
53	Residential energy credit. Attach Form 5695	53			
54	Other credits from Form a <input type="checkbox"/> 3800 b <input type="checkbox"/> 8801 c <input type="checkbox"/>	54			
55	Add the amounts in the far right column. Enter here and include on Form 1040, line 12	55			50

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

Cat. No. 71480G

Schedule 3 (Form 1040) 2018

Line 27 – See page 33 for the explanation of the self-employment tax deduction.

SCHEDULE 4
(Form 1040)

Department of the Treasury
Internal Revenue Service

Other Taxes

▶ Attach to Form 1040.

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

OMB No. 1545-0074

2018
Attachment
Sequence No. **04**

Name(s) shown on Form 1040

Milton L. Brown

Your social security number

541-16-8194

Other Taxes	57	Self-employment tax. Attach Schedule SE	57	11,975	
	58	Unreported social security and Medicare tax from: Form a <input type="checkbox"/> 4137 b <input type="checkbox"/> 8919	58		
	59	Additional tax on IRAs, other qualified retirement plans, and other tax-favored accounts. Attach Form 5329 if required	59		
	60a	Household employment taxes. Attach Schedule H	60a		
	b	Repayment of first-time homebuyer credit from Form 5405. Attach Form 5405 if required	60b		
	61	Health care: individual responsibility (see instructions)	61		
	62	Taxes from: a <input type="checkbox"/> Form 8959 b <input type="checkbox"/> Form 8960 c <input type="checkbox"/> Instructions; enter code(s) _____	62		
	63	Section 965 net tax liability installment from Form 965-A 63 _____			
	64	Add the amounts in the far right column. These are your total other taxes . Enter here and on Form 1040, line 14	64	11,975	

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

Cat. No. 71481R

Schedule 4 (Form 1040) 2018

**SCHEDULE A
(Form 1040)**

Itemized Deductions

OMB No. 1545-0074

▶ Go to www.irs.gov/ScheduleA for instructions and the latest information.
▶ Attach to Form 1040.

2018

Attachment
Sequence No. **07**

Department of the Treasury
Internal Revenue Service (99)

Caution: If you are claiming a net qualified disaster loss on Form 4684, see the instructions for line 16.

Name(s) shown on Form 1040

Milton L. 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 7	2	52,076	
	3 Multiply line 2 by 7.5% (0.075)	3	3,906	
	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 taxes			
	a State and local income taxes or general sales taxes. You may include either income taxes or general sales taxes on line 5a, but not both. If you elect to include general sales taxes instead of income taxes, check this box <input type="checkbox"/>	5a	2,000	
	b State and local real estate taxes (see instructions)	5b	1,000	
	c State and local personal property taxes	5c		
	d Add lines 5a through 5c	5d	3,000	
	e Enter the smaller of line 5d and \$10,000 (\$5,000 if married filing separately)	5e	3,000	
	6 Other taxes. List type and amount ▶	6		
	7 Add lines 5e and 6	7		3,000
Interest You Paid <small>Caution: Your mortgage interest deduction may be limited (see instructions).</small>	8 Home mortgage interest and points. If you didn't use all of your home mortgage loan(s) to buy, build, or improve your home, see instructions and check this box <input type="checkbox"/>			
	a Home mortgage interest and points reported to you on Form 1098	8a	14,850	
	b 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 ▶	8b		
	c Points not reported to you on Form 1098. See instructions for special rules	8c		
	d Reserved	8d		
	e Add lines 8a through 8c	8e		
	9 Investment interest. Attach Form 4952 if required. See instructions	9		
	10 Add lines 8e and 9	10		14,850
Gifts to Charity <small>If you made a gift and got a benefit for it, see instructions.</small>	11 Gifts by cash or check. If you made any gift of \$250 or more, see instructions	11	8,200	
	12 Other than by cash or check. If any gift of \$250 or more, see instructions. You must attach Form 8283 if over \$500	12	266	
	13 Carryover from prior year	13		
	14 Add lines 11 through 13	14		
Casualty and Theft Losses	15 Casualty and theft loss(es) from a federally declared disaster (other than net qualified disaster losses). Attach Form 4684 and enter the amount from line 18 of that form. See instructions	15		
Other Itemized Deductions	16 Other—from list in instructions. List type and amount ▶	16		
Total Itemized Deductions	17 Add the amounts in the far right column for lines 4 through 16. Also, enter this amount on Form 1040, line 8	17		26,316
	18 If you elect to itemize deductions even though they are less than your standard deduction, check here <input type="checkbox"/>			

For Paperwork Reduction Act Notice, see the Instructions for Form 1040.

Cat. No. 17145C

Schedule A (Form 1040) 2018

**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.
► Attach to Form 1040, 1040NR, or 1041. ► See instructions on page 2.

OMB No. 1545-0074

2018

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,
- Do not deduct expenses for business use of your home,
- Do not have prior year unallowed passive activity losses from this business, and
- Are not required to file Form 4562, Depreciation and Amortization, for this business. See the instructions for Schedule C, line 13, to find out if you must file.

A Principal business or profession, including product or service Minister	B Enter business code (see page 2) ► 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 2018 that would require you to file Form(s) 1099? (see the instructions for Schedule C) <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	
G If "Yes," did you or will you file required Forms 1099? <input type="checkbox"/> Yes <input type="checkbox"/> No	

Part II Figure Your Net Profit

1 Gross receipts. Caution: If this income was reported to you on Form W-2 and the "Statutory employee" box on that form was checked, see <i>Statutory employees</i> in the instructions for Schedule C, line 1, and check here <input type="checkbox"/>	1	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 Schedule 1 (Form 1040), line 12, and Schedule SE, line 2, or on Form 1040NR, line 13, and Schedule SE, line 2 (see page 2). (Statutory employees do not report this amount on Schedule SE, line 2.) Estates and trusts, enter on Form 1041, line 3.	3	1,120	

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

4 When did you place your vehicle in service for business purposes? (month, day, year) ► 1/1/09

5 Of the total number of miles you drove your vehicle during 2018, enter the number of miles you used your vehicle for:

a Business 9,412 **b** Commuting (see page 2) 1,216 **c** Other 912 (Sch. C related)

6 Was your vehicle available for personal use during off-duty hours? Yes No

7 Do you (or your spouse) have another vehicle available for personal use? Yes No

8a Do you have evidence to support your deduction? Yes No

b If "Yes," is the evidence written? Yes No

For Paperwork Reduction Act Notice, see the separate instructions for Schedule C (Form 1040). Cat. No. 14374D Schedule C-EZ (Form 1040) 2018

<p>Gross receipts:</p> <p>Honoraria (weddings, etc.) \$650</p> <p>Speaking honorarium <u>1,000</u></p> <p style="border-top: 1px solid black;"><u>\$1,650</u></p>	<p>Expenses:</p> <p>See Attachment 1 on page 52</p>
--	--

Nearly every minister receives honoraria and fee income with related expenses that are reportable on Schedule C (C-EZ).

Schedule SE (Form 1040) 2018		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.			
<p>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 <input type="checkbox"/></p>			
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 AH	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% (0.9235). Otherwise, enter amount from line 3 Note: If line 4a is less than \$400 due to Conservation Reserve Program payments on line 1b, see instructions.	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 don't 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% (0.9235). 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 2018	7	128,400 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 \$128,400 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	128,400
10	Multiply the smaller of line 6 or line 9 by 12.4% (0.124)	10	9,705
11	Multiply line 6 by 2.9% (0.029)	11	2,270
12	Self-employment tax. Add lines 10 and 11. Enter here and on Schedule 4 (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% (0.50). Enter the result here and on Schedule 1 (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 wasn't more than \$7,920, or (b) your net farm profits ² were less than \$5,717.			
14	Maximum income for optional methods	14	5,280 00
15	Enter the smaller of: two-thirds (2/3) of gross farm income ¹ (not less than zero) or \$5,280. 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 \$5,717 and also less than 72.189% of your gross nonfarm income, ⁴ and (b) you had net earnings from self-employment of at least \$400 in 2 of the prior 3 years. Caution: You may use this method no more than five times.			
16	Subtract line 15 from line 14	16	
17	Enter the smaller of: two-thirds (2/3) of gross nonfarm 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.		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.	
² From Sch. F, line 34, and Sch. K-1 (Form 1065), box 14, code A—minus the amount you would have entered on line 1b had you not used the optional method.		⁴ From Sch. C, line 7; Sch. C-EZ, line 1; Sch. K-1 (Form 1065), box 14, code C; and Sch. K-1 (Form 1065-B), box 9, code J2.	

Line 2 – See Attachment 2 on page 52.

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 \$128,400. The Long Schedule is shown here for illustrative purposes.

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

Credit for Qualified Retirement Savings Contributions

OMB No. 1545-0074

2018

Attachment
Sequence No. **54**

▶ Attach to Form 1040 or Form 1040NR.
▶ Go to www.irs.gov/Form8880 for the latest information.

Name(s) shown on return

Milton L. Brown

Your social security number

541-16-8194



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

- The amount on Form 1040, line 7 or Form 1040NR, line 36 is more than \$31,500 (\$47,250 if head of household; \$63,000 if married filing jointly).
- The person(s) who made the qualified contribution or elective deferral **(a)** was born after January 1, 2001; **(b)** is claimed as a dependent on someone else's 2018 tax return; or **(c)** was a **student** (see instructions).

- Traditional and Roth IRA contributions, and ABLÉ account contributions by the designated beneficiary for 2018. **Do not** include rollover contributions
- Elective deferrals to a 401(k) or other qualified employer plan, voluntary employee contributions, and 501(c)(18)(D) plan contributions for 2018 (see instructions)
- Add lines 1 and 2
- Certain distributions received **after** 2015 and **before** the due date (including extensions) of your 2018 tax return (see instructions). If married filing jointly, include **both** spouses' amounts in **both** columns. See instructions for an exception
- Subtract line 4 from line 3. If zero or less, enter -0-
- In each column, enter the **smaller** of line 5 or \$2,000
- Add the amounts on line 6. If zero, **stop**; you can't take this credit
- Enter the amount from Form 1040, line 7* or Form 1040NR, line 36
- Enter the applicable decimal amount shown below.

	(a) You	(b) Your spouse
1		
2	500	
3	500	
4	0	
5	500	
6	500	
7		500
8	52,076	

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—				
---	\$19,000	0.5	0.5	0.5
\$19,000	\$20,500	0.5	0.5	0.2
\$20,500	\$28,500	0.5	0.5	0.1
\$28,500	\$30,750	0.5	0.2	0.1
\$30,750	\$31,500	0.5	0.1	0.1
\$31,500	\$38,000	0.5	0.1	0.0
\$38,000	\$41,000	0.2	0.1	0.0
\$41,000	\$47,250	0.1	0.1	0.0
\$47,250	\$63,000	0.1	0.0	0.0
\$63,000	---	0.0	0.0	0.0

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

- Multiply line 7 by line 9
- Limitation based on tax liability. Enter the amount from the Credit Limit Worksheet in the instructions
- Credit for qualified retirement savings contributions.** Enter the **smaller** of line 10 or line 11 here and on Schedule 3 (Form 1040), line 51; or Form 1040NR, line 48

9	x 0.1
10	50
11	2,682
12	50

* See Pub. 590-A for the amount to enter if you claim any exclusion or deduction for foreign earned income, foreign housing, or income from Puerto Rico or for bona fide residents of American Samoa.

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

Cat. No. 33394D

Form **8880** (2018)

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

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

Schedule C-EZ Deduction Computation

Parking and tolls	\$ 50
Other	200
Mileage (912 miles x 54.5 cents per mile)	<u>497</u>
Unadjusted Schedule C-EZ expenses	747
Minus:	
Nondeductible part of Schedule C-EZ expenses (29% x \$747)	<u>217</u>
Schedule C-EZ deductions (line 2) (See page 150)	<u>\$ 530</u>

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

Church wages	\$ 57,850
Housing allowance	26,000
Net profit from Schedule C-EZ	<u>1,120</u>
	84,970
Less:	
Schedule C-EZ expenses allocable to tax-free income	<u>(217)</u>
Net Self-Employed Income	
Schedule SE, Section A, line 2 (See page 50)	<u>\$ 84,753</u>

Housing Allowance Worksheet

Minister-Owned Home

Name: Milton L. BrownFor the period January 1, 2018 to December 31, 2018Date designation approved December 20, 2017**Allowable Housing Expenses** (*expenses paid from current income*)

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

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

Form **W-2** Wage and Tax Statement **2018** Department of the Treasury—Internal Revenue Service
Copy A For Social Security Administration — Send this entire page with Form W-3 to the Social Security Administration; photocopies are **not** acceptable. For Privacy Act and Paperwork Reduction Act Notice, see the separate instructions. Cat. No. 10134D
Do Not Cut, Fold, or Staple Forms on This Page

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

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

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

Sample Return No. 2

- | | |
|--|--|
| <ul style="list-style-type: none"> ■ Nonaccountable expense reimbursements ■ Minister occupies a church-provided parsonage | <ul style="list-style-type: none"> ■ Qualifies for the Earned Income Credit ■ 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

Note: Estimated \$24,500 in income for health insurance exchange subsidy at the beginning of year/Form 1095-A reports \$12,153 on lines 33A and 33B, and \$11,653 on line 33C

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)	7,860 miles
Personal nondeductible commuting	2,432 miles

Seminar expenses:

Airfare	\$675
Lodging	334
Subscriptions	200
Books (less than one-year life)	100
Supplies	803
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 2,297 miles x 54.5¢ per mile	1,252
Lodging	400
Supplies	700

Potential itemized deductions:

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

Housing data:

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

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

Voluntary employee contributions made under a salary reduction agreement	500
--	-----

Form 1040 Department of the Treasury—Internal Revenue Service (99) **2018** U.S. Individual Income Tax Return OMB No. 1545-0074 IRS Use Only—Do not write or staple in this space.

Filing status: Single Married filing jointly Married filing separately Head of household Qualifying widow(er)

Your first name and initial: **Donald L.** Last name: **Hall** Your social security number: **482 | 11 | 6043**

Your standard deduction: Someone can claim you as a dependent You were born before January 2, 1954 You are blind

If joint return, spouse's first name and initial: **Julie M.** Last name: **Hall** Spouse's social security number: **720 | 92 | 1327**

Spouse standard deduction: Someone can claim your spouse as a dependent Spouse was born before January 2, 1954 Full-year health care coverage or exempt (see inst.)

Spouse is blind Spouse itemizes on a separate return or you were dual-status alien

Home address (number and street). If you have a P.O. box, see instructions. **804 Linden Avenue** Apt. no. _____ Presidential Election Campaign (see inst.) You Spouse

City, town or post office, state, and ZIP code. If you have a foreign address, attach Schedule 6. **Pensacola, FL 32502** If more than four dependents, see inst. and here

Dependents (see instructions):		(2) Social security number	(3) Relationship to you	(4) <input checked="" type="checkbox"/> if qualifies for (see inst.):	
(1) First name	Last name			Child tax credit	Credit for other dependents
David K.	Hall	514 42 7465	Son	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Sarah E.	Hall	416 49 9125	Daughter	<input checked="" type="checkbox"/>	<input type="checkbox"/>
				<input type="checkbox"/>	<input type="checkbox"/>
				<input type="checkbox"/>	<input type="checkbox"/>

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: *Donald L. Hall* Date: **4/15/19** Your occupation: **Minister**

Spouse's signature, if a joint return, both must sign. *Julie M. Hall* Date: **4/15/19** Spouse's occupation: **Administrative Asst.**

If the IRS sent you an Identity Protection PIN, enter it here (see inst.): [] [] [] [] [] [] [] [] [] []

If the IRS sent you an Identity Protection PIN, enter it here (see inst.): [] [] [] [] [] [] [] [] [] []

Paid Preparer Use Only

Preparer's name: _____ Preparer's signature: _____ PTIN: _____ Firm's EIN: _____ Check if: 3rd Party Designee Self-employed

Firm's name: _____ Phone no.: _____

Firm's address: _____

For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see separate instructions. Cat. No. 11320B Form 1040 (2018)

Form 1040 (2018) Page **2**

1 Wages, salaries, tips, etc. Attach Form(s) W-2 Excess Housing Allowance \$1,000	1	27,150
2a Tax-exempt interest	2a	
3a Qualified dividends	3a	
4a IRAs, pensions, and annuities	4a	
5a Social security benefits	5a	
6 Total income. Add lines 1 through 5. Add any amount from Schedule 1, line 22 2,520	6	30,420
7 Adjusted gross income. If you have no adjustments to income, enter the amount from line 6; otherwise, subtract Schedule 1, line 36, from line 6	7	29,017
8 Standard deduction or itemized deductions (from Schedule A)	8	24,000
9 Qualified business income deduction (see instructions)	9	504
10 Taxable income. Subtract lines 8 and 9 from line 7. If zero or less, enter -0-	10	4,513
11 a Tax (see inst.) 453 (check if any from: 1 <input type="checkbox"/> Form(s) 8814 2 <input type="checkbox"/> Form 4972 3 <input type="checkbox"/>)	11	536
b Add any amount from Schedule 2 and check here <input checked="" type="checkbox"/>	11	536
12 a Child tax credit/credit for other dependents 286 b Add any amount from Schedule 3 and check here <input checked="" type="checkbox"/>	12	536
13 Subtract line 12 from line 11. If zero or less, enter -0-	13	0
14 Other taxes. Attach Schedule 4	14	2,806
15 Total tax. Add lines 13 and 14	15	2,806
16 Federal income tax withheld from Forms W-2 and 1099	16	250
17 Refundable credits: a EIC (see inst.) 4,142 b Sch 8812 2,574 c Form 8863	17	6,716
Add any amount from Schedule 5 Clergy	17	6,716
18 Add lines 16 and 17. These are your total payments	18	6,966
19 If line 18 is more than line 15, subtract line 15 from line 18. This is the amount you overpaid	19	4,160
20a Amount of line 19 you want refunded to you. If Form 8888 is attached, check here <input type="checkbox"/>	20a	4,160
20b Routing number _____ c Type: <input type="checkbox"/> Checking <input type="checkbox"/> Savings	20b	
20c Account number _____	20c	
21 Amount of line 19 you want applied to your 2019 estimated tax	21	
22 Amount you owe. Subtract line 18 from line 15. For details on how to pay, see instructions	22	
23 Estimated tax penalty (see instructions)	23	

Go to www.irs.gov/Form1040 for instructions and the latest information. Form 1040 (2018)

Line 7 – Julie’s W-2, \$9,150, Donald’s W-2, \$12,800 (see page 70), plus \$1,000 of excess housing allowance (see page 69).

<p>SCHEDULE 1 (Form 1040)</p> <p>Department of the Treasury Internal Revenue Service</p>	<p>Additional Income and Adjustments to Income</p> <p>► Attach to Form 1040. ► Go to www.irs.gov/Form1040 for instructions and the latest information.</p>	<p>OMB No. 1545-0074</p> <p style="font-size: 24pt; font-weight: bold;">2018</p> <p>Attachment Sequence No. 01</p>																																																																																																																
<p>Name(s) shown on Form 1040 Donald L. Hall</p>		<p>Your social security number 482 11 6043</p>																																																																																																																
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<p>SCHEDULE 2 (Form 1040)</p> <p>Department of the Treasury Internal Revenue Service</p>	<p>Tax</p> <p>► Attach to Form 1040. ► Go to www.irs.gov/Form1040 for instructions and the latest information.</p>	<p>OMB No. 1545-0074</p> <p style="font-size: 24pt; font-weight: bold;">2018</p> <p>Attachment Sequence No. 02</p>																																
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		<p>Schedule 2 (Form 1040) 2018</p>																																

SCHEDULE 3 (Form 1040) Department of the Treasury Internal Revenue Service	Nonrefundable Credits ▶ Attach to Form 1040. ▶ Go to www.irs.gov/Form1040 for instructions and the latest information.	OMB No. 1545-0074 2018 Attachment Sequence No. 03
Name(s) shown on Form 1040 Donald L. Hall		Your social security number 482 11 6043
Nonrefundable Credits	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 Reserved 53 Residential energy credit. Attach Form 5695 54 Other credits from Form a <input type="checkbox"/> 3800 b <input type="checkbox"/> 8801 c <input type="checkbox"/> _____ 55 Add the amounts in the far right column. Enter here and include on Form 1040, line 12	48 49 50 51 250 52 53 54 55 250
For Paperwork Reduction Act Notice, see your tax return instructions. Cat. No. 71480G Schedule 3 (Form 1040) 2018		

SCHEDULE 4 (Form 1040) Department of the Treasury Internal Revenue Service	Other Taxes ▶ Attach to Form 1040. ▶ Go to www.irs.gov/Form1040 for instructions and the latest information.	OMB No. 1545-0074 2018 Attachment Sequence No. 04
Name(s) shown on Form 1040 Donald L. Hall		Your social security number 482 11 6043
Other Taxes	57 Self-employment tax. Attach Schedule SE 58 Unreported social security and Medicare tax from: Form a <input type="checkbox"/> 4137 b <input type="checkbox"/> 8919 59 Additional tax on IRAs, other qualified retirement plans, and other tax-favored accounts. Attach Form 5329 if required 60a Household employment taxes. Attach Schedule H b Repayment of first-time homebuyer credit from Form 5405. Attach Form 5405 if required 61 Health care: individual responsibility (see instructions) 62 Taxes from: a <input type="checkbox"/> Form 8959 b <input type="checkbox"/> Form 8960 c <input type="checkbox"/> Instructions; enter code(s) _____ 63 Section 965 net tax liability installment from Form 965-A 63 64 Add the amounts in the far right column. These are your total other taxes . Enter here and on Form 1040, line 14	57 2,806 58 59 60a 60b 61 62 63 64 2,806
For Paperwork Reduction Act Notice, see your tax return instructions. Cat. No. 71481R Schedule 4 (Form 1040) 2018		

Computation of expenses related to honoraria/page 59

	<u>Deductible</u>	<u>Nondeductible</u>
Airfare	\$2,042 x 61% = 1,246	796
Auto	2,297 x .545 x 61% = 763	489
Lodging	400 x 61% = 244	156
Supplies	<u>700</u> x 61% = <u>427</u>	<u>273</u>
	4,394 x 61% = 2,680	1,714

**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.
► Attach to Form 1040, 1040NR, or 1041. ► See instructions on page 2.

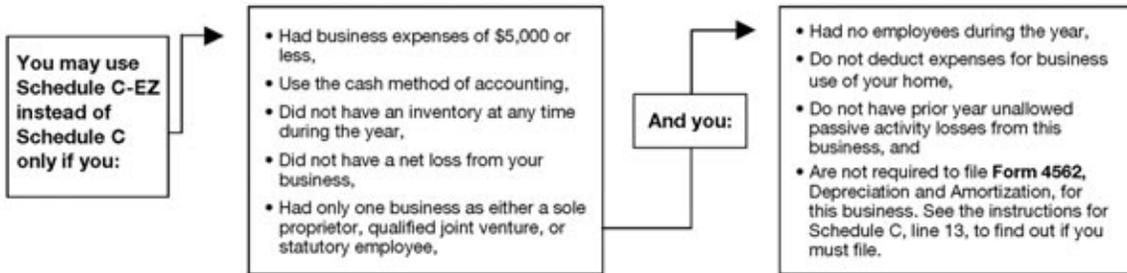
OMB No. 1545-0074

2018
Attachment
Sequence No. **09A**

Name of proprietor
Donald L. Hall

Social security number (SSN)
482-11-6043

Part I General Information



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 2018 that would require you to file Form(s) 1099? (see the instructions for Schedule C) Yes No

G If "Yes," did you or will you file required Forms 1099? Yes No

Part II Figure Your Net Profit

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

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

4 When did you place your vehicle in service for business purposes? (month, day, year) ► 1/1/11

5 Of the total number of miles you drove your vehicle during 2018, enter the number of miles you used your vehicle for:

a Business 7,860 **b** Commuting (see page 2) 2,432 **c** Other 2,297 Sch. C related

6 Was your vehicle available for personal use during off-duty hours? Yes No

7 Do you (or your spouse) have another vehicle available for personal use? Yes No

8a Do you have evidence to support your deduction? Yes No

b If "Yes," is the evidence written? Yes No

(1) Expenses have been reduced by 39% as allocable to tax-free income (see page 68 for percentage). Most ministers are employees for income tax purposes (with that income reported on line 1, Form 1040, page 2) 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 58.

**SCHEDULE SE
(Form 1040)**

Department of the Treasury
Internal Revenue Service (99)

Self-Employment Tax

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

► Attach to Form 1040 or Form 1040NR.

OMB No. 1545-0074

2018

Attachment
Sequence No. **17**

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

Donald L. Hall

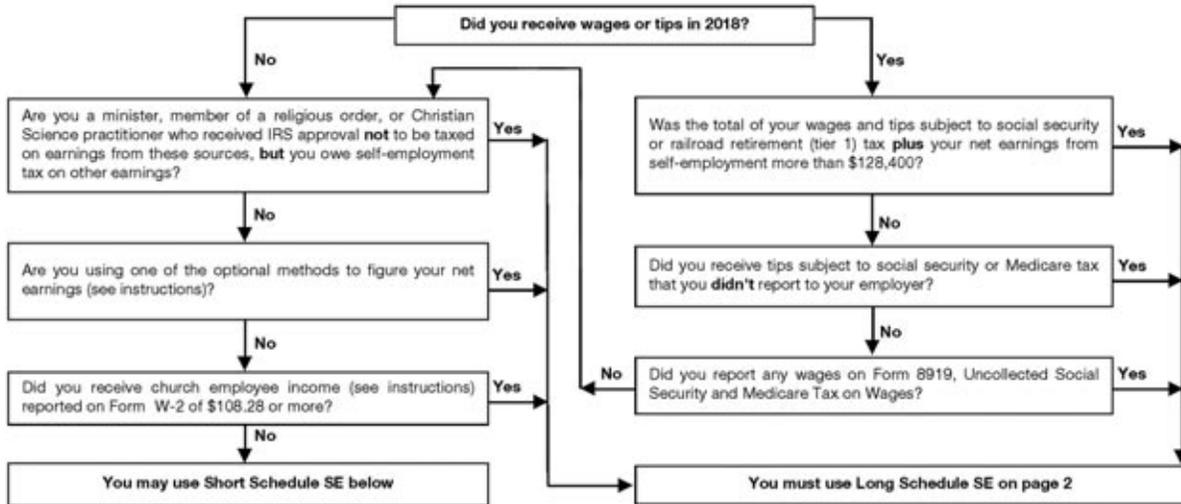
Social security number of person with self-employment income ►

482-11-6043

Before you begin: To determine if you must file Schedule SE, see the instructions.

May I Use Short Schedule SE or Must I Use Long Schedule SE?

Note: Use this flowchart **only** if you must file Schedule SE. If unsure, see *Who Must File Schedule SE* in the instructions.



Section A—Short Schedule SE. Caution: Read above to see if you can use Short Schedule SE.

1a Net farm profit or (loss) from Schedule F, line 34, and farm partnerships, Schedule K-1 (Form 1065), box 14, code A	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 AH	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% (0.9235). If less than \$400, you don't owe self-employment tax; don't file this schedule unless you have an amount on line 1b. ►	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: • \$128,400 or less, multiply line 4 by 15.3% (0.153). Enter the result here and on Schedule 4 (Form 1040), line 57, or Form 1040NR, line 55 • More than \$128,400, multiply line 4 by 2.9% (0.029). Then, add \$15,921.60 to the result. Enter the total here and on Schedule 4 (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% (0.50). Enter the result here and on Schedule 1 (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) 2018

Line 2 – See the schedule on page 68 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 \$128,400.

SCHEDULE EIC
(Form 1040)

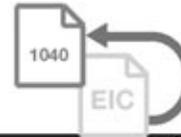
Department of the Treasury
Internal Revenue Service (99)

Name(s) shown on return

Donald L. Hall

Earned Income Credit
Qualifying Child Information

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



OMB No. 1545-0074

2018

Attachment
Sequence No. **43**

Your social security number
482-11-6043

Before you begin:

- See the instructions for Form 1040, line 17a, to make sure that (a) you can take the EIC, and (b) you have a qualifying child.
- Be sure the child's name on line 1 and social security number (SSN) on line 2 agree with the child's social security card. Otherwise, at the time we process your return, we may reduce or disallow your EIC. If the name or SSN on the child's social security card is not correct, call the Social Security Administration at 1-800-772-1213.



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

Qualifying Child Information

	Child 1		Child 2		Child 3	
1 Child's name If you have more than three qualifying children, you have to list only three to get the maximum credit.	First name David K.	Last name Hall	First name Sarah E.	Last name Hall	First name	Last name
2 Child's SSN The child must have an SSN as defined in the instructions for Form 1040, line 17a, unless the child was born and died in 2018. If your child was born and died in 2018 and did not have an SSN, enter "Died" on this line and attach a copy of the child's birth certificate, death certificate, or hospital medical records showing a live birth.	514-42-7465		416-49-9125			
3 Child's year of birth	Year <u>2</u> <u>0</u> <u>0</u> <u>4</u> <small>If born after 1999 and the child is younger than you (or your spouse, if filing jointly), skip lines 4a and 4b; go to line 5.</small>		Year <u>2</u> <u>0</u> <u>0</u> <u>8</u> <small>If born after 1999 and the child is younger than you (or your spouse, if filing jointly), skip lines 4a and 4b; go to line 5.</small>		Year _____ <small>If born after 1999 and the child is younger than you (or your spouse, if filing jointly), skip lines 4a and 4b; go to line 5.</small>	
4 a Was the child under age 24 at the end of 2018, a student, and younger than you (or your spouse, if filing jointly)?	<input checked="" type="checkbox"/> Yes.	<input type="checkbox"/> No. <small>Go to line 5.</small>	<input checked="" type="checkbox"/> Yes.	<input type="checkbox"/> No. <small>Go to line 5.</small>	<input type="checkbox"/> Yes.	<input type="checkbox"/> No. <small>Go to line 5.</small>
b Was the child permanently and totally disabled during any part of 2018?	<input type="checkbox"/> Yes. <small>Go to line 5.</small>	<input type="checkbox"/> No. The child is not a qualifying child.	<input type="checkbox"/> Yes. <small>Go to line 5.</small>	<input type="checkbox"/> No. The child is not a qualifying child.	<input type="checkbox"/> Yes. <small>Go to line 5.</small>	<input type="checkbox"/> No. The child is not a qualifying child.
5 Child's relationship to you (for example, son, daughter, grandchild, niece, nephew, eligible foster child, etc.)	Son		Daughter			
6 Number of months child lived with you in the United States during 2018 • If the child lived with you for more than half of 2018 but less than 7 months, enter "7." • If the child was born or died in 2018 and your home was the child's home for more than half the time he or she was alive during 2018, enter "12."	<u>12</u> months <small>Do not enter more than 12 months.</small>		<u>12</u> months <small>Do not enter more than 12 months.</small>		_____ months <small>Do not enter more than 12 months.</small>	

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

Cat. No. 13339M

Schedule EIC (Form 1040) 2018

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.

Worksheet **B** – 2018 EIC – Line 17a – 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	4,142
---	-------

If line 7 is zero, You can't take the credit. Enter "No" in the space to the left of Form 1040, line 17.

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

8	29,017
---	--------

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 \$8,500 (\$14,200 if married filing jointly)?
 • 1 or more qualifying children, is the amount on line 8 less than \$18,700 (\$24,350 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	4,731
----	-------

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	4,142
----	-------

Reminder—

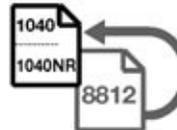
✓ If you have a qualifying child, complete and attach Schedule EIC.



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 2018.

SCHEDULE 8812
(Form 1040)

Additional Child Tax Credit



OMB No. 1545-0074

2018

Attachment
Sequence No. **47**

Department of the Treasury
Internal Revenue Service (99)

▶ **Attach to Form 1040 or Form 1040NR.**
▶ **Go to www.irs.gov/Schedule8812 for instructions and the latest information.**

Name(s) shown on return

Donald L. and Julie M. Hall

Your social security number
482-11-6043

Part I All Filers

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

1 If you are required to use the worksheet in Pub. 972, enter the amount from line 10 of the Child Tax Credit and Credit for Other Dependents Worksheet in the publication. Otherwise: 1040 filers: Enter the amount from line 8 of your Child Tax Credit and Credit for Other Dependents Worksheet (see the instructions for Form 1040, line 12a). 1040NR filers: Enter the amount from line 8 of your Child Tax Credit and Credit for Other Dependents Worksheet (see the instructions for Form 1040NR, line 49).		1	4,000
2 Enter the amount from Form 1040, line 12a, or Form 1040NR, line 49		2	286
3 Subtract line 2 from line 1. If zero, stop here; you cannot claim this credit		3	3,714
4 Number of qualifying children under 17 with the required social security number: <u>2</u> X \$1,400. Enter the result. If zero, stop here; you cannot claim this credit TIP: The number of children you use for this line is the same as the number of children you used for line 1 of the Child Tax Credit and Credit for Other Dependents Worksheet.		4	2,800
5 Enter the smaller of line 3 or line 4		5	2,800
6a	Earned income (see separate instructions) <u>31,807 - 11,150 - 1,000</u>	6a	19,657
b	Nontaxable combat pay (see separate instructions)	6b	
7 Is the amount on line 6a more than \$2,500? <input type="checkbox"/> No. Leave line 7 blank and enter -0- on line 8. <input checked="" type="checkbox"/> Yes. Subtract \$2,500 from the amount on line 6a. Enter the result		7	17,157
8 Multiply the amount on line 7 by 15% (0.15) and enter the result Next. On line 4, is the amount \$4,200 or more? <input checked="" type="checkbox"/> No. If line 8 is zero, stop here; you cannot claim this credit. Otherwise, skip Part II and enter the smaller of line 5 or line 8 on line 15. <input type="checkbox"/> Yes. If line 8 is equal to or more than line 5, skip Part II and enter the amount from line 5 on line 15. Otherwise, go to line 9.		8	2,574

Part II Certain Filers Who Have Three or More Qualifying Children

9 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		9	
10 1040 filers: Enter the total of the amounts from Schedule 1 (Form 1040), line 27, and Schedule 4 (Form 1040), line 58, plus any taxes that you identified using code "UT" and entered on Schedule 4 (Form 1040), line 62. 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.		10	
11 Add lines 9 and 10		11	
12 1040 filers: Enter the total of the amounts from Form 1040, line 17a, and Schedule 5 (Form 1040), line 72. 1040NR filers: Enter the amount from Form 1040NR, line 67.		12	
13 Subtract line 12 from line 11. If zero or less, enter -0-		13	
14 Enter the larger of line 8 or line 13 Next, enter the smaller of line 5 or line 14 on line 15.		14	

Part III Additional Child Tax Credit

15 This is your additional child tax credit	15	2,574
---	----	-------

Enter this amount on Form 1040, line 17b, or Form 1040NR, line 64.

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

Cat. No. 59761M

Schedule 8812 (Form 1040) 2018

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

2018 Child Tax Credit and Credit for Other Dependents Worksheet—Continued

Keep for Your Records 

Before you begin Part 2: ✓ Figure the amount of any credits you are claiming on Schedule 3; Form 5695, Part II*; Form 8910; Form 8936; or Schedule R.

Part 2

9. Enter the amount from Form 1040, line 11. 9 536

10. Add any amounts from:
- Schedule 3, line 48 _____
 - Schedule 3, line 49 + _____
 - Schedule 3, line 50 + _____
 - Schedule 3, line 51 + 250
 - Form 5695, line 30* + _____
 - Form 8910, line 15 + _____
 - Form 8936, line 23 + _____
 - Schedule R, line 22 + _____

Enter the total. 10 250

11. Are the amounts on lines 9 and 10 the same?

Yes. 

You can't take this credit because there is no tax to reduce. However, you may be able to take the **additional child tax credit** if line 1 is more than zero. See the **TIP** below.

No. Subtract line 10 from line 9.

11 286

12. Is the amount on line 8 more than the amount on line 11?

Yes. Enter the amount from line 11. Also, you may be able to take the **additional child tax credit** if line 1 is more than zero. See the **TIP** below.

This is your child tax credit and credit for other dependents.

No. Enter the amount from line 8.

12 286

Enter this amount on Form 1040, line 12a.



You may be able to take the **additional child tax credit** on Form 1040, line 17b, if you answered "Yes" on line 11 or line 12 above.

- First, complete your Form 1040 through line 17a (also complete Schedule 5, line 72).
- Then, use Schedule 8812 to figure any additional child tax credit.



If your child tax credit or additional child tax credit for a year after 2015 was reduced or disallowed, see Form 8862, who must file to find out if you must file Form 8862 to take the credit for 2018.

*If applicable.

Form **8880**

Credit for Qualified Retirement Savings Contributions

OMB No. 1545-0074

Department of the Treasury
Internal Revenue Service

▶ Attach to Form 1040 or Form 1040NR.

2018

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

Attachment
Sequence No. **54**

Name(s) shown on return

Donald L. Hall

Your social security number

482-11-6043



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

- The amount on Form 1040, line 7 or Form 1040NR, line 36 is more than \$31,500 (\$47,250 if head of household; \$63,000 if married filing jointly).
- The person(s) who made the qualified contribution or elective deferral **(a)** was born after January 1, 2001; **(b)** is claimed as a dependent on someone else's 2018 tax return; or **(c)** was a **student** (see instructions).

	(a) You	(b) Your spouse
1 Traditional and Roth IRA contributions, and ABLE account contributions by the designated beneficiary for 2018. Do not include rollover contributions		
2 Elective deferrals to a 401(k) or other qualified employer plan, voluntary employee contributions, and 501(c)(18)(D) plan contributions for 2018 (see instructions)	500	
3 Add lines 1 and 2	500	
4 Certain distributions received after 2015 and before the due date (including extensions) of your 2018 tax return (see instructions). If married filing jointly, include both spouses' amounts in both columns. See instructions for an exception		
5 Subtract line 4 from line 3. If zero or less, enter -0-	500	
6 In each column, enter the smaller of line 5 or \$2,000	500	
7 Add the amounts on line 6. If zero, stop ; you can't take this credit		500
8 Enter the amount from Form 1040, line 7* or Form 1040NR, line 36	29,017	
9 Enter the applicable decimal amount shown below.		

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—				
---	\$19,000	0.5	0.5	0.5
\$19,000	\$20,500	0.5	0.5	0.2
\$20,500	\$28,500	0.5	0.5	0.1
\$28,500	\$30,750	0.5	0.2	0.1
\$30,750	\$31,500	0.5	0.1	0.1
\$31,500	\$38,000	0.5	0.1	0.0
\$38,000	\$41,000	0.2	0.1	0.0
\$41,000	\$47,250	0.1	0.1	0.0
\$47,250	\$63,000	0.1	0.0	0.0
\$63,000	---	0.0	0.0	0.0

Note: If line 9 is zero, **stop**; you can't 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	536
12 Credit for qualified retirement savings contributions. Enter the smaller of line 10 or line 11 here and on Schedule 3 (Form 1040), line 51; or Form 1040NR, line 48	12	250

* See Pub. 590-A for the amount to enter if you claim any exclusion or deduction for foreign earned income, foreign housing, or income from Puerto Rico or for bona fide residents of American Samoa.

Form **8962**

Premium Tax Credit (PTC)

OMB No. 1545-0074

Department of the Treasury
Internal Revenue Service

▶ Attach to Form 1040 or Form 1040NR.

2018
Attachment
Sequence No. **73**

▶ Go to www.irs.gov/Form8962 for instructions and the latest information.

Name shown on your return

Donald L. Hall

Your social security number

482-11-6043

You cannot take the PTC if your filing status is married filing separately unless you qualify for an exception (see instructions). If you qualify, check the box

Part I Annual and Monthly Contribution Amount

1	Tax family size. Enter your tax family size (see instructions)	1	4
2a	Modified AGI. Enter your modified AGI (see instructions)	2a	29,017
b	Enter the total of your dependents' modified AGI (see instructions)	2b	0
3	Household income. Add the amounts on lines 2a and 2b (see instructions)	3	29,017
4	Federal poverty line. Enter the federal poverty line amount from Table 1-1, 1-2, or 1-3 (see instructions). Check the appropriate box for the federal poverty table used. a <input type="checkbox"/> Alaska b <input type="checkbox"/> Hawaii c <input checked="" type="checkbox"/> Other 48 states and DC	4	24,600
5	Household income as a percentage of federal poverty line (see instructions)	5	117 %
6	Did you enter 401% on line 5? (See instructions if you entered less than 100%) <input checked="" type="checkbox"/> No. Continue to line 7. <input type="checkbox"/> Yes. You are not eligible to take the PTC. If advance payment of the PTC was made, see the instructions for how to report your excess advance PTC repayment amount.		
7	Applicable Figure. Using your line 5 percentage, locate your "applicable figure" on the table in the instructions	7	0.0201
8a	Annual contribution amount. Multiply line 3 by line 7. Round to nearest whole dollar amount	8a	583
b	Monthly contribution amount. Divide line 8a by 12. Round to nearest whole dollar amount	8b	49

Part II Premium Tax Credit Claim and Reconciliation of Advance Payment of Premium Tax Credit

- 9** Are you allocating policy amounts with another taxpayer or do you want to use the alternative calculation for year of marriage (see instructions)?
 Yes. Skip to Part IV, Allocation of Policy Amounts, or Part V, Alternative Calculation for Year of Marriage. **No.** Continue to line 10.
- 10** See the instructions to determine if you can use line 11 or must complete lines 12 through 23.
 Yes. Continue to line 11. Compute your annual PTC. Then 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) Annual enrollment premiums (Form(s) 1095-A, line 33A)	(b) Annual applicable SLCSP premium (Form(s) 1095-A, line 33B)	(c) Annual contribution amount (line 8a)	(d) Annual maximum premium assistance (subtract (c) from (b), if zero or less, enter -0-)	(e) Annual premium tax credit allowed (smaller of (a) or (d))	(f) Annual advance payment of PTC (Form(s) 1095-A, line 33C)	
11 Annual Totals	12,153	12,153	583	11,570	11,570	11,653	
Monthly Calculation	(a) Monthly enrollment premiums (Form(s) 1095-A, lines 21-32, column A)	(b) Monthly applicable SLCSP premium (Form(s) 1095-A, lines 21-32, column B)	(c) Monthly contribution amount (amount from line 8b or alternative marriage monthly calculation)	(d) Monthly maximum premium assistance (subtract (c) from (b), if zero or less, enter -0-)	(e) Monthly premium tax credit allowed (smaller of (a) or (d))	(f) Monthly advance payment of PTC (Form(s) 1095-A, lines 21-32, column C)	
12 January							
13 February							
14 March							
15 April							
16 May							
17 June							
18 July							
19 August							
20 September							
21 October							
22 November							
23 December							
24	Total premium tax credit. Enter the amount from line 11(e) or add lines 12(e) through 23(e) and enter the total here					24	11,570
25	Advance payment of PTC. Enter the amount from line 11(f) or add lines 12(f) through 23(f) and enter the total here					25	11,653
26	Net premium tax credit. If line 24 is greater than line 25, subtract line 25 from line 24. Enter the difference here and on Schedule 5 (Form 1040), line 70, or Form 1040NR, line 65. If line 24 equals line 25, enter -0-. Stop here. If line 25 is greater than line 24, leave this line blank and continue to line 27					26	

Part III Repayment of Excess Advance Payment of the Premium Tax Credit

27	Excess advance payment of PTC. If line 25 is greater than line 24, subtract line 24 from line 25. Enter the difference here	27	83
28	Repayment limitation (see instructions)	28	600
29	Excess advance premium tax credit repayment. Enter the smaller of line 27 or line 28 here and on Schedule 2 (Form 1040), line 46, or Form 1040NR, line 44	29	83

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

Cat. No. 37784Z

Form **8962** (2018)

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

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

Unreimbursed Employee Business Expenses

Business mileage:	
7,860 x 54.5¢ per mile	\$ 4,284
Travel expense:	
Airfare	675
Lodging	334
Business expenses:	
Books and supplies	903
Subscriptions	200
Continuing education tuition	<u>500</u>
	<u>\$ 6,896</u>

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

Salary paid by church as reflected on Form W-2, Box 1	\$ 12,800
Net profit or loss as reflected on Schedule C or C-EZ (includes speaking honoraria, offerings you receive for weddings, baptisms, funerals, and other fees)	2,520
Housing allowance excluded from salary on Form W-2	2,000
Fair rental value of church-provided housing (including paid utilities)	<u>11,150</u>
	<u>28,470</u>
Less:	
Unreimbursed ministerial business and professional expenses or reimbursed expenses paid under a nonaccountable plan (\$6,896 See above and \$1,714 computation/p.58)	<u>8,610</u>
Net earnings from self-employment (to Schedule SE) (See page 60)	<u>\$ 19,860</u>

Housing Allowance Worksheet

Minister Living in Housing Owned or Rented by the Church

Name: Donald L. Hall

For the period January 1, 2018 to December 31, 2018

Date designation approved December 20, 2017

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

	<u>Estimated Expenses</u>	<u>Actual</u>
Utilities <i>(gas, electricity, water)</i> and trash collection	\$ _____	\$ _____
Local telephone expense <i>(base charge)</i>	_____ 250	_____ 275
Decoration and redecoration	_____	_____
Structural maintenance and repair	_____	_____
Landscaping, gardening, and pest control	_____	_____
Furnishings <i>(purchase, repair, replacement)</i>	_____ 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	\$ <u>_____ 2,000</u>	\$ <u>_____ 1,000</u> (A)
Properly designated housing allowance		\$ <u>_____ 2,000</u> (B)

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

Because actual housing expenses are less than the designated allowance, the housing exclusion is limited to \$1,000. The \$1,000 difference between the designation and the exclusion is reported as excess housing allowance on Form 1040, page 2, line 1 (see page 56).

22222		Void <input type="checkbox"/>	Employee's social security number 482-11-6043		For Official Use Only ▶ OMB No. 1545-0008	
b Employer identification number (EIN) 25-7921873			1 Wages, tips, other compensation 12800.00		2 Federal income tax withheld	
c Employer's name, address, and ZIP code Lancaster Community Church 1425 Spencer Avenue Wabash, IN 46992			3 Social security wages		4 Social security tax withheld	
			5 Medicare wages and tips		6 Medicare tax withheld	
			7 Social security tips		8 Allocated tips	
d Control number			9 Verification code		10 Dependent care benefits	
e Employee's first name and initial Donald L.		Last name Hall	Suff.	11 Nonqualified plans		12a See instructions for box 12
f Employee's address and ZIP code 804 Linden Avenue Pensacola, FL 32502			13 Statutory employee <input type="checkbox"/>	Retirement plan <input checked="" type="checkbox"/>	Third-party sick pay <input type="checkbox"/>	12b E 500
			14 Other Parsonage Allowance 11150 Housing Allowance 2000			12c
15 State Employer's state ID number FL		16 State wages, tips, etc. 12800.00	17 State income tax	18 Local wages, tips, etc.	19 Local income tax	20 Locality name

Form **W-2** Wage and Tax Statement **2018** Department of the Treasury—Internal Revenue Service
 Copy A For Social Security Administration — Send this entire page with Form W-3 to the Social Security Administration; photocopies are not acceptable. For Privacy Act and Paperwork Reduction Act Notice, see the separate instructions. Cat. No. 10134D
Do Not Cut, Fold, or Staple Forms on This Page

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

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

<i>Projected 2019 Filing Dates</i>

January

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

February

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

April

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

June

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

September

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

October

- 15 Personal tax returns due (if automatic extension)

Citations

The Tax System for Ministers

- 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 church
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)

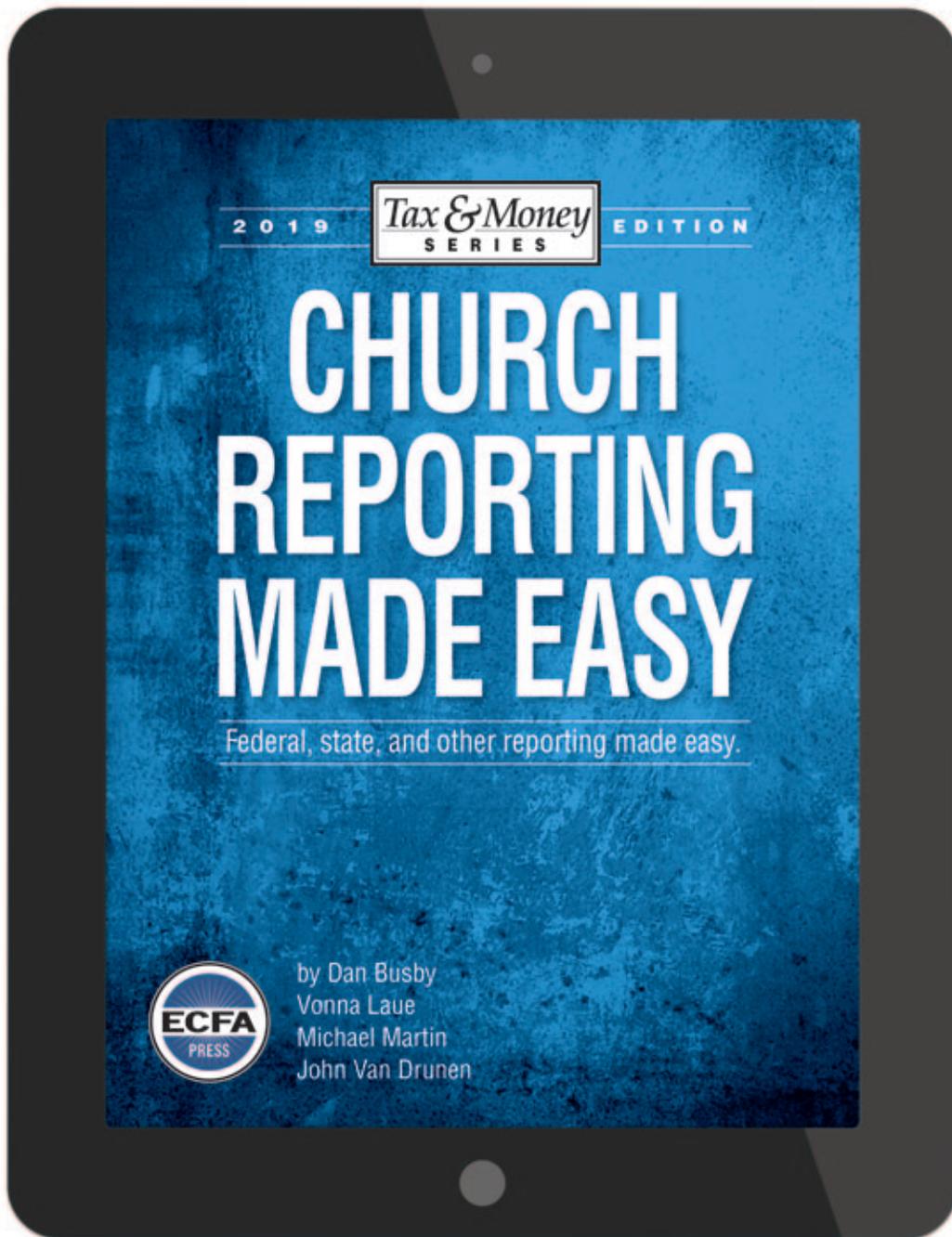
Code Sec. 3121(b)(8)(A)

Code Sec. 3401(a)(9)

Rev. Rul. 80-110

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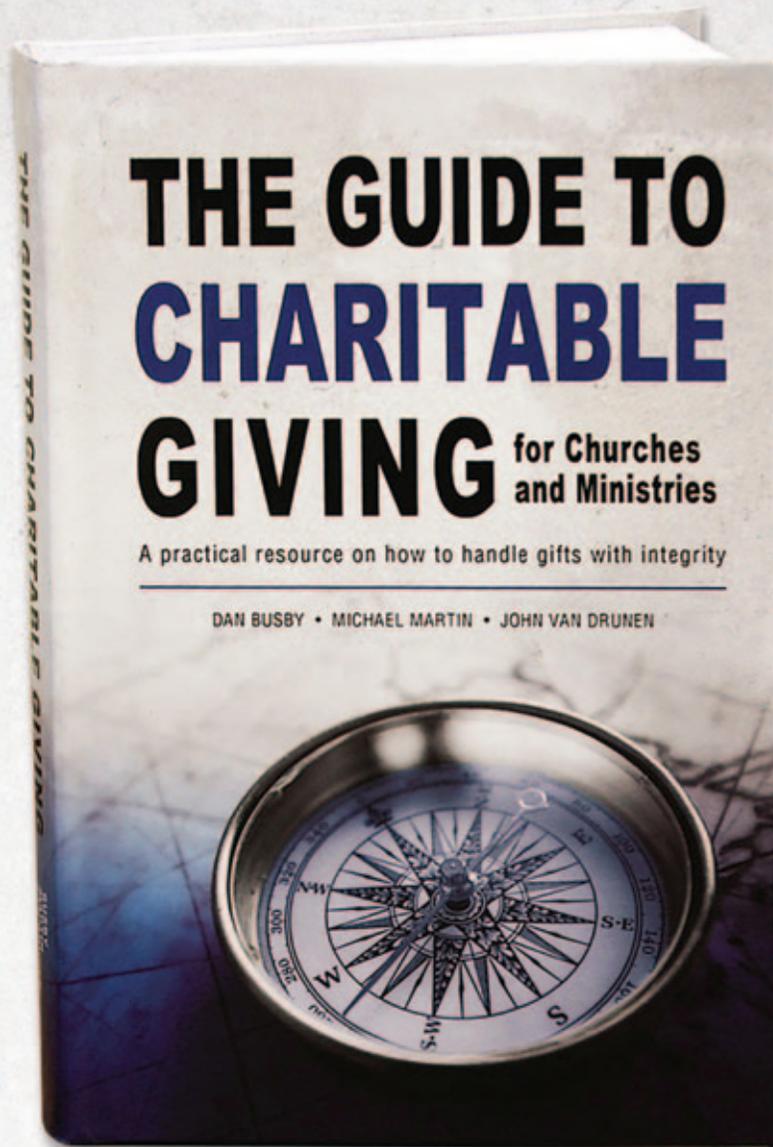
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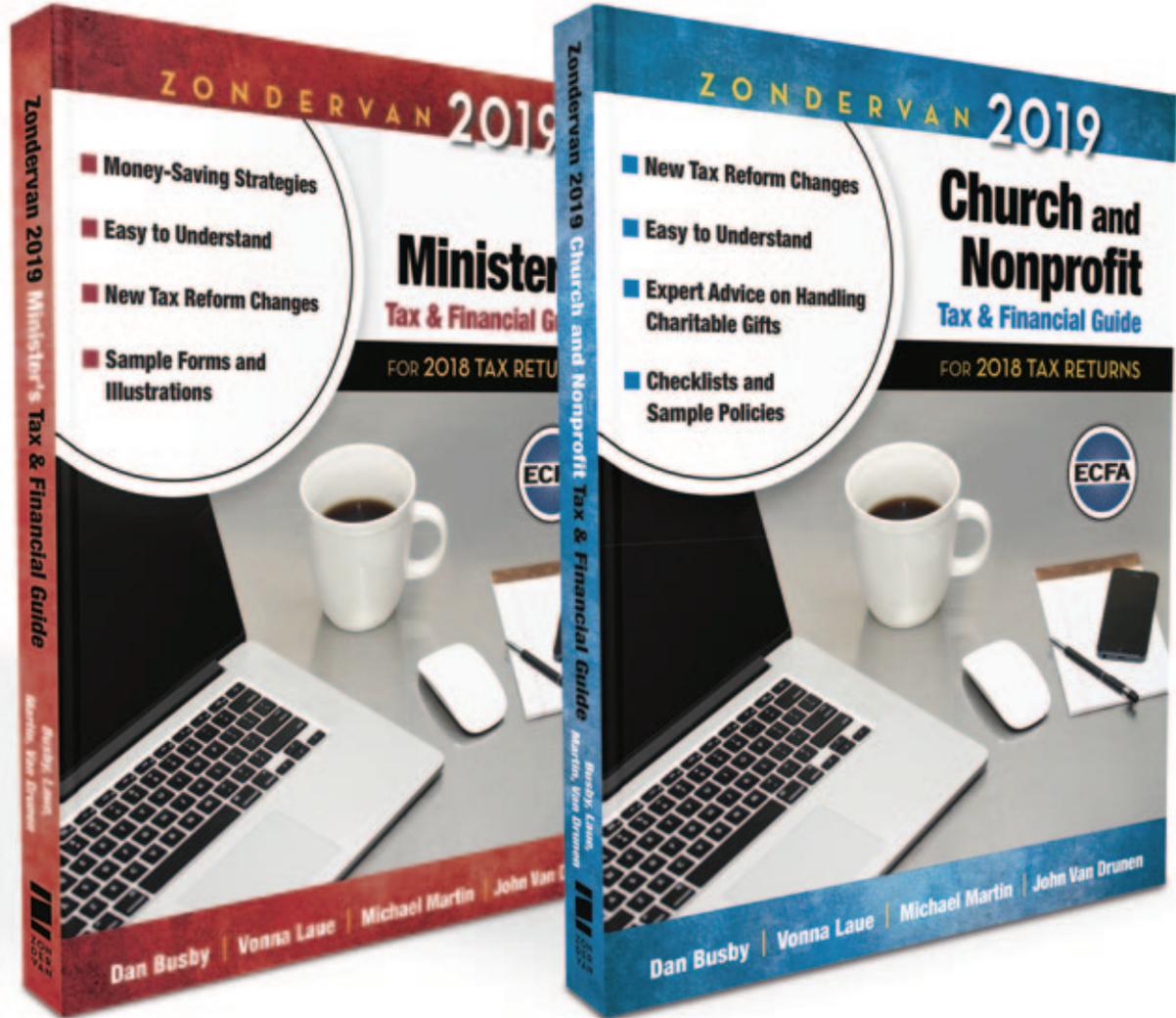
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