Why Are Ministers' Tax Returns Complicated?

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Congress has made certain provisions in the Internal Revenue Code for ministers that are designed to lower their total tax liability. Properly applying these rules can be quite complex. Below is a limited summary of items that each minister may want to consider.

1. The housing allowance given to a minister can be excluded from gross income.
2. Even though the housing allowance for a minister is excluded from gross income, a minister is required to pay self-employment tax on both the housing allowance and his other ministerial income. This generally creates a "dual" status for ministers. A minister for tax purposes can be treated as both an employee and as a self-employed person.
3. The IRS has made a decision that a minister's employee business expenses be treated differently than an ordinary employee's business expenses. The minister's business expenses must be reduced by a ratio between non-taxable income and total income.
4. While a minister's employee business expenses must be reduced which increases gross income, those same expenses need not be reduced when calculating a minister's self-employment income.
5. When a minister owns his own home, in addition to reducing his gross income by his housing allowance, he may also take both the interest and taxes that are related to his home as an itemized deduction.
6. If you have an approved Form 4361 exempting you from the self-employment tax, wages paid to a minister and reported on a W2 qualify as earned income, whereas income reported by a minister from a 1099 form does not qualify as earned income.
7. A minister has a very limited time to apply for exemption from self-employment tax.
8. A minister, like any other employee, may have many benefits set up for him by his employer. This may include things such as retirement, medical, auto, education, etc. which if properly done will substantially lower his risk of being audited by the IRS.