

## 2020 Clergy Tax Return Preparation Guide



For 2019 Returns

## ***A Supplement to the 2020 Clergy Tax Return Preparation Guide for 2019 Returns***

The SECURE (Setting Every Community Up for Retirement Enhancement) Act of 2019 is now law. Most provisions in the law became effective January 1, 2020. Listed below are some of the most important changes that could have a significant impact on you.

- The Required Minimum Distribution (RMD) age has increased from age 70½ to 72. This change applies to anyone who will attain age 70½ on or after January 1, 2020. This means that anyone who attained age 70½ prior to December 31, 2019, will need to continue to take RMDs in 2020.
- Contributions to traditional IRAs after age 70½ are now allowed for anyone who is working and has earned income.
- Withdrawals of up to \$10,000 from Code Section 529 plans (tax-advantaged higher education savings accounts) to repay student loans are now permitted. The SECURE Act makes this change retroactive to distributions made after December 31, 2018.
- New parents, through birth or adoption, are eligible to withdraw \$5,000 penalty-free to offset the cost of qualified delivery or adoption expenses.
- “Stretch” provisions for beneficiaries of IRAs and defined contribution plans (such as the Code Section 403(b) arrangement known as The Episcopal Church Retirement Savings Plan (RSVP)) have been significantly modified. The SECURE Act now requires designated beneficiaries of IRAs and defined contribution plans to withdraw all amounts within 10 years after the account owner’s death. These provisions do not apply to the following “eligible designated beneficiaries”:
  - ~ the surviving spouse of the deceased account owner,
  - ~ a minor child of the deceased account owner (but only until the minor child reaches the age of majority)
  - ~ a beneficiary who is no more than 10 years younger than the deceased account owner, or
  - ~ a disabled or chronically ill beneficiary (as defined by the Internal Revenue Code)

A review of your financial and estate plans and IRA beneficiary elections, as well as a conversation with your financial professional, is strongly recommended.

For the 2019 tax year, the Church Pension Group (CPG) is providing the *2020 Clergy Tax Return Preparation Guide for 2019 Returns* (the Guide) as a reference to help clergy prepare their federal tax returns. The Guide is written by Richard R. Hammar, Senior Editor of *Church Law & Tax Report*, and is available on CPG's website at [cpg.org](http://cpg.org).

A supplement complements the Guide and appears below. The supplement is presented in a question-and-answer format, and highlights key tax issues. It provides further information on the reporting requirements cited in the Guide, and clarifies their specific application to clergy of the Episcopal Church.

Note: If you have questions about clergy federal income taxes that are not covered here, please call CPG's Tax Hotline:

Nancy Fritschner, CPA (877) 305-1414

The Rev. Canon William Geisler, CPA-Retired (877) 305-1415  
(Through April 30, 2020)

Mary Ann Hanson, CPA (877) 305-1415  
(Beginning May 1, 2020)

Dolly Rios,\* CPA (833) 363-5751

\*Fluent in English and Spanish

Please note that the service these individuals will provide is of an informational nature. It should not be viewed as tax, legal, financial, or other advice. You must contact your tax advisor for assistance in preparing your tax returns or for other tax advice.

## Eligibility



**Q1.** *For tax purposes, who is considered a minister in the Episcopal Church?*

**A1.** In the Episcopal Church, only bishops, priests, and deacons (ordained ministers, as opposed to lay ministers) meet the criteria for the IRS designation of "minister." See page 16 of the Guide for an explanation of the importance of understanding whether you qualify as a minister for tax purposes.

**Q2.** *What types of organizations qualify as Church organizations?*

**A2.** Church organizations include Episcopal parishes and missions, dioceses, schools, and institutions associated with the Episcopal Church. The approval of an Extension of Ministry under The Church Pension Fund Clergy Pension Plan does not automatically qualify a cleric for clergy tax treatment. Also, pay received for work performed for organizations not associated with the Church may not qualify as the "exercise of ministry." Work performed directly for the Church is considered "exercise of ministry," no matter the nature of the work. Generally, work for non-Church organizations does not qualify for the housing allowance, unless that work is primarily sacerdotal. Compensation paid to a cleric from non-Church organizations is usually subject to income tax and employment (FICA) tax withholding.

## Basics of Clergy Taxation



**Q3.** *What are the key federal tax provisions that apply to clergy compensation?*

**A3.** The key provisions include the following:

**Self-employment tax.** Clergy are not eligible to have FICA taxes withheld from their church compensation. In lieu of FICA taxes, clergy pay self-employment tax, also known as Self-Employment Contributions Act tax (SECA). Reimbursements from an employer of SECA are taxable as wages, and are assessable under The Church Pension Fund Clergy Pension Plan. Note, however, that even though clergy pay SECA tax, most ministers are considered employees and should receive a *Federal Form W-2* from their employer.

**Estimated taxes.** Clergy must pay quarterly estimated taxes, or request that their employer voluntarily withhold income taxes. Clergy can request that an additional amount of income tax be withheld to cover their self-employment tax. The additional amount will be reported as federal income tax.

**Housing allowance.** A cleric can have a portion of his or her salary declared as a housing allowance, and thereby exempt the eligible amount from federal income tax. Note that under Section 107 of the Internal Revenue Code, clergy pension distributions can also be declared as a housing allowance. (This provision does not apply to the cleric's surviving spouse.) For additional information, please refer to Part 3 of the Guide.

*CPF Form B* immediately follows this supplement. It explains how The Church Pension Fund (CPF) declares the full amount of all benefits paid from retirement and disability plans sponsored by CPF to retired and disabled clergy as a housing allowance, and how to apply it for tax purposes. We recommend that you place a copy of *CPF Form B* in your current tax file and provide it to your tax preparer.

**Q4.** *Should I prepare my own taxes?*

**A4.** No. Clergy tax issues are highly complex and not all tax software is capable of producing accurate results.

## How Can I...?



**Q5.** *How can I find a tax preparer?*

**A5.** Here are some tips to help you find a competent professional:

- Ask your diocesan finance officer for recommendations.
- Ask your clergy colleagues (not just Episcopal).
- Use a tax preparer who is familiar with the rules that apply to clergy.
- Ask local tax professionals whether they have worked with ministers and, if so, how many.
- Ask local tax professionals a few questions to test their familiarity with ministers' tax issues. For example, ask whether ministers are employees or self-employed for Social Security and Medicare tax purposes. Anyone familiar with ministers' taxes will know that ministers always are self-employed for Social Security and Medicare tax purposes with respect to their ministerial duties. Or, ask a tax professional if a minister's church salary is subject to required income tax withholding.
- Often, tax preparers can readily familiarize themselves with clergy tax treatment by reviewing the Guide, calling CPG's Tax Hotline (see previous page above), and/or referring to Form B.

- Q6.** *How can I determine my housing allowance under Internal Revenue Code Section 107?*
- A6.** To establish a Section 107 housing allowance, your vestry or other church governing body must adopt a housing allowance resolution at the end of each calendar year for the following year. A church cannot designate a housing allowance retroactively. Please refer to the *2020 Federal Reporting Requirements for Episcopal Churches, Schools and Institutions* (pages 8–12) for additional information.
- A cleric can consult with a realtor to obtain a written appraisal of the fair rental value of his or her furnished home. Adding utility costs to the realtor's appraisal, the cleric can recommend a housing allowance amount to the vestry. The vestry then can vote its approval of that housing allowance designation and document its action in the minutes of the meeting.
- Note that only expenses incurred for the minister's primary residence are eligible for the housing allowance exclusion. Please be sure to consult your tax preparer regarding your housing allowance.
- Q7.** *How can I ensure that my expenses at a long-term care facility are eligible for the housing allowance exclusion?*
- A7.** If you are considering moving to a long-term care facility, make sure that it will give you a breakdown each year of the portions of your payments that represent the cost of housing, medical expenses, and other items. It is necessary to have such information to take proper advantage of your housing allowance and medical expense deductions on your income tax returns. Note that the IRS has ruled that the lump-sum entrance fee paid by a retired minister to gain admission to a long-term care facility can be treated as a housing expense only in the year it is actually paid and cannot be prorated over several years.
- Q8.** *How can I set up an accountable expense reimbursement plan?*
- A8.** The Tax Cuts and Jobs Act eliminated a taxpayer's ability to deduct unreimbursed business expenses. Therefore, clergy should ensure that their employer has established an accountable expense reimbursement plan. See pages 65–66 in the Guide as well as pages 12–13 of the *2020 Federal Reporting Requirements for Episcopal Churches, Schools and Institutions* for more information.

## Special Tax-Reporting Issues



- Q9.** How should I report business expenses and/or declare a housing allowance for interim cures in out-of-town locations?
- A9.** This situation presents unique issues, especially for retirees who are receiving a pension. The differences in tax treatment depend on the length of the cure, and taxpayers are advised to consider them carefully:
- Cures of one year or less.** If the interim job is for a set duration of one year or less, the housing at the temporary location is generally treated as a business expense that can be provided by or reimbursed by the employing church tax-free to the cleric. Also, the cleric can continue to apply his or her pension income toward the housing allowance for the permanent residence's expenses. Travel expenses to and from the permanent residence and the interim job location are also treated as business expenses.

**Cures of longer than one year (or uncertain period of time).**

If the interim job is projected to last for more than a year or its term is uncertain (whether or not it turns out to be for less than a year is irrelevant), the cleric has generally been deemed to have moved the principal residence to the interim location. Therefore, the reimbursement of expenses relating to the temporary housing at the interim location is taxable for SECA/SET purposes and the cleric will not be able to claim a housing allowance as it relates to the housing expenses associated with his or her permanent residence.

**Q10.** *What should I understand about taxation of moving expenses?*

**A10.** Moving expenses can no longer be reimbursed tax-free or deducted on personal tax returns. Any payment of moving expenses or reimbursement to the cleric must be treated as taxable compensation and included as salary on *Federal Form W-2*. In addition, these amounts are assessable under The Church Pension Fund Clergy Pension Plan. Moving expenses are still eligible housing expenditures for purposes of the housing allowance.

**Q11.** *What rules apply to contributions to and withdrawals from The Episcopal Church Retirement Savings Plan (RSVP)?*

**A11.** The RSVP is a Code Section 403(b) defined contribution plan that may be funded by an individual with earnings received from services provided to the Church and/or employer contributions. Contributions by the cleric can be made only from earnings that are reported as taxable compensation (i.e., earnings that have not been applied toward the housing allowance). See page 38 of the Guide for important limitations on contributions. Before you make any withdrawals (including required minimum distributions) from the RSVP, be sure to contact Fidelity to inform them that you are a member of the clergy and are eligible to take the distribution as a clergy housing allowance. Distributions from the RSVP are eligible to be applied toward your housing allowance, if requested at the time of withdrawal.

**Q12.** *I will turn 70 this year. What should I know about taking distributions from The Episcopal Church Retirement Savings Plan (RSVP)?*

**A12.** The SECURE Act has increased the Required Minimum Distribution (RMD) age from age 70½ to 72. This change applies to anyone who will attain age 70½ on or after January 1, 2020. This means that anyone who attained age 70½ prior to December 31, 2019, will need to continue to take RMDs in 2020. In addition, The Church Pension Fund requires that all RSVP participants begin to receive their RMD by April 1 following the year in which the cleric reaches age 72, regardless of whether his or her work status is active or retired. If you are actively employed by an Episcopal employer after age 70½, you are eligible to continue to make pre-tax contributions to the RSVP from current taxable earnings through the duration of your employment.

**Q13.** *Is the Resettlement Benefit payable to eligible clergy under The Church Pension Fund Clergy Pension Plan taxable?*

**A13.** If the Resettlement Benefit is distributed to the cleric, it is a taxable benefit. However, it may be eligible for the housing allowance exclusion (see question 3). To delay paying tax on the Resettlement Benefit, you can make a tax-free rollover of the Resettlement Benefit to The Episcopal Church Retirement Savings Plan (RSVP) or another tax-deferred savings vehicle.



**Q14.** *I received a gift from my parish at retirement. Is it taxable?*

**A14.** Many clergy receive retirement gifts. The tax treatment generally works as follows:

**Gift provided by the employer.** The gift is taxable to the cleric and must be reported on *Federal Form W-2* as assessable wages.

**Gift funded by individuals directly to the cleric, or collected by the church as non-deductible personal gifts.** This type of gift is not taxable to the cleric, is not reported on *Federal Form W-2* as wages, cannot be treated as tax-deductible by the giver, and is not assessable for pension purposes.

**Q15.** *I am Medicare-eligible, and recently returned to work after retirement. As a result, am I entitled to medical coverage as an active employee?*

**A15.** When a cleric is Medicare-eligible and working, he or she may legally be required to be on the employer's active health plan. For more information, you may want to contact your diocese or the Medical Trust.

**Q16.** *Due to my conscientious objection to public insurance programs, I would like to opt out of Social Security. For the self-employment tax, is it permissible for me to take such an exemption?*

**A16.** Some denominations allow their clergy to opt out of Social Security as a conscientious objection to the receipt of social insurance. The Episcopal Church does not support this option on theological grounds. As a result, some Episcopal ministers have opted out of Social Security without realizing that they do not qualify for the exemption. It should be noted that, when signing *Federal Form 4361*, a minister must attest to its accuracy under penalty of perjury.

A minister's opposition must be to accepting benefits under Social Security (or any other public insurance program). Economic considerations, or any other non-religious considerations, are not a valid basis for the exemption, nor is opposition to paying the self-employment tax.

Note also that a decision to opt out of Social Security is irrevocable. Clergy who opt out of Social Security, especially those who have vested benefits with Social Security from previous employment outside the Church, may be subject to the windfall elimination provision. For more information, refer to *IRS Publication 963*, available at [irs.gov](http://irs.gov).

**Q17.** *How can I change my withholding amount when receiving my pension benefit in retirement?*

**A17.** Your monthly earnings statement provided by Northern Trust includes a section where you can enter an adjustment to your federal and state income tax withholding. Simply sign and return it to CPG.

**Q18.** *How long must I retain my tax return and supporting records?*

**A18.** You should retain copies of your tax returns for your lifetime. Supporting documents can be destroyed after seven years.

## Federal Income Tax Status of The Church Pension Fund Benefits

**The General Rule:**

In accordance with Section 107 of the Internal Revenue Code, all benefits paid from retirement and disability plans sponsored by The Church Pension Fund (CPF) to retired and disabled clergy have been designated as a housing allowance in 2020. The amount of housing allowance that you may exclude from gross income for federal income tax purposes cannot exceed the lowest amount of:

- (1) actual housing expenses (the total amount you actually spend in a calendar year for items that directly relate to renting or providing for your primary home),
- (2) the fair rental value of your primary home (including furnishings) plus the cost of the utilities, or
- (3) your retirement and disability income provided by CPF plus any other compensation earned from an Episcopal employer which has been properly designated as a housing allowance

CPF has passed a similar resolution for 2019.

**For Surviving Spouses and Children:**

The housing allowance exclusion is applicable to CPF benefits paid to the clergy who earned them. **Tax law does not allow a housing allowance for surviving spouses or dependents.**

**How to Calculate:**

While further details are available in IRS Publication 517 and the *2020 Clergy Tax Preparation Guide for 2019 Returns*, the following list may assist you in determining the total actual expenses that relate to renting or providing your primary home:

- Mortgage payments, both principal and interest\*
- Real estate taxes and special assessments\*
- Fees paid for acquiring home titles, mortgages, etc.
- Home improvements and repairs
- Cost of moving your home furnishings
- Home furnishings that are primary and essential
- Fire and home liability insurance premiums
- Maintenance and upkeep of property including landscaping
- Utilities—electric, gas, oil, water, basic telephone, trash, cable television base rate (not including premium channels)
- Rental payments for home, garage, storage for household items, furnishings, etc.

**Resettlement Benefit May Qualify:**

We strongly recommend that you keep good records, including all of your calculations and expense documents related to renting or providing your primary home. You may need them if questions or challenges to your housing allowance develop.

**How to Report:**

The amount you decide to exclude from your gross income is not shown on your federal tax return because it is an “exclusion,” not a “deduction.” The total of all pension benefits received during the year (shown on Box 1 of your Form 1099-R) should be copied to Line 4a of your Federal Form 1040. The taxable portion of these benefits, determined by subtracting the amount you are excluding for housing purposes from the total, should be shown on Line 4b of your Federal Form 1040. Line 4b should not be left blank; if all amounts received are used for housing purposes, you should enter a zero (0) on that line. **Please note that you may receive Form 1099-R and/or Form W-2 from Northern Trust and/or Liberty Mutual as they are the paying agents for the retirement benefit and disability plans sponsored by CPF. You may also receive a Form 1099-R from Fidelity Investments and/or Church Life Insurance Corporation if you had any distributions from an Episcopal Church Retirement Savings Plan (“RSVP plan”), as they are the paying agents for that plan. In addition, for any distributions from the RSVP processed by Fidelity Investments, please contact Fidelity Investments to notify them that your distribution is eligible for the housing allowance.**

**SECA Tax:**

Social Security Self-Employment tax (also called SECA tax) is not applicable to any qualified retirement benefit payments received from plans sponsored by CPF. However, if you have other earnings from self-employment after retirement (from the church or other sources), you may be required to pay SECA tax on those earnings and also on the fair rental value of housing provided by a church or other employer.

**Further Assistance:**

We will, of course, assist in answering questions about specific retirement and disability benefits that you receive from plans sponsored by CPF; please contact the Client Services Department at 866-802-6333. However, we cannot advise as to personal tax matters. If legal, accounting, or other expert assistance is required in connection with your tax returns, the services of a competent professional should be sought. For general questions concerning clergy taxes, you may call Nancy Fritschner at 877-305-1414, William Geisler at 877-305-1415, *through April 30, 2020*, Mary Ann Hanson at (877) 305-1415, *beginning May 1, 2020* or Dolly Rios at (833) 363-5751 toll-free.

\*Please note that in addition to being treated as housing expenses for the purpose of calculating the housing allowance exclusion, mortgage loan interest and real estate tax payments (up to \$10,000) are allowable as itemized deductions from gross income on Schedule A of Form 1040.



# *2020 Clergy Tax Return Preparation Guide for 2019 Returns*

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## **ACKNOWLEDGEMENTS**

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This publication is intended to provide a timely, accurate, and authoritative discussion of tax reporting compliance, and the impact of recent changes in the tax laws. It is not intended as a substitute for legal, accounting, or other professional advice. If legal, tax, or other expert assistance is required, the services of a competent professional should be sought. Although we believe this book provides accurate information, there may be changes resulting from IRS or judicial interpretations of the Tax Code, new tax regulations, or technical corrections that occurred after the printing of this edition that are not reflected in the text.

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 Form 1040

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 Form 1040

# SPECIAL SUPPLEMENT

## Current status of the parsonage and housing allowance exclusions

On November 22, 2013, federal district court judge Barbara Crabb of the District Court for the Western District of Wisconsin struck down the ministerial housing allowance as an unconstitutional preference for religion. *Freedom From Religion Foundation, Inc., v. Lew*, 983 F. Supp. 2d 1051 (W.D. Wis. 2013). The ruling was in response to a lawsuit brought by the Freedom From Religion Foundation (FFRF) and two of its officers challenging the constitutionality of the housing allowance and the parsonage exclusion. The federal government, which defended the housing allowance since it is a federal statute, asked the court to dismiss the lawsuit on the ground that the plaintiffs lacked standing to pursue their claim in federal court.

Standing is a constitutional requirement of any plaintiff in a federal case and generally means that a plaintiff must have suffered some direct injury as a result of a challenged law. The Wisconsin court concluded that the plaintiffs had standing on the ground that they would have been denied a housing allowance exclusion had they claimed one on their tax return. The government appealed this ruling to a federal appeals court—the Seventh Circuit Court of Appeals in Chicago.

On November 13, 2014, the appeals court issued its ruling reversing the Wisconsin court's decision. *Freedom From Religion Foundation, Inc., v. Lew*, 773 F.3d 815 (7th Cir. 2014). It concluded that the plaintiffs lacked standing to pursue their challenge to the housing allowance. The plaintiffs had asserted that they had standing due to their “injury” of being denied a tax-free housing allowance should they claim one on their tax returns. But the appeals court refused to base standing on theoretical injury. It concluded: “Only a person that has been denied such a benefit can be deemed to have suffered cognizable injury. The plaintiffs here have never been denied the parsonage exemption because they have never requested it; therefore, they have suffered no injury.”

The court suggested that this deficiency could be overcome if the FFRF's officers filed tax returns claiming a housing allowance that were later rejected by the IRS in an audit: “The plaintiffs could have sought the exemption by excluding their housing allowances from their reported income on their tax returns and then petitioning the Tax Court if the IRS were to disallow the exclusion. Alternatively, they could have . . . paid income tax on their housing allowance, claimed refunds from the IRS, and then sued if the IRS rejected or failed to act upon their claims.”

The FFRF responded to the appeals court's ruling by designating a housing allowance for two of its officers. The officers reported their allowances as taxable income on their tax returns and thereafter filed amended tax returns seeking a refund of the income taxes paid on the amounts of their designated housing allowances. FFRF claims that in 2015 the IRS denied the refunds sought by its officers (one of whom had died and was represented by her executor).

Having endeavored to correct the standing problem, the FFRF renewed its legal challenge to the housing allowance in the federal district court in Wisconsin, where the litigation began.

On October 6, 2017, Judge Crabb again ruled that the ministerial housing allowance is an unconstitutional preference for religion. *Gaylor v. Mnuchin*, (W.D. Wis. 2017). Judge Crabb observed: “[The housing allowance] 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.”

The government promptly appealed this ruling back to the Seventh Circuit Court of Appeals in Chicago, and in March of 2019 a 3-judge panel unanimously reversed Judge Crabb’s decision and affirmed the constitutionality of the housing allowance. It based its ruling on two grounds:

***(1) the Lemon test***

First, it applied the so-called *Lemon* test, which dates back to a 1971 Supreme Court ruling in *Lemon v. Kurtzman*, 403 U.S. 602 (1971), in which the Court announced a three-part test for evaluating claims that a state or federal law, such as the housing allowance, constitutes an impermissible establishment of religion under the First Amendment’s “establishment clause”. Under the *Lemon* test a law challenged on establishment clause grounds is valid if it meets three conditions: First, a clearly secular purpose, second, a primary effect that neither advances nor inhibits religion, and third, the law does not foster an excessive entanglement between church and state. The court concluded that all three elements were met, and so the housing allowance did not violate the First Amendment’s ban on an establishment of religion.

The court concluded that there was not one, but three legitimate secular purposes underlying the housing allowance: First, the elimination discrimination against ministers in the tax code in several provisions granting housing benefits to secular workers. The housing allowance simply treats ministers like secular workers. Second, the elimination of discrimination between ministers. The point here is that for many years the only tax benefit for ministerial housing was the exclusion of the fair rental value of a church-provided parsonage from taxation. Ministers who did not live in a parsonage, but instead owned or rented a home, received no tax benefit. The housing allowance was enacted by Congress in 1954 to address this discrepancy and provide parity between ministers who lived in parsonages and those that did not. A third secular purpose was the avoidance of excessive entanglement between church and state.

***(2) historical significance***



The court based its decision on a second ground that it called the “historical significance test”.

According to several rulings by the United States Supreme Court, the First Amendment’s “establishment clause” must be interpreted with reference to historical practices. In other words, the longer a practice has gone unchallenged, the more likely it will survive a challenge under the establishment clause. A perfect example of this is a 1983 Supreme Court decision upholding the constitutionality of legislative chaplains. The Court pointed out that the very first session of Congress, in which the First Amendment’s establishment clause was drafted, also provided funds for congressional chaplains. That’s pretty strong evidence that congressional chaplains do not constitute an unconstitutional establishment of religion. The appeals court noted that there are over 2,500 state and federal laws providing tax exemptions of various sorts to religion, and this practice, dating back to the founding of the nation, reinforced the constitutionality of the housing allowance.

The FFRF chose not to appeal the decision by the Seventh Circuit Court of Appeals. It is possible that it, or another hostile organization, will sue in another court. Predicting the future status of a tax benefit such as the housing allowance is a difficult task, but I believe a solid case can be made for the continuation of this benefit for years to come, based on the compelling logic of the appeals court’s decision (which was based squarely on rulings by the United States Supreme Court). Any developments will be addressed in future editions of this tax guide.

How should churches and pastors respond to this ruling? Consider the following:

- Continue designating housing allowances for ministers. The housing allowance remains valid and active for all churches and qualifying clergy across the country.
- Continue to monitor developments.
- In the event that another court invalidates the housing allowance in a final decision, note the following:
  - √ Many ministers will experience an immediate increase in income taxes. As a result, they should be prepared to increase their quarterly estimated tax payments to reflect the increase in income taxes in order to avoid an underpayment penalty. Note that there will be no effect on self-employment taxes for which the housing allowance is not tax-exempt.
  - √ Ministers who are considering the purchase of a new home should not base the amount and affordability of a home mortgage loan on the availability of a housing allowance exclusion unless and until the courts conclusively uphold the constitutionality of the allowance.

- √ Many churches will want to increase ministers' compensation to offset the adverse financial impact. Thousands of ministers have purchased a home, and obtained a mortgage loan, on the assumption that the housing allowance would continue to be available as it has for more than a half century. The sudden elimination of this tax benefit will immediately thrust many clergy into a dire financial position with a mortgage loan based on a tax benefit that no longer is available. Many church leaders will want to reduce the impact of such a predicament by increasing compensation. Such an increase could be phased out over a period of years to minimize the impact on the church.
- The fair rental value of church-provided parsonages remains a nontaxable benefit.

# PART 1

## INTRODUCTION

*All references in this publication to line numbers on IRS forms are for the “draft” versions of the 2019 forms since the final forms had not been released by the IRS as of the date of publication.*

## How to use this guide

This book contains the basic information you need to complete your 2019 federal income tax return. It gives special attention to several forms and schedules and the sections of each form most relevant to ministers. The companion resource—Federal Reporting Requirements for Churches—helps churches comply with their federal tax reporting requirements.

**This guide is divided into the following sections:**

**Part 1: Introduction**—This section reviews tax highlights for 2019 and presents several preliminary questions you should consider before preparing your tax return.

**Part 2: Special Rules for Ministers**—In this section, you learn whether or not you are a minister for tax purposes, whether you are an employee or self-employed for both income tax and Social Security purposes, and how you pay your taxes.

**Part 3: Step-By-Step Tax Return Preparation**—This section explains how to complete

the most common tax forms and schedules for ministers.

**Part 4: Comprehensive Examples and Sample Forms**—This section shows a sample tax return prepared for an ordained minister and spouse and for a retired minister and spouse.

**Federal Reporting Requirements for Churches**—This resource provides assistance to churches (especially treasurers and bookkeepers) in filing federal tax forms.

## Tax highlights for 2019

### *1. The Tax Cuts and Jobs Act of 2017*

On December 22, 2017, President Donald Trump signed into law the \$1.5 trillion Tax Cuts and Jobs Act of 2017. In brief, the Act amends the Internal Revenue Code to reduce tax rates and modify credits and deductions for individuals and businesses.

With respect to individuals, the bill does the following:

- replaces the seven existing tax brackets (10, 15, 25, 28, 33, 35, and 39.6 percent) with seven new and lower brackets (10, 12, 22, 24, 32, 35, and 37 percent);
- substantially increases the standard deduction, thereby significantly reducing the number of taxpayers who will itemize deductions;
- repeals the deduction for personal exemptions;
- eliminates the deduction for moving expenses as well as the employer tax free reimbursement;
- allows taxpayers to deduct an amount for cash charitable contributions up to 60% of AGI;
- doubles the Child Tax Credit and establishes a new family tax credit;
- repeals most miscellaneous itemized deductions;
- limits the mortgage interest deduction for debt incurred after November 2, 2017, to mortgages of up to \$750,000 (previously \$1 million);
- caps the deduction for state and local income or sales taxes not paid or accrued in a trade or business at \$10,000;
- consolidates and repeals several education-related deductions and credits;
- broadened the use of Section 529 plans for expenses below the college level of education;
- modifies the Alternative Minimum Tax (AMT) to make it apply to fewer taxpayers; and
- modifies the estate and generation-skipping transfer taxes to exempt most taxpayers.

## ***2. Other tax changes of interest to churches and church staff***

There were several tax developments in prior years that affect tax reporting by both ministers and churches for 2019 and future years. Here is a rundown of some of the key provisions:

- You may be able to claim the earned income credit for 2019 if (1) you do not have a qualifying child and you earned less than \$15,570 (\$21,370 if married); (2) a qualifying child lived with you and you earned less than \$41,094 (46,884 if married filing jointly); (3) two qualifying children lived with you and you earned less than \$46,703 (\$52,493 if married filing jointly); or (4) three or more qualifying children lived with you and you earned less than \$50,162 (\$55,952 if married filing jointly). The maximum earned income credit for 2019 is (1) \$529 with no qualifying child; (2) \$3,526 with one qualifying child; (3) \$5,828 with two qualifying children; and (4) \$6,557 with three or more qualifying children.
- For contributions in 2019 to a traditional IRA, the deduction phaseout range for an individual covered by a retirement plan at work begins at income of \$103,000 for joint filers and \$64,000 for a single person or head of household. These are 2019 amounts that increase to \$104,000 for joint filers and \$65,000 for a single person or head of household for 2020.
- The dollar limit on annual elective deferrals an individual may make to a 403(b) retirement plan is \$19,000 for 2019. It increases to \$19,500 for 2020.
- The catch-up contribution limit on elective deferrals to a 403(b) retirement plan for individuals who had attained age 50 by the end of the year was \$6,000 for 2019. For 2020, the limit is \$6,500.
- The IRS has announced that it will not issue private letter rulings addressing the question of “whether an individual is a minister of the gospel for federal tax purposes.” This means taxpayers will not be able to obtain clarification from the IRS in a letter ruling on their status as a minister for any one or more of the following matters: (1) eligibility for a parsonage exclusion or housing allowance; (2) eligibility for exemption from self-employment taxes; (3) self-employed status for Social Security; or (4) exemption of wages from income tax withholding. The IRS also has announced that it will not address “whether amounts distributed to a retired minister from a pension or annuity plan should be excludible from the minister’s gross income as a parsonage allowance.”

- The standard business mileage rate was 58 cents per mile for business miles driven during 2019. The IRS had not announced the mileage rates for 2020 as of the date of publication of this text.
- Recent tax law changes may result in lower taxes resulting in lower estimated tax payments, for many taxpayers. Be sure your estimated tax calculations or withholdings take into account the most recent tax law changes.
- Many churches employ retired persons who are receiving Social Security benefits. Persons younger than full retirement age may have their Social Security retirement benefits cut if they earn more than a specified amount. Full retirement age (the age at which you are entitled to full retirement benefits) for persons born in 1943–1954 is 66 years. If you are under full retirement age for the entire year, \$1 is deducted from your benefit payments for every \$2 you earn above the annual limit. For 2020 that limit is \$18,240. In the year you reach full retirement age, your monthly benefit payments are reduced by \$1 for every \$3 you earn above a different limit. For 2020 that limit is \$48,600 (\$4,050 per month) but only earnings before the month you reach full retirement age are counted.
- Will Congress give ministers another opportunity to revoke an exemption from Social Security? It does not look likely, at least for now. No legislation is pending that would provide ministers with this option.
- A federal appeals court rejected a constitutional challenge to the ministers' housing allowance. This development is addressed at the beginning of this publication.
- A provision in the comprehensive tax reform legislation enacted by Congress in 2017 (the Tax Cuts and Jobs Act, or "TCJA") imposes a tax (the unrelated business income tax) of 21 percent on expenses associated with benefits provided to employees through a qualified transportation fringe benefit program as defined by IRC Section 132(f). These benefits include employer provided parking, mass transit passes and commuter vans. Churches providing these benefits must file Form 990-T to report the costs and the related tax. The provision of parking to employees may come through payment of parking fees for employees or by provision of parking on the church's premises. While there has been much debate over the application of the new law to on-site employer provided parking, guidance issued by the IRS in December of 2018 clearly indicates it is possible for the provision to apply to any employer provided parking, if certain conditions are met. The protest from nonprofit organizations, including churches, has been great during 2019 and petitions have been submitted to Congress requesting repeal of the provision and several bills have been introduced to repeal the provision. However, until Congress

or the IRS provides relief, churches should prepare to comply with the new law by reporting expenses associated with qualified transportation fringe benefits on Form 990-T and paying the unrelated business income tax (21 percent) on this income.

- The IRS has announced that the following tax forms are obsolete and will no longer be used in 2019 and future years:

Schedule 4 (Form 1040) (merged with Schedule 2).

Schedule 5 (Form 1040) (merged with Schedule 3).

Schedule 6 (Form 1040) (merged with Forms 1040 and 1040-SR).

Schedule C-EZ (Schedule C will be used).

Form 2555-EZ (Form 2555 will be used).

Form 8965 (Health coverage exemption reporting is no longer applicable to tax years after 2018).

- Form 1040-SR, U.S. Tax Return for Seniors, has been introduced for 2019. You can use this form if you were born before January 2, 1955. The form generally mirrors Form 1040, and is designed to make tax preparation and filing simpler for older taxpayers. It is only available to persons who claim the standard deduction. The form uses larger and more readable type, and contains conspicuous instructions on calculating the standard deduction amount.

## Preliminary Questions

Below are several questions you should consider before preparing your 2019 federal tax return.

Q. Must ministers pay federal income taxes?

A. Yes. Ministers are not exempt from paying federal income taxes.

Q. How much income must I earn to be required to file a tax return?

A. Generally, ministers are required to file a federal income tax return if they have earnings of \$400 or more to report their self-employment tax. Different rules apply to ministers who are exempt from self-employment taxes.



Q. What records should I keep?

A. You should keep all receipts, canceled checks, and other evidence to prove amounts you claim as deductions, exclusions or credits. Documentation should be maintained for six years from the time you file your tax return.

Q. What is the deadline for filing my federal income tax return?

A. The instructions to Form 1040 state that the deadline for filing Form 1040 for the 2019 tax year is April 15, 2020.

Q. What if I am unable to file my tax return by the deadline?

A. You can obtain an automatic six-month extension (from April 15 to October 15, 2020) to file your 2019 Form 1040 if you file Form 4868 by April 15, 2020 with the IRS service center for your area. Your Form 1040 can be filed at any time during the six-month extension period. An extension only relieves you from the obligation to *file your return*; *it is not an extension of the obligation to pay your taxes*. You must make an estimate of your tax for 2019 and pay the estimated tax with your Form 4868.

Q. Should I prepare my own tax return?

A. The answer depends on your ability and experience in working with financial information and in preparing tax returns. Keep in mind: Ministers' taxes present a number of unique rules, but these rules are not complex. Many ministers will be able to prepare their own tax returns if they understand the unique rules that apply. These rules are summarized in this document. Easily accessible tax software will also accommodate the unique rules applicable to ministers, but it does not relieve a minister from understanding the rules in order to accurately utilize the software. On the other hand, if you experienced unusual events in 2019, such as the sale or purchase of a home or the sale of other capital assets, it may be prudent to obtain professional tax assistance. The IRS provides a service called Taxpayer Assistance, but it is not liable in any way if its agents provide you with incorrect answers to your questions. Free taxpayer publications are available from the IRS and many of these are helpful to ministers.

**RECOMMENDATION** If you need professional assistance, here are some tips that may help you find a competent tax professional:

- Ask other ministers in your community for their recommendations.

- If possible, use a CPA who specializes in tax law and who is familiar with the rules that apply to ministers. A CPA has completed a rigorous educational program and is subject to strict ethical requirements. However, the tax law is broad and complicated, so it should not be assumed that all CPAs are familiar with the unique rules applicable to ministers.
- Ask local tax professionals if they work with ministers and, if so, with how many.
- Ask local tax professionals a few questions to test their familiarity with ministers' tax issues. For example, ask whether ministers are employees or self-employed for Social Security. Anyone familiar with ministers' taxes will know that ministers are self-employed for Social Security with respect to their ministerial duties. Or, ask a tax professional if a minister's church salary is subject to income tax withholding. The answer is no, and anyone familiar with ministers' taxes should be able to answer this question.

# PART 2

## SPECIAL RULES FOR MINISTERS

### Who is a minister for federal tax purposes?

**KEY POINT** The IRS has its own criteria for determining who is a minister for tax purposes. The criteria the IRS uses to determine who is a minister are not necessarily the same as those used by churches and denominations. Whether or not one qualifies as a minister for tax purposes is a very important question, since special tax and reporting rules apply to ministers under federal tax law. These rules include:

- eligibility for housing allowances;
- self-employed status for Social Security;
- exemption of wages from income tax withholding (ministers use the quarterly estimated tax procedure to prepay their taxes, unless they elect voluntary withholding); and
- eligibility, under very limited circumstances, to exempt themselves from self-employment taxes.

These special rules only apply to persons qualifying as a minister and with respect to compensation received in the exercise of ministerial services.

**EXAMPLE** Pastor J is an ordained minister employed by a church. In addition, he works a second job for a secular employer. Assume that Pastor J qualifies as a minister for federal tax purposes. Since his church duties constitute services performed in the exercise of his ministry, the church can designate a portion of his compensation as a housing allowance. However, the secular employer cannot designate any portion of Pastor J's compensation as a housing allowance, since this work would not be the exercise of ministry.

According to the IRS, ministers are individuals who are duly ordained, commissioned, or licensed by a religious body constituting a church or church denomination. They are given the authority to conduct religious worship, perform sacerdotal functions, and administer ordinances or sacraments according to the tenets and practices of that church or denomination. If a church or denomination ordains some ministers and licenses or commissions others, anyone licensed or commissioned must be able to perform substantially all the religious functions of an ordained minister to be treated as minister for tax purposes. See IRS Publication 517.

## Are ministers employees or self-employed for federal tax purposes?

**KEY POINT** Most ministers are employees for federal income tax purposes under the tests currently used by the IRS and the courts and should receive a Form W-2 from their church reporting their taxable income. However, ministers are self-employed for Social Security (with respect to services they perform in the exercise of their ministry).

Ministers have a *dual* tax status. For federal income taxes they ordinarily are employees, but for Social Security they are self-employed with regard to services performed in the exercise of their ministry. These two rules are summarized below:

### *Income taxes*

For federal income tax reporting, most ministers are employees under the tests currently used by the IRS. This means that they should receive a Form W-2 from their church at the end of each year (rather than a Form 1099). Formerly, it meant that they reported their employee business expenses on Schedule A rather than on Schedule C. (The deduction for employee business expenses as Miscellaneous Itemized Deductions on Schedule A is suspended through 2025, so employee business expenses are not deductible at this time.) A few ministers are self-employed, such as some traveling evangelists and some interim pastors. Also, many ministers who are employees of a local church are self-employed for other purposes. For example, the minister of a local church almost always will be an employee but will be self-employed with regard to guest speaking appearances in other churches and services performed directly for individual members (such as weddings and funerals).

**EXAMPLE** Pastor B is a minister at First Church. She is an employee

for federal income tax reporting purposes with respect to her church salary. However, she is self-employed with respect to honoraria she receives for speaking in other churches and for compensation church members give her for performing personal services such as weddings and funerals. The church issues Pastor B a Form W-2 reporting her church salary. Pastor B reports this amount as wages on line 1 of Form 1040. She reports her compensation and expenses from the outside self-employment activities on Schedule C.

**KEY POINT** Most ministers will be better off financially being treated as employees, since the value of various fringe benefits will be tax free, the risk of an IRS audit is substantially lower, and reporting as an employee avoids the additional taxes and penalties that often apply to self-employed ministers who are audited by the IRS and reclassified as employees.

**KEY POINT** Ministers and other church staff members should carefully review their Form W-2 to be sure it does not report more income than was actually received or fails to report taxable benefits provided by the church. If an error was made, the church should issue a corrected tax form (Form W-2c).

***The Tax Court Test.*** The United States Tax Court has created a seven-factor test for determining whether a minister is an employee or self-employed for federal income tax reporting purposes. The test requires consideration of the following seven factors: (1) the degree of control exercised by the employer over the details of the work; (2) which party invests in the facilities used in the work; (3) the opportunity of the individual for profit or loss; (4) whether or not the employer has the right to discharge the individual; (5) whether the work is part of the employer's regular business; (6) the permanency of the relationship; and (7) the relationship the parties believe they are creating. Most ministers will be employees under this test.

## ***Social Security***

The tax code treats ministers as self-employed for Social Security with respect to services performed in the exercise of their ministry—even if they report their income taxes as an employee. This means that ministers must pay self-employment taxes (Social Security taxes for the self-employed) unless they have filed a timely exemption application (Form 4361) that has been approved by the IRS. As noted below, few ministers qualify for this exemption.

**KEY POINT** While most ministers are employees for federal income tax reporting purposes, they are self-employed for Social Security with respect to services they perform in the exercise of their ministry. This means that ministers are not subject to the employee's share of Social Security and Medicare taxes, even though they report their income taxes as employees and receive a Form W-2 from their church. A minister's Form W-2 should not report any amounts in Boxes 3, 4, 5 & 6. Rather, they pay the self-employment tax (SECA) by completing Schedule SE with their Form 1040.

## Exemption from self-employment (Social Security) taxes

If ministers meet several requirements, they may exempt themselves from self-employment taxes with respect to their ministerial earnings. Among other things, the exemption application (Form 4361) must be submitted to the IRS within a limited time period. The deadline is the due date of the federal tax return for the second year in which a minister has net earnings from self-employment of \$400 or more, any part of which comes from ministerial services. Further, the exemption is available only to ministers who are opposed on the basis of religious considerations to the acceptance of benefits under the Social Security program (or any other public insurance system that provides retirement or medical benefits). A minister who files the exemption application may still purchase life insurance or participate in retirement programs administered by nongovernmental institutions (such as a life insurance company). Additionally, the exemption does not require a minister to revoke all rights to Social Security benefits earned through their participation in the system through secular employment.

A minister's opposition must be to accepting benefits under Social Security (or any other public insurance program) which are related to services performed as a minister. Economic, or any other nonreligious considerations, are not a valid basis for the exemption, nor is opposition to paying the self-employment tax.

The exemption is only effective when it is approved by the IRS. Few ministers qualify for the exemption. Many younger ministers opt out of the self-employment tax without realizing that they do not qualify for the exemption. A decision to opt out of self-employment tax is irrevocable. But section 4.19.6.5.11.3 (02-15-2019) of the IRS *Internal Revenue Manual* explicitly recognizes that under some conditions ministers who have exempted themselves from self-employment taxes solely for economic reasons can



revoke their exemption. Check with a tax attorney or CPA for additional information.

An exemption from self-employment taxes applies only to compensation for ministerial services. Ministers who have exempted themselves from self-employment taxes must pay Social Security taxes on any non-ministerial compensation they receive. And, they remain eligible for Social Security benefits based on their non-ministerial employment assuming that they have worked enough quarters. Generally, 40 quarters are required. Also, the Social Security Administration has informed the author of this text that ministers who exempt themselves from self-employment taxes may qualify for Social Security benefits (including retirement and Medicare) on the basis of their spouse's coverage, if the spouse had enough credits. However, the amount of these benefits will be reduced by the so-called "windfall elimination provision." Contact a Social Security Administration office for details.

**KEY POINT** The amount of earnings required for a quarter of coverage in 2020 is \$1,410. A quarter of coverage is the basic unit for determining whether a worker is insured under the Social Security program.

**KEY POINT** Ministers who work after they retire must continue to pay self-employment tax on their ministerial income and wages (unless they exempted themselves from self-employment tax as a minister and they are employed in a ministerial capacity). However, amounts received from retirement plans related to ministerial services are not subject to self-employment tax.

## How do ministers pay their taxes?

**KEY POINT** Ministers must prepay their income taxes and self-employment taxes using the estimated tax procedure, unless they have entered into a voluntary withholding arrangement with their church with respect to federal income tax only.

As noted above, ministers' wages are exempt from federal income tax withholding. This means that a church may not withhold income taxes from a minister's paycheck without specific written permission. And, since ministers are self-employed for Social Security with respect to their ministerial services, a church does not withhold the employee's share

of Social Security and Medicare taxes from a minister's wages. Ministers must prepay their income taxes and self-employment taxes using the estimated tax procedure, unless they enter into a voluntary withholding arrangement with their church. Estimated taxes must be paid in quarterly installments. If your estimated tax paid for the current year is less than your actual tax, you may have to pay an underpayment penalty. You can amend your estimated tax payments during the year if your circumstances change. For example, if your income or deductions increase unexpectedly, you should refigure your estimated tax liability for the year and amend your remaining quarterly payments accordingly or submit additional payments.

You will need to make estimated tax payments for 2020 if you expect to owe at least \$1,000 in tax for 2020 after subtracting your withholding and credits and if you expect your withholding and credits to be less than the smaller of (1) 90 percent of the tax to be shown on your 2020 tax return, or (2) 100 percent of the tax shown on your 2019 tax return (110 percent if adjusted gross income exceeds \$150,000, or if married filing separately, more than \$75,000). Your 2019 tax return must cover all 12 months.

The four-step procedure for reporting and prepaying estimated taxes for 2020 is summarized below.

## ***Step 1***

Estimated tax payments may be paid using either of the following methods:

- Obtain a copy of IRS Form 1040ES for 2020 before April 15, 2020. You can obtain forms by calling the *IRS toll-free forms hotline at 800-TAX-FORM (800-829-3676)*, or from the *IRS website (irs.gov)*. If you paid estimated taxes last year, you should receive a copy of your 2020 Form 1040-ES in the mail with payment vouchers preprinted with your name, address, and Social Security number; or
- Enroll in the Electronic Federal Tax Payment System at [www.eftps.gov](http://www.eftps.gov) and establish an online account to be used to submit payments.

## ***Step 2***

Compute your estimated tax for 2020 using the Form 1040-ES worksheet. Ministers' quarterly estimated tax payments should take into account both income taxes and self-employment taxes.

## Step 3

Pay one-fourth of your total estimated taxes for 2020 in each of four quarterly installments as follows:

FOR THE PERIOD	DUE DATE
January 1–March 31	April 15, 2020
April 1–May 31	June 15, 2020
June 1–August 31	September 15, 2020
September 1–December 31	January 15, 2021

You must send each payment to the IRS, accompanied by one of the four payment vouchers contained in Form 1040-ES. If enrolled in the EFTPS system, all four payments may be prescheduled for automatic payment at the schedule dates. A refund associated with an overpayment of your taxes for 2019 may be applied to your estimated tax payments due for 2020.

## Step 4

After the close of 2020, compute your actual tax liability on Form 1040. Only then will you know your actual income, deductions, exclusions, and credits. If you overpaid your estimated taxes (that is, actual taxes computed on Form 1040 are less than all of your estimated tax payments plus any withholding), you can elect to have the overpayment credited against your first 2021 quarterly estimated tax payment, or spread it out in any way you choose among any or all of your next four quarterly installments. Alternatively, you can request a refund of the overpayment. If you underpaid your estimated taxes (that is, your actual tax liability exceeds the total of your estimated tax payments plus any withholding), you may have to pay a penalty.

**KEY POINT** Ministers who report their income taxes as employees can request that their employing church *voluntarily* withhold income taxes from their wages. Simply furnish the church with a completed W-4 (withholding allowance certificate) or other written authorization. Since ministers are not employees for Social Security with respect to ministerial compensation, the church does not withhold the employee's share of Social Security and Medicare taxes. However, ministers can request on

Form W-4 (line 4c) that an additional amount of income tax be withheld to cover their estimated self-employment tax liability for the year. The excess income tax withheld is a credit that is applied against the minister's self-employment tax liability. Many churches understandably withhold Social Security and Medicare taxes in addition to income taxes for a minister who requests voluntary withholding. Such withholding must be reported as income tax withheld.

## PART 3

# STEP-BY-STEP TAX RETURN PREPARATION

## Tax forms and schedules

This step-by-step analysis covers these forms and schedules:

**Form 1040** is the basic document you will use. It summarizes all of your tax information. Details are reported on supplementary schedules and forms.

The 2019 Form W-2 and Form W-3 are identical to the 2018 forms. However, note the following:

- The Affordable Care Act requires employers to report the cost of employer-sponsored health coverage in box 12 using code DD. However, transitional relief applies to certain employers and certain types of plans. This relief applies until the IRS publishes additional guidance. Any guidance that expands the reporting requirements will apply only to calendar years that start at least six months after the guidance is issued. The transitional relief applies to employers filing fewer than 250 Forms W-2 for the previous calendar year.
- Failure to file and failure to furnish penalties and penalties for intentional disregard of filing and intentional disregard for payee statement requirements have increased due to adjustments for inflation. The higher penalty amounts apply to returns required to be filed after December 31, 2019. See the instructions to Form W-2 for more information.

- Information about any future developments affecting Forms W-2 and W-3 and their instructions (such as legislation enacted after they are released) will be posted at [IRS.gov/FormW2](https://www.irs.gov/FormW2).
- The due date for filing Copy A of 2019 Forms W-2 and the W-3 transmittal form with the SSA is January 31, 2020, whether you file using paper forms or electronically.
- Extensions of time to file Form W-2 with the SSA are no longer automatic. You may request one 30-day extension to file Form W-2 by submitting a complete application on Form 8809, Application for Extension of Time to File Information Returns, including a detailed explanation of why you need additional time and signed under penalties of perjury. The IRS will only grant the extension in extraordinary circumstances or catastrophe. This does not affect extensions of time to furnish Forms W-2 to employees.
- To aid employers' efforts to protect employees from identity theft, the IRS has issued regulations permitting employers to voluntarily truncate employees' social security numbers (SSNs) on copies of Forms W-2 (Wage and Tax Statement) that are furnished to employees so that the truncated SSNs appear as IRS truncated taxpayer identification numbers (TTINs). The new regulation will apply to returns, statements, and other documents required to be filed or furnished after December 31, 2020, except for Forms W-3 and Social Security Administration copies of Forms W-2 which will apply beginning on July 3, 2019. See the instructions to Form W-2 for details.
- All personal exemptions were repealed after 2017 and so there is no way to claim them on the 2019 Form 1040.

**Schedule A** is for itemized deductions for medical and dental expenses, taxes, interest, certain disaster related casualty losses and charitable contributions.

**KEY POINT** Beginning with tax year 2018 no miscellaneous itemized deductions that formerly were subject to a 2% of adjusted gross income limitation are allowed. This and other changes to Schedule A are addressed later in this guide.

**Schedule B** is for reporting dividend and interest income.

**Schedule C** is for reporting your income and expenses from business activities you conduct other than in your capacity as an employee. Examples would be fees received for guest speaking appearances in other churches or fees received directly from members for performing personal services, such as weddings and funerals.

**Schedule SE** is for reporting Social Security taxes due on your self-employment income.

Ministers use this schedule since they are deemed self-employed for Social Security with respect to ministerial services (unless they have obtained an approved Form 4361 from the IRS).

These forms and schedules, along with others, are included in the illustrated example in Part 4 of this guide. These forms and schedules are the ones most commonly used by ministers. These forms may be obtained at certain local post offices or IRS office. Or, you can obtain them by calling the *IRS toll-free forms hotline at 800-TAX-FORM (800-829-3676)*. They also are available on the *IRS website (irs.gov)*.

## Form 1040

### ***Step 1: Filing status***

Select the appropriate filing status from the five options listed in this section of the Form 1040.

In 2015, the United States Supreme Court ruled that the right of same-sex couples to marry is part of the Fourteenth Amendment's guarantees of due process and equal protection of the laws, and therefore any state law that in any way limits this right is unconstitutional and void. *Obergefell v. Hodges*, 135 S. Ct. 2584 (2015). The effect of the Court's decision was to invalidate laws and constitutional provisions in several states defining marriage solely as a union between one man and one woman, and to treat same-sex marriages the same as opposite-sex marriages for purposes of federal tax law.

### ***Step 2: Name and address***

Print or type the information in the spaces provided. If you are married filing a separate return, enter your spouse's name in the space provided in the "Filing Status" section at the top of the Form 1040. If you filed a joint return for 2018 and you are filing a joint return for 2019 with the same spouse, be sure to enter your names and Social Security numbers in the same order as on your 2018 return.

If you plan to move after filing your return, use Form 8822 to notify the IRS of your new address.

If you (or your spouse) changed your name because of marriage, divorce, etc., be sure to report the change to the Social Security Administration (SSA) before filing your return.

This prevents delays in processing your return and issuing refunds. It also safeguards your future Social Security benefits. If a name change with the SSA has not been completed, the name on SSA file must be used in filing your tax return.

Enter your P.O. Box number only if your post office does not deliver mail to your home.

For taxpayers with foreign mailing addresses, spaces have been added to include the name of the foreign country/province/state and a foreign postal code.

If you want \$3 to go to the presidential election campaign fund, check the box labeled “you.” If you are filing a joint return, your spouse can also have \$3 go to the fund (check “spouse”). If you check a box, your tax or refund will not change.

### ***Step 3: Dependents***

In the past taxpayers were allowed a personal exemption for themselves and certain dependents. All personal exemptions were repealed after 2017 and so they cannot be claimed on the 2019 Form 1040. However, it is still necessary to determine who qualifies as dependents and include them on the return. Dependents determine various credits, such as the child tax credit, as well as other tax related items such as educational credits, medical expenses, child care credit and earned income credit, just to name a few.

### ***Step 4: Income***

Several items of income are reported on lines 1 through 7 (including amounts carried over from Schedule 1, lines 10-22). The most important of these (for ministers) are discussed below.

**KEY POINT** Some items, such as the housing allowance, are not reported as income. They are called exclusions and are explained below.

#### ***Line 1. Wages, salaries, tips, etc.***

As an employee, you should receive a Form W-2 from your church reporting your wages at the end of each year. Report this amount on line 1.

***Determining church wages or salary.*** Besides a salary, ministers’ wages reported on Form W-2 may include several other items, including the following:

- Bonuses
- The cost of sending a minister to the Holy Land (if paid by the church)
- Most Christmas and special occasion offerings
- Retirement gifts paid by a church
- The portion of a minister's self-employment tax paid by a church
- Personal use of a church-owned vehicle
- Purchases of church property for less than fair market value
- Business expense reimbursements under a nonaccountable plan
- Imputed cost of group term life insurance coverage exceeding \$50,000.
- Church reimbursements of a spouse's travel expenses incurred while accompanying a minister on a business trip (unless the spouse's presence serves a legitimate business purpose and the spouse's expenses are reimbursed under an accountable arrangement)
- "Discretionary funds" established by a church for a minister to spend on current needs—if the minister is allowed to distribute funds for his or her personal benefit or does not have to account for the funds in an arrangement similar to an accountable expense reimbursement plan
- "Imputed interest" from "below-market interest loans" of at least \$10,000 made by a church to a minister (some exceptions apply)
- Cancellation of a minister's debt to a church
- Severance pay
- Payment of a minister's personal expenses by the church
- "Love gifts"

**KEY POINT** The IRS can assess intermediate sanctions in the form of substantial excise taxes against ministers who benefit from an excess benefit transaction. Sanctions only apply to a minister who is a



“disqualified person” (meaning an officer, director, or other control party as well as relatives of such persons). In some cases the IRS can assess additional penalties against members of a church board that approved an excess benefit transaction. Excess benefit transactions may occur if a church pays a minister an excessive salary, makes a large retirement or other special occasion “gift” to a minister, gives church property (such as a parsonage) to the minister, or sells church property to the minister at an unreasonably low price. A rebuttable presumption arises that compensation is reasonable if it is approved by an independent board on the basis of outside “comparable data” such as independent compensation surveys, and the basis for the board’s decision is documented.

**KEY POINT** The IRS has ruled that disqualified persons receive “automatic” excess benefits resulting in intermediate sanctions, regardless of amount, if they use church assets (vehicles, homes, credit cards, computers, etc.) for personal purposes, or receive nonaccountable expense reimbursements (not supported by adequate documentation of business purpose), unless such benefits are reported as taxable income by the church on the disqualified person’s Form W-2, or by the disqualified person on his or her Form 1040, for the year in which the benefits are provided. The concept of automatic excess benefits directly affects the compensation practices of most churches, and exposes some ministers and church board members to intermediate sanctions.

If some of these items were not reported on your Form W-2, they still must be reported as income. Your church should issue a “corrected” Form W-2 (Form W-2c) for the year in which one or more items of taxable income were not reported on your Form W-2. If you receive a Form W-2c and have filed an income tax return for the year shown, you may have to file an amended return. Compare amounts on Form W-2c with those reported on your income tax return. If the corrected amounts change your U.S. income tax, file Form 1040X, Amended U.S. Individual Income Tax Return, with Copy B of Form W-2c to amend the return you previously filed. You, the taxpayer, have the ultimate responsibility to report all taxable income even if your church does not properly report the income.

In addition to what is reported on Form W-2 ( or Form W-2c), Line 1 will also report the amount of excess housing allowance calculated (the amount by which the housing allowance exceeds the lesser of the minister's housing expenses or the fair rental value of the minister's home plus utilities.) IRS Publication 517 states: “Include this amount in the total on Form 1040, line 1. On the dotted line next to line 1, enter ‘Excess allowance’ and the amount.”

***Items not reported on line 1.*** Some kinds of income are not taxable. These items are called *exclusions*. Most exclusions apply in computing both income taxes and self-employment taxes. The housing allowance is an example of an exclusion that applies only to income taxes and not to self-employment taxes. Some of the more common exclusions for ministers include:

***Gifts.*** Gifts, as defined by the Internal Revenue Code and the courts, are excludable from taxable income so long as they are not compensation for services. However, employers are not permitted to give tax-free gifts to employees. Likewise, the IRS and the courts have ruled that gifts ministers receive directly from members of their congregations may not always be excluded as gifts from taxable income. Before excluding gifts from taxable income, the minister should consult with a CPA or a tax attorney.

***Life insurance and inheritances.*** Life insurance proceeds and inheritances are excludable from taxable income. Income earned before distributions of proceeds is generally taxable as income.

***Employer-paid group life insurance.*** Employees may exclude the cost of employer-provided group term life insurance so long as the amount of coverage does not exceed \$50,000.

***Tuition reductions.*** School employees may exclude from their taxable income a “qualified tuition reduction” provided by their employer. A qualified tuition reduction is a reduction in tuition charged to employees or their spouses or dependent children by an employer that is an educational institution.

***Lodging.*** The value of lodging furnished to a minister, i.e., a parsonage, is excluded from income. This exclusion is not available in the computation of self-employment taxes. The value of lodging furnished to a non-minister employee on an employer’s premises and for the employer’s convenience may be excludable from taxable income if the employee is required to accept the lodging as a condition of employment.

***Educational assistance.*** Amounts paid by an employer for an employee’s tuition, fees, and books may be excludable from the employee’s taxable income, if the church has adopted a written educational assistance plan. The exclusion may not exceed \$5,250 per year.

***Employer-provided childcare.*** The value of free childcare services provided by a church to its employees is excluded from employees’ income so long as the benefit is based on a

written plan that does not discriminate in favor of highly compensated employees. Other conditions apply.

*Nondiscrimination rules.* Many of the exclusions are not available to employees who are either “highly compensated employees” or “key employees” if the same benefit is not available on a nondiscriminatory basis to lower-paid employees. For 2019, a highly compensated employee is an employee whose compensation for the previous year was in excess of \$125,000 and for plan years beginning in 2020, the compensation amount rises to \$130,000.

**Key point.** Some exclusions are available only to taxpayers who report their income taxes as employees and not as self-employed persons. Many, however, apply to both employees and self-employed persons.

There are four other exclusions that are explained below—the housing allowance, tax-sheltered annuities, qualified scholarships, and sale of a home.

## ***Housing Allowance***

**KEY POINT** The housing allowance was challenged in federal court as an unconstitutional preference for religion. In 2019, a federal appeals court rejected the challenge and affirmed the constitutionality of the housing allowance.

The most important tax benefit available to ministers who own or rent their homes is the housing allowance exclusion. Ministers who own or rent their home do not pay federal income taxes on the amount of their compensation that their employing church designates in advance as a housing allowance, to the extent that (1) the allowance represents compensation for ministerial services, (2) it is used to pay housing expenses, and (3) it does not exceed the fair rental value of the home (furnished, plus utilities). Housing-related expenses include mortgage payments, rent, utilities, repairs, furnishings, insurance, property taxes, additions, and maintenance.

A church cannot designate a housing allowance retroactively.

Some churches fail to designate housing allowances prospectively and thereby deprive ministers of an important tax benefit.

Ministers who live in a church-owned parsonage do not pay federal income taxes on the fair rental value of the parsonage.

**TAX SAVINGS TIP** Ministers who live in a church parsonage and incur any out-of-pocket expenses in maintaining the parsonage (such as utilities, property taxes, insurance, furnishings, or lawn care) should be sure that their employing church designates in advance a portion of their annual compensation as a parsonage allowance. The amount so designated is not reported as wages on the minister's Form W-2 at the end of the year (if the allowance exceeds the actual expenses, the difference must be reported as income by the minister). This is an important tax benefit for ministers living in a church-provided parsonage. Unfortunately, many of these ministers are not aware of this benefit or are not taking advantage of it.

**TAX SAVINGS TIP** Ministers who own their homes lose the largest component of their housing allowance exclusion when they pay off their home mortgage loan. Many ministers in this position have obtained home equity loans, or a conventional loan secured by a mortgage on their otherwise debt-free home and have claimed their payments under these kinds of loans as a housing expense in computing their housing allowance exclusion. The Tax Court has ruled that this is permissible only if the loan proceeds were spent on housing-related expenses.

**TAX SAVINGS TIP** Ministers should be sure that the designation of a housing or parsonage allowance for the next year is on the agenda of the church (or church board) for one of its final meetings during the current year. The designation should be an official action, and it should be duly recorded in the minutes of the meeting. The IRS also recognizes designations included in employment contracts and budget line items—assuming in each case that the designation was appropriately adopted in advance by the church and supported by underlying documentation as to each minister's anticipated housing expenses.

The rental value of a parsonage, and a housing allowance, are exclusions only for federal income tax reporting purposes. Ministers cannot exclude a housing allowance or the fair rental value of a parsonage when computing self-employment (Social Security) taxes *unless they are retired*. The tax code specifies that the self-employment tax does *not* apply to “the rental value of any parsonage or any parsonage allowance provided after the [minister] retires.”

States vary in the tax treatment of the housing allowance, so ministers should check their state income tax rules to determine the housing allowance rules for state income taxes.

The housing allowance is available to ministers whether they report their income taxes as employees or as self-employed (whether the church issues them a Form W-2 or a Form 1099).

### **Housing expenses to include in computing your housing allowance exclusion**

Ministers who own or rent their home should take the following expenses into account in computing their housing allowance exclusion:

- Down payment on a home (but note that a housing allowance is nontaxable only to the extent that it does not exceed the lesser of the amount designated by their church, the actual housing expenses or the fair rental value of a minister's home, as furnished, plus utilities)
- Mortgage payments on a loan to purchase or improve your home (include both interest and principal)
- Rent
- Real estate taxes
- Property insurance
- Utilities (electricity, gas, water, trash pickup, land-line telephone charges)
- Furnishings and appliances (purchase and repair)
- Structural repairs and remodeling
- Yard maintenance and improvements
- Maintenance items (pest control, etc.)
- Homeowners association dues

**KEY POINT** In 2007 the Tax Court characterized Internet expenses as utility expenses. This suggests that a housing allowance may be used to pay for Internet expenses (i.e., Internet access, cable television). Neither the IRS nor the Tax Court has addressed this issue directly, so be sure to check with a tax professional about the application of a housing allowance to these expenses.

**Please note the following:**

- A housing allowance must be designated in advance. Retroactive designations of housing allowances are not effective.
- The housing allowance designated by the church is not necessarily nontaxable. It is nontaxable (for income taxes) only to the extent that it is used to pay for housing expenses, and, for ministers who own or rent their home, does not exceed the fair rental value of their home (furnished, plus utilities).
- A housing allowance can be amended during the year if a minister's housing expenses are more than expected. However, an amendment is only effective prospectively. Ministers should notify their church if their actual housing expenses are significantly more than the housing allowance designated by their church. But note that it serves no purpose to designate a housing allowance greater than the fair rental value of a minister's home (as furnished, plus utilities).
- If the housing allowance designated by the church exceeds housing expenses or the fair rental value of a minister's home, the excess housing allowance should be reported on line 1 of Form 1040. IRS Publication 517 states: "Include this amount in the total on Form 1040, line 1. On the dotted line next to line 1, enter 'Excess allowance' and the amount."
- The housing allowance exclusion is an exclusion for federal income taxes only. Ministers must add the housing allowance as income in reporting self-employment taxes on Schedule SE (unless they are exempt from self-employment taxes).
- The fair rental value of a church-owned home provided to a minister as compensation for ministerial services is not subject to federal income tax.

**EXAMPLE** A church designated \$25,000 of Pastor D's 2019 compensation as a housing allowance. Pastor D's housing expenses for 2019 were utilities of \$4,000, mortgage payments of \$18,000, property taxes of \$4,000, insurance payments of \$1,000, repairs of \$1,000, and furnishings of \$1,000. The fair rental value of the home (including furnishings) is \$19,000. Pastor D's housing allowance is nontaxable in computing income taxes only to the extent that it is used to pay housing expenses and does not exceed the fair rental value of her home (furnished, plus utilities). Stated differently, the nontaxable portion of a housing allowance is the least of the following three amounts: (1) the housing allowance designated by the church; (2) actual housing expenses; (3) the fair rental value of the home (furnished, plus utilities). In this case, the

lowest of these three amounts is the fair rental value of the home, furnished plus utilities (\$23,000), and so this represents the nontaxable portion of Pastor D's housing allowance. Pastor D must report the difference between this amount and the housing allowance designated by her church (\$2,000) as additional income on line 1 of Form 1040.

**EXAMPLE** Same facts as the previous example, except the church designated \$12,000 of Pastor D's salary as a housing allowance. The lowest of the three amounts in this case would be \$12,000 (the church designated housing allowance) and so this represents the nontaxable amount. Note that the Pastor D's actual housing expenses were more than the allowance, and so she was penalized because of the low allowance designated by her church.

**EXAMPLE** Pastor Y owns a home and incurred housing expenses of \$12,000 in 2019. These expenses include mortgage principal and interest, property taxes, utilities, insurance and repairs. The church designated (in advance) \$12,000 of Pastor Y's 2019 compensation as a housing allowance. Pastor Y is able to itemize expenses on Schedule A (Form 1040). He is able to claim itemized deductions on Schedule A for both his mortgage interest and his property taxes (up to \$10,000), even though his taxable income was already reduced by these items because of their inclusion in the housing allowance. This is often referred to as the "double deduction." In fact, it represents an exclusion and a deduction.

**EXAMPLE** In preparing his income tax return for 2019, Pastor H discovers that his church failed to designate a housing allowance for him for 2019. He asks his church to pass a resolution retroactively granting the allowance for 2019. Such a resolution is ineffective, and Pastor H will not be eligible for any housing allowance exclusion in 2019.

**KEY POINT** The Sarbanes-Oxley Act makes it a crime to knowingly falsify any document with the intent to influence "the investigation or proper administration of any matter within the jurisdiction of any department or agency of the United States . . . or in relation to or contemplation of any such matter or case," and this provision contains no exemption for churches or pastors. It is possible that a pastor's backdating of a board resolution to qualify for a housing allowance for the entire year is fraud and violates this provision in the Sarbanes-Oxley Act, exposing the pastor to a fine or imprisonment. Even if the pastor's action does not violate the Act, it may result in civil or criminal penalties for tax fraud

under the tax code.

**TAX SAVINGS TIP** Ministers should be sure that the designation of a housing or parsonage allowance for the next year is on the agenda of the church board for one of its final meetings during the current year. The designation should be an official action, and it should be duly recorded in the minutes of the meeting. The IRS also recognizes designations included in employment contracts and budget line items—assuming in each case that the designation was duly adopted in advance by the church.

## ***How much should a church designate as a housing allowance?***

The IRS has stated that there are no limitations on how much of a minister's compensation can be designated by his or her employing church as a housing allowance. However, as noted above, this means little, since the nontaxable portion of a church-designated housing allowance for ministers who own or rent their home cannot exceed the lesser of (1) actual housing expenses, or (2) the fair rental value of the home (furnished, plus utilities).

Many churches base the housing allowance on their minister's estimate of actual housing expenses for the new year. The church provides the minister with a form on which anticipated housing expenses for the new year are reported. For ministers who own their homes, the form asks for projected expenses in the following categories: down payment, mortgage payments, property taxes, property insurance, utilities, furnishings and appliances, repairs and improvements, maintenance, and miscellaneous. Many churches designate an allowance in excess of the anticipated expenses itemized by the minister. Basing the allowance solely on a minister's anticipated expenses penalizes the minister if actual housing expenses turn out to be higher than expected. In other words, the allowance should take into account unexpected housing costs or inaccurate projections of expenses.

**KEY POINT** The housing allowance is available only if three conditions are met: (1) the recipient is a minister for tax purposes (as defined above), (2) the allowance is compensation for services performed in the exercise of ministry and (3) the allowance is properly designated by the church.

Churches sometimes neglect to designate a housing allowance in advance of a new calendar year. For example, a church board may discover in March of 2020 that it failed to designate a housing allowance for its pastor for 2020. It is not too late to act. The



church should immediately designate a portion of its minister's remaining compensation for 2020 as a housing allowance. This problem can be avoided by stipulating in each annual housing allowance designation that the allowance is for the current year *and all future years unless otherwise provided*. If such a resolution had been adopted in the December 2018 board meeting (i.e., "for 2019 and future years") it would not matter that the church neglected to designate a minister's 2020 allowance until March of 2020, since the previous designation would have carried over. Such "safety net" designations are not a substitute for annual housing allowances (they have never been addressed or endorsed by the IRS or Tax Court). Rather, they provide a basis for claiming a housing allowance if a church neglects to designate one.

**KEY POINT** Churches cannot designate a housing allowance retroactively.

**KEY POINT** The IRS has ruled that a *retired minister* is eligible for a housing allowance exclusion if the following conditions are satisfied: (1) a portion of the retired minister's pension income is designated as a housing allowance by his or her church or the church pension board of a denominational pension fund; (2) the retired minister has severed his or her relationship with the local church and relies on the fund for a pension; (3) the pensions paid to retired ministers "compensate them for past services to the local churches of the denomination or to the denomination." Retired ministers who receive benefits from a denominational pension fund will be eligible in most cases to have some or all of their benefits designated in advance as a housing allowance. This is an attractive benefit for retired ministers that is not available with some other kinds of retirement plans. Retired ministers also can exclude from their gross income the rental value of a home (plus utilities) furnished to them by their church as a part of their pay for past services. A minister's surviving spouse cannot exclude a housing allowance or rental value of a parsonage unless the allowance or parsonage is for ministerial services he or she performs or performed.

The self-employment tax does not apply to the rental value of a parsonage or a housing allowance provided after a minister retires.

**KEY POINT** Ministers who own their homes lose the largest component of their housing allowance exclusion when they pay off their home mortgage loan. Many ministers in this position have obtained home equity loans—or a conventional loan secured by a mortgage on their otherwise debt-free home—and have claimed their payments under these

kinds of loans as a housing expense in computing their housing allowance exclusion. The Tax Court has ruled that this is permissible only if the loan proceeds were spent on housing-related expenses.

## ***Section 403(b) plans***

Payments made by your church and your salary reduction contributions to a 403(b) plan are not reportable income for income tax or self-employment tax purposes as long as the total amount credited to your retirement account does not exceed contribution limits under Sections 415(c) and 402(g) of the tax code.

### ***Contribution limits***

For 2019 total annual additions (employer contributions, salary reduction and tax paid contributions) could not exceed the lesser of 100 percent of your compensation (excluding a minister's housing allowance) or \$56,000. This rule is known as the "section 415(c) limit." Excess contributions can result in income tax, additional taxes, and penalties. The effect of excess contributions depends on the type of excess contribution. The distributed excess amount may not be rolled over to another 403(b) plan or to an IRA.

**NEW IN 2020** The limit on annual additions is \$57,000 for 2020.

### ***Minister's housing allowance and contribution limits***

For 2019 the Section 415(c) limit restricts 403(b) contributions to the lesser of 100 percent of compensation or \$56,000. For 2020, this amount is \$57,000. Does the term "compensation" include a minister's housing allowance? This is an important question for ministers, since the answer will determine how much can be contributed to a 403(b) plan. If the housing allowance is treated as compensation, then ministers will be able to contribute larger amounts. The tax code specifies that the term "compensation" for purposes of applying the section 415(c) limit to a 403(b)(3) plan "means the participant's includible compensation determined under section 403(b)(3)." Section 403(b)(3) defines compensation to include "the amount of compensation which is received from the employer . . . and which is includible in gross income." Section 107 of the tax code

specifies that a minister's housing allowance (or the annual rental value of a parsonage) is *not* included in the minister's gross income for income tax reporting purposes. Therefore, it would appear that the definition of compensation for purposes of computing the Section 415(c) limit would *not* include the portion of a minister's housing allowance that is excludable from gross income, or the annual rental value of a parsonage. For many years the IRS website included the following question and answer addressing this issue:

*Question.* I am an employee minister in a local church. Each year, my church permits \$25,000 as a yearly tax-free housing allowance. I would like to use my yearly housing allowance as compensation to determine my annual contribution limits (to a TSA) under section 415(c) of the Internal Revenue Code. May I do so?

*Answer.* No. For purposes of determining the limits on contributions under section 415(c) of the Internal Revenue Code, amounts paid to an employee minister, as a tax-free housing allowance, may not be treated as compensation pursuant to the definitions of compensation under section 1.415-2(d) of the income tax regulations.

**KEY POINT** Churches that include the housing allowance as compensation when calculating the amount of the church's contribution to 403(b) plans must perform an additional calculation to ensure the total contributions to the plan do not exceed the maximum contribution allowed under section 415(c).

## ***Taxation of distributions from a 403(b) plan***

Amounts you contribute through employer discretionary contributions, employee salary reduction contributions, and the earnings attributable to these contributions, generally cannot be withdrawn before you reach age 59½, separate from service, die, or become disabled. In some cases of financial hardship, you may withdraw your own salary reduction contributions (but not the earnings on them) prior to the occurrence of any of the above events. A 403(b) plan may make hardship distributions only if permitted by the plan.

**KEY POINT** As this publication was going to print the IRS issued final regulations addressing early distributions from a 403(b) plan based on hardship. In general, the regulations make it easier to qualify for hardship distributions. Consult with a tax professional for additional information.

Once amounts are distributed, they are generally taxable as ordinary income unless designated in advance as a minister's housing allowance. In addition, if amounts are distributed prior to your reaching age 59½, you will be assessed an additional tax of 10

percent of the amount which is includable in income, unless one of the following exceptions applies:

- The distributions are part of a series of substantially equal periodic payments made over your life or the lives of your beneficiaries and after you separate from service.
- The distributions are made after you separate from service in or after the year in which you reach age 55.
- The distributions do not exceed the amount of unreimbursed medical expenses that you could deduct for the current year.
- The distributions are made after your death, or after you become disabled.
- The distributions are made to an alternate payee pursuant to a qualified domestic relations order.

The additional tax is computed on Form 5329.

**KEY POINT** You must receive all, or at least a certain minimum, of your interest accruing after 1986 in a 403(b) plan by April 1 of the calendar year following the later of the calendar year in which you become age 70 1/2, or the calendar year in which you retire. This required minimum is called your required minimum distribution (“RMD”).

### **Salary reduction contributions (Section 402(g))**

In addition to the section 415(c) limit there is an annual limit on elective deferral contributions. The limit applies to the total of all elective deferrals contributed (even if contributed through different employers) for the year on your behalf to a variety of retirement plans, including 403(b) plans. Generally, you cannot defer more than an allowable amount each year for all plans covering you. For 2019 the allowable limit was \$19,000. If you defer more than the allowable amount for a tax year, you must include the excess in your taxable income for that year.

**NEW IN 2020** The dollar limit on annual elective deferrals increases to \$19,500.

**KEY POINT** Church employees can make a special election that allows their employer to contribute up to \$10,000 for the year, even if this is more than 100 percent of your compensation. The total contributions over your lifetime under this election cannot be more than \$40,000.

The limit on elective deferrals increases for individuals who have attained age 50 by the end of the year. The additional amount that may be made is the lesser of (1) the “applicable dollar amount,” or (2) the participant’s compensation for the year reduced by any other elective deferrals of the participant for the year. The applicable dollar amount is \$6,000 for 2019 and \$6,500 for 2020. Catch-up contributions are not subject to any other contribution limits and are not taken into account in applying other contribution limits.

## **Qualified scholarships**

Amounts received as a qualified scholarship by a candidate for a degree may be excluded from gross income. A qualified scholarship is any grant amount that, in accordance with the conditions of the grant, is used for tuition and course-related expenses. Qualified tuition and related expenses are those used for (1) tuition and fees required for the enrollment or attendance at an educational institution or (2) fees, books, supplies, and equipment required for courses of instruction at the educational institution. The scholarship need not specify that it is to be used only for qualified tuition and related expenses. All that is required is that the recipient uses the scholarship for such expenses and that the scholarship does not specify that it is to be used for nonqualified expenses (such as room and board). In addition to these requirements, the scholarship must meet the additional requirements if the recipient is an employee or a family member of an employee. Generally, the scholarship must be noncompensatory in nature, selected using nonemployment related criteria, and an independent committee must make the selection of the recipient. Additional requirements may also apply. The church should seek the advice of a CPA or tax attorney to determine the proper treatment of scholarships to employees and their children.

**KEY POINT** Amounts paid by a church for the education of a pastor or other church employee cannot be treated as a nontaxable scholarship if paid “as compensation for services.”

Any amount received in excess of the qualified tuition and related expenses, such as amounts received for room and board, is not eligible for this exclusion.

Any amount received that represents payment for teaching, research, or other services required as a condition for receiving a qualified scholarship cannot be excluded from gross income. In addition, amounts paid by a church for the education of a pastor or other church employee cannot be treated as a nontaxable scholarship if paid “as compensation for services.”

**EXAMPLE** First Church establishes a scholarship fund for seminary students. Robert is a church member who is pursuing a master’s degree at

a seminary. The church votes to award him a scholarship of \$2,500 for 2020. So long as Robert uses the scholarship award for tuition or other course-related expenses, he need not report it as income on his federal tax return. The better practice would be for the church to stipulate that the scholarship is to be used for tuition or other course-related expenses (for example, fees, books, supplies), or for the church to pay the expenses directly to the educational institution. This will ensure that the scholarship does not inadvertently become taxable income because its specific use was not designated and the recipient used it for nonqualified expenses. As long as amounts are paid through a qualified scholarship plan, the church is not required to report the scholarship on Form 1099-MISC to the recipient.

### ***Sale or exchange of your principal residence***

A taxpayer who is an individual may exclude up to \$250,000 (\$500,000 if married filing a joint return) of gain realized on the sale or exchange of a principal residence. To be eligible for the exclusion, the taxpayer must have owned and used the residence as a principal residence for at least two of the five years ending on the date of the sale or exchange. A taxpayer who fails to meet these requirements by reason of a change of place of employment, health, or (to the extent provided under regulations) unforeseen circumstances, is able to exclude an amount equal to the fraction of the \$250,000 (\$500,000 if married filing a joint return) that is equal to the fraction of the two years that the ownership and use requirements are met. The exclusion under this provision may not be claimed for more than one sale or exchange during any two-year period unless the special provisions for unforeseen circumstances apply.

#### **Line 2 (Form 1040). Interest income: attach Schedule B if over \$1,500**

Complete this line if you had interest income. Tax-exempt interest income is reported on Line 2a with taxable interest income reported on Line 2b. If you had taxable interest income of more than \$1,500, complete Schedule B.

#### **Line 3 (Form 1040). Dividend income; attach Schedule B if more than \$1,500.**

Complete this line only if you had dividend income. Qualified dividend income is reported on Line 3a and enter all dividend income on Line 3b. If you had dividend income of more than that \$1,500, complete Schedule B.

## **Lines 4a and 4c (Form 1040). IRA, pension, and annuity income**

You should receive a Form 1099-R showing the total amount of your pension and annuity payments before income tax or other deductions were withheld. This amount should be shown in box 1 of Form 1099-R. Pension and annuity payments include distributions from 401(k) and 403(b) plans. Do not include the following payments, instead report them on line 1.

- Disability pensions received before you reach the minimum retirement age set by your employer.
- Corrective distributions (including any earnings) of excess salary deferrals or excess contributions to retirement plans. The plan must advise you of the year(s) the distributions are includible in income.

Many denominational pension funds annually designate 100 percent of pension and disability benefits paid to retired ministers as a housing allowance. In such cases the 1099-R form may show that the taxable amount of the pension income is “not determined” by checking the box on line 2b. If you are a retired or disabled minister, you may exclude all or a portion of your pension or disability income from your gross income reported on line 4 of Form 1040 if (1) you can document that the monies were actually spent on housing-related expenses during the tax year, (2) the amount excluded does not exceed the fair rental value of the home (furnished, including utilities) and (3) the applicable pension board designated the retirement payments as housing allowance.

IRS Publication 517 states: “If you are a retired minister, you can exclude from your gross income the rental value of a home (plus utilities) furnished to you by your church as a part of your pay for past services, or the part of your pension that was designated as a rental allowance. However, a minister’s surviving spouse cannot exclude the rental value unless the rental value is for ministerial services he or she performs or performed.”

**KEY POINT** Surviving spouses of deceased ministers cannot exclude any portion of the benefits received from their deceased spouse’s 403(b) account as a housing allowance.

## **Line 5a (Form 1040). Social Security benefits**

**KEY POINT** Individuals who receive Social Security retirement, disability, or survivor benefits may have to pay taxes on a portion of their benefits.

If you received Social Security benefits in 2019, you need to know whether or not these

benefits are taxable. Here are several rules the IRS has formulated to assist Social Security beneficiaries in knowing if their benefits are taxable:

1. You should receive a Form SSA-1099 showing in box 3 the total social security benefits paid to you. Box 4 will show the amount of any benefits you repaid in 2019. Use the Social Security Benefits Worksheet in IRS publication 915 to see if any of your benefits are taxable.
2. How much, if any, of your Social Security benefits are taxable depends on your total income and marital status.
3. Generally, if Social Security benefits were your only income for 2019, your benefits are not taxable and you probably do not need to file a federal income tax return.
4. If you received income from other sources, your benefits will not be taxed unless your modified adjusted gross income is more than the base amount for your filing status.
5. Your taxable benefits and modified adjusted gross income are computed on a worksheet in the instructions to Form 1040.
6. You can do the following quick computation to determine whether some of your benefits may be taxable:

First, add one-half of the total Social Security benefits you received to all your other income, including any tax-exempt interest and other exclusions from income.

Then, compare this total to the “base amount” for your filing status. If the total is more than your base amount, some of your benefits may be taxable.

The 2019 base amounts are:

- \$32,000 for married couples filing jointly
- \$25,000 for single, head of household, qualifying widow/widower with a dependent child, or married individuals filing separately who did not live with their spouses at any time during the year
- \$0 for married persons filing separately who lived together during the year

For additional information on the taxability of Social Security benefits, see IRS



Publication 915, Social Security and Equivalent Railroad Retirement Benefits.  
Publication 915 is available at IRS.gov.

### **Line 6 (Form 1040). Capital gain (or loss)**

Report on line 6 capital gains or losses (attach Schedule D) from the sale of capital assets. These include stocks, bonds, and property. Gain or loss is reported on Schedule D. You also may have to file Form 8949 (see the instructions to both forms for details).

**Key point.** Schedule D is for reporting capital gains and losses from investments. Schedule 1, line 3 (“other gains or losses”) is for reporting sales of capital assets such as equipment that are used in a business.

### **Line 7a (Form 1040). Other Income**

Income not reported on the Lines 1 through 6 is reported on Schedule 1 with the total reported on Schedule 1 reported on Line 7a.

The most important of these for ministers include

#### *(1) Line 3 (Schedule 1). Business income*

Report self-employment earnings (from Schedule C). Self-employment earnings include:

- Compensation reported to you on a Form 1099-MISC
- Fees received directly from church members for performing personal services (such as marriages and funerals)
- Honoraria you received for guest speaking appearances in other churches

If you received income from any of these kinds of activities, compute your net earnings on Schedule C and transfer this amount to line 3 of Schedule 1 (Form 1040).

#### *(2) Line 8 (Schedule 1). “Other income”*

“Other income” is reported on line 8 of Schedule 1 (Form 1040) and carried over to line 7a (Form 1040). Other income includes the following items:

- A canceled debt or a debt paid for you by another person (unless the person who

canceled or paid your debt intended it to be a gift)

- The fair market value of a free tour you receive from a travel agency for organizing a group of tourists (in some cases this may be reported on Schedule C)
- Most prizes and awards
- Some taxable distributions from a health savings account (HSA) or Archer MSA (see IRS Publication 969)
- Jury duty pay
- Recapture of a charitable contribution deduction if the charitable organization disposes of the donated property within 3 years of the contribution.
- Taxable benefits provided by the church but not included on Form W-2 or Form W-2c. (Also remember to include these benefits on Schedule SE for the calculation of self-employment tax.)

### **Line 7b (Form 1040). Total income**

Report “total income” on this line. This is the sum of the amounts reported on lines 1-7a of Form 1040, plus the additional categories of income reported on lines 1-9 of Schedule 1 (Form 1040).

## ***Step 5: Adjustments to income***

### **Lines 8a, 8b (Form 1040). Adjusted gross income**

You may deduct certain adjustments from total income (line 7b) to compute your adjusted gross income. Report the adjustments on lines 10 through 22 of Form 1040 (Schedule 1). The total amount is subtracted from line 7b to compute adjusted gross income that is reported on line 8b.

The two most relevant adjustments for ministers are the deduction for one-half of the self-employment tax, and payments to an individual retirement account (IRA). Both are summarized below.

*(1) Line 14 (Schedule 1) One-half of self-employment tax*

**KEY POINT** Every minister who pays self-employment taxes on ministerial income qualifies for this deduction. Some are not claiming it.

All ministers are self-employed for Social Security with respect to their ministerial income. They can deduct half of their actual self-employment taxes as an adjustment on line 14 (Schedule 1) of Form 1040, whether or not they are able to itemize deductions on Schedule A.

*(2) Line 19 (Schedule 1). Payments to an individual retirement account (IRA)*

An individual retirement arrangement, or IRA, is a personal savings plan which allows you to set aside money for retirement, while offering you tax advantages. You can set up different kinds of IRAs with a variety of organizations, such as a bank or other financial institution, a mutual fund, or a life insurance company.

The original IRA is referred to as a “traditional IRA.” A traditional IRA is any IRA that is not a Roth IRA or a SIMPLE IRA. You may be able to deduct some or all of your contributions to a traditional IRA. You may also be eligible for a tax credit equal to a percentage of your contribution. Amounts in your traditional IRA, including earnings, generally are not taxed until distributed to you. IRAs cannot be owned jointly. However, any amounts remaining in your IRA upon your death can be paid to your beneficiary or beneficiaries.

To contribute to a traditional IRA, you must be under age 70½ at the end of the tax year. You, or your spouse if you file a joint return, must have taxable compensation, such as wages, salaries, commissions, tips, bonuses, or net income from self-employment. Compensation does not include earnings and profits from property, such as rental income, interest and dividend income, or any amount received as pension or annuity income, or as deferred compensation.

For 2019, if you file a joint return and your taxable compensation is less than that of your spouse, the most that can be contributed for the year to your IRA is the smaller of the following two amounts: (1) \$6,000 (\$7,000 if you are age 50 or older), or (2) the total compensation includible in the gross income of both you and your spouse for the year, reduced by your spouse’s IRA contribution for the year to a traditional IRA and any contributions for the year to a Roth IRA on behalf of your spouse. (The contribution limits remain unchanged for 2020.)

All IRA contributions must be made by the due date of your tax return, not including extensions. This means that your 2019 IRA contribution must be made by April 15, 2020, even if you obtain an extension for filing this return.

**EXAMPLE** A church has a senior pastor who is 52 years old, and a youth pastor who is 30 years old. The church does not participate in a retirement program for its staff. In 2020, the senior pastor can contribute

\$7,000 to an IRA (maximum annual contribution of \$6,000 plus a “catch-up” contribution of \$1,000), and the youth pastor can contribute \$6,000.

Your allowable deduction may be reduced or eliminated, depending on your filing status, the amount of your income, and if you or your spouse are covered by an employer provided retirement plan. The deduction begins to decrease (phase out) when your income rises above a certain amount and is eliminated altogether when it reaches a higher amount. The amounts vary depending on your filing status. If you were covered by an employer provided retirement plan, then the deduction for contributions to your IRA are completely phased out when adjusted gross income reaches \$123,000 (MFJ) or \$74,000 (Single). (For 2020 the limits are \$124,000 (MFJ) and \$75,000 (Single))

If your spouse was covered by an employer retirement plan at any time during 2019 and you made contributions to your IRA, your allowable IRA deduction is completely phased out when adjusted gross income reaches \$203,000 (MFJ). (For 2020 the limit is \$206,000 (MFJ)). (See IRS Publication 590-A.) The Form W-2 you receive from your church or other employer has a box used to show whether you were covered by a retirement plan during the year. The “Retirement Plan” box should have a mark in it if you were covered. Employer retirement plans include 403(b) tax-sheltered annuities.

Figure your deduction using the worksheets in the instructions to Form 1040 or in Publication 590-A.

Individuals who cannot claim a deduction for an IRA contribution still can make nondeductible IRA contributions, subject to the lesser of \$6,000 (for 2019 and 2020) or earned income limits. Earnings on these amounts continue to accumulate on a tax-deferred basis. When distributions are made from the IRA, special rules apply in figuring the tax on the distributions when both deductible and nondeductible contributions were made to the IRA. Form 8606 is used to designate a contribution as nondeductible and must be filed or the full amount of future withdrawals may be taxed. Withdrawals before age 59½ are subject to a 10 percent penalty tax that also applies to deductible IRA contributions.

Distributions from a traditional IRA are fully or partially taxable in the year of distribution. Use Form 8606 to figure the taxable portion of withdrawals. If you made only deductible contributions, distributions are fully taxable.

Distributions made prior to age 59½ may be subject to a 10 percent additional tax. You also may owe an excise tax if you do not begin to withdraw minimum distributions by

April 1st of the year after you reach age 70½.

A Roth IRA differs from a traditional IRA in several respects. A Roth IRA does not permit a deduction at the time of contribution. Regardless of your age, you may be able to establish and make nondeductible contributions to a Roth IRA. However, you may be limited in the amount of nondeductible contributions you may make to your Roth IRA due to your adjusted gross income (AGI). For those filing as married filing jointly, no contribution may be made to a Roth IRA in 2019 if your AGI, as modified, is \$203,000 or above. For those filing as single, no contribution may be made to a Roth IRA if your AGI, as modified, is \$137,000 or above. (For 2020, the Roth IRA contribution is phased out totally when AGI is \$206,000 for taxpayers married filing jointly and \$139,000 for singles and head of household filers.)

You do not report Roth contributions on your tax return. To be a Roth IRA, the account or annuity must be designated as a Roth IRA when it is set up. Like a traditional IRA, a Roth IRA can be set up but there are limitations on the amount that can be contributed and the time of year that contributions can be made. You do not include in your gross income qualified distributions or distributions that are a return of your regular contributions from your Roth IRA. Refer to Publication 590-A for additional information on Roth IRA(s).

For information on conversions from a traditional IRA to a Roth IRA, refer to Publication 590-A. No further contributions to a traditional IRA are permissible in the year you reach age 70½ or for any later year, and distributions from a traditional IRA must generally begin by April 1 of the year following the year in which you reach age 70½. However, you must receive at least a minimum amount for each year starting with the year you reach age 70½ (your “70½ year”). If you do not (or did not) receive that minimum amount in your 70½ year, then you must receive distributions for your 70½ year by April 1 of the next year. This means that you will have two required distributions in that year.

Even if you receive a distribution from your IRA before age 59 1/2, you may not have to pay the 10% penalty if the distributions are not more than your qualified education expenses, or you use the distributions to buy, build, or rebuild a first home. See IRS Publication 590-B for an explanation of exceptions to the age 59 1/2 rule.

**Charitable contributions.** An IRA owner, age 70½ or over, can directly transfer, tax-free, up to \$100,000 per year to an eligible charity. Distributions from employer-sponsored retirement plans, including SIMPLE IRA plans and simplified employee pension (SEP) plans, are not eligible. To qualify, the funds must be transferred directly by the IRA custodian to the eligible charity. Distributed amounts may be excluded from the IRA owner’s income, resulting in lower taxable income for the IRA owner. However,

if the IRA owner excludes the distribution from income, no deduction, such as a charitable contribution deduction on Schedule A, may be taken for the distributed amount.

To report a qualified charitable distribution on your Form 1040 tax return, you generally report the full amount of the charitable distribution on the line for IRA distributions (line 4a, Form 1040). On the line for the taxable amount, enter zero if the full amount was a qualified charitable distribution. Enter "QCD" next to this line. See the Form 1040 instructions for additional information.

Not all charities are eligible. For example, donor-advised funds and supporting organizations are not eligible recipients.

Amounts transferred to a charity from an IRA are counted in determining whether the owner has met the IRA's required minimum distribution (RMD).

**Key Point:** The QCD does need a qualifying receipt from the recipient charity with the mandated "no goods or services statement". However, a church may include the gift on the IRA owner's regular giving statement in an attempt to fulfill this requirement. Care should be taken to not take a deduction for the QCD, if it is included on the regular giving statement. Best practice is for the recipient charity or church to issue a separate statement for the gift.

## ***Step 6: Tax computation***

### **Line 9 (Form 1040). Itemized deductions or standard deduction**

**KEY POINT** Itemize your deductions on Schedule A only if they exceed the standard deduction for your filing status.

On line 9 you enter either your itemized deductions from Schedule A or a standard deduction amount. Itemized deductions are discussed under Schedule A in this guide. For 2019, the standard deduction amounts are as follows:

#### **FILING STATUS AND STANDARD DEDUCTION AMOUNT (2019)**

single .....	\$12,200
married filing jointly or qualifying widow(er).....	\$24,400
married filing separately .....	\$12,200

head of household .....\$18,350

### **Line 12a (Form 1040). Compute tax**

Most ministers can use the tax tables to determine their income taxes. Some higher income ministers must use the tax rate schedules (a spouse's income is considered in deciding whether or not to use the tax rate schedules).

## ***Step 7: Credits***

A credit is a direct dollar-for-dollar reduction in your tax liability. It is much more valuable than deductions and exclusions, which merely reduce taxable income. On your 2019 Form 1040, nonrefundable credits (i.e., credits that do not generate a tax refund if the credit amount exceeds taxable income) are reported on lines 1-7 of Schedule 3, and the total amount for all credits is carried over to line 13b of Form 1040.

The more common and important credits for ministers are the child tax credit, the credit for child and dependent care expenses, and the retirement savings credit. Each of these is addressed below.

### **Line 13a (Form 1040). Child tax credit**

The Tax Cuts and Jobs Act of 2017 temporarily increases the child tax credit to \$2,000 per qualifying child. The credit is further modified to temporarily provide for a \$500 nonrefundable credit for qualifying dependents other than qualifying children (such as aging parents). The provision generally retains the present-law definition of *dependent*.

However, the maximum amount refundable may not exceed \$1,400 per qualifying child. Additionally, in order to receive the child tax credit (*i.e.*, both the refundable and non-refundable portion) a taxpayer must include a Social Security number for each qualifying child for whom the credit is claimed on the tax return. For these purposes, a Social Security number must be issued before the due date for the filing of the return for the taxable year. This requirement does not apply to a non-child dependent for whom the \$500 nonrefundable credit is claimed.

Further, the Tax Cuts and Jobs Act retains the present-law age limit for a qualifying child. As a result, a qualifying child is an individual who has not attained age 17 during the taxable year. The law also modifies the adjusted gross income phaseout thresholds. The credit begins to phase out for taxpayers with adjusted gross income in excess of \$400,000 (in the case of married taxpayers filing a joint return) and \$200,000 (for all other taxpayers). These phaseout thresholds are not indexed for inflation.

These new provisions are effective for taxable years beginning after December 31, 2017, and expire for taxable years beginning after December 31, 2025, unless extended by Congress.

**Line 13b (from Form 1040, Schedule 3, line 2). Credit for child and dependent care expenses: attach Form 2441**

Complete this line if you are eligible for a credit for child or dependent care expenses. See the instructions to Form 1040, line 13b, for details and conditions.

See IRS Publication 972 for additional information.

**Line 13b (from Form 1040, Schedule 3, line 4. Retirement Savings Contributions Credit (“Saver’s Credit”))**

If you make eligible contributions to certain eligible retirement plans or to an individual retirement arrangement (IRA), you may be able to take a tax credit. The amount of the saver’s credit you can get is generally based on the contributions you make and your credit rate. Refer to Publication 590-A or the instructions for Form 8880 for more information. If you are eligible for the credit, your credit rate can be as low as 10 percent or as high as 50 percent, depending on your adjusted gross income. The lower your income, the higher the credit rate; your credit rate also depends on your filing status. These two factors will determine the maximum credit you may be allowed to take. You are not eligible for the credit if your adjusted gross income exceeds a certain amount.

The credit is available with respect to elective deferrals to a 401(k) plan, a 403(b) annuity, a SIMPLE or a simplified employee pension (SEP), contributions to a traditional or Roth IRA, and voluntary after-tax employee contributions to a 403(b) annuity or qualified retirement plan. The amount of the credit for 2019 is described in the following table.

Adjusted Gross Income			
joint returns	heads of household	single filers	amount of credit



\$1–\$38,500	\$1–\$28,875	\$1–\$19,250	50% of eligible contributions up to \$2,000 (\$1,000 maximum credit)
\$38,501–\$41,500	\$28,876–\$31,125	\$19,0251–\$20,750	20% of eligible contributions up to \$2,000 (\$400 maximum credit)
\$41,501–\$64,000	\$31,126–\$48,000	\$20,751–\$32,000	10% of eligible contributions up to \$2,000 (\$200 maximum credit)
over \$64,000	over \$48,000	over \$32,000	0%

For married couples filing jointly, each spouse is eligible for the credit.

For more information about this credit, see IRS Form 8880 and Publication 590-A.

### ***Step 8: Other taxes (Form 1040 line 15, from Schedule 2, line 10 (“other taxes”))***

On the Form 1040 for 2019, “other taxes” are derived from line 10 of Schedule 2 and the total of all taxes is carried over to line 15 of Form 1040. These include self-employment taxes which ministers must pay on ministerial income (unless exempt).

### ***Step 9: Payments***

On the 2019 Form 1040, amounts representing federal income tax withholding is reported on line 17. Other tax payments are reported on Schedule 3 and reported on Line 18d of Form 1040. The two most important categories of tax “payments” are withheld taxes and estimated tax payments, as noted below.

### **Line 17 (Form 1040). Federal income tax withheld**

Ministers' wages based on the performance of ministerial services are exempt from federal income tax withholding. As a result, only those ministers who have entered into a voluntary withholding arrangement with their church will have income taxes withheld. The church should report the amount of voluntarily withheld taxes on the minister's Form W-2.

**KEY POINT** Ministers who enter into voluntary withholding arrangements will have federal and state income taxes withheld from their wages. However, a church does not withhold the employee's share of Social Security and Medicare taxes, since ministers are self-employed for Social Security with respect to ministerial compensation. Ministers can request (on Form W-4 or through other written instructions) that their church withhold an additional amount of income taxes to cover their expected self-employment tax liability. These additional withholdings must be treated as income taxes withheld (on Forms W-2 and 941) rather than the employee's share of Social Security and Medicare taxes. They constitute a credit that can be applied to both income taxes and self-employment taxes. Ministers still must complete Schedule SE to report their self-employment tax liability.

### **Line 18, (Form 1040). Estimated tax payments, Form 1040 line 18d from Schedule 3 (Form 1040), line 8**

Compensation paid to ministers for ministerial duties is not subject to mandatory tax withholding. As a result, ministers must prepay their income tax and Social Security (self-employment) taxes by using the quarterly estimated tax procedure, unless they have entered into a voluntary withholding agreement with their employing church. The estimated tax procedure is summarized in Part 2 of this guide in the section "How do ministers pay their taxes?"

The total amount of estimated tax payments made to the IRS is reported as a payment of taxes on line 8 of Schedule 3 (Form 1040), and carried over with the other kinds of payments listed on Schedule 3 to line 18d of Form 1040.

### **Line 18a, (Form 1040). Earned income credit**

The earned income credit reduces tax you owe and may give you a refund even if you do not owe any tax. A number of technical requirements must be met in order to qualify for this credit. Unfortunately, many taxpayers who qualify for the earned income credit do not claim it because it is so difficult to compute. In most cases, the amount of your earned income credit depends on: (1) whether you have no qualifying child, one qualifying child, two qualifying children, or three or more qualifying children; and (2) the amount of your earned income and modified adjusted gross income.

You may be able to claim the earned income credit for 2019 if (1) you do not have a qualifying child and you earned less than \$15,570 (\$21,370 if married filing jointly); (2) a qualifying child lived with you and you earned less than \$41,094 (\$46,884 if married filing jointly); (3) two qualifying children lived with you and you earned less than \$46,703 (\$52,493 if married filing jointly); or (4) three or more qualifying children lived with you and you earned less than \$50,162 (\$55,952 if married filing jointly). The maximum earned income credit for 2019 is (1) \$529 with no qualifying child; (2) \$3,526 with one qualifying child; (3) \$5,828 with two qualifying children; and (4) \$6,557 with three or more qualifying children.

You can compute the credit yourself or the IRS will compute it for you. To figure the amount of your earned income credit, you must use the EIC Worksheet and EIC Table in the instructions for Form 1040, line 18a. Ministers may want to consider having the IRS compute the credit for them, especially due to confusion about how the housing allowance affects the credit.

The credit is reported on line 18a of Form 1040.

IRS Publication 596 is a 40-page publication that explains the earned income credit. The 2018 edition (the most recent available at the time of publication of this text) states, in general: “The rental value of a home or a housing allowance provided to a minister as part of the minister’s pay generally isn’t subject to income tax but is included in net earnings from self-employment. For that reason, it is included in earned income for the EIC” except for ministers who have opted out of self-employment taxes by filing a timely Form 4361 exemption application with the IRS.

Excerpts from Publication 596 confirm that ministers who are employees for income tax reporting purposes and who have *not* exempted themselves from self-employment taxes by filing a timely Form 4361 with the IRS *include* their housing allowance or the fair rental value of a parsonage in computing earned income for purposes of the earned income credit.

But what about ministers who have exempted themselves from self-employment taxes by filing a timely Form 4361 with the IRS? Do they include a housing allowance or the rental value of a parsonage in computing their earned income for purposes of the earned income credit? As noted above, Publication 596 explicitly states, with regard to ministers who have filed Form 4361, that “a nontaxable housing allowance or the nontaxable rental value of a home is not earned income.”

With respect to ministers who have filed a timely Form 4361, Publication 596 states:

Whether or not you have an approved Form 4361, amounts you received for performing ministerial duties as an employee count as earned income. This includes wages, salaries, tips, and other taxable employee compensation. [But] if you have an approved Form 4361, a nontaxable housing allowance or the nontaxable rental value of a home isn’t earned income. Also, amounts you received for performing ministerial duties, but not as an employee, don’t count as earned income. Examples include fees for performing marriages and honoraria for delivering speeches.

Ministers who are affected by this issue should consult their own tax advisor for help.

## ***Step 10: Refund or amount you owe***

After totaling your payments, you can calculate whether you owe the government, or a refund is due you. If you owe a tax, be certain to enclose with your return a check in the amount you owe payable to the “United States Treasury” or by making the payment through your EFTPS account. Do not attach the check to your return, but include it with a Form 1040-V. If you file your return electronically, the payment may be sent in separately using the Form 1040-V. Include your daytime phone number, your Social Security number, and write “Form 1040 for 2019” on the check. If you owe taxes, you also may have to pay an underpayment penalty (refer to line 24 of Form 1040).

If you have overpaid your taxes, you have two options: (1) request a full refund, or (2) apply the overpayment to your 2020 estimated tax.

## ***Step 11: Sign here***

You must sign and date the return at the bottom of page 2. If you are filing a joint return, your spouse must also sign the return. In the “your occupation” space, enter your occupation—*minister*.

If you or your spouse has been the victim of identity theft, the IRS will issue you an Identity Protection PIN that must also be entered in this section of the return.

# **Other forms and schedules**

## ***Schedule A***

**KEY POINT** If your itemized deductions exceed your standard deduction, you should report your itemized deductions on Schedule A (Form 1040). This section will summarize the itemized deductions.

### **Step 1: Medical and dental expenses (lines 1–4)**

You may deduct certain medical and dental expenses (for yourself, your spouse, and your dependents) if you itemize your deductions on Schedule A, but only to the extent that your expenses exceed 10 percent of your adjusted gross income. You must reduce your medical expenses by the amounts of any reimbursements you receive for those expenses before applying the 10 percent test. Reimbursements include amounts you receive from insurance or other sources for your medical expenses (including Medicare). It does not matter if the reimbursement is paid to the patient, the doctor, or the hospital.

*The following expenses ARE deductible as medical expenses:*

- Fees for medical services
- Fees for hospital services
- Lodging at a hospital during medical treatment (subject to some limits)
- Medical and hospital insurance premiums that you pay (do not include amounts

paid to health sharing arrangements)

- Special equipment
- Medicare A premiums you pay if you are exempt from Social Security and voluntarily elect to pay Medicare A premiums
- Medicare B premiums you pay
- Medicare D premiums you pay
- Medicare Supplement premiums you pay (or are deducted from your pension)
- Long-term care insurance premiums, subject to certain limitations on the amount that may be deducted
- Special items (false teeth, artificial limbs, eyeglasses, hearing aids, crutches, etc.)
- Transportation for necessary medical care. For 2019, the standard mileage rate for medical travel was 20 cents per mile. (The IRS had not announced the mileage rates for 2020 as of the date of publication of this text)
- Medicines and drugs requiring a prescription, and insulin
- The portion of a life-care fee or founder's fee paid either monthly or in a lump sum under an agreement with a retirement home that is allocable to medical care
- Wages of an attendant who provides medical care
- The cost of home improvements if the main reason is for medical care
- Program to stop smoking
- Exercise expenses (including the cost of equipment to use in the home) if required to treat an illness (including obesity) diagnosed by a physician, and the purpose of the expense is to treat a disease rather than to promote general health and the taxpayer would not have paid the expense but for this purpose

*The following items are NOT deductible as medical expenses:*

- The cost of diet food

- Funeral services
- Health club dues (except as noted above)
- Household help
- Life insurance
- Maternity clothes
- Nonprescription medicines and drugs
- Nursing care for a healthy baby
- Toothpaste, cosmetics, toiletries
- Trip for general improvement of health
- Most cosmetic surgery

## **Step 2: Taxes you paid (lines 5–7)**

In the past, individuals were permitted a deduction for certain taxes paid or accrued, whether or not incurred in a taxpayer's trade or business. These taxes were:

- State and local real property taxes,
- State and local personal property taxes, and
- State and local income taxes.

At the election of the taxpayer, an itemized deduction may be taken for State and local general sales taxes in lieu of the itemized deduction for State and local income taxes. This provision was added to address the unequal treatment of taxpayers in the seven states that do not have an income tax. Taxpayers in these states cannot take advantage of the itemized deduction for state income taxes. Allowing them to deduct sales taxes helps offset this disadvantage.

The Tax Cuts and Jobs Act allows taxpayers to claim an itemized deduction of up to \$10,000 (\$5,000 for married taxpayer filing a separate return) for the aggregate of:

- State and local property taxes, and
- State and local income taxes (or sales taxes in lieu of income taxes) paid or accrued in the taxable year.

The new rules apply to taxable years 2019 through 2025.

Some states attempted to assist taxpayers in avoiding the above limitations by creating state-run charities that would grant “tax credits” in exchange for charitable contributions that would qualify for a tax deduction. The IRS issued regulations stating that to the extent a tax credit was granted, the charitable contribution would not be deductible.

### **Step 3: Interest you paid (lines 8-10)**

As a general matter, personal interest is not deductible. Qualified residence interest is not treated as personal interest and is allowed as an itemized deduction, subject to limitations. Qualified residence interest means interest paid or accrued during the taxable year on either acquisition indebtedness or home equity indebtedness. A qualified residence means the taxpayer’s principal residence and one other residence of the taxpayer selected to be a qualified residence. A qualified residence can be a house, condominium, cooperative, mobile home, house trailer, or boat.

Acquisition indebtedness is indebtedness that is incurred in acquiring, constructing, or substantially improving a qualified residence of the taxpayer and which secures the residence. Note the following two rules:

#### **Limit on loans taken out on or before December 15, 2017**

For qualifying debt taken out on or before December 15, 2017, you can only deduct home mortgage interest on up to \$1,000,000 (\$500,000 if you are married filing separately) of that debt. The only exception is for loans taken out on or before October 13, 1987 (see IRS Publication 936 for more information about loans taken out on or before October 13, 1987.)

See Publication 936 to figure your deduction if you have loans taken out on or before December 15, 2017, that exceed \$1,000,000 (\$500,000 if you are married filing separately).

#### **Limit on loans taken out after December 15, 2017**

For qualifying debt taken out after December 15, 2017, you can only deduct home mortgage interest on up to \$750,000 (\$375,000 if you are married filing separately) of that debt. If you also have qualifying debt subject to the \$1,000,000 limitation discussed above, the \$750,000 limit for debt taken out after December 15, 2017, is reduced by the amount of your qualifying debt subject to the \$1,000,000 limit. An exception exists for certain loans taken out after December 15, 2017, but before April 1, 2018. If the exception applies, your loan may be treated in the same manner as a loan taken out on or



before December 15, 2017. See IRS Publication 936 for more information about this exception. See Publication 936 to figure your deduction if you have loans taken out after October 13, 1987, that exceed \$750,000 (\$375,000 if you are married filing separately).

The term “points” is sometimes used to describe certain charges paid by a borrower. They are also called loan origination fees, maximum loan charges, or premium charges. If the payment of any of these charges is *only* for the use of money, it ordinarily is interest paid in advance and must be deducted in installments over the life of the mortgage (not deducted in full in the year of payment). However, points are deductible in the year paid if the following requirements are satisfied:

1. Your loan is secured by your main home. (Your main home is the one you ordinarily live in most of the time.)
2. Paying points is an established business practice in the area where the loan was made.
3. The points paid were not more than the points generally charged in that area.
4. You use the cash method of accounting. This means you report income in the year you receive it and deduct expenses in the year you pay them. Most individuals use this method.
5. The points were not paid in place of amounts that ordinarily are stated separately on the settlement statement, such as appraisal fees, inspection fees, title fees, attorney fees, and property taxes.
6. The funds you provided at or before closing, plus any points the seller paid, were at least as much as the points charged. The funds you provided are not required to have been applied to the points. They can include a down payment, an escrow deposit, earnest money, and other funds you paid at or before closing for any purpose. You cannot have borrowed these funds from your lender or mortgage broker.
7. You use your loan to buy or build your main home.
8. The points were computed as a percentage of the principal amount of the mortgage.
9. The amount is clearly shown on the settlement statement (such as the Settlement Statement, Form HUD-1) as points charged for the mortgage. The points may be shown as paid from either your funds or the seller’s.

**KEY POINT** Points are not currently deductible when paid in association with the refinancing of the home. These points must be amortized over the life of the new

mortgage.

#### **Step 4: Gifts to charity (lines 11-14)**

Cash contributions to churches, schools, and most other public charities, that are U.S. organizations, are deductible up to 60 percent of adjusted gross income. Contributions of property are subject to different limitations. See IRS Publication 526. Contributions of cash or checks are reported on line 11, while contributions of noncash property are reported on line 12. If you do not itemize deductions, you cannot deduct any of your charitable contributions.

The value of personal services is never deductible as a charitable contribution, but unreimbursed expenses incurred in performing services on behalf of a church or other charity may be. For example, if you drive to and from volunteer work on behalf of a charity, you may deduct the actual cost of gas and oil or you may claim the standard charitable mileage rate of 14 cents for each substantiated mile (for 2019 and 2020). Unreimbursed travel expenses incurred while away from home (whether within the United States or abroad) in the course of donated services to a tax-exempt religious or charitable organization are deductible as a charitable contribution. There are two ways to do this.

Individuals performing the charitable travel can keep track of their own travel expenses and then claim a charitable contribution for the total on Schedule A. (A letter acknowledging the individual's service should be obtained from the charity.) Or, these individuals could provide their church or charity with a travel report substantiating all travel expenses. In such a case, the church or charity could issue the individual a charitable contribution receipt for the total amount of the substantiated travel expenses. Travel expenses that can be receipted include airfare, lodging, meals and incidental expenses.

No charitable deduction is allowed for travel expenses incurred while away from home in performing services for a religious or charitable organization unless there is no significant element of personal pleasure, recreation, or vacation involved in the travel.

**EXAMPLE** Pastor J goes on a trip to Europe. She is in Europe for 10 days and conducts one-hour worship services on two of those days. Pastor J will not be able to claim a charitable contribution deduction for the travel expenses that she incurs in making this trip. The same rule would apply if Pastor J's spouse or children go along on the trip.

Charitable contributions must be claimed in the year they are delivered. One exception is a check that is mailed to a charity—it is deductible in the year the check is mailed (and

postmarked), even if it is received early in the next year.

Charitable contributions generally are deductible only to the extent they exceed the value of any premium or benefit received by the donor in return for the contribution.

There are limits on the amount of a contribution that can be deducted. Generally, cash contributions to churches, schools, and other public charities are deductible up to a maximum of 60 percent of adjusted gross income. In some cases, contributions that exceed these limits can be carried over and claimed in future years. Some charitable contributions are limited to 20 percent or 30 percent of adjusted gross income, depending on the recipient and the form of the contribution.

Restricted contributions are those that are made to a church with the stipulation that they be used for a specified purpose. If the purpose is an approved project or program of the church, the designation will not affect the deductibility of the contribution. An example is a contribution to a church building fund. However, if a donor stipulates that a contribution be spent on a designated individual, no deduction is allowed unless the church exercises full administrative control over the donated funds to ensure that they are being spent in furtherance of the church's exempt purposes. Restricted contributions that ordinarily are not deductible include contributions to church benevolence or scholarship funds that designate a specific recipient. Contributions to benevolence or scholarship funds ordinarily are deductible if the donor does not earmark a specific recipient.

Contributions to a church or missions board that specify a particular missionary may be tax-deductible if the church or missions board exercises full administrative and accounting control over the contributions and ensures that they are spent in furtherance of the church's mission. Direct contributions to missionaries, or any other individual, are not tax-deductible, even if they are used for religious or charitable purposes.

Charitable contributions must be properly substantiated. Individual cash contributions of less than \$250 may be substantiated by a canceled check or a receipt from the charity. Special rules govern the substantiation of individual contributions of cash or property of \$250 or more. The donor must substantiate these contributions with a qualifying receipt from the charity including a listing of the contributions and a statement that there were no goods or services provided in exchange for the contributions. These rules are further explained in the supplement to this guide entitled *Federal Reporting Requirements for Churches*.

**KEY POINT** It is the responsibility of the donor to confirm that all donations claimed are supported by qualifying receipts. The consequence of failure is a loss of any contribution not supported by a qualifying receipt. This error cannot be

corrected if discovered after the tax return is filed. Some churches and charities fail to issue qualifying receipts, so donors must be vigilant in meeting this requirement.

If you contribute property that you value at \$500 or more, you must include a completed Form 8283 with your Form 1040. Complete only section A if the value claimed is \$500 or more but less than \$5,000. If you claim a deduction of more than \$5,000 for a contribution of noncash property (other than publicly traded securities), then you must obtain a qualified appraisal of the property and include a qualified appraisal summary (Section B of Form 8283) with your Form 1040.

Special rules apply to donations of cars, boats, and planes. See the instructions to IRS Form 1098-C for details.

**KEY POINT** The Tax Court ruled that a donor who contributed property worth more than \$10,000 to a church was not eligible for a charitable contribution deduction, even though there was no dispute as to the value of the property, because he failed to attach a qualified appraisal summary (Form 8283) to the tax return on which the contribution was claimed.

### **Step 5: Casualty and theft losses (line 15)**

Under prior law, a taxpayer could claim an itemized deduction for any loss sustained during the taxable year, not compensated by insurance or otherwise. For individual taxpayers, deductible losses had to be incurred in a trade or business or other profit-seeking activity or consist of property losses arising from fire, storm, shipwreck, or other casualty, or from theft. Personal casualty or theft losses were deductible only if they exceeded \$100 per casualty or theft. In addition, aggregate net casualty and theft losses were deductible only to the extent they exceeded 10 percent of an individual taxpayer's adjusted gross income.

The Tax Cuts and Jobs Act temporarily modifies the deduction for personal casualty and theft losses. Taxpayers may claim a personal casualty loss (subject to the limitations described above) only if the loss was attributable to a disaster declared by the President under the Disaster Relief and Emergency Assistance Act. This limitation is effective for losses incurred in taxable years 2018 through 2025.

### **NOTE: Job expenses and most other miscellaneous deductions**

Employee business expenses that are either unreimbursed, or reimbursed by an employer under a nonaccountable arrangement, are no longer deductible by an employee. This provision of the Tax Cuts and Jobs Act is effective for taxable years 2018 through 2025 unless extended by Congress.

The elimination of an itemized deduction for unreimbursed employee business expenses will hit some clergy hard. Some have suggested that this impact can be minimized if a church reimburses employees business expenses under an accountable expense reimbursement arrangement. To be accountable, a church's reimbursement arrangement must comply with all four of the following rules:

- Expenses must have a business connection—that is, the reimbursed expenses must represent expenses incurred by an employee while performing services for the employer.
- Employees are only reimbursed for expenses for which they provide an adequate accounting within a reasonable period of time (not more than 60 days after an expense is incurred).
- (Employees must return any excess reimbursement or allowance within a reasonable period of time (not more than 120 days after an excess reimbursement is paid).
- The income tax regulations caution that in order for an employer's reimbursement arrangement to be accountable, it must meet a "reimbursement requirement" in addition to the three requirements summarized above. The reimbursement requirement means that an employer's reimbursements of an employee's business expenses come out of the employer's funds and not by reducing the employee's salary.

The basis for this workaround is the fact that while the Tax Cuts and Jobs Act eliminated "all miscellaneous itemized deductions that are subject to the 2 percent floor under present law" (including unreimbursed employee business expenses, and employee expenses reimbursed under a nonaccountable plan) it did not modify or repeal section 62(a)(2)(A) of the tax code, which excludes from tax employer reimbursements of employee business expenses under an accountable plan (defined above).

## ***Schedule B***

Schedule B is used to report taxable interest income and dividend income of more than

\$1,500.

### **Step 1: Interest income (lines 1–4)**

List (on line 1) the name of each institution or individual that paid you taxable interest if you received more than \$1,500 of taxable interest in 2019. Be sure the interest you report on line 1 corresponds to any 1099INT forms you received from such institutions. Do not include tax-exempt interest. Taxable interest income is carried over to line 2b of Form 1040.

### **Step 2: Dividend income (lines 5–6)**

List (on line 5) the name of each institution that paid you dividends if you received more than \$1,500 in dividends in 2019. Be sure the dividends you report on line 5 correspond to any 1099-DIV forms you received from such institutions. Ordinary dividend income is carried over to line 3b of Form 1040.

### **Step 3: Foreign accounts and foreign trusts (lines 7-8)**

Be sure to complete this part of the schedule if you had more than \$1,500 of either taxable interest or dividends.

## ***Schedule C***

**KEY POINT** Most ministers who serve local churches or church agencies are employees for federal income tax purposes with respect to their church salary. They report their church salary on line 1 of Form 1040 and receive a Form W-2 from the church. They do not report their salary as self-employment earnings on Schedule C.

**KEY POINT** Use Schedule C to report income and expenses from ministerial activities you conduct other than in your capacity as a church employee. Examples would be fees for guest speaking in other churches, and fees received directly from church members for performing personal services, such as weddings and funerals.

**KEY POINT** The IRS has discontinued the simplified Schedule C-EZ for 2019 and future years. Persons who used Schedule C-EZ in the past will now use Schedule C.

### **Step 1: Introduction**

Complete the first several questions on Schedule C. Ministers should list code 541990 on

line B, since this is the code the IRS uses in a clergy tax illustration in Publication 517. Some ministers who report their church compensation as self-employed point to this code as proof that ministers serving local churches can report as self-employed. This is not so. This code applies to the incidental self-employment activities of ministers who report their church salaries as employees. It also applies to those few ministers who are self-employed, such as traveling evangelists.

### **Step 2: Income (lines 1–7)**

Report on line 1 your gross income from your self-employment activity.

### **Step 3: Expenses (lines 8–27)**

**CAUTION.** Many ministers continue to report their income taxes as self-employed. One perceived advantage of doing so is the ability to deduct business expenses on Schedule C (and avoid the nondeductibility of unreimbursed and nonaccountable reimbursed employee business expenses as itemized deductions on Schedule A). This advantage is often illusory. Most “self-employed” ministers, if audited by the IRS, would be reclassified as employees and their Schedule C deductions disallowed. This could result in substantial additional taxes, penalties, and interest. The best way for ministers to handle their business expenses is through an accountable expense reimbursement arrangement.

Report any business expenses associated with your self-employment earnings on lines 8 through 27. For example, if you incur transportation, travel or other expenses in the course of performing self-employment activities, you deduct these expenses on lines 8 through 27 of Schedule C. Self-employed persons can deduct only 50 percent of business meals and meals associated with entertainment.

**KEY POINT** The Tax Cuts and Jobs Act of 2017 provides that no deduction is allowed with respect to (1) an activity generally considered to be entertainment, amusement or recreation, (2) membership dues with respect to any club organized for business, pleasure, recreation or other social purposes, or (3) a facility or portion thereof used in connection with any of the above items. Thus, the provision repeals the present-law exception to the deduction disallowance for entertainment, amusement, or recreation that is directly related to (or, in certain cases, associated with) the active conduct of the taxpayer’s trade or business (and the related rule applying a 50 percent limit to such deductions). Taxpayers may still generally deduct 50 percent of the food and beverage expenses associated with operating their trade or business (e.g., meals consumed by employees on work travel). For amounts incurred and paid after December 31, 2017 and through

December 31, 2025, the Tax Cuts and Jobs Act expands this 50 percent limitation to expenses of the employer associated with providing food and beverages to employees through an eating facility that meets requirements for de minimis fringes and for the convenience of the employer. This new law does not affect the taxation of reimbursement of entertainment expenses. As long as the church has adopted and followed an accountable expense reimbursement plan, the minister does not include reimbursement of entertainment expenses in his taxable income. Since self-employed ministers list only their net self-employment earnings (that is, after deducting all business and professional expenses) as a component of gross income on Form 1040 they in effect are able to deduct 100 percent of their business and professional expenses even though they cannot deduct business expenses as an itemized deduction on Schedule A.

Report self-employment income from Schedule C on Schedule 1, line 3 (Form 1040) and carry over this and other items of additional income reported on Schedule 1 to line 7a of Form 1040.

## ***Schedule SE***

**KEY POINT** Use Schedule SE to report Social Security taxes on any income you earned as a minister if you have not applied for and received IRS approval of an exemption application (Form 4361). Remember, ministers (except for some chaplains) are self-employed for Social Security with respect to their ministerial services. They pay self-employment taxes, and not Social Security and Medicare (“FICA”) taxes, with respect to compensation from such services.

**KEY POINT** Ministers who have received IRS approval of an application for exemption from self-employment taxes (Form 4361) do not pay self-employment taxes on compensation received for their ministerial services.

### **Step 1: Section A (line 2)**

Most ministers use the short Schedule SE rather than the long Schedule SE. This means that they complete section A on page 1 of the schedule rather than Section B on page 2.

Ministers report their net self-employment earnings on line 2 of Section A. This amount is computed as follows:

Add the following to your church salary:



- other items of church income (including taxable fringe benefits)
- fees you receive for marriages, baptisms, funerals, masses, etc.
- self-employment earnings from outside businesses
- annual rental value of a parsonage, including utilities paid by church (unless you are retired)
- a housing allowance (unless you are retired)
- business expense reimbursements (under a nonaccountable plan)
- the value of meals served on the church's premises for the convenience of the employer
- any amount a church pays toward your income tax or self-employment tax

And then deduct the following:

- most income tax exclusions other than meals or lodging furnished for the employer's convenience, and the foreign earned income exclusion
- annual fair rental value of a parsonage provided to you after you retire
- housing allowance provided to you after you retire
- contributions by your church to a tax-sheltered annuity plan set up for you, including any salary reduction contributions (elective deferrals) that are not included in your gross income
- pension payments or retirement allowances you receive for your past ministerial services

***Unreimbursed, and nonaccountable reimbursed, expenses.*** The clear implication of the tax code and IRS Revenue Ruling 80-110 is that unreimbursed business expenses, and reimbursed business expenses under a nonaccountable plan, are deductible by pastors in computing their self-employment tax liability even if they are not able to deduct these expenses in computing their income tax liability. This understanding is clearly reflected in IRS Publication 517. This position is also reflected in the following statement in the instructions to Schedule SE: "If you were a duly ordained minister who was an employee of a church and you must pay SE tax, the unreimbursed business expenses that you

incurred as a church employee are not deductible as an itemized deduction for income tax purposes. However, when figuring SE tax, subtract on line 2 the allowable expenses from your self-employment earnings and attach an explanation.” Due to the confusion surrounding this issue, ministers are encouraged to consult with a tax professional for guidance.

### **Step 2: Section A (line 4)**

Ministers (and other taxpayers who are self-employed for Social Security) can reduce their taxable earnings by 7.65 percent, which is half the Social Security and Medicare tax paid by employers and employees. To do this, multiply net earnings from self-employment times 0.9235 on line 4. Self-employment taxes are paid on the reduced amount.

### **Step 3: Section A (line 5)**

The self-employment tax for 2019 is computed on this line. The self-employment tax rate for 2019 is 15.3 percent, which consists of the following two components:

1. a Medicare hospital insurance tax of 2.9 percent, and
2. an old-age, survivor and disability (Social Security) tax of 12.4 percent.

For 2019, the 2.9 percent Medicare tax applied to all net earnings from self-employment regardless of amount. For 2019, the 12.4 percent Social Security tax applied to only the first \$132,900 of net self-employment earnings. (For 2020, the maximum earnings subject to Social Security tax is \$137,700.)

## ***Form 8959, Additional Medicare Tax***

Beginning in 2013, the Affordable Care Act increased the employee portion of the Medicare (HI) tax by an additional tax of 0.9 percent on wages received in excess of certain amounts. This additional tax applies to ministers subject to self-employment tax. Unlike other Social Security and Medicare taxes, this additional tax is on the combined wages of a taxpayer and the taxpayer’s spouse, in the case of a joint return. The threshold amount is \$250,000 in the case of a joint return or surviving spouse, and \$200,000 for single persons. The \$250,000 and \$200,000 amounts are not adjusted for inflation and remain the same for 2020.

Ministers who are a part of a two-earner family may be subject to this additional tax and should plan accordingly. Each working spouse may have wages and self-employment income of less than \$250,000, but when added together, the total exceeds the threshold. This additional tax should be considered in preparing estimated tax payments or

withholding instructions.

## ***Form 2106***

**KEY POINT** In the past Form 2106 was used by employees to compute employee business expenses claimed on Schedule A. For most taxpayers this form is now obsolete because of the suspension of an itemized deduction for employee business expenses on Schedule A. Form 2106 is now used only by Armed Forces reservists, qualified performing artists, fee-basis state or local government officials, and employees with impairment-related work expenses.

# **PART 4**

## **COMPREHENSIVE EXAMPLE AND FORMS**

### **Example One: Active Minister**

Rev. John Michaels is the minister of the First United Church. He is married and has one child. The child is considered a qualifying child for the child tax credit. Mrs. Michaels is not employed outside the home. Rev. Michaels is a common-law employee of the church, and he has not applied for an exemption from SE tax. The church paid Rev. Michaels a salary of \$45,000. In addition, as a self-employed person, he earned \$4,000 during the year for weddings, baptisms, and honoraria. He made estimated tax payments during the year totaling \$12,000. He taught a course at the local community college, for which he was paid \$3,400. Rev. Michaels owns a home next to the church. He makes a \$1,125 per month mortgage payment of principal and interest only. His utility bills and other housing-related expenses for the year totaled \$1,450, and the real estate taxes on his home amounted to \$1,750 for the year. The church paid him \$1,400 per month as his parsonage allowance. The home's fair rental value is \$1,380 per month (including furnishings and utilities).

The parts of Rev. and Mrs. Michaels' income tax return are explained in the order they are completed. They are illustrated in the order that Rev. Michaels will assemble the return to send it to the IRS.

### Form W-2 from Church

The church completed Form W-2 for Rev. Michaels as follows:

Box 1. The church entered Rev. Michaels' \$45,000 salary.

Box 2. The church left this box blank because Rev. Michaels did not request federal income tax withholding.

Boxes 3 through 6. Rev. Michaels is considered a self-employed person for purposes of Social Security and Medicare tax withholding, so the church left these boxes blank.

Box 14. The church entered Rev. Michaels' total parsonage allowance for the year and identified it.

Turbo Tax tips: Listed below are tips for ministers who use Turbo Tax to complete their returns.

We have listed our recommended responses to some of the questions asked by the software when entering your W-2 from your church. These tips should not be construed as an endorsement or recommendation of the Turbo Tax software.

1. "Do any of these apply to this W-2?"

Be sure to check the box that says, "**Religious employment** – This income was for religious employment (clergy, nonclergy, religious sect)."

2. "About your religious employment."

Please note that ministers fall under the category of clergy employment.

3. "Tell us about your clergy housing." Turbo Tax then asks for the Parsonage or Housing Allowance, as well as the amount of qualifying expenses.

The amount you should enter for qualifying expenses is the lesser of your actual housing expenses, the annual fair rental value of your home (including furnishings and utilities), or the amount of your pay that was designated as ministerial housing allowance by your Church.

4. "How would you like us to calculate clergy self-employment tax?"

Please note that self-employment tax should be paid on wages and housing allowance. See Schedule SE Turbo Tax Tip for additional information.

### Form W-2 from College

The community college gave Rev. Michaels a Form W-2 that showed the following.

Box 1. The college entered Rev. Michaels' \$3,400 salary.

Box 2. The college withheld \$272 in federal income tax on Rev. Michaels' behalf.

Boxes 3 and 5. As an employee of the college, Rev. Michaels is subject to Social Security and Medicare withholding on his full salary from the college.

Box 4. The college withheld \$210.80 in Social Security taxes.

Box 6. The college withheld \$49.30 in Medicare taxes.

## Schedule C (Form 1040)

*Note, for 2019, the IRS announced that it will not be issuing the Schedule C-EZ. Therefore, Schedule C will be used.*

Some of Rev. Michaels' entries on Schedule C are explained here.

Line 1. Rev. Michaels reports the \$4,000 from weddings, baptisms, and honoraria.

Lines 2 through 7. Rev. Michaels fills out these lines to report his gross income reported on line 7. Rev. Michael did not have any returns or allowances, cost of goods sold, or other income for the year. Therefore, the amount reported on line 7 is \$4,000.

Lines 8 – 27a. Rev. Michaels reports his expenses related to the line 1 amount. The total consisted of \$87 for marriage and family booklets and \$251 for 433 miles of business use of his car, mainly in connection with honoraria. Rev. Michaels used the standard mileage rate to figure his car expense. He multiplied the standard mileage rate of 58 cents by 433 miles for a total of \$251. These expenses total \$338 (\$251 + \$87).

Line 9. Rev. Michaels reports his car expenses on this line. However, he cannot deduct the part of his expenses allocable to his tax-free parsonage allowance. He attaches the required statement, Attachment 1 (shown later) to his return showing that 25% (or \$63) of his business expenses are not deductible because they are allocable to that tax-free allowance. He subtracts the \$63 from the \$251 and enters the \$188 difference on line 9. Rev. Michaels also reports information regarding his vehicle on Part IV.

Line 27a. Rev. Michaels reports \$87 for marriage and family booklets. However, he cannot deduct the part of his expenses allocable to his tax-free parsonage allowance. He attaches the required statement, Attachment 1 (shown later) to his return showing that 25% (or \$22) of his expenses are not deductible because they are allocable to that tax-free allowance. He subtracts the \$22 from the \$87 and enters the \$65 difference on line 27a. He also reports a description of the expense in Part V.

Line 28. Rev. Michaels enters his total expenses, less the 25% allocable to his tax-free parsonage allowance, (\$188 + \$65) on line 28.

Line 29 through 31. He enters his tentative profit of \$3,747 reported on line 29, less any expenses for business use of home on line 31. Rev. Michael did not have any expenses for business use of home, therefore his net income is \$3,747. Net income on Schedule C is also reported on Schedule 1 (Form 1040), line 3.

Lines 43 through 47b. Rev. Michaels fills out these lines to report information about his car.

Line 48. Rev. Michaels reports the total other expenses included on line 27a.

**Turbo Tax tips:** Turbo Tax does not appear to calculate the nondeductible portion of the expenses which should be allocated to the tax-free portion of the housing allowance. The taxpayer will need to adjust the expenses (as shown in Attachment 1) and input the reduced figure into the software.

## Schedule SE (Form 1040)

After Rev. Michaels prepares Schedule C, he fills out Schedule SE (Form 1040). He reads the chart on page 1 of the schedule which tells him he can use Section A—Short Schedule SE to figure his self-employment tax. Rev. Michaels is a minister, so his salary from the church is

not considered church employee income. Thus, he does not have to use Section B—Long Schedule SE. He fills out the following lines in Section A.

Line 2. Rev. Michaels attaches a statement (see Attachment 2, later) that explains how he figures the amount (\$63,826) he enters here. The calculation in Attachment 2 includes unreimbursed business expenses from his work for the church. Although unreimbursed business expenses are clearly no longer deductible on Schedule A as itemized deductions for federal income tax purposes, there is still some ambiguity as of the date of this writing as to whether these expenses remain deductible for self-employment tax purposes. Based on the commentary in Chapter 9 and the underlying rulings discussed therein, the author has prepared this example assuming these expenses are deductible against self-employment earnings. Ministers should consult with their personal tax advisors regarding the deductibility of these expenses for purposes of self-employment tax on their 2019 Form 1040, in light of the developing nature of guidance in this area as of the date of this writing. Rev. Michaels records show that he drove 2,443 miles. He multiplies miles driven by the mileage rate of 58 cents. The combined result is \$1,417. Additionally, Rev. Michaels paid for \$219 of professional publications and booklets in connection with his work for the church. The total unreimbursed business expenses were \$1,636. After including the \$85 of Schedule C expenses allocable to tax-free income, the total deductions against self-employment income is \$1,721.

Line 4. He multiplies \$63,826 by .9235 to get his net earnings from self-employment (\$58,943).

Line 5. The amount on line 4 is less than \$132,900, so Rev. Michaels multiplies the amount on line 4 (\$58,943) by .153 to get his self-employment tax of \$9,018. He enters that amount here and on Schedule 2 (Form 1040), line 4 and 10.

Line 6. Rev. Michaels multiplies the amount on line 5 by .50 to get his deduction for the employer-equivalent portion of self-employment tax of \$4,509. He enters that amount here and on Schedule 1 (Form 1040), line 14.

**Turbo Tax tips:** The software asks about self-employment tax on clergy wages. The taxpayer should check the box to pay self-employment tax on wages and housing allowance (assuming, as shown in this example, that the minister has not applied for exemption from the SE tax). Please note that the software does not appear to automatically reduce self-employment wages by the business expenses allocated to tax free income. The taxpayer will need to adjust net self-employment income (as shown in Attachment 2) and input the reduced figure into the software. This can be done by going into the “Business Taxes” section, and selecting “Self-Employment Tax.” Choose “Make Adjustments,” and enter in the “Ministerial Business Expenses” item the additional expenses that were not deducted elsewhere on the return (\$1,721 in this example – see Attachment 2).

### Qualified Business Income Deduction (Form 8995)

*Ministers who have net profit reported on Schedule C for ministerial services and who have 2019 taxable income of less than \$160,700 (\$321,400 if married filing jointly) before the application of a qualified business income deduction may be eligible for the qualified business income deduction.*

After Rev. Michaels prepares Schedule SE, he fills out Form 8995.

Line 1i, Column (c). Rev. Michaels reports the net profit or (loss) from Schedule C, line 31 (\$3,747) less the portion of the deduction for self-employment taxes allocable to this net profit

$(\$3,747 \times .9235 \times .153 \times .5 = \$265)$  which results in \$3,482 on line 1i, Column (c). Since there are no other amounts listed on lines 1ii through line 1v, he also reports the amount on line 2.

Line 4. Rev. Michaels adds the total qualified business income or (loss) reported on line 2 (\$3,482) to any qualified business net losses carried forward from the prior year. Since there are no qualified business net losses carried forward from the prior year, he enters the amount on line 4.

Line 5. Rev. Michaels multiplies line 4 by 20% and enters the resulting amount (\$696) on line 5. Since there are no other amounts reported on lines 6-9, he also reports the amount on line 10.

Line 11. Rev. Michaels adds the total taxable income before qualified business income deduction (\$23,478) on line 11. This amount is equal to the total wages, salaries, and Schedule C income less the deductible amount of self-employment tax and standard deduction (\$48,640 + \$3,747 - \$4,509 - \$24,400, the standard deduction from line 9 of Form 1040). Since there is no other amounts reported on line 12, he also reports the amount on line 13.

Line 15. Rev. Michaels multiplies line 13 by 20% (\$4,696), which he reports on line 14. He then reports the lesser of line 10 or line 14 on line 15 (\$696). Rev. Michaels also enters this amount on Form 1040, line 10.

### Form 1040, Schedule 1 (Form 1040), Schedule 2 (Form 1040), and Schedule 3 (Form 1040)

After Rev. Michaels prepares the above schedules, he fills out Form 1040, along with Schedules 1 through 3 to the extent required. He files a joint return with his wife. First he fills out Form 1040, Page 1 and completes the appropriate lines for his filing status and exemptions. Then, he fills out the rest of the forms as follows:

Form 1040, Line 1. Rev. Michaels reports \$48,640. This amount is the total of his \$45,000 church salary, \$3,400 college salary, and \$240, the excess of the amount designated and paid to him as a parsonage allowance over the lesser of his actual expenses and the fair rental value of his home (including furnishings and utilities). The two salaries were reported to him in box 1 of the Forms W-2 he received.

Schedule 1 (Form 1040), Line 3. He reports his net profit of \$3,747 from Schedule C, line 31. Since no other amounts are reported on Schedule 1 (Form 1040), Lines 1-8, he also reports this amount on Line 9, and carries the figure to Form 1040, line 7a.

Form 1040, Line 7b. Rev. Michaels adds Form 1040 line 1 and the amount reported on Form 1040 line 7a, and enters the total (\$52,387) on line 7b.

Form 1040 Line 8a and 8b. Because Rev. Michaels has reported deductible self-employment tax on Schedule 1 (Form 1040) Line 14, Rev. Michaels goes to Schedule 1 (Form 1040) and completes Part II of the form. Since there are no other amounts listed on lines 10-21, Rev. Michaels reports \$4,509 on Line 22 and enters this amount on Form 1040, Line 8a. Line 8a is subtracted from line 7b and the result (\$47,878) is entered on Form 1040 Line 8b. This is his adjusted gross income.

Form 1040, Line 9. He enters the standard deduction for married couples filing jointly (\$24,400) on Line 9.

Form 1040, Line 10. Rev. Michaels adds the qualified business income deduction on Form 8995 line 15, and enters the total on (\$696) on line 10.

Form 1040, Line 11a. Rev. Michaels adds the amounts on Form 1040, Line 9 and Line 10, and enters the total (\$25,096) on line 11a.

Form 1040 Line 11b. Subtract line 11a from line 8b. This is his taxable income.

Form 1040, Page 2, Line 12a. Rev. Michaels uses the tax tables in the 2019 Form 1040 instructions to determine his applicable tax and enters the amount (\$2,345) on the space provided on Line 12a and 12b.


Form 1040, Page 2, Line 13a. The Michaels can take the child tax credit for their daughter, Jennifer. Rev. Michaels figures the credit by completing the Child Tax Credit Worksheet (not shown) contained in the Form 1040 general instructions. He enters the \$2,000 credit. Since there is no amount listed for Schedule 3, line 7 Rev. Michaels enters \$2,000 on line 13b. (Note: The Michaels are not required to attach Schedule 8812 to claim the child tax credit since they are not eligible for the additional child tax credit and their daughter does not have an individual taxpayer identification number (ITIN). The IRS issues ITINs to foreign nationals and others who have federal tax reporting or filing requirements and do not qualify for social security numbers (SSNs). Since Jennifer has a SSN, she is not required to obtain an ITIN and therefore Schedule 8812 is not applicable.)

Form 1040, Page 2, Line 15 and Schedule 2 (Form 1040). Rev. Michaels completes Schedule 2 (Form 1040). Since the only amount reported on Schedule 2 (Form 1040) is his self-employment tax from Schedule SE, he reports the amount (\$9,018) on Schedule 2 (Form 1040), Line 10, and on Form 1040, Page 2, line 15.

Form 1040, Page 2, Line 17. He enters the federal income tax shown in box 2 of his Form W-2 from the college.

Form 1040, Page 2, Line 18d and Schedule 3 (Form 1040). Rev. Michaels enters the \$12,000 estimated tax payments he made for the year on Schedule 3 (Form 1040), Line 8. Since there are no other amounts reported on Schedule 3 (Form 1040), he reports the amount on Schedule 3 (Form 1040), Line 14, and also enters the amount on Line 18d and on Line 18e.




a Employee's social security number <b>011-00-1111</b>		OMB No. 1545-0008		Safe, accurate, FAST! Use				Visit the IRS website at www.irs.gov/efile	
b Employer identification number (EIN) <b>00-0246810</b>				1 Wages, tips, other compensation <b>45,000.00</b>		2 Federal income tax withheld			
c Employer's name, address, and ZIP code <b>First United Church 1042 Main Street Hometown, Texas 77099</b>				3 Social security wages		4 Social security tax withheld			
				5 Medicare wages and tips		6 Medicare tax withheld			
				7 Social security tips		8 Allocated tips			
d Control number				9		10 Dependent care benefits			
e Employee's first name and initial      Last name <b>John E. Michaels</b> <b>1040 Main Street</b> <b>Hometown, Texas 77099</b>				11 Nonqualified plans		12a See instructions for box 12			
				13 Statutory employee      Retirement plan      Third-party sick pay <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>		12b			
				14 Other <b>Parsonage Allowance</b> <b>\$16,800</b>		12c			
						12d			
f Employee's address and ZIP code									
15 State      Employer's state ID number		16 State wages, tips, etc.		17 State income tax		18 Local wages, tips, etc.		19 Local income tax	
								20 Locality name	

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

**2019**

Department of the Treasury—Internal Revenue Service

Copy B—To Be Filed With Employee's FEDERAL Tax Return.  
This information is being furnished to the Internal Revenue Service.

a Employee's social security number <b>011-00-1111</b>		OMB No. 1545-0008		Safe, accurate, FAST! Use 		Visit the IRS website at www.irs.gov/efile	
b Employer identification number (EIN) <b>00-1357913</b>				1 Wages, tips, other compensation <b>3,400.00</b>	2 Federal income tax withheld <b>272.00</b>		
c Employer's name, address, and ZIP code <b>Hometown College</b> <b>40 Honor Road</b> <b>Hometown, Texas 77099</b>				3 Social security wages <b>3,400.00</b>	4 Social security tax withheld <b>210.80</b>		
				5 Medicare wages and tips <b>3,400.00</b>	6 Medicare tax withheld <b>49.30</b>		
				7 Social security tips	8 Allocated tips		
d Control number				9	10 Dependent care benefits		
e Employee's first name and initial Last name Suff. <b>John E. Michaels</b> <b>1040 Main Street</b> <b>Hometown, Texas 77099</b>				11 Nonqualified plans		12a See instructions for box 12	
				13 Statutory employee Retirement plan Third-party sick pay <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>		12b	
				14 Other		12c	
						12d	
f Employee's address and ZIP code							
15 State	Employer's state ID number	16 State wages, tips, etc.	17 State income tax	18 Local wages, tips, etc.	19 Local income tax	20 Locality name	

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

**2019**

Department of the Treasury—Internal Revenue Service

Copy B—To Be Filed With Employee's FEDERAL Tax Return.  
This information is being furnished to the Internal Revenue Service.



Form 1040 (2019)		Page <b>2</b>
<b>12a</b>	Tax (see inst.) Check if any from Form(s): 1 <input type="checkbox"/> 8814 2 <input type="checkbox"/> 4972 3 <input type="checkbox"/>	<b>12a</b> 2,345
<b>b</b>	Add Schedule 2, line 3, and line 12a and enter the total	<b>12b</b> 2,345
<b>13a</b>	Child tax credit or credit for other dependents	<b>13a</b> 2,000
<b>b</b>	Add Schedule 3, line 7, and line 13a and enter the total	<b>13b</b> 2,000
<b>14</b>	Subtract line 13b from line 12b. If zero or less, enter -0-	<b>14</b> 345
<b>15</b>	Other taxes, including self-employment tax, from Schedule 2, line 10	<b>15</b> 9,018
<b>16</b>	Add lines 14 and 15. This is your <b>total tax</b>	<b>16</b> 9,363
<b>17</b>	Federal income tax withheld from Forms W-2 and 1099	<b>17</b> 272
<b>18</b>	Other payments and refundable credits:	
<b>a</b>	Earned income credit (EIC)	<b>18a</b>
<b>b</b>	Additional child tax credit. Attach Schedule 8812	<b>18b</b>
<b>c</b>	American opportunity credit from Form 8863, line 8	<b>18c</b>
<b>d</b>	Schedule 3, line 14	<b>18d</b> 12,000
<b>e</b>	Add lines 18a through 18d. These are your <b>total other payments and refundable credits</b>	<b>18e</b> 12,000
<b>19</b>	Add lines 17 and 18e. These are your <b>total payments</b>	<b>19</b> 12,272
<b>Refund</b>	<b>20</b> If line 19 is more than line 16, subtract line 16 from line 19. This is the amount you <b>overpaid</b>	<b>20</b> 2,909
<b>21a</b>	Amount of line 20 you want <b>refunded to you</b> . If Form 8888 is attached, check here <input type="checkbox"/>	<b>21a</b>
<b>b</b>	Routing number	<b>c</b> Type: <input type="checkbox"/> Checking <input type="checkbox"/> Savings
<b>d</b>	Account number	
<b>22</b>	Amount of line 20 you want <b>applied to your 2020 estimated tax</b>	<b>22</b> 2,909
<b>Amount You Owe</b>	<b>23</b> <b>Amount you owe.</b> Subtract line 19 from line 16. For details on how to pay, see instructions	<b>23</b>
<b>24</b>	Estimated tax penalty (see instructions)	<b>24</b>
<b>Third Party Designee</b>	Do you want to allow another person (other than your paid preparer) to discuss this return with the IRS? See instructions. <input type="checkbox"/> Yes. Complete below. <input type="checkbox"/> No	
(Other than paid preparer)	Designee's name	Personal identification number (PIN)
<b>Sign Here</b>	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
	<i>John Michaels</i>	3/15/20
	Your occupation	
	Minister	
Spouse's signature. If a joint return, <b>both</b> must sign.	Date	
<i>Susan Michaels</i>	3/15/20	
Spouse's occupation		
Homemaker		
Phone no.	Email address	
<b>Paid Preparer Use Only</b>	Preparer's name	Preparer's signature
	Firm's name	Phone no.
	Firm's address	Firm's EIN

Go to [www.irs.gov/Form1040](http://www.irs.gov/Form1040) for instructions and the latest information.

Form **1040** (2019)

**SCHEDULE 1**  
**(Form 1040 or 1040-SR)**

Department of the Treasury  
Internal Revenue Service

**Additional Income and Adjustments to Income**

► Attach to Form 1040 or 1040-SR.  
► Go to [www.irs.gov/Form1040](http://www.irs.gov/Form1040) for instructions and the latest information.

OMB No. 1545-0074

**2019**

Attachment  
Sequence No. **01**

Name(s) shown on Form 1040 or 1040-SR

John E. Michaels

Your social security number

011-00-1111

At any time during 2019, did you receive, sell, send, exchange, or otherwise acquire any financial interest in any virtual currency? . . . . .

☐ Yes ☐ No

**Part I Additional Income**

<b>1</b>	Taxable refunds, credits, or offsets of state and local income taxes . . . . .	<b>1</b>	
<b>2a</b>	Alimony received . . . . .	<b>2a</b>	
<b>b</b>	Date of original divorce or separation agreement (see instructions) ►		
<b>3</b>	Business income or (loss). Attach Schedule C . . . . .	<b>3</b>	<u>3,747</u>
<b>4</b>	Other gains or (losses). Attach Form 4797 . . . . .	<b>4</b>	
<b>5</b>	Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E . . . . .	<b>5</b>	
<b>6</b>	Farm income or (loss). Attach Schedule F . . . . .	<b>6</b>	
<b>7</b>	Unemployment compensation . . . . .	<b>7</b>	
<b>8</b>	Other income. List type and amount ►	<b>8</b>	
<b>9</b>	Combine lines 1 through 8. Enter here and on Form 1040 or 1040-SR, line 7a . . . . .	<b>9</b>	<u>3,747</u>

**Part II Adjustments to Income**

<b>10</b>	Educator expenses . . . . .	<b>10</b>	
<b>11</b>	Certain business expenses of reservists, performing artists, and fee-basis government officials. Attach Form 2106 . . . . .	<b>11</b>	
<b>12</b>	Health savings account deduction. Attach Form 8889 . . . . .	<b>12</b>	
<b>13</b>	Moving expenses for members of the Armed Forces. Attach Form 3903 . . . . .	<b>13</b>	
<b>14</b>	Deductible part of self-employment tax. Attach Schedule SE . . . . .	<b>14</b>	<u>4,509</u>
<b>15</b>	Self-employed SEP, SIMPLE, and qualified plans . . . . .	<b>15</b>	
<b>16</b>	Self-employed health insurance deduction . . . . .	<b>16</b>	
<b>17</b>	Penalty on early withdrawal of savings . . . . .	<b>17</b>	
<b>18a</b>	Alimony paid . . . . .	<b>18a</b>	
<b>b</b>	Recipient's SSN . . . . .		
<b>c</b>	Date of original divorce or separation agreement (see instructions) ►		
<b>19</b>	IRA deduction . . . . .	<b>19</b>	
<b>20</b>	Student loan interest deduction . . . . .	<b>20</b>	
<b>21</b>	Reserved for future use . . . . .	<b>21</b>	
<b>22</b>	Add lines 10 through 21. These are your <b>adjustments to income</b> . Enter here and on Form 1040 or 1040-SR, line 8a . . . . .	<b>22</b>	<u>4,509</u>

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

Cat. No. 71479F

Schedule 1 (Form 1040 or 1040-SR) 2019



**SCHEDULE 2**  
(Form 1040 or 1040-SR)Department of the Treasury  
Internal Revenue Service**Additional Taxes**▶ Attach to Form 1040 or 1040-SR.  
▶ Go to [www.irs.gov/Form1040](http://www.irs.gov/Form1040) for instructions and the latest information.

OMB No. 1545-0074

**2019**Attachment  
Sequence No. **02**

Name(s) shown on Form 1040 or 1040-SR

**John E. Michaels**

Your social security number

**011-00-1111****Part I Tax**

<b>1</b>	Alternative minimum tax. Attach Form 6251 . . . . .	<b>1</b>	
<b>2</b>	Excess advance premium tax credit repayment. Attach Form 8962 . . . . .	<b>2</b>	
<b>3</b>	Add lines 1 and 2. Enter here and include on Form 1040 or 1040-SR, line 12b . . . . .	<b>3</b>	

**Part II Other Taxes**

<b>4</b>	Self-employment tax. Attach Schedule SE . . . . .	<b>4</b>	<b>9,018</b>
<b>5</b>	Unreported social security and Medicare tax from Form: <b>a</b> <input type="checkbox"/> 4137 <b>b</b> <input type="checkbox"/> 8919 . . . . .	<b>5</b>	
<b>6</b>	Additional tax on IRAs, other qualified retirement plans, and other tax-favored accounts. Attach Form 5329 if required . . . . .	<b>6</b>	
<b>7a</b>	Household employment taxes. Attach Schedule H . . . . .	<b>7a</b>	
<b>b</b>	Repayment of first-time homebuyer credit from Form 5405. Attach Form 5405 if required . . . . .	<b>7b</b>	
<b>8</b>	Taxes from: <b>a</b> <input type="checkbox"/> Form 8959 <b>b</b> <input type="checkbox"/> Form 8960 <b>c</b> <input type="checkbox"/> Instructions; enter code(s) . . . . .	<b>8</b>	
<b>9</b>	Section 965 net tax liability installment from Form 965-A . . . . .	<b>9</b>	
<b>10</b>	Add lines 4 through 8. These are your <b>total other taxes</b> . Enter here and on Form 1040 or 1040-SR, line 15 . . . . .	<b>10</b>	<b>9,018</b>

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

Cat. No. 71478U

Schedule 2 (Form 1040 or 1040-SR) 2019

**SCHEDULE 3**  
(Form 1040 or 1040-SR)Department of the Treasury  
Internal Revenue Service**Additional Credits and Payments**▶ Attach to Form 1040 or 1040-SR.  
▶ Go to [www.irs.gov/Form1040](http://www.irs.gov/Form1040) for instructions and the latest information.

OMB No. 1545-0074

**2019**Attachment  
Sequence No. **03**

Name(s) shown on Form 1040 or 1040-SR

**John E. Michaels**

Your social security number

**011-00-1111****Part I Nonrefundable Credits**

<b>1</b>	Foreign tax credit. Attach Form 1116 if required . . . . .	<b>1</b>	
<b>2</b>	Credit for child and dependent care expenses. Attach Form 2441 . . . . .	<b>2</b>	
<b>3</b>	Education credits from Form 8863, line 19 . . . . .	<b>3</b>	
<b>4</b>	Retirement savings contributions credit. Attach Form 8880 . . . . .	<b>4</b>	
<b>5</b>	Residential energy credit. Attach Form 5695 . . . . .	<b>5</b>	
<b>6</b>	Other credits from Form: <b>a</b> <input type="checkbox"/> 3800 <b>b</b> <input type="checkbox"/> 8801 <b>c</b> <input type="checkbox"/> . . . . .	<b>6</b>	
<b>7</b>	Add lines 1 through 6. Enter here and include on Form 1040 or 1040-SR, line 13b . . . . .	<b>7</b>	

**Part II Other Payments and Refundable Credits**

<b>8</b>	2019 estimated tax payments and amount applied from 2018 return . . . . .	<b>8</b>	<b>12,000</b>
<b>9</b>	Net premium tax credit. Attach Form 8962 . . . . .	<b>9</b>	
<b>10</b>	Amount paid with request for extension to file (see instructions) . . . . .	<b>10</b>	
<b>11</b>	Excess social security and tier 1 RRTA tax withheld . . . . .	<b>11</b>	
<b>12</b>	Credit for federal tax on fuels. Attach Form 4136 . . . . .	<b>12</b>	
<b>13</b>	Credits from Form: <b>a</b> <input type="checkbox"/> 2439 <b>b</b> <input checked="" type="checkbox"/> Reserved <b>c</b> <input type="checkbox"/> 8885 <b>d</b> <input type="checkbox"/> . . . . .	<b>13</b>	
<b>14</b>	Add lines 8 through 13. Enter here and on Form 1040 or 1040-SR, line 18d . . . . .	<b>14</b>	<b>12,000</b>

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

Cat. No. 71480G

Schedule 3 (Form 1040 or 1040-SR) 2019

**SCHEDULE C**  
(Form 1040 or 1040-SR)

Department of the Treasury  
Internal Revenue Service (99)

**Profit or Loss From Business**  
(Sole Proprietorship)

► Go to [www.irs.gov/ScheduleC](http://www.irs.gov/ScheduleC) for instructions and the latest information.

► Attach to Form 1040, 1040-SR, 1040-NR, or 1041; partnerships generally must file Form 1065.

OMB No. 1545-0074

**2019**

Attachment  
Sequence No. **09**

Name of proprietor

**John E. Michaels**

Social security number (SSN)

**011-00-1111**

**A** Principal business or profession, including product or service (see instructions)

**Minister**

**B** Enter code from instructions

**5 4 1 9 9 0**

**C** Business name. If no separate business name, leave blank.

**D** Employer ID number (EIN) (see instr.)

**E** Business address (including suite or room no.) ► **1042 Main Street**

City, town or post office, state, and ZIP code **Hometown, Texas 77099**

**F** Accounting method: (1) ☒ Cash (2) ☐ Accrual (3) ☐ Other (specify) ►

**G** Did you "materially participate" in the operation of this business during 2019? If "No," see instructions for limit on losses . . . ☒ Yes ☐ No

**H** If you started or acquired this business during 2019, check here . . . ☐

**I** Did you make any payments in 2019 that would require you to file Form(s) 1099? (see instructions) . . . ☐ Yes ☒ No

**J** If "Yes," did you or will you file required Forms 1099? . . . ☐ Yes ☒ No

**Part I Income**

<b>1</b>	Gross receipts or sales. See instructions for line 1 and check the box if this income was reported to you on Form W-2 and the "Statutory employee" box on that form was checked . . . <input type="checkbox"/>	<b>1</b>	<b>4,000</b>
<b>2</b>	Returns and allowances . . . . .	<b>2</b>	
<b>3</b>	Subtract line 2 from line 1 . . . . .	<b>3</b>	<b>4,000</b>
<b>4</b>	Cost of goods sold (from line 42) . . . . .	<b>4</b>	
<b>5</b>	<b>Gross profit.</b> Subtract line 4 from line 3 . . . . .	<b>5</b>	<b>4,000</b>
<b>6</b>	Other income, including federal and state gasoline or fuel tax credit or refund (see instructions) . . . . .	<b>6</b>	
<b>7</b>	<b>Gross income.</b> Add lines 5 and 6 . . . . .	<b>7</b>	<b>4,000</b>

**Part II Expenses.** Enter expenses for business use of your home **only** on line 30.

<b>8</b>	Advertising . . . . .	<b>8</b>		<b>18</b>	Office expense (see instructions)	<b>18</b>	
<b>9</b>	Car and truck expenses (see instructions). . . . .	<b>9</b>	<b>188</b>	<b>19</b>	Pension and profit-sharing plans . . . . .	<b>19</b>	
<b>10</b>	Commissions and fees . . . . .	<b>10</b>		<b>20</b>	Rent or lease (see instructions):		
<b>11</b>	Contract labor (see instructions)	<b>11</b>		<b>a</b>	Vehicles, machinery, and equipment	<b>20a</b>	
<b>12</b>	Depreciation . . . . .	<b>12</b>		<b>b</b>	Other business property . . . . .	<b>20b</b>	
<b>13</b>	Depreciation and section 179 expense deduction (not included in Part III) (see instructions). . . . .	<b>13</b>		<b>21</b>	Repairs and maintenance . . . . .	<b>21</b>	
<b>14</b>	Employee benefit programs (other than on line 19) . . . . .	<b>14</b>		<b>22</b>	Supplies (not included in Part III) . . . . .	<b>22</b>	
<b>15</b>	Insurance (other than health)	<b>15</b>		<b>23</b>	Taxes and licenses . . . . .	<b>23</b>	
<b>16</b>	Interest (see instructions):			<b>24</b>	Travel and meals:		
<b>a</b>	Mortgage (paid to banks, etc.)	<b>16a</b>		<b>a</b>	Travel . . . . .	<b>24a</b>	
<b>b</b>	Other . . . . .	<b>16b</b>		<b>b</b>	Deductible meals (see instructions) . . . . .	<b>24b</b>	
<b>17</b>	Legal and professional services	<b>17</b>		<b>25</b>	Utilities . . . . .	<b>25</b>	
<b>28</b>	<b>Total expenses</b> before expenses for business use of home. Add lines 8 through 27a . . . . .	<b>28</b>		<b>26</b>	Wages (less employment credits) . . . . .	<b>26</b>	
<b>29</b>	Tentative profit or (loss). Subtract line 28 from line 7 . . . . .	<b>29</b>	<b>3,747</b>	<b>27a</b>	Other expenses (from line 48) . . . . .	<b>27a</b>	<b>65 *</b>
<b>30</b>	Expenses for business use of your home. Do not report these expenses elsewhere. Attach Form 8829 unless using the simplified method (see instructions). <b>Simplified method filers only:</b> enter the total square footage of: (a) your home: _____ and (b) the part of your home used for business: _____. Use the Simplified Method Worksheet in the instructions to figure the amount to enter on line 30 . . . . .	<b>30</b>	<b>0</b>	<b>27b</b>	<b>Reserved for future use</b> . . . . .	<b>27b</b>	
<b>31</b>	<b>Net profit or (loss).</b> Subtract line 30 from line 29. • If a profit, enter on both <b>Schedule 1 (Form 1040 or 1040-SR), line 3</b> (or <b>Form 1040-NR, line 13</b> ) and on <b>Schedule SE, line 2</b> . (If you checked the box on line 1, see instructions). Estates and trusts, enter on <b>Form 1041, line 3</b> . • If a loss, you <b>must</b> go to line 32.	<b>31</b>	<b>3,747</b>				
<b>32</b>	If you have a loss, check the box that describes your investment in this activity (see instructions). • If you checked 32a, enter the loss on both <b>Schedule 1 (Form 1040 or 1040-SR), line 3</b> (or <b>Form 1040-NR, line 13</b> ) and on <b>Schedule SE, line 2</b> . (If you checked the box on line 1, see the line 31 instructions). Estates and trusts, enter on <b>Form 1041, line 3</b> . • If you checked 32b, you <b>must</b> attach <b>Form 6198</b> . Your loss may be limited.						

**32a** ☐ All investment is at risk.  
**32b** ☐ Some investment is not at risk.

For Paperwork Reduction Act Notice, see the separate instructions.

Cat. No. 11334P

Schedule C (Form 1040 or 1040-SR) 2019

\* See statement attached.

**Part III Cost of Goods Sold** (see instructions)

<b>33</b>	Method(s) used to value closing inventory: <b>a</b> <input type="checkbox"/> Cost <b>b</b> <input type="checkbox"/> Lower of cost or market <b>c</b> <input type="checkbox"/> Other (attach explanation)
<b>34</b>	Was there any change in determining quantities, costs, or valuations between opening and closing inventory? <input type="checkbox"/> Yes <input type="checkbox"/> No If "Yes," attach explanation . . . . .
<b>35</b>	Inventory at beginning of year. If different from last year's closing inventory, attach explanation . . . . . <b>35</b>
<b>36</b>	Purchases less cost of items withdrawn for personal use . . . . . <b>36</b>
<b>37</b>	Cost of labor. Do not include any amounts paid to yourself . . . . . <b>37</b>
<b>38</b>	Materials and supplies . . . . . <b>38</b>
<b>39</b>	Other costs . . . . . <b>39</b>
<b>40</b>	Add lines 35 through 39 . . . . . <b>40</b>
<b>41</b>	Inventory at end of year . . . . . <b>41</b>
<b>42</b>	<b>Cost of goods sold.</b> Subtract line 41 from line 40. Enter the result here and on line 4 . . . . . <b>42</b>

**Part IV Information on Your Vehicle.** Complete this part **only** if you are claiming car or truck expenses on line 9 and are not required to file Form 4562 for this business. See the instructions for line 13 to find out if you must file Form 4562.

<b>43</b>	When did you place your vehicle in service for business purposes? (month, day, year) ▶ <u>7</u> / <u>15</u> / <u>12</u>
<b>44</b>	Of the total number of miles you drove your vehicle during 2019, enter the number of miles you used your vehicle for:
<b>a</b>	Business <u>433</u>
<b>b</b>	Commuting (see instructions) <u>0</u>
<b>c</b>	Other <u>7,478</u>
<b>45</b>	Was your vehicle available for personal use during off-duty hours? . . . . . <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
<b>46</b>	Do you (or your spouse) have another vehicle available for personal use? . . . . . <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
<b>47a</b>	Do you have evidence to support your deduction? . . . . . <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
<b>b</b>	If "Yes," is the evidence written? . . . . . <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No

**Part V Other Expenses.** List below business expenses not included on lines 8–26 or line 30.

Marriage and family booklets . . . . .	<b>65</b>
<b>48 Total other expenses.</b> Enter here and on line 27a . . . . .	<b>48</b> <b>65</b>



**SCHEDULE SE**  
(Form 1040 or 1040-SR)

**Self-Employment Tax**

OMB No. 1545-0074

**2019**

Attachment  
Sequence No. **17**

Department of the Treasury  
Internal Revenue Service (99)

► Go to [www.irs.gov/ScheduleSE](http://www.irs.gov/ScheduleSE) for instructions and the latest information.  
► Attach to Form 1040, 1040-SR, or 1040-NR.

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

John E. Michaels

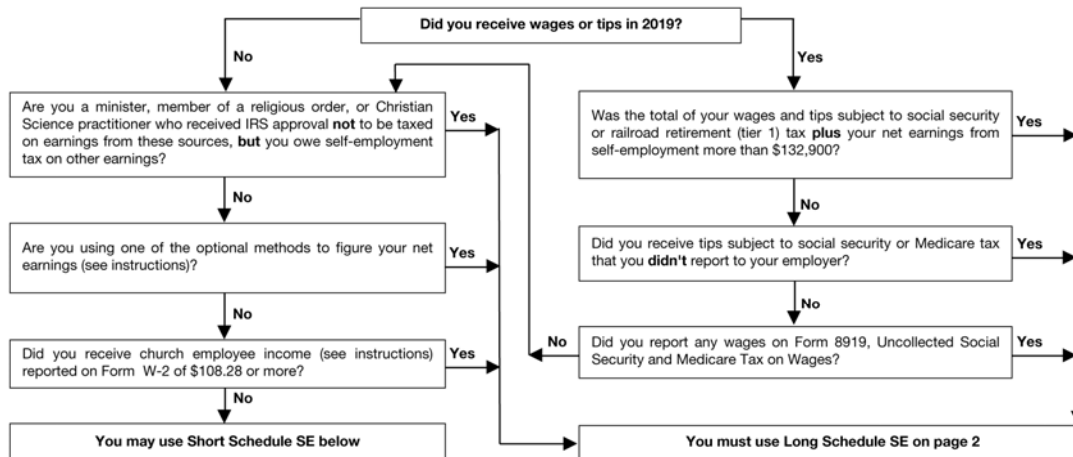
Social security number of person  
with self-employment income ►

011-00-1111

**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.

<b>1a</b> Net farm profit or (loss) from Schedule F, line 34, and farm partnerships, Schedule K-1 (Form 1065), box 14, code A . . . . .	<b>1a</b>	
<b>b</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 . . . . .	<b>1b</b> ( )	
<b>2</b> Net profit or (loss) from Schedule C, line 31; and Schedule K-1 (Form 1065), box 14, code A (other than farming). Ministers and members of religious orders, see instructions for types of income to report on this line. See instructions for other income to report . . . . .	<b>2</b>	63,826 *
<b>3</b> Combine lines 1a, 1b, and 2 . . . . .	<b>3</b>	63,826
<b>4</b> Multiply line 3 by 92.35% (0.9235). If less than \$400, you don't owe self-employment tax; <b>don't</b> file this schedule unless you have an amount on line 1b . . . . . ►	<b>4</b>	58,943
<b>Note:</b> If line 4 is less than \$400 due to Conservation Reserve Program payments on line 1b, see instructions.		
<b>5 Self-employment tax.</b> If the amount on line 4 is: • \$132,900 or less, multiply line 4 by 15.3% (0.153). Enter the result here and on <b>Schedule 2 (Form 1040 or 1040-SR), line 4, or Form 1040-NR, line 55.</b> • More than \$132,900, multiply line 4 by 2.9% (0.029). Then, add \$16,479.60 to the result. Enter the total here and on <b>Schedule 2 (Form 1040 or 1040-SR), line 4, or Form 1040-NR, line 55 .</b>	<b>5</b>	9,018
<b>6 Deduction for one-half of self-employment tax.</b> Multiply line 5 by 50% (0.50). Enter the result here and on <b>Schedule 1 (Form 1040 or 1040-SR), line 14, or Form 1040-NR, line 27 . . . . .</b>	<b>6</b>	4,509

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

Cat. No. 11358Z

Schedule SE (Form 1040 or 1040-SR) 2019

\* See statement attached.

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

Social security number of person  
with self-employment income ▶**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.

<b>A</b> If you are a minister, member of a religious order, or Christian Science practitioner <b>and</b> you filed Form 4361, but you had \$400 or more of <b>other</b> net earnings from self-employment, check here and continue with Part I . . . . . <input type="checkbox"/>		
<b>1a</b> Net farm profit or (loss) from Schedule F, line 34, and farm partnerships, Schedule K-1 (Form 1065), box 14, code A. <b>Note:</b> Skip lines 1a and 1b if you use the farm optional method (see instructions) . . . . .	<b>1a</b>	
<b>b</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 . . . . .	<b>1b</b> ( )	
<b>2</b> Net profit or (loss) from Schedule C, line 31; and Schedule K-1 (Form 1065), box 14, code A (other than farming). Ministers and members of religious orders, see instructions for types of income to report on this line. See instructions for other income to report. <b>Note:</b> Skip this line if you use the nonfarm optional method (see instructions) . . . . .	<b>2</b>	
<b>3</b> Combine lines 1a, 1b, and 2 . . . . .	<b>3</b>	
<b>4a</b> If line 3 is more than zero, multiply line 3 by 92.35% (0.9235). Otherwise, enter amount from line 3 . . . . .	<b>4a</b>	
<b>Note:</b> If line 4a is less than \$400 due to Conservation Reserve Program payments on line 1b, see instructions.		
<b>b</b> If you elect one or both of the optional methods, enter the total of lines 15 and 17 here . . . . .	<b>4b</b>	
<b>c</b> Combine lines 4a and 4b. If less than \$400, <b>stop</b> ; you don't owe self-employment tax. <b>Exception:</b> If less than \$400 and you had <b>church employee income</b> , enter -0- and continue . . . . . ▶	<b>4c</b>	
<b>5a</b> Enter your <b>church employee income</b> from Form W-2. See instructions for definition of church employee income . . . . .	<b>5a</b>	
<b>b</b> Multiply line 5a by 92.35% (0.9235). If less than \$100, enter -0- . . . . .	<b>5b</b>	
<b>6</b> Add lines 4c and 5b . . . . .	<b>6</b>	
<b>7</b> 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 2019 . . . . .	<b>7</b>	132,900
<b>8a</b> Total social security wages and tips (total of boxes 3 and 7 on Form(s) W-2) and railroad retirement (tier 1) compensation. If \$132,900 or more, skip lines 8b through 10, and go to line 11 . . . . .	<b>8a</b>	
<b>b</b> Unreported tips subject to social security tax (from Form 4137, line 10) . . . . .	<b>8b</b>	
<b>c</b> Wages subject to social security tax (from Form 8919, line 10) . . . . .	<b>8c</b>	
<b>d</b> Add lines 8a, 8b, and 8c . . . . .	<b>8d</b>	
<b>9</b> Subtract line 8d from line 7. If zero or less, enter -0- here and on line 10 and go to line 11 . . . . . ▶	<b>9</b>	
<b>10</b> Multiply the <b>smaller</b> of line 6 or line 9 by 12.4% (0.124) . . . . .	<b>10</b>	
<b>11</b> Multiply line 6 by 2.9% (0.029) . . . . .	<b>11</b>	
<b>12</b> <b>Self-employment tax.</b> Add lines 10 and 11. Enter here and on <b>Schedule 2 (Form 1040 or 1040-SR), line 4, or Form 1040-NR, line 55</b> . . . . .	<b>12</b>	
<b>13</b> <b>Deduction for one-half of self-employment tax.</b> Multiply line 12 by 50% (0.50). Enter the result here and on <b>Schedule 1 (Form 1040 or 1040-SR), line 14, or Form 1040-NR, line 27</b> . . . . .	<b>13</b>	

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

<b>Farm Optional Method.</b> You may use this method <b>only</b> if (a) your gross farm income <sup>1</sup> wasn't more than \$8,160, or (b) your net farm profits <sup>2</sup> were less than \$5,891.		
<b>14</b> Maximum income for optional methods . . . . .	<b>14</b>	5,440
<b>15</b> Enter the <b>smaller</b> of: two-thirds ( <sup>2</sup> / <sub>3</sub> ) of gross farm income <sup>1</sup> (not less than zero) or \$5,440. Also include this amount on line 4b above . . . . .	<b>15</b>	
<b>Nonfarm Optional Method.</b> You may use this method <b>only</b> if (a) your net nonfarm profits <sup>3</sup> were less than \$5,891 and also less than 72.189% of your gross nonfarm income, <sup>4</sup> and (b) you had net earnings from self-employment of at least \$400 in 2 of the prior 3 years. <b>Caution:</b> You may use this method no more than five times.		
<b>16</b> Subtract line 15 from line 14 . . . . .	<b>16</b>	
<b>17</b> Enter the <b>smaller</b> of: two-thirds ( <sup>2</sup> / <sub>3</sub> ) of gross nonfarm income <sup>4</sup> (not less than zero) or the amount on line 16. Also include this amount on line 4b above . . . . .	<b>17</b>	

<sup>1</sup> From Sch. F, line 9, and Sch. K-1 (Form 1065), box 14, code B.<sup>2</sup> 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.<sup>3</sup> From Sch. C, line 31; and Sch. K-1 (Form 1065), box 14, code A.<sup>4</sup> From Sch. C, line 7; and Sch. K-1 (Form 1065), box 14, code C.

Form **8995****Qualified Business Income Deduction  
Simplified Computation**

OMB No. XXXX-XXXX

**2019**Attachment  
Sequence No. **55**Department of the Treasury  
Internal Revenue Service

► Attach to your tax return.

► Go to [www.irs.gov/Form8995](http://www.irs.gov/Form8995) for instructions and the latest information.

Name(s) shown on return

**John E. Michaels**

Your taxpayer identification number

**011-00-1111**

1	(a) Trade, business, or aggregation name	(b) Taxpayer identification number	(c) Qualified business income or (loss)
i	<b>Minister</b>	<b>011-00-1111</b>	<b>3,482</b>
ii			
iii			
iv			
v			

2	Total qualified business income or (loss). Combine lines 1i through 1v, column (c)	<b>2</b>	<b>3,482</b>
3	Qualified business net (loss) carryforward from the prior year	<b>3</b>	<b>( 0 )</b>
4	Total qualified business income. Combine lines 2 and 3. If zero or less, enter -0-	<b>4</b>	<b>3,482</b>
5	Qualified business income component. Multiply line 4 by 20% (0.20)	<b>5</b>	<b>696</b>
6	Qualified REIT dividends and publicly traded partnership (PTP) income or (loss) (see instructions)	<b>6</b>	
7	Qualified REIT dividends and qualified PTP (loss) carryforward from the prior year	<b>7</b>	<b>( )</b>
8	Total qualified REIT dividends and PTP income. Combine lines 6 and 7. If zero or less, enter -0-	<b>8</b>	
9	REIT and PTP component. Multiply line 8 by 20% (0.20)	<b>9</b>	<b>0</b>
10	Qualified business income deduction before the income limitation. Add lines 5 and 9	<b>10</b>	<b>696</b>
11	Taxable income before qualified business income deduction	<b>11</b>	<b>23,478</b>
12	Net capital gain (see instructions)	<b>12</b>	<b>0</b>
13	Subtract line 12 from line 11. If zero or less, enter -0-	<b>13</b>	<b>23,478</b>
14	Income limitation. Multiply line 13 by 20% (0.20)	<b>14</b>	<b>4,696</b>
15	Qualified business income deduction. Enter the lesser of line 10 or line 14. Also enter this amount on the applicable line of your return ►	<b>15</b>	<b>696</b>
16	Total qualified business (loss) carryforward. Combine lines 2 and 3. If greater than zero, enter -0-	<b>16</b>	<b>( 0 )</b>
17	Total qualified REIT dividends and PTP (loss) carryforward. Combine lines 6 and 7. If greater than zero, enter -0-	<b>17</b>	<b>( 0 )</b>

For Privacy Act and Paperwork Reduction Act Notice, see instructions.

Cat. No. 37806C

Form **8995** (2019)

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

		Taxable	Tax-Free	Total
Salary as a minister		\$ 45,000		\$ 45,000
Parsonage allowance:				
Amount designated and paid by church (\$1,400 x 12)	\$ 16,800			
Actual expenses				
(Mortgage \$1,125 x 12, Utilities/other \$1,450, Real estate taxes \$1,750)	16,700			
Fair rental value of home (including furnishings and utilities) (\$1,380 x 12)	16,560			
Taxable portion of allowance				
(excess of amount designated & paid over lesser of actual expenses or fair rental value)	<u>\$ 240</u>	240		240
Tax-free portion of allowance (lesser of amount designated, actual expenses or fair rental value)			16,560	16,560
Gross income from weddings, baptisms, and honoraria		<u>4,000</u>		<u>4,000</u>
Ministerial income		<u>\$ 49,240</u>	<u>\$ 16,560</u>	<u>\$ 65,800</u>
% of nondeductible expenses: \$16,560/\$65,800 = 25%				

Schedule C Deduction Computation			
Marriage and family booklets		\$	87
Minus: Nondeductible part of marriage and family booklets (25% x \$87)		\$	(22)
Total marriage and family booklets (Line 27a)		<u>\$</u>	<u>65</u>
Business use of car:			
433 miles x 58¢		\$	251
Minus: Nondeductible part of business use of car (25% x \$251)		\$	(63)
Total business use of car (Line 9)		<u>\$</u>	<u>188</u>
Schedule C deductions (line 28)		<u>\$</u>	<u>253</u>

**Attachment 2. Attachment to Schedule SE (Form 1040)**

Church wages		\$	45,000
Parsonage allowance			16,800
Net profit from Schedule C			<u>3,747</u>
			65,547
Less:			
Schedule C expenses allocable to tax-free income	\$ 85		
Ministerial employee unreimbursed business expenses			
Car expenses for church business:			
2,443 miles x 58¢		1,417	
Publications and booklets		<u>219</u>	<u>(1,721)</u>
Net Self-Employment Income			
Schedule SE, Section A, line 2			<u>\$ 63,826</u>

## Example Two: Retired Minister

Rev. William K. Green is a retired minister. He is 69 years old. He is married to Sarah J. Green. She is 65 years old and is also retired. For 2019, Rev. Green received \$15,000 in annuity income, all of which was designated in advance by the Board of Pensions as a housing allowance. Rev. Green had housing expenses of \$13,000. The home's fair rental value is \$1,200 per month (including furnishings and utilities). Housing allowances for retired ministers are not taxable in computing federal income tax to the extent that they do not exceed the lesser of actual housing expenses or the annual fair rental value of the home (including furnishings and utilities). Retirement benefits, whether or not designated in advance as a housing allowance, are not subject to self-employment taxes.

Rev. Green received \$12,000 of Social Security benefits in 2019, and his wife received \$6,000. None of this income is taxable, however, because the Green's income is not enough to expose their Social Security benefits to tax.

In 2019, Rev. Green received \$2,000 from occasional guest preaching engagements. He incurred \$586 in expenses as a result of these activities (\$436 of travel expenses, and \$150 of meal expenses). Note that Rev. Green will pay self-employment tax on this income (see Schedule SE), since it represents compensation from active ministry.

The parts of Rev. and Mrs. Green's income tax return are explained in the order they are completed. They are illustrated in the order that the Rev. Green will assemble the return to send it to the IRS.

### Form 1099-R from the Board of Pensions

The Board of Pensions completed Form 1099-R for Rev. Green as follows:

Box 1. The \$15,000 pension income Rev. Green receives from the Board of Pensions.

Box 2b. Taxable amount not determined. – The Board of Pensions designated in advance 100% of pension income as a housing allowance. It is not taxable to the extent that it does not exceed the lesser of actual housing expenses or the annual fair rental value of the home (including furnishings and utilities).

Box 7. Rev. Green's pension income is a normal distribution.

### Schedule C (Form 1040)

*Note, for 2019, the IRS announced that it will not be issuing the Schedule C-EZ. Therefore, Schedule C will be used.*

Some of Rev. Green's entries on Schedule C are explained here.

Line 1. Rev. Green reports the \$2,000 from occasional guest preaching engagements.

Lines 2 through 7. Rev. Green fills out these lines to report his gross income reported on line 7. Rev. Green did not have any returns or allowances, cost of goods sold, or other income for the year. Therefore, the amount reported on line 7 is \$2,000.

Line 9. Rev. Green reports his car expenses on this line. Rev. Green incurred 752 miles of business use of his car, in connection with guest preaching. Rev. Green used the standard mileage rate to figure his car expense. He multiplied the standard mileage rate of 58 cents by 752 miles for a total of \$436. However, he cannot deduct the part of his expenses allocable to

his tax-free parsonage allowance. He attaches the required statement, Attachment 1 (shown later) to his return showing that 76% (or \$331) of his expenses are not deductible because they are allocable to that tax-free allowance. He subtracts the \$331 from the \$436 and enters the \$105 difference on line 9.

Line 24b. Rev. Green also incurred \$75 ( $\$150 \times 50\%$  nondeductible) in business meal expenses (i.e., non-entertainment-related) in connection with guest preaching engagements. However, he cannot deduct the part of his expenses allocable to his tax-free parsonage allowance. He attaches the required statement, Attachment 1 (shown later) to his return showing that 76% (or \$57) of his business meal expenses are not deductible because they are allocable to that tax-free allowance. He subtracts the \$57 from the \$75 and enters the \$18 difference on line 24b.

Line 28. Rev. Green enters his total expenses, less the 76% allocable to his tax-free parsonage allowance (\$105 + \$18) on line 28.

Line 29 through 31. He enters his tentative profit of \$1,877 on line 29 and 31 (since Rev. Green did not have any expenses for the business use of his home). The net income from Schedule C is also reported on Schedule 1 (Form 1040), line 3.

Lines 43 through 47b. Rev. Green fills out these lines to report information about his car.

Turbo Tax tips: Listed below are tips for ministers who use Turbo Tax to complete their returns. These tips should not be construed as an endorsement or recommendation of the Turbo Tax software.

Turbo Tax does not appear to calculate the nondeductible portion of the expenses which should be allocated to the tax-free portion of the housing allowance. The taxpayer will need to adjust the expenses (as shown in Attachment 1) and input the reduced figure into the software.

### Schedule SE (Form 1040)

After Rev. Green prepares Schedule C he fills out Schedule SE (Form 1040). He reads the chart on page 1 of the schedule, which tells him he can use Section A – Short Schedule SE to figure his self-employment tax. Ministers are not church employees under this definition. He fills out the following lines in Section A.

Line 2. Rev. Green attaches a statement (see Attachment 2, later) that calculates his net profit of \$1,489 and he enters that amount here.

Line 4. He multiplies the \$1,489 by .9235 to get his net earnings from self-employment (\$1,375).

Line 5. The amount on line 4 is less than \$132,900, so Rev. Green multiplies the amount on line 4 (\$1,375) by .153 to get his self-employment tax of \$210. He enters that amount here and on Schedule 2 (Form 1040), line 4 and 10.

Line 6. Rev. Green multiplies the amount on line 5 by .50 to get his deduction for the employer-equivalent portion of self-employment tax of \$105. He enters that amount here and on Schedule 1 (Form 1040), line 14 and 22.

Turbo Tax tips: The software does not appear to reduce self-employment wages by the business expenses allocated to tax free income. The taxpayer will need to adjust net self-employment income (as shown in Attachment 2) and input the reduced figure into the software.

### Qualified Business Income Deduction (Form 8995)

*Ministers who have net profit reported on Schedule C for ministerial services and who have 2019 taxable income less than \$160,700 (\$321,400 if married filing jointly) before the application of a qualified business income deduction may be eligible for such a deduction. However, since the Greens' taxable income before the application of a qualified business income deduction is \$0 (see completion of Form 1040 section below), the Greens are not eligible for such a deduction in 2019.*

## Form 1040, Schedule 1 (Form 1040), and Schedule 2 (Form 1040)

After Rev. Green prepares Schedule C, and Schedule SE, he fills out Form 1040, along with Schedules 1 through 3 to the extent required. Rev. Green files a joint return with his wife. First he fills out Form 1040, Page 1 and completes the appropriate lines for his filing status, including checking the appropriate boxes indicating that he and his wife were born before January 2, 1955. Then, he fills out the rest of the form as follows:

Form 1040, Line 4c. Rev. Green reports his total annuity income of \$15,000 on line 4c. He reports the taxable amount (\$2,000) as computed on Attachment 1 (shown later) on line 4d.

Form 1040, Line 5a and 5b. Since none of Rev. Green's Social Security benefits are taxable, he does not report any amounts on line 5a or 5b.

Schedule 1 (Form 1040), Line 9. He reports his net profit of \$1,877 from Schedule C, line 31 on Schedule 1, line 3. Since no other amounts are reported on Schedule 1 (Form 1040), Lines 1-8, he also reports this amount on Line 9, and carries the figure to the blank space on Form 1040, line 7a.

Form 1040, Line 7b. Rev. Green adds Form 1040 line 4d and the amount reported on the on Form 1040, line 7a, and enters the total (\$3,877) on line 7b.

Form 1040, Line 8a. Because Rev. Green has reported deductible self-employment tax of \$105 on Schedule 1 (Form 1040) Line 14, Rev. Green goes to Schedule 1 (Form 1040) and completes the bottom section of the form. Since there are no other amounts listed on lines 10-21, Rev. Green reports \$105 on Line 22 and carries this amount to line 8a of Form 1040. Line 8a is subtracted from line 7b. The result (\$3,772) is entered on Form 1040, line 8b. This is his adjusted gross income.

Form 1040, Line 11a. Rev. Green enters his standard deduction of \$27,000 (which takes into consideration the fact he and his wife were born before January 2, 1955) on line 9. Since there is no amount listed for qualified business income deduction on line 10, Rev Green reports \$27,000 on line 11a.

Form 1040, Line 11b. Rev. Green has no taxable income.

Form 1040, Page 2, Line 15 and Schedule 2 (Form 1040). Rev. Green completes Schedule 2 (Form 1040). Since the only amount reported on Schedule 2 (Form 1040) is his self-employment tax from Schedule SE, he reports the amount (\$210) on Schedule 2 (Form 1040), Line 10, and on Form 1040, line 15.

Form 1040, Line 17. Rev. Green did not have any income tax withheld from his pension.

Form 1040, Line 23. Amount Rev. Green owes to the IRS.

<input type="checkbox"/> CORRECTED (if checked)				OMB No. 1545-0119  <b>2019</b>  Form <b>1099-R</b>		<b>Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.</b>  <b>Copy B</b> <b>Report this income on your federal tax return. If this form shows federal income tax withheld in box 4, attach this copy to your return.</b>  This information is being furnished to the IRS.	
PAYER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and phone no.  <b>The Board of Pensions of the Presbyterian Church (USA)</b> <b>2000 Market Street</b> <b>Philadelphia, PA 19103-3298</b> <b>1-800-773-7752</b>			<b>1</b> Gross distribution <b>\$ 15,000.00</b> <b>2a</b> Taxable amount \$		<b>2b</b> Taxable amount not determined <input checked="" type="checkbox"/> Total distribution <input type="checkbox"/>		
PAYER'S TIN <b>23-1352040</b>		RECIPIENT'S TIN <b>202-20-2002</b>		<b>3</b> Capital gain (included in box 2a) \$		<b>4</b> Federal income tax withheld \$	
RECIPIENT'S name <b>William K. Green</b>  Street address (including apt. no.) <b>787 Adams Street</b>  City or town, state or province, country, and ZIP or foreign postal code <b>Anytown, NY 10002</b>			<b>5</b> Employee contributions/ Designated Roth contributions or insurance premiums \$		<b>6</b> Net unrealized appreciation in employer's securities \$	<b>7</b> Distribution code(s) <b>7</b>	<b>8</b> Other \$ %
			<b>9a</b> Your percentage of total distribution % \$		<b>9b</b> Total employee contributions \$		
<b>10</b> Amount allocable to IRR within 5 years \$		<b>11</b> 1st year of desig. Roth contrib. <input type="checkbox"/>	<b>12</b> State tax withheld \$		<b>13</b> State/Payer's state no. \$	<b>14</b> State distribution \$	
Account number (see instructions)		Date of payment	<b>15</b> Local tax withheld \$		<b>16</b> Name of locality \$	<b>17</b> Local distribution \$	

Form **1099-R**
[www.irs.gov/Form1099R](http://www.irs.gov/Form1099R)

Department of the Treasury - Internal Revenue Service



**Filing Status** ☐ Single ☒ Married filing jointly ☐ Married filing separately (MFS) ☐ Head of household (HOH) ☐ Qualifying widow(er) (QW)  
 Check only one box. If you checked the MFS box, enter the name of spouse. If you checked the HOH or QW box, enter the child's name if the qualifying person is a child but not your dependent. ▶

Your first name and middle initial <b>William K.</b>		Last name <b>Green</b>		Your social security number <b>2 0 2   2 0   2 0 0 2</b>	
If joint return, spouse's first name and middle initial <b>Sarah J.</b>		Last name <b>Green</b>		Spouse's social security number <b>3 0 3   3 0   3 0 0 3</b>	
Home address (number and street). If you have a P.O. box, see instructions. <b>787 Adams Street</b>				Apt. no. <b></b>	
City, town or post office, state, and ZIP code. If you have a foreign address, also complete spaces below (see instructions). <b>Anytown, New York 10002</b>				Presidential Election Campaign Check here if you, or your spouse if filing jointly, want \$3 to go to this fund. Checking a box below will not change your tax or refund. <input type="checkbox"/> You <input type="checkbox"/> Spouse	
Foreign country name <b></b>		Foreign province/state/country <b></b>		Foreign postal code <b></b>	
If more than four dependents, see instructions and ✓ here ▶ <input type="checkbox"/>					

**Standard Deduction** **Someone can claim:** ☐ You as a dependent ☐ Your spouse as a dependent  
☐ Spouse itemizes on a separate return or you were a dual-status alien

**Age/Blindness** **You:** ☒ Were born before January 2, 1955 ☐ Are blind **Spouse:** ☒ Was born before January 2, 1955 ☐ Is blind

(1) First name		(2) Social security number	(3) Relationship to you	(4) ✓ if qualifies for (see instructions):	
Last name				Child tax credit	Credit for other dependents
				<input type="checkbox"/>	<input type="checkbox"/>
				<input type="checkbox"/>	<input type="checkbox"/>
				<input type="checkbox"/>	<input type="checkbox"/>
				<input type="checkbox"/>	<input type="checkbox"/>

<b>1</b> Wages, salaries, tips, etc. Attach Form(s) W-2 . . . . .	<b>1</b>	
<b>2a</b> Tax-exempt interest . . . . .	<b>2a</b>	
<b>3a</b> Qualified dividends . . . . .	<b>3a</b>	
<b>4a</b> IRA distributions . . . . .	<b>4a</b>	
<b>c</b> Pensions and annuities . . . . .	<b>4c</b>	<b>15,000</b>
<b>5a</b> Social security benefits . . . . .	<b>5a</b>	
<b>6</b> Capital gain or (loss). Attach Schedule D if required. If not required, check here . . . . .	<b>6</b>	<input type="checkbox"/>
<b>7a</b> Other income from Schedule 1, line 9 . . . . .	<b>7a</b>	<b>1,877</b>
<b>b</b> Add lines 1, 2b, 3b, 4b, 4d, 5b, 6, and 7a. This is your <b>total income</b> . . . . .	<b>7b</b>	<b>3,877</b>
<b>8a</b> Adjustments to income from Schedule 1, line 22 . . . . .	<b>8a</b>	<b>105</b>
<b>b</b> Subtract line 8a from line 7b. This is your <b>adjusted gross income</b> . . . . .	<b>8b</b>	<b>3,772</b>
<b>9</b> <b>Standard deduction or itemized deductions</b> (from Schedule A) . . . . .	<b>9</b>	<b>27,000</b>
<b>10</b> Qualified business income deduction. Attach Form 8995 or Form 8995-A . . . . .	<b>10</b>	<b>0</b>
<b>11a</b> Add lines 9 and 10 . . . . .	<b>11a</b>	<b>27,000</b>
<b>b</b> <b>Taxable income.</b> Subtract line 11a from line 8b. If zero or less, enter -0- . . . . .	<b>11b</b>	<b>0</b>

<b>12a</b> Tax (see inst.) Check if any from Form(s): 1 <input type="checkbox"/> 8814 2 <input type="checkbox"/> 4972 3 <input type="checkbox"/>		<b>12a</b>	
<b>b</b> Add Schedule 2, line 3, and line 12a and enter the total		<b>12b</b>	
<b>13a</b> Child tax credit or credit for other dependents		<b>13a</b>	
<b>b</b> Add Schedule 3, line 7, and line 13a and enter the total		<b>13b</b>	
<b>14</b> Subtract line 13b from line 12b. If zero or less, enter -0-		<b>14</b>	
<b>15</b> Other taxes, including self-employment tax, from Schedule 2, line 10		<b>15</b>	<b>210</b>
<b>16</b> Add lines 14 and 15. This is your <b>total tax</b>		<b>16</b>	
<b>17</b> Federal income tax withheld from Forms W-2 and 1099		<b>17</b>	
<b>18</b> Other payments and refundable credits:			
<b>a</b> Earned income credit (EIC)		<b>18a</b>	
<b>b</b> Additional child tax credit. Attach Schedule 8812		<b>18b</b>	
<b>c</b> American opportunity credit from Form 8863, line 8		<b>18c</b>	
<b>d</b> Schedule 3, line 14		<b>18d</b>	
<b>e</b> Add lines 18a through 18d. These are your <b>total other payments and refundable credits</b>		<b>18e</b>	
<b>19</b> Add lines 17 and 18e. These are your <b>total payments</b>		<b>19</b>	
<b>Refund</b> <b>20</b> If line 19 is more than line 16, subtract line 16 from line 19. This is the amount you <b>overpaid</b>		<b>20</b>	
<b>21a</b> Amount of line 20 you want <b>refunded to you</b> . If Form 8888 is attached, check here <input type="checkbox"/>		<b>21a</b>	
<b>b</b> Routing number <input type="text"/> <b>c</b> Type: <input type="checkbox"/> Checking <input type="checkbox"/> Savings			
<b>d</b> Account number <input type="text"/>			
<b>22</b> Amount of line 20 you want <b>applied to your 2020 estimated tax</b>		<b>22</b>	
<b>Amount You Owe</b> <b>23</b> <b>Amount you owe.</b> Subtract line 19 from line 16. For details on how to pay, see instructions		<b>23</b>	<b>210</b>
<b>24</b> Estimated tax penalty (see instructions)		<b>24</b>	
Do you want to allow another person (other than your paid preparer) to discuss this return with the IRS? See instructions. <input type="checkbox"/> <b>Yes.</b> Complete below. <input type="checkbox"/> <b>No</b>			
<b>Third Party Designee</b> (Other than paid preparer) Designee's name <input type="text"/>		Phone no. <input type="text"/>	Personal identification number (PIN) <input type="text"/>
<b>Sign Here</b> Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.			
Your signature <b>William Green</b>		Date <b>3/15/20</b>	Your occupation <b>Retired Minister</b>
Spouse's signature. If a joint return, <b>both</b> must sign. <b>Sarah Green</b>		Date <b>3/15/20</b>	Spouse's occupation <b>Retired</b>
Phone no. <input type="text"/>		Email address <input type="text"/>	
<b>Paid Preparer Use Only</b> Preparer's name <input type="text"/>		Preparer's signature <input type="text"/>	Date <input type="text"/>
Firm's name <input type="text"/>		Phone no. <input type="text"/>	PTIN <input type="text"/>
Firm's address <input type="text"/>		Firm's EIN <input type="text"/>	
		Check if: <input type="checkbox"/> 3rd Party Designee <input type="checkbox"/> Self-employed	

Go to [www.irs.gov/Form1040](http://www.irs.gov/Form1040) for instructions and the latest information.Form **1040** (2019)

**SCHEDULE 1**  
**(Form 1040 or 1040-SR)**

Department of the Treasury  
Internal Revenue Service

**Additional Income and Adjustments to Income**

► Attach to Form 1040 or 1040-SR.  
► Go to [www.irs.gov/Form1040](http://www.irs.gov/Form1040) for instructions and the latest information.

OMB No. 1545-0074

**2019**

Attachment  
Sequence No. **01**

Name(s) shown on Form 1040 or 1040-SR

William K. Green

Your social security number

202-20-2002

At any time during 2019, did you receive, sell, send, exchange, or otherwise acquire any financial interest in any virtual currency? . . . . .

☐ Yes ☐ No

**Part I Additional Income**

<b>1</b>	Taxable refunds, credits, or offsets of state and local income taxes . . . . .	<b>1</b>	
<b>2a</b>	Alimony received . . . . .	<b>2a</b>	
<b>b</b>	Date of original divorce or separation agreement (see instructions) ►		
<b>3</b>	Business income or (loss). Attach Schedule C . . . . .	<b>3</b>	<b>1,877</b>
<b>4</b>	Other gains or (losses). Attach Form 4797 . . . . .	<b>4</b>	
<b>5</b>	Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E . . . . .	<b>5</b>	
<b>6</b>	Farm income or (loss). Attach Schedule F . . . . .	<b>6</b>	
<b>7</b>	Unemployment compensation . . . . .	<b>7</b>	
<b>8</b>	Other income. List type and amount ►	<b>8</b>	
<b>9</b>	Combine lines 1 through 8. Enter here and on Form 1040 or 1040-SR, line 7a . . . . .	<b>9</b>	<b>1,877</b>

**Part II Adjustments to Income**

<b>10</b>	Educator expenses . . . . .	<b>10</b>	
<b>11</b>	Certain business expenses of reservists, performing artists, and fee-basis government officials. Attach Form 2106 . . . . .	<b>11</b>	
<b>12</b>	Health savings account deduction. Attach Form 8889 . . . . .	<b>12</b>	
<b>13</b>	Moving expenses for members of the Armed Forces. Attach Form 3903 . . . . .	<b>13</b>	
<b>14</b>	Deductible part of self-employment tax. Attach Schedule SE . . . . .	<b>14</b>	<b>105</b>
<b>15</b>	Self-employed SEP, SIMPLE, and qualified plans . . . . .	<b>15</b>	
<b>16</b>	Self-employed health insurance deduction . . . . .	<b>16</b>	
<b>17</b>	Penalty on early withdrawal of savings . . . . .	<b>17</b>	
<b>18a</b>	Alimony paid . . . . .	<b>18a</b>	
<b>b</b>	Recipient's SSN . . . . .		
<b>c</b>	Date of original divorce or separation agreement (see instructions) ►		
<b>19</b>	IRA deduction . . . . .	<b>19</b>	
<b>20</b>	Student loan interest deduction . . . . .	<b>20</b>	
<b>21</b>	Reserved for future use . . . . .	<b>21</b>	
<b>22</b>	Add lines 10 through 21. These are your <b>adjustments to income</b> . Enter here and on Form 1040 or 1040-SR, line 8a . . . . .	<b>22</b>	<b>105</b>

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

Cat. No. 71479F

Schedule 1 (Form 1040 or 1040-SR) 2019

**SCHEDULE 2**  
**(Form 1040 or 1040-SR)**

Department of the Treasury  
Internal Revenue Service

**Additional Taxes**

► Attach to Form 1040 or 1040-SR.  
► Go to [www.irs.gov/Form1040](http://www.irs.gov/Form1040) for instructions and the latest information.

OMB No. 1545-0074

**2019**

Attachment  
Sequence No. **02**

Name(s) shown on Form 1040 or 1040-SR

William K. Green

Your social security number

202-20-2002

**Part I Tax**

<b>1</b>	Alternative minimum tax. Attach Form 6251 . . . . .	<b>1</b>	
<b>2</b>	Excess advance premium tax credit repayment. Attach Form 8962 . . . . .	<b>2</b>	
<b>3</b>	Add lines 1 and 2. Enter here and include on Form 1040 or 1040-SR, line 12b . . . . .	<b>3</b>	

**Part II Other Taxes**

<b>4</b>	Self-employment tax. Attach Schedule SE . . . . .	<b>4</b>	<b>210</b>
<b>5</b>	Unreported social security and Medicare tax from Form: <b>a</b> <input type="checkbox"/> 4137 <b>b</b> <input type="checkbox"/> 8919 . . . . .	<b>5</b>	
<b>6</b>	Additional tax on IRAs, other qualified retirement plans, and other tax-favored accounts. Attach Form 5329 if required . . . . .	<b>6</b>	
<b>7a</b>	Household employment taxes. Attach Schedule H . . . . .	<b>7a</b>	
<b>b</b>	Repayment of first-time homebuyer credit from Form 5405. Attach Form 5405 if required . . . . .	<b>7b</b>	
<b>8</b>	Taxes from: <b>a</b> <input type="checkbox"/> Form 8959 <b>b</b> <input type="checkbox"/> Form 8960 <b>c</b> <input type="checkbox"/> Instructions; enter code(s) . . . . .	<b>8</b>	
<b>9</b>	Section 965 net tax liability installment from Form 965-A . . . . .	<b>9</b>	
<b>10</b>	Add lines 4 through 8. These are your <b>total other taxes</b> . Enter here and on Form 1040 or 1040-SR, line 15 . . . . .	<b>10</b>	<b>210</b>

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

Cat. No. 71478U

Schedule 2 (Form 1040 or 1040-SR) 2019



**SCHEDULE C**  
(Form 1040 or 1040-SR)

**Profit or Loss From Business**  
(Sole Proprietorship)

OMB No. 1545-0074

**2019**

Attachment  
Sequence No. **09**

Department of the Treasury  
Internal Revenue Service (99)

► Go to [www.irs.gov/ScheduleC](http://www.irs.gov/ScheduleC) for instructions and the latest information.

► Attach to Form 1040, 1040-SR, 1040-NR, or 1041; partnerships generally must file Form 1065.

Name of proprietor

**William K. Green**

Social security number (SSN)

**202-20-2002**

**A** Principal business or profession, including product or service (see instructions)

**Minister**

**B** Enter code from instructions

► **5 4 1 9 9 0**

**C** Business name. If no separate business name, leave blank.

**D** Employer ID number (EIN) (see instr.)

**E** Business address (including suite or room no.) ► **787 Adams Street**

City, town or post office, state, and ZIP code **Anytown, New York 10002**

**F** Accounting method: (1) ☒ Cash (2) ☐ Accrual (3) ☐ Other (specify) ►

**G** Did you "materially participate" in the operation of this business during 2019? If "No," see instructions for limit on losses . . . ☒ Yes ☐ No

**H** If you started or acquired this business during 2019, check here . . . ☐

**I** Did you make any payments in 2019 that would require you to file Form(s) 1099? (see instructions) . . . ☐ Yes ☒ No

**J** If "Yes," did you or will you file required Forms 1099? . . . ☐ Yes ☐ No

**Part I Income**

<b>1</b>	Gross receipts or sales. See instructions for line 1 and check the box if this income was reported to you on Form W-2 and the "Statutory employee" box on that form was checked . . . <input type="checkbox"/>	<b>1</b>	<b>2,000</b>
<b>2</b>	Returns and allowances . . . . .	<b>2</b>	
<b>3</b>	Subtract line 2 from line 1 . . . . .	<b>3</b>	<b>2,000</b>
<b>4</b>	Cost of goods sold (from line 42) . . . . .	<b>4</b>	
<b>5</b>	<b>Gross profit.</b> Subtract line 4 from line 3 . . . . .	<b>5</b>	<b>2,000</b>
<b>6</b>	Other income, including federal and state gasoline or fuel tax credit or refund (see instructions) . . . . .	<b>6</b>	
<b>7</b>	<b>Gross income.</b> Add lines 5 and 6 . . . . .	<b>7</b>	<b>2,000</b>

**Part II Expenses.** Enter expenses for business use of your home **only** on line 30.

<b>8</b>	Advertising . . . . .	<b>8</b>		<b>18</b>	Office expense (see instructions)	<b>18</b>	
<b>9</b>	Car and truck expenses (see instructions). . . . .	<b>9</b>	<b>105*</b>	<b>19</b>	Pension and profit-sharing plans . . . . .	<b>19</b>	
<b>10</b>	Commissions and fees . . . . .	<b>10</b>		<b>20</b>	Rent or lease (see instructions):		
<b>11</b>	Contract labor (see instructions)	<b>11</b>		<b>a</b>	Vehicles, machinery, and equipment	<b>20a</b>	
<b>12</b>	Depreciation . . . . .	<b>12</b>		<b>b</b>	Other business property . . . . .	<b>20b</b>	
<b>13</b>	Depreciation and section 179 expense deduction (not included in Part III) (see instructions). . . . .	<b>13</b>		<b>21</b>	Repairs and maintenance . . . . .	<b>21</b>	
<b>14</b>	Employee benefit programs (other than on line 19) . . . . .	<b>14</b>		<b>22</b>	Supplies (not included in Part III) . . . . .	<b>22</b>	
<b>15</b>	Insurance (other than health)	<b>15</b>		<b>23</b>	Taxes and licenses . . . . .	<b>23</b>	
<b>16</b>	Interest (see instructions):			<b>24</b>	Travel and meals:		
<b>a</b>	Mortgage (paid to banks, etc.)	<b>16a</b>		<b>a</b>	Travel . . . . .	<b>24a</b>	
<b>b</b>	Other . . . . .	<b>16b</b>		<b>b</b>	Deductible meals (see instructions) . . . . .	<b>24b</b>	<b>18*</b>
<b>17</b>	Legal and professional services	<b>17</b>		<b>25</b>	Utilities . . . . .	<b>25</b>	
<b>28</b>	<b>Total expenses</b> before expenses for business use of home. Add lines 8 through 27a . . . . .	<b>28</b>		<b>26</b>	Wages (less employment credits) . . . . .	<b>26</b>	
<b>29</b>	Tentative profit or (loss). Subtract line 28 from line 7 . . . . .	<b>29</b>	<b>1,877</b>	<b>27a</b>	Other expenses (from line 48) . . . . .	<b>27a</b>	
<b>30</b>	Expenses for business use of your home. Do not report these expenses elsewhere. Attach Form 8829 unless using the simplified method (see instructions). <b>Simplified method filers only:</b> enter the total square footage of: (a) your home: _____ and (b) the part of your home used for business: _____. Use the Simplified Method Worksheet in the instructions to figure the amount to enter on line 30 . . . . .	<b>30</b>		<b>b</b>	<b>Reserved for future use</b> . . . . .	<b>27b</b>	
<b>31</b>	<b>Net profit or (loss).</b> Subtract line 30 from line 29. • If a profit, enter on both <b>Schedule 1 (Form 1040 or 1040-SR), line 3</b> (or <b>Form 1040-NR, line 13</b> ) and on <b>Schedule SE, line 2</b> . (If you checked the box on line 1, see instructions). Estates and trusts, enter on <b>Form 1041, line 3</b> . • If a loss, you <b>must</b> go to line 32.	<b>31</b>	<b>1,877</b>				
<b>32</b>	If you have a loss, check the box that describes your investment in this activity (see instructions). • If you checked 32a, enter the loss on both <b>Schedule 1 (Form 1040 or 1040-SR), line 3</b> (or <b>Form 1040-NR, line 13</b> ) and on <b>Schedule SE, line 2</b> . (If you checked the box on line 1, see the line 31 instructions). Estates and trusts, enter on <b>Form 1041, line 3</b> . • If you checked 32b, you <b>must</b> attach <b>Form 6198</b> . Your loss may be limited.						

**32a** ☐ All investment is at risk.  
**32b** ☐ Some investment is not at risk.

For Paperwork Reduction Act Notice, see the separate instructions.

Cat. No. 11334P

Schedule C (Form 1040 or 1040-SR) 2019

\* See statement attached.

33	Method(s) used to value closing inventory:	a <input type="checkbox"/> Cost	b <input type="checkbox"/> Lower of cost or market	c <input type="checkbox"/> Other (attach explanation)
34	Was there any change in determining quantities, costs, or valuations between opening and closing inventory?			
	If "Yes," attach explanation . . . . . <input type="checkbox"/> Yes <input type="checkbox"/> No			
35	Inventory at beginning of year. If different from last year's closing inventory, attach explanation . . . . .	35		
36	Purchases less cost of items withdrawn for personal use . . . . .	36		
37	Cost of labor. Do not include any amounts paid to yourself . . . . .	37		
38	Materials and supplies . . . . .	38		
39	Other costs . . . . .	39		
40	Add lines 35 through 39 . . . . .	40		
41	Inventory at end of year . . . . .	41		
42	<b>Cost of goods sold.</b> Subtract line 41 from line 40. Enter the result here and on line 4 . . . . .	42		

43 When did you place your vehicle in service for business purposes? (month, day, year) ▶ 07 / 15 / 2012

44 Of the total number of miles you drove your vehicle during 2019, enter the number of miles you used your vehicle for:

a Business 752 b Commuting (see instructions) 0 c Other 12,682

45 Was your vehicle available for personal use during off-duty hours? ☒ Yes ☐ No

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

47a Do you have evidence to support your deduction? ☒ Yes ☐ No

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

[illegible]

**SCHEDULE SE**  
(Form 1040 or 1040-SR)

**Self-Employment Tax**

OMB No. 1545-0074

**2019**

Attachment  
Sequence No. **17**

Department of the Treasury  
Internal Revenue Service (99)

► Go to [www.irs.gov/ScheduleSE](http://www.irs.gov/ScheduleSE) for instructions and the latest information.  
► Attach to Form 1040, 1040-SR, or 1040-NR.

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

William K. Green

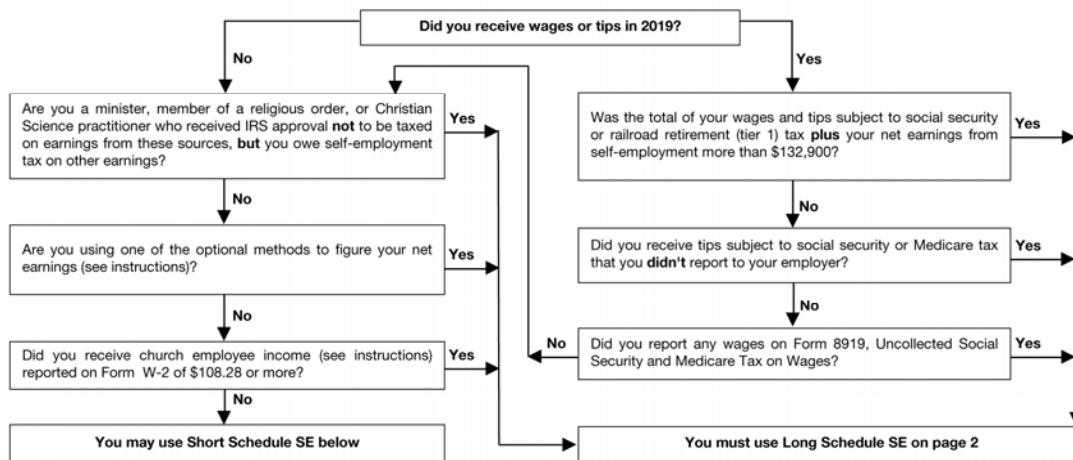
Social security number of person  
with self-employment income ►

202-20-2002

**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.

<b>1a</b> Net farm profit or (loss) from Schedule F, line 34, and farm partnerships, Schedule K-1 (Form 1065), box 14, code A . . . . .	<b>1a</b>	
<b>b</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 . . . . .	<b>1b</b> ( )	
<b>2</b> Net profit or (loss) from Schedule C, line 31; and Schedule K-1 (Form 1065), box 14, code A (other than farming). Ministers and members of religious orders, see instructions for types of income to report on this line. See instructions for other income to report . . . . .	<b>2</b>	1,489 *
<b>3</b> Combine lines 1a, 1b, and 2 . . . . .	<b>3</b>	1,489
<b>4</b> Multiply line 3 by 92.35% (0.9235). If less than \$400, you don't owe self-employment tax; <b>don't</b> file this schedule unless you have an amount on line 1b . . . . . ► <b>Note:</b> If line 4 is less than \$400 due to Conservation Reserve Program payments on line 1b, see instructions.	<b>4</b>	1,375
<b>5 Self-employment tax.</b> If the amount on line 4 is: • \$132,900 or less, multiply line 4 by 15.3% (0.153). Enter the result here and on <b>Schedule 2 (Form 1040 or 1040-SR), line 4, or Form 1040-NR, line 55.</b> • More than \$132,900, multiply line 4 by 2.9% (0.029). Then, add \$16,479.60 to the result. Enter the total here and on <b>Schedule 2 (Form 1040 or 1040-SR), line 4, or Form 1040-NR, line 55 .</b>	<b>5</b>	210
<b>6 Deduction for one-half of self-employment tax.</b> Multiply line 5 by 50% (0.50). Enter the result here and on <b>Schedule 1 (Form 1040 or 1040-SR), line 14, or Form 1040-NR, line 27 . . . . .</b>	<b>6</b>	105

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

Cat. No. 11358Z

Schedule SE (Form 1040 or 1040-SR) 2019

\* See statement attached.

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

Social security number of person with self-employment income ▶

**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.

<b>A</b> If you are a minister, member of a religious order, or Christian Science practitioner <b>and</b> you filed Form 4361, but you had \$400 or more of <b>other</b> net earnings from self-employment, check here and continue with Part I . . . . . <input type="checkbox"/>		
<b>1a</b> Net farm profit or (loss) from Schedule F, line 34, and farm partnerships, Schedule K-1 (Form 1065), box 14, code A. <b>Note:</b> Skip lines 1a and 1b if you use the farm optional method (see instructions) . . . . .	<b>1a</b>	
<b>b</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 . . . . .	<b>1b</b> ( )	
<b>2</b> Net profit or (loss) from Schedule C, line 31; and Schedule K-1 (Form 1065), box 14, code A (other than farming). Ministers and members of religious orders, see instructions for types of income to report on this line. See instructions for other income to report. <b>Note:</b> Skip this line if you use the nonfarm optional method (see instructions) . . . . .	<b>2</b>	
<b>3</b> Combine lines 1a, 1b, and 2 . . . . .	<b>3</b>	
<b>4a</b> If line 3 is more than zero, multiply line 3 by 92.35% (0.9235). Otherwise, enter amount from line 3 . . . . .	<b>4a</b>	
<b>Note:</b> If line 4a is less than \$400 due to Conservation Reserve Program payments on line 1b, see instructions.		
<b>b</b> If you elect one or both of the optional methods, enter the total of lines 15 and 17 here . . . . .	<b>4b</b>	
<b>c</b> Combine lines 4a and 4b. If less than \$400, <b>stop</b> ; you don't owe self-employment tax. <b>Exception:</b> If less than \$400 and you had <b>church employee income</b> , enter -0- and continue . . . . . ▶	<b>4c</b>	
<b>5a</b> Enter your <b>church employee income</b> from Form W-2. See instructions for definition of church employee income . . . . .	<b>5a</b>	
<b>b</b> Multiply line 5a by 92.35% (0.9235). If less than \$100, enter -0- . . . . .	<b>5b</b>	
<b>6</b> Add lines 4c and 5b . . . . .	<b>6</b>	
<b>7</b> 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 2019 . . . . .	<b>7</b>	132,900
<b>8a</b> Total social security wages and tips (total of boxes 3 and 7 on Form(s) W-2) and railroad retirement (tier 1) compensation. If \$132,900 or more, skip lines 8b through 10, and go to line 11 . . . . .	<b>8a</b>	
<b>b</b> Unreported tips subject to social security tax (from Form 4137, line 10) . . . . .	<b>8b</b>	
<b>c</b> Wages subject to social security tax (from Form 8919, line 10) . . . . .	<b>8c</b>	
<b>d</b> Add lines 8a, 8b, and 8c . . . . .	<b>8d</b>	
<b>9</b> Subtract line 8d from line 7. If zero or less, enter -0- here and on line 10 and go to line 11 . . . . . ▶	<b>9</b>	
<b>10</b> Multiply the <b>smaller</b> of line 6 or line 9 by 12.4% (0.124) . . . . .	<b>10</b>	
<b>11</b> Multiply line 6 by 2.9% (0.029) . . . . .	<b>11</b>	
<b>12</b> <b>Self-employment tax.</b> Add lines 10 and 11. Enter here and on <b>Schedule 2 (Form 1040 or 1040-SR), line 4, or Form 1040-NR, line 55</b> . . . . .	<b>12</b>	
<b>13</b> <b>Deduction for one-half of self-employment tax.</b> Multiply line 12 by 50% (0.50). Enter the result here and on <b>Schedule 1 (Form 1040 or 1040-SR), line 14, or Form 1040-NR, line 27</b> . . . . .	<b>13</b>	

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

<b>Farm Optional Method.</b> You may use this method <b>only</b> if (a) your gross farm income <sup>1</sup> wasn't more than \$8,160, or (b) your net farm profits <sup>2</sup> were less than \$5,891.		
<b>14</b> Maximum income for optional methods . . . . .	<b>14</b>	5,440
<b>15</b> Enter the <b>smaller</b> of: two-thirds ( <sup>2</sup> / <sub>3</sub> ) of gross farm income <sup>1</sup> (not less than zero) or \$5,440. Also include this amount on line 4b above . . . . .	<b>15</b>	
<b>Nonfarm Optional Method.</b> You may use this method <b>only</b> if (a) your net nonfarm profits <sup>3</sup> were less than \$5,891 and also less than 72.189% of your gross nonfarm income, <sup>4</sup> and (b) you had net earnings from self-employment of at least \$400 in 2 of the prior 3 years. <b>Caution:</b> You may use this method no more than five times.		
<b>16</b> Subtract line 15 from line 14 . . . . .	<b>16</b>	
<b>17</b> Enter the <b>smaller</b> of: two-thirds ( <sup>2</sup> / <sub>3</sub> ) of gross nonfarm income <sup>4</sup> (not less than zero) or the amount on line 16. Also include this amount on line 4b above . . . . .	<b>17</b>	

<sup>1</sup> From Sch. F, line 9, and Sch. K-1 (Form 1065), box 14, code B.<sup>2</sup> 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.<sup>3</sup> From Sch. C, line 31; and Sch. K-1 (Form 1065), box 14, code A.<sup>4</sup> From Sch. C, line 7; and Sch. K-1 (Form 1065), box 14, code C.



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

<b>% of Nondeductible Expenses</b>				
		<u>Taxable</u>	<u>Tax-Free</u>	<u>Total</u>
Parsonage allowance:				
Ministerial retirement benefits designated as housing allowance	\$ 15,000			
Actual expenses	\$ 13,000			
Fair rental value of home (including furnishings and utilities) (\$1,200 x 12)	\$ 14,400			
Taxable portion of allowance (excess of amount designated & paid over lesser of actual expenses or fair rental value)	<u>\$ 2,000</u>	\$ 2,000		\$ 2,000
Tax-free portion of allowance (lesser of amount designated, actual expenses or fair rental value)			13,000	13,000
Gross income from occasional guest preaching engagements		2,000		2,000
Ministerial Income		<u>\$ 4,000</u>	<u>\$ 13,000</u>	<u>\$ 17,000</u>
% of nondeductible expenses: \$13,000/\$17,000 = 76%				

<b>Schedule C Deduction Computation</b>	
Business use of car:	
752 miles x 58¢	\$ 436
Minus: Nondeductible part of business use of car (76% x \$436)	<u>\$ (331)</u>
Total business use of car (Line)	<u>\$ 105</u>
Meal expenses (\$150 less 50% reduction)	\$ 75
Minus: Nondeductible part of meals & entertainment (76% x \$75)	<u>\$ (57)</u>
Total meal expenses (Line)	<u>\$ 18</u>
 Schedule C deductions, line 28	 <u>\$ 123</u>
None of the other deductions claimed in the return are allocable to tax-free income.	

**Attachment 2. Computation of Net Earnings from Self-Employment**

<b>Computation for Schedule SE (Form 1040)</b>		
Gross income from Schedule C		\$ 2,000
Less:		
Unadjusted Schedule C business use of car expenses	(436)	
Unadjusted Schedule C meal expenses	<u>(75)</u>	<u>(511)</u>
Net Self-Employment Income		
Schedule SE, Section A, line 2		<u>\$ 1,489</u>