

Payroll and Tax Reporting Frequently Asked Questions

- Should a minister get a W-2 or 1099?
 - Ministers are employees for federal tax purposes and should receive a W-2

- Should a minister be issued a W-2 if 100% of salary is designated to housing?
 - Technically no because housing is not required to be reported on the W-2. However, it is a best business practice to issue all employees a W-2.

- When can the minister's housing allowance be changed?
 - Tax law allows housing designations to be changed at anytime during the year with requirements:
 - Approval by church or authorized body required
 - Approval must be in writing
 - Change can only be prospective, going forward

- What is a minister "for tax purposes"?
 - Generally speaking -
 - Must be ordained, commissioned, or licensed
 - Must be performing as a minister
 - Preaching, teaching
 - Can perform baptisms, Lord's Supper
 - Looked upon as minister by congregation
 - Spiritual leader

- Can a minister opt out of being treated as a minister for tax purposes?
 - No
 - If minister meets definition of minister for tax purposes, then must be treated as a minister for tax-purposes
 - Employee for federal tax
 - Self-employed for Social Security tax

- Are love offerings to ministers or staff taxable income?
 - Generally, yes.

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- Can the church withhold taxes from minister's wages?
 - The minister can request the church withhold federal income taxes
 - The church cannot withhold Social Security taxes

- Are gift cards or other non-cash gifts to ministers or staff taxable?
 - Gift cards, yes, no matter the value
 - Non-cash gifts of de minimis (nominal) value could be non-taxable

- Can we issue 1099's instead of W-2's to individuals working for the church?
 - Depends. Must determine the "status" of the worker.
 - Do they meet the definition of an employee?
 - Do they meet the definition of a contract worker?

- How do I correct the 941 and W-2?
 - 941X
 - W-2C

- Health benefits for staff: What can the church provide tax-free?
 - Any health benefits provided tax-free to staff must be compliant with Affordable Care Act, i.e., employer "group" health benefit
 - One-participant exception:
 - If church providing health benefits to only one benefited employee, usually the pastor, can pay for individual health insurance tax-free
 - Church can pay for individual health insurance tax-free using 1 of 2 options:
 - QSEHRA or ICHRA

- Can the church pay the minister's Medicare premiums tax-free?
 - Only if the payment of the Medicare premium is integrated with an employer group health insurance plan. Otherwise, taxable.

- Is a benevolent gift to an employee taxable income?
 - Yes, always.

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- Are love offerings taken for special speaker or artist taxable?
 - Yes, services were performed, and consideration given
 - Get a W-9 from and issue a 1099-NEC

- Should an interim pastor be an employee or contract worker?
 - Depends on facts and circumstances
 - Generally, if interim is stepping into role of pastor, then will be an employee, regardless of short-term or long-term time of service
 - If interim is only a “supply preacher”, could make the argument for contract worker status
 - However, if relationship is to be long-term, generally defined by the IRS as more than one year, then even supply preacher should be treated as employee

- Is free or reduced tuition given to worker of church’s daycare or weekday education program taxable?
 - Yes. Internal Revenue Code only allows tax-free tuition discounts in the context of a K-12 school.