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When paying an ordained minister, congregational treasurers may have several questions regarding payroll tax issues. Here are some points that may answer the question: What do Church Treasurers need to know?

- Ordained Ministers are considered employees for income tax purposes and self-employed for Social Security purposes. This means that they are to be issued a Form W-2 at the end of the year, like all other church employees, but they cannot have any Social Security and Medicare tax withheld and paid into the IRS for them. Form 1099 is used for contractors, not employees, who are paid more than \$600 in a year for services provided to the church, such as supply or interim pastors.
- A clergy person's salary and taxable benefits, such as FICA or SECA Allowance and any non-accountable allowances, are to be included on Wages Line 2 of the Employer's Quarterly Federal Tax Return Form 941, but not on Lines 5a and 5c.
- Non-accountable allowances are things like a car allowance where a set amount is paid to the clergy person each month regardless of how many miles are driven for work purposes. These allowances are taxable and should be reported as wages. On the other hand, if the clergy person submits their mileage each month and a separate check is written to them based upon their business usage, these checks are NOT added as taxable income.
- A clergy person's housing allowance can be paid with a check separate check from salary or it can be added to the salary amount and only one check is needed. However, the housing allowance amounts are not to be reported on Forms 941 during the year or on the Form W-2 at the end of the year unless it is just shown for information purposes in Box 14 of the Form W-2. It is never to be included in Box 1 of the Form W-2.
- Congregations are not required to withhold federal, state or school district income tax for an ordained clergy person because of the concept of a division between Church and State instituted at the formation of the United States. However, the congregation is ALLOWED to withhold federal, state and school district tax for an ordained person, but NEVER FICA and Medicare tax. If the church is withholding federal income tax from the ordained minister, these taxes are all to be reported on Line 3 of the Form 941 and Box 2 of the Form W-2. An ordained clergy person's Form W-2 should always have Boxes 3 -6 left blank if it is prepared accurately. In order to know how much tax should be withheld for an ordained clergy person, they should be given a Form W-4 to complete at the beginning of their ministry. The State of Ohio has a Form IT-4 for state tax withholdings where an employee lets the employer know how much state and school district tax should be withheld from their paychecks. School District tax should be withheld if the employee lives in a school district where there is a school district tax collected by the State, regardless of whether the church itself is located in a taxing school district.

- If the church is located in a taxing municipality (a city versus a non-taxing township) the church **MUST** withhold the city's income tax from the ordained individual each pay period just as if they were a non-ordained employee. Local taxes are based upon the location of the church, not where the individual lives. This is not considered optional for ordained people like the withholding of federal, state and school district income taxes.
- If the congregation does not want to withhold federal, state and school district taxes for the clergy person, it would be helpful that you tell the pastor that they should be making quarterly estimated tax payments for themselves during the year.