CHURCH GUIDELINES FOR PASTOR/CLERGY COMPENSATION

This document is not meant to be legal advice, but merely a guideline for our local churches. Please consult the resources listed or a church/clergy tax professional for additional information.

1) A pastor/clergy is considered a dual status employee. They are self-employed for social security purposes and an employee for income tax purposes. The church can withhold income taxes (voluntary) but cannot withhold or match social security or Medicare. The clergy must pay this himself by quarterly deposits, or have the church increase the amount of federal income tax withheld (see number 7).

2) The church issues a W-2 at the end of the year reporting salary amount, but not housing allowance, in the wage box. Housing allowance may be reported in the other box. The church also only reports the salary amounts on quarterly 941s. The church is considered an employer for income tax purposes and should not issue a 1099 to pastor/clergy.

3) The housing allowance amount/portion must be declared in advance of the calendar year but need not be a separate line item in the budget. This should include all allowable expenses in maintaining a home.

4) The church should adopt an accountable reimbursement plan with the amount declared in advance of the calendar year, which should be a separate line item apart from the salary and housing. Professional expenses that are allowed include tuition, books, subscriptions, gifts, mileage, etc. Mileage to and from the church is not allowed because of the pastor’s dual status. Expenses must be documented and submitted for reimbursement within 60 days, and any excess advance/lump sum be returned in 120 days to be accountable and non-taxable. Accountable professional expenses are not included or reported on the W-2 do not have to be calculated at tax time.

5) Monetary pastor appreciation, Christmas gifts/church bonuses, etc., should be recorded as income and included on the W-2 wages.

6) If the pastor receives other income directly from congregants or other sources, such as honorariums for weddings, etc., this should be included as “Other income” on Schedule C on the pastor’s personal tax return. The church has no responsibility in tracking these. Only associated expenses can be deducted on Schedule C.

7) The social security base includes salary amount from W-2, housing allowance, and net profit (if any) from Schedule C. If the housing allowance exceeds actual housing expenses, this is reported as additional income on the income tax return as “excess parsonage allowance.” The pastor may report mortgage interest deduction on Schedule A even though it is part of the Housing allowance. This “double deduction” is allowed to offset the full Social Security self-employed tax rate.

8) The church must comply with state and local tax laws regarding withholding and paying taxes on the salary and housing amounts. For example, in Ohio, Workers Compensation is paid on both salary and housing.
Additional information can be found in

IRS Publication 517

2019 Church and Tax Guide – Richard Hammar (Church Law and Tax Store)

2019 Federal Reporting Requirements for Churches – Richard Hammer (GuideStone)


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