

**Pastor are unique with regard to withholding, and Social Security taxes.**

“The most important federal reporting obligation for most churches is the withholding and reporting of employee income taxes and Social Security taxes. These payroll reporting requirements apply, in whole or in part, to almost every church. Yet many churches do not fully comply with them for various reasons. There are a number of special payroll tax reporting rules that apply to churches, and these often are not clearly understood by church staff members. These special rules include the following:

- **Ministers are self-employed for Social Security with respect to their ministerial services (see IRS Publication 517).** While most ministers are employees for federal income tax reporting purposes (and thus should have a W-2), they are self-employed for Social Security with respect to services they perform in the exercise of ministry. This means that they pay the “self-employment tax” (SECA) rather than the employee’s share of Social Security and Medicare taxes—even if they report their federal income taxes as a church employee. It is incorrect for churches to treat ministers as employees for Social Security and to withhold the employee’s share of Social Security and Medicare taxes from their wages.
- **A minister’s wages are exempt from income tax withholding.** Wages paid to a minister as compensation for ministerial services are exempt from income tax withholding whether the minister reports income taxes as an employee or as self-employed. Ministers use the estimated tax procedure to pay their federal taxes, unless they have entered into a voluntary withholding agreement with their employing church.”<sup>1</sup>

**All employers subject to income tax withholding, social security and Medicare taxes, or both must file Form 941 quarterly.**

“Form 941 reports the number of employees and amount of Social Security and Medicare taxes and withheld income taxes that are payable. Form 941 is due on the last day of the month following the end of each calendar quarter.

Quarter	Ending	Due date of Form 941
1st (Jan. – Mar.)	March 31	April 30
2nd (April – June)	June 30	July 31
3rd (July – Sept.)	September 30	October 31
4th (Oct. – Dec.)	December 31	January 31

If any due date for filing shown above falls on a Saturday, Sunday, or legal holiday, you may file your return on the next business day. Form 941 may be filed electronically. For more information, visit the IRS website at [www.irs.gov](http://www.irs.gov) or call 1-866-255-0654.<sup>1</sup>

### **Important Points about Form 941 for Pastors**

1. Line 2: Wages, Tips and other compensation. The amount on this line should be the total of all taxable compensation paid to clergy or other church employees in the quarter being reported. Please note: This line should not include such things as clergy housing allowance/ parsonage housing allowance, PCA Retirement Plan or other retirement plan salary deferral amounts, accountable reimbursement policy payments, non-taxable benefit plans premiums, etc.
2. On lines 3: Federal income tax withheld from wages, tips and other compensation. There will be no entry of income taxes withheld for pastors unless the pastor and church have agreed to the voluntary arrangement described below.
3. On line 4: Check the box in line 4 if none of the wages or compensation reported were subject to Social Security or Medicare. Checking the box may be appropriate for a single employee solo pastor. However, it would not be appropriate to check the box if a church employs a pastor, a part time secretary and a sexton.
4. On lines 5a and 5c: Taxable Social Security wages, Taxable Social Security Tips, Taxable Wages & Tips. Report the appropriate totals for applicable FICA wages and Medicare wages paid (these may not be the same amounts as reported on line 2) and the amount of tax due on those wages (employee and employer taxes). Since your pastors are not subject to FICA (rather pastors are subject to SECA) and Medicare withholdings, do not include their compensation in these totals.

### **How must a pastor remit their income and self-employment tax (SECA)?**

Typically pastors submit quarterly estimate payments for both their income and self-employment taxes (SECA) to the US Treasury. This can be accomplished by using the 1040-ES form <https://www.irs.gov/pub/irs-pdf/f1040es.pdf>. Reporting and remitting income and self-employment tax is the pastor's responsibility. This is a unique burden because most non-ordained employees do not have the same responsibility. Organizations, like churches, are responsible for paying payroll taxes for all non-ordained employees

## **Can a church help its pastor in remitting income and self-employment taxes?**

Yes! Churches and church-related organizations can reduce this burden and remit taxes for their pastors. To initiate this step, the pastor should estimate his tax liability (both income tax and SECA tax) and enter on line 6 of the W-4 the amount of total taxes that he wants withheld from each paycheck. The W-4 will then provide the employer with the information needed to remit the taxes along with their regular payroll tax deposits.

The church would deposit the pastor's voluntary withholdings amount with any other payroll taxes due monthly and report it on the 941 form.

The method described is purely for the minister's convenience since it precludes him from having to pay his personal self-employment taxes quarterly. The church then issues him a W-2 at the end of the year and the only personal return the pastor files is the annual 1040 form, usually along with Schedule SE on which he reports self-employment income (which is generally all income including housing).

<sup>1</sup> 2016 Tax Preparation Guide for 2015 returns including the Federal Reporting requirement for churches, prepared by Richard R. Hammar, JD, LL.M., CPA, Senior Editor Church Law & Tax Report.