

# Church, Clergy, and Donor Tax Issues

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National Society of Accountants (NSA)

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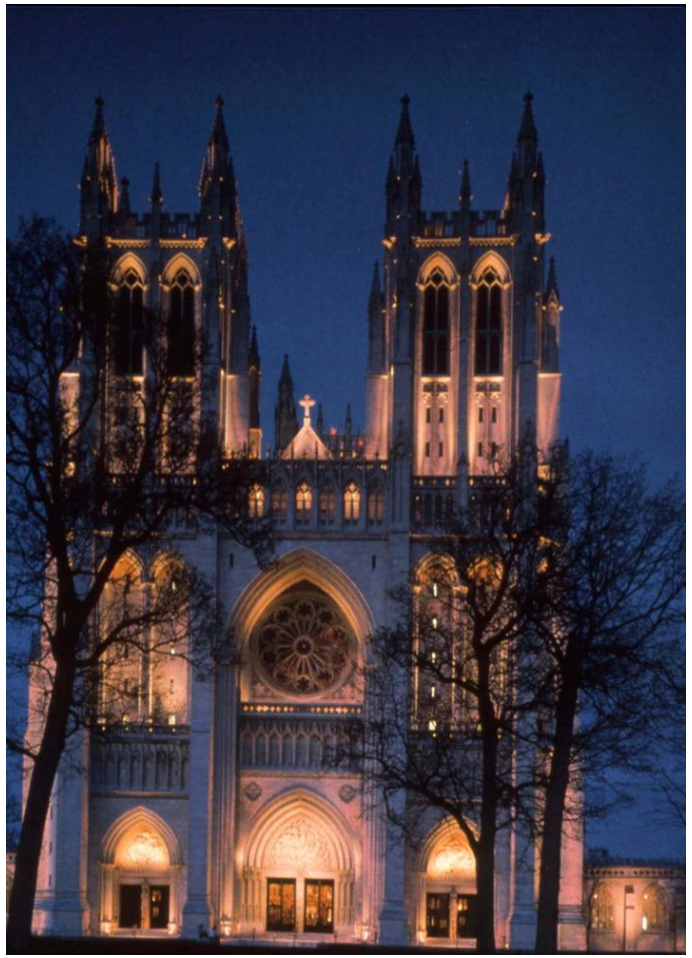


- Tax consultant with Myers Consulting Group, LLC
- Provides advisory and controversy services
- 30+ years IRS experience
- Senior Technical Advisor at IRS Headquarters (retired)
- NSA – vice-president
- IRS Taxpayer Advocacy Panel

# Learning Objectives

- Identify key tax filing requirements applicable to churches and religious organizations;
- Explain the tax treatment of compensation and benefits paid to ministers;
- Recognize common compliance issues and errors related to clergy taxation;
- Understand basis donor-related tax considerations when contributing to churches; and,
- Apply practical guidance to real-world scenarios involving ministers as clients.

# The Church





# §501(c)(3)

- §501(c) for non-profits
- Subsection (c)(3) is for charities
- Promoting religious worship, instruction, or other religious activities
- High volunteerism
- Nepotism-like hiring practices

# Form 1023

- The following types of organizations may be considered tax exempt under §501(c)(3) even if they do not file Form 1023 or Form 1023-EZ.
  - Churches, including synagogues, temples, and mosques
  - Integrated auxiliaries of churches and conventions or associations of churches
  - Any organization that has gross receipts in each taxable year of normally not more than $5,000.
- Churches typically do NOT have to file 990 tax returns. §6033(a)(3)(A)(i) exempts churches
  - Form 990 – Unrelated Business Income Tax - UBIT

# Denomination

- Each have nuances
  - Self rule: independent, Baptist, etc.
  - Hierarchy: Catholic, Orthodox, etc.
  - Isolation: Mennonite, Amish, etc.
- Rigid structure
- Organic operation

# Receipts

- Cash and checks
- Qualified Charitable Distribution - QCD
- Donor Advised Fund – DAF
- Designated funds
- In-kind services
- Noncash contributions
- Brokerage account needed

# Giving Statements

- Required if contributions are $250 or more – due by 1/31/YYYY
- QCD excluded
- DAF excluded
- Designated funds
  - Non-qualified designated
- Noncash contributions/acknowledgement
- Cars, boats, and planes – Form 1098-C

# Business Side of Church

- W-4/W-9 required
- Payroll tax filings
- Information returns – Forms 1099-MISC/NEC/INT/etc.
- State level requirements
- Sales tax exemption (maybe)
- Property tax exemption

# Worker Classification

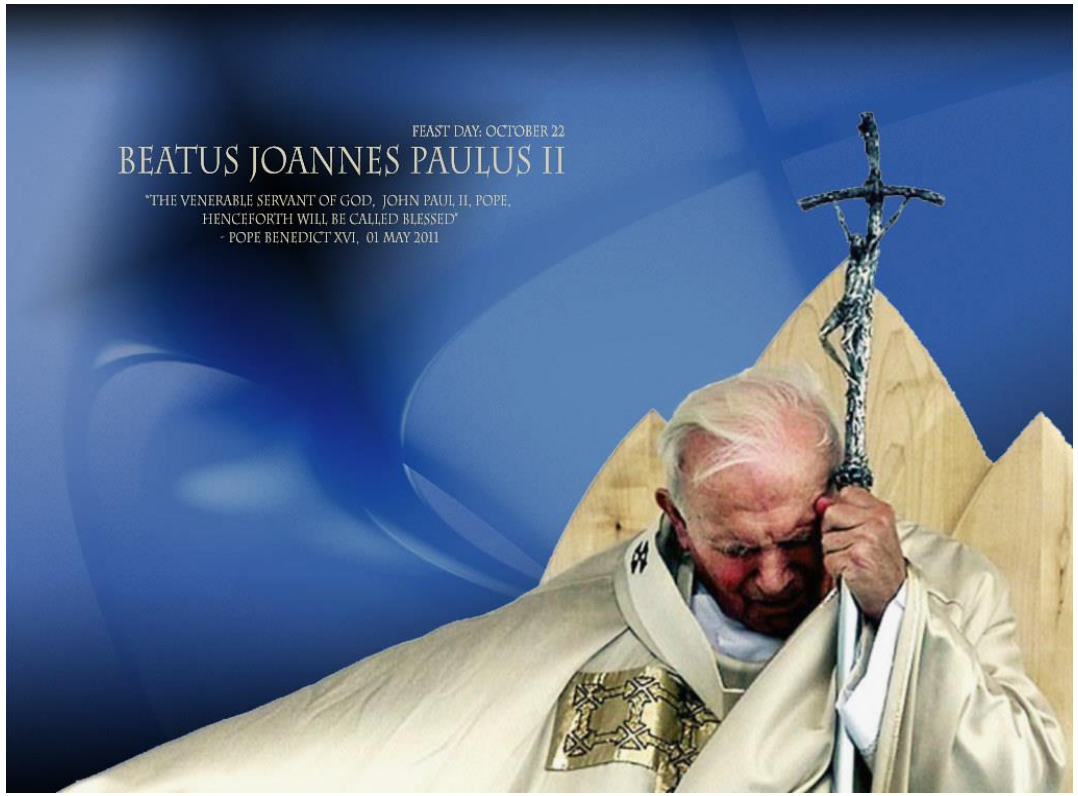
- Non-minister employees – W-2
- Ministerial employees – dual status – W-2 w/housing
- Independent contractors – Form 1099-NEC
- Interns – W-2
- Pulpit supply/evangelists – Form 1099-NEC
- Missionaries/ministries - depends

# Ministerial Employees

- Dual status
- Income tax withholding
- Social security/Medicare - zero
- Housing allowance – Box 14
- Accountable plan
- Annual agreement for salary package

# The Minister





# Exemption from SS/Medicare/SE

- Form 4029, *Application for Exemption from Social Security and Medicare Taxes and Waiver of Benefits*
  - Conscientiously opposed to accepting benefits
  - Provide reasonable level of living for its dependent members
  - Existed continuously since 12/31/1950
  - Amish, Mennonite, Old Order Amish, Anabaptist, etc.
- Form 4361, *Application For Exemption From Self-Employment Tax for use by Ministers, Members of Religious Orders, and Christian Science Practition*ers
  - Exemption from SE Tax
  - Ordained, commissioned, or licensed member of a church
  - Member of a religious order who has not taken a vow of poverty
  - Christian Science practitioner

# Form 4029

Form **4029**
(Rev. November 2018)

Department of the Treasury
Internal Revenue Service

## Application for Exemption From Social Security and Medicare Taxes and Waiver of Benefits

► Go to *www.irs.gov/Form4029* for the latest information.

► Before you file this form, see the instructions under *Who may apply* on page 2.

► This exemption is granted only if the IRS returns a copy to you marked "Approved."

OMB No. 1545-0064

**File Three Copies**

**Caution:** Approval of Form 4029 exempts you from social security and Medicare taxes only. The exemption does not apply to federal income tax. Ministers, members of religious orders, and Christian Science practitioners, see Form 4361, Application for Exemption From Self-Employment Tax for Use by Ministers, Members of Religious Orders, and Christian Science Practitioners.

**Part I** **To Be Completed by Applicant**

Print or type

| | |
|---|---|
| **1** Name of taxpayer | **2** **Social security number** |
| Address (number, street, or P.O. box) | **3** Date of birth |
| City or town, state, and ZIP code | **4** Contact phone number (optional) |

**5** ☐ Do not send me my Social Security Statement.

I certify that I am and continuously have been a member of _____
(Name of religious group)

_____
(Religious district or congregation, and county and/or city, state, and ZIP code)

since _____ _____ _____ , and as a follower of the established teachings of that group, I am conscientiously opposed to
(Month) (Day) (Year)

# Form 4361

File Form 4361 to apply for an exemption from self-employment tax if you have ministerial earnings and are:

- An ordained, commissioned, or licensed minister of a church
- A member of a religious order who has not taken a vow of poverty; or
- A Christian Science practitioner.

File Form 4361 by the due date, including extensions, of your tax return for the second tax year in which you had at least $400 of net earnings from self-employment, any of which came from ministerial services.

# Form 4361

Form **4361**
(Rev. January 2011)
Department of the Treasury
Internal Revenue Service

## Application for Exemption From Self-Employment Tax for Use by Ministers, Members of Religious Orders and Christian Science Practitioners

OMB No. 1545-0074

**File Original and Two Copies**

File original and two copies and attach supporting documents. This exemption is granted only if the IRS returns a copy to you marked "approved."

**Please type or print**

**1** Name of taxpayer applying for exemption (as shown on Form 1040)

**Social security number**

Number and street (including apt. no.)

Telephone number (optional)

City or town, state, and ZIP code

**2** Check **one** box:
☐ Christian Science practitioner
☐ Ordained minister, priest, rabbi
☐ Member of religious order not under a vow of poverty
☐ Commissioned or licensed minister (see line 6)

**3** Date ordained, licensed, etc. (Attach supporting document. See instructions.)

**4** Legal name of ordaining, licensing, or commissioning body or religious order

Number, street, and room or suite no.

Employer identification number

City or town, state, and ZIP code

# Salary Package

- Salary
- Housing allowance
- Accountable plan for reimbursements
- Pretax fringe benefits
- Annual signed compensation statement approved by “board”
- §403(b) retirement plan

# Housing Allowance

- Annual statement to employer before payment
- Rent or mortgage payment
- FRV of furnishings
- Utilities, taxes, insurance, cleaning
- Down payment, repairs, improvements up to FRV
- Housing allowance worksheet
- Excess added back to income/shortage no adjustment
- Box 14 disclosure

# §403(b)

- Similar limits as §401(k) – 2026 (indexed)
  - $24,500 plus catch up
  - If 50 or over add $8,000 for $32,500 total
  - If 60 – 63 add $11,250 for $35,750 total
- Employer contribution allowed
- Maximum combined
  - $72,000 under 50
  - $80,000 for 50 and over
- Distributions can be designated as housing allowance in retirement

22222 | VOID ☐ | a Employee's social security number | For Official Use Only OMB No. 1545-0029

| | | |
|---|---|---|
| b Employer identification number (EIN) | 1 Wages, tips, other compensation | 2 Federal income tax withheld |
| c Employer's name, address, and ZIP code | 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 |
| | 11 Nonqualified plans | 12a See instructions for box 12 Code |
| e Employee's first name and initial / Last name / Suff. | 13 Statutory employee ☐ Retirement plan ☐ Third-party sick pay ☐ | 12b Code |
| | 14a Other | 12c Code |
| | | 12d Code |
| f Employee's address and ZIP code | 14b Treasury Tipped Occupation Code(s) | |

| 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** 2026

Department of the Treasury—Internal Revenue Service

**Copy A—For Social Security Administration.** Send this entire page with Form W-3 to the Social Security Administration; photocopies are **not** acceptable.

**For Privacy Act and Paperwork Reduction Act Notice, see the separate instructions.**

Cat. No. 10134D Created 1/7/26

**Do Not Cut, Fold, or Staple Forms on This Page**

# Other Income

- Gifts “love offerings”
  - Quid pro quo
- Designated contributions
- Weddings, funerals, counseling, etc.
- In-kind gifts

# Schedule C

- Weddings
- Funerals
- Counseling
- Cash and in-kind payments
- Expenses allocable to Schedule C activity
- Subject to SE Tax

# Planning

- Interest and taxes allowed on Schedule A
- Leave funds in §403(b) for housing
- Encourage proper retirement planning
- Estimated payments or withholding
- Accountable plan – not additional compensation
- Denomination differences

# The Donor





# Donors

- No personal benefit
- Above the line deduction with OB3 in 2026 ($1,000/$2,000)
- Bunching contribution to level marginal bracket
- Higher standard deductions and contribution floor with OB3

# Cash Contributions

- Check
- Credit card
- Bank draft
- Direct payment from bank/brokerage
- Giving statement problems
  - DAF
  - QCD
  - Valuation
- Any personal benefit received

# Noncash Contributions

- Stock
- Mutual funds
- ETFs
- Real estate
- Cars, boats, and planes
- In-kind goods
  - Prefer reimbursement
- Contemporaneous documentation – earlier of date filed or due date

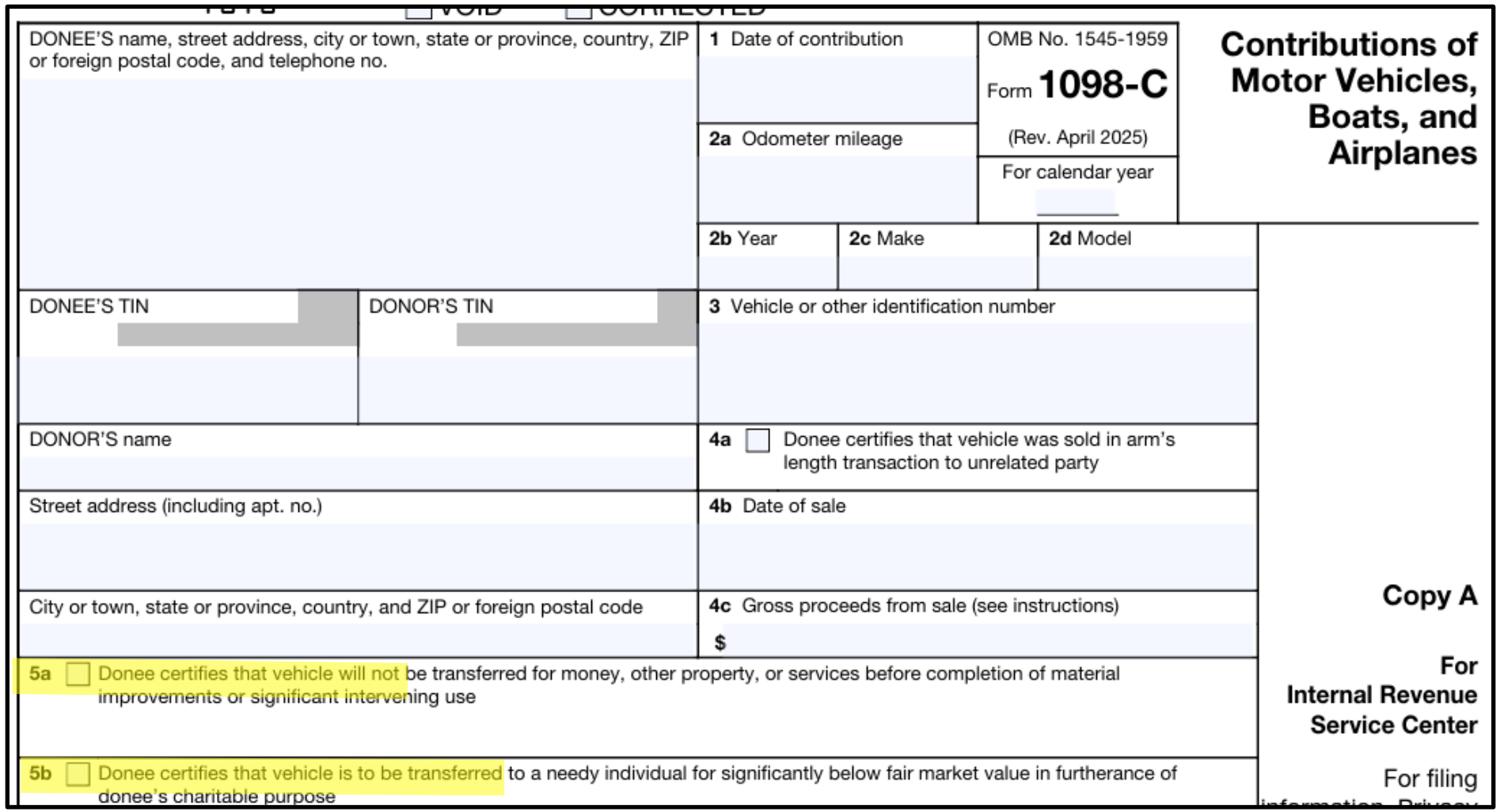
# Car Donation Example

Auntie Julie has a vehicle that she no longer needs. Auntie plans to donate the car to a local charity for them to use as they see fit.

The charity is required to provide Auntie with a completed Form 1098-C. Auntie's charitable deduction is generally limited to the liquidated value when the charity sells the vehicle.

If the charity uses the vehicle, makes significant improvements to the vehicle, or provides it to a needy individual for substantially below FMV, the donation will be valued per an appraisal. See Form 8283.

# Form 1098-C



DONEE'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone no.

1 Date of contribution

2a Odometer mileage

OMB No. 1545-1959

Form **1098-C**

(Rev. April 2025)

For calendar year

**Contributions of Motor Vehicles, Boats, and Airplanes**

2b Year | 2c Make | 2d Model

DONEE'S TIN | DONOR'S TIN

3 Vehicle or other identification number

DONOR'S name

4a ☐ Donee certifies that vehicle was sold in arm's length transaction to unrelated party

Street address (including apt. no.)

4b Date of sale

City or town, state or province, country, and ZIP or foreign postal code

4c Gross proceeds from sale (see instructions)

$

5a ☐ Donee certifies that vehicle will not be transferred for money, other property, or services before completion of material improvements or significant intervening use

5b ☐ Donee certifies that vehicle is to be transferred to a needy individual for significantly below fair market value in furtherance of donee's charitable purpose

**Copy A**

**For Internal Revenue Service Center**

For filing

# Donor Advised Fund

- Set up with brokerage or community foundation
- Client generally serves as trustee
- Identify successor trustee
- Continues in perpetuity
- Couple with spike in AGI to level taxable income
- Bunch contributions
- Give appreciated assets
- Create giving plan/mission statement

# Qualified Charitable Distribution - QCD

- Must be 70½ years old
- Distribution directly from IRA
- Limit to $108,000 per year/per taxpayer for 2025 (indexed)
- Reduces RMD
- Does not impact AGI (SSA, IRMAA, etc.)
- Not into DAF
- Box 7a - Code “Y” on 1099-R

TREASURY/IRS AND OMB USE ONLY DRAFT

☐ CORRECTED (if checked)

| | | | | | |
|---|---|---|---|---|---|
| PAYER'S name | | | 1 Gross distribution $ | OMB No. 1545-0119 2026 Form 1099-R | **Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.** |
| Street address | Room or suite no. | | 2a Taxable amount $ | | |
| City or town | Telephone number | | 2b Taxable amount not determined ☐ | Total distribution ☐ | **Copy 2** **File this copy with your state, city, or local income tax return, when required.** |
| State or province | Country | ZIP or foreign postal code | 3 Capital gain (included in box 2a) $ | 4 Federal income tax withheld $ | |
| PAYER'S TIN | RECIPIENT'S TIN | | 5 Employee contrib./ desig. Roth contrib. or insurance premiums $ | 6 NUA in employer's securities $ | |
| RECIPIENT'S name | | | 7a Dist. code(s) | 7b IRA/SEP/ SIMPLE ☐ | 7c Trump account ☐ / 7d Earnings on excess contrib. $ |
| Street address | Apt. no. | | 8a Other $ | 8b Percentage of annuity contract % | |
| City or town | | | 9a Percentage of total dist. % | 9b Total employee contrib. $ | |
| State or province | Country | ZIP or foreign postal code | | | |
| 10 Amount allocable to IRR within 5 years $ | 11 1st year of desig. Roth contrib. | 12 FATCA filing requirement ☐ | 14 State tax withheld $ / $ | 15 State/Payer's state no. | 16 State distribution $ / $ |
| Account number (see instructions) | | 13 Date of payment | 17 Local tax withheld $ / $ | 18 Name of locality | 19 Local distribution $ / $ |

# Form 1099-R – Box 7

To report a QCD use code Y with:

- Code 7 for a QCD from a non-inherited (normal distribution) IRA,
- Code 4 for a QCD from an inherited (death distribution) IRA, or
- Code K for a QCD reporting distributions of traditional IRA assets not having a readily available FMV that are either from non-inherited or inherited IRAs.

# Planning Opportunity

- Bunch contributions
- Appreciated assets
- Level income
- Fund IRA for future QCD moving contributions from itemized to above the line
- Don’t over-convert to ROTH
- Fund DAF to 70 ½ then QCD

# DAF/Bunching Example

- Jack and Jill are 58 years old and claim $35,000 on Schedule A made up of taxes of $20,000 (not SALT limited) and contributions of $15,000 (MFJ standard is $31,500). They are in the 32% marginal bracket with plans to continue making charitable contributions into retirement.
- The client could bunch their contributions for 2025-2028 into their 2025 return totaling $60,000 utilizing a DAF.
- Schedule A for 2025 is now $80,000 with a tax benefit of $25,600. Itemizing the same over four years is $140,000. Bunching 2025 plus standard deduction for the next three years is $174,500 (ignoring indexing). Net increased Schedule A of $34,500 over four years or a tax savings of $11,040 ($34,500 * 32%).

# DAF/Bunching

Considerations / Planning

- DAF keeps client in control of charity recipient
- Use appreciated assets like stock to fund – no tax on gain
- Fund the DAF up to 70 ½
- Name the DAF as an IRA beneficiary
- Create a “Mission Statement” for the DAF

# IRA Primed for QCD Example

- Hansel and Gretal are 62 years old and plan to work another five years. They are in the 22% marginal bracket with plans to continue making charitable contributions into retirement. All their retirement is inside ROTH accounts. They do not itemize.
- Hansel and Gretal can redirect some of their retirement funds to a pre-tax account that will be a Traditional IRA upon retirement. Upon age 70½, they can make charitable contributions from the IRA.
- Result is a 22% tax deduction during working years and no tax when making disbursing the funds to charity in retirement.

# Minister and QCD Example

- Mary is a pastoral participant in a §403(b) through her employing church. This is her only retirement account. Upon leaving the ministry, she will take retirement distributions that are identified as housing allowance. She would like to make charitable contributions from the §403(b) funds too.
- Mary can take a partial roll over from her §403(b) to a Traditional IRA for her future charitable amounts after reaching 70½. She can QCD to charity from the Traditional IRA but not a §403(b).
- Mary has the potential of not paying any tax on her §403(b) funds due to housing and charity. This keeps her MAGI lower to minimize the impact on Social Security, Medicare Part B premium, and other AGI driven impacts.

# Resources – 1 of 2

- Form 1023, Application for Recognition of Exemption under IRC 501(c)(3)
- Form 4029, Application for Exemption form Social Security and Medicare
- Form 4361, Application for Exemption from SE Tax for Use by Ministers…
- Publication 557, Tax-Exempt Status for Your Organization
- Publication 526, Charitable Contributions
- Publication 561, Determining the Value of Donated Property
- IRS' Audit Techniques Guide - Ministers
- Church Law & Tax by Richard R. Hammar
- Housing Allowance Worksheet
- Clergy Housing Allowance Clarification Act of 2002
- INFO 2009-0096 – response to Senator Dodd regarding Housing Allowance

# Resources – 2 of 2

Primary relevant Code sections (also see regulations and other authority)

- §107 – Rental Value of Parsonages
- §170 – Charitable, etc., contributions and gifts
- §501 – Exemption from tax on corporations, certain trusts, etc.
- §1402(c)(4) – Definition of Minister Wages (Exclusion from SECA)
- §1402(e) – Minister ability to elect out of SECA
- §3121(b)(8) – Definition of Minister Wages (Exclusion from FICA / Medicare)
- §3401(a)(9) – Definition of Minister Wages (Exclusion from income tax w/h)