

THE FOURSQUARE CHURCH

The Tax Implications of moving from Non-Ministerial to a Ministerial Employee

(This is an informational document and not tax advice; please consult your tax preparer concerning your individual situation.)

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1. Why is my compensation switching from non-ministerial to ministerial? The IRS says if you are a minister and perform ministerial duties, you must be paid as a minister. Ministerial duties, as described in IRS Publication 517, is “performing sacerdotal functions, conducting religious worship and controlling, conducting, and maintaining religious organizations that are under the authority of a religious body that is a church or denomination. You are considered to control, conduct and maintain a religious organization if you direct, manage, or promote the organizations activities.”
2. May I choose to be paid as a regular employee and not a minister? No. The IRS says once you become a minister and are performing ministerial duties, you must be treated as a minister for tax purposes.
3. What does this mean for me? This means you are now considered self-employed for Social Security and Medicare purposes but an employee for income tax purposes. This means you will not have FICA taxes withheld from your paycheck (Social Security and Medicare, which is for employees), but you will pay into SECA (Social Security and Medicare for self-employed individuals.) For more information on the ministerial compensation, please read [Do Clergy Pay Payroll Taxes.](#)
4. How are FICA and SECA different? When you pay into FICA, your employer withholds 7.65% from your gross pay, and your employer matches the amount and sends the total of 15.3% to the IRS. When you pay into SECA, FICA will not be withheld from your paycheck. You are responsible for the full 15.3% of the SECA tax. So essentially, as a minister, you pay the employer and the employee share of Social Security and Medicare tax. Essentially your share of this tax increased by 7.65% over what you were paying prior.
5. How will ministerial compensation change my net pay?
 - Housing allowance: A minister is allowed to classify all or some of their compensation as a housing allowance and exclude this amount from the calculation of federal (and usually state) income tax. A housing allowance is the total of your housing expenses such as your mortgage, rent, utilities, furnishings, home repairs, etc. Housing allowances are taxable for SECA tax (more on this below), but not federal income tax. Excluding some of your income as a housing allowance will most likely reduce your income tax liability.

We recommend using [the worksheets](#) available at [Foursquare.org](#) to determine your housing allowance. Housing allowances can be changed throughout the year, but never retroactively. Your housing allowance must be designated in the council minutes each year. If not designated in the council minutes, if audited by the IRS, they may re-categorize your housing as salary. For more information on housing allowance, please see [Module 2 of Church Compensation.](#)
 - SECA taxes: You are responsible for paying SECA tax to the IRS. SECA tax is approximately 15.3% of your pay. You may pay this tax either through quarterly estimated tax payments or have this amount withheld on the federal withholding line in addition to the amount being withheld for federal income tax.
6. Will my net pay decrease because I am responsible for SECA tax? It depends on your situation; however, because all or some of your compensation may be allocated as a housing allowance, you may see a decrease in the taxes you pay. We recommend consulting your tax advisor to consider your individual situation.

Below is an example of the tax difference for a non-ministerial and a ministerial employee with compensation of \$50,000. The person is filing as a single with \$30,000 in housing allowance expenses.

	Non-Ministerial Employee	Ministerial Employee
Gross Salary	\$50,000	\$20,000
Housing Allowance		\$30,000 *
Standard Deduction	(\$12,000)	(\$12,000)
Deduction for ½ of SECA Tax		(\$ 3,532)
Taxable Income	\$38,000	\$ 4,468
Tax (12%-non minister and 10%-minister)	\$ 4,362	\$ 446
SECA Tax		\$ 7,064**
FICA paid by employee through paycheck	\$ 3,825	
Total Taxes paid***	\$ 8,187	\$ 7,510

*Housing allowance is not taxable for federal income tax and is not part of the taxable income.

**SECA tax calculation is (Salary + Housing * .9235 * .153)

***This table is for example purposes only as the standard deduction and tax rates may change.

In this example, while the minister is responsible for SECA tax, they are still paying \$677 less in taxes than they were as a non-ministerial employee. A full explanation of minimizing your taxes for ministerial compensation is available in [Module 1 of Church Compensation and HR Practices](#).

- How do I withhold this SECA and income taxes through my paycheck and not make estimated tax payments? If you want your SECA tax withheld through your paycheck, you will increase the amount withheld on the federal withholding line to include your SECA tax and your income tax withholding amount. SECA can be paid in through federal withholding since SECA is calculated and added to your total tax amount when preparing your income tax return.

Using the same example as above, the employee receives \$50,000 a year. As a non-ministerial employee, FICA and Federal Income Tax are withheld from their pay. As a ministerial employee, SECA is paid in by the employee. In this example, the employee chooses to do this through the federal withholding line. The Federal Income tax estimated to be owed by the employee is \$446, and the SECA tax amount is \$7,064 for a total of \$7,510 (see example above). So the employee will divide the total of \$7510 by the number of paychecks (24-employee is paid semi-monthly) for a total of \$312 withheld through their federal withholding line.

	Non-Ministerial Employee	Ministerial Employee
Gross Pay	\$2,083	\$ 833
Housing Allowance		\$1,250
Total Gross Pay	\$2,083	\$2,083
FICA – Employee Share	(159)	
Federal Income Tax	(181)	(312)
Net Pay	\$1,743	\$1,771

It is recommended you consult your tax professional for consultation on preparing for this change.

- After I decide on my housing allowance and tax I would like withheld, what is my next step? Inform the person in charge of payroll the amount of your pay to allocate towards housing and complete a W-4 to specify the taxes to withhold from your pay.