



# Tax Laws for Churches and Ministers Part 2

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Course #3302A

Taxes

2 Credit Hours

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# TAX LAWS FOR CHURCHES AND MINISTERS PART 2

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This course provides an overview of the tax laws for churches, religious organizations, and ministers. It covers the information an accountant needs to know to best assist his or her clients in this area. Part 2 covers topics such as: social security and Medicare, what duties are considered minister services, SE tax, housing allowances, IRAs, special tax treatments and others.

## LEARNING ASSIGNMENTS AND OBJECTIVES

*As a result of studying each assignment, you should be able to meet the objectives listed below each individual assignment.*

### SUBJECTS

**Social Security for Ministers and Religious Workers**  
**Exemption from Self-Employment (SE) Tax**  
**Income Tax: Income and Expenses**  
**Special Tax Treatments Applicable to Ministers**

Study the course materials from pages 1 to 63

Complete the review questions at the end of each chapter

Answer the exam questions 1 to 10

### Objectives:

- Recognize which system is used to collect social security and Medicare taxes.
- Identify the activities/duties considered to be minister services.
- Identify who can and cannot be exempt from SE tax
- Recall the difference between accountable and nonaccountable plans.
- Identify the requirements of rental and housing allowance designations.
- Recognize the details concerning ministers and IRAs.

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Program publication date 1/31/23

## EXAM OUTLINE

- **TEST FORMAT:** The final exam for this course consists of 10 multiple-choice questions and is based specifically on the information covered in the course materials.
- **ACCESS FINAL EXAM:** Log in to your account and click Take Exam. A copy of the final exam is provided at the end of these course materials for your convenience, however you must submit your answers online to receive credit for the course.
- **LICENSE RENEWAL INFORMATION:** This course qualifies for **2** CPE hours.
- **PROCESSING:** You will receive the score for your final exam immediately after it is submitted. A score of 70% or better is required to pass.
- **CERTIFICATE OF COMPLETION:** Will be available in your account to view online or print. If you do not pass an exam, it can be retaken free of charge.

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# CHAPTER 1: SOCIAL SECURITY FOR MINISTERS AND RELIGIOUS WORKERS

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## Chapter Objectives

### After completing this chapter, you should be able to:

- Recognize which system is used to collect social security and Medicare taxes.
- Identify the activities/duties considered to be minister services.

Three federal taxes are paid on wages and self-employment income – income tax, social security tax, and Medicare tax. Social security and Medicare taxes are collected under one of two systems. Under the Self-Employment Contributions Act (SECA), the self-employed person pays all the taxes. Under the Federal Insurance Contributions Act (FICA), the employee and the employer each pay half of the social security and Medicare taxes. No earnings are subject to both systems.

In addition, all wages and self-employment income that are subject to Medicare tax are subject to a 0.9% Additional Medicare Tax to the extent they exceed the applicable threshold for an individual's filing status. Medicare wages and self-employment income are combined to determine if income exceeds the threshold. A self-employment loss is not considered for purposes of this tax. Railroad retirement (RRTA) compensation is separately compared to the threshold. Additional Medicare Tax applies to Medicare wages, RRTA compensation, and self-employment income that are more than:

- \$125,000 if married filing separately,
- \$250,000 if married filing jointly, or
- \$200,000 for any other filing status.

There is no employer match for Additional Medicare Tax.

## I. SOCIAL SECURITY COVERAGE

This section gives information about which system (SECA or FICA) is used to collect social security and Medicare taxes from members of the clergy (ministers, members of a religious order, and Christian Science practitioners and readers) and religious workers (church employees).

**TABLE 3-1. ARE AN INDIVIDUAL'S MINISTERIAL EARNINGS\* COVERED UNDER FICA OR SECA?**

Find the class to which he or she belongs in the left column and read across the table to find if he or she is covered under FICA or SECA. Do not rely on this table alone.

<b>Class</b>	<b>Covered under FICA?</b>	<b>Covered under SECA?</b>
Minister	NO. His or her ministerial earnings are exempt.	YES, if he or she does not have an approved exemption from the IRS.  NO, if he or she has an approved exemption.
Member of a religious order who has not taken a vow of poverty	NO. His or her ministerial earnings are exempt.	YES, if he or she does not have an approved exemption from the IRS.  NO, if he or she has an approved exemption.
Member of a religious order who has taken a vow of poverty	YES, if: <ul style="list-style-type: none"> <li>• His or her order elected FICA coverage for its members, or</li> <li>• He or she worked outside the order and the work was not required by, or done on behalf of, the order.</li> </ul> NO, if neither of the above applies.	NO. His or her ministerial earnings are exempt.
Christian Science practitioner or reader	NO. His or her ministerial earnings are exempt.	YES, if he or she does not have an approved exemption from the IRS.  NO, if he or she has an approved exemption.
Religious worker (church employee)	YES, if his or her employer did not elect to exclude him or her.  NO, if his or her employer elected to exclude him or her.	YES, if his or her employer elected to exclude him or her from FICA.  NO, if he or she is covered under FICA.



Class	Covered under FICA?	Covered under SECA?
Member of a recognized religious sect	<p>YES, if he or she is an employee and does not have an approved exemption from the IRS.</p> <p>NO, if he or she has an approved exemption.</p>	<p>YES, if he or she is self-employed and does not have an approved exemption from the IRS.</p> <p>NO, if he or she has an approved exemption.</p>

\*Ministerial earnings are the self-employment earnings that result from ministerial services, defined and discussed later.

## A. COVERAGE OF MEMBERS OF THE CLERGY

The services an individual performs in the exercise of his or her ministry, of the duties required by his or her religious order, or of his or her profession as a Christian Science practitioner or reader are covered by social security and Medicare under SECA. Earnings for these ministerial services are subject to self-employment (SE) tax unless one of the following applies:

- The individual is a member of a religious order who has taken a vow of poverty;
- The individual asks the Internal Revenue Service (IRS) for an exemption from SE tax for his or her services and the IRS approves the request; or
- The individual is subject only to the social security laws of a foreign country under the provisions of a social security agreement between the United States and that country.

Earnings that are not from ministerial services may be subject to social security tax under FICA or SECA according to the rules that apply to taxpayers in general.

### 1. Ministers

If an individual is a minister of a church, the earnings for the services he or she performs in his or her capacity as a minister are subject to SE tax, even if he or she performs these services as an employee of that church. However, the individual can request that the IRS grant an exemption.

#### a. Ministers Defined

Ministers are individuals who are duly ordained, commissioned, or licensed by a religious body constituting a church or church denomination. They are given the authority to conduct religious worship, perform sacerdotal functions, and administer ordinances or sacraments according to the prescribed tenets and practices of that church or denomination.

If a church or denomination ordains some ministers and licenses or commissions others, anyone licensed or commissioned must be able to perform substantially all the religious functions of an ordained minister to be treated as a minister for social security purposes.