

INFORMATION FOR COMPLETING FORM W-2 FOR CLERGY

The purpose of this document is to give a general explanation to local church treasurers for completing W-2s. You should also obtain the most recent *IRS Instructions for Completing W-2s*.¹ [Click here](#) to view the *IRS Instructions for Completing W-2's*, on the IRS web site. Those *Instructions* may answer questions not specifically addressed in this document. For more specific information, treasurers should consult with their own local tax advisor. It is important to order the W-2 from the IRS as soon as possible so there will be no delay in completing the form.

Box A, Control Number does not have to be completed.

Box B is the Employer Identification Number. Each local church (or charge) should have its own Employer Identification Number (EIN). Employer Identification Numbers can be obtained by filing IRS Form SS-4.

Box C, D, E & F should be self-explanatory. It is a good idea to put Rev. John Smith, to make the IRS or Social Security Administration understand why certain boxes have been left blank.

Box 1 is the information on the clergyperson's wages. Set forth below are two lists, one for items to be reported in Box 1 and the other for items that are properly excluded.

ITEMS WHICH NEED TO BE REPORTED IN BOX 1

1. Salary, wages and bonuses
2. Most gifts which are paid through a church account (to have gifts be non-reportable by the church, parishioners should make checks payable directly to the pastor)
3. Allowances (other than housing allowances) must be reported as well as reimbursements, which are made under a non-Accountable Reimbursement Policy. (e.g., a travel allowance, continuing education allowance, publications or supplies allowance or other allowance which requires no substantiation is reportable as income.)
4. If a per diem arrangement is used, payments in excess of IRS rates
5. If the standard mileage rate is used, any amounts in excess of those rates (If the IRS rate was \$.345 per mile and a pastor were paid \$.36 per mile, the difference, \$.015 per mile, would have to be reported here.)
6. Taxable fringe benefits, the most common are:

¹ When made available by the IRS, you can obtain the 2003 Instructions and forms, including a Form W-2 from your local IRS office or by contacting the IRS at 800-829-3676 (800-TAX-FORM) and asking them to mail you forms. See also our memo on **Obtaining IRS Forms**.

- a. Employer-provided group term life insurance that exceeds \$50,000 (Note: This applies to the \$50,000 CPP death benefit together with any PPP death benefit or policy purchased by either the church or provided through an annual conference group plan. Conference treasurers or pension officers will need to supply information from conference plans. (If the total insurance is only \$50,000 there is no reporting.);
- b. The value of personal use of a church-provided automobile;
- 7. Sick leave or disability paid by church or church purchased insurance (unless insurance company issues its own Forms W-2 or 1099).
- 8. Bargain sale of property (*i.e.*, if a house is sold to a pastor for less than market value).
- 9. A Social Security allowance or if Social Security is improperly withheld by the church.
- 10. Contributions sent by the local church to the General Board of Pensions and Health Benefits (or other 403(b) plan) designated for the **Personal Account** and also known as "after-tax contributions". You may call the **Board of Pensions at 1-800-851-2201** if you are uncertain how payments by the church have been designated.
- 11. Moving expenses that are not "qualified" as excludable (typically a move less than 50 miles)

ITEMS NOT REPORTED IN BOX 1

- 1. Qualified payments to the Board of Pensions and Health Benefits 403 (b) Plan (Salary reduction account or tax sheltered annuity before tax contributions) or other qualified plans (must be included in Box 13)
- 2. Properly designated (in advance) housing and utility allowance
- 3. Qualified health and medical plan premium payment
- 4. Reimbursement of business expenses that are adequately documented and justified, such as under an Accountable Reimbursement Policy

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5. Payments under a qualified salary reduction plan — for medical reimbursement accounts or dependent care assistance
6. Excludable Fringe Benefits:
 - a. Term life insurance (first \$50,000 of life insurance or CPP or BPP death benefit)
 - b. Qualified tuition payments
 - c. Qualified moving expenses (qualified expenses must be more than 50 miles from the previous location and consist of moving and transportation expenses. The employee must be moving to a new full time job.)

Box 2, the local church is **not** required to do any Federal Income Tax Withholding. However, some clergypersons will file a Form W-4, in which event the church would do voluntary withholding at the clergyperson's request. It may be possible through the use of the Form W-4 for the clergyperson to avoid having to pay quarterly estimated taxes.

Box 3, 4, 5 & 6 are to be left blank. Clergypersons are defined as self-employed for Social Security or SECA purposes (under the Internal Revenue Code Section 3121 (b)(8)(A)). The church should not report Social Security wages and must not do any Social Security tax withholding. Any Social Security tax withholding done erroneously by a church (which comes from church funds) is additional reportable income to the pastor. If the church wishes to assist the pastor in paying all or a portion of the Social Security taxes, it should add an additional amount to the wages paid to the pastor.

Box 7, 8 & 9 are not applicable.

Box 10 would include any dependent care benefits that are paid.

Box 11 does not arise for most clergypersons. Amounts contributed to plans administered by the GBPHB or other 403(b) plans should not be included in this box. However, if the clergyperson has set up some other plan which may not be qualified, this would be an item that would need to be included.

Box 12 is to be used to show codes and amounts of benefits or contributions for clergy. See **IRS Instructions** for a complete list of codes. The following are the most typical:

1. **Code C** — If the pastor is provided more than \$50,000 in CPP and BPP death benefits and group term life insurance, you need to show the premiums attributed to benefits **in excess** of \$50,000. If CPP and BPP together provide more than \$50,000 in death benefits, the General Board of Pension and Health Benefits will supply this information on request to your conference treasurer who, in turn, should make this available to the local church. If the pastor has served more than one church during the year, typically this information is only included in the W-2 of the last church served.

2. **Code E** — 403(b) employee salary reductions contributions (also called tax-sheltered annuities). You may call the Board of
3. **Code P** — Tax excludable moving expense reimbursements paid directly to the employee.

Box 13 would typically be checked - **Retirement Plan** for a 403(b) contribution (MPP payments to the General Board).

Box 14 may be used for additional reporting. You may include information on a housing allowance or utility allowance here. If the church does not put the information here, the church **should** independently tell the pastor these amounts.

Box 16—21 state and local tax information — states and municipalities vary on what items are deducted from gross wages.

General Council on Finance and Administration is not engaged in providing legal or accounting services. If legal or tax advice is required, the service of a competent professional should be sought.

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SAMPLE W-2

This is an explanation of a sample Form W-2 for Rev. Sue Service. Rev. Service has a salary of \$25,000 from the local church. Rev. Service is provided a parsonage and the church pays a \$1,500 housing (parsonage utility) allowance to her pursuant to an estimate of such expenses and a properly adopted resolution (this is **in addition** to the \$25,000 salary). This parsonage allowance is **not** added as income in Box 1 on Form W-2 but it may be reported in box 14. If the church does not do so, the church should report *to the pastor* this amount at year end as an amount that the pastor must include in Social Security income (along with the fair rental value of the parsonage).

Rev. Service receives a non-accountable travel allowance of \$3,000. This entire sum is reportable income and must be added to the \$25,000 figure above to arrive at income of \$28,000.

There is also an accountable reimbursement policy for other professional business expenses set up with a total amount of \$2,500. None of this amount is to be reported on a Form W-2. (Note: Travel/vehicle expenses can be handled by an accountable reimbursement policy as well; this would be **in lieu of** a travel allowance).

The local church makes a Ministerial Pension Plan (MPP) contribution of \$2,750. This is not reported as income, but in Box 15, the pension plan section is checked. There is a 403(b) pension contribution of \$500 by the church, out of the pastor's salary, to the pastor's **personal** account and that amount is treated as an after-tax contribution, which does **not** reduce income. Additionally the pastor has made a voluntary 403(b) salary reduction (pre-tax) contribution of \$900. This voluntary contribution reduces reportable income from \$28,000 to \$27,100. Rev. Service has not requested any federal income tax withholding by the church (by using IRS Form W-4) and rather has assumed the obligation of making quarterly payments, as most pastors have done in the past and may continue to do. The church pays **(out of the church's own budget and not as a salary reduction)** a medical insurance premium under the conference plan in the amount of \$3,000, which is not taxable income.

Box 1 of Form W-2 reports wages and tips of \$27,100, consisting of the salary and the travel allowance (less the pension salary reduction contribution). (If the minister wishes to take deductions for the travel expenses, those deductions must be taken on Schedule A as opposed to Schedule C.) None of the accountable reimbursement amount is included in Box 1 and these expenses are not reported on the minister's tax return.

Reportable Income Items

Cash salary (which includes Personal Pension contribution of \$500)	\$25,000.00
Travel allowance	3,000.00
Value (if any) of life insurance provided in excess of \$50,000 under CPP	—

Reductions of Income (Before tax)

Salary reduction for pension plan	900.00
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Non Reportable Funds

Accountable reimbursement policy for business expenses	2,500.00
Parsonage allowance (for utilities for the parsonage)	1,500.00
Medical insurance premium	3,000.00
Ministerial Pension Plan (MPP)	2,750.00

Box 2 is not completed, as Rev. Service did not choose to have any voluntary income tax withholding, but rather paid estimated taxes directly. If the church withheld pursuant to Form W-4, such amounts would be reported here.

Box 3-6 should **not** have any entries (do **not** use "0"s).

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Box 12 shows the codes relating to the salary reduction voluntary contributions - **E \$900**. If Rev. Service received the benefit of life insurance in excess of \$50,000, the amount of the premium would be included in box 1 and shown here under letter "C".

Box 13 will show an X in the box for **Retirement Plan**.

Box 14 may include the housing allowance of \$1,500 - if not supplied here, the figure should be given to the pastor along with Form W-2 as a reminder of amount and the fact that it sum is subject to social security (SECA).

Box 16-21 should be completed according to your own state requirements.

We have posted on the GCFA web site, as part of this tax packet, a longer memorandum discussing each section and box on Form W-2. **Click here** to view **Information for Completing Form W-2 For Clergy**. You may also find **IRS Publication 517** and the **current IRS instructions** helpful. These additional resources should answer any questions that go beyond the fact situation set forth above. You can obtain the current year forms, (when they are published, including a Form W-2 and the 2000 instructions, from your local IRS office or by contacting the IRS at **1-800-829-3676 (1-800-TAX-FORM)** and asking them to mail you forms. For further information, you should consult with a local tax preparer or expert.

b Employer identification number 11-1111111		1 Wages, tips, other compensation \$ 27100.00		2 Federal income tax withheld \$	
c Employer's name, address, and ZIP code FIRST UNITED METHODIST CHURCH 000 Yourstreet Yourtown, Yourstate 00000-0000		3 Social security wages \$		4 Social security tax withheld \$	
d Employee's social security number		5 Medicare wages and tips \$		6 Medicare tax withheld \$	
e Employee's first name and initial Sue S.		7 Social security tips \$		8 Allocated tips \$	
Last name Service		9 Advance EIC payment \$		10 Dependent care benefits \$	
200 Yourstreet Yourtown, Yourstate 00000-0000		11 Nonqualified plans \$		12a See instructions for box 12 E \$ 900.00	
f Employee's address and ZIP code		13a Retiree annuity <input type="checkbox"/>		12b \$	
		13b Thrift plan <input checked="" type="checkbox"/>		12c \$	
		13c Disability pay <input type="checkbox"/>		12d \$	
		14 Other <input type="checkbox"/>			
15 State Employer's state ID number see comment above	16 State wages, tips, etc. \$	17 State income tax \$	18 Local wages, tips, etc. \$	19 Local income tax \$	20 Locality name

The General Council on Finance and Administration is not engaged in providing legal or accounting services. The service of a competent professional should be sought for legal and tax advice. In addition, GCFA is not recommending any particular salary, housing allowance or travel allowance. The examples here are merely illustrative.

FORM W-3 INFORMATION

Transmittal of Wage and Tax Statements

The Form W-3 - Transmittal of Wage and Tax Statements - must be filed annually by employers with Copy A of the Forms W-2. A sample copy of the Form W-3 is attached. Basically, the information contained in the Forms W-2 and 941, filed throughout the year, are to be the basis for completing the Form W-3. This form must be filed by February 28. The IRS suggests that the employer makes sure that the Form W-3 wage and withholding information consists of the total amounts from Forms W-2 and that the Form W-3 is reconciled with the four quarterly Forms 941. If your church staff consists of only the pastor, in Box B - Kind of Payer, do not check any category in the box.

For more complete information you should refer to the **Form W-3 instructions**, which are included with the W-2 instructions.

LOCAL CHURCH TAX REPORTING REQUIREMENTS

1. PAYROLL TAXES FOR CHURCHES

A. Withhold taxes on staff employees, file forms and comply with deposit requirements

1. Federal Social Security (NO CLERGY WITHHOLDING)
2. Federal Income Tax (NO REQUIRED CLERGY WITHHOLDING)
At the request of the clergy, the employer may withhold income tax for that clergy, pursuant to a Form W-4 and state equivalent of federal Form W-4. (Keep W-4 forms on file).
3. State income tax withholding (requirements vary from state to state)

There is no mandatory federal income tax withholding for clergy; income tax withholding can be done at clergy request, but Social Security is never to be withheld for clergy.

B. Quarterly Filing Requirements (April 30, July 31, October 31 and January 31 for the first, second, third and fourth quarters)

1. Form 941 - Federal
2. State equivalent form (may vary from state to state)

See separate memo on Form 941 Filing Requirements - clergy compensation is shown on 941 but no information on Social Security and Medicare wages and withholding.

C. Annual Filing Requirements

1. January 31: Form W-2 must be given to employees.
2. February 28: Form W-3 must be filed with the IRS.
3. February 28: State filing requirements vary from state to state.

2. FILING REQUIREMENTS FOR PAYMENTS TO SELF-EMPLOYED INDIVIDUALS

(Such as independent contractors supplying repair or other services to the church)

- A. February 28: File a 1099-MISC. for **individuals** who receive compensation in excess of \$600.
- B. February 28: File Form 1096 - a summary of the 1099-MISC.