

Minister's Tax Primer

EMRYS TAX ADVISORS

Ministry taxation is one of the most complex areas of the U.S. tax code. Pastors and clergy face a unique set of rules that differ significantly from ordinary employees. Understanding these rules protects you and your church.

Dual Tax Status

Most ministers are employees for federal income tax purposes but self-employed for Social Security and Medicare (SECA) taxes. This means: your church withholds income tax but not FICA, and you pay self-employment tax on your wages and housing allowance.

The Housing Allowance

The minister's housing allowance is one of the most valuable tax benefits in the code. A properly designated housing allowance is excluded from federal income tax (but not self-employment tax). To qualify:

- The church board must officially designate the allowance **before** the beginning of the year.
- The exclusion is limited to the lesser of: (1) the amount officially designated, (2) the actual housing expenses, or (3) the fair rental value of the home furnished.

***Important:** Housing allowance is not automatically exempt. It must be formally voted on and documented by your church or ministry organization each year.*

SECA vs. FICA

Unlike regular employees who split Social Security/Medicare taxes with their employer, ministers pay the full 15.3% themselves. Some churches choose to provide a SECA offset as part of compensation—this is taxable income but helps offset the burden.

SECA Exemption

Ministers may apply for an exemption from self-employment taxes on religious grounds (Form 4361), but this is irreversible and means forgoing Social Security benefits. This decision requires careful, prayerful consideration and professional guidance.

Reporting & Recordkeeping

Ministers should keep detailed records of housing expenses, business mileage (for ministry activities), continuing education, and any unreimbursed ministry expenses. Good recordkeeping is essential for substantiating deductions.

